IEG
Independent Evaluation Group

Independent Evaluation of IFC's Development Results 2008

IFC's Additionality in Supporting Private Sector Development

IFC
International Finance Corporation
World Bank Group

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World Bank Group

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Photo: South African workers handle grapes that will be used in wine production. Photograph courtesy of Karsten Farms and IFC.

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ABBREVIATIONS

CAS	Country assistance strategy
ECA	Europe and Central Asia
IDA	International Development Association
IEDR	Independent Evaluation of IFC's Development Results
IEG	Independent Evaluation Group
IFC	International Finance Corporation
LAC	Latin America and the Caribbean
MDB	Multilateral development bank
MENA	Middle East and North Africa
PCR	Project completion report
XPSR	Expanded Project Supervision Report

DEFINITIONS OF EVALUATION TERMS

Investment operations

Project development outcome:	A bottom-line assessment of the project's results across development dimensions, relative to what would have occurred without the project.
IFC investment return:	The gross-profit contribution quality of an IFC loan and/or equity investment.
IFC work quality:	The overall quality of IFC's due diligence and value added at each stage of the operation.
Additionality:	The unique inputs and services that a development institution provides in addition to those delivered by market or nonmarket institutions.
Role and contribution:	The extent to which IFC played a catalytic role in an investment and made a special contribution.
Company:	The entity implementing the project and, generally, IFC's investment counterparty; for financial markets operations, it refers to the financial intermediary (or fund manager) as distinct from its portfolio of IFC-financed subproject companies.
Investment:	IFC's financing instrument(s) in the evaluated operation: loan, guarantee, equity, underwriting commitment, etc.
Operation:	IFC's objectives, activities, and results in making and administering its investment.
Project:	The company objectives, capital investments, funding program, and related business activities being partially financed by IFC's investment selected for evaluation.
Example:	"Through this operation IFC provided $55 million for the company's $100 million cement manufacturing expansion project in the form of a $20 million A-loan, a $30 million B-loan from commercial banks, and a $5 million equity investment."

Advisory service operations

Outputs of advisory services operations:	Outputs refer to the delivery of products, capital goods, and services.
Outcomes of advisory services operations:	Outcomes refer to the short- and medium-term effects of the intervention.
Impacts of advisory services operations:	Impacts refer to the longer-term effects of the intervention.

Example:	"An advisory services operation recommended that the country amend the leasing law to incorporate best practice in similar markets in the region. Outcome—the country amended the leasing law in accordance with the recommendation. Impact—the leasing industry became attractive to potential sponsors as evidenced by new companies that were established following the amendment of the leasing law."

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The evaluation was produced under the guidance of Stoyan Tenev, Head of Macro Evaluation, IEG-IFC, and Amitava Banerjee, Manager, IEG-IFC; and under the overall leadership of Marvin Taylor-Dormond, Director, IEG-IFC.

The report benefited substantially from the constructive advice and feedback from many staff at the IFC, and also from a number of Independent Evaluation Group (IEG) colleagues in IFC, the World Bank, and MIGA. Peer review was provided by Nils Fostvedt (IEG-World Bank) and Theodore Moran (Georgetown University).

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Foreword

This year's Independent Evaluation of IFC's Development Results (IEDR) reviews the findings related to 174 IFC-supported investment operations that reached early operating maturity during 2005–07. It also includes preliminary results for IFC's advisory services, based on a pilot review of 293 operations completed during 2004–06. As a second theme, the report provides a first look by IEG at IFC's *additionality* (or unique contribution) in its investment and advisory services operations.

First, the IEDR finds that during 2005–07, 63 percent of evaluated investment operations, by number (75 percent by dollar volume), achieved results that, on balance, met or exceeded specified market, financial, economic, environmental, and social performance benchmarks and standards. The drivers for project performance include the country's business climate, sector choices, quality of the sponsor, specific project risks, and IFC's own work quality—which together explain the superior results in the Europe & Central Asia and the Latin America & Caribbean Regions, compared with the much weaker results in the Africa, Asia, and Middle East & North Africa Regions.

Second, the evaluation shows that pursuing development effectiveness need not come at the expense of IFC profitability on its investments. Nearly 60 percent of projects combined high development outcomes with acceptable financial returns for IFC investments while, at the same time, some 25 percent of projects achieved low development ratings along with a less than acceptable IFC financial return.

Third, in a first look by IEG at IFC's additionality, the report finds that financial additionality—in the form of loan tenor or other features—appears to be present in 85 percent of cases, and at least one form of operational or institutional additionality is present in about a third. However, in nearly a fifth of the cases, IFC's role and contribution—an overall dimension of additionality—was judged to be less than satisfactory, meaning it fell short in a material area, or IFC was deemed not to be additional or to have delivered its expected contribution.

Taken together, these findings highlight the unique role that IFC can potentially play. In the countries where IFC is involved, it can increasingly seek to carry out a special function in the form of the priority it gives to furthering development effectiveness through the private sector, while simultaneously ensuring sound financial returns to its investments.

Finally, the report highlights the challenges in improving development effectiveness as IFC rapidly expands support in regions with relatively weak institutions, poor business climate, and fragile environments. The tasks ahead for IFC are to ensure strong portfolio risk management while its operations grow rapidly, to improve environmental and social supervision in Africa, and to continue efforts for improving reporting on the quality of advisory services performance. In all of these respects, additionality would seem to be closely tied to development effectiveness. IFC therefore needs to increasingly stress the strategic thrust, operationalization, and tracking of the institution's unique role and contribution.

Vinod Thomas
Director-General
Evaluation

Avant-propos

La présente édition du rapport intitulé « Évaluation indépendante des résultats obtenus par l'IFC dans le domaine du développement (IEDR) » examine les conclusions tirées de 174 projets d'investissement financés par la Société financière internationale (IFC), lesquels ont atteint leur régime de croisière durant la période 2005–07. Le rapport comprend également des résultats préliminaires relatifs aux services-conseil de l'IFC ; ces résultats découlent de l'examen de 293 projets clôturés durant la période 2004–06.

Comme second thème du rapport, le principe de l'« additionnalité » (autrement dit la contribution que seule l'IFC est en mesure de faire valoir) des projets de l'IFC est examiné pour la première fois par le Groupe indépendant d'évaluation (IEG).

Premièrement, le rapport IEDR donne à constater que durant la période 2005–07, 63 % des projets d'investissement évalués, en nombre notamment (soit 75 % en dollars), ont permis d'obtenir des résultats qui, en définitive, ont atteint ou dépassé les valeurs de référence et normes de performance spécifiées en rapport avec les aspects financier, économique, environnemental et social, et relatifs au marché. Au nombre des facteurs à la base des résultats obtenus par les projets figurent le cadre économique national, les secteurs choisis, la qualité des promoteurs, les risques encourus par le projet et la qualité de l'intervention de l'IFC, toutes choses qui expliquent la qualité supérieure des résultats obtenus dans les régions Europe et Asie centrale et Amérique latine et Caraïbes, contre celle bien inférieure des régions Afrique, Asie et Moyen-Orient et Afrique du Nord.

Deuxièmement, l'évaluation montre que la recherche de l'efficacité du développement n'est pas nécessairement condamnée à se faire au détriment de la rentabilité des investissements réalisés par l'IFC. Près de 60 % des projets donnent à constater à la fois de bons résultats au plan du développement et des rendements financiers acceptables en contrepartie des investissements réalisés par l'IFC. Parallèlement, quelque 25 % de projets ayant obtenu des notes inférieures au regard de l'impact sur le développement affichent aussi un taux de rentabilité financière inférieur au niveau acceptable.

Troisièmement, grâce à ce qui aura été pour l'IEG un premier examen de l'additionnalité de l'IFC, le rapport ainsi établi permet de constater que l'aspect financier de l'additionnalité—que ce soit sous forme d'échéance de prêt ou par d'autres moyens—semble présent dans 85 % des cas, et une forme au moins d'additionnalité opérationnelle ou institutionnelle est présente dans environ un tiers des cas. Néanmoins, dans près d'un cinquième des cas, l'aspect rôle et contribution de l'IFC—dimension à caractère général de l'additionnalité—a été jugé insatisfaisant, ce qui signifie que l'institution a soit accusé des insuffisances dans un domaine essentiel soit été jugée en position relativement moins favorable pour apporter une additionnalité ou faire l'apport escompté.

De façon générale, ces constatations mettent en exergue le rôle tout particulier que l'IFC peut jouer. L'institution peut, dans les pays où elle intervient, chercher davantage à assumer une fonction spéciale à travers la priorité qu'elle accordera à la quête de l'efficacité du développement, ce en appuyant le secteur privé tout en s'assurant un bon retour sur les investissements qu'elle aura réalisés.

Enfin, le rapport souligne les difficultés que rencontre l'IFC dans son effort d'améliorer l'efficacité du développement à mesure que l'institution étend rapidement son appui à des régions dotées d'institutions relativement faibles, d'un cadre économique peu favorable et d'environnements fragiles. À l'avenir, l'IFC devra assurer une bonne gestion des risques encourus par le portefeuille, parallèlement à l'expansion rapide de ses activités, afin d'améliorer la supervision environnementale et sociale en Afrique, et pour poursuivre les efforts visant à mieux rendre compte de la qualité des résultats obtenus par les services-conseil. Sur tous ces plans, l'additionnalité paraît étroitement liée à l'efficacité du développement. Il s'ensuit que l'IFC se doit d'insister sur l'orientation stratégique, l'opérationnalisation et le suivi du rôle et de la contribution que seule elle peut faire valoir.

Vinod Thomas
Directeur général
Évaluation

Prólogo

La Evaluación Independiente de los resultados de Desarrollo (IEDR por su sigla en inglés) de la Corporación Financiera Internacional (IFC por su sigla en inglés) realizada este año analiza las conclusiones vinculadas a 174 operaciones de inversiones que recibieron apoyo de la IFC y llegaron a su vencimiento operativo anticipado durante 2005–07.

También incluye los resultados preliminares de los servicios de asesoría de la IFC, basados en un análisis piloto de 293 operaciones que se llevaron a cabo durante 2004–06. En segundo lugar, el informe proporciona un primer análisis del Grupo de Evaluación Independiente (GEI) a la "adicionalidad" (o aporte único) de las operaciones de la IFC.

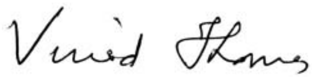
En primer lugar, la IEDR determinó que durante 2005–07, un 63% de las operaciones de inversión evaluadas, por cantidad (75% por volumen en dólares) logró resultados que, en general cumplieron o superaron los parámetros e indicadores de referencia especificados en materia de mercados, finanzas, economía, medio ambiente y desempeño social. Los factores determinantes en cuanto al desempeño del proyecto incluyen las condiciones del país en materia de negocios, las opciones del sector, la idoneidad del patrocinador, los riesgos del proyecto, y la calidad del trabajo de la propia IFC, los cuales en conjunto explican la superioridad de los resultados en las regiones de Europa y Asia Central, y América Latina y el Caribe, comparadas con resultados muy inferiores en África, Asia y en las regiones de Medio Oriente y norte de África.

En segundo lugar, la evaluación demuestra que la búsqueda de la eficacia en términos de desarrollo no tiene por qué darse a expensas de la rentabilidad de las inversiones de la IFC. Casi el 60% de los proyectos combinó buenos resultados de desarrollo con un rendimiento financiero aceptable en las inversiones de la IFC mientras que, simultáneamente, el 25% de los proyectos obtuvo bajas calificaciones en términos de desarrollo junto con un rendimiento financiero inaceptable para la IFC.

En tercer lugar, en el primer análisis que efectuó el GEI (IEG por su sigla en inglés) respecto de la adicionalidad de la IFC, el informe concluye que la adicionalidad financiera —en forma de duración de los préstamos u otras características— parece estar presente en el 85% de los casos, y hay por lo menos una forma de adicionalidad operativa o institucional presente en aproximadamente un tercio de ellos. No obstante, en casi la quinta parte de los casos se estimó que la función y el aporte de la IFC —una dimensión general de la adicionalidad— eran menos que satisfactorios, ya sea porque ésta había tenido un desempeño insuficiente en un área importante, o porque no se consideraba que la IFC fuera adicional o hubiera cumplido con el aporte esperado.

Tomados en conjunto, estas conclusiones realzan la función única que puede desempeñar la IFC. En los países en que participa la IFC, puede apuntar crecientemente a desempeñar una función especial en cuanto a las prioridades que asigna a la promoción de la eficacia en términos de desarrollo a través del sector privado, al tiempo que garantiza un rendimiento financiero sólido a sus inversiones.

Finalmente, el informe resalta los desafíos a la hora de mejorar la eficacia en términos de desarrollo, a medida que la IFC rápidamente aumenta el apoyo en aquellas regiones que poseen instituciones relativamente débiles, un ambiente poco proclive a los negocios, y entornos frágiles. Las tareas que la IFC tiene por delante son garantizar una sólida gestión del riesgo de carteras, al tiempo que sus operaciones crecen rápidamente, con el fin de mejorar la supervisión ambiental y social en África, y continuar los esfuerzos para mejorar la forma en que se informa sobre la calidad de la prestación de los servicios de asesoría. En todos estos aspectos, la adicionalidad parecería estar íntimamente ligada a la eficacia en términos de desarrollo. En consecuencia, la IFC necesita hacer mayor hincapié en la ofensiva estratégica, la operacionalización y el seguimiento de la singular función y aporte que posee como institución.



Vinod Thomas
Director general
de Evaluación

Executive Summary

The *Independent Evaluation of IFC's Development Results* (IEDR) is the annual flagship report of the Independent Evaluation Group (IEG).[1] It reviews IFC's effectiveness in supporting private sector development and its contributions to economic growth and poverty reduction, as well as to environmentally and socially sustainable development.

The main purpose of the IEDR is to provide an independent assessment to the Executive Board, IFC Management, and the wider development community about recent trends in IFC's performance, and to stimulate debate and action on IFC strategy and operational processes going forward. The report also serves as a source of knowledge and learning about private sector development, in general, and about development impact, more specifically.

This year's IEDR contains two main themes. The first is a review of the development results achieved by IFC-supported operations. On the investment side, this means looking at how well operations that reached early operating maturity[2] during 2005–07 performed, in terms of their financial and economic results—relative to specific market benchmarks—as well as their environmental and social effects and contributions to private sector development beyond the project (such as through linkages and demonstration effects).[3] For advisory services, the report presents some emerging results of 293 operations that were closed during 2004–06 and which were evaluated on a pilot basis—as part of wider efforts under way to assess performance in this area.[4]

The second theme of the report is a preliminary, ex-post look at the "additionality"—or unique role and contribution—that IFC brings to its clients through its investment and advisory services operations. IFC has been expanding its business rapidly—the volume of new investment operations has more than doubled and advisory services expenditures have quadrupled in the last five years.[5] A comprehensive review of the development results achieved in the field, and of IFC's contribution to these results, is therefore timely.

Development Results of IFC-Supported Projects

The results of investment operations reaching early operating maturity during 2005–07 show an improvement over the past. From a randomly selected, representative sample of 174 (out of 332) operations, worth over $3.3 billion (approximately $13 billion when including funds from cofinanciers),[6] 63 percent (75 percent by volume) achieved results that, on balance, met or exceeded specified market, financial, economic, environmental, and social performance benchmarks and standards. In 2007, 71 percent of 65 evaluated operations met or exceeded development benchmarks and standards.

The evaluation also demonstrates that pursuing development effectiveness can go hand-in-hand with IFC profitability. In 85 percent of projects that IFC supported, high and low development results correlated with high and low IFC profitability, respectively, thus suggesting that the two attributes can often move in the same direction. Where there was a divergence between the two (in 15 percent of the cases), it usually reflected IFC's choice of financing instrument (loan or equity) and the associated investment risk. The broad result from this positive association is encouraging because it suggests that if IFC were to press for stronger development effectiveness, it would not necessarily compromise financial returns to its investments.

However, there were several shortcomings in important aspects of IFC's investment operations. First, results continue to be much weaker in smaller projects (particularly those where IFC's investment is less than $5 million, which account for 32 percent of the sample). Second, less than half of projects in the Africa, Asia, and Middle East & North Africa (MENA) Regions met or exceeded development benchmarks and standards, thus widening the performance divide, identified last year, between these Regions and the Europe & Central Asia (ECA) and Latin America & the Caribbean (LAC) Regions. This finding is especially important because IFC's operations are growing rapidly in the former Regions. Third, environmental and social effects ratings continued to be weak in Africa. By sector, performance was strongest in infrastructure and finance projects, and weakest in general manufacturing, services, and information technology projects.

The projects IFC supports face inherent risks and challenges that differ across countries, sectors, and instruments.[7] The aggregated performance assessments cited above are not contrasted with risk-adjusted expectations. However, this report does consider how risks vary by country, sector, and instrument, and how they affect development results. Improved market conditions in most regions contributed positively to the development performance of IFC-supported projects. On the other hand, continued high-risk business environments constrained performance in many countries in Africa. Specific market conditions appear to have adversely affected a number of sectors in Asia, for example, the lagged effects of the regional financial crisis in the late 1990s. A combination of sector and country specifics help explain the relatively poor performance in MENA, where most general manufacturing and services projects achieved below-benchmark results and security issues affected business potential in several countries.

Factors within IFC's control also played a critical role in determining the results, especially the management of sponsor and project risk. Projects in ECA and LAC were generally carried out with higher quality sponsors and featured lower intrinsic project risks than those in other Regions. Weak sponsor quality and high intrinsic risk posed substantial challenges to achieving successful project development outcomes, even though supporting clients to meet this challenge is central to IFC's role as a development institution. This is all the more important in light of the IEG finding that IFC's supervision and administration quality appears to have much greater influence on project results in situations where sponsors are weaker and project risk is higher. Generally, where IFC work quality was high, so were project development results. The close relationship between work quality and development results applies across sectors and regions, although the incidence of work quality was notably lower in Asia and Africa than in other Regions. These findings imply a need for greater attention to sound work quality in Asia and Africa, in particular, to enhancing environmental and social performance in Africa, where sponsor commitment to sustainability tends to be weakest and where IFC supervision quality has fallen short.

While IFC has been expanding its advisory services operations in the last five years, it has also devoted significant resources to the monitoring and self-evaluation of the results of these operations. A component of this monitoring and self-evaluation was the introduction of a project completion report (PCR) system for advisory services, which seeks to assess results across five dimensions: strategic relevance, efficiency, outputs, outcomes, and impacts. IFC has supplemented this system with a number of external reviews, and experimental and quasi-experimental evaluations of specific projects, to inform project design and effectiveness going forward.

IEG independently evaluated the results reported by IFC in the first two PCR pilots, covering 293 advisory services operations that closed during 2004–06. IEG's evaluations indicate that, in the 198 projects where development effectiveness was rated, 70 percent achieved satisfactory ratings. However, a high proportion of the evaluated projects (one-third) did not report development effectiveness ratings, which seriously weakened the quality of inferences that could be drawn about performance from these pilots. Moreover, the quality of documentation provided by IFC staff to support their initial ratings continues to be weak in many cases, suggesting that further work is required to develop a higher standard in reporting development effectiveness in advisory services operations.

IFC Additionality

As part of the World Bank Group, IFC is expected to do more than just provide financing to its clients. The institution should be a catalyst in private sector growth for equitable and sustainable development. Accordingly, IFC should complement, but not replace, existing sources of private capital in developing countries. The need for IFC to play a special catalytic role arises due to serious market and institutional failures and imperfections that hold back private investment in most developing countries. Such imperfections vary according to market and institutional factors in countries. *Additionality* refers to the unique ***inputs***—financial and nonfinancial—that a development institution, such as the IFC, provides to developing countries. IFC additionality is expected to lead to beneficial development impacts in the field and improved ***results***. Given this connection, it would seem that the greatest additionality for IFC would potentially be in areas where the prospects for development impact—economic growth, poverty reduction, environmental and social sustainability—through support to private sector development are best.

IFC's corporate strategies generally discuss IFC's unique role and contribution in terms of investing in so-called frontier countries, sectors, products, and markets and in supporting environmental and social sustainability. However, most region, sector, and country strategies (the last is developed with the World Bank) contain limited explicit discussion of IFC's unique role and contribution or comparative advantages, relative to other sources of finance and advice. There needs to be better articulation going forward.

It is difficult to measure additionality precisely, but proxies are available to conduct an initial assessment of the presence and quality of additionality in IFC operations. The major source for these proxies is the data collected through project evaluations on IFC's role and contribution, which examines whether IFC made a special contribution to a project and was catalytic in helping private investors to make good investments. IEG used the data to conduct an ex-post analysis in two phases: (i) identification of specific forms of additionality and (ii) evaluation of their quality overall, based on the ratings accorded to individual projects' role and contribution.

IEG reviewed 692 desk-based, project self-evaluations and coded the projects in terms of the presence or absence of three types of additionality, defined according to the areas in which IFC might uniquely address market failures and imperfections: (i) ***financial*** (more appropriate terms than are available elsewhere, funds mobilization, and market risk comfort); (ii) ***operational*** (specialized advice to compensate for knowledge and skills gaps among clients); and (iii) ***institutional*** (improved standards of corporate governance, environmental and social sustainability, and regulation, and better public/private risk allocation).[8] Using a highly inclusive definition of additionality, this review found that at least one form of financial additionality was apparent in 85 percent of evaluated investment operations, and at least one form of operational or institutional additionality was identifiable in about one-third of the cases. Over time, institutional additionality appears to have risen in importance while the other types of additionality seem to have remained fairly constant.

The need for IFC to provide financial additionality is perhaps most acute during times of crisis. IEG finds that IFC appears to have been a countercyclical investor in response to most of the major financial crises that occurred in developing countries in recent years. Augmenting IFC's countercyclical function will be of particular relevance in the event that the anticipated global economic slowdown adversely affects the private sector in developing countries.

Concerning the quality of IFC's overall additionality (based on ex-post assessments of role and contribution), the ratings of this component in individual operations has been satisfactory in most cases, meaning IFC's delivered contribution was in line with IFC's operating principles of making a special contribution and being catalytic. Relative successes for IFC include the institution's strong quality of role and contribution in the ECA and LAC Regions; in the extractive, food and agribusiness, and infrastructure sectors; and in capacity building through long-term engagement with clients. However, IFC's contribution was judged to be less than satisfactory (meaning IFC's additionality fell short in a material area or IFC was deemed not to be plausibly additional) in nearly 30 percent of projects in Asia and Africa, and in similar proportions in the financial and health and education sectors in all Regions.

Overoptimism about what IFC could deliver, lack of client commitment to changes that IFC sought to bring about (particularly where the project was not a commercial success), and shifts in external conditions all appear to have played a part in cases with less-than-satisfactory IFC role and contribution. Variations in IFC's role and contribution by region and sector are, however, difficult to explain with precision. Econometric analysis indicates that when controlling for project size, sponsor quality, intrinsic project risk, and business climate risk, IFC role and contribution in Africa is still weaker than in other Regions. Special factors may explain some of this variation, but further investigation—including field-based assessment—is required to arrive at a conclusive assessment. IFC's relatively short experience in the social sectors (a dedicated Health and Education Department was only established in 2002) may explain the relatively poor quality of IFC's role and contribution in these sectors. However, this would need to be confirmed with more in-depth analysis.

Better project development results were achieved where the quality of IFC's evaluated role and contribution was stronger and when different types of additionality were simultaneously present. On its own, financial additionality appears to have more traction on development results than other types of additionality. Evaluation also shows no apparent tradeoff between different types of additionality and IFC's own profitability, meaning that where the quality of IFC's role and contribution was stronger, so were economic and financial returns to IFC investments. These findings stress the importance of IFC making full use of the comparative advantages it possesses, relative to other financial organizations in supporting the private sector in developing countries—in ways that foster economic growth, poverty reduction and environmentally and socially sustainable development to full effect—because doing so can have mutually reinforcing development and financial benefits.

Recommendations

To enhance its development effectiveness IFC should:

- Pay strong attention to work quality and portfolio risk management as it continues to grow and decentralize its operations, particularly in newer markets and in view of a possible downturn in global economic growth.
- Ensure that it addresses continued environmental and social performance shortcomings in Africa, particularly as they relate to IFC supervision quality and client commitment to sustainability issues.
- Continue, with input from IEG, to strengthen the steps it is taking to improve the data on the performance of advisory services operations, including efforts to improve understanding

among staff about results measurement, quality assurance by managers, as well as performance monitoring beyond project closing.

- Clearly map out its additionality in its strategies (including those developed with the World Bank) and develop guidelines and incentives to help operational staff better identify and deliver additionality. IFC could complement these efforts by advancing its metrics for estimating and tracking additionality through the project lifecycle, taking account of the analytical framework outlined in this report.
- Carry out further analysis of IFC's additionality in lagging regions, sectors, and client groups to identify what specific steps are required to enhance performance.

Résumé analytique

L'*Évaluation indépendante des résultats obtenus par l'IFC dans le domaine du développement* (IEDR) est le rapport annuel phare du Groupe indépendant d'évaluation (IEG)[1]. Il examine l'efficacité de la Société financière internationale (IFC) dans l'appui que l'institution apporte au développement du secteur privé, sa contribution à la croissance économique et à la réduction de la pauvreté, ainsi qu'au développement durable sur le plan écologique et social.

Le principal objectif visé à travers ce rapport est de mettre à la disposition des Administrateurs, de la direction de l'IFC et de la communauté du développement en général, une évaluation indépendante de l'évolution récente des résultats de l'IFC, et de stimuler la réflexion et l'action sur la stratégie et les procédures opérationnelles futures de l'IFC. Le rapport sert aussi de source de connaissances et d'enrichissement du savoir sur le développement du secteur privé en général, et sur l'impact dans le domaine du développement en particulier.

Deux thèmes principaux se dégagent du rapport de cette année. Le premier a trait aux résultats obtenus dans le domaine du développement par les projets bénéficiant du financement de l'IFC. Sur le plan de l'investissement, cela revient à examiner dans quelle mesure les projets ayant atteint leur régime de croisière[2] durant la période 2005–07 ont pu remplir les objectifs qui leurs étaient assignés, en termes de résultats financiers et économiques—notamment par rapport à des références spécifiques du marché—et aussi dans quelle mesure ils ont permis d'obtenir les impacts environnementaux et sociaux voulus tout en contribuant à l'essor du secteur privé au-delà du contexte du projet (par exemple, à travers des liens et des effets de démonstration)[3]. Au titre des services-conseil, le rapport fait état de quelques résultats préliminaires de 293 projets clôturés durant la période 2004–06 et pour lesquels une évaluation pilote a été menée, dans le contexte d'actions d'envergure en cours pour mesurer la performance dans ce domaine[4].

Le second thème du rapport est un examen préliminaire ex-post du principe de l'« additionnalité »—autrement dit, le rôle et la contribution que seule l'IFC peut faire valoir—que l'institution apporte à ses clients à travers ses projets d'investissement et de prestation de services-conseil. L'IFC n'a cessé d'élargir rapidement son champ d'activité, multipliant par plus de deux le volume de nouveaux projets d'investissement et par quatre les dépenses liées aux services-conseil au cours des cinq dernières années[5]. Il en découle que la conduite d'un examen exhaustif des résultats dans le domaine du développement obtenus sur le terrain et de la contribution de l'IFC à ces résultats arrive à point nommé.

Les projets d'investissement de l'IFC : résultats en matière de développement

Comparé au passé, on observe une amélioration des résultats obtenus par les projets d'investissement ayant atteint leur régime de croisière durant la période 2005–07. Sur un échantillon aléatoire représentatif comptant 174 (sur 332) projets correspondant au montant de plus de 3,3 milliards de dollars (soit environ 13 milliards de dollars en comptant les fonds issus du cofinancement)[6], 63 % (soit 75 % en volume) des projets ont permis d'obtenir des résultats qui, en définitive, ont atteint ou dépassé les valeurs de référence et normes de performance spécifiées en rapport avec les aspects financier, économique, environnemental et social, et relatifs au marché. En 2007, 71 % des 65 projets évalués avaient atteint ou dépassé les valeurs de référence et normes de performance liées au développement.

Cette évaluation indique également qu'il n'existe pas d'incompatibilité entre la recherche de l'efficacité du développement et la rentabilité des projets de l'IFC. Dans 85 % des projets appuyés par l'IFC, on note une corrélation directe entre les résultats supérieurs ou inférieurs en matière de développement et une rentabilité supérieure ou inférieure des projets de l'IFC, respectivement. Cela donne à penser que ces deux objectifs ne s'excluent pas mutuellement ; les cas de divergence entre les deux (dans 15 % des cas) reflètent généralement le choix d'instrument de financement opéré par l'IFC et le risque d'investissement qui l'accompagne. Le résultat global qui résulte de cette corrélation positive est encourageant dans la mesure où il indique que si l'IFC venait à rechercher une plus grande efficacité du développement, elle ne compromettrait pas pour autant la rentabilité de ses investissements.

Plusieurs insuffisances ont toutefois émaillé des aspects importants des projets d'investissement de l'IFC. Premièrement, les résultats continuent d'être beaucoup moins bons dans les projets de taille plus modeste (en particulier ceux dans lesquels l'investissement de l'IFC est inférieur à cinq millions de dollars, soit 32 % de l'échantillon étudié). Deuxièmement, moins de la moitié des projets exécutés dans les régions Afrique, Asie et Moyen-Orient et Afrique du Nord (MENA) ont obtenu des résultats supérieurs ou égaux aux valeurs de référence et normes de performance liées au développement, ce qui a contribué à creuser l'écart entre les résultats, ainsi qu'observé l'année dernière, notamment lorsqu'on compare ces régions respectivement avec l'Europe et l'Asie centrale (ECA) d'une part et l'Amérique latine et les Caraïbes (LAC) d'autre part. Cette constatation est particulièrement importante dans la mesure où les projets de l'IFC connaissent une croissance plus rapide dans le premier groupe de régions. Troisièmement, l'Afrique continue de recevoir de faibles notes au titre des effets environnementaux et sociaux. Du point de vue sectoriel, les résultats ont été meilleurs dans les projets d'infrastructure et ceux en rapport avec le secteur financier, les projets concernant le secteur manufacturier, les services et les technologies de l'information ayant affiché les résultats les plus défavorables.

Les projets financés par l'IFC se heurtent à des risques et difficultés propres qui diffèrent d'un pays à un autre, d'un secteur à un autre et d'un instrument à un autre[7]. Les résultats cités ci-dessus ne sont pas comparés à des données pondérées en fonction des risques. Le rapport examine toutefois la variation des risques par pays, secteur ou instrument ; il étudie en outre de quelle manière ils affectent les résultats en matière de développement. L'amélioration des conditions du marché dans la majorité des régions a eu un impact positif sur les résultats obtenus au plan du développement par les d'investissement de l'IFC. En revanche, la persistance de risques élevés dans l'environnement des entreprises a contribué à limiter la performance dans de nombreux pays en Afrique. Des conditions particulières du marché semblent avoir eu un effet négatif sur un certain nombre de secteurs en Asie ; par exemple, les effets décalés de la crise financière régionale de la fin des années 90. Un ensemble d'entraves propres aux secteurs et aux pays permettent d'expliquer les résultats relativement médiocres obtenus au Moyen-Orient et en Afrique du Nord, une région dans laquelle la majorité des projets du secteur manufacturier et des services ont enregistré des résultats inférieurs aux références et les questions de sécurité ont eu une incidence sur les opportunités économiques dans de multiples pays.

Les facteurs qui dépendaient de l'IFC ont aussi joué un rôle essentiel dans les résultats, en particulier la gestion des risques liés au promoteur du projet et au projet lui-même. En règle générale, les projets des régions ECA et LAC ont été exécutés par des promoteurs mieux pourvus en moyens et ont comporté moins de risques liés à la valeur intrinsèque du projet concerné que les projets des autres régions. La qualité inférieure des moyens dont dispose le promoteur et le risque élevé dû à la nature du projet sont des facteurs qui ont considérablement empêché les projets de produire des résultats bénéfiques au développement, même si, en tant qu'institution de développement, l'IFC a pour mission essentielle d'aider ses clients à résoudre les difficultés de ce type. Cela s'avère particulièrement important à la lumière des constatations faites par l'IEG indiquant que la qualité de la supervision et de l'administration assurées par l'IFC semble avoir une bien plus grande influence sur les résultats des projets dans les situations où les promoteurs de projets sont moins bien pourvus en moyens, mais les risques liés au projet sont plus grands. De manière générale, lorsque la qualité de l'intervention de l'IFC a été supérieure, les résultats du projet au plan du développement l'ont aussi été. Cette relation étroite entre la qualité des interventions et les résultats en matière de développement s'applique à tous les secteurs et à toutes les régions, bien qu'en Asie et en Afrique, l'incidence de la qualité des interventions s'est avérée nettement plus faible que dans d'autres régions. Ces conclusions impliquent qu'il est absolument indispensable de prêter plus d'attention à la qualité des interventions en Asie et en Afrique, notamment, afin d'améliorer les résultats environnementaux et sociaux en Afrique, région dans laquelle l'engagement des promoteurs de projets à long terme s'avère plus faible et la qualité de la supervision de l'IFC n'a pas répondu aux attentes.

S'il est vrai que l'IFC a continué d'élargir ses activités de services-conseil au cours des cinq dernières années, l'institution n'a pas non plus manqué de consacrer des ressources conséquentes au suivi et à l'autoévaluation des résultats de ses projets. La formule d'un rapport d'achèvement de projet introduite dans le domaine des services-conseil fait partie intégrante de ce système de suivi et d'autoévaluation. Le rapport d'achèvement de projet à pour objectif d'évaluer les résultats obtenus dans cinq domaines différents : la pertinence stratégique, l'efficacité, les produits, les réalisations et les impacts. L'IFC a complété ce système avec un certain nombre d'examens externes, et l'évaluation de projets spécifiques menée à titre expérimental ou quasi expérimental, le tout à l'effet d'enrichir la conception et accroître l'efficacité des projets à l'avenir.

L'IEG a entrepris une évaluation indépendante des résultats signalés par l'IFC dans les deux premiers rapports d'achèvement de projet réalisés à titre d'essai, couvrant 293 projets de services-conseil clôturés durant la période 2004–06. Il ressort des évaluations de l'IEG que 70 % des 198 projets dans lesquels une note a été attribuée à l'efficacité du développement ont été jugés satisfaisants. Cependant, une proportion élevée des projets évalués (un tiers) n'a pas reçu de note sur l'efficacité du développement, ce qui a fortement réduit la qualité des inférences qui pouvaient être faites sur la performance en se basant sur les évaluations pilotes. De plus, la qualité de la documentation fournie par les agents de l'IFC pour étayer leurs notations initiales continue de présenter des insuffisances à plusieurs égards, ce qui prête à penser que des efforts supplémentaires sont nécessaires pour fixer des normes plus strictes d'établissement de rapports sur l'efficacité du développement dans les projets de services-conseil.

La valeur ajoutée de l'IFC

En tant qu'institution membre du Groupe de la Banque mondiale, l'IFC est censée faire mieux que se limiter à accorder des financements à ses clients. L'institution doit jouer un rôle catalyseur dans la croissance du secteur privé, condition essentielle d'un développement juste et durable. Il s'en suit que l'IFC doit compléter les sources existantes de capitaux privés dans les pays en développement et ne pas se substituer à elles. La nécessité pour l'IFC de jouer un rôle spécial de catalyseur tient des graves défaillances du marché et des institutions et autres imperfections qui freinent l'investissement privé dans la majorité des pays en développement. Ces imperfections varient suivant les déterminants du marché et les facteurs institutionnels en jeu dans les pays. Le principe de l'« additionnalité » désigne les ***contributions*** spéciales—qu'elles soient financières ou non financières—qu'une institution de développement de l'envergure de l'IFC apporte aux pays en développement. L'« additionnalité » de l'IFC devrait avoir des retombées positives sur le développement, notamment « sur le terrain », et contribuer à améliorer les ***résultats*** découlant des interventions qu'entreprend l'institution. Cela étant, la plus grande valeur ajoutée de l'IFC résiderait probablement dans les domaines où les chances sont les plus grandes d'exercer une influence sur le développement à travers l'appui à la promotion du secteur privé, à savoir, la croissance économique, la réduction de la pauvreté et la viabilité environnementale et sociale.

Les stratégies institutionnelles de l'IFC traitent généralement du rôle spécial et de la contribution sans pareil de l'institution dans les investissements réalisés dans les pays pionniers, les secteurs aux avant-postes, les produits novateurs et les marchés inexploités, et dans l'appui à la viabilité environnementale et sociale. Et pourtant, la plupart des stratégies régionales, sectorielles et nationales (les dernières étant élaborées avec le concours de la Banque mondiale) traitent très peu de manière explicite du rôle spécial et de la contribution sans équivalent de l'IFC ou de ses avantages comparatifs, comparativement à d'autres sources de financement et de conseil. Une meilleure formulation de cette question s'impose à l'avenir.

Il est certes difficile de mesurer l'additionnalité avec précision, mais il existe des mesures approximatives permettant de réaliser une évaluation initiale de la présence et de la qualité de ce principe dans les projets de l'IFC. La meilleure source à cet égard est constituée des données collectées au moyen des évaluations de projets sur le rôle et la contribution de l'IFC, l'objectif desquelles est de déterminer dans quelle mesure l'IFC a apporté une contribution spéciale à un projet donné et a joué un rôle de catalyseur en aidant les investisseurs privés à réaliser de bons investissements. L'IEG s'est servi de ces données pour mener une analyse ex-post en deux étapes : i) l'identification de formes spécifiques d'additionnalité et ii) l'évaluation de leur qualité d'ensemble, notamment en se fondant sur les notes attribuées aux projets pris individuellement en fonction de leur rôle et de leur contribution.

L'IEG a examiné sur dossier 692 autoévaluations de projets et codifié les projets suivant les critères de présence ou d'absence de trois catégories d'additionnalité définies en fonction des domaines dans lesquels l'IFC pourrait s'avérer l'institution la mieux placée pour s'attaquer aux défaillances et imperfections du marché : i) *aspect financier de l'additionnalité* (de meilleures conditions que celles offertes par d'autres sources de financement, mobilisation de fonds et contribution à atténuer les risques du marché) ; ii) *aspect opérationnel de l'additionnalité* (conseil spécialisé pour aider à combler les écarts qui existent entre les clients au niveau des connaissances et des compétences) et iii) *aspect institutionnel de l'additionnalité* (amélioration des normes de gouvernement d'entreprise, viabilité environnementale et sociale, réglementation et meilleure répartition des risques entre le public et le privé[8]). S'appuyant sur une définition très large de l'additionnalité, l'examen donne à constater qu'au moins une forme d'additionnalité financière était présente dans 85 % des projets d'investissement évalués, et qu'au moins une forme d'additionnalité opérationnelle ou institutionnelle a été identifiée dans environ un tiers des cas. Au fil du temps, l'additionnalité institutionnelle semble avoir gagné en importance tandis que les autres catégories d'additionnalité semblent être restées relativement constantes.

La nécessité pour l'IFC de faire valoir sa valeur ajoutée en termes d'additionnalité financière est peut-être plus perceptible au cours des périodes de crise. L'IEG aboutit à la conclusion que dans sa réponse à la majorité des crises financières survenues dans les pays en développement durant les dernières années, l'IFC semble avoir réalisé ses investissements à contre-courant de la conjoncture. Il sera particulièrement pertinent d'intensifier le rôle d'intervention à contre-courant de l'IFC au cas où le ralentissement économique mondial prédit venait à avoir des effets nuisibles sur le secteur privé des pays en développement.

S'agissant de la qualité de l'additionnalité de l'IFC en général (sur la base des évaluations ex-post faites de son rôle et de sa contribution), les notes attribuées à cette composante dans les projets individuels ont été satisfaisantes dans la majorité des cas. C'est le signe que les apports de l'IFC étaient en droite ligne des principes de fonctionnement de l'institution, à savoir, apporter une contribution spéciale et jouer un rôle de catalyseur. Le rôle remarquable joué par l'IFC et sa contribution notable dans les régions ECA et LAC constituent des succès pour l'institution, notamment dans les industries extractives, les secteurs des produits alimentaires et de l'agro-industrie, les industries manufacturières, ainsi que dans le domaine du renforcement des capacités à travers un engagement à long terme avec les clients. Toutefois, la contribution de l'IFC a été jugée insatisfaisante (autrement dit, soit l'additionnalité de l'IFC s'est avérée insuffisante dans un domaine essentiel soit l'IFC a été jugée en moins bonne posture pour apporter une additionnalité éventuelle) dans près de 30 % des projets financés en Asie et en Afrique, ainsi que, dans des proportions comparables, dans les autres régions, notamment dans les secteurs financier, de la santé et de l'éducation.

L'excès d'optimisme à l'égard de ce que peut apporter l'IFC comme contribution, l'absence d'engagement des clients en faveur des changements préconisés par l'IFC (en particulier lorsque le projet concerné n'a pas été un succès commercial) et l'évolution des conditions extérieures sont autant de facteurs qui semblent avoir eu leur part d'influence sur la mention insuffisante attribuée au rôle et à la contribution de l'IFC dans certains cas. Il s'avère relativement difficile cependant d'expliquer avec précision les différences observées entre les régions et entre les secteurs en ce qui concerne le rôle et la contribution de l'IFC. L'analyse économétrique indique que même en neutralisant les effets de la taille du projet, de la qualité du promoteur, des risques inhérents au projet et des risques liés à l'environnement économique, le rôle et la contribution de l'IFC en Afrique restent limités, en comparaison à d'autres régions. En supposant que des facteurs particuliers peuvent aider à expliquer cette différence, des analyses plus poussées—y compris des évaluations sur le terrain—s'imposent pour tirer des conclusions définitives. L'expérience relativement brève de l'IFC dans les secteurs sociaux (c'est seulement en 2002 qu'a été créé un département chargé spécialement de l'éducation et de la santé) peut expliquer la qualité relativement inférieure du rôle et de la contribution de l'IFC dans ces secteurs. Il faut cependant entreprendre une étude plus approfondie pour confirmer cette conclusion.

Lorsque la qualité du rôle et de la contribution de l'IFC, ainsi que déterminée après évaluation, a été jugée plus élevée et que différentes catégories d'additionnalité ont agi simultanément, de meilleurs résultats ont pu être obtenus en matière de développement. L'additionnalité financière semble avoir à elle seule une influence plus grande sur les résultats en matière de développement que les autres catégories d'additionnalité. L'évaluation montre aussi qu'il n'existe pas de corrélation négative entre les différentes catégories d'additionnalité et la rentabilité des investissements de l'IFC ; en d'autres termes, la qualité supérieure du rôle et de la contribution de l'IFC s'est accompagnée de rendements économiques et financiers élevés pour l'institution, et vice versa. Ces observations soulignent qu'il est important pour l'IFC de faire très attention aux avantages comparatifs que possède l'institution, comparé à d'autres institutions financières qui appuient elles aussi le secteur privé des pays en développement—de manière à susciter pleinement la croissance économique, la réduction de la pauvreté et un développement durable sur le plan écologique et social—car procéder de la sorte peut entraîner des retombées mutuellement bénéfiques pour le développement et pour le secteur financier.

Recommandations

Pour renforcer son action en faveur de l'efficacité du développement, l'IFC doit :

- Prêter une attention accrue à la qualité des interventions et à la gestion des risques encourus par le portefeuille, à mesure que l'institution élargit son champ d'action et décentralise ses activités, notamment dans des marchés plus récents et eu égard au ralentissement possible de la croissance économique mondiale.
- Veiller à s'attaquer aux mauvais résultats continuellement enregistrés en Afrique dans les secteurs environnementaux et sociaux, notamment par rapport à la qualité de la supervision de l'IFC et à l'engagement des clients à l'égard des questions liées à la viabilité.
- Poursuivre, avec le concours de l'IEG, les mesures de renforcement prises par l'IFC pour améliorer la qualité des données relatives à la performance des projets de services-conseil, notamment les actions visant à améliorer la compréhension que les agents de l'institution ont de l'évaluation des résultats, l'assurance de la qualité par les responsables de projets, ainsi que le suivi des résultats au-delà de la clôture des projets.
- Inscrire clairement le principe de l'additionnalité dans ses stratégies (y compris celles élaborer conjointement avec la Banque mondiale) et formuler des directives et mettre au point des incitations pour aider les agents chargés des opérations à mieux identifier et à mieux faire valoir l'additionnalité. L'IFC pourrait compléter ces efforts en améliorant les méthodes d'évaluation lui permettant de formuler des estimations au sujet de l'additionnalité et d'en assurer le suivi tout au long du cycle de projet, s'appuyant sur le cadre analytique présenté dans ce rapport.
- Entreprendre une analyse approfondie de l'additionnalité de l'IFC dans les régions, les secteurs et les groupes de client à la traîne, dans le but d'identifier les mesures nécessaires pour améliorer la performance.

Resumen ejecutivo

La *Evaluación Independiente de los Resultados de Desarrollo* (IEDR por su sigla en inglés) de la Corporación Financiera Internacional (IFC por su sigla en inglés) es el informe anual característico del Grupo de Evaluación Independiente (GEI)[1]. Este informe analiza la eficacia de la IFC a la hora de apoyar el desarrollo del sector privado, y sus aportes al crecimiento económico y la reducción de la pobreza, así como a un desarrollo sostenible desde el punto de vista ambiental y social.

El principal objetivo de la IEDR es proporcionar una evaluación independiente al Directorio, la Gerencia de la IFC, y a la gran comunidad de desarrollo acerca de las tendencias recientes en el desempeño de la IFC, y estimular el debate y la acción sobre las estrategias y procesos operativos de la IFC a futuro. El informe también actúa como fuente de conocimiento y aprendizaje sobre el desarrollo del sector privado en general, y acerca del impacto sobre el desarrollo, más específicamente.

La IEDR de este año posee dos temas principales. El primero es un análisis de los resultados en términos de desarrollo que lograron las operaciones que recibieron el apoyo de la IFC. En el área de inversiones, esto significa determinar cómo fue el desempeño de las operaciones que llegaron a su vencimiento operativo anticipado[2] durante 2005–07, en cuanto a sus resultados financieros y económicos con respecto a indicadores de referencia de mercado específicos, así como sus efectos ambientales y sociales, y sus aportes al desarrollo del sector privado más allá del proyecto (como por ejemplo, mediante enlaces y efectos demostrativos)[3]. En el caso de los servicios de asesoría, el informe presenta los resultados emergentes de 293 operaciones que se cerraron durante 2004–06 y que se evaluaron en forma piloto, como parte de esfuerzos mayores que se están realizando para evaluar el desempeño en esta área[4].

El segundo tema del informe es una mirada preliminar y ex post a la “adicionalidad”, es decir, la función y aportes únicos, que la IFC les proporciona a sus clientes a través de operaciones de servicios de inversión y asesoría. La IFC ha ampliado su actividad rápidamente; el volumen de las nuevas operaciones de inversión se ha más que duplicado y los gastos en servicios de asesoría se cuadruplicaron en los últimos cinco años[5]. En consecuencia, es oportuno realizar un análisis integral de los resultados de desarrollo que se obtuvieron en el campo, y de los aportes de la IFC a dichos resultados.

Resultados de desarrollo en los proyectos con apoyo de la IFC

Los resultados de las operaciones de inversión que llegaron a su vencimiento operativo anticipado durante 2005–07 exhiben mejoras con respecto al pasado. De una muestra representativa y seleccionada al azar de 174 operaciones (en un total de 332) por un valor de US$3.300 millones (aproximadamente US$13.000 millones si se incluyen los fondos de los cofinanciadores)[6], el 63% (75% por volumen), logró resultados que, en términos generales cumplieron o excedieron los parámetros e indicadores de referencia especificados en materia de desempeño social, ambiental, económico, financiero y de mercado. En 2007, el 71% de las 65 operaciones evaluadas cumplió o superó los parámetros e indicadores de referencia para el desarrollo.

La evaluación también demuestra que la búsqueda de la eficacia en términos de desarrollo bien puede ir de la mano de la rentabilidad de la IFC. En el 85% de los proyectos que apoyó la IFC, los buenos y malos resultados de desarrollo mostraron una correlación con una rentabilidad alta y baja de la IFC, respectivamente, con lo cual se sugiere que ambos atributos pueden a menudo moverse en la misma dirección. En aquellos casos en que se registró una divergencia entre ambos (en el 15% de los casos), generalmente fue el reflejo del instrumento de financiación que escogió la IFC y el riesgo de inversión asociado. El gran resultado de esta asociación positiva es alentador debido a que sugiere que, si la IFC presionara por una mayor eficacia en términos de desarrollo, ello no necesariamente comprometería el rendimiento financiero de sus inversiones.

No obstante, hubo varias deficiencias en aspectos importantes de las operaciones de inversión de la IFC. Primero, los resultados continúan siendo mucho menores en los proyectos pequeños (en especial, aquellos donde la inversión de la IFC es inferior a US$5 millones, que representan el 32% de la muestra). Segundo, menos de la mitad de los proyectos en África, Asia, y las regiones de Medio Oriente y norte de África, cumplió o superó los parámetros e indicadores de referencias de desarrollo, con lo cual se amplió la brecha de desempeño que se encontró el año pasado entre estas regiones y las regiones de Europa y Asia Central, y América Latina y el Caribe. Este dato es de especial importancia porque las operaciones de la IFC tienen su mayor crecimiento en las regiones anteriormente mencionadas. Tercero, las calificaciones de los efectos ambientales y sociales continúan siendo bajas en África. En un enfoque por sector, el desempeño fue mayor en los proyectos de infraestructura y financiamiento, y menor en los proyectos de manufactura, servicios e informática, en general.

Los proyectos que apoya la IFC se enfrentan a riesgos y desafíos inherentes que varían a lo largo de los diferentes países, sectores e instrumentos[7]. No se contrastaron las evaluaciones de desempeño acumulado anteriormente mencionadas con las expectativas ajustadas al riesgo. Sin embargo, este informe toma en cuenta las variaciones de los riesgos por país, sector e instrumento, y la forma en que éstos repercuten en los resultados de desarrollo. La mejora en las condiciones de mercado en la mayoría de las regiones contribuyó favorablemente al desempeño en términos de desarrollo de los proyectos que recibieron apoyo de la IFC. Por otro lado, la permanencia de los altos niveles de riesgo en el entorno de negocios limitó el desempeño en varios países de África. Al parecer, hay ciertas condiciones de mercado específicas que repercutieron negativamente en una serie de sectores de Asia, como por ejemplo, el efecto retardado de la crisis financiera regional de fines de la década de 1990. La combinación de elementos específicos de cada país y del sector ayuda a explicar el desempeño relativamente malo en los países de Medio Oriente y norte de África, donde la mayoría de los proyectos generales de manufactura y servicios obtuvo resultados por debajo de los indicadores de referencia, y los temas de seguridad afectaron el potencial de varios países para atraer inversiones.

Hubo factores dentro del control de la IFC que también desempeñaron una función clave a la hora de determinar los resultados, especialmente la gestión del riesgo de los proyectos y los patrocinadores. Los proyectos en Europa y Asia Central, así como en América Latina y el Caribe, se llevaron a cabo generalmente con patrocinadores de mayor calidad y con proyectos cuyo riesgo intrínseco era menor que en las demás regiones. La falta de idoneidad de los patrocinantes y el alto riesgo intrínseco plantearon importantes desafíos para lograr resultados satisfactorios en materia de desarrollo, pese a que el apoyo a los clientes para que cumplan con este desafío es de esencial importancia para la función de la IFC como institución de desarrollo. Todo esto cobra aún mayor importancia a la luz de las conclusiones del GEI, en el sentido de que la calidad de la supervisión y administración de la IFC parece repercutir mucho más en los resultados de los proyectos en las situaciones donde hay patrocinadores más débiles y el riesgo del proyecto es mayor. En general, en aquellos casos en que la calidad del trabajo de la IFC fue buena, también lo fueron los resultados del proyecto en términos de desarrollo. La estrecha relación entre la calidad del trabajo y los resultados de desarrollo se aplica a lo largo de sectores y regiones, pese a que la incidencia de la calidad del trabajo fue notoriamente menor en Asia y África que en otras regiones. Estos hallazgos implican la necesidad de prestar mayor atención para que la calidad del trabajo en Asia y África sea buena, y **en particular, de mejorar el desempeño ambiental y social en África, donde el compromiso de sostenibilidad del patrocinador tiende a ser más débil y donde la calidad de supervisión de la IFC fue insuficiente.**

Si bien la IFC ha venido ampliando sus operaciones de servicios de asesoría en los últimos cinco años, también ha dedicado importantes recursos al control y autoevaluación de los resultados de estas operaciones. Un componente de este control y autoevaluación fue la introducción de un sistema de informes de terminación del proyecto (ITP), que apunta a evaluar los resultados en cinco dimensiones: importancia estratégica, eficacia, resultantes, resultados y repercusiones. La IFC ha complementado este sistema con una serie de análisis externos, y evaluaciones experimentales y cuasi experimentales de proyectos específicos, con el fin de informar sobre los avances en el diseño del proyecto y la eficacia del mismo.

El GEI evaluó en forma independiente los resultados que transmitió la IFC en los dos pilotos de los ITP, que abarcaron 23 operaciones de servicios de asesoría que se cerraron durante 2004–06. Las evaluaciones del GEI indican que, en los 198 proyectos en que se calificó la eficacia, el 70% logró calificaciones satisfactorias. Sin embargo, una gran proporción de los proyectos evaluados (un tercio) no informó acerca de sus calificaciones de eficacia en términos de desarrollo, lo cual debilitó seriamente la calidad de las conclusiones que se podrían extraer acerca del desempeño en estos pilotos. Asimismo, la calidad de la documentación proporcionada por el personal de la IFC para apoyar sus calificaciones iniciales continúa siendo mala en muchos casos, lo cual sugiere que se requiere más trabajo para desarrollar un parámetro superior cuando se trata de comunicar cuál fue la eficacia en términos de desarrollo en las operaciones con servicios de asesoría.

La adicionalidad de la IFC

Como integrante del Grupo del Banco Mundial, se espera que la IFC vaya más allá de simplemente proporcionar financiamiento a sus clientes. La institución debería ser un agente catalizador en el crecimiento del sector privado para lograr un desarrollo equitativo y sostenible. En consecuencia, la IFC debería complementar —y no reemplazar— las fuentes existentes de capital privado en los países en desarrollo. La necesidad de que la IFC desempeñe una función especial de agente catalizador surge debido a los graves fracasos institucionales y de mercado, y a las imperfecciones que frenan las inversiones privadas en la mayoría de los países en desarrollo. Tales imperfecciones varían de acuerdo con los factores institucionales y de mercado de los países. La "adicionalidad" se refiere a los ***aportes*** únicos, tanto financieros como no financieros, que proporciona una institución de desarrollo como la IFC a los países en desarrollo. Se espera que la "adicionalidad" de la IFC repercuta favorablemente en el desarrollo "en los hechos" y redunde en la mejoría de los ***resultados*** de las intervenciones que realizan las instituciones. En virtud de esta conexión, parecería que la mayor adicionalidad para la IFC estaría potencialmente en aquellas áreas donde hay mejores perspectivas de repercutir en el desarrollo: crecimiento económico, reducción de la pobreza, sostenibilidad ambiental y social, a través del apoyo al desarrollo del sector privado.

Las estrategias institucionales de la IFC generalmente analizan los aportes y la función únicos que ésta posee en cuanto a la inversión en los llamados sectores, productos, mercados y países de innovación, y en el apoyo a la sostenibilidad ambiental y social. No obstante, la mayoría de las estrategias por región, sector y país (la última se desarrolla con el Banco Mundial) contienen un análisis explícito limitado sobre la función y aportes únicos de la IFC, o sus ventajes comparativas respecto de otras fuentes de financiamiento y asesoría. Es necesario implementar una mayor articulación.

Resulta difícil medir la adicionalidad en forma precisa, pero hay variables representativas disponibles para efectuar una evaluación inicial de la presencia y la calidad de la adicionalidad de las operaciones de la IFC. La principal fuente de estas variables representativas son los datos recopilados a través de las evaluaciones de proyectos sobre la función y los aportes de la IFC, que analizan si la IFC realizó un aporte especial a un proyecto y tuvo un efecto catalizador a la hora de contribuir a que los inversionistas privados realizaran buenas inversiones. El GEI utilizó los datos para efectuar un análisis ex post en dos fases: (i) identificación de formas específicas de adicionalidad, y (ii) evaluación de su calidad general, basándose en las calificaciones de acuerdo con la función y los aportes de los proyectos individuales.

El GEI analizó 692 autoevaluaciones de proyectos fuera del terreno, y codificó los proyectos en cuanto a la presencia o ausencia de tres tipos de adicionalidad, definida de acuerdo con las áreas en las cuales la IFC puede abordar en forma única las fallas e imperfecciones del mercado: (i) *financiera* (los términos más adecuados de los que figuran en otros lugares son movilización de fondos y comodidad del riesgo de mercado); (ii) *operativa* (asesoramiento especializado para compensar las brechas en materia de destrezas y conocimientos entre los clientes); y (iii) *institucional* (mejoras en los parámetros de gobernanza empresarial, sostenibilidad ambiental y social, y reglamentación, y una mejor adjudicación del riesgo público/privado[8]. Utilizando una definición de adicionalidad sumamente inclusiva, este análisis concluyó que en el 85% de las operaciones de inversiones evaluadas había al menos una forma de adicionalidad financiera, y se podía identificar al menos una forma de adicionalidad operativa o institucional en aproximadamente un tercio de los casos. Con el tiempo, la adicionalidad institucional parece haber cobrado mayor importancia, mientras que los demás tipos de adicionalidad parecen haberse mantenido bastante constantes.

La necesidad de que la IFC proporcione adicionalidad financiera probablemente se agudiza más durante los tiempos de crisis. El GEI considera que la IFC parece haber sido un inversor anticíclico en respuesta a la mayoría de las crisis financieras que se produjeron en los países en desarrollo en los últimos años. Será de especial importancia aumentar la función anticíclica de la IFC en el caso de que la desaceleración económica mundial prevista repercuta negativamente sobre el sector privado en los países en desarrollo.

Con respecto a la calidad de la adicionalidad general de la IFC (sobre la base de evaluaciones ex post de su función y aporte), las calificaciones de este componente en las operaciones individuales fueron satisfactorias en la mayoría de los casos, lo cual significa que el aporte que efectuó la IFC estuvo alineado con los principios operativos de la institución en términos de realizar un aporte especial y actuar como agente catalizador. Entre los éxitos relativos de la IFC se incluye la calidad superior de su función y aporte en las regiones de Europa y Asia Central, y América Latina y el Caribe; en los sectores extractivos, de alimentos y agronegocios, y de infraestructura; así como en la formación de capacidades a través de una participación a largo plazo con los clientes. No obstante, se consideró que el aporte de la IFC fue insatisfactorio (lo cual significa que la adicionalidad de la IFC fue insuficiente en un área de importancia material, o que se consideró que la IFC no fue realmente adicional) en casi el 30% de los proyectos en Asia y en África, y en proporciones similares en los sectores financiero, de salud y educación de todas las regiones.

El exceso de optimismo acerca de lo que podría lograr la IFC, la falta de compromiso de los clientes ante los cambios que la IFC apuntó a generar (especialmente en los casos en que el proyecto no fue un éxito desde el punto de vista comercial), y los cambios en las condiciones externas parecen haber desempeñado un papel en los casos donde la función y el aporte de la IFC fueron insatisfactorios. Las variaciones en la función y aporte de la IFC por región y sector son, sin embargo, difíciles de explicar con precisión. El análisis econométrico indica que, incluso cuando se controla el tamaño del proyecto, idoneidad del patrocinador, riesgo intrínseco del proyecto y riesgo del ambiente de inversiones, la función y el aporte de la IFC en África continúan siendo inferiores que en otras regiones. Hay factores especiales que podrían explicar parte de esta variación, pero se necesita investigar más, e incluso realizar evaluaciones de campo, para llegar a una evaluación concluyente. La experiencia relativamente corta de la IFC en los sectores sociales (recién se estableció un Departamento dedicado de Salud y Educación en el año 2002) podría explicar la relativamente escasa calidad de la función y aporte de la IFC en estos sectores. No obstante, para poder confirmarlo se necesitaría de un análisis en mayor profundidad.

Se lograron mejores resultados en el desarrollo de proyectos en aquellos lugares donde la calidad de la función y aporte de la IFC fue superior, y cuando se encontraban presentes diferentes tipos de adicionalidad en forma simultánea. En sí misma, la adicionalidad financiera parece tener mayor influencia sobre los resultados de desarrollo que en otros tipos de adicionalidad. Asimismo, la evaluación no muestra ninguna contrapartida aparente entre los diferentes tipos de adicionalidad y la propia rentabilidad de la IFC, lo cual significa que en aquellos lugares donde la calidad de la función y aporte de la IFC fue superior, también lo fue el rendimiento económico y financiero de las inversiones de la IFC, y viceversa. Estas conclusiones resaltan la importancia de que la IFC preste atención a las ventajas comparativas que posee, con respecto a otras organizaciones financieras a la hora de brindar apoyo al sector privado en los países en desarrollo, en formas que fomenten el crecimiento económico, la reducción de la pobreza y el desarrollo sostenible desde el punto de vista ambiental y social a todos los efectos, ya que de ser así, ello podría tener beneficios financieros y de desarrollo que redundarían en un fortalecimiento mutuo.

Recomendaciones

Para mejorar su eficacia en términos de desarrollo, la IFC debería

- Prestar suma atención a la calidad del trabajo y a la gestión del riesgo de cartera, a medida que continúa creciendo y descentralizando sus operaciones, especialmente en los mercados más nuevos y con miras a una posible desaceleración del crecimiento económico mundial.
- Cerciorarse de abordar las continuas deficiencias de desempeño ambiental y social en África, especialmente en lo relacionado con la calidad de la supervisión de la IFC y el compromiso de los clientes ante los temas de sostenibilidad.
- Continuar fortaleciendo, mediante los aportes del GEI, las medidas que está adoptando para mejorar los datos sobre el desempeño de las operaciones de servicios de asesoría, lo cual incluye los esfuerzos para mejorar el entendimiento entre el personal acerca de la medición de resultados, control de calidad a cargo de los gerentes, así como un control de desempeño antes de que concluya el proyecto.
- Planificar claramente la adicionalidad en sus estrategias (incluidas las que se desarrollan con el Banco Mundial) y desarrollar lineamientos e incentivos para contribuir a que el personal operativo pueda identificar y cumplir con la adicionalidad de una mejor forma. La IFC podría complementar estos esfuerzos mejorando su metodología para estimar y rastrear la adicionalidad a lo largo del ciclo de vida del

proyecto, teniendo en cuenta el marco analítico que se describe en este informe.

- Efectuar un mayor análisis de la adicionalidad de la IFC en las regiones, sectores y grupos de clientes con mayores carencias, a los efectos de identificar cuáles son las medidas específicas que se requieren para mejorar el desempeño.

IFC Management Response to IEG-IFC

*Independent Evaluation of IFC's Development Results 2008: IFC's Additionality in Supporting Private Sector Development**

Management welcomes IEG-IFC's annual evaluation of IFC's development results. The 2008 report summarizes development results for projects evaluated over the last three years and provides a review of IFC's additionality in projects.

Introduction

Overall, we are pleased to see a number of positive results highlighted in this year's report. *First,* the development outcomes for the projects evaluated during 2005–07 (approved during 2000–02) were higher than in previous years, with 63 percent of projects (75 percent when weighted by size of investment) meeting or exceeding stringent market, financial, economic, environmental, and social performance benchmarks and standards. The 2006–07 results are particularly strong, with about 70 percent of projects meeting or exceeding the benchmarks. *Second*, in the pilot analysis of *IFC role and contribution* for projects approved from 1991 to 2002, and analyzed at early operating maturity (about five years after approval), IFC additionality was evident in 93 percent of projects, with over 80 percent rated high in terms of IFC making a special contribution and being catalytic. These results were achieved despite the fact that when some projects ran into operating problems, for example, owing to external factors the companies could not control, it became quite difficult for these projects to absorb all of the planned value-added inputs from IFC. *Third*, in advisory services, the pilot review of completed operations that closed during 2004–06, and had sufficient evaluative data, shows that 70 percent of projects achieved satisfactory or better development effectiveness ratings. *Lastly*, the report also shows that IFC has been effective in countercyclical situations having substantially increased its exposure following most country crises, whereas private sector investment frequently declined.

*Distributed to IFC's Board of Directors on February 15, 2008, and discussed by the Board's Committee on Development Effectiveness on February 27, 2008. Released by IFC in accordance with IFC's Policy on Disclosure of Information.

We would also like to note that during the past several years, IFC has been undertaking significant efforts to improve the effectiveness of the organization, which should lead to even further improvements in evaluation results in the future. The specific activities being undertaken are detailed below in the section on responses to individual recommendations in the report.

The current evaluation system, which has been in place for over 10 years, does not provide a mechanism for adjusting results to differentiate projects by the risk profile of the sector or region involved. Looking forward, as IFC continues to take on more projects in higher-risk countries and activities, for example, in International Development Association (IDA) countries and pioneering sectors, we would need to consider creating results benchmarks that are risk adjusted. This would avoid penalizing staff for taking appropriate risks consistent with IFC's strategies. In this regard, we will be working with IEG-IFC to examine the possibility for developing risk-adjusted results benchmarks.

Presented below are Management responses to the specific IEG-IFC recommendations.

Responses to Specific Recommendations

Recommendation 1: *IFC should pay strong attention to work quality and portfolio risk management as it continues to grow and decentralize its operations, particularly in newer markets and in view of a possible downturn in global economic growth.*

The quality of IFC's portfolio has improved significantly over the last five years, based on a number of measures such as nonperforming loans and equity returns. Nevertheless, as IFC moves more toward higher-risk regions and sectors, and as the current global financial situation is quite uncertain, Management is focused on the need to strengthen risk management and overall work quality. Many of the current major IFC initiatives are dedicated to this task. As will be discussed in IFC's strategy paper for fiscal years (FYs) 2009–11, strengthened internal infrastructure to improve IFC portfolio and risk management capabilities are a central focus under each of the three scenarios in the paper. In addition, IFC's decentralization should facilitate a better understanding and managing of risks associated with its operations. More industry/portfolio management, senior credit function, and environmental/social expertise are being deployed to the field, enabling the convergence of IFC's global experience with local knowledge. Global expertise will be further supported by strengthened knowledge management functions, including the development of industry practice groups. Human resources, training, and leadership programs are being enhanced globally to build the strong staff skills needed to excel in difficult environments. IFC is also preparing for countercyclical situations by conducting a portfolio review in all Regions and strengthening risk management functions.

In addition, IFC is enhancing its advisory services operations, especially given IEG-IFC's previous finding that overall, development outcomes are better when investment operations go hand-in-hand with advisory services. IFC's advisory services improve projects by addressing, among other things, critical operational, investment climate, environmental, social, and corporate governance issues. Advisory services are being strengthened by focusing on core product areas where IFC can achieve global expertise and comparative advantage, and via advisory services programs in human resources, training, and knowledge management.

Recommendation 2: *IFC should ensure that it addresses continued environmental and social performance shortcomings in Africa, particularly as they relate to IFC supervision quality and client commitment to sustainability issues.*

IFC is continuing to take steps to strengthen its project supervision of environmental, health, and social performance in Africa. We are increasing the overall amount of headquarter resources allocated to environmental supervision of the Africa portfolio. We are also managing our environmental supervision visits better by increasing the number of projects visited and prioritizing them, based on environmental risks. In FY08, environmental supervision visits in Africa are expected to increase by 30 percent from the FY07 level. The ongoing decentralization should further strengthen client contacts and help collect, monitor, and improve the environmental performance of client companies. IFC is also expanding its environmental and social development staff presence in the Region to complement its headquarters staff.

We would also like to note that the basis of IEG-IFC's findings on Africa is a sample of 13 projects that were approved five to seven years ago, in 2000–02. For many clients in the Region, IFC's environmental, health, and social standards represented a substantial change from national regulations and enforcement practices in Africa. In addition, as outlined in this report, companies in financial difficulty often put less priority on addressing the environmental and social issues of their business.

In "pushing the envelope" on introducing higher standards, IFC's experience was that many sponsors had difficulty meeting commitments that they were, otherwise, willing to make at the outset of a project. IFC remains committed to working with sponsors on sustainability objectives, while recognizing that, in addition to closer supervision, additional assistance to firms is required in many cases, and this objective has resource implications.

Recommendation 3: *IFC should continue, with input from IEG, to strengthen the steps it is taking to improve the data on the performance of advisory services operations, including efforts to improve understanding among staff about results measurement, quality assurance by managers, as well as performance monitoring beyond project close.*

Management agrees with the recommendation to strengthen measures to improve the data on performance of advisory services operations, in consultation with IEG-IFC. IFC is currently taking a number of steps to improve the quality of data in the project supervision and completion reports, through further streamlining of core indicators by product line, promoting baseline data collection, increasing oversight by evaluation staff, and increasing training and knowledge sharing.

Together with IEG-IFC, the IFC results measurement team is organizing a two-day course on monitoring and evaluation of private sector advisory programs at the International Program for Development Evaluation Training in June 2008. As part of knowledge sharing, two annual conferences are organized each year, in which lessons learned from evaluations and evaluation methodologies are shared among the broader World Bank Group, donors, academics, and other multilateral development banks. Partnerships in evaluation have been established with leading experts from institutions such as the MIT Poverty Action Lab, and with foundations such as the German Marshall Fund. Forums on results measurement are being held for donors and multilaterals as well as for foundations in May 2008. Competencies for monitoring and evaluation staff are being developed to strengthen the cadre.

IFC will continue to consult with IEG-IFC on developing guidance for identifying, at approval, projects that would require post-completion monitoring so that appropriate frameworks and plans can be established at the outset. IFC would welcome IEG-IFC's efforts to institute a mechanism to provide feedback to staff on Project Completion Report (PCR) reratings as soon as possible, as is being done in the case of the Expanded Project Supervision Report (XPSR) system on the investment side. (PCRs and XPSRs are IFC's project-level self-evaluation reports for advisory services and investment operations respectively.)

Recommendation 4*: IFC should clearly map out its additionality in its strategies (including those developed with the World Bank) and develop guidelines and incentives to help operational staff better identify and deliver additionality. IFC could complement these efforts by advancing its metrics for estimating and* *tracking additionality through the project lifecycle, taking account of the analytical framework outlined in this report.*

IFC has made significant efforts to ensure that additionality considerations are an integral part of all business development and implementation activities. With respect to developing guidelines and incentives to help operational staff better assess and articulate additionality, IFC recently structured a new analytical framework for identifying and categorizing additionality, and presented it to IFC's Board of Executive Directors in November 2007. Following the Board presentation, IFC developed an additionality primer, designed to help staff develop, assess, and communicate IFC's role and additionality more systematically and effectively. We have just embarked on an additionality training program, which is being delivered in the IFC induction program and will soon be part of the extensive, credit training course. IFC will continue to monitor additionality and report to the Board at the aggregate level, in line with the November 2007 Board presentation. In addition, we continue to track areas of expected high additionality in our corporate scorecard, such as investments in IDA countries and micro, small, and medium enterprises.

Most of these efforts are targeted at strengthening IFC additionality at the project level, which is ultimately the most important level at which IFC additionality must be realized. At the strategy level, additionality has been an important part of IFC corporate strategies for many years, and has become even more important in recent years. At the regional and industry level, Management introduced a structured strategic planning process this year for all investment departments, which addresses the external environment for each department, including market development, activities of other development institutions, and IFC strengths and weaknesses. The process includes discussions of success factors compared with other institutions. We plan to continue using this process next year. As a result, many of the individual strategies coming out of this process have substantive discussions of IFC's comparative advantage.

As noted in the IEG-IFC paper, elements of additionality are already discussed in many of IFC's various strategy documents. However, we would strongly caution against judging the quality of each regional, country, and sector strategy document by the presence of an explicit discussion of IFC's unique value added, relative to other sources of finance and advice. While this understanding must be considered in order to develop strategy, it is not always necessary or efficient to restate these issues in every document. Often at the country or sector level, reference to established Corporate priorities that reflect additionality may be sufficient, e.g., with respect to the frontier and IDA focus, or differentiation via sustainability competencies. Also, there are a number of different approaches to strategy development that can be useful in different circumstances. Top-down planning may not always be the best approach—sometimes a bottom-up, learning approach can be a very effective complement to other methods.

Recommendation 5**:** *IFC and IEG should carry out further analysis of additionality in lagging regions, sectors, and client groups in order to identify what, if any, specific steps are required to enhance performance.*

We note the report's conclusion that its review of IFC's additionality raises a number of questions. In this regard, we support the suggestion to do further evaluation of IFC's delivery of additionality with a view to identifying areas where IFC's additionality can be enhanced. This review should consider both analyses of areas where IFC has been strong and areas where IFC has been lagging.

Chairperson's Summary: Committee on Development Effectiveness (CODE)

On February 27, 2008, the Committee on Development Effectiveness (CODE) discussed the *Independent Evaluation of IFC's Development Results 2008*: *IFC's Additionality in Supporting Private Sector Development* and the *Draft IFC Management Response*. IEG reviews IFC development results annually and produces an evaluation of the findings.

Main Findings

The report reviewed the recent development results of IFC activities and provided a preliminary, ex-post assessment of IFC's "additionality". IEG highlighted four key findings. First, it noted that the development outcomes (DOs) of IFC investment operations have improved overall, although there were variations across regions, sectors, and client groups; performance was weaker for small projects; and environment and social effects ratings in Africa lagged those of other regions. IEG observed a significant correlation between the DOs and profitability of investment operations. Second, IEG found that country, sector, sponsor, and specific project risks and IFC's work quality have influenced project development results. Third, IEG's preliminary analysis of advisory services showed that 70 percent of those rated for development effectiveness (DE) achieved satisfactory ratings. However, IEG observed that about one-third of advisory services projects did not report DE ratings, and the quality of documentation to support DE ratings was weak in many cases. Fourth, IEG found that 85 percent of evaluated investment operations delivered at least one form of financial additionality, with operational or institutional additionality apparent in approximately a third of these operations. IEG noted variations in the evaluated quality of IFC's role and contribution (a key measure of additionality) between regions and sectors. It also observed that IFC seems to have been a countercyclical investor in response to major financial crises. IEG recommendations focused on the need for IFC to: enhance work quality and portfolio risk management; improve environmental and social performance in Africa; strengthen performance reporting of advisory services; increase the strategic consideration, implementation, and tracking of additionality; and further analyze additionality in lagging regions, sectors, and client groups.

IFC Management Response

Management welcomed the positive results highlighted in the report and the constructive recommendations. Management stated that IFC would be devoting additional resources to strengthen its portfolio and risk management as indicated in an IFC strategy paper. It agreed on the importance of enhancing overall work quality, especially as IFC expands its work into higher-risk countries and sectors. Management elaborated on its work to improve the data on performance of advisory services. CODE's support was sought for Management's proposal to develop risk-adjusted results benchmarks. This was considered critical in encouraging staff to take on the challenge of working in higher-risk countries or sectors. IEG's preliminary analysis of additionality was considered timely, given IFC's ongoing efforts to better define this aspect of its work. Management looked forward to working with IEG to improve the quality and results of IFC activities.

Overall Conclusions and Next Steps

CODE commended IEG for an informative and useful evaluation report. The committee also congratulated IFC Management for the improvements in DOs and expressed appreciation for Management's response. Speakers welcomed the positive correlation between DOs and IFC profitability, which should help maintain the impetus for IFC to engage in high-risk regions and sectors. The discussion focused on additionality, risk-adjusted performance measurement, variations in DOs, environmental and social effects in Africa, and the performance of IFC advisory services. In the course of the discussion, issues of staff recruitment and incentive were also raised in relation to IFC's work in high-risk areas. There was a general sentiment on the need to further deepen the understanding and analysis of additionality. Speakers supported the proposal for IFC and IEG, together, to develop risk-adjusted results benchmarks. Nonconventional and innovative approaches for engaging in frontier countries and high-risk areas were also encouraged. Speakers appreciated the constructive relationship and dialogue between IEG and IFC, which should continue for the purpose of strengthening IFC's operations. One speaker noted that IFC should take IEG's recommendations into consideration, based on historical experience, even if they may appear to be outdated.

The following main issues were raised during the meeting:

Variations in DOs. Some speakers suggested the need for further analysis to clarify the underlying reasons for the regional and sectoral variations in DOs, including the weaker performance of smaller projects, before taking actions to address them. In this context, a member also indicated that a better understanding of the related internal organizational issues may be merited, such as considering whether staff recruitment gives due attention to the skill and experience needed to work in a difficult environment and on small projects. It is hoped that the increase in IFC investment operations in Asia and Africa will be accompanied by improvements in DOs. Emphasis was also made on the need to strengthen the DOs of smaller projects (i.e., less than $5 million), which is still relatively large in the context of Africa. Noting that the business environment seems to be a significant factor affecting performance, a member highlighted the importance of strengthening IFC support for improving business climates. A speaker expressed interest in International Development Association (IDA)–IFC cooperation. *IFC Management noted that in Africa, IFC's business has expanded tenfold in the past five years and that it has a different business model today compared with what was in place in early 2000, when the projects evaluated were appraised and structured. Management added that data from current portfolio monitoring points to continuing improvements in IFC's performance in the region.*

Risk-adjusted performance measurement. Speakers noted the need to take into account the different risk profile of a region, country, or sector when considering development results, and, likewise, in the design of staff incentives. *IFC Management said that country-office experience was a criterion for managerial promotions and it was also developing a framework to compensate people working in higher-risk and difficult areas, such as IDA countries and post-conflict/fragile states.* A few speakers stressed that, given the difficult operating environment in frontier countries (e.g., many countries in

Africa), performance could not be assessed using the same standards as those used for other countries, as in the Latin America and East and Central Asia Regions. It was further emphasized that the challenges and risks in frontier countries required IFC to be nonconventional and pragmatic. *IFC noted that its forthcoming strategy for FY09–FY11 takes into consideration not only the risks but also cost factors of working in frontier markets. IFC Management commented that there are high costs involved in doing small projects as well as projects in high-risk environments.* The proposal for IFC and IEG to develop risk-adjusted results benchmarks together was supported. *IEG said it would be advising IFC on the risk-adjusted model using its evaluative experience.* One committee member wondered whether the risk-adjusted picture would lead to different findings from those presented in the report. *IEG indicated that since the findings are based on completed results, the risk-adjusted picture would not necessarily change.* Another member raised the issue of how to devise a system for result measurements that takes into consideration the risk profile of the region, country, or sector (as discussed by CODE in March 2008). The integration of gender and poverty components into results was urged. One speaker suggested assessing overall results on a portfolio basis instead of the current approach, in which small and big projects have equal weights in the overall outcomes.

Environmental and social effects in Africa. A member encouraged the effective use of resources to help improve the environmental and social performance of IFC projects in Africa. Another member commented on the need to ensure that countries are not penalized for a lack of capacity to apply safeguards. A few questions were asked about whether the improved environmental and social standards may have had an impact on the client selection and cost of compliance. *IFC explained the risk-based approach to projects. Referring to the recent update on the implementation of IFC's performance standards in environmental and social safeguards, IFC noted that higher costs have been recorded for projects with higher environmental risks.*

Performance of advisory services. There was a suggestion to strengthen the performance data of advisory services by eliciting client comments, given that acceptance or implementation of IFC advice may not fully capture the value added of advisory services. *IFC explained that it conducts an annual client survey of both advisory and investment clients.* Some speakers sought more information about IFC's ongoing work to enhance advisory services operations, including the linkage between investment operations and advisory services.

IFC's additionality. Several speakers remarked on the importance of clarifying the definition and deepening the understanding of IFC "additionality". One committee member defined it as "IFC making possible something that has not yet happened." Another member commented on the need to fully consider IFC's comparative advantage in a specific strategic context (i.e., by region, country, sector). Further to IEG's preliminary analysis on additionality, which focused on inputs, some speakers said that additionality might also be assessed in terms of outputs and outcomes, and incorporate aspects such as the potential of "crowding out" by private capital for development. Suggestions were also made to measure additionality in terms of benefits associated with IFC's presence and operational size, as well as for prepaid, cancelled, and dropped operations. A member sought to ensure that additionality is clearly identified in strategies and projects. *IEG noted that the analysis of additionality is still a work in progress and would continue to be refined. IFC explained that additionality considerations are an integral part of its corporate strategy formulation process and that the regional section of its strategy paper includes discussions of IFC's additionality. Management also added that its operational strategies at the lower level are anchored by IFC's additionality, and cautioned against a move toward a process requirement, rather than focusing on the substance and effectiveness of the strategy and its implementation. IFC also elaborated on the activities under way to strengthen its additionality.*

Jiayi Zou, Chairperson

Development Results of IFC-Supported Projects

IFC seeks to promote sustainable private sector development, and thereby promote growth and poverty reduction, through a range of financial products and advisory services. Financial products include loans, equity and quasi-equity instruments, guarantees, and risk-management products. Advisory services products range from those designed to help tackle constraints in a country's business-enabling environment to those aimed at improving a firm's operational or institutional capacity.

This chapter takes stock of the development results of a randomly selected, representative 52 percent sample of 174 investment operations that reached early operating maturity during 2005–07.[1] The chapter also looks at the underlying reasons for these results, future performance prospects, as well as the results emerging from a new system for evaluating the effectiveness of advisory services operations.

The main findings are listed here:

- The 2005–07 results show an overall improvement over the past, and that pursuit of development effectiveness can be beneficial for IFC profitability (and its ability to carry out future operations).
- However, there were shortcomings in some areas. First, results continue to be much weaker in smaller projects. Second, less than half of projects in Africa and MENA and only a half in Asia, met or exceeded specific development benchmarks and standards, thus widening the performance divide between these regions and ECA and LAC. Environmental and social effects continued to be weak in Africa, reflecting client commitment and IFC supervision shortcomings.
- By sector, performance was strongest in infrastructure and finance, and was weakest in general manufacturing, services, and information technology.
- Improved, or relatively benign, market conditions—with the exception of Africa (and to some extent, Asia)—contributed positively to project development performance.
- Factors within IFC's control also played a critical role in the results achieved, for example, investments in ECA and LAC were generally carried out with higher-quality sponsors, lower intrinsic project risks, and better IFC work quality than in other regions. Where IFC work quality was high, so were project development results. High work quality was less common in Africa, Asia, and MENA, and indicates that greater attention in ensuring sound work quality is required in these Regions going forward.

- The advisory services evaluation pilots indicate that, of the 198 projects where development effectiveness was rated, 70 percent achieved satisfactory ratings. Data quality issues, however, limit the inferences about performance that can be drawn from these pilots, and further work is required to develop a higher standard in reporting development effectiveness in the future.

Results of IFC's Investment Operations

The development effects of IFC-supported projects are measured in terms of their financial, economic, environmental, and social performance, as well as their contributions to private sector development. In promoting private sector development through its investment operations, IFC is expected to support sound, sustainable businesses that contribute benefits to society and have a positive impact on private sector development. The development performance of IFC-supported projects is evaluated with these objectives in mind, through the Expanded Project Supervision Report (XPSR) system, which has been in place in IFC since 1996 and is aligned with the global good practice standards for the evaluation of private sector operations (box 1.1).[2] The XPSR system features four indicators of a project's development performance—project business success, economic sustainability, environmental and social effects, and private sector development impacts beyond the project. To achieve a satisfactory or better rating (hereafter referred to as a high rating), projects must meet or exceed the following benchmarks and standards:

- ***Project business success:*** For the real sector, projects generated a financial rate of return at least equal to the company's cost of capital (with a 350 basis-point spread to its equity investors over its lenders' nominal yield); for financial sector projects, the associated subportfolios or asset growth contributed to the intermediary's profitability, financial condition, and business objectives. On average, projects had to deliver a 10 percent financial rate of return in order to achieve a satisfactory rating for project business success.[3]
- ***Economic sustainability:*** Where measurable, projects generated an economic rate of return of at least 10 percent. This indicator takes into account net gains or losses by nonfinanciers, nonquantifiable impacts, and contributions to widely held development objectives.

Box 1.1. Evaluation System for IFC Investment Operations

The current evaluation system for investment operations, the XPSR system, was introduced in 1996. Investments are selected for evaluation when they reach early operating maturity (typically five years after approval), on a random sampling basis (see appendix A for further sampling details). Once selected, a project is self-evaluated by an IFC investment department. The ratings assigned by investment departments are then independently verified (or re-rated) by IEG. In determining project ratings, investment and evaluation staff members follow the same guidelines, which are in line with global good practice standards for the evaluation of private sector operations. A summary of these guidelines is available in appendix B.

Ratings are given in three key areas of performance:

- ***Project's development outcome,*** a bottom-line assessment of the project's results across four development dimensions (each noted separately), relative to what would have occurred without the project;
- ***IFC's investment return,*** which is the gross-profit contribution quality of an IFC loan and/or equity investment (see box 1.3); and
- ***IFC's work quality,*** the overall quality of IFC's due diligence and value added at each stage of the operation (see box 1.4).

All ratings are assigned on a four-point scale (excellent, satisfactory, partly unsatisfactory, and unsatisfactory), except the synthesis development outcome rating, which uses a six-point scale (highly successful, successful, mostly successful, mostly unsuccessful, unsuccessful, and highly unsuccessful).

IFC complements the XPSR system with the Development Outcome Tracking System, launched in October 2005, which monitors development results throughout the project lifecycle. IEG will report on similarities and differences between the DOTS and XPSR methodologies and ratings in its forthcoming *Report on Operations Evaluation 2008*.

Box 1.2. Examples of Projects with High and Low Development Outcome Ratings

***High:* Telecommunications**

The project was the installation of a new digital cellular network in an Asian country to provide 55 percent coverage, by area, and to increase access to telephone services among poor rural communities. At the time, the country had one of the lowest telephone density rates in the world and a waiting time of over 10 years for a fixed telephone line. The project was a major commercial success (excellent project business success rating), with a subscriber base of nearly half a million, more than twice what was anticipated. Economic sustainability was rated excellent because the project yielded outstanding returns to the economy, including taxes and duties paid to the government, revenue-sharing payments to the regulator, license fees, and lease payments to a railway company for using its fiber-optic backbone. Environmental and social effects were rated satisfactory, with the company committed to sound environmental and social performance in compliance with World Bank Group guidelines. Private sector development impacts were excellent, with the project increasing cellular competition and resulting in lower tariffs, increased range, and improved quality for users, as well as improving the essential infrastructure for other private sector development.

***Low:* General Manufacturing and Services**

The project was a credit agency line serving wood processors and furniture manufacturers in a postconflict transition economy in Europe. These companies were previously part of a state-owned conglomerate which had collapsed. Project business success was unsatisfactory because all of the companies financed through the agency line fell into financial distress. IFC provided the technical assistance to build management capacity (ahead of a planned privatization) but it was insufficient to bridge the companies' lack of expertise, and problems were compounded by difficult trading conditions. Economic sustainability was also unsatisfactory, because none of the companies have proven a sustainable source of employment, tax revenues, or added value. Their expected contribution to postconflict reconstruction has been limited. Environmental and social effects were unsatisfactory because the companies did not meet the prescribed standards, with one furniture manufacturer polluting local air, soil, and surface and ground waters. Finally, private sector development impacts were unsatisfactory due to lack of interest from domestic and foreign investors in the anticipated privatization. Moreover, the agency line failed in its objective to help build expertise within the agent banks to support future private enterprise in the country.

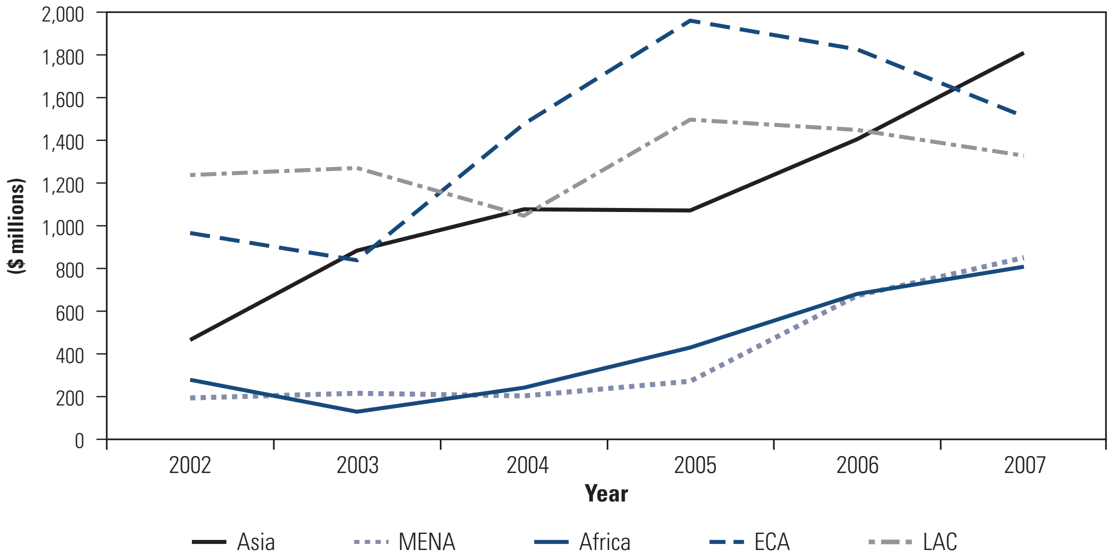
Source: IEG.
Note: Further examples of projects with high and low development outcome ratings are provided in appendix C.

- ***Environmental and social effects:*** (i) Environmental performance that meets IFC's requirements; and (ii) net beneficial impact, in terms of pollution loads, conservation of biodiversity and natural resources, and in a broader context, social, cultural, and community health aspects, as well as labor and working conditions and workers' health and safety.
- ***Private sector development impacts:*** Such impacts beyond the project company, particularly demonstration effects in creating a sustainable enterprise capable of attracting finance, increasing competition, and establishing linkages with other firms.

The project development outcome rating is a bottom-line assessment of the project's results across the above four dimensions, relative to what would have occurred without the project. Ratings in each of the four areas combine—based on careful, case-by-case, evaluative judgment—into a single synthesis development outcome rating. Individual evaluations of project development outcomes are then aggregated, at the end of each calendar year, to allow the kind of macro assessments of development impacts that are contained in this report. Box 1.2 provides examples of projects with high and low development outcomes.

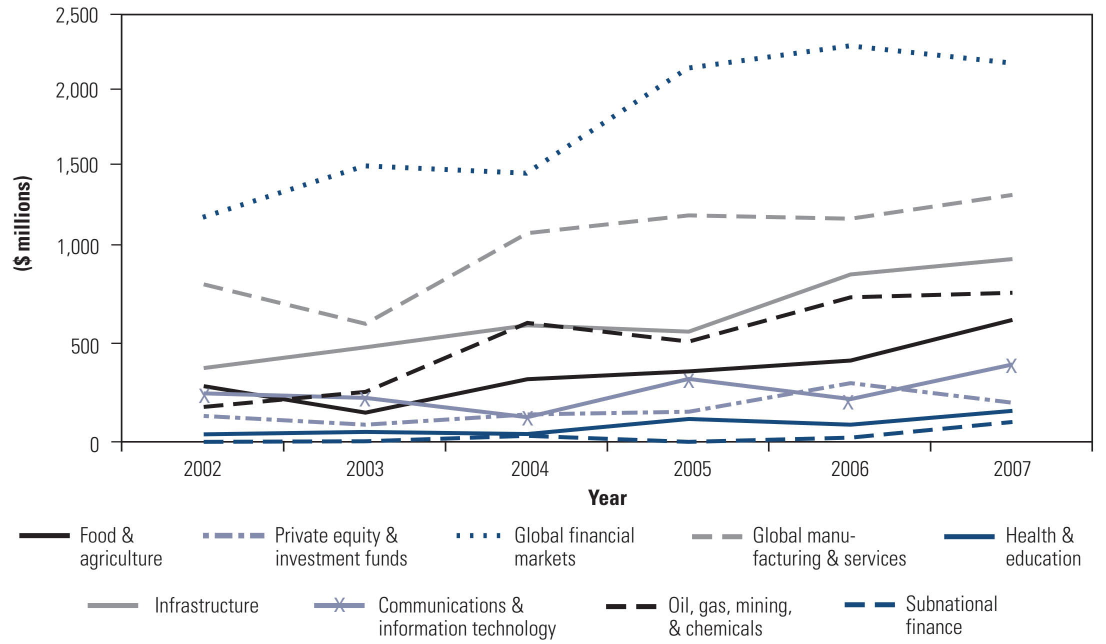
IFC is growing its operations rapidly—especially in Asia, MENA and Africa—which makes a review of results in the field important and timely. IFC has been expanding its investment operations rapidly, with more than a doubling of new investment operations in the last five years—from approximately $3 billion in FY02 to

Figure 1.1. IFC Investment Operations, by Region, 2002–07



Source: IFC.

Figure 1.2. IFC Investment Operations, by Sector, 2002–07



Source: IFC.

Note: Abbreviations refer to the following sectors: CAG (food and agribusiness); CFN (private equity and investment funds); CGF (global financial markets); CGM (global manufacturing and services); CHE (health and education); CIN (infrastructure); CIT (communications and information technologies); COC (oil, gas, mining, and chemicals); and CSF (subnational finance).

$6.5 billion in FY07 (not including syndicated B-loans, guarantees and risk management products). IFC operations, by Region, have been growing fast in Asia, MENA, and Africa, and have started to decline in LAC and ECA (figure 1.1). Growth has been noticeable in most sectors, with financial sector investments expanding most in absolute terms (figure 1.2). A comprehensive review of the results achieved in the field—across regions and sectors—is thus timely in providing institutional learning that can help inform new operations.

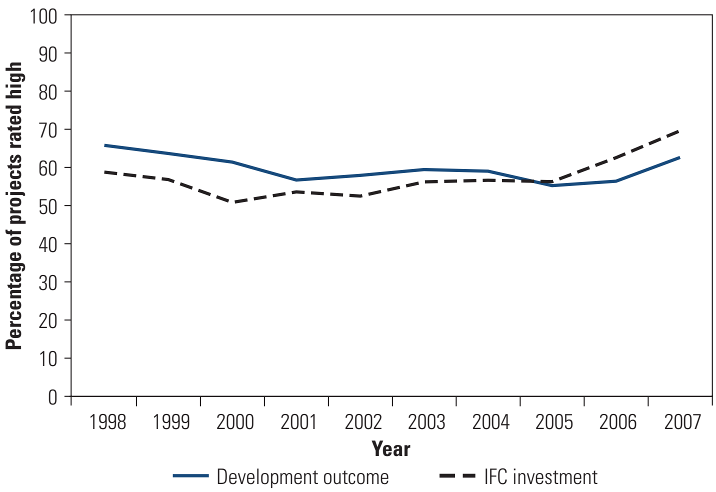
The 2005–07 results show an overall improvement on the past. In line with the good practice standards, this review concentrates on the results of projects that were evaluated in the last three years.[4] Out of 174 operations reaching early operating maturity during 2005–07, and which were randomly selected for evaluation, 63 percent achieved results that, on balance, met or exceeded specified financial, economic, environmental, and social performance criteria, and made positive contributions to private sector development beyond the project (figure 1.3). These results are better than in previous years, and were strongest in 2007, when 71 percent of operations achieved high development outcome ratings (figure 1.4). IFC investment outcome ratings also improved, to record levels, with equity results much stronger than the historic norm (figure 1.5; see box 1.3 for description and rating criteria for this indicator). Performance improved in terms of project business success, economic sustainability, and beyond the project private sector development impacts, and was similar to the past with regard to environmental and social effects (figure 1.6). Where financial rates of return could be calculated,[5] they ranged from 64.0 percent to –4 percent, with an average of 9.9 percent. Economic rates of return ranged from 113.0 percent to –5.1 percent, with an average of 19.0 percent. Approximately 80 percent of projects, where calculable, had both positive financial and economic rates of returns.

Evaluation again shows that pursuing development effectiveness can be beneficial for IFC profitability. Last year's Independent Evaluation of IFC's Development Results (IEDR) found that IFC had generally not supported projects where there was a tradeoff between project development results and IFC profitability. In three out of four cases, the project development outcome rating—given in binary terms, either low or high, meaning it did not meet or exceed specified benchmarks and standards—was the same as the IFC investment outcome rating. This year's review provides even stronger confirmation of the previous finding, with 59 percent of projects evaluated during 2005–07 achieving *high-high* outcomes (high performance in project development and IFC investment terms) and 26 percent of projects resulting in *low-low* outcomes (low performance in both dimensions). In other words, in 85 percent of projects that IFC supported there was a direct correlation between project development results and IFC investment returns (see Figure 1.7a). We can therefore infer that IFC has not actively sought profits at the expense of development effectiveness in its investment operations, and vice versa.

The 2005–07 results show an overall improvement on the past.

Where there was a difference between project development results and IFC investment performance (15 percent of cases), it usually re-

Figure 1.3. Project Development Results, 1996–2007 (three-year rolling average)

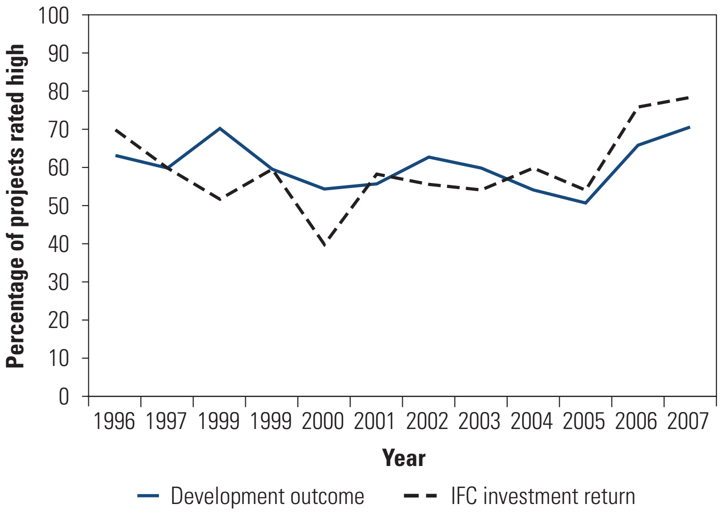


Source: IEG.

Note: Based on 692 investment operations evaluated during 1996–2007.

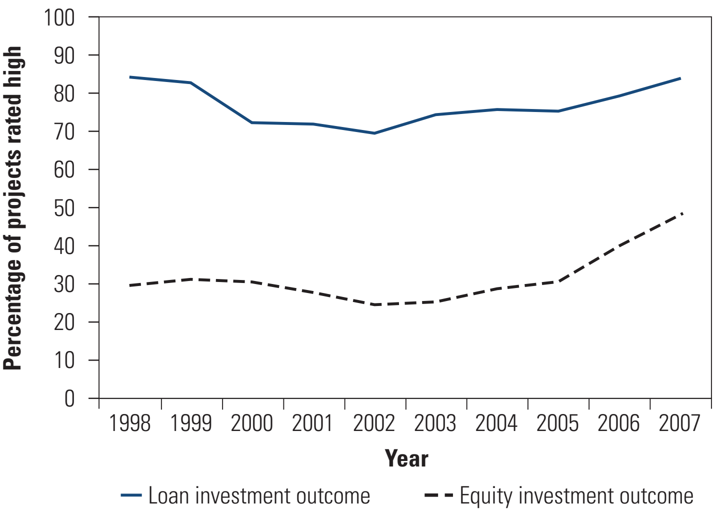
flected IFC's choice of financing instrument and the associated investment risk. Of the four percent of projects with high project development outcomes and low IFC investment outcomes, the vast majority featured equity, while, of the 11 percent of projects with low development outcomes and high IFC investment outcomes, most involved a loan. With a loan, IFC has a ranking claim on company cash flow for loan service as well as the collateral security package, which together provide some downside protection. Equity investments, however, face subordination and currency risk and must meet more rigorous return standards to compensate for this extra risk. Unsurprisingly, given their lower financial risk, loans more often meet their "success" benchmarks and achieve high IFC investment return ratings than equity investments (figure 1.5). Conversely, on a portfolio basis (factoring out evaluative benchmarks), equity returns have been contributing more to the institution's profitability than loans.[6]

Figure 1.4. Project Development Results, 1996–2007 (year-on-year average)



Source: IEG.
Note: Based on 692 investment operations evaluated during 1996–2007.

Figure 1.5. IFC Investment Return, by Instrument (three-year rolling average)



Source: IEG.
Note: Based on 692 investment operations evaluated during 1996–2007.

Overall performance improvement notwithstanding, development results were much weaker in smaller projects. As figure 1.7b illustrates, the evaluated results of IFC-supported projects are much stronger by volume of commitments than by number of projects. When measured by volume, 75 percent of projects achieved high development outcome ratings, and 82 percent achieved high IFC investment return ratings, while 74 percent of projects achieved high performance in both dimensions. These findings indicate, as previous evaluations have shown, that larger operations tend to be more successful than smaller ones. Figure 1.8 examines this relationship in more detail, revealing sharp differences in performance by size of IFC investment. The relationship between size and results is especially important in Africa and MENA, where the average project size is smallest (figure 1.9). Reasons for variation by size, and other results, are explored in the section on results drivers and future prospects.

The performance gap between ECA and LAC and other Regions has widened. Last year's review showed that the results of IFC-supported projects varied considerably by Region, with the strongest project performance in ECA and LAC, and the weakest in Africa and Asia. This report reveals a similar, though even more sharply defined pattern of variation. Based on three-year rolling averages, there was significant improvement in 2007 in the evaluated development outcome ratings of projects in ECA and LAC, but little change in Africa and Asia. Meanwhile, the development outcome ratings of projects in MENA declined. In these three regions—Africa, Asia, and MENA—one-half or more of the projects evaluated during 2005–07 achieved low development outcome ratings (figure 1.10).[7]

Weak environmental and social effects continue to be a key feature of underperformance in Africa. Previous evaluations, dating back to 2003,[8] found that IFC-supported projects in Africa achieved weaker environmental and social effects ratings than projects in other Regions, mainly among financial intermediary operations. During 2005–07, only 4 of 13 Africa projects with environmental and social effects data (31 percent) achieved high environmental and social effects—much weaker performance than in other Regions (figure 1.11). Of these three years, performance was lowest in 2007, with five of six evaluated projects in the Region—two financial and three nonfinancial—achieving low ratings. Although the evaluated projects included proportionally more, high credit risk and financial intermediary projects than other Regions (such projects are known to have difficulties achieving satisfactory environmental and social effects), performance during 2005–07 was particularly low. Poor reporting was also a feature of Africa projects, with five operations rated "no opinion possible," four of which (three financial, one nonfinancial) were because of information shortcomings, which meant that environmental

The performance gaps between regions has widened.

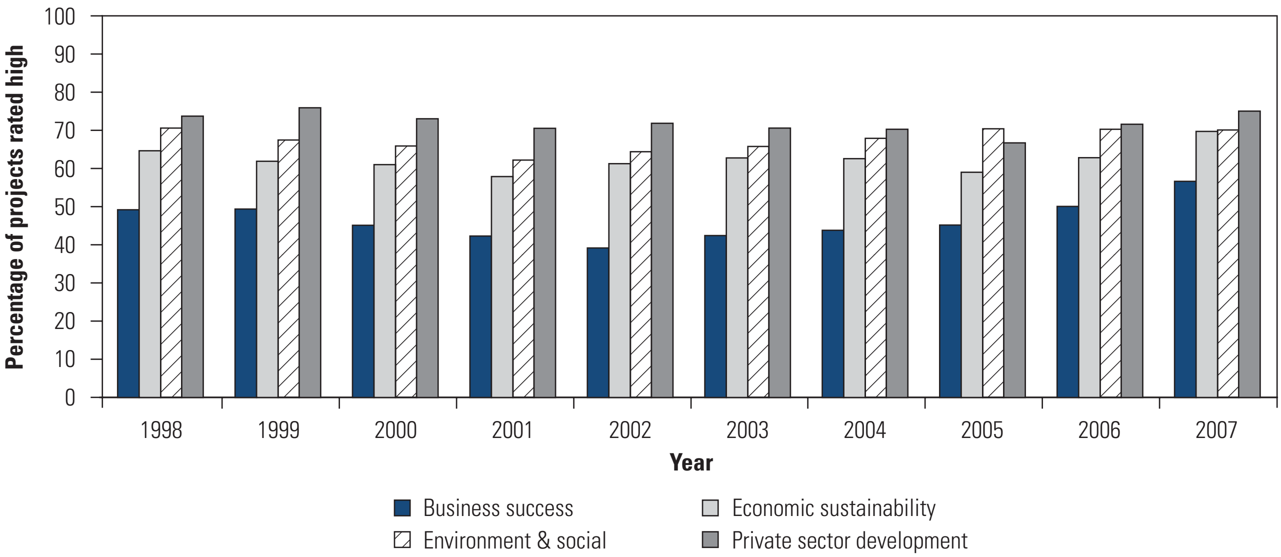
Box 1.3. IFC Investment Outcome Rating

IFC's investment outcome rating is an assessment of the gross-profit contribution quality of an IFC loan and/or equity investment, that is, without taking into account transaction costs or the cost of IFC equity capital.

Loans are rated satisfactory provided they are expected to be repaid in full with interest and fees as scheduled (or are prepaid or rescheduled without loss).

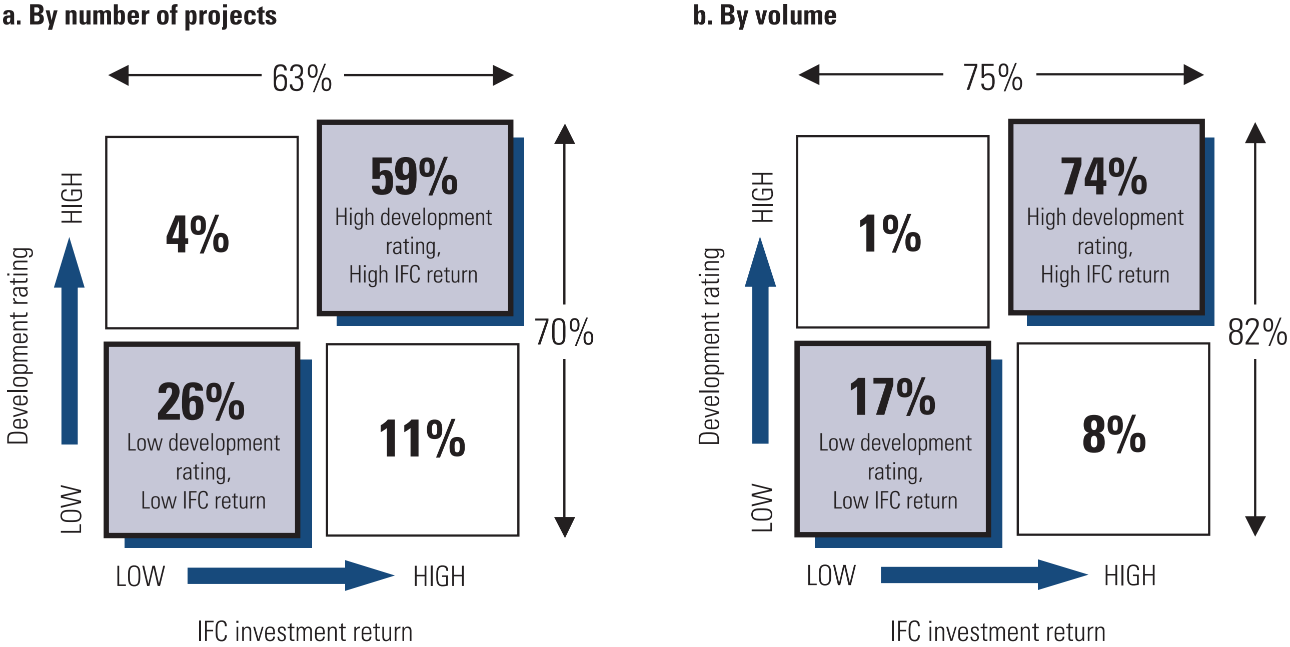
Equities are rated satisfactory if they yield an appropriate premium on the return of a loan to the same company (a nominal US$ internal rate of return greater than or equal to the fixed, loan interest rate, plus a spread).

Figure 1.6. Project Development Results, by Subindicator (three-year rolling average)



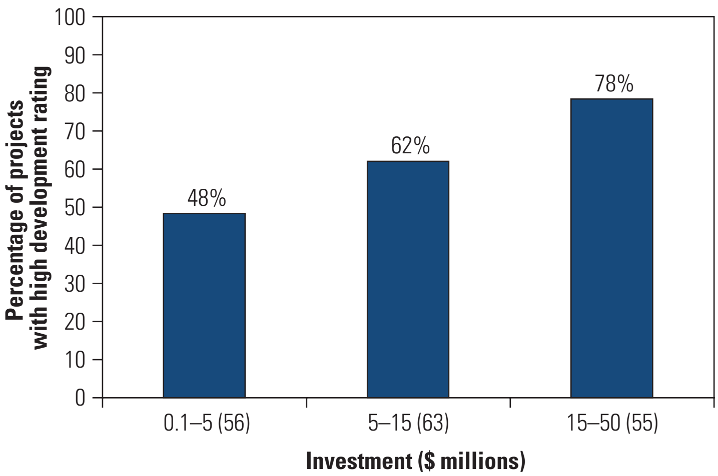
Source: IEG.
Note: Based on 692 investment operations evaluated during 1996–2007.

Figure 1.7. IFC Did Not Generally Support Projects Where There Was a Tradeoff between Project Development Results and IFC Profitability



Source: IEG.
Note: Based on 174 investment operations evaluated during 2005–07; "high" means that performance met or exceeded specified benchmarks and standards, and "low" means that it did not.

Figure 1.8. Project Development Results, by Investment Size



Source: IEG.
Note: Based on 174 investment operations evaluated during 2005–07. Numbers in parentheses are numbers of evaluated projects.

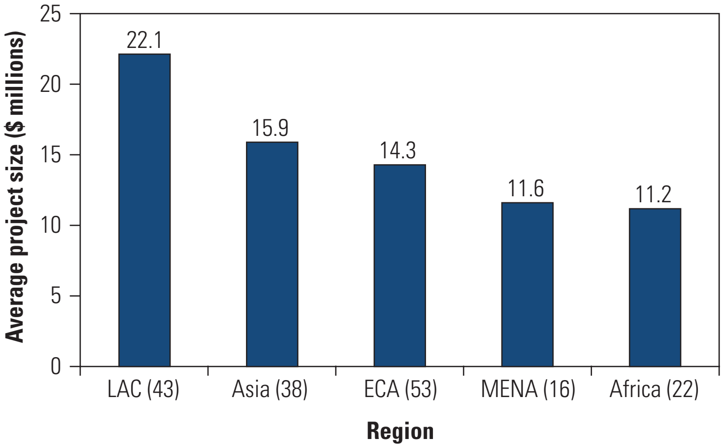
and social impacts and/or compliance with IFC standards could not be determined.[9] Client commitment toward, and capacity toward, pursuing sustainability has proven to be problematic in Africa, particularly when businesses underperform financially (as other evaluations have shown, firms tend to place less priority on the environmental and social aspects of performance when their businesses are "in the red") and given the, at times, substantial imperfections in legal and regulatory frameworks and implementation. Weak environmental supervision and role and contribution by IFC has also been evident, with less than half of projects evaluated by IFC achieving high performance in each of these dimensions in the last three years.[10] IFC is starting to increase its environmental specialist capacity in the Africa Region, but it is too early to tell whether and when this capacity will translate into improved supervision and role and contribution.

By sector, performance was strongest in infrastructure and finance projects, and weakest in general manufacturing and services, and in information and communication technology (figure 1.12). Last year's IEDR found that projects in IFC's strategic sectors of infrastructure and finance achieved strong development results. This continues to be the case, with 84 percent of evaluated infrastructure projects and 73 percent of finance projects achieving high development outcome ratings. However, less than half (48 percent) of general manufacturing and services projects achieved high ratings. Overall, 47 percent of communications and information technology projects achieved high ratings, although such aggregation masks substantial intradepartment variation. Six of eight evaluated telecommunications projects met or exceeded specified development benchmarks, typically with very strong externalities in terms of economic sustainability and private sector development (not least in helping to reduce business transaction costs). Only two of nine nontelecommunications projects, however, achieved this level of performance (Internet and software operations). It is important to note that discrepancies in sectoral performance often reflect intrinsic differences in risk profiles, by types of enterprises and financial instruments, which helps explain the lower success rates in information technology projects because the majority were higher-risk equity investments in smaller ventures. None of the four evaluated Internet projects, and only one of the five evaluated software projects met or exceeded financial performance benchmarks, which had an accordant knock-on effect on overall development results in these projects. Financial sustainability was also a problem in general manufacturing and services projects, with only 48 percent achieving high ratings in this dimension.

In terms of instruments, loans have been more associated with high development results than equity investments in the last five years. As discussed earlier, loans have historically been more effective than equity investments at meeting IFC investment-return benchmarks, driven by the different financial risk associated with each instrument. As figure 1.13 illustrates, since 2002, a difference in performance between loans and equities has also became noticeable in relation to project development results. Until 2002, project development results were broadly the same, whether the investment was a loan,

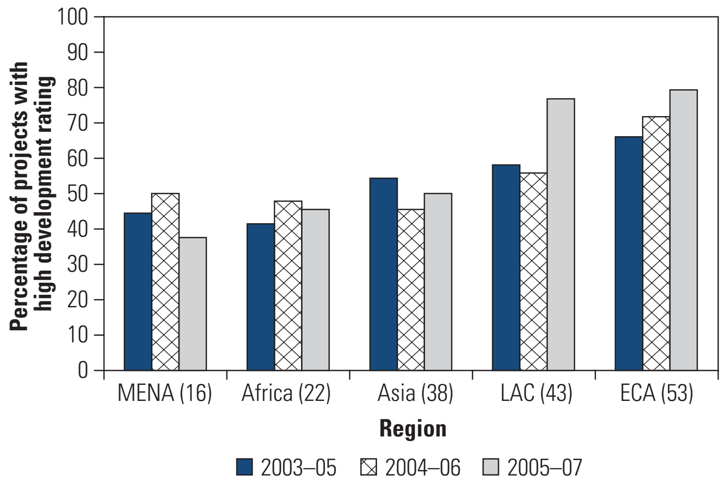
Projects in Africa achieved weaker environmental and social effects ratings.

Figure 1.9. Average IFC Project Size, by Region



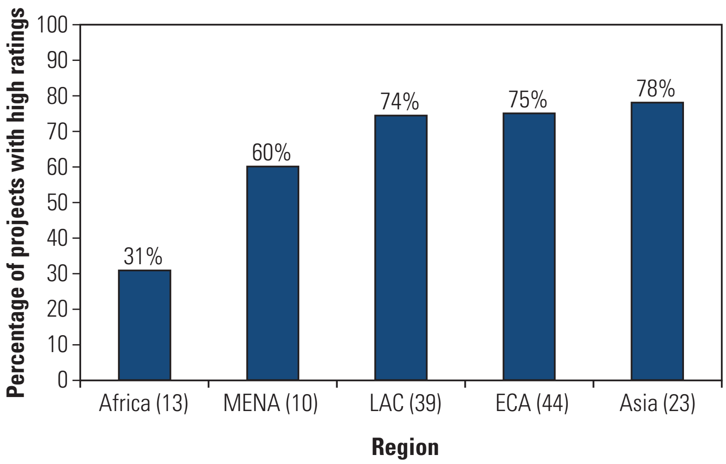
Source: IEG.
Note: Based on 174 investment operations evaluated during 2005–07. Numbers in parentheses are numbers of evaluated projects.

Figure 1.10. Project Development Results, by Region, 2003–07



Source: IEG.
Note: Based on 314 investment operations evaluated during 2003–07. Numbers in parentheses are the number of operations evaluated during 2005–07.

Figure 1.11. Environmental and Social Effects Performance, by Region, 2005–07



Source: IEG.
Note: Based on 174 investment operations evaluated during 2005–07. Numbers in parentheses are the number of operations with environmental and social effects ratings ("no opinion possible" projects are excluded).

equity only, or some combination of the two. Since then, loans have been associated with project development success rates at least 10 percent better than those of equity investments, which have tended to be smaller and riskier business propositions (for example, information technology start-ups).

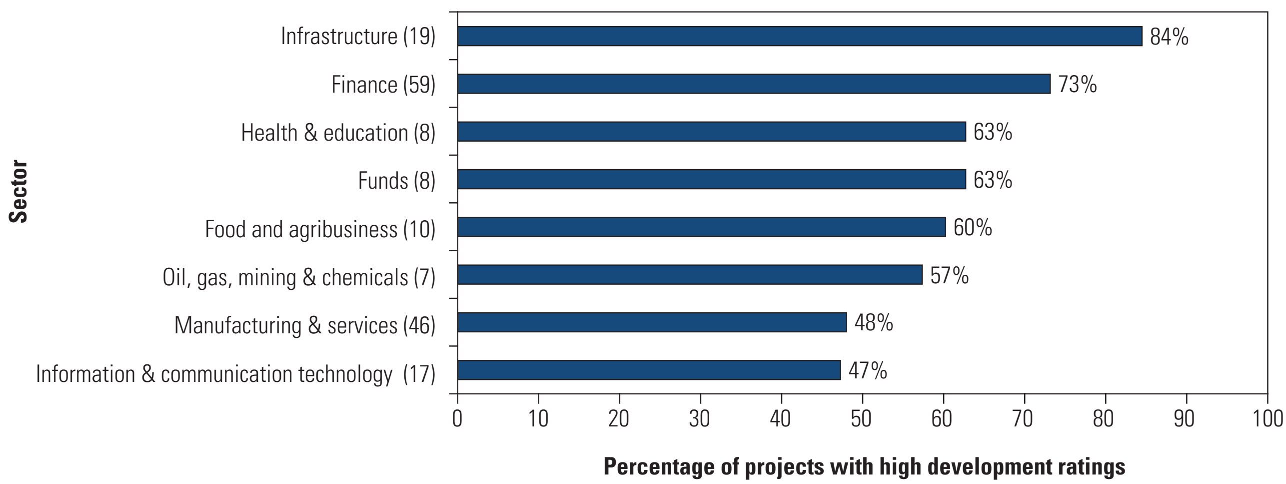
Results Drivers and Future Prospects

Five results drivers identified in last year's review continue to explain major variations in the performance of IFC-supported projects. Based on a decade of evaluation findings, the 2007 IEDR found that five factors significantly influence IFC's development performance at the project level:

- Quality of business environment faced by a project (particularly where country business climate risk improved or deteriorated materially following project approval);
- Type of industry sector in which an investment is made;
- Quality of the project sponsor;
- Level of intrinsic project risks, such as product market, client company, and project-type risks; and
- IFC work quality.

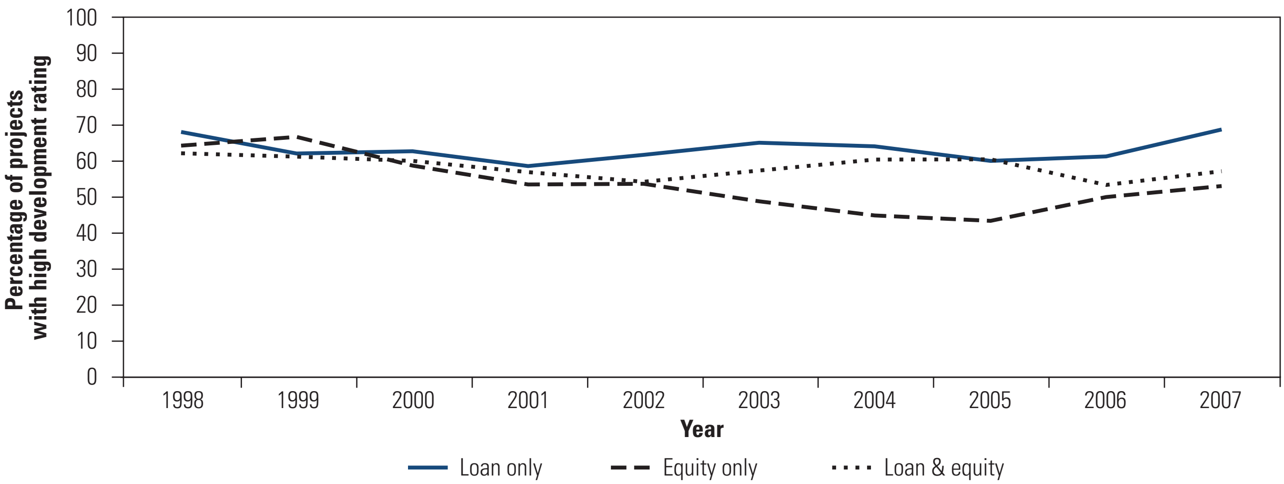
In terms of relative importance, multivariate regression analysis revealed that IFC work quality appears to have the most influence on project performance. The individual components of work quality, which are rated separately—upfront screening, appraisal and structuring, post-approval supervision and administration, and the quality of IFC's role and contribution to the project (see box 1.4 for definitions)—were each

Figure 1.12. Project Development Results, by Sector, 2005–07



Source: IEG.
Note: Based on 174 investment operations evaluated during 2005–07. Numbers in parentheses are the number of evaluated operations.

Figure 1.13. Project Development Results, by Instrument, 1996–2007 (three-year rolling average)



Source: IEG.
Note: Based on 692 investment operations evaluated during 1996–2007.

found to be significant determinants of results. Of these, upfront screening, and appraisal and structuring quality had the strongest significance, with effective supervision generally unable to compensate for weak quality of work at the outset of a project.[11] A rerunning of the regressions, with one more year of data, confirms the materiality of these explanatory variables.[12]

Positive market conditions in most regions, with the notable exception of Africa, have contributed to better overall development performance. Improved business environments have helped sustain healthy growth rates in many developing countries in recent years. In so doing, they have contributed to improved project development performance, relative to the past, among IFC-supported projects (see table 1.1), particularly investments in equity funds. At the same time, persistent high-risk business environments have continued to constrain private investment in Africa (see figures 1.14 and 1.15) as well as growth, which would assist the development performance of IFC-supported projects. Specific market conditions appear to have affected performance in certain sectors in Asia—the dot-com bubble (with Internet projects performing poorly), and a higher share of manufacturing sector restructurings, which tended to be higher risk, in the wake of the regional crisis. A combination of sector and country specifics helps explain low overall performance in MENA, with most general manufacturing and services projects (including three in Jordan) achieving below-benchmark financial and economic results.

Factors within IFC's control, particularly work quality, have also played a key role in the results that were achieved. Performance variations cannot be solely explained with reference to external conditions. Investments in ECA and LAC were more often carried out with higher-quality sponsors, with lower intrinsic project risks, and better IFC work quality than investments in other Regions (see appendix D). Weak sponsor quality and high intrinsic risk can pose substantial challenges to achieving successful project development outcomes, although it is central to IFC's role as a development institution to help address these challenges by providing strong support to clients. This is apparent in the fact that IFC's supervision and administration quality—as evaluated by IEG—seems to have

Positive market conditions . . . have contributed to better overall development performance.

Box 1.4. IFC Work Quality Rating

The overall work quality rating reflects IFC's performance in three areas, each of which is rated separately:

Screening, appraisal and structuring (at approval): The extent to which IFC followed good practice standards. For example, did IFC (in hindsight) identify key risk factors, mitigate them to the extent possible, and arrive at realistic expectations for project and company performance? Actual results are compared with expectations and the main reasons for variance are analyzed, to assess whether IFC's assumptions were well grounded in good practices with regard to due diligence and structuring, and the extent to which differences in actual results were owing to extraneous effects, such as recognized but uncontrollable risks.

Supervision and administration (after approval): Following approval and commitment, and through to eventual closure, this indicator assesses how well IFC carried out its supervision of an investment. For example, was IFC able to detect emerging problems in a company and respond expeditiously with appropriate and effective interventions?

Role and contribution (at and after approval): This indicator describes the extent to which IFC played a catalytic role in an investment and made a special contribution. This aspect of work quality is analyzed in greater detail in chapter 2, within the context of IFC's additionality (for which this indicator is currently the closest proxy).

As much as possible, IFC's work quality is evaluated independently of the project's outcome to avoid bias in the ratings. For example, 7 percent of projects with high development ratings were nevertheless judged to have had low overall IFC work quality; and 34 percent of projects with low development ratings were still rated high for overall IFC work quality. Occasionally, however, actual project results can influence work quality ratings. Projects performing poorly can expose or exaggerate the materiality of weaknesses in IFC's structuring or supervision, which in the absence of significantly negative project performance, might have gone undetected. Conversely, a project that is performing very well may be doing so despite shortfalls in IFC's work quality which could, under different circumstances, have been more evident.

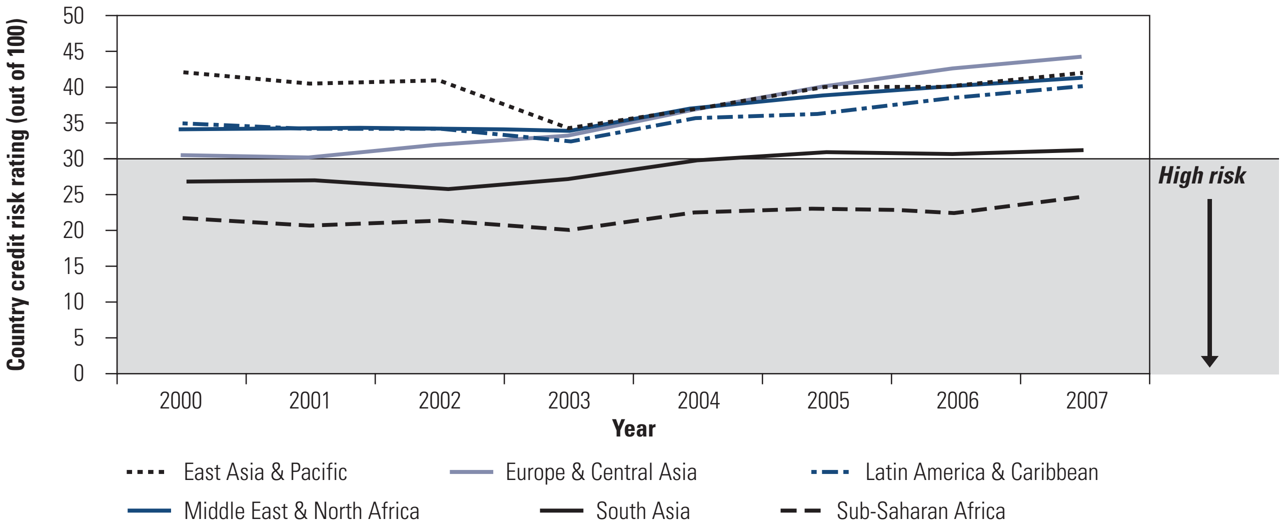
Table 1.1. Market Conditions Contributed to Better Project Results

Change in risk rating (between approval and evaluation)	Overall development outcome rating (% high)	Project business success (% high)	Economic sustainability (% high)	Environmental and social effects (% high)	Private sector development impacts (% high)	High development outcome and IFC investment return (%)
Improved from high risk (n = 35)	71	71	76	79	88	69
Stayed non-high risk (n = 102)	66	57	73	71	78	60
Stayed high risk (n = 34)	50	48	55	62	58	47
Deteriorated from non-high risk to high risk (n = 3)	0	0	0	67	33	0

Sources: IEG and Institutional Investor (for country credit risk ratings).
Note: High risk if Institutional Investor rating was less than 30; non-high risk if rating was higher than 30. See appendix D for patterns, by region.

much greater influence on project results where country, sponsor, and specific project risks are higher, than in cases when the opposite is true (table 1.2). In the best-case scenario, when both up-front structuring and appraisal and downstream supervision and administration quality were each rated high, so were project development results 88 percent of the time.[13] The close

Figure 1.14. Conducive Business Environments in Most Regions, Africa Still High Risk

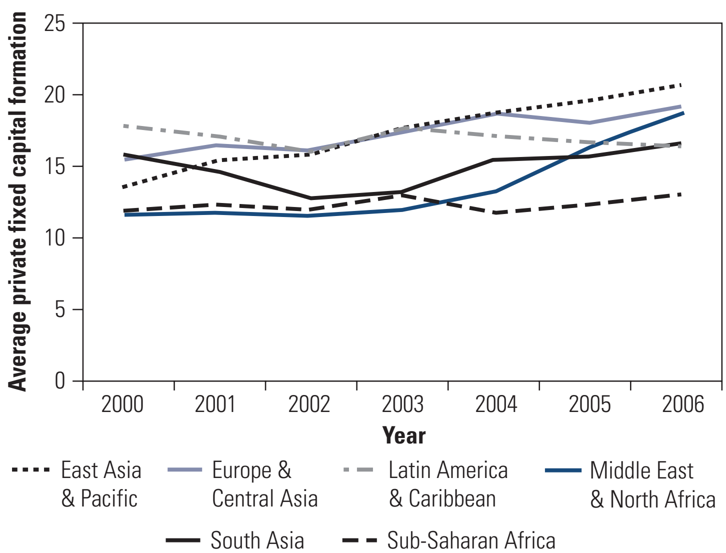


Source: Institutional Investor.

relationship between work quality and development results applies across sectors and Regions, although the incidence of high work quality was lower in Asia, Africa, and MENA (58, 61, and 67 percent of cases respectively) than in LAC and ECA (see table 1.3). These findings imply that greater resources and attention to ensuring sound work quality are required in the first three regions. Quality was also weak among evaluated information technology projects,[14] although this was a new area for IFC and the relatively short experience may have been a constraining factor.

Low work quality was a key aspect of poor performance among small projects. The econometric analysis carried out by IEG shows that project size alone, controlling for other variables, is not a significant driver of development results.[15] However, work quality shortcomings and intrinsic project risks tend to be greater in smaller projects (particularly in start-up information technology projects), as well as are sponsor and business-climate risk (since many small projects are in Africa). Given that it is within IFC's control to balance these risks and to take appropriate mitigating action, we can infer that either IFC needs to improve the experience of staff appraising and supervising smaller projects—often field staff—or that management oversight should be enhanced.

Figure 1.15. Robust Private Investment in Most Regions, Lagging in Africa



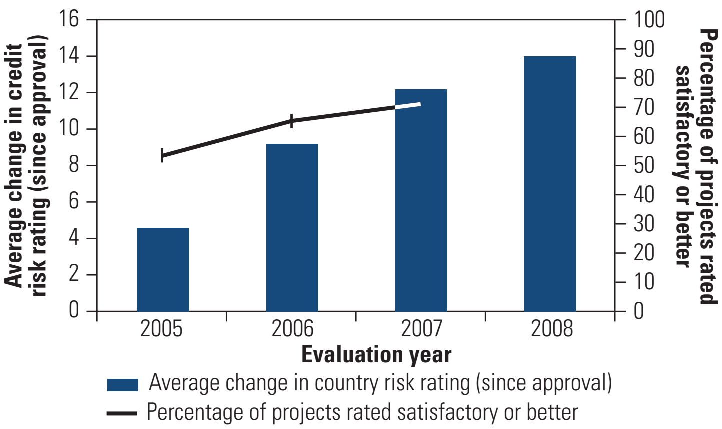
Source: Global Development Finance database, World Bank.

Table 1.2. Strong Supervision and Administration Quality Can Mitigate High Intrinsic Risk

	High risk intensity			
	Fewer than four risks		Four or more risks	
Supervision and administration quality	Number of projects	% of projects rated high	Number of projects	% of projects rated high
High	76	82%	62	63%
Low	11	45%	17	12%

Source: IEG.
Note: Based on 174 projects evaluated during 2005–07; the eight risk factors considered were: business-climate risk, sector risk, sponsor risk, product-market risk, debt service burden, greenfield risk, review intensity, and nonrepeat risk.

Figure 1.16. Changes in Country Business-Climate Risk



Source: Institutional Investor.
Note: Based on 244 investment operations; the higher the bar, the greater the improvement in business-climate risk.

Projects that reached early operating maturity and were evaluated ex-post between 2005 and 2007 were approved between 2000 and 2002. While it is not feasible to carry out full, ex-post evaluations of projects approved in more recent years (because they are too immature to have delivered tangible development and/or financial results), it is instructive to examine patterns in the five key results drivers. As table 1.4 indicates, most of the key results drivers are moving in a positive direction, or their lack of change ought to have a neutral effect. Business-climate risk has continued to fall overall (as conditions in emerging markets have become more benign, although this pattern could start to reverse if the anticipated downturn in global economic growth materializes) and IFC has increased its share of investments in historically

Table 1.3. Work Quality and Development Outcomes, by Region

		Overall work quality (%)	
Region	Development outcome rating	Low	High
AFRICA:	High	5	45
	Low	32	16
ASIA:	High	6	49
	Low	37	9
MENA:	High	0	40
	Low	33	27
LAC:	High	5	69
	Low	12	14
ECA:	High	2	77
	Low	9	11

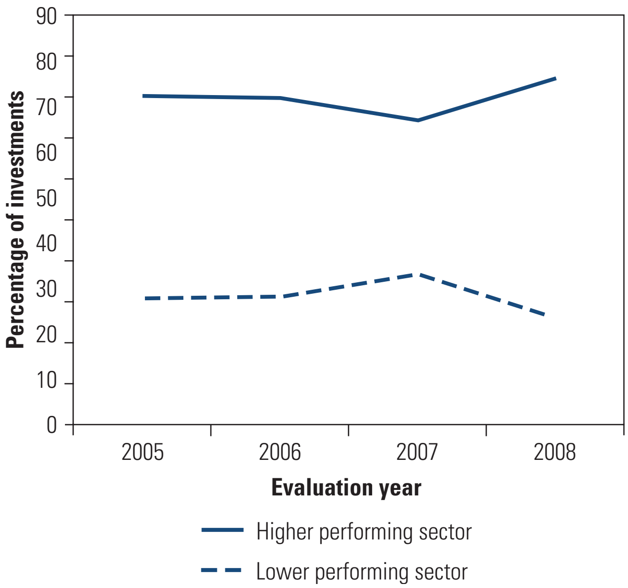
Source: IEG.
Note: Based on 174 projects evaluated during 2005–07; excludes "no opinion possible" responses, for example, due to litigation.

Table 1.4. Patterns in Key Results Drivers

Result driver	Evaluation year(s)	Direction	Likely impact on development results
Change in country business climate risk (after project approval)	2008 (vs. 2005–07)	Improved since 2003 (when projects were approved), more so than in previous years and in most cases (figure 1.16)	Positive, but could reverse
Sector choices	2008 (vs. 2005–07)	Increase in investments in higher-performing sectors vs. lower-performing sectors (figure 1.17)	Positive
Sponsor quality	2008 (vs. 2005–07)	Up slightly in 2008 (figure 1.18)	Neutral
Specific project characteristics: • Product market risk • Client company (nonrepeat) risk • Project-type (greenfield) risk	2008 (vs. 2005–07)	Generally balance each other out (figure 1.18)	Neutral
IFC work quality: • Screening and appraisal • Supervision • Role and contribution	2007 (vs. 2004–06)	• Similar • Up • Down (figure 1.19)	Too early to tell

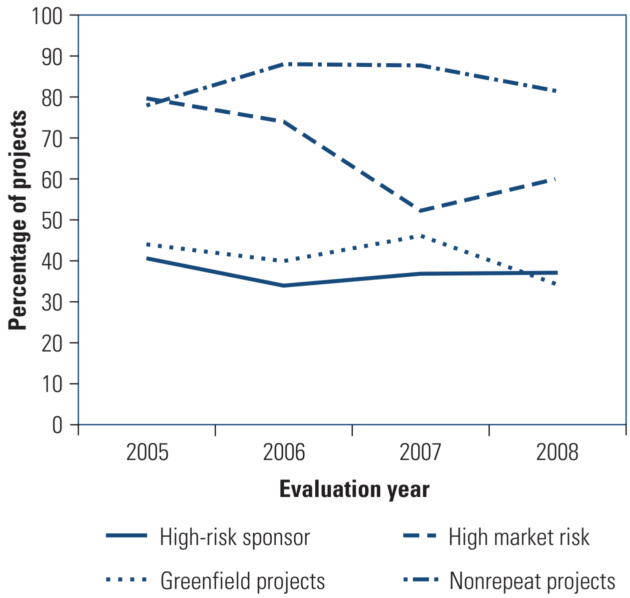
Source: IEG.

Figure 1.17. Sector Choices



Source: IFC.
Note: Based on 244 investment operations; past evaluations show the higher-performing sectors are infrastructure; financial markets; and oil, gas, and mining.

Figure 1.18. Sponsor Quality and Specific Project Characteristics



Source: IEG.
Note: Based on 244 investment operations.

IFC work quality was lower in Asia, Africa, and MENA.

higher-performing sectors. Patterns in sponsor quality and certain project risks should largely cancel each other out. With regard to the fifth key driver, IFC work quality, it is too early to tell whether this will improve or weaken in 2008. Maintaining strong work quality will be fundamental to good performance, as in the past.

Emerging Results of IFC Advisory Service Operations

IFC is rolling out a new system for evaluating advisory services operations, as part of a range of monitoring and evaluation efforts. As IFC has been expanding its advisory services operations, it has put significant resources into the monitoring and evaluation of the results of these operations. A central component of this monitoring and evaluation has been the introduction of a project completion report (PCR) system, which seeks to assess results across five dimensions: strategic relevance, efficiency, outputs, outcomes, and impacts (see boxes 1.5 and 1.6). IFC has supplemented this system with a number of external reviews and experimental and quasi-experimental evaluations of specific projects to inform project design and effectiveness. To date, IEG has independently evaluated the results reported by IFC in the first two PCR pilots, covering 293 operations that closed during 2004–06. IEG's review focused on assessing the evaluative substance of the PCRs, and the sufficiency of evidence and correct application of the guidance in assigning ratings. Going forward, as the evaluative substance of PCRs improves, IEG will carry out more in-depth desk and field-based validations.

Pilot evaluations show that, where calculable, 70 percent of IFC advisory service projects had satisfactory or better development effectiveness ratings. Where the outcomes of a project could not be discerned at the time of evaluation (and, by implication, the project's longer-term impacts), no development effectiveness rating was assigned. Under the first two PCR pilots, development effectiveness ratings were given to 198 of 293 in the project population. Of those 198 projects, 70 percent achieved satisfactory or better development results. Among the 30 percent that were rated less than satisfactory, initial lessons include the importance of tailoring operations to local conditions, ensuring client commitment up front, and effective project management. See box 1.7 for examples of more and less successful operations.

Inferences about performance are, however, constrained by considerable data gaps. The high proportion of projects (one-third) with no development effectiveness ratings seriously limits the quality of inferences that can be drawn about performance from these pilots. In some cases, it was too early to discern the project's development outcomes and long-term impacts at project close (when the pilot evaluations were carried out). Where it was possible to assign development effectiveness ratings, the supporting logic and documentation provided by staff in their self-evaluations was weak in many instances. As a result, applying the PCR guidance correctly and consistently, IEG had to re-rate 29 percent of projects.[16] This suggests that, to date, staff have had insufficient understanding about, or commitment to, reporting development performance in PCRs, and that quality assurance mechanisms have thus far been inadequate.

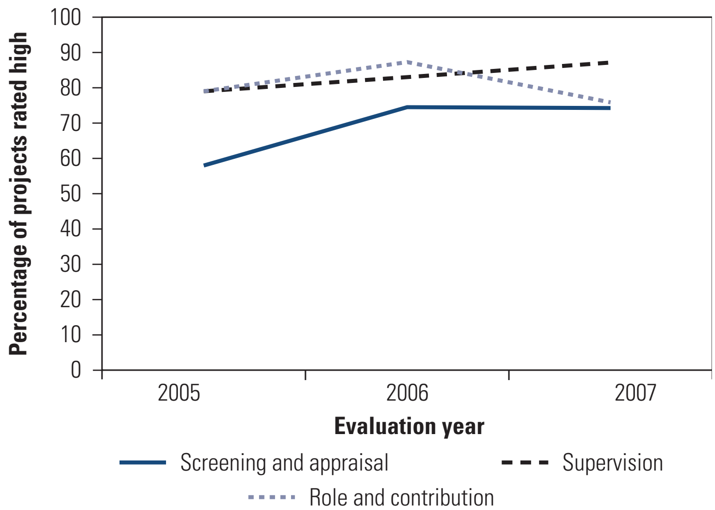
Prior to 2005, IFC's advisory services operations originated and were managed in an ad-hoc manner. In 2005, the advisory services operations were organized into five business lines:

- ***Access to finance:*** Aimed at facilitating the development of effective institutions within individual financial intermediaries and related institutions (for example, credit bureaus). This includes programs intended to improve the enabling environment for financial markets, as well as to facilitate market conditions amenable to increased future investment.
- ***Business-enabling environment:*** Designed to improve the overall environment for doing business in client countries. Activities include identification and diagnostic assessments of business environment problems, improve-

ment of legal and institutional frameworks, trade facilitation, and the establishment of commercial dispute-resolution mechanisms.

- ***Environmental and social sustainability:*** Aimed at advancing innovative business initiatives that deliver environmental and social benefits, to demonstrate their commercial viability and to encourage their independent replication in the private sector of emerging markets (through loans, equity investments, grants for project cofinancing, advisory services, and capacity building).
- ***Infrastructure:*** Geared at promoting economic growth and the delivery of basic services, mainly through the provision of structuring and implementation advice to member governments (in ways that balance the interests of potential investors with public policy considerations).
- ***Value addition to firms:*** Focused on helping enterprises, particularly small and medium enterprises, improve their performance, corporate governance structure, and access to capital, thereby expanding employment and income generation in local communities.

Figure 1.19. IFC Work Quality



Source: IEG.
Note: Based on 174 investment operations evaluated during 2005–07.

Of the 198 projects where development effectiveness ratings could be assigned, there was some variation in results across business lines, with business-enabling environment achieving the strongest pilot ratings and infrastructure the weakest (figure 1.20). Given the relatively small sample sizes in some business lines, and an absence of development effectiveness ratings in a third of the cases, further PCR data are required to determine whether these initial differences will be sustained.

Results appear to be similar across Regions, although a small number of MENA and global projects have performed less well than others. As discussed earlier, the performance of IFC investment operations has differed substantially across Regions. To the extent that data are available, this does not appear to be the case with advisory services operations, with projects in most

Box 1.5. Evaluation System for Advisory Services Operations

Starting in August 2006, IFC began a large-scale self-evaluation pilot of its completed advisory services (formerly called technical assistance and advisory services) projects. Project completion reports (PCRs) address the operational and financial performance, its downstream outcomes and impacts, and lessons learned. PCR authors assign a development effectiveness rating to each advisory service project.

IEG has developed procedures for desk reviews of PCRs. IEG uses the same guidance given to IFC staff completing the PCRs and checks the extent to which the ratings assigned are consistent with the guidance. Advisory services operations are evaluated when they reach project close (rather than operating maturity, as in the case of investment operations). To date, under the first two PCR pilots, 293 projects that closed during the period July 2004–June 2006 have been evaluated. See appendix B for details on how these projects were selected for evaluation.

Box 1.6. Development Effectiveness Rating

The development effectiveness rating is a case-by-case assessment of performance across five dimensions:

Strategic relevance (Was it the right project at the right time?): (i) Appropriateness of assistance: Did it fit the political and economic conditions? Did it address a market failure? Was the right client selected, given project objectives? Was the project aligned with the country assistance strategy (CAS) and IFC strategy? Was the project consistent with the country's development priorities? (ii) Impact—Was the project expected to have broad impact at the regional/national levels? (iii) Interest/receptivity of a client (client contribution-financial and in-kind).

Efficiency (Were the costs reasonable relative to results?): How reasonable were costs relative to benefits? How economically were funds, expertise, time, etc., used (compared with similar projects)? Were there less costly ways to achieve objectives (cost-effectiveness)?

Output achievement (Were the anticipated products, capital goods, and services delivered?): Were "key" deliverables achieved? To what extent were clients satisfied with the advisory service?

Outcome achievement (Were the intended short- and medium-term effects achieved?): Were outcomes achieved? Were there unexpected/unintended positive or negative outcomes?

Impact achievement (Were the intended longer-term effects achieved?): What would have happened without the intervention, that is, what is the counterfactual?

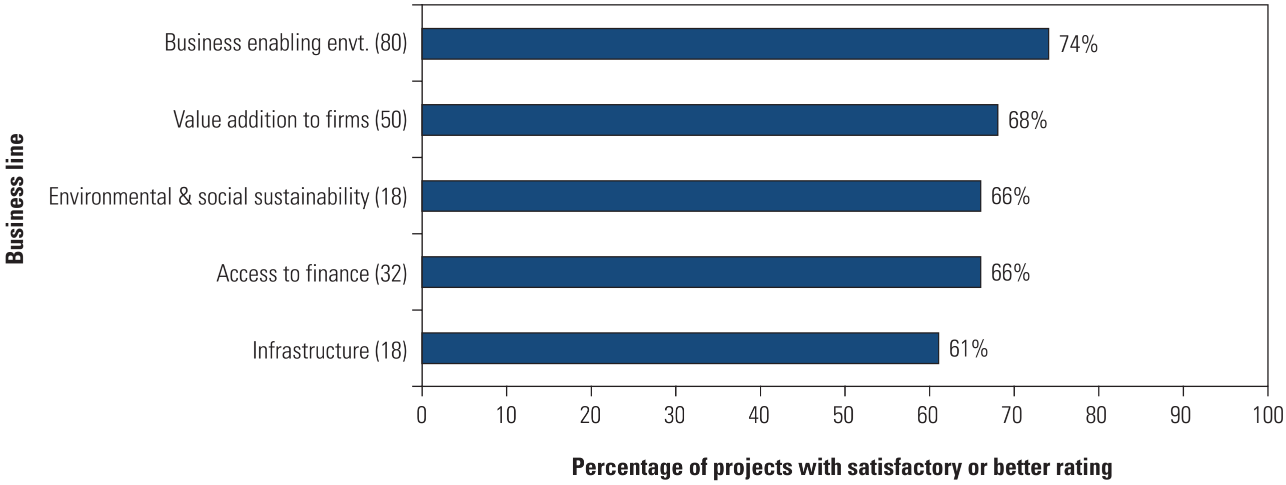
No rating is assigned if the outcomes and impacts of a project cannot be discerned at the time of evaluation.

More guidance on specific ratings (including the distinctions among excellent, satisfactory, partly unsatisfactory, and unsatisfactory performance quality) is available at www.ifc.org/ieg.

Regions achieving broadly similar results. Results in MENA and in global projects seem to be weaker than their geographical comparators, although the sample size in the latter is relatively small (figure 1.21). Again, further PCR data are required to determine whether these emerging patterns are sustained.

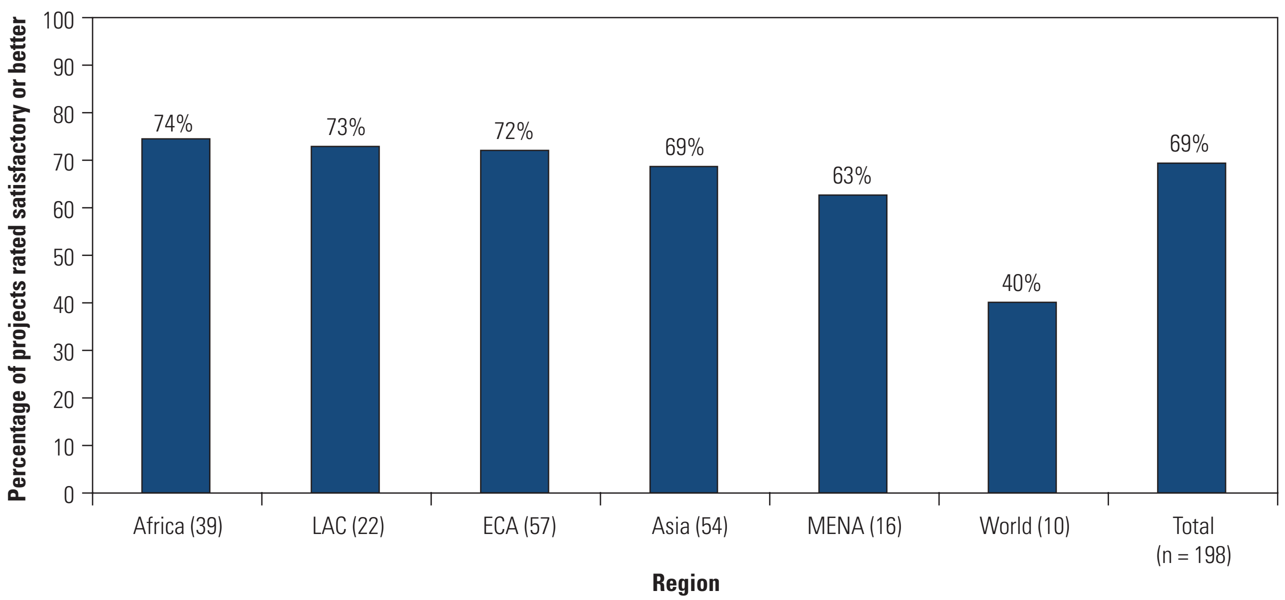
The performance of other development institutions involved with broadly comparable advisory services work does not show a clear pattern with respect to IFC's results reported under the first two pilots. IFC is one of many organizations providing advisory services in support of private sector development. It is therefore useful to compare the performance of projects supported by IFC advisory services with those supported by other institutions. While there is no direct comparator to IFC, and evaluation methodologies vary, we can observe that development institutions involved in advisory services operations geared toward private sector development—where data are available—have achieved "success rates" both above and below those reported under the first two PCR pilots. Independent evaluations of the performance of the advisory operations of the European Bank for Reconstruction and Development and the Asian Development Bank report success rates of 63 percent and 84 percent, respectively. Meanwhile, the African Development Bank has achieved evaluated successful rates of 60 percent for meeting short-term objectives and 76 percent for meeting development objectives.[17] For the World Bank, IEG is currently embarking on an evaluation that will assess the extent to which its advisory projects have met their stated objectives, and derive lessons for improving their effectiveness.

Figure 1.20. Advisory Services Results, by Business Line



Source: IEG.
Note: Based on 198 pilot evaluations of projects that closed during 2004–06 (and where an outcome rating was available). Numbers in parentheses are numbers of evaluated projects.

Figure 1.21. Advisory Services Results, by Region



Source: IEG.
Note: Based on 198 pilot evaluations of projects that closed during 2004–06 (and where an outcome rating was available).

Box 1.7. Examples of Successful and Unsuccessful Advisory Services Operations

***Successful:* Business-Enabling Environment**

Objective: A plan for business startup and licensing reform and, together with the World Bank and IMF in the field, an assessment of the tax system's impact on business, investment, and growth.

Strategic relevance: Advice on startup, work permits, and licensing procedures such that any fiscal implications could be offset in the next budget phase. On the tax side, a quick analysis was used to guide the authorities on tax policy for the next budget.

Output achievement: Within six weeks of the mission, the authorities received an action plan, together with recommendations, for policy changes on start-ups and work permits, as well as tax modifications.

Outcome Achievement: The government enacted all the policy changes and most of the tax recommendations, which should result in a much more streamlined business start-up regime comparable to international best practice.

The project efficiency was satisfactory because the assignment was completed in a very short time, with successful results. Although the impact is not known yet, this was a tightly scoped and well-executed assignment with an engaged client, all outputs were delivered as planned to a tight timetable, and all recommendations have been enacted by the government. The project is expected to have the desired effect on streamlining business registration and improving the country's business climate in line with the government's objectives.

***Unsuccessful:* Value Addition (Corporate Governance)**

Objective: To provide a review of the corporate governance policies and practices of the company, with recommendations to improve the company's performance and access to capital.

Strategic relevance: The company's leadership was not sufficiently sensitized and prepared to address the central issues of accountability and transparency in this exercise. IFC was anxious to demonstrate value added, but corporate governance issues were not discussed in much detail during investment preparation—which probably sent a signal to the client that corporate governance was not a priority for IFC.

Output achievement: The formal deliverables (final report and PowerPoint presentations) were completed. However, the work of the consultants was not up to par and substantial revision was necessary, along with extensive follow-up work.

Outcome achievement: The short- to medium-term effect of the work was to educate senior management about corporate governance. They gained a preliminary understanding of best practices and market expectations in respect of shareholder treatment, boards of directors, the control environment, and transparency and disclosure. However, despite substantial follow-on work, the client has not yet demonstrated real commitment to improving practices.

Impact achievement: A greater contribution to corporate governance advancement was expected from this project.

Extensive efforts were undertaken to identify appropriate consultants, to interview them in-country and to educate them on the use of the IFC corporate governance methodology. Taking into account the sub-par quality of the consultants' performance and the overall expenditure of financial and human resources devoted to supporting this project, this was ultimately an inefficiently delivered project.

IFC Additionality

IFC was established with a special mandate to support and catalyze private sector development in developing countries.[1] As mentioned earlier in the report, IFC is expanding its operations quickly in pursuit of this mission. At the same time, net private capital flows to emerging markets have increased steeply, and other development finance institutions have also been expanding their operations in many of the same countries in which IFC operates.[2]

In this context, it is important to re-examine the extent to which IFC brings to the market, products and services that are uniquely beneficial, or *additional*, to those provided by other financiers. Market data suggest clients approach IFC for reasons other than price (clients typically pay more to borrow from IFC than other financiers, yet operations are growing)[3] but, at the same time, do not reveal the specific value the institution brings to their operations. This chapter explores the concept of additionality, the extent to which additionality has featured in IFC's strategies, the available evidence on additionality in IFC operations, possible drivers and inhibitors of identified additionality, connections between additionality and development impact, and areas for improvement.

The main findings are listed here:

- IFC corporate strategies have placed increased focus on the institution's additionality, although region, sector, and country strategies could better articulate IFC's unique value added.
- It is difficult to measure additionality precisely, but proxies are available to conduct an initial assessment of the presence and quality of additionality in IFC's investment operations.
- An ex-post review of 692 evaluated investment operations identified at least one form of financial additionality (such as loan tenor or grace period) in 85 percent of cases, and at least one form of operational or institutional additionality in about a third of cases. In most recent crises, when IFC's financing is arguably most needed, IFC appears to have largely invested on a countercyclical basis.
- The evaluated quality of IFC's role and contribution in its investment operations (which considers whether IFC made a special contribution to a project and was catalytic in helping private investors make good investments) was satisfactory in most cases.
- Quality was generally higher in the ECA and LAC Regions; in the extractive, food and agribusiness, and infrastructure sectors; and in capacity building through long-term engagement with clients.
- Quality was less than satisfactory (meaning IFC's additionality fell short in a material area or IFC was deemed not to be plausibly additional) in nearly 30 percent of projects in Asia and Africa, and in similar proportions in the

financial and health and education sectors in all Regions. Econometric analysis does not reveal clear drivers of these variations, and further investigation is required.

- Better development results were achieved where additionality was more apparent, and there is also no apparent tradeoff between additionality and IFC's profitability.
- Going forward, more consistent strategic consideration, operationalization, and tracking of additionality, would be beneficial.

Concept of Additionality

Development is no longer seen primarily as a process of capital accumulation but also as a process of institutional change.[4] Differences between industrial and developing countries can be largely attributed to differences in economic organization, that is, how individuals interact and the institutions that mediate these interactions. Among the most important of these "institutions" are markets. It is, by now, well recognized that there are many instances of market failures.[5] In some cases, market failures can be ameliorated by nonmarket institutions (such as for-profit firms, government organizations, nonprofit organizations). However, it is also recognized that nonmarket institutions may not fully ameliorate the inefficiencies arising from market failures and imperfections, and they may actually exacerbate the market failure.[6]

While market and nonmarket institutional failures and imperfections are present in any economy, they tend to be more prevalent in developing countries. Market failure is more common in low- and middle-income countries than in more-developed countries, and the nonmarket institutions that ameliorate the consequences, at least in many instances, are less successful in doing so.[7] Many developing countries, particularly in Africa, also show a paucity of formal private firms and nonprofit organizations, and a dominance of government and informal institutions, relative to more developed economies.[8]

Additionality ultimately refers to unique or special contributions.

International development institutions have been created by the international community to compensate for market and institutional failures and imperfections at the local and international level, because of concerns about efficiency and equity. These development institutions are expected to help mitigate the lack of institutional capacity and market development in developing countries, thus helping to speed development. The international development institutions therefore deal with the causes and consequences of institutional failures and imperfections in developing countries.[9] It is important to recognize, however, that this feature is not their unique and defining characteristic. A variety of organizations including government, private for-profits, and nonprofits have been established or expected, at least in part, to deal with various types of institutional imperfections. None of these mechanisms, including the international development institutions, is perfect, and none is less likely to succeed without interacting with, and complementing, the others.[10] The most appropriate combination and role for each of these actors will be different in each country and in each set of circumstances.[11]

It is in this context of multiple organizational forms, dealing with various types of market and institutional failures and imperfections, that the question of additionality arises. For international development institutions, "additionality" refers to the specific inputs and services that these institutions provide *in addition* to those delivered by the market or institutional framework that is in place. To qualify as "additional" the inputs and services have to complement—and not substitute for—what other institutions can or are willing to provide in order to pursue the achievement of a given set of development objectives. Additionality ultimately refers to unique or special contributions to the achievement of these objectives. It is the pursuit of these objectives that explains the status or mandate given to such institutions—status and mandate which have also been enlarged in response to external and internal challenges. For the international development institutions, additionality is derived from their ability to serve as instruments of collective action, used by the international community, to deal with the issues of persistent poverty, and from the unique capacities they have developed during their existence as a result of leadership, empirical experience, learning, and innovation.

Additionality, as a concept, can be viewed as relative, situational, and dynamic. Additionality is relative because it refers to what is available from others. It is also situational because "availability" depends on circumstances and situations exhibiting market and institutional imperfections that inhibit development. Finally, additionality can be highly dynamic: the additionality of a development institution may change as it broadens and deepens its own capacities, as other institutions enhance their capabilities and willingness to provide certain inputs in challenging situations, and as circumstances evolve in developing countries.

Additionality is different from development impact but is usually positively correlated with it. While additionality is embodied in the *inputs and services* that a development institution is providing, development impact concerns the *results* of its interventions. Development impact might arise through the independent actions of private and/or government agents in finding their own solutions to market and institutional imperfections. Alternatively, even when additional inputs are provided, development progress could be cancelled out by other failures, factors, or interventions that have greater bearing. It is therefore possible to observe various combinations of high and low additionality and high and low development impact, although the correlation between the two is expected to be positive.

Strategic Consideration of Additionality

IFC's potential to uniquely address market and institutional failures was recognized when the institution was established in 1956. The founders acknowledged that the institution had the potential to play a unique role in promoting the expansion of private sector enterprise across the world. It would be the only global institution specifically charged with promoting private sector development. IFC would use its special position as a public organization to bring investors to places they would not invest in otherwise, by lowering the associated political risks. IFC's affiliation with the World Bank was thought to be especially important in this regard.[12] In fulfilling its objectives, IFC needed to be guided by two important additionality considerations. According to its Articles, the Corporation "should not undertake any financing for which in its opinion sufficient private capital could be obtained on reasonable terms," [13] and IFC's investments should, where possible, have a catalytic component.[14]

IFC's corporate strategies have, at various times during the last decade, revisited the issue of the institution's additionality. IFC's 1998 strategy, (the Corporation's first major strategic review since 1991) was developed in circumstances similar to the current period: rapid growth in both IFC and private capital flows to developing countries, with a concurrent expansion by multilateral and bilateral development banks active in the private sector. (The 1998 strategy was initiated before the effects of the Asia crisis started to dampen investor appetite for emerging markets.) Stakeholders consequently questioned IFC's additionality and this strategy sought, among other things, to outline the institution's special role. Elements of the distinctive role discussed included IFC's long-term commitment to clients (especially to provide financial stability during crises); the ability to innovate and pioneer along the risk frontier (in riskier countries, sectors, products, and markets); as well as the capacity to leverage, mobilize and catalyze others, build partnerships, share knowledge, and make special contributions to projects without displacing the private sector.

Additionality is embodied in inputs and services, . . . development impact concerns the results.

IFC's additionality was discussed somewhat intermittently in annual strategies during 1999–2006. The subject did form the focal point of a special briefing to the Board in early 2002 and new guidelines on additionality were developed for investment staff in 2006. In the 2002 briefing, IFC described its additionality as ultimately comprising the provision of scarce capital and/or know-how, funds mobilization, and political risk protection, the precise mix of which would depend on the needs of the particular client (for example, whether the client was a local company, a large foreign company, or a government).

There has been substantial strategic consideration of IFC's additionality in the last year. Reflecting renewed interest in the Corporation's additionality, in light of the growth in other sources of finance to developing countries, IFC's 2007 strategy devotes a whole chapter to the topic. It defines IFC's additionality in terms of the institution's financing ("providing financing to support productive private enterprises where sufficient private capital is not available on reasonable terms"), its expertise and value added services, its preferred creditor status and objectivity, its results measurement (which promotes accountability and performance), and its strong client relationships.[15] This approach was further refined in a recent technical briefing to the Board, covering IFC's investment operations, which classified expected additionality in four dimensions: risk mitigation (including providing comfort to other investors in terms of political and country risk, changing the risk perception of projects, and providing financial products beyond what the market would provide on its own, such as long-term finance and local currency financing); knowledge and innovation; standard setting; and policy work (together with the World Bank).[16]

Most CASs . . . did not systematically discuss the unique value of IFC and/or the World Bank Group.

Most region and sector strategies have contained limited articulation of IFC's unique value, relative to other sources of finance and advice. In addition to its corporate strategy, IFC also develops strategies at the sector, region, and country levels. Although the 2002 briefing placed a special focus on how IFC's role might vary across regions and sectors, and on the growth in alternative sources of finance in recent years, the differentiation between IFC and other institutions across different regions and sectors has not been articulated at any length in strategic documents at these levels. Some of these strategies make general reference to possible IFC advantages such as "global knowledge" and "long-term partnerships" with clients, but they do not clearly reference the activities of other institutions (for example, which sectors, countries, and client groups other sources of finance and advice are reaching and how these activities can be complemented with actions by IFC). Accordingly, IFC's unique value added, relative to others, is not always apparent.[17]

Recent country strategies (developed with the World Bank) have similarly placed limited attention on IFC's comparative advantages relative to other financiers. While IFC's long-term investment pipeline is typically not well known at the time a CAS is developed,[18] it is possible to compare the products and services IFC is able to offer in a country with those available from other financiers, and to discern what, if any, unique comparative advantages the institution possesses. Among the 25 joint IFC/World Bank CASs that were produced during fiscal years 2006 and 2007, only seven (less than 30 percent) explicitly mentioned the value added or comparative advantage of IFC in the country, or in a particular sector within that country. These were mainly CASs for middle-income countries (Argentina, Chile, China, Jordan, Peru) where IFC's role has been questioned by outsiders. In none of these cases (and none of the 20 that referred to the World Bank as having a comparative advantage) was there a clear explanation of what made IFC or the World Bank products and services value added. Most CASs referred to the sharing of "knowledge," "international expertise" or best practice," but did not systematically discuss the unique value of IFC and/or the World Bank Group. Four of the 25 CASs (16 percent) mentioned the need to address market failures, but did not link this need to specific activities of the World Bank Group.

Strategic discussion of additionality has been based more on *a priori* assumptions than evaluated results. Where additionality has been discussed in IFC's strategies, the discussion has usually contained limited evidence of IFC's record in delivering additionality in different countries, sectors, and clients (partly due to cer-

Box 2.1. Definitions of Additionality among Other Multilateral Development Institutions

African Development Bank "additionality": The principle that external resources do not substitute for national resources. Verification of resource additionality requires a sound knowledge of the level of expenditure prior to financing, a hypothesis on the evolution of internal resources and a verification of expenditures made.

Asian Development Bank "additionality": Based on whether (i) Asian Development Bank finance was a necessary condition for the timely realization of the project, through direct mobilization of funds and/or indirectly by providing comfort to other financiers, and (ii) Asian Development Bank's contribution to the project design and function improved the development impact.

European Bank for Reconstruction and Development "additionality": The extent to which the client would have been able to secure financing from market financiers, on acceptable terms, and to what extent the EBRD's impact on the existence, design, or functioning of a project enhances transition impact.

European Investment Bank "value added": The extent to which the operation is consistent with the European Union's priority objectives, the project is sound and of good quality, and the particular benefits are obtained as a result of the use of EIB funds.

Inter-American Development Bank "additionality": The value added by the IDB's contribution to enhance a project's long-range sustainability prospects or its development benefits.

Multilateral Investment Guarantee Agency "role and contribution": The rating considers MIGA's additionality as an insurer, influence on project design, and synergy with partners (whether MIGA leveraged and complemented other sponsors).

It should be noted that a number of bilateral institutions have also developed definitions of additionality, along similar lines to the multilaterals.[22]

tain measurement challenges, as discussed below). In corporate strategies, the evidence has consisted either of selective references to client surveys or analysis of recent project approvals to indicate IFC's expected (but not realized) role and contribution in its projects. The strategies accordingly rely more on *a priori* assumptions about IFC's additionality than on realized value added. For example, the 2007 strategy assumes that IFC's additionality will vary across clients, with smaller clients benefiting from financing and expertise not readily available from the private sector, and larger clients benefiting from more complex financial products and value added services. Finally, the strategy makes a comparison between IFC's evaluated "role and contribution" ratings—a quality judgment that considers IFC's value added in a project—and the ratings for other aspects of IFC's work quality such as project appraisal, structuring, and supervision. These work-quality dimensions are interrelated. A more appropriate comparison would be with the evaluated role and contribution of other international finance institutions, to the extent that data exist. Finally, the strategies do not track what happens with dropped[19] and cancelled[20] projects—where the sponsor decided to disengage from IFC and proceeded with financing from other sources. Tracking the performance of IFC's cancelled or dropped projects may help to deepen understanding of IFC's additionality.

Measuring Additionality

Market and institutional failures and imperfections can be hard to identify precisely, which presents challenges for measuring additionality. A variety of quantitative indicators can be used to assess the state of development in a country or region, from the strictly economic (such as gross domestic product) to those that capture broader aspects of progress (like the United Nation's Human Development Index). However, it is more difficult to assess the state of public goods provision, and how well market failures and externalities are being addressed. Capturing

Box 2.2. Evaluation of IFC's Role and Contribution in a Project

Investment Operations

Since 1996, the XPSR system has assessed the quality of IFC's "role and contribution" in its investment projects. The "role and contribution" rating considers three basic operating principles (that feature in IFC's Article 1):

- ***Making a special contribution*** (not offered or brought to the deal by other investors). This includes any pioneering or innovative dimensions of a project introduced by IFC, whether IFC's financing could have been replaced by private financing, on acceptable terms, if the same security had been offered, and—if IFC has Board representation—the extent that IFC used its position to provide assistance and direction to the company and to improve its governance, financial performance, and developmental results.
- ***Operating like a business*** (and taking the same commercial risks). Did IFC take the same commercial risks and earn the same returns as private participants in the same risk categories (for example, coequity investors, colenders)? If performance materially surpassed IFC's appraisal projections, did IFC receive any upside gain commensurate with its investment risk?
- ***Being catalytic*** in facilitating private investors and markets in making good investments. Did IFC bring private investors and lenders to the project opportunity, mobilize funding, or attract better terms than would otherwise have been the case? (Given that IFC's B-loans confer certain advantages to commercial banks, the test is whether they would have entered into the transaction, and on terms as favorable to the company, in the absence of IFC involvement.)[23]

The rating also takes into account certain process issues, such as IFC's timeliness, efficiency, and client satisfaction, as well as the degree to which the project was relevant to IFC's country strategy, and evidence of IFC-led improvements to standards of corporate governance and environmental and social sustainability.

Advisory Services Operations

In the case of advisory services, the pilot evaluation framework involves a judgment of the quality of IFC's "role and contribution" with reference to the following questions:

- Was IFC particularly catalytic or innovative in its advisory services?
- Was IFC able to play a unique role and fill a gap not easily filled by others?
- Did IFC add gender, environment, HIV/AIDS, or other similar focus which increased the development impact?
- Did IFC leverage key areas of expertise, draw on its credibility, global experience, or links to the World Bank Group?

the contribution of an institution in addressing these failures can therefore be challenging and implies a careful approach to the estimation of additionality.

Development institutions have adopted a variety of additionality proxies for their private sector operations, most of which involve case-by-case judgments. In seeking to identify their unique contributions to development, many development institutions have designed evaluative frameworks for assessing the additionality of their private sector operations. Most of these frameworks consider both the inherent nature of the intervention, such as whether the institution's financing could have been obtained on similar terms elsewhere, as well as the results of the interventions (thus somewhat blurring the line that was drawn earlier between additionality and development impact). In general, most involve qualitative, case-by-case judgments rather than standardized quantitative metrics—reflecting the challenges of determining additionality. In the case of development institutions geared toward the public sector, such as the World Bank and IMF, there is presently no evaluative system for assessing their additionality. Box 2.1 summarizes the different definitions being used by other multilateral development banks (MDBs).

IFC's additionality to date has been evaluated in terms of the quality of the institution's role and contribution in a project. As described in chapter 1, the XPSR system includes a rating of IFC's work quality in a project and, within that, a rating of IFC's role and contribution in a project.

Box 2.3. Good Practice Standards for MDB Additionality Rating in Private Sector Operations

According to the Multilateral Development Bank Evaluation Cooperation Group's *Good Practice Standards for Evaluation of Private Sector Operations* (3rd edition, finalized in May 2007), ratings of MDB additionality should take into consideration the following:

- Would the client have been able to obtain sufficient funding from private sources on appropriate terms? Judgments on this indicator consider pricing (including additional costs arising from MDB conditions that would not be imposed by private investors), tenor, grace period, currency, and timeliness, that is, the availability of financing without unduly delaying the project.
- Was the MDB (because it is a multilateral institution) needed to reduce the risks or provide comfort (that is, improve the investors' perceptions of the risks involved) and, thus, to encourage the investors and lenders to proceed?
- Did the MDB improve the venture's design or functioning—in business, development, transition, social, or environmental terms?
- Was the MDB needed to bring about a fair, efficient allocation of risks and responsibilities, for example, between the public sector and private investors?

The role and contribution assessment considers three basic operating principles of IFC (making a special contribution, operating like a business, and being catalytic), and while it does have limitations in that it captures some nonunique roles, such as "operating like a business," it is the best available proxy for assessing the quality of IFC's additionality in its investment operations.[21] Box 2.2 provides further detail on how role and contribution is evaluated case-by-case, and also indicates how the metric is being applied to pilot evaluations of IFC's advisory services operations. In the last year, IFC has begun to supplement this ex-post analysis with an ex-ante profiling of new project approvals in terms of four dimensions of anticipated additionality, which were referred to in a recent technical briefing to the Board: risk mitigation, knowledge and innovation, standard setting, and policy work with the World Bank.

Development institutions are starting to harmonize their approaches to additionality measurement. Since 1999, through the Multilateral Development Bank Evaluation Cooperation Group, the various MDBs have come together to develop good practice standards for the evaluation of private sector operations. These standards, now in their third edition, include guidance on the rating of a development institution's additionality in its investment operations. As shown in box 2.3, the standards focus on the quality of an MDB's contribution to a project (as opposed to the intervention's results) and, while not referring explicitly to market and nonmarket institutional failures, these can be inferred to some degree. For instance, if a client is unable to obtain sufficient funding from private sources on appropriate terms (the first of the four criteria covered by the standards), this may be due to some kind of market failure, institutional failure, or combination of the two that would inhibit this funding (such as lack of nonbank financial capacity to enable long-term lending and/or legal barriers to private lending). Similarly, if the MDB is needed to bring out a fair, efficient allocation of risks and responsibilities between the public and private sectors, it follows that market and nonmarket actors would, alone, have failed to achieve such an outcome. At the same time, not every business venture will be sustainable enough to deserve financing or other forms of development institution support. Each project should therefore still pass the test of commercial viability.

Building on current thinking, additionality can be categorized as financial, operational, or institutional in nature. Looking at all the investment and advisory activities that a development institution might be involved in, considering both micro and more systemic-level interventions,

Table 2.1. Different Types of Potential Additionality

Dimension	Failure	Micro-level additionality as a solution	Macro-level additionality as a solution
Financial	Lack of adequate, appropriate resources	Investment: Terms such as tenor, grace period, local currency denomination, innovative structuring, and type of product/product mix. Mobilization of other funds. "Halo effects" of an investment—can provide "comfort" (stamp of approval) for additional investors (through bond issues, initial public offerings) and new entrants into the market.	Countercyclical financial crisis and postconflict lending.
Operational	Insufficient knowledge and skills	Investment: Assistance with project functioning, business strategy, operations management, new business development (where not otherwise available in the sector/country).	Advice on monitoring or implementing standards and regulations in an economy/region. Disclosed reports on the quality of county and regional business environments, and about private sector development more generally.
Institutional	Weak institutional capacity	Investment/advisory services: Standards and systems of corporate governance and environmental and social sustainability; improved public/private risk allocation ("honest broker" role in a deal).	Advisory services: New/improved regulations and standards at the country and sector level (for example, environmental and social). Advisory services/program of investments: Improvement of public/private risk allocation (for example, in support of a series of public-private partnerships). Assisting foreign investment promotion agencies/activities.

Source: IEG.

we can see that an MDB with private sector operations might uniquely address market and institutional failures (and provide additionality) in three ways:

- ***Financial:*** At the project level, providing funding on terms otherwise not available from private sources, and mobilizing funds from other financiers (direct mobilization or indirect mobilization by changing the risk perception).[24] At a systemic level, playing a stabilizing role by lending to countries on a countercyclical basis (during times of financial and/or other crises).
- ***Operational:*** At the project level, seeking to improve a venture's design or functioning (in business, development, transition, social, or environmental terms) with specialized advice and knowledge. At the systemic level, efforts that help improve contract enforcement, enhance transparency, and contribute to the sound implementation of government policies, regulations, and standards.
- ***Institutional:*** At the company level, improving standards of corporate governance and environmental and social sustainability. At a systemic level, contributing to the development of better policies, regulations, and standards, and more efficient allocation of risk between the public and private sectors.

Additionality Identified in IFC Operations

IFC has developed the kind of products and services that could potentially deliver different types of additionality. At its inception, IFC's products and services were quite narrow and financial in nature, with the institution ultimately serving as a source of finance when clients could not obtain financing elsewhere, and as a way to increase the flow of private foreign capital into developing countries.[25] As the institution has grown, it has increased the range of products and services that it provides to its clients, including through its advisory arm. These products and services now span the three types of additionality outlined above, but the real test of additionality is whether the products and services addressed a failure or imperfection that would not have been addressed otherwise. Table 2.1 lays out some examples of IFC's potential additionality, in terms of different products and services, in each of the three areas.

For this report, IEG carried out the first detailed review of the presence and quality of IFC's additionality in its investment operations. Using data available in 692 project evaluations, completed during 1996–2007, IEG conducted a two-part analysis. First, IEG sought to identify the presence or absence of additionality in each of the three dimensions above (financial, operational, and institutional).[26] Second, IEG assessed how the evaluated quality of IFC's role and contribution (considering the extent to which IFC made a special contribution and was catalytic) varied by region, sector, and client group. The aim of this combined exercise was to develop an understanding about how consistently additional IFC appears to have been in its investment operations, as well as any clear drivers of additionality and connections between additionality and project development outcomes. IEG complemented this analysis with an ex-ante assessment of the types of additionality anticipated in recently approved investment operations. This involved a review of the project approval documents of a random, representative sample of 304 investment operations that will reach early operating maturity (and be eligible for evaluation) in the 2008–11 period.[27] Table 2.2 summarizes IEG's approach, and table 2.3 shows the overlaps and differences between IEG's additionality classification and the monitoring recently begun by IFC Management. On the advisory services side, because IFC is still rolling out a system to systematically evaluate this side of its business, conclusions about IFC's additionality at this stage are limited. The available evidence is discussed later in this section.

IFC's identified additionality has remained mostly financial in nature, although institutional additionality appears to be increasing in prevalence. As figure 2.1 shows, at least one type of financial additionality was identified in 85 percent of cases. Within the financial additionality category (figure 2.2), the most common form of recorded additionality was financial terms (55 percent), then funds mobilization (46 percent) and market risk comfort (30 percent). The level of identified financial additionality has remained fairly constant over time, as has operational additionality, although institutional additionality

Table 2.2. Identifying and Judging Additionality Quality

Objective	Approach	Coverage: Ex post	Coverage: Number of operations	Coverage: Ex ante	Coverage: Number of operations
Identifying additionality	Coding of IFC's recorded additionality into three categories (financial, operational, and institutional), using project approval and evaluation documentation.	1996–2007	692	2008–11[a]	304
Judging additionality quality	"Role and contribution" evaluation (extent IFC was catalytic and made a special contribution).	1996–2007	692	Not applicable	Not applicable

Source: IEG.

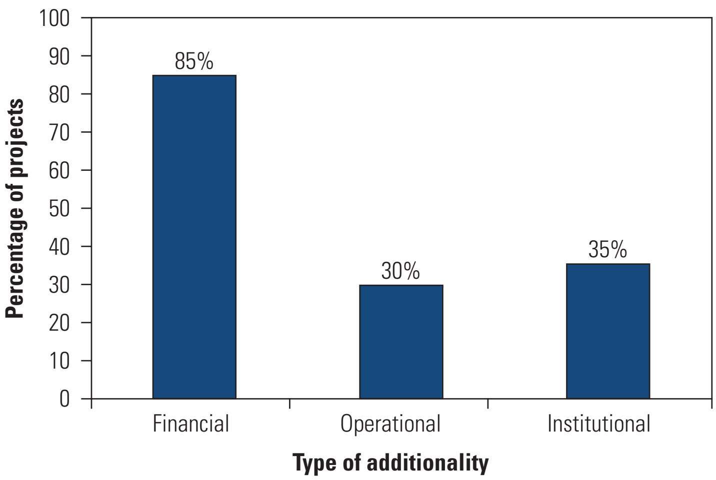
a. Will reach early operating maturity in 2008–11.

Table 2.3. Similarities and Differences between Additionality Metrics

IEG's additionality classification	IFC's nomenclature	Similarities	Differences
Financial	"Risk mitigation"	Financial terms, resource mobilization, market risk comfort (stamp of approval, political- and country-risk cover), and postcrisis financing.	IFC tracking also includes: • "long term partnerships through loan and equity investments," • "honest broker for government relations," and • "introducing clients to other financial institutions and investors."
Operational	"Knowledge and innovation"	Specialist advice and knowledge, for example, on business strategy/operations, sector, market, and country dynamics.	IFC tracking also includes: • "privatization/public private partnerships" and financial structuring.
Institutional	"Standard setting" "Policy work" (with the World Bank)	Improving company standards (corporate governance, environmental and social, energy efficiency) and policy/regulatory change.	IEG classification includes "better public/private risk allocation" (for example, through public-private partnerships/privatization).

Source: IEG.

Figure 2.1. IFC's Identified Additionality Has Been Mostly Financial in Nature



Source: IEG.
Note: Based on 692 investment operations evaluated during 1996–2007; projects exhibit at least one type of additionality but more than one type of additionality can be delivered in a single project.

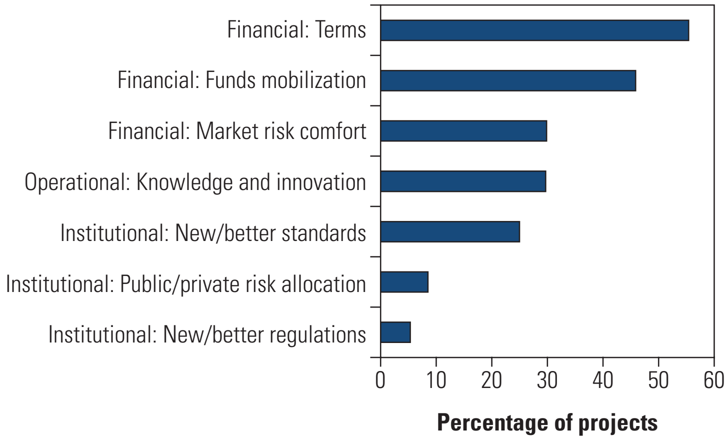
seems to be increasing in frequency, in line with IFC's evolution away from a pure financing institution (figure 2.3). See box 2.4 for examples of each type of additionality identified in evaluated investment operations. IFC client surveys provide a similar narrative on IFC's value added, with loan maturity and funds mobilization regularly reported among the main reasons clients choose IFC, and growing reference to knowledge and expertise in various areas.

Based on an ex-ante review of recent Board approvals, these patterns are expected to continue, although IFC will need to adapt in order for these expectations to be realized. A review of 304 recent project approvals (projects that will reach early operating maturity during 2008–11) indicates that instances of operational and institutional additionality are expected to continue to increase in frequency and that the vast majority of projects are expected to have two or more types of additionality (figure 2.4). Some form of financial additionality is expected to remain present in around eight-tenths of projects. In the face of increased market liquidity and investments by other development finance institutions, it is apparent that IFC will need to innovate and adapt the products and services that it provides simply to remain at the same level of value added (for example, market data from 2000–07 show that IFC loan maturities are generally longer than those of private financiers but not those of other development finance institutions with private sector operations, and length of loan, in itself, is only additional if it fits client investment needs).[28] One area of concern arising from the review of project approvals is the approximately 10 percent of cases in which IFC's anticipated additionality was not clearly specified. This may reflect a lack of understanding about additionality among investment staff who prepare Board submissions (and which the new guidance issued in 2006 might help improve), but it could also mean that IFC is not actually playing a unique role in these projects.

The quality of IFC's overall role and contribution was rated satisfactory in the majority of projects, and less than satisfactory in nearly one-fifth. In 27 percent of cases, IFC's involvement was deemed essential for the project to go ahead ("excellent" rating), and IFC's role and contribution was judged to be "satisfactory" in 53 percent of projects, that is, in line with IFC's operating principles of making a special contribution and being catalytic. However, in 20 percent of cases, IFC's role and contribution was assessed as less than satisfactory, meaning that IFC's role and contribution fell short in a material area (in 12 percent of cases) or IFC's role was not plausibly additional and IFC did not deliver on its expected contribution (in 7 percent of cases; see box 2.5 for rating criteria). Examples of "missing" additionality are presented in box 2.6. Possible reasons for less than satisfactory performance are explored in the section on drivers and inhibitors.

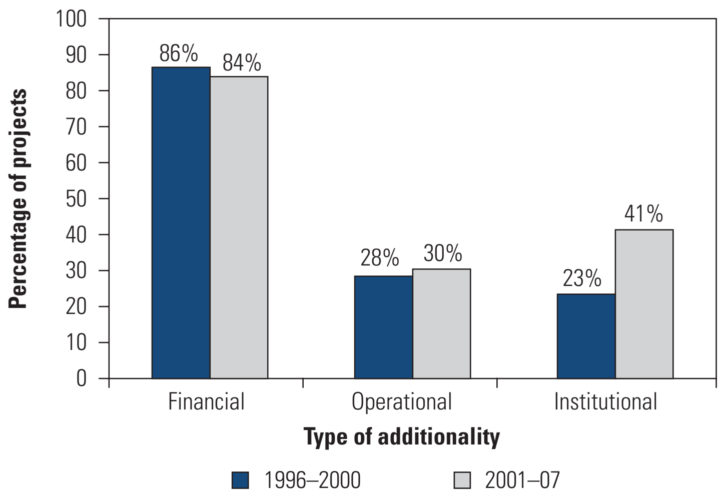
The evaluated quality of IFC's role and contribution varies considerably by Region and seems to lag significantly in Africa and Asia. While IFC's role and contribution was rated as satisfactory or better in nearly nine-tenths of cases in ECA, it was deemed to be satisfactory or better in far fewer operations in Asia and Africa. In these regions, IFC's role and contribution was judged to be less than satisfactory in about three-tenths of operations (figure 2.5). This regional variation helps to explain the difference in performance between middle- and low-income countries, which was identified in a recent thematic IEG Evaluation Note,[29] given the preponderance of low-income countries in Africa.[30]

Figure 2.2. Most Commonly Identified Additionalities Have Been Financial Terms and Funds Mobilization



Source: IEG.
Note: Based on 692 investment operations evaluated during 1996–2007; projects exhibit at least one type of additionality but more than one type of additionality can be delivered in a single project.

Figure 2.3. Over Time, Institutional Additionality Seems to Have Increased in Prevalence



Source: IEG.
Note: Based on 692 investment operations evaluated during 1996–2007.

Box 2.4. Examples of Additionality Identified in Evaluated Investment Operations

Financial

- *Terms:* Long-term loan—"IFC's involvement allowed the Company, for the first-time ever, to obtain long-term foreign currency financing at attractive rates." Long-term quasi-equity—"IFC arranged and provided long-term quasi-equity financing at reasonable rates at a time when it was almost impossible to obtain equity or quasi-equity financing in the country."
- *Funds mobilization* (loan syndication): "IFC played a catalytic role by mobilizing a B-loan from a major international bank, which otherwise would not have been forthcoming, particularly for an agroindustry project."
- *Market risk comfort:* "As other bilateral and official lenders withdrew early from the project, IFC's involvement provided comfort to commercial lenders who otherwise would not have participated in IFC's absence." "IFC's participation lent credibility to a new concept in the country (rating agency) and helped bring together a strong foreign technical partner and local sponsor."

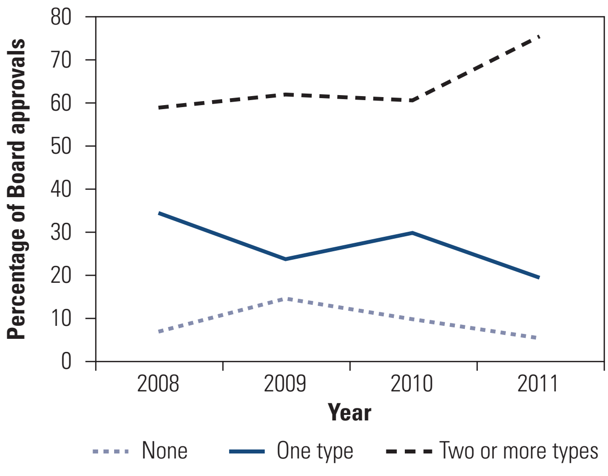
Operational

- *Specialist advice:* "Significant assistance was provided by IFC to other senior lenders and sponsors on the structure of the project, with IFC acting as the lead advisor throughout the negotiations."

Institutional

- *New/better standards:* Corporate governance—"IFC helped the company to formulate a more transparent structure between sister companies. Additionally, IFC identified weaknesses in the company's financial controls and pushed the sponsors and management to upgrade these controls." Environmental and social—"IFC insisted on an independent review of the water resources available to the region's sugar industry and the project, in particular. The review revealed that the security of water supplies in the area was precarious and that the safe yields of the region's reservoirs had been systematically overestimated. As a result, the sugar industry embarked on an active investment program to construct additional storage and basin transfer schemes, in order to improve the security of its water supply."
- *Public/private risk allocation:* Public/private partnership—"IFC actively assisted the [public-private partnership] process by conveying, as an honest broker, the concerns of the sponsor to the government. Most of the concerns were accepted and reflected in the final contract."
- *New/better regulations:* Leasing—"IFC assisted the government in amending and improving the legal and regulatory framework, in order to permit leasing operations to be undertaken in the country."

Figure 2.4. Recent Board Submissions Anticipate Further Bundling of Additionality



Source: IEG.
Note: Based on 304 investment operations that will reach early operating maturity during 2008–11 (approved during 2003–06); the types are financial, operational, and institutional.

Box 2.5. Role and Contribution Ratings, 1996–2007

Taking account of the pursuit of the three basic operating principles mentioned earlier, the quality of IFC's role and contribution is ultimately rated as one of the following:

- *Excellent:* (27 percent) IFC's participation was essential for the project to go ahead and IFC made a major contribution to its success.
- *Satisfactory:* (53 percent) IFC's contribution was in line with IFC's operating principles of making a special contribution and being catalytic.
- *Partly unsatisfactory:* (12 percent) IFC's role or contribution fell short in a material area.
- *Unsatisfactory:* (7 percent) IFC's role was not plausibly additional and IFC did not deliver its expected contribution.

Box 2.6. Examples of "Missing" Additionality in Evaluated Investment Operations

Financial

- *Terms:* Long-term loan—"Given that the loan was guaranteed by strong world-class sponsors, it is reasonable to assume that the project would have gone ahead without IFC. The guarantee is still in place five years after approval."
- *Market risk comfort:* "IFC's catalytic role is unproven—it is not clear that IFC's investment brought other investors to the country (as expected)."

Operational

- *Specialist advice:* "The manager's relative lack of experience in both fund management and in the automobile sector was highlighted at appraisal, and IFC undertook to provide early input into the fund's structuring and help secure technical assistance. IFC did not deliver on this contribution."

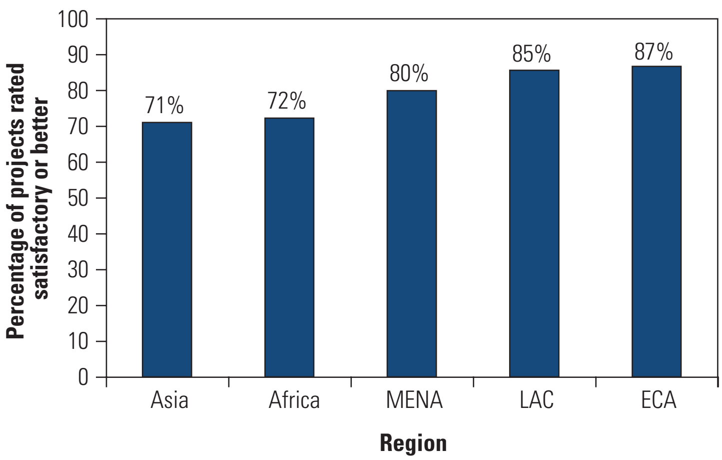
Institutional

- *New/better standards:* Environmental and Social—"IFC did not fully explore the possibility of providing additional financing or technical support to ensure timely and proper implementation of an upgraded water treatment system. Performance fell short because of (i) poor company management capacity (including on environmental matters); (ii) lack of interaction for follow-up actions between the sponsor and environmental specialist; and (iii) lack of funds." Corporate governance—"IFC did not contribute significantly in formulating the Company's operating policies or governance structure as envisaged."
- *Public/private risk allocation:* Public-private partnership—"While IFC was able to successfully negotiate with the utility and the government to set up the structure necessary to finance the project, it did not have the desired effect in enabling other [private participations in infrastructure]."

At the sector level, the quality of IFC's evaluated role and contribution has been weaker in the strategic sectors of financial markets and health and education than in other sectors. As figure 2.6 illustrates, there is a wide spread in the ratings of IFC's role and contribution quality across sectors. In the oil, gas, mining, and chemicals; food and agribusiness; and infrastructure sectors, IFC's role and contribution was judged to be satisfactory or better in the vast majority of cases. Meanwhile, the quality of IFC's role and contribution was rated low in financial projects in 27 percent of cases, and in 33 percent of cases in the social sectors. See appendix E for examples.

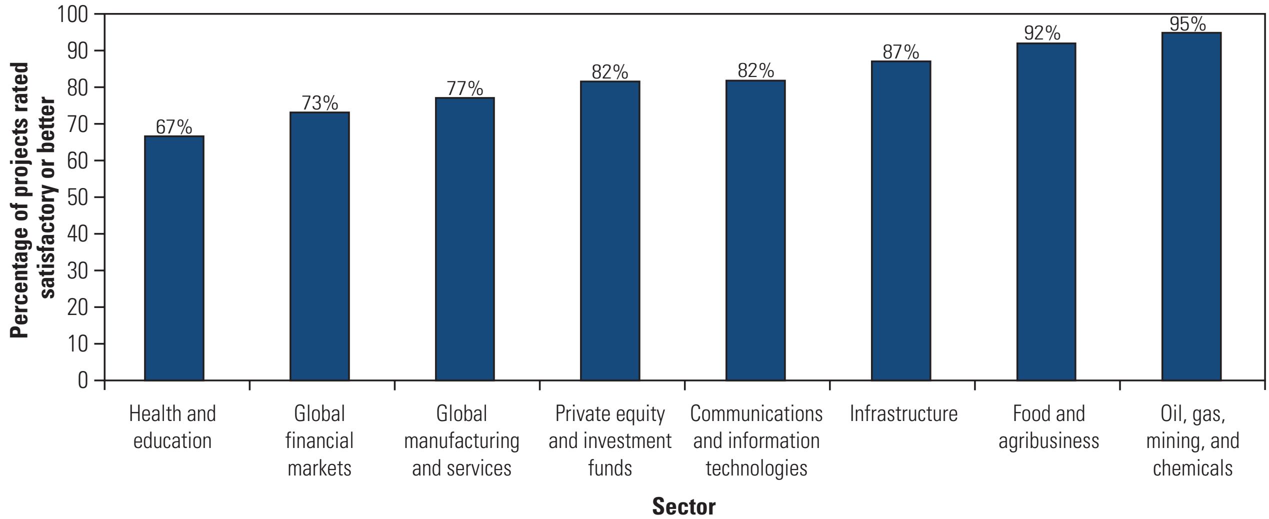
IFC's role and contribution is estimated to be better with repeat than nonrepeat clients. There has been much debate about the appropriate mix of IFC operations between repeat and nonrepeat clients. Some argue that IFC ought to be more additional in working with new, that is, nonrepeat clients because the institution already brought its additionality to a repeat client in an earlier investment and the marginal value added is therefore likely to be smaller. This evaluation, however, reveals that different types of additionality have been similar in frequency in either case (figure 2.7). In terms of quality of contribution, there has been a significantly higher number of cases of "excellent" role and contribution with repeat clients (42 percent, compared with 26 percent for nonrepeat clients), implying that additionality can possibly be enhanced through long-term partnership (figure 2.8). The evaluation data and lessons from individual projects suggest that

Figure 2.5. Quality of IFC's Role and Contribution Lagged in Asia and Africa



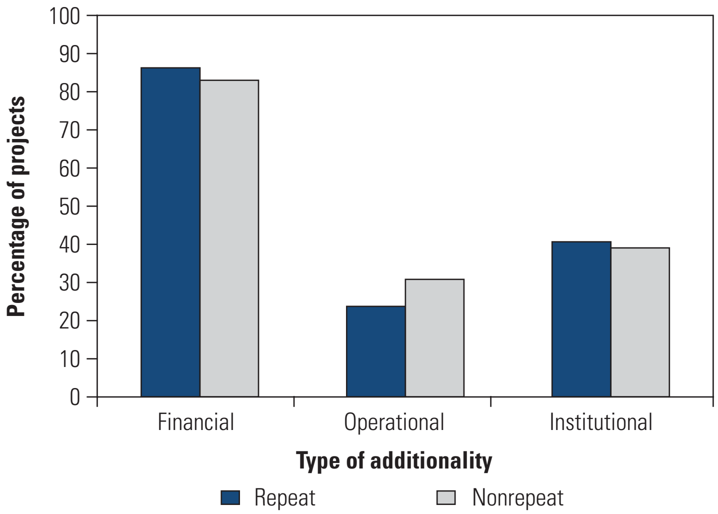
Source: IEG.
Note: Based on 692 investment operations evaluated during 1996–2007.

Figure 2.6. Role and Contribution Varied Substantially by Sector



Source: IEG.
Note: Based on 692 investment operations evaluated during 1996–2007.

Figure 2.7. Similar Types of Additionality Identified in Repeat and Nonrepeat Projects



Source: IEG.
Note: Based on 503 evaluations carried out during 2000–07. (IEG began tracking repeat/nonrepeat clients in 2000.)

through repeated engagement with clients, IFC has been able to build up greater leverage for, and commitment to, institutional change than through one-off investments.

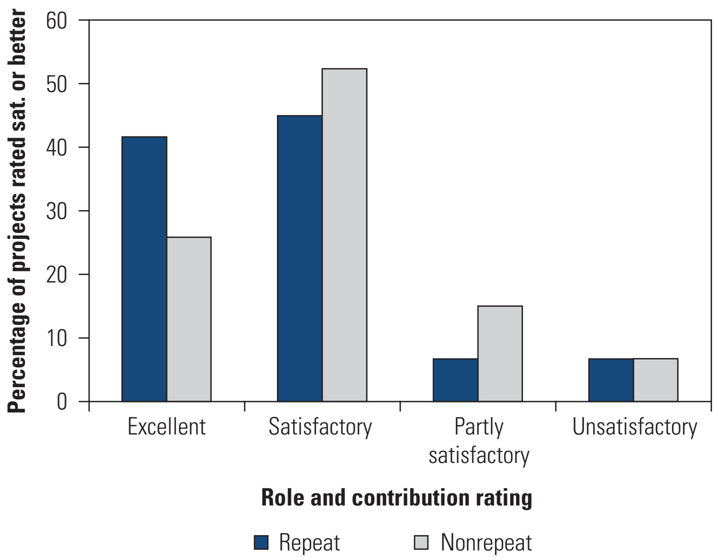
Analysis of portfolio data indicates that IFC has tended to be a countercyclical investor in financial crises. Just as IFC's additionality is not necessarily limited to a single intervention in the case of repeat clients, so it is the case that IFC may be additional across a range of interventions in a certain sector or country. This is particularly so when a country faces a financial crisis and the supply of private capital is in shorter supply than normal. In line with its mandate, IFC should be taking as many opportunities as possible to catalyze private investment where other sources of finance are lacking—to the extent, of course, that country conditions permit.[31] An analysis of portfolio data in countries hit by financial crisis indicates that IFC has invested on a countercyclical basis in more cases than not. Of 17 crisis countries that were examined, IFC increased the size of its investment portfolio in 12 cases by more than 15 percent. This contrasts with increased investments of this order by other financiers (public or private) in less than one-half of the cases (see appendix F).

At the same time, there could be room for improvement in the quality of IFC's contribution to projects implemented following crises. Of projects approved following crises, 80 percent of projects achieved satisfactory or better role and contribution quality, which is no better than for projects approved in the absence of a crisis (81 percent) or those approved prior to a crisis (81 percent). Maximizing IFC's countercyclical function will be of particular relevance in the event of a possible global economic slowdown that materially affects developing countries.

Evaluations of the private sector operations of other development institutions, to the extent that comparable data is available, report similar overall additionality performance to IFC. While there is no direct global comparator against which to benchmark IFC, we can compare IFC's performance to that of several regional development institutions that use similar, though generally less-differentiated definitions of additionality. The European Bank for Reconstruction and Development's evaluations report that the Bank's additionality was "verified at large" or "verified in all respects" in 87 percent of cases during 1996–2005, similar to the role and contribution ratings IFC has achieved in the ECA region. The Asian Development Bank, although it has not, to date, reported project-level additionality results, recently gave its private sector development and operations portfolio, as a whole, an additionality rating of satisfactory rather than an excellent one. The majority of IFC's evaluated operations in Asia has fallen into the "satisfactory" band for role and contribution quality. At the bilateral level, FMO's (Netherlands Development Finance Company's) evaluated role and contribution has been less than satisfactory for only 11 percent of large loans, but for as many as a third of small loans (similar to the disparity in performance found in IFC), leading to an overall success rate for all loans of about 70 percent.[32]

Pilot evaluations of IFC's advisory services operations generally rate IFC's role and contribution as satisfactory, but it can be difficult to identify IFC's unique role. In the case of advisory services, there are challenges in interpreting IFC's value added—unlike with investment operations—because there is no market test to determine

Figure 2.8. More Repeat Projects Rated "Excellent" for Role and Contribution



Source: IEG.
Note: Based on 503 evaluations carried out during 2000–07.

whether clients seek IFC for price or value reasons. Pricing structures vary for advisory services, with some based on cost recovery and others involving grant finance, and approximately one-quarter are now linked to investment operations. This problem of assessing value added is compounded by the fact that the advisory services evaluation metrics do not distinguish between role and contribution and other aspects of work quality (as is the case with investment operations, where appraisal and supervision work quality is evaluated separately) and because many projects involve contracted consultants that could potentially have been hired by other institutions to carry out the work (that is, IFC's special role is not clear in these cases). Of the 293 pilot evaluations carried out for advisory services projects that closed between 2004 and 2006, and independently validated by IEG, 14 percent were judged to have "excellent" IFC role and contribution, 69 percent had "satisfactory," 8 percent had "partly unsatisfactory," 4 percent had "unsatisfactory," and 5 percent had "cannot tell." Examples of additionality cited include mobilization of donor funds, IFC's drawing together

In the case of advisory services . . . there is no market test of value added.

of government and other stakeholders, as well as IFC bringing specialist environmental expertise to a project. Examples of "missing" additionality include IFC not playing the intended role in leveraging partnerships with private foundations, a lack of specialist expertise in certain types of operations, and the project being managed by other donors with little engagement by IFC.

Drivers and Inhibitors of Additionality

Where additionality fell short of expectations, it was more operational or institutional in nature than financial. This may reflect the fact that the constraints to implementing these dimensions are less well known up front and harder to deliver. Of the projects that were judged to have low role and contribution, IFC appears to have had more difficulty following through with the anticipated operational and institutional additionality (60 percent of cases) than with financial aspects (45 percent of cases). One reason may be that IFC's financial package is well known (and presented) at the time of Board approval. While some financial additionalities may appear later (such as assistance with a public offering), and the financial package may be adapted, almost all the operational and institutional additionalities arise postapproval and are, accordingly, more affected by downstream complications such as changes or weaknesses in personnel, product market, and government regulations.

IFC's anticipated contribution fell short for various reasons. These included overoptimism about IFC's role, lack of client commitment to changes that IFC sought to bring about (particularly where the project was not a commercial success), and shifts in the business environment that constrained particular ambitions for the project. Even though IFC may provide unique inputs, project- or country-specific factors may limit the capacity in the field to absorb these inputs effectively. The return of market liquidity in recent years and the associated increase in investors' risk appetites in emerging markets have generally made it more difficult for IFC to differentiate itself in terms of financial additionality. The liquidity effect, while global in nature, has been particularly pronounced in Asia. Improving market liquidity has also been associated with an increase in prepayments, which has limited IFC's ability to follow through on its anticipated nonfinancial roles.

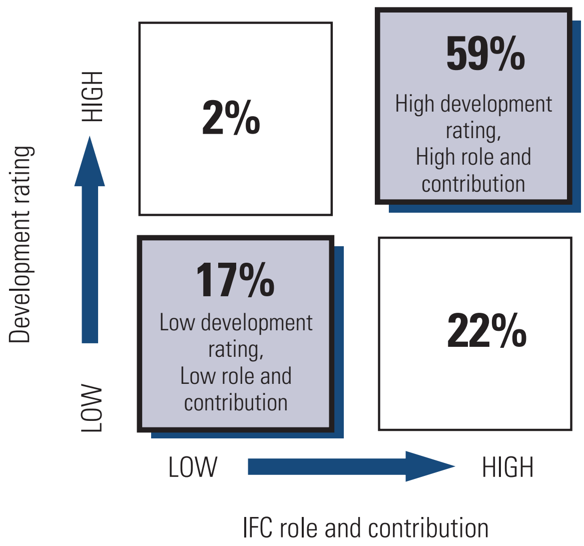
The role and contribution of IFC mainly reflects its appraisal and supervision quality. As discussed earlier, within the evaluation system, IFC's role and contribution is assessed as one of three aspects of the institution's work quality. The other dimensions, which are evaluated separately, are upfront screening, appraisal and structuring, and project supervision between approval and evaluation. The quality of IFC's role and contribution tends to be rated less than satisfactory (low) where work quality is also assessed as less than satisfactory in these other respects (table 2.4). Such cases are most common in Africa and in smaller operations. The relationship is strongest between role and contribution and supervision quality, which is consistent with the need for close client engagement in ensuring that IFC's postapproval operational and institutional

Table 2.4. Role and Contribution Generally Reflects Appraisal and Supervision Quality

		Screening, appraisal, and structuring quality (%)		Supervision and administration quality (%)	
		Low	High	Low	High
Role and contribution quality	High	26	54	19	62
	Low	17	3	12	8

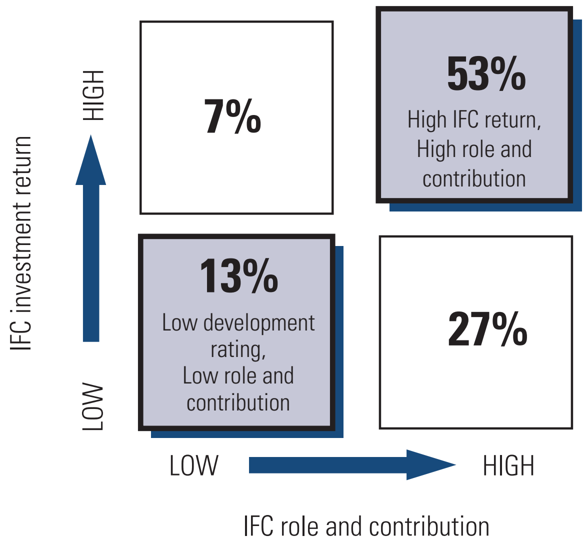
Source: IEG.
Note: Based on 692 evaluations carried out during 1996–2007.

Figure 2.9. Additionality and Project Development Results Seem to Go Hand-in-Hand



Source: IEG.
Note: Based on the evaluations of 692 investment operations carried out during 1996–2007; "high" is satisfactory or excellent.

Figure 2.10. No Apparent Tradeoff between Additionality and Profitability



Source: IEG.
Note: Based on the evaluations of 692 investment operations carried out during 1996–2007; "high" is satisfactory or excellent.

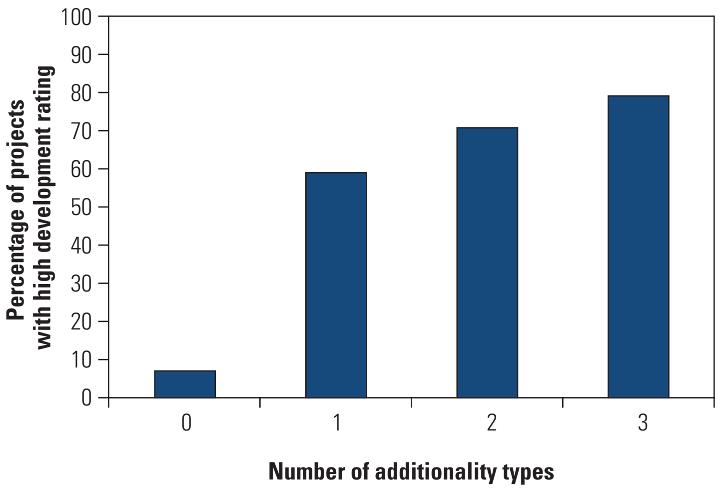
additionalities are delivered. At the same time, sound appraisal and structuring is required for certain financial additionalities to arise, so it is not surprising that there is a connection between role and contribution and screening, appraisal, and structuring quality.

Econometric analysis does not provide clear evidence on the drivers of region and sector variations; further investigation is required. Variations in the quality of IFC's role and contribution, by region and sector, are difficult to explain with any precision. Econometric analysis indicates that when controlling for factors such as project size, project risk, sponsor quality, sector, and business environment, IFC's role and contribution in Africa is still weaker than in other regions. This implies that special factors present only in Africa are adversely affecting the quality of IFC's role and contribution, and that further investigation—including field-based assessment—is required to arrive at a more conclusive assessment. IFC's relative inexperience and experimentation in the social sectors (a dedicated Health and Education Department was only established in 2002, after which most of the evaluated operations were instigated) may explain the relatively poor quality of IFC's role and contribution in these areas. However, this would need to be confirmed with more in-depth analysis.

Additionality and Development Impact

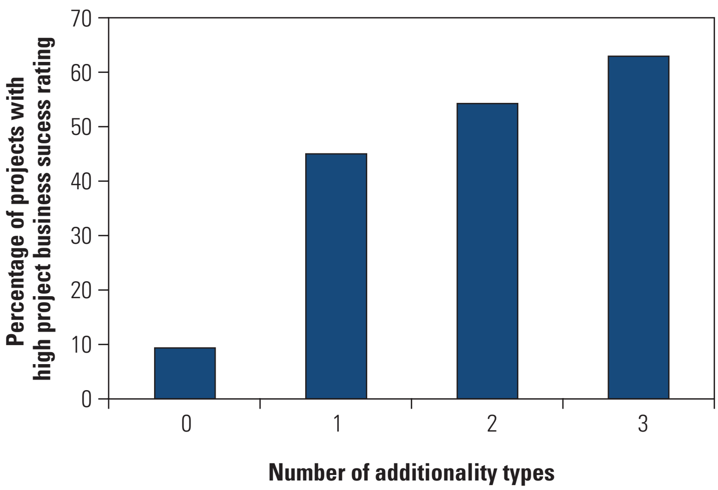
Evaluation shows that better development effectiveness and profitability often go hand-in-hand with stronger additionality. Other things being equal, because additionality derives from a development problem in the form of market inefficiencies and/or lack of public goods provision, if additionality is provided, it should, in theory, act as a facilitator of project development results. This evaluation's findings are consistent with this theory, in the sense that, where evaluated, IFC role and contribution (the best proxy currently available for assessing additionality quality) was high, and project development ratings also tended to be better (figure 2.9). There was also no apparent tradeoff between role and contribution and profitability

Figure 2.11. Better Development Results Apparent Where Different Additionalities Were Combined



Source: IEG.
Note: Based on the evaluations of 692 investment operations carried out during 1996–2007; "high" is satisfactory or excellent.

Figure 2.12. Project Business Success Seems to Be Stronger Where Additionalities Were Combined



Source: IEG.
Note: Based on the evaluations of 692 investment operations carried out during 1996–2007; "high" is satisfactory or excellent.

(figure 2.10), which is consistent with the earlier finding of lack of tradeoff between development results and IFC investment returns, indicating that IFC need not compromise profitability in pursuit of additionality.

Better project development results seem to be achieved where the different types of additionality (financial, operational, and institutional) are combined. IEG's analysis shows that in projects where no additionality could be identified, high development outcome ratings are achieved in 7 percent of cases. This compares with 79 percent of cases where IFC apparently made three types of additional contributions (figure 2.11). The value of combined contributions shows up in terms of the project's financial sustainability (project business success, a core component of project development performance), with IFC assistance in areas such as business strategy, management selection and development, as well as corporate governance, appearing to have beneficial traction on the project's bottom line (63 percent when all three types of additionality are apparent, see figure 2.12).

Operational and institutional additionalities seem to be particularly important in the case of weak sponsors for delivering better project outcomes. Previous evaluations have found that sponsor quality is a key determinant of project results. It is important, therefore, that IFC take steps both to screen sponsors carefully and also to mitigate the shortcomings of any weak sponsors that it may work with. To that end, this review finds that where sponsor quality was weak but where some form of financial, operational, and institutional additionality appears to have been provided by IFC, development results were stronger. In the case of stronger sponsors, operational and institutional additionality seem to have less bearing, which is logical in that there ought to be more room for operational and institutional improvement with weak sponsors than strong sponsors (table 2.5).

Operational and institutional additionality seems to have greater influence on development per-

Table 2.5. Operational and Institutional Additionality Particularly Important with Weak Sponsors

	Financial additionality and project development outcomes (% of projects rated satisfactory or better)		**Operational additionality and project development outcomes** (% of projects rated satisfactory or better)		**Institutional additionality and project development outcomes** (% of projects rated satisfactory or better)	
	With	**Without**	**With**	**Without**	**With**	**Without**
High-quality sponsor	73	33	75	64	81	63
Low-quality sponsor	52	23	57	36	65	37

Source: IEG.
Note: Based on 503 evaluations carried out during 2000–07.

formance in equity investments than in loans. In theory, IFC should be able to play a stronger operational and institution building role when it makes an equity investment, particularly when it takes a seat on the company's Board. This review finds this type of association, with recorded operational and institutional additionalities more closely identified with satisfactory or better project development performance in equity investments than in loans. In the vast majority of cases, the equity investment was in the financial or funds sectors, with IFC taking on a directorship role. Identified operational additionalities included assistance with strategy and policy, business development, risk, operations, and fund management, while corporate governance was the main type of institutional additionality. In other sectors, where IFC directorships are less common, operational and institutional additionalities in equity investments were much less apparent.

Institutional additionality also seems to have more influence on development results in repeat projects. For nonrepeat projects, additionality of any form appears to contribute to higher development outcome ratings compared with projects without additionality. For repeat projects, institutional additionality seems to have a higher "return" on additionality compared with financial and operational forms (36 percent positive performance differential where institutional additionality is apparent),[33] indicating that focusing on institutional additionality rather than operational and/or financial additionality in the case of repeat projects makes sense.

Regardless of instrument, however, the presence or absence of financial additionality seems to have more influence on project development results than the other types of additionality. Where financial additionality was evident, projects achieved satisfactory or better development outcome ratings 66 percent of the time. This contrasts with cases where financial additionality was apparently absent and in which the project development success rate was only 30 percent. Offering clear financial additionality will remain critical, going forward, particularly in the event a slowdown in global growth reduces liquidity in parts of the developing world.

Projects have delivered better environmental performance where IFC has shown a stronger role and contribution in this area (and vice versa). A separate study has examined, among other things, IFC's effectiveness in support of the environment (IEG forthcoming), as well as the institution's role and contribution as it relates solely to environmental aspects of the projects that it supports. The study finds that, for projects evaluated during 2004–06, the quality of IFC's environmental role and contribution was satisfactory or better in 82 percent of cases. In such cases, project environmental effects were also satisfactory or better 80 percent of the time.

Table 2.6. Areas for Improvement in Realizing IFC's Additionality

Business cycle phase	Conceptualization	Delivery
Strategic consideration	Explicitly consider market and institutional failures in strategy formulation. Clearly delineate IFC's unique comparative advantages relative to other financiers.	Use evaluation findings on additionality to inform new strategic directions (see results monitoring and evaluation). Establish measurable additionality goals in IFC's corporate, regional, and departmental strategies.
Operational processes	Clear guidance on additionality to all investment and advisory services staff—identifying how IFC can offer unique value in addressing market and/or institutional failures—and how that can be rigorously assessed.	Provide clear, high-quality additionality rationales—based on how market and/or institutional failures will be addressed by the intervention. Use robust metrics for judging IFC to be additional compared with other actors (for accuracy, and to reduce overoptimism about IFC's role). Apply individual incentives to deliver greater additionality (along the lines for development results achievement), particularly in regions and sectors, and with client groups where performance is lagging.
Results monitoring and evaluation	Map market and institutional failures directly to measurement of IFC's additionality in financial, operational, and institutional terms. Separate out IFC's unique roles from its nonunique roles. Clearly distinguish between additionality and development impact.	Self-tracking of IFC's additionality through the project cycle, across investments and advisory services, and in different strategic groupings (such as client groups, sectors, countries, and regions). Apply new classification to evaluating IFC's additionality ex post.

Source: IEG.

However, when IFC's environmental role and contribution was rated low (less than satisfactory), project environmental effects were much weaker. These findings emphasize that IFC's additionality goes beyond just financing and that IFC needs to optimize the environmental additionality it brings to its projects.

Areas for Improvement and Further Analysis

The preceding sections suggest that IFC has had some successes in delivering additionality to its clients. A range of factors may inhibit the contribution of private investment to development—such as weak governance, environmental externalities, and uneven capital flows. Across many fronts, in both low- and middle-income countries, carefully designed IFC interventions have the potential to break down the barriers that prevent markets from functioning efficiently and thus to contribute to development. Relative successes for IFC, in terms of its additionality, include the institution's strong quality of role and contribution in the ECA and LAC regions; in the extractive, food and agribusiness, and infrastructure sectors; and with larger projects.

At the same time, there is considerable room for improvement in the extent to which IFC demonstrates its additionality. Notwithstanding the successes mentioned above, and opportunities for IFC to play a substantial role, this evaluation reveals a number of gaps in the value added contributions that IFC has brought to its operations. Relative weaknesses for IFC include the quality of role and contribution in projects in

Africa and Asia, in the financial and social sectors, and with smaller clients and projects.

Better realization of IFC's additionality would involve interlinked efforts that cut across the institution's business cycle. Going forward, based on the analysis presented in this report, IFC can make improvements at different stages of its business cycle to enhance its additionality, from better strategic consideration, to improved operational processes, to more robust monitoring and evaluation of additionality. Table 2.6 summarizes some of the key improvements that could be made.

Further analysis of additionality would be useful in a number of areas. This report represents the first detailed review of IFC's additionality. As with any first review, it is impossible to cover all aspects of the subject. This constraint is amplified when metrics are still evolving, as in this case. Based on an improved classification of additionality along the lines discussed, further analysis would be beneficial in a range of areas:

- *Regional and sectoral variations in performance:* Field-based assessments to complement existing desk-based analysis.
- *Advisory services:* Analysis of the additionality IFC has provided in its advisory services operations, including whether IFC's additionality is greater in cases where services are bundled (as more reliable and systematic data become available).
- *Product lifecycle:* IFC's additionality as it evolves through a transaction, from conception to completion.
- *Specific types of transaction:* IFC's additionality in atypical transactions, such as those that are termed South-South (investment by a company in one developing country in another developing country).
- *Within country variation:* IFC's additionality in more- and less-developed regions of middle-income countries (consistent data on such less-developed regions are not yet available).
- *Cooperation with development partners:* IFC's additionality when combined with World Bank and other development institution products and services (which, in theory, should be greater because collectively they have more instruments that could address failures than if each acted alone) and the optimum, IFC/World Bank/other development institution, product mix to maximize additionality and development impact under different circumstances. This would include cofinanced projects as well as coordinated interventions that involve cooperation of a more indirect nature.
- *Results comparisons with other international financial institutions:* More benchmarking of IFC's additionality performance with that of other private sector development institutions (as metrics are further improved and harmonized, and data becomes available).
- *Systemic additionality.* Assessment of the quality of IFC's contribution to/provision of certain national, regional, and global public goods, such as business-climate information and better sustainability standards.

Recommendations

This chapter presents IEG's recommendations for IFC Management, in order to enhance the institution's development effectiveness.

Work Quality and Portfolio Risk Management

IFC has been growing its operations quickly in recent years. Between 2002 and 2007, the annual commitment volume of investment operations more than doubled and expenditure on advisory services operations quadrupled. At the same time, IFC has been decentralizing its operations. While the overall development results of IFC investment operations have recently trended upward (insufficient data available to discern trends for advisory services), the development performance of IFC-supported projects in Regions with the fastest operational growth trajectories (Africa, Asia, MENA) and certain sectors (general manufacturing, information technology) has lagged. In light of IFC's rapid growth and a possible downturn in global economic growth over the medium term, IFC's portfolio might come under stress, especially in weaker regions and sectors.

Factors within IFC's control, notably work quality, have played their part in these results. Where IFC work quality was high, so were project development results—88 percent of the time. Cases of high work quality were less common in Africa and Asia and imply more resources and attention to ensuring sound work quality are required in these Regions, going forward.

Recommendation 1: *IFC should pay strong attention to work quality and portfolio risk management as it continues to grow and decentralize its operations, particularly in newer markets and in view of a possible downturn in global economic growth.*

IFC's Environmental and Social Performance in Africa

Previous evaluations, including last year's IEDR, found that IFC-supported projects in Africa achieved weaker environmental and social effects ratings, as compared with projects in other Regions, mainly among financial intermediary operations. During 2005–07, only 4 of 13 Africa projects with environmental and social effects data (31 percent) achieved satisfactory or better environmental and social effects, much weaker performance than in other Regions. In 2007, five of six evaluated projects in the Region—two financial and three nonfinancial—achieved low ratings. Poor reporting was also a feature of Africa projects, meaning that environmental and social impacts and/or compliance with IFC standards could not be determined in some cases.

Client commitment to, and capacity to pursuing sustainability has proven to be problematic in Africa, particularly when businesses underperform financially and given the, at times, substantial imperfections in legal and regulatory frameworks and implementation. Improvement in performance in this Region is a particularly relevant issue, in the context of strong growth in the volume of IFC's operations in the Region. IFC started to increase its environmental specialist capacity in the Region in early 2006, but it is too soon to tell whether this new capacity will translate into better environmental results.

Recommendation 2: *IFC should ensure that it addresses continued environmental and social performance shortcomings in Africa, particularly as they relate to IFC supervision quality and client commitment to sustainability issues.*

Measuring Advisory Services Performance

IFC is in the pilot stages of a new system for measuring the performance of its advisory services operations, as part of a range of monitoring and evaluation efforts. As with all pilots, there is a chance to learn from experience. In some cases, it is too early to tell what the project's development outcomes and long-term impacts will be at project close (when the pilot evaluations have been carried out), and more long-term monitoring is required. Where it has been possible to assign development effectiveness ratings, the supporting logic and documentation provided by staff in their self-evaluations has been weak in many instances. This suggests that staff have had insufficient understanding about, or commitment to, reporting development performance, and that quality assurance mechanisms have, to date, been inadequate.

Recommendation 3: *IFC should continue, with input from IEG, to strengthen the steps it is taking to improve the data on the performance of advisory services operations, including efforts to improve understanding among staff about results measurement, quality assurance by managers, as well as performance monitoring beyond project close.*

Strategic Consideration, Operationalization, and Tracking of the Institution's Additionality

Various corporate strategies and briefings during the past decade have discussed the issue of IFC additionality. Most region, sector, and country strategies (developed with the World Bank), however, contain limited articulation of IFC's unique value added, relative to other sources of finance and advice. Some omissions are apparent at the project level. IFC's anticipated additionality was not clearly specified in some 10 percent of recently approved investment operations, indicating either a significant lack of understanding about, or commitment to, additionality among investment staff or a lack of clarity about IFC's special role in these projects.

IFC's additionality has been evaluated, to date, in terms of the quality of the institution's role and contribution in a project. While a useful proxy for IFC's additionality, it does have certain shortcomings such as the inclusion of some non-unique roles (such as the extent to which IFC pursued the project on a commercial basis and IFC's timeliness in dealing with its clients). The role and contribution assessment also does not, in itself, distinguish between different types of additionality (financial, operational, institutional), hence, the special effort in this review to classify IFC's value added in these terms.

Recommendation 4: *IFC should clearly map out its additionality in its strategies (including those developed with the World Bank) and develop guidelines and incentives to help operational staff better identify and deliver additionality. IFC could complement these efforts by advancing its metrics for estimating and tracking additionality through the project lifecycle, taking account of the analytical framework outlined in this report.*

Additionality in Lagging Regions, Sectors, and Client Groups

Relative successes for IFC, in terms of its additionality, include the institution's quality of role and contribution in the ECA and LAC Regions; in the extractive, food and agribusiness, and infrastructure sectors; and with repeat projects. At the same time, the evaluated quality of IFC's role and contribution has lagged significantly in Africa and Asia, in the financial and social sectors.

Overall, factors such as overoptimism about what IFC could deliver, lack of client commitment to changes that IFC sought to bring about, and shifts in the external conditions appear to have played their part in cases of less than satisfactory role and contribution. Variations in IFC's role and contribution by Region and sector are, however, difficult to explain with any precision. Econometric analysis indicates, for example, that when controlling for factors such as project size, sponsor quality, and inherent project risk, role and contribution in Africa is still weaker than in other Regions.

Recommendation 5: *IFC should carry out further analysis of additionality in lagging regions, sectors, and client groups, in order to identify what specific steps are required to enhance performance.*

APPENDIXES

APPENDIX A: SAMPLE REPRESENTATIVENESS

Investments are selected for evaluation on a random sampling basis. Between 2005 and 2007, 174 projects were evaluated under the XPSR system, representing 52 percent coverage of all qualifying investment operations approved over the last decade. Based on a 95 percent confidence interval, the true development success rate of the population of investment operations evaluated between 2005 and 2007 was between 58 percent and 68 percent (see table A.1). Table A.2. provides further details of the representativeness of the cohort of projects, overall, by investment size, instrument, sector, department, region, whether the project is active or closed, and in terms of indicative financial performance.

Table A.1. Sampling Range, by Performance Indicator, 2005–07

Indicator	Success rate in the sampled evaluated operations, 2005–07	Estimate of success rate in the population of operations, 2005–07	Standard error	Sampling error	95% confidence interval	
					Lower bound	Upper bound
Project development outcome	63%	63%	0.03	0.05	0.58	0.68
IFC investment return	70%	70%	0.02	0.05	0.65	0.74
IFC's work quality	75%	75%	0.02	0.04	0.70	0.79

Source: IEG.

Table A.2. Representativeness of the 2005–07 XPSR Sample (compared with 2000–02 net approvals population)

	Number of Investments					Value of Investments ($ million)				
	CY2005-07 XPSRs (a)		CY2000-02 NAP (b)		(c) = (a)/(b)	CY2005-07 XPSRs (a)		CY2000-02 NAP (b)		(c) = (a)/(b)
	No.	%	No.	%	%	Amt.	%	Amt.	%	%
	174	100	332	100	52	3358	100	6395	100	53
Net IFC:										
Mean	–	–	–	–	–	19	–	19	–	–
Median	–	–	–	–	–	11	–	12	–	–
Investment Size:										
X = < 3.64	37	21	72	22	51	66	2	140	2	47
3.64 < X = < 34.88	112	64	208	63	54	1601	48	3041	48	53
X > 34.88	25	14	52	16	48	1691	50	3214	50	53
	174	100	332	100	52	3358	100	6395	100	53
Instruments:										
Equity only	42	24	81	24	52	478	14	867	14	55
Other	132	76	251	76	53	2881	86	5528	86	52
	174	100	332	100	52	3358	100	6395	100	53
Sectors:										
Financial markets	71	41	137	41	52	1554	46	2578	40	60
Non-financial markets	103	59	195	59	53	1804	54	3817	60	47
	174	100	332	100	52	3358	100	6395	100	53
Departments:										
Agribusiness	10	6	19	6	53	216	6	367	6	59
Global Financial Markets Group	59	34	115	35	51	1259	37	2071	32	61
Global Inform. & Comm. Tech.	17	10	32	10	53	246	7	811	13	30
Global Manufacturing & Services	46	26	89	27	52	679	20	1403	22	48
Health and Education	8	5	14	4	57	79	2	108	2	73
Infrastructure	19	11	35	11	54	417	12	877	14	48
Oil, Gas, Mining And Chemicals	7	4	14	4	50	224	7	367	6	61
Private Equity and Investment Funds	8	5	14	4	57	238	7	392	6	61
	174	100	332	100	52	3358	100	6395	100	53
Regions:										
Africa	22	13	43	13	51	256	8	747	12	34
Asia	38	22	73	22	52	773	23	1496	24	52
Europe & Central Asia	53	30	97	29	55	936	28	1479	23	63
LAC	43	25	82	25	52	1178	35	2100	33	56
MENA	16	9	31	9	52	207	6	483	8	43
World	2	1	6	2	33	9	0	89		
	174	100	332	100	52	3358	100	6395	100	53

Table A.2. Representativeness of the 2005–07 XPSR Sample *(continued)*
(compared with 2000–02 Net Approvals Population)

	Number of Investments					Value of Investments ($ million)				
	CY2005-07 XPSRs (a)		*CY2000-02 NAP (b)*		*(c) = (a)/(b)*	*CY2005-07 XPSRs (a)*		*CY2000-02 NAP (b)*		*(c) = (a)/(b)*
	No.	*%*	*No.*	*%*	*%*	*Amt.*	*%*	*Amt.*	*%*	*%*
Active/Closed										
Active	145	*83*	266	*80*	55	2887	*86*	5095	*80*	57
Closed	29	*17*	66	*20*	44	471	*14*	1300	*20*	36
	174	*100*	332	*100*	52	3358	*100*	6395	*100*	53
Indicative Performance:										
(as of 06/30/2007)										
(i) all investments:[a]										
With loss reserves	9	*5*	14	*4*	64	74	*2*	127	*2*	58
Without loss reserves	165	*95*	318	*96*	52	3284	*98*	6268	*98*	52
	174	*100*	332	*100*	52	3358	*100*	6395	*100*	53
(ii) equity only:[a]										
With loss reserves	0	*0*	0	*0*	–	0	*0*	0	*0*	–
Without loss reserves	42	*100*	81	*100*	52	478	*100*	867	*100*	55
	42	*100*	81	*100*	52	478	*100*	867	*100*	55
***Countries* (excluding regional):**	**62**		**79**		**78**					

Source: IEG.

a. Amounts "with loss reserves" are the IFC-approved investments that are affected by such (and not the actual amount reserved).

APPENDIX B: SUMMARY OF EVALUATION METHODOLOGY

Investment Operations

IEG's evaluations of achieved success rates are based on project-level results derived from a system introduced in IFC in 1996, the Expanded Project Supervision Report (XPSR) system. The XPSR process, first of all, involves a self-evaluation of the project by an IFC investment department, using corporate guidelines. The ratings assigned by investment departments are then independently verified (or re-rated) by IEG in terms of bottom-line outcome ratings and their respective subcomponents.

The development outcome rating is a bottom-line assessment, not an arithmetic average, of the project's results across four development dimensions, relative to what would have occurred without the project. It measures a project's business success, economic sustainability, environment and social effects, and private sector development impacts.

- ***Project business performance:*** In financial market operations, project business performance measures the project's long-term impact on the financial intermediary's profitability and viability, using the indicators like capital adequacy, asset quality, management quality, earnings performance, and liquidity structure and balance sheet. In nonfinancial market operations, project business performance measures the project's actual and projected financial impact on the company's financiers, that is, lenders and equity investors. The principal indicator of a project's business performance is its real, after-tax, financial rate of return.
- ***Economic sustainability:*** In nonfinancial market operations, this indicator evaluates the project's effects on the local economy, and the associated benefits and costs that are measured by economic rates of return. In addition to the project's effects, subprojects' effects are included in the financial market operations' economic sustainability analysis.
- ***Environmental and social effects:*** IFC's Policy and Performance Standards on Social & Environmental Sustainability (2006) consider social and environmental sustainability to be an important component of development outcome quality in the projects that IFC finances. The XPSR's assessment of environmental and social effects should cover: (i) the project's environmental performance in meeting IFC's requirements; and (ii) the project's actual environmental impacts through its subprojects, including pollution loads, conservation of biodiversity and natural resources, and, in a broader context, social, cultural, and community health aspects, as well as labor and working conditions and workers' health and safety.
- ***Private sector development impacts (beyond the project):*** This indicator addresses to what extent the financial intermediary has developed into a corporate role model—positive or negative—and whether the project has contributed to IFC's purpose by spreading the growth benefits of productive private enterprise beyond the financial intermediary.

IFC's investment outcome rating is an assessment of the gross profit contribution quality of an IFC loan and/or equity investment, that is, without taking into account transaction costs or the cost of IFC equity capital.

- ***Gross contribution-loan:*** The primary indicator for this rating is whether the borrower is current on its payments to IFC (interest, fees, etc.). It is also important to assess the likely future debt-servicing capacity of the client.
- ***Gross contribution-equity:*** The nominal, equity, internal rate of return (also called return on equity or ROE). The rating criteria for equity investments are based on a comparison of the nominal, equity, internal rate of return with the actual (or notional) fixed-rate, loan interest rate (FR) that was (or would have been) approved for the same.

The assessment of IFC work quality involves a judgment about the overall quality of IFC's due diligence and value added at each stage of the operation. It measures the IFC's performance in screening, appraisal, structuring, supervision and administration, and IFC's role & contribution.

- ***Screening, appraisal, and structuring:*** The extent to which IFC professionally executed its front-end work toward a sustainable corporate performance standard. IFC's operating policies and procedures, as well as its credit notes provide guidance on what IFC considers an appropriate professional standard.
- ***Supervision and administration:*** Supervision, for this purpose, starts after commitment of IFC's funding. To what extent IFC has professionally executed its supervision, taking into account that the appropriate level of supervision will depend on a project's circumstances. IFC's Operational Procedures provide guidance on what IFC considers an appropriate professional standard.
- ***IFC's role & contribution:*** How well IFC fulfilled its role in terms of three basic operating principles: (i) Additionality/Special Contribution Principle—"IFC should participate in an investment only when it can make a special contribution not offered or brought to the deal by other investors"; (ii) Business Principle—"IFC will function like a business in partnership with the private sector and take the same commercial risks"; and (iii) Catalytic Principle—"IFC will seek above all to be a catalyst in facilitating private investors and markets in making good investments."

For each rating, a four-point rating scale is used (excellent, satisfactory, partly unsatisfactory, and unsatisfactory), except for the synthesis development outcome rating, which involves a six-point scale (highly successful, successful, mostly successful, mostly unsuccessful, unsuccessful, and highly unsuccessful). In the IEG binary analysis, "high" refers to satisfactory or better on the four-point scale, and mostly successful or better on the six-point scale.

Advisory Services Operations

Considering the increasing role of advisory services in IFC's business, in August 2006 IFC began a large-scale self-evaluation pilot of its completed advisory services (formerly called technical assistance and advisory services) projects, through project completion reports. PCRs address the operational and financial performance over a project's life, its downstream outcomes and impacts, and lessons learned. PCR authors also assign development effectiveness and work quality ratings for each advisory service project.

Advisory services operations are selected for evaluation when they are closed or reach closure (rather than operating maturity, as in the case of investment operations). To date, under the first two PCR pilots, 173 projects that were active and then operationally closed during July 2004–December 2005 (pilot 1), and 120 advisory projects completed in the first half of 2006 (pilot 2), have been evaluated. Projects were selected based on the following criteria:

(i) All projects with funding greater than $100 thousand;
(ii) A random sample of 30 projects (50 percent of eligible population) for pilot 1 and 50 projects (20 percent of eligible population) for pilot 2 with funding of $25–100 thousand; and

(iii) Projects with funding of less than $25 thousand were not included.

As in the XPSR system, the project is first self-evaluated (by the advisory service team) using PCR guidelines, and then independently evaluated by IEG which checks, using the same guidelines, the extent to which the ratings assigned are consistent with the guidance.

Advisory services projects are rated on six dimensions: (i) relevance, (ii) efficiency, (iii) output achievement, (iv) outcome achievement, (v) impact achievement, and (vi) IFC's role & contribution. Ratings on the first five dimensions are synthesized into an overall rating of development effectiveness, and are assessed as follows:

- ***Relevance:*** Did IFC do the right project at the right time?
  Project relevance measures, in retrospect, the importance of the project to achieving major strategic issues, its appropriateness at initiation and completion given conditions at the time, and whether the project was the appropriate instrument for the work. Principal indicators of a technical assistance project's relevance are its focus on the investment climate and relation to a designated CAS or other strategy document high priority issue, cost recovery through client fees, designated high impact at inception and/or at completion.
- ***Efficiency:*** Were the costs reasonable in relation to the potential results?
  A project is efficient to the extent that its costs are reasonable in relation to the potential results. Even where the project has a positive cost-benefit ratio, however, another dimension of efficiency is how economically resources were used. Similarly, there might or might not have been more efficient ways of achieving the same objectives—a third aspect of efficiency.
- ***Output achievement:*** Were the products, capital goods, and services delivered?
  This section reviews the extent to which expected outputs are defined in project data sheets. Outputs should be evident during the project timeframe. The issue is not whether every output specified has been achieved but, rather, whether the key ones have been achieved.
- ***Outcome achievement:*** Were the intended short- and medium-term effects of the intervention achieved?
  Outcomes are the positive and negative, intended or unintended, short-term and medium-term effects of the advisory services. Outcomes require the PCR author to consider whether the observed effects, or how much of the observed effects, can be attributed to the project as an intervention. This involves consideration of a counterfactual or a comparison of current performance with what would likely have happened in the absence of the program. Client action taken because of the advisory services is one common type of outcome measure. IFC's policy requires that "all its operations are carried out in an environmentally and socially responsible manner," so "environmental, health, and safety" is another outcome achievement indicator.
- ***Impact achievement:*** Were the intended longer-term effects of the intervention achieved?
  An issue that must be addressed in determining impact achievement, as with outcome achievement, is the counterfactual—what would have likely happened in the absence of the project.

These dimensions are evaluated on a four-point rating scale: excellent, satisfactory, partly unsatisfactory, and unsatisfactory. However, if there is no outcome, or impacts have been achieved at completion, then a rating of "not yet achieved" is assigned. In this case, there is an automatic requirement for follow-on monitoring and evaluation by the responsible unit. The overall development effectiveness rating is not a mechanical average but, rather, a synthesis of the project's "results on the ground" and its contribution to IFC's purpose and mission. The rating may change over time as medium-term outcomes and longer-term impacts often will not be apparent at project completion. Therefore, ratings of outcomes may be entered by staff either at the project completion stage, one year after completion, two years after completion, and/or three years after completion. The same options are available for impact ratings. Changes in these ratings over time may require an update of the development effectiveness synthesis rating.

The assessment of IFC's role & contribution seeks to determine to what extent IFC brought additionality or special contributions to the advisory services: Was IFC especially pioneering or innovative? Was it particularly catalytic in this case? Did it enter a crowded field and provide advisory services which others could have provided? To what extent did IFC provide assistance and direction that yielded greater development results than would have been the case without IFC's involvement?

APPENDIX C: FURTHER EXAMPLES OF HIGH AND LOW DEVELOPMENT OUTCOME RATINGS

This appendix provides further examples of projects with high and low development outcome ratings, drawn from the infrastructure and information technology sectors.

Examples of Projects with High and Low Development Outcome Ratings

High: Infrastructure

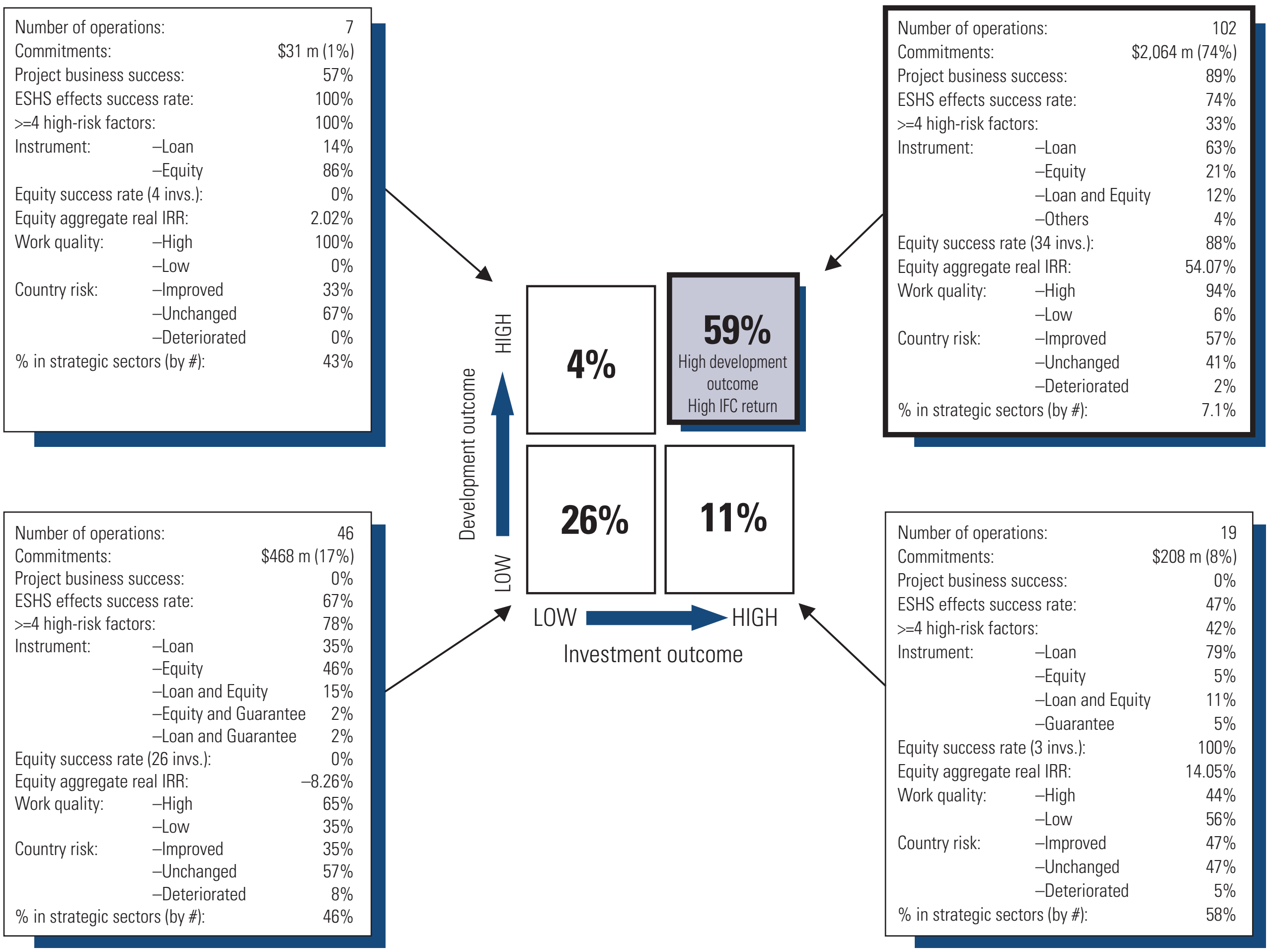
The project involved an investment program to upgrade the railway network, rolling stock, and telecommunication equipment of the privatized national railway company in a Latin American country, after a competitive public bidding processes. Before privatization, the national railway company was performing poorly, with increasing operating losses and a sharp decline in market share (characterized by a nonintegrated and low-density network, a difficult topography, poor shape of the existing network, and lack of long-term investment). Despite this decline, railroads remained important for key geographic routes. In the first five-year period since IFC's investment, the railway company improved significantly its entire rail network, including rehabilitation of its tracks, upgrading of rolling stock, and improvement in its operational performance. IFC's investment helped to improve the quality, efficiency, and availability of rail services. The company's financial performance has been better than expected. Tourist traffic increased as the train service has become more reliable and comfortable. At the same time, the company refocused its freight services in a very competitive market to target the bulk commodity segment of the market. As a result, the company managed to reach much higher profitability levels than anticipated. Both tourists and the local population benefited from the project. For example, the company offered a large quantity of subsidized tickets for all national citizens. Using the foreign sponsor's experiences as a hotel operator, the company successfully managed to integrate rail and hotel services to promote ecotourism in the region. The project also brought income tax and track-access fee revenue to the government. The project is in material compliance with both appraisal and current environmental requirements. The project also contributed positively to the export of mineral products by its freights services.

Low: Information Technology

The project was the expansion of a digital media company. The company sought IFC's assistance as deteriorating market conditions for technology companies globally were making it difficult for the company to raise growth capital. The project was expected to have a demonstration effect and help attract more foreign capital into the information technology sector in the country. However, at the time of IFC's exit the company's long term sustainability remained in question and the project was rated with a low development outcome. Project business success was unsatisfactory due to the company's lack of credibility in its field. Economic sustainability was low because none of the objectives—such as creating jobs, investing in the training, and stimulating further investment in the country's technology sector—were fully achieved. No environmental and social effects rating was given because this was a category-C project. While the project had little positive impact on private sector development, it did not result in substantial negative demonstration effects. The private sector development rating was accordingly rated partly unsatisfactory.

APPENDIX D: FURTHER DETAILS ON RESULTS CHARACTERISTICS AND DRIVERS

Figure D.1. Combined Project Development Outcome and IFC Investment Return Characteristics, 2005–07



Source: IEG.

Figure D.2. Characteristics of Development Outcome, Investment Return, and Work Quality Ratings, 2005–07

Project development outcome ratings, 2005–07

	LOW OUTCOMES			HIGH OUTCOMES		
	Highly unsuccessful	Unsuccessful	Mostly unsuccessful	Mostly successful	Successful	Highly Successful
DEVELOPMENT OUTCOME	***7***	***17***	***13***	***17***	***34***	***11***
		37			***63***	
(by commitment volume)	*3*	*10*	*12*	*22*	*42*	*12*
		25			*75*	

	LOW OUTCOMES		HIGH OUTCOMES	
	Unsatisfactory	Partly unsatisfactory	Satisfactory	Excellent
Project business success	28	16	30	27
	43		57	
Economic sustainability	19	11	42	28
	30		70	
Environmental effects	7	22	61	10
	29		71	
Private sector development	7	17	45	30
	25		75	

IFC investment return ratings, 2005–07

	Unsatisfactory	Partly unsatisfactory	Satisfactory	Excellent
IFC INVESTMENT OUTCOME	***24***	***7***	***48***	***21***
	31		***69***	
(by commitment volume)	*13*	*6*	*52*	*30*
	18		*82*	
Loan	11	6	73	10
	17		83	
Equity	43	9	12	35
	52		48	

IFC work quality ratings, 2005–07

	Unsatisfactory	Partly unsatisfactory	Satisfactory	Excellent
IFC'S OVERALL WORK QUALITY	***1***	***24***	***61***	***13***
	25		***74***	
(by commitment volume)	*2*	*15*	*61*	*23*
	32		*83*	
Screening, appraisal, structuring	5	27	54	14
	32		68	
Supervision and administration	0	17	66	17
	17		83	
Role and contribution	4	17	50	29
	21		79	

Source: IEG.

Notes: IEG uses a binary interpretation of these evaluation results, which describes operations' ratings as either "high" or "low." By-volume figures are the percentages of the total committed IFC investment amounts in each outcome-rating group.

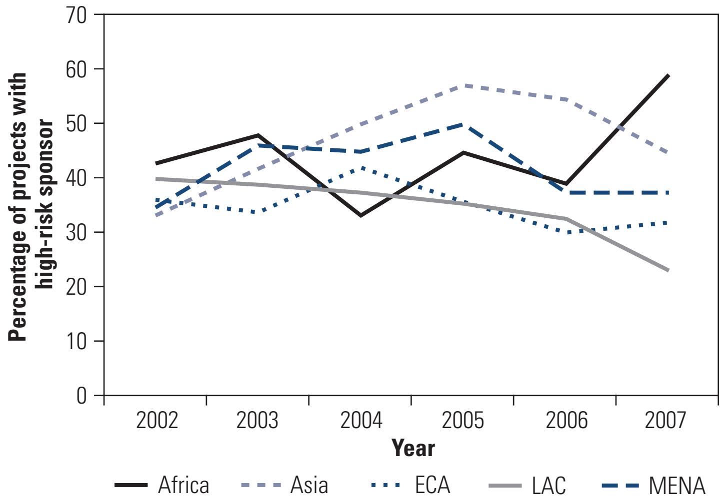
The success rates above are the percentages of all assigned ratings.

Table D.1. Market Conditions, by Region

ECA	2005–07 Evaluations
Change in country business-climate risk	**(n = 53 projects)**
Stayed non-high risk	43%
Improved from high risk	40%
Stayed high risk	15%
Deteriorated from non-high risk to high risk	2%
LAC	
Change in country business-climate risk	**(n = 43)**
Stayed non-high risk	79%
Improved from high risk	7%
Stayed high risk	12%
Deteriorated from non-high risk to high risk	2%
AFRICA	
Change in country business-climate risk	**(n = 22)**
Stayed non-high risk	32%
Improved from high risk	5%
Stayed high risk	64%
Deteriorated from non-high risk to high risk	0%
ASIA	
Change in country business-climate risk	**(n = 38)**
Stayed non-high risk	71%
Improved from high risk	16%
Stayed high risk	13%
Deteriorated from non-high risk to high risk	0%
MENA	
Change in country business-climate risk	**(n = 16)**
Stayed non-high risk	69%
Improved from high risk	25%
Stayed high risk	0%
Deteriorated from non-high risk to high risk	6%

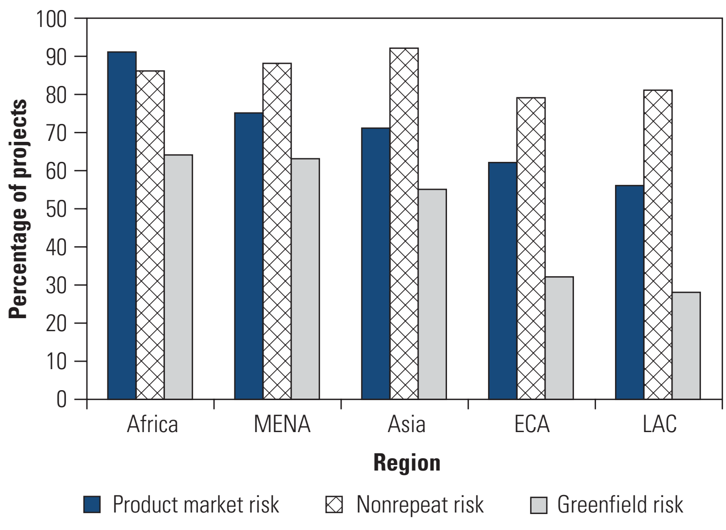
Source: IEG, using Institutional Investor country business-climate risk ratings.
Note: "High risk" applied if the Institutional Investor rating was less than 30 (out of 100), "non-high risk" if the rating was above that level.

Figure D.3. Sponsor Quality, by Region



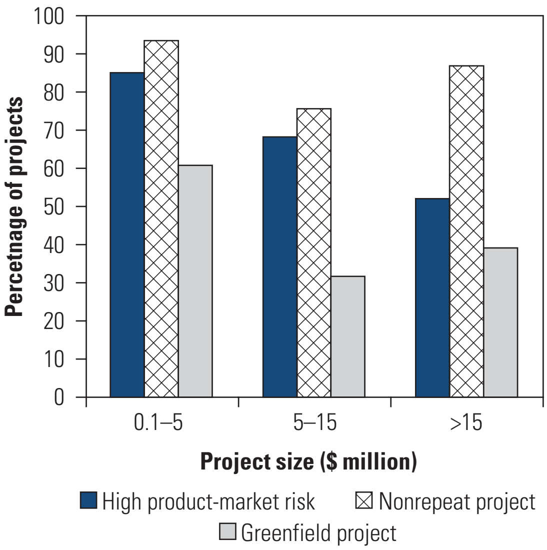
Source: IEG.

Figure D.4. Project Risk Variation, by Region



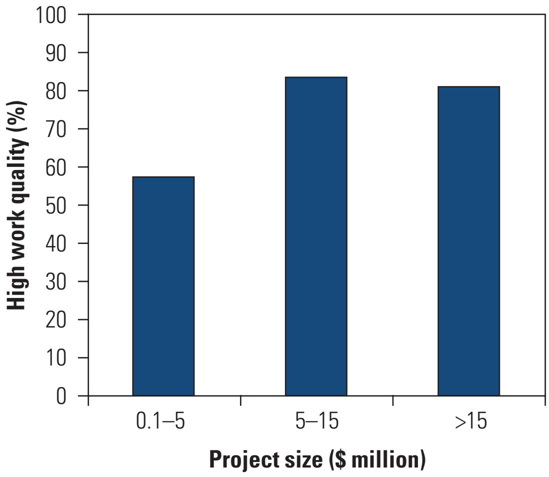
Source: IEG.

Figure D.5. Risk Variation, by Project Size, 2005–07



Source: IEG.

Figure D.6. Work Quality, by Project Size, 2005–07



Source: IEG.

Table D.2. Work Quality, by Department, 2005–07

Department	Number of evaluated projects	% of Evaluated projects with high work quality rating
Funds	8	88%
Oil, Gas, Mining, and Chemicals	7	86%
Infrastructure	19	84%
Finance	59	75%
General manufacturing and Services	39	74%
Food and agribusiness	10	70%
Health and education	8	63%
Information and communications technologies	17	59%
(Telecommunications)	(8)	(88%)
(Information technology)	(9)	(33%)

Source: IEG.
Note: Excludes "no opinion possible" rating, for example, due to litigation.

APPENDIX E: EXAMPLES OF HIGH AND LOW IFC ROLE AND CONTRIBUTION

This appendix provides examples of projects with high and low IFC role and contribution ratings drawn from the food and agribusiness and education sectors.

Examples of Projects with High and Low Role and Contribution Ratings

High: Food and Agribusiness

The company was the largest beverage manufacturer and distributor in some Latin American countries. The project aimed at modernization, expansion, and rationalization of the company's facilities in some of the regional countries. Goals included managing recurrent capital expenditure; financial restructuring, corporate governance improvements, and other measures designed to improve the ability of the company to access international sources of finance to implement its investment program and undertake acquisitions. Measures to improve the environmental performance and enhance the social impact of the company were also needed.

IFC assisted the company in several ways. First, it arranged a syndicated loan to meet part of the company's financing needs. International banks had indicated to both the company and IFC that they were unwilling to provide term funding without political risk mitigation. Second, IFC advised the company on the measures needed to access international financial markets on a sustained basis. Leveraging on this support, IFC sought commitments from the group to set benchmarks for sustainable business practices in the areas of corporate governance, the environment, supplier assistance, and community support.

IFC reviewed the company's organizational structure and made recommendations, which were accepted and largely implemented by the client, to improve corporate governance. IFC identified the following areas for improvement: (i) Board composition and practices; (ii) transparency and disclosure; (iii) shareholder rights; and (iv) stakeholder relations.

IFC also advised on (i) improvements in environmental performance; (ii) expansion of outsourcing; (iii) expansion of the company's support for a foundation, in line with the growth of its income and operations, including other country operations; and (iv) support to small and medium enterprises.

Low: Education

The project was aimed at establishing an education portal using Web technology as the medium of delivery for education content. The site would provide online tutorials and test preparation to supplement ordinary secondary education in an Asian country. The project's focus was on providing academic content through tailored tutorials at all educational levels, not just secondary education.

At appraisal, IFC was expected to give credibility to the new companies involved, especially in its dealings with schools, parents, and state and national governments. However, indications are that IFC's participation did not enhance the project's credibility and adoption.

The project was expected to benefit from e-learning content developed by the World Bank. However, the World Bank materials were inappropriate in this case and did not directly contribute to the content.

IFC was participating in the second capitalization of the company and, therefore, could not claim a catalytic effect in stimulating investment in the company. In addition, its equity contribution was small. With no position on the Board, even in an advisory capacity, it was unable either to help monitor or improve the company's corporate governance quality or significantly influence the business decisions of the company.

APPENDIX F: IFC INVESTMENTS IN CRISIS COUNTRIES

Table F.1. Investment Patterns, by Crisis Country

Country	Year of crisis	Percentage change in IFC portfolio balance, pre- and postcrisis	Percentage change in private investment (fixed-capital formation), pre- and postcrisis	Percentage change in public investment (fixed-capital formation), pre- and postcrisis	Percentage change in private capital flows, pre- and postcrisis	Investment pattern by IFC (< +/– 15% = Neutral; > +/– 15% = Up/Down)	Investment pattern by others (< +/– 15% = Neutral; > +/– 15% = Up/Down; Different patterns = Mixed)	GDP (2006, $ billions)
China	1998	83%	50%	40%	29%	Up	Up	2668.1
Brazil	1998	18%	na	na	26%	Up	Up	1068.0
Russian Federation	1995,1998	497%	na	na	na	Up	na	986.9
Korea, Rep. of	1997	615%	na	na	– 36%	Up	Down	888.0
Mexico	1994	– 8%	– 8%	– 21%	– 44%	Neutral	Down	839.2
Turkey	1994, 2000	11%	– 37%	– 17%	89%	Neutral	Mixed	402.7
Indonesia	1997	10%	na	na	– 151%	Neutral	Down	364.5
Argentina	2001	– 25%	80%	117%	97%	Down	Up	214.1
Thailand	1997	7%	– 71%	– 30%	18%	Neutral	Mixed	206.2
Venezuela, R.B. de	1994	32%	na	na	212%	Up	Up	181.9
Malaysia	1997	17%	na	na	– 13%	Up	Neutral	148.9
Philippines	1998	32%	– 23%	– 19%	– 21%	Up	Down	116.9
Ukraine	1997	394%	– 28%	– 66%	40%	Up	Mixed	106.1
Vietnam	1997	109%	na	na	na	Up	na	60.9
Croatia	1996	100%	108%	174%	1,022%	Up	Up	42.7
Ecuador	1996,1998	211%	37%	89%	– 72%	Up	Mixed	40.8
Lithuania	1995	100%	na	na	na	Up	na	29.8

Sources: IFC; *Global Development Finance database.*
Note: Precrisis refers to the three calendar years preceding a crisis, while postcrisis refers to the three years following a crisis.
na = not available.

ENDNOTES

Executive Summary

1. Unless specifically noted, IEG refers to IEG-IFC in this document.

2. At early operating maturity, operations have generally recorded at least 18 months of operating revenue.

3. Last year's IEDR was a special 10-year retrospective on performance in these dimensions, and identified lessons learned during that time as well as strategic implications going forward. This review incorporates one more year of evaluated data on the performance of investment operations, and concentrates—in line with the good practice standards of the Multilateral Development Bank Evaluation Cooperation Group's *Working Group in Private Sector Evaluation*—on patterns emerging from the last three years of evaluation, 2005–07. A three-year sample is used to provide sufficient data to enable reliable comparisons, by region and sector. This report also examines, for the first time, albeit on a pilot basis, the performance of IFC-supported advisory services operations.

4. IFC began piloting a system for evaluating the results of its advisory services operations in August 2006. Prior to that, IFC did not have a system for evaluating the results of its advisory services operations, although evaluations of several regional advisory services programs have been carried out by IEG, including a recently completed evaluation of IFC's Private Enterprise Partnership Program in the former Soviet Union. Findings of these evaluations are available at www.ifc.org/ieg. Full roll-out of the new advisory services project evaluation system is expected in 2008.

5. The volume of investment operations increased from approximately $3 billion in FY02 to $6.5 billion in FY07. Meanwhile, advisory services expenditures increased from $45.4 million in FY02 to $196.9 million in FY07.

6. IFC investments typically make up about one-quarter the value of the project. The evaluated investment volume for 2005–07 contrasts with $3 billion in the 2004–06 period (52 percent sample) and $3.6 billion in the 2003–05 period (56 percent sample).

7. It follows that IFC's development results cannot be directly compared with those of other multilateral institutions, such as the World Bank, which does not face the same commercial risk in its projects and which assesses performance based on achievement of objectives rather than market-based benchmarks.

8. In 2007, IFC begin tracking the additionality it is expecting to provide in its investment operations through ex-ante review of project approval documents, though with four categories of additionality instead of three. The similarities and differences between this classification system and the one used by IFC are discussed in chapter 2.

Résumé analytique

1. Sauf indication contraire, le sigle IEG désigne IEG-IFC dans le présent document.

2. Sont considérés en régime de croisière des projets ayant généralement permis de percevoir au moins 18 mois de produits d'exploitation.

3. Le rapport IEDR de l'an dernier, une édition spéciale de cette publication, a permis de jeter un regard rétrospectif sur les résultats obtenus en 10 ans dans ces domaines, mettant en évidence les enseignements tirés de l'expérience durant cette période et les implications sur le plan stratégique à l'avenir. Les données d'une année supplémentaire, après évaluation des résultats des projets d'investissement, ont été intégrées au présent examen et—conformément aux normes de bonne pratique du Groupe de travail sur l'évaluation du secteur privé créé par le Groupe de travail sur la coopération internationale pour l'évaluation, lequel a été mis en place par les banques multilatérales de développement—portent principalement sur les tendances qui se dégagent des trois dernières années

d'évaluation (période de 2005–07). Un échantillon couvrant trois années permet de disposer de données suffisantes pour réaliser des comparaisons fiables par région et par secteur. Bien qu'à titre d'essai, le rapport permet d'étudier pour la première fois, la performance des projets de services-conseil financés par l'IFC.

4. C'est en août 2006 que l'IFC a commencé à mettre à l'essai un système d'évaluation des résultats liés à ses projets de services-conseil. Avant cette date, l'IFC ne disposait pas de système d'évaluation des résultats de cette catégorie de projets, bien que l'évaluation de plusieurs programmes régionaux de services-conseil ait été réalisée par l'IEG, y compris une évaluation récemment menée dans le cadre du programme de Partenariat pour l'entreprise privée dans l'ex-Union soviétique. Les conclusions de ces évaluations sont disponibles sur le site www.ifc.org/ieg. Le lancement à part entière du nouveau système d'évaluation des projets de services-conseil est attendu en 2008.

5. Le volume des projets d'investissement s'est accru, passant d'environ 3 milliards de dollars durant l'exercice 02 à 6,5 milliards de dollars pendant l'exercice 07. Dans l'intervalle, les dépenses liées aux services-conseil ont augmenté de 45,4 millions de dollars durant l'exercice 02 à 196,9 millions de dollars pendant l'exercice 07.

6. L'IFC, à travers ses investissements, participe généralement à hauteur de quelque 25 % en valeur aux projets qu'elle finance. Ainsi qu'évalué, le volume des investissements correspondant à la période 2005–07 se distingue bien des 3 milliards de dollars de la période 2004–06 (échantillon de 52 %) et des 3,6 milliards de dollars réalisés dans la période 2003–05 (échantillon de 56 %).

7. Il est donc logique qu'on ne puisse pas effectuer une comparaison directe des résultats obtenus par l'IFC dans le domaine du développement à ceux d'autres institutions multilatérales telles que la Banque mondiale qui évaluent la performance en fonction des objectifs atteints plutôt que sur la base de valeurs de référence dictées par le marché.

8. En 2007, l'IFC a démarré, dans le contexte de l'additionnalité, le suivi qu'elle entend fournir dans ses projets d'investissement à travers un examen ex-ante des documents d'évaluation de projet, quoique sur la base de quatre au lieu de trois catégories d'additionnalité. Les points communs et les différences entre ce système de classification et celui utilisé par l'IFC sont traités dans le deuxième chapitre du rapport.

Resumen ejecutivo

1. A menos que se especifique lo contrario, el GEI se refiere a IEG-IFC en este documento.

2. En el vencimiento operativo anticipado, las operaciones generalmente registran al menos 18 meses de ingresos operativos.

3. La evaluación IEDR del año pasado fue una retrospectiva de 10 años sobre el desempeño en estas dimensiones, e identificó las lecciones aprendidas durante ese lapso, así como las implicancias estratégicas a futuro. Este análisis incorpora un año más de datos con evaluaciones sobre el desempeño de las operaciones de inversión, y se concentra—en línea con las normas de buenas prácticas del "Grupo de Trabajo en la Evaluación del Sector Privado" del Grupo de Cooperación de Evaluación del Banco Multilateral de Desarrollo–sobre las pautas que surgen de los últimos tres años evaluados, de 2005 a 2007. Se utiliza un trienio de muestra para proporcionar datos suficientes como para permitir la realización de comparaciones confiables por región y por sector. Este informe también analiza, por primera vez, aunque en forma piloto, el desempeño de las operaciones de servicios de asesoría que contaron con el apoyo de la IFC.

4. La IFC comenzó a trabajar en forma piloto con un sistema para evaluar los resultados de sus operaciones de servicios de asesoría en agosto de 2006. Antes de eso la IFC no contaba con un sistema para evaluar los resultados de sus operaciones en servicios de asesoría, pese a que el GEI ha realizado evaluaciones de varios programas de servicios de asesoría regional, incluido una evaluación recientemente terminada sobre el Programa de Asociación de la IFC con Empresas Privadas en la antigua Unión Soviética. Las conclusiones de estas evaluaciones se encuentran en www.ifc.org/ieg. Se espera que se implemente totalmente el nuevo sistema de evaluación de proyectos con servicios de asesoría en 2008.

5. El volumen de las operaciones de inversión aumentó desde aproximadamente US$3.000 millones en el ejercicio fiscal 2002 a US$6.500 millones en el ejercicio fiscal 2007. Mientras tanto, los gastos en servicios de asesoría aumentaron desde US$45,4 millones en el ejercicio fiscal 2002 a US$196,9 millones en el ejercicio fiscal 2007.

6. Las inversiones de la IFC suelen representar alrededor de un cuarto del valor del proyecto. El volumen de inversión evaluado para el período 2005–07 contrasta con los US$3.000 millones para el período

2004-06 (muestra del 52%) y los US$3.600 millones para el período 2003-05 (muestra del 56%).

7. Se deduce que los resultados de desarrollo de la IFC no se pueden comparar directamente con los de otras instituciones multilaterales, como el Banco Mundial, que evalúa el desempeño basado en el cumplimiento de objetivos y no en indicadores de referencia vinculados al mercado.

8. En 2007 la IFC comenzó a efectuar un seguimiento de la adicionalidad que espera aportar en sus operaciones de inversión a través de un análisis ex ante de los documentos para la aprobación del proyecto, aunque con cuatro categorías de adicionalidad en vez de tres. En el capítulo 2 se analizan las similitudes y diferencias entre este sistema de clasificación y el que utiliza la IFC.

Chapter 1

1. Three hundred and thirty-two projects were approved in the period 2000–02 and were eligible for evaluation in 2005–07. The Net Approval Population for sampling (NAP) comprises 2000–02 calendar year approvals from which droppages, cancellations, rights issues, reschedulings, restructurings, supplementary investments made in the context of previously approved projects, investments through the African Enterprise Fund, Small Enterprise Foundation, Pacific Islands Investment Fund, Mekong Financing Line, and individual investments under agency lines were excluded, in addition to the projects that do not meet the “early operating maturity” test. However, some projects approved prior to calendar year 2000, which had previously been deemed too early to evaluate, are included. See appendix A for further sampling details.

2. The global good practice standards were first established by the Multilateral Development Bank Evaluation Co-operation Group’s “Working Group on Private Sector Evaluation” in 1999 and are now in their third edition (2006).

3. Benchmark financial rates of return for achieving a satisfactory ratings ranged from 6 percent to 14 percent.

4. A three-year sample is used to provide sufficient data to enable reliable comparisons by region and sector.

5. Both financial and economic rates of returns could be calculated for 63 projects.

6. See IFC Annual Reports.

7. Note that there is some variation within the Asia region, with 46 percent of projects in East Asia and the Pacific Region rated satisfactory or better and 57 percent of projects in South Asia rated satisfactory or better.

8. IEG’s FY2002 Annual Review, which was completed and submitted to CODE in early 2003, raised the issue of poor environmental and social results in high-risk countries, particularly in Sub-Saharan Africa (see IEG-IFC 2003). Last year’s IEDR also highlighted the issue of weak environmental and social-effects performance in the region, particularly among financial intermediaries.

9. The other project was in litigation at the time of evaluation.

10. Evaluated environmental supervision quality and IFC’s environmental role and contribution were rated high, respectively, in 44 and 41 percent of cases. High ratings in other regions ranged from 63 to 81 percent for environmental supervision quality and 63 to 90 percent for environmental role and contribution quality. In many cases, IFC did not consistently demand that the uncommitted clients submit missing annual reports or Environmental Management System documents.

11. See IEG-IFC 2007, p. 23.

12. The multivariate analysis considered a wide range of possible explanatory variables, with each rated on a binary basis (except for changes in country credit risk which was measured on a continuous scale) and significance determined on the basis of *z*-scores.

13. This compares with a mere 14 percent of projects achieving high development outcomes when quality was low in both dimensions.

14. Only three of nine evaluated information technology projects achieved high work quality ratings.

15. Project size had the right sign, but the *z*-score was not significant.

16. Nine percent of projects were downrated, 4 percent uprated, and 16 percent changed to “too early to tell.”

17. European Bank for Reconstruction and Development 2006, Asian Development Bank 2007a, and African Development Bank 1998.

Chapter 2

1. The Corporation’s Article 1 defines IFC’s purpose as “to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas, thus supplementing the activities of the International Bank for Reconstruction and Development.”

The Article goes on to state that "in carrying out this purpose, the Corporation shall: (i) in association with private investors, assist in financing the establishment, improvement and expansion of productive private enterprises which would contribute to the development of its member countries by making investments, without guarantee of repayment by the member government concerned, in cases where sufficient private capital is not available on reasonable terms; (ii) seek to bring together investment opportunities, domestic and foreign private capital, and experienced management; and (iii) seek to stimulate, and to help create conditions conducive to, the flow of private capital, domestic and foreign, into productive investment in member countries."

2. The private sector commitment volumes of other development finance institutions increased from $7,6 billion in 2000 to nearly $20 billion in 2006.

3. Available loan pricing data for the period 2000–07 shows that the cost of an IFC loan is, on average, 100 basis points higher than the cost of a loan through other private financiers, with greater differentiation between the two in countries where business climate risk is lower and there is typically a wider range of alternative sources of finance than IFC.

4. Hoff and Stiglitz 2001.

5. See World Bank 2003, p.28.

6. See Krueger 1986. For further discussion of market efficiency, see Stiglitz and Dasgupta 1971; DeGennaro 2005.

7. For a discussion of market failures and imperfections in middle-income countries, see IEG-IFC 2008.

8. This pattern has been attributed to the crowding out of formal private and nonprofit institutions by government and informal ones.

9. For further discussion of how market and institutional failures relate to the existence of development institutions, mainly multilateral ones, see Marques-Mendes and Meica (forthcoming); Sherk 1994; Rodrik 1995, 1996; Bird and Rowlands 1997, 2000, 2001; Ratha 2001; Gibbon and Schulpen 2002; and Akyüz 2004.

10. Private institutions, for instance, are typically driven by profit motive and competitive pressures. This makes them more nimble and innovative. They do not, however, always take the full social impacts of their actions into account. Government institutions, on the other hand, have monopoly powers over the legitimate use of funds, which through taxation and regulation they can use to internalize externalities and produce public goods. They are, however, often part of a long organizational chain of command, which imposes a degree of bureaucratization that can make them more costly and less flexible than their for-profit and nonprofit counterparts. Also, as with any monopoly, the monopoly over the legitimate use of funds may pose challenges to the accountability and the responsiveness of government organizations to social needs. Private nonprofits have the corresponding advantage that they develop as independent firms and thus can be subject to greater competition and be more responsive to market forces than their government counterparts. Many of them pursue social objectives rather than narrow, profit-oriented behavior. However, often nonprofits do not have reliable access to funding sources and have to rely on donor financing or subsidies, including exemptions from certain taxes. Differences in capacities can also be due to differences in leadership, past strategic choices, learning, and innovation. This accounts for large heterogeneity even within the same organizational types.

11. Inefficiencies at any one point in time can be the source of entrepreneurial action and subsequent market correction. Today's institutional imperfections can be tomorrow's profit opportunity. Changing technologies, for example, find ways to fence externalities, erode market power, and improve the structure of incentives and the flow and quality of information. Government institutions may bring certain public goods solutions, policies to regulate externalities, and inject capital during times of financial and other crises. A variety of nonprofit organizations have evolved in response to the inability of governments to provide certain public goods.

12. It should be noted that, under its own Articles of Agreement, the World Bank was to promote private foreign investment through guarantees or loans and to supplement private investment with its own funds, when private capital was not available on reasonable terms. However, the requirement of government guarantees and an inability to invest in equity ultimately limited the Bank's reach and was a main driver behind the setting up of a sister institution to the Bank, in the form of IFC. For a fuller discussion of the establishment of the IFC, see Haralz 1997.

13. IFC Articles of Agreement (1993), Article III, Section 3 (i).

14. Article 1 states that IFC will "seek to stimulate, and to help create conditions conducive to the flow of private capital, domestic and foreign, into productive investment in member countries." (IFC 1993, Article I).

15. IFC 2007.

16. Internal IFC document.

17. IEG reviewed annual updates to regional strategies that are included as annexes to IFC's Strategic Directions paper, sector strategy summaries that are covered in the same document, as well as full strategies for Sub-Saharan Africa (2003 and 2008), Latin America and the Caribbean (2005), education (2001), health (2002), finance (2006 and 2007), and small and medium enterprises (2000).

18. The nature of IFC's investment pipeline depends fundamentally on market and country conditions, which can fluctuate significantly. Accordingly, the pattern of new IFC investments is typically known only 6–12 months in advance, which contrasts with a CAS planning horizon of 4–5 years.

19. Dropped projects are those where IFC obtained Board approval to finance the project, but did not proceed to commitment.

20. Cancelled projects are those where IFC committed to finance the project, but the agreement was terminated prior to disbursement.

21. Other nonunique roles would include effective negotiations with a sponsor, in order to make a project financially viable, when no specialist financial or operational expertise was required, that is, the role could have been carried out by another financier. However, these kinds of roles are the exception rather than the rule, in terms of the "role and contribution" assessment.

22. *DEG* [a subsidiary of the German development bank, KfW] "strategic role": The extent to which DEG fulfills its role as a development finance and consultancy institution in projects. This is assessed by evaluating compliance with the principle of additionality, mobilization of additional outside funds for the project company, and consulting services provided to the project company.

FMO [Netherlands Development Finance Company] "role and intended contribution": The degree to which FMO was additional to the market (additionality), acted as a catalyst for other investors (catalytic role) and made specific contributions to a project's performance (where appropriate).

United States Agency for International Development "additionality": Loan guarantees should be designed to stimulate new private investment rather than subsidize existing sources of capital. If a guaranteed loan would have been made regardless of the guarantee, the guarantee may simply reflect a subsidy to the lender and it does not stimulate any additional lending. The aggregate amount of lending with or without the guarantee is the same. "Additionality" arises when a loan is made that would not have otherwise been made but for the guarantee. If additionality is achieved, the aggregate amount of lending is thus increased and this can promote economic growth.

23. In other words, the participants required IFC's presence to help ensure contract stability or appropriate regulatory treatment, rather than simply enjoying a slightly higher rate of return due to IFC's participation.

24. As opposed to participating because of a tax advantage or financial subsidy.

25. For further detail on IFC's early history, see Haralz 1997, pp. 805–99.

26. The reviews did not involve the assignment of weights to different types of additionality, based on the premise that one form of additionality might be more relevant in one context than another.

27. The random sample was derived using the same stratified random assignment process that IEG uses for each annual XPSR program, with selected projects representative of the population of projects across a variety of dimensions, including region and sector. By approval year, the evaluated project base was as follows:70 projects for 2003; 70 projects for 2004; 80 projects for 2005; and 84 projects for 2006.

28. Average loan maturities for private sector operations, based on available data during 2000–07, were as follows: 8.2 years for IFC; 4 years for commercial private investors; 6.8 years for European Bank for Reconstruction and Development; 7.6 years for KfW (German development bank); and 8.7 years for DEG (a subsidiary of KfW). It should be noted that maturities varied considerably by sector, and the gap between development finance institutions and private loan maturities was greater in infrastructure and in oil, gas, and mining operations.

29. IEG-IFC 2008.

30. Forty-three percent of all lower-income countries projects were in Africa, and IFC's role and contribution quality was actually lower in Africa middle-income countries (although these projects represented only 17 percent of Africa projects).

31. For an example of challenging country conditions following a crisis, see the forthcoming IEG report on Indonesia.

32. European Bank for Reconstruction and Development 2006, Asian Development Bank 2007b; and FMO 2006.

33. This contrasts with a 22 percent positive differential for financial additionality and 6 percent positive differential for operational additionality. For nonrepeat projects, the differences are as follows: institutional additionality, +20 percent; financial additionality, +40 percent; operational additionality, +13 percent.

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