

FAST TRACK BRIEF

About IEG-IFC

IFC's Independent Evaluation Group (IEG-IFC) independently evaluates IFC's investment and advisory services operations and reports its findings to IFC's management and Board of Directors. IEG-IFC is a resource for helping staff understand what IFC has learned and how IFC can do better business in the future.

About Fast Track Briefs

Fast Track Briefs help inform the World Bank Group (WBG) managers and staff about new evaluation findings and recommendations. The views expressed here are those of IEG and should not be attributed to the WBG or its affiliated organizations. The findings here do not support any general inferences beyond the scope of the evaluation, including any inferences about the WBG's past, current or prospective overall performance.

Online access

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Independent Evaluation of IFC's Development Results 2008

IFC's Additionality in Supporting Private Sector Development

This year's annual Independent Evaluation of IFC's Development Results (IEDR) reviews the development results related to 174 IFC-supported investment operations that reached early operating maturity during 2005-07. It also reviews, for the first time, preliminary results for IFC Advisory Services based on a pilot that evaluated 293 operations completed during 2004-06. As a second theme, the report provides a first *ex-post* look at the "additionality" (or unique role and contribution) of IFC's operations.

The report's main messages are:

- Sixty-three percent of evaluated investment operations by number (71 percent in 2007) achieved results that on balance met or exceeded specified development benchmarks and standards. The evaluation also shows that pursuing development effectiveness need not come at the expense of IFC's 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 together with a less-than-acceptable IFC financial returns.
- Results were, on average superior in Europe and Central Asia (ECA) and Latin America and the Caribbean (LAC), but much weaker in Africa, Asia, and Middle East and North Africa (MENA) and in smaller projects, mainly due to factors such as a country's business climate, sector choices, the quality of the sponsor, project risks, and IFC's own work quality.
- In IEG's first look at IFC's *additionality*, the report finds that at least one form of 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 in about a third. At the same time, the quality of IFC's role and contribution lagged in Africa and Asia, and in the financial and social sectors.
- Going forward, IFC must ensure strong work quality and portfolio risk management while its operations are growing rapidly (particularly in riskier countries, sectors, and client groups), substantially improve environmental and social performance in Africa, continue efforts for improving the quality of advisory services performance reporting, and increasingly stress the strategic thrust, operationalization, and tracking of the institution's additionality.

Development results of IFC-supported projects

The results of investment operations reaching early operating maturity during 2005-07 show an improvement over the previous 10 years. Of a randomly selected, representative sample of 174 out of 332 operations, worth over \$3.3 billion (approximately \$13 billion including funds from co-financiers), 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 (figure 1).

In 85 percent of projects that IFC supported, high or low development results corresponded to high or low IFC profitability respectively. Where there was a divergence between the two (in 15 percent of the cases), this usually reflected IFC's choice of financing instrument and the associated investment risk.

The evaluation finds the following shortcomings:

- Results continue to be much weaker in smaller projects (particularly those where IFC's investment is less than \$5 million);

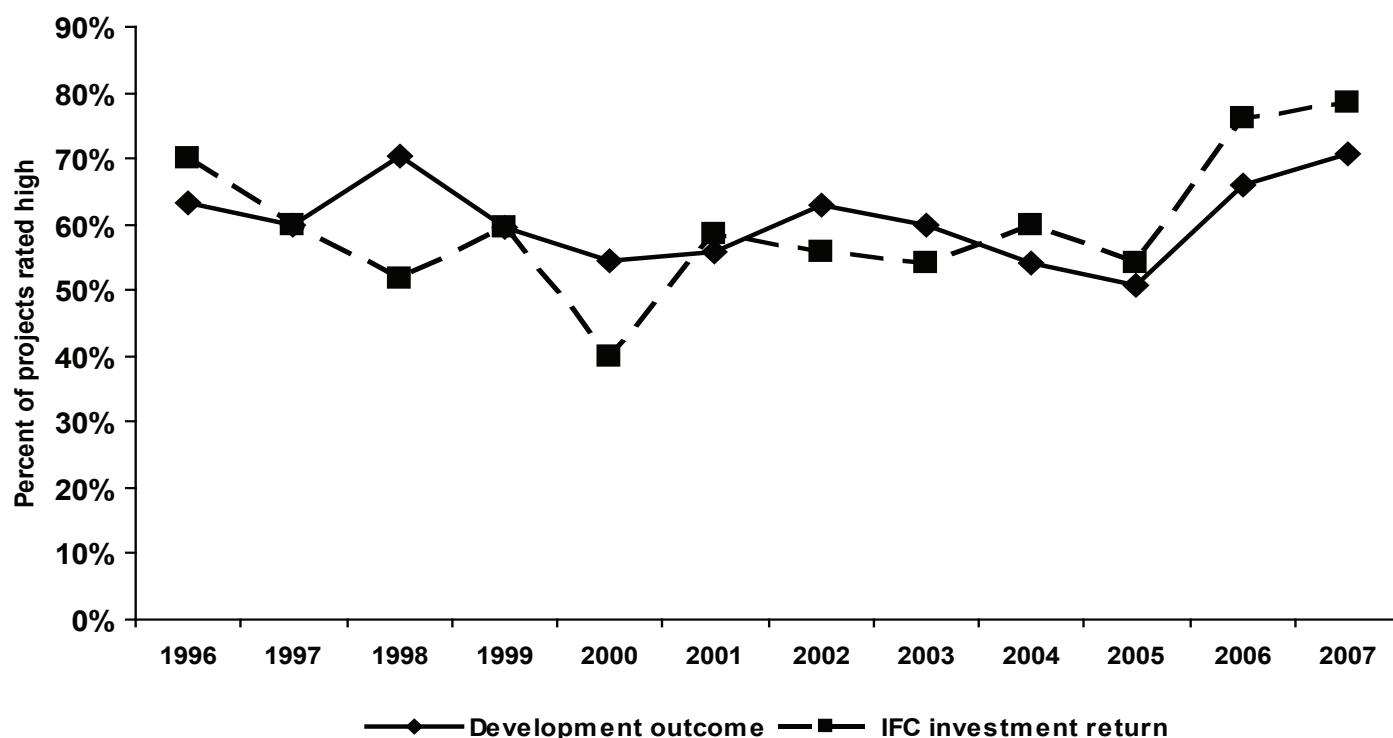
- Less than half of projects in Africa and MENA, and only a half in Asia met or exceeded development benchmarks and standards. This finding is especially important as IFC's operations are growing quickly in these regions.
- Environmental and social effects continued to be poor in Africa. By sector, project performance was strongest in infrastructure and finance, and weakest among general manufacturing and services and information technology projects.

The projects IFC supports face country, sector, sponsor, and specific project risks. These risks, and IFC's effectiveness in managing them, have a significant impact on project development results.

Improved market risks in most regions contributed positively to evaluated results, while continued high-risk business environments constrained performance in many countries in Africa, and specific country and sector conditions appear to have adversely affected results in Asia and MENA.

Weak sponsor quality and high project risk posed substantial challenges to achieving successful development outcomes outside of LAC and ECA – although it is central to IFC's role as a development institution to help overcome these risks. Generally, where IFC work

Figure 1: Project Development Results - 1996-2007



Note: Based on 692 investment operations evaluated between 1996-2007, "high" means met or exceeded specified benchmarks/standards.

Source: Independent Evaluation Group

quality was high, so were project development results. However, the incidence of high work quality was notably lower in Asia and Africa than in other regions.

Based on a preliminary examination of 293 evaluated advisory services operations, 70 percent achieved satisfactory development effectiveness (DE) ratings. However, a third of the evaluated projects did not report DE ratings, and the quality of IFC documentation was variable.

IFC's Additionality

As part of the World Bank Group, IFC is expected to do more than just provide financing to its clients, namely provide unique inputs ("additionality") that help catalyze sustainable private sector development.

IFC's corporate strategies have generally discussed IFC's unique role and contribution in terms of investing in so-called "frontier" countries, sectors, products, and market segments and in supporting environmental and social sustainability. However, most regional, sector and country strategies have contained limited explicit discussion of IFC's unique role and contribution or advantages.

It is difficult to measure *ex-post* additionality precisely, but proxy indicators show that:

- At least one form of financial additionality was apparent in 85 percent of evaluated investment operations, with operational or institutional additionality identifiable in around a third;

- The quality of IFC's role and contribution was satisfactory in most cases (in line with IFC's operating principles of making a special contribution and being catalytic), but lagged in Asia and Africa and in the financial and social sectors;
- Additionality, the project's development results and IFC profitability seem to move together.

Additionality refers to the unique inputs—financial and non-financial—that a development institution such as the IFC is providing to developing countries. At the end of the day, IFC's additionality is expected to lead to development impacts on the ground, i.e. the results of the institution's interventions. Given this connection, it would seem that the greatest additionality for IFC would potentially lie in areas where the prospects for development impact – economic growth, poverty reduction, environmental and social sustainability – through support to private sector development are the best.

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), unexpected shifts in the external conditions appear to have played their part in cases of less-than-satisfactory role and contribution. But further investigation, including field-based assessment, is needed to arrive at more conclusive judgments about drivers.

CONCLUSIONS AND 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 new 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 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;
- Clearly map out the additionality in its strategies and develop guidelines and incentives to help 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, in order to identify what specific steps are required to enhance performance.

IEG PRODUCTS

Studies

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

Supporting Environmental Sustainability: An Evaluation of World Bank Group Experience

Doing Business, An Independent Evaluation: Taking the Measure of the World Bank-IFC Doing Business Indicators

Financing Micro, Small, and Medium Enterprises: An Independent Evaluation of IFC's Experience with Financial Intermediaries in Frontier Countries

IFC Advisory Services in Eastern Europe and Central Asia: An Independent Evaluation of the Private Enterprise Partnership Program

IFC in Ukraine: 1993 - 2006, An Independent Country Impact Review

Independent Evaluation of IFC's Development Results 2007: Lessons and Implications from 10 years of Experience

An Evaluation of IFC's Investment Climate Activities

Extractive Industries and Sustainable Development: An Evaluation of the World Bank Group Experience

Evaluation Briefs and Notes

Improving Results in Sub-Saharan Africa

IFC's Experience and Additionality in Middle-Income Countries

IFC's Experience in the Transport Sector

IFC Operations in Romania

An Evaluation of IFC's Frontier Country Strategy

IFC and the Millennium Development Goals

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