IFC’s Experience and Additionality in Middle Income Countries

Results and Challenges

Middle-income countries (MICs) have considerable importance for the global economy and for IFC. The 86 MICs, with per capita incomes between $826 and $10,065, make up 86 percent of developing country Gross Domestic Product (GDP) and are home to 57 percent of the developing world’s population (including one-third of people who subsist on less than $2 a day). IFC invested just over $30 billion in 70 of these MICs between 1996-2007, around four-fifths of IFC’s investments in developing countries. This Evaluation Note gives an overview of IFC’s experience and additionality in MICs from 1996 through 2007, drawing on a wide range of evaluative material, and finds that:

- While MICs have benefited from increased private investment, significant constraints to competitiveness remain. IFC has an important role to play in helping MICs address these impediments to development.
- Overall, 62 percent of IFC’s MIC projects achieved high development outcome ratings.
- By region, projects in Europe and Central Asia (ECA) and Latin America (LAC) MICs performed the strongest and those in Asia and Africa MICs performed weakest.
- IFC has achieved above average results in MICs that have improved their business environments, but has been much less effective in MICs where the business climate deteriorated. IFC was by and large counter-cyclical in Brazil, Korea, Mexico, Philippines, and Russian Federation, but not in Argentina, Indonesia, and Thailand.
- Data on how well IFC has met country and client group objectives are limited, and more efforts to measure IFC’s performance in this respect (particularly at the country level) are necessary.
- IFC has achieved better results in infrastructure, commercial banks, leasing, and agribusiness. But performance in most non-bank financial services and in the social sectors has lagged.
- Initial analysis suggests that in recent years IFC has provided at least one form of financial additionality in around four-fifths of investment projects and that non-financial additionality seems to be increasing in importance. Over the longer 1996-2006 period, the quality of IFC’s role and contribution was rated satisfactory or better in 83 percent of cases. Where additionality was rated less than satisfactory, development results were much weaker.
- With private capital flows at new record highs, there is an increased emphasis on IFC adding value well beyond financing. Should private capital flows to emerging markets begin to fall, however, IFC’s financing role (and sound risk mitigation) would likely take on greater importance.
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**Private Investment in MICs Has Been Increasing Rapidly**

Better business environments have led to higher levels of private investment and growth in MICs. While MICs are a diverse set of economies with varying development challenges, as a group they have improved their macroeconomic stability, developing stronger fiscal positions and building up their international reserves, and lessened the regulatory burdens of doing business. These improvements, reflected in lower country business climate risk (figure 1), have facilitated an explosion of private investment in the past five years (figure 2), following several years of crisis (and declining or stagnant investment levels) in some major Asian and Latin American (LAC) MICs. IFC investment activities in MICs have also increased, from around $2.5 billion of commitments per year in 2002 to $4 billion per year in 2007.

**MICs, Nonetheless, Continue to Face Significant Competitiveness Constraints**

There are still some significant constraints to doing business in MICs that can hinder the competitiveness of firms in these countries. Among others, these include:

- **A continued need for regulatory reform in some areas.** While business climate risk has improved in MICs overall, investors can face substantial regulatory barriers to doing business in these countries. According to the World Bank Group’s economic reports and Investment Climate Assessments for individual countries, continuing obstacles in various aspects of regulatory environments in MICs inhibit investment and growth in various sectors, including private sector participation in utility, infrastructure, or social service provision. Meanwhile, the annual Doing Business survey shows that some major MICs such as Brazil, Egypt, Indonesia, and the Philippines are ranked in the bottom third of 178 countries for overall ease of doing business.

- **Infrastructure shortcomings.** Continuing infrastructure deficiencies also constrain business activities in MICs, in that they affect efficiency in both production (energy cost) and transport (shipping cost). Trading across borders accordingly remains much more expensive for companies in MICs than those in high-income countries (HICs). Infrastructure shortcomings that reduce trade competitiveness are particularly important for MICs such as Egypt, Mexico, and the Philippines, which are heavily dependent on otherwise low-cost industrial exports. In some of the larger MICs, such as Brazil and Russia, infrastructure deficiencies have inhibited economic activity outside of a few major commercial centers.

- **Inadequate access to credit.** On average, domestic financial sector capacity in MICs – measured in terms of credit that is provided to the private sector - is not much deeper than in low-income countries (LICs), and is much lower than in HICs. Between 1996-2005, average private credit as a share of GDP in MICs averaged 37 percent (excluding China as a unique outlier, at 113 percent), compared to 26 percent in LICs and 169 percent in HICs. The LAC region is notably lagging. Lack of bank and non-bank capacity in domestic financial markets has meant that many MICs are akin to LICs in that firms in these countries have limited access to long-term local currency finance, as a result of which exposure to devaluation risk is a widespread problem for enterprises forced to borrow in foreign currency, particularly those in non-exporting sectors such as housing, health and education, and many micro, small and medium enterprises (MSMEs).

- **High business informality.** Informal economy output, which tends to be greater in more rural, less developed parts of MICs, averages 30 percent (as a percentage of gross national income), compared to a LIC average of 38 percent and a HIC average of 17 percent. The large informal sectors in MICs can limit growth potential due to their low productivity and non-capitalization of assets and can provide unfair competition to law-abiding, otherwise efficient companies.

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**Figure 1: MIC Business Climate Risk Has Improved Overall**

![Country Risk Rating (100-best)](chart1)

**Source:** Institutional Investor  
**Note:** Based on data for 59 middle-income countries (MICs) and 33 low-income countries (LIC)

**Figure 2: MIC Private Investment and GDP Are Rising Rapidly**

![Total GDP and Private Investment](chart2)

**Source:** World Development Indicators  
**Note:** Private investment is proxied as private gross fixed-capital formation
IFC’s strategies have generally recognized these constraints, and set out broadly relevant development goals for IFC in MICs

While IFC does not have a single over arching strategy for MICs, its corporate, sector and regional strategies have highlighted key development priorities that largely reflect the above constraints.

These strategies have outlined a number of priorities relevant to a diverse mix of MICs: (i) a focus on high risk business environments, at the country and regional (within country) levels through its “frontier” markets strategy; (ii) counter-cyclical lending in times of crisis or slowdown in private investment; (iii) support for MSMEs; (iv) promotion of south-south investments through support for “emerging players”; (v) a sectoral focus on financial markets, infrastructure, and the health and education sectors; vi) promotion of global public goods such as the Equator Principles (sustainability standards for financial institutions) and the Doing Business program (which provides information on the costs of doing business in different countries).

These priorities have generally been reiterated in the World Bank (WB)-IFC Country Assistance Strategies (CASs) for MICs.

IEG reviewed 46 CASs prepared for 15 MICs during the last decade (these countries accounted for over a half of IFC lending to MICs) and found that most or all of the following private sector development objectives were present in these CASs: (i) removing remaining obstacles in the business environment, especially for MSMEs; (ii) expanding access to finance, particularly non-bank financial services, through the development of capital markets, housing finance, insurance, and leasing; (iii) increasing private participation in the provision of infrastructure and health/education services; (iv) helping diversify the economic base in MICs with economies concentrated in a particular sector; (v) expanding the geographical spread of economic activity to underdeveloped regions, particularly in larger MICs; (vi) supporting specific sectors of economic growth, such as agribusiness, extractive industries, and tourism; (vii) increasing support to second-tier companies; and (viii) integrating environmental and social practices in commercial activities through the promotion of appropriate environmental and social practices in its projects, and in developing sustainability indices.

Overall, 62 percent of IFC’s projects in MICs achieved high development outcome ratings

Sixty-two percent of IFC-supported projects in MICs achieved high development outcome ratings.

Of the 424 projects IEG has evaluated between 1996 and 2006, 62 percent of projects in MICs achieved satisfactory or better (high) development outcome ratings. The same percentage of projects achieved high IFC investment return ratings, with 51 percent of projects delivering high-high results (satisfactory or better performance in each respect – see boxes 1 and 2 for definitions). Consistent with other IEG evaluations, results were slightly better by volume, reflecting the fact that larger operations are typically more successful than smaller operations (figure 3).

Box 1: Project development performance is rated across four dimensions

The development outcome rating is a bottom-line assessment of the project’s results across four development dimensions, relative to what would have occurred without the project. To achieve a satisfactory or better (high) rating, projects must deliver:

- **Project business success:** For real sector projects, generated a project financial rate of return (FRR) 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 sub-portfolios or asset growth contributed to the intermediary’s profitability, financial condition, and business objectives.

- **Economic sustainability:** Measured, generated an economic rate of return (ERR) of at least 10 percent. This indicator takes into account net gains or losses by non-financiers, non-quantifiable impacts, and contributions to widely held development objectives.

- **Environmental and social sustainability:** Met or exceeded IFC’s environmental, health and safety (EHS) requirements at approval, and (from 1998) the World Bank Group policies and guidelines, and local standards that would apply if the project were appraised today.

- **Private sector development (PSD) impacts:** PSD 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.
IFC’s experience and additionality in middle income countries

Figure 3: Sixty-two percent of IFC-supported projects in MICs achieved high development ratings

<table>
<thead>
<tr>
<th>By Number of Operations</th>
<th>By Volume of Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Development Rating</strong></td>
<td><strong>IFC Investment Return</strong></td>
</tr>
<tr>
<td>HIGH</td>
<td>HIGH</td>
</tr>
<tr>
<td>11% High development</td>
<td>11% High development</td>
</tr>
<tr>
<td>outcome Low LIC returns</td>
<td>outcome Low LIC returns</td>
</tr>
<tr>
<td>51% High development</td>
<td>53% High development</td>
</tr>
<tr>
<td>outcome High LIC return</td>
<td>outcome High LIC return</td>
</tr>
<tr>
<td>27% Low development</td>
<td>26% Low development</td>
</tr>
<tr>
<td>outcome High LIC return</td>
<td>outcome Low LIC returns</td>
</tr>
<tr>
<td>11% Low development</td>
<td>10% Low development</td>
</tr>
<tr>
<td>outcome Low LIC returns</td>
<td>outcome Low LIC returns</td>
</tr>
<tr>
<td>62%</td>
<td>64%</td>
</tr>
</tbody>
</table>

Source: Independent Evaluation Group

Note: Based on the results of 424 projects evaluated between 1996-2006

Environmental and social performance in IFC projects has been similar to that achieved in LICs.

IFC’s performance in encouraging environmental and social best practices in its projects has not been income dependent, with projects in MICs achieving similar performance to those in LICs (when compared region by region), and results in Africa lagging those in other regions. This finding might be a little surprising based on the assumption that interest in, and capacity for, better environmental and social management should increase as incomes rise (the Kuznets curve). On the other hand, it may rather reflect the fact that that compliance hinges more on individual client commitment, skills and resources than national enforcement capacity.19 In 2008, a separate IEG study will report in more depth on IFC’s effectiveness in its assistance for the environment.

Box 2: IFC’s investment return ratings reflect contribution to IFC profitability

IFC’s investment return rating is an assessment of the gross profit contribution quality of an IFC loan and/or equity investment, i.e. without taking into account transaction costs or the cost of IFC equity capital. To achieve a high rating, projects must deliver:

- **Loan**: 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).
- **Equity**: Equities are rated satisfactory if they yield an appropriate premium on the return on 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).

Projects in Europe and Central Asia (ECA), and Latin America (LAC) MICs performed best, those in Asia and Africa MICs weakest

Performance has varied substantially across regions.

IFC projects in ECA and LAC MICs performed best (67 percent of projects achieved high development ratings) while those in Asia and Sub-Saharan Africa (SSA) MICs performed worst (42 percent and 43 percent respectively) – see table 1. Overall, IFC’s development performance has been weaker in LICs than in MICs, but this has been due to the regional distribution of LICs, with LICs more prevalent in SSA and the Middle East and North Africa (MENA) (where business climate conditions have tended to be weakest, as the discussion below elaborates) and MICs more prevalent in LAC and ECA (where business climate conditions have been strongest). Comparing MICs with LICs region by region shows that IFC projects have achieved similar development results across income groups in ECA and LAC, but that projects in SSA and Asia MICs have actually underperformed those in SSA and Asia LICs (in the latter case, this gap is magnified if the large economies of China and India are excluded, revealing that projects in Asia MICs were particularly badly hit by the financial crises of the late 1990s).21 Investment results, meanwhile, have generally been better in MICs than in LICs (also see table 1).

Table 1: Development performance was strongest in ECA and LAC and weakest in Asia and Africa MICs

<table>
<thead>
<tr>
<th>Region</th>
<th>% of IFC projects with high development outcome ratings</th>
<th>% of IFC projects with high investment return ratings</th>
<th>Share of evaluated projects</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MIC</td>
<td>LIC</td>
<td>MIC</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>67%</td>
<td>67%</td>
<td>67%</td>
</tr>
<tr>
<td>Latin America &amp; the Caribbean</td>
<td>67%</td>
<td>67%</td>
<td>66%</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>56%</td>
<td>48%</td>
<td>63%</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>43%</td>
<td>49%</td>
<td>64%</td>
</tr>
<tr>
<td>Asia</td>
<td>42%</td>
<td>57%</td>
<td>38%</td>
</tr>
<tr>
<td>All regions</td>
<td>62%</td>
<td>53%</td>
<td>62%</td>
</tr>
</tbody>
</table>

Source: Independent Evaluation Group

Note: Based on the evaluated results of 585 projects (414 projects in MICs and 181 projects in LICs)
Business climate conditions, project risk intensity and IFC work quality were key drivers of IFC performance.

Previous evaluations have revealed that the following five factors significantly affect IFC’s development performance: changes in the quality of a country’s business climate following project approval; industry sector; sponsor quality; the intensity of product market; client company and project type risks; and IFC work quality (in project execution and supervision). Of these, business climate conditions are naturally at the heart of any explanation of regional differences in performance. While the level of country business climate risk in ECA, LAC and MENA MICs improved considerably from the mid-90s onwards (particularly in countries such as Estonia and Peru), it improved little in Africa MICs and was very volatile in Asia (with investor confidence rocked by the financial crises of the late 90s – see figure 4). Another important driver of differences across regions was the level of project risk intensity, which was greater in Asia and Africa (see table 2 below), as well as IFC’s work quality (less than half of projects in Asia MICs and Africa MICs were rated as having at least satisfactory work quality, 48 percent and 36 percent respectively, compared to 77 percent in ECA, 71 percent in LAC and 63 percent in MENA).

Better project risk management implies performance in MICs across all regions is expected to improve in the next few years, but only if business climate conditions remain conducive.

In order to assess future success rates, IEG profiles the high-risk intensity of projects that are not yet operationally mature (and thus not ready for ex-post evaluation). A project’s high-risk intensity is a good predictor of its likely development performance. As the table below shows, a profiling of the high-risk intensity in IFC’s projects in MICs reveals that the level of high-risk intensity in projects that will reach operational maturity in the 2007-2010 period is lower than the level of high-risk intensity in projects that matured in the 2000-2005 period. Of the individual risk factors, sponsor quality and product market risk have shown most improvement (notably in Asia and Africa). Accordingly, we can reasonably expect the performance of IFC projects in MICs to improve in the coming years – so long as country business climate risk continues to fall – with some closing of the performance gap between Asia and Africa and the other regions.

Table 2: Project high-risk intensity is still greatest in Asia and Africa MICs, but falling across all regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Evaluation Year, 2000-05</th>
<th>Evaluation Year, 2007-10**</th>
<th>Increase (+)/ fall (-) in average number of high risk factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Projects</td>
<td>Average number of high risk factors per project*</td>
<td>Number of Projects</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>89</td>
<td>3.2</td>
<td>119</td>
</tr>
<tr>
<td>Latin America &amp; the Caribbean</td>
<td>109</td>
<td>2.7</td>
<td>94</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>25</td>
<td>3.2</td>
<td>21</td>
</tr>
<tr>
<td>Asia</td>
<td>37</td>
<td>3.6</td>
<td>61</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>7</td>
<td>3.7</td>
<td>14</td>
</tr>
<tr>
<td>All Regions</td>
<td>267</td>
<td>3.0</td>
<td>309</td>
</tr>
</tbody>
</table>

Source: Independent Evaluation Group

Notes: *Based on the profiling of seven project risk factors: sponsor quality; product market risk; financial structuring risk (debt service burden); project type (greenfield or expansion); sector risk; IFC review intensity; and non-repeat project risk.

**Projects will be eligible for IEG evaluation in the 2007-10 period.
IFC has achieved better results where business environments have improved.

**IFC has achieved above average results in high-risk MICs that have improved their business environments.**

In pursuing a strategy to focus on high-risk (frontier) countries, IFC has been overweight – relative to the countries’ shares of developing country FDI and GDP – in high-risk countries.\(^{23}\) Of the evaluated investment projects in high-risk MICs that improved their business climates between approval and evaluation, 77 percent achieved high development outcome ratings, compared to 60 percent in MICs that remained high-risk and 31 percent in MICs that became high-risk (table 3 above). Performance in the banking sector, the development of which is a key platform for private investment and economic growth, has been particularly strong in high-risk MICs.

**IFC Advisory Services have contributed to improving business environments in MICs, although they were not always well-coordinated with those of the World Bank.**

Between 1996-2006, IFC managed approximately $233 million of advisory services expenditures in MICs, compared to some $150 million in LICs (although in more recent years, the balance has shifted towards LICs). Among 293 projects that closed between 2004-06 and evaluated on a pilot basis,\(^{24}\) 158 were in MICs. By business line, almost a half of these projects were aimed at improving the business climate.\(^{25}\) Of the business enabling environment projects where development effectiveness could be determined, 80 percent had satisfactory or better development ratings (compared to 71 percent in LICs and 67 percent for other business lines). However, advisory services operations geared towards improved business environments have not always been well-coordinated with the work of the World Bank, as two prior IEG evaluations have illustrated.\(^{26}\)

**Success in helping clients through crisis and acting counter-cyclically has been mixed**

**IFC has helped a number of MIC companies during times of financial crisis, although the experience has been uneven.**

Private investment in MICs has increased overall in the past decade, but following several crises in emerging markets in the late 1990s, private capital flows actually fell for a few years. While the level of IFC’s own investments in MICs also fell in the aftermath of the Asian and Russian crises (in 2000), IFC played an important counter-cyclical role by increasing its investments overall in MICs in 2001.

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### Table 3: Seventy-seven percent of projects in MICs with improving business climates achieved high development outcome ratings

<table>
<thead>
<tr>
<th>Risk Level</th>
<th>IFC Classification</th>
<th>Current Examples</th>
<th>% of projects with satisfactory or better development outcome ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>High risk MICs</td>
<td>“Frontier”</td>
<td>Angola, Bolivia, Georgia, Iraq, Lebanon</td>
<td>77% 60% N/A</td>
</tr>
<tr>
<td>Non-high risk MICs</td>
<td>“Non-frontier”</td>
<td>Brazil, China, Mexico, Russia, Turkey</td>
<td>N/A 60% 31%</td>
</tr>
</tbody>
</table>

Source: Independent Evaluation Group  
Note: Based on the evaluated results of 424 projects.

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**Figure 5: IFC was most counter-cyclical in Brazil, Korea, Mexico, the Philippines, and the Russian Federation... least in Argentina, Indonesia, and Thailand**

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**OVERALL**

**BY CRISIS COUNTRY**

<table>
<thead>
<tr>
<th>County (and fiscal year of crisis)</th>
<th>Change in IFC investments pre- and post-crisis (by volume)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina (2002)</td>
<td>-38%</td>
</tr>
<tr>
<td>Brazil (1999)</td>
<td>+88%</td>
</tr>
<tr>
<td>Indonesia &amp; Thailand (1998)</td>
<td>-47%</td>
</tr>
<tr>
<td>Korea &amp; Philippines (1998)</td>
<td>+408%</td>
</tr>
<tr>
<td>Mexico (1995)</td>
<td>+66%</td>
</tr>
<tr>
<td>Russia (1999)</td>
<td>+453%</td>
</tr>
<tr>
<td>Turkey (1994 &amp; 2001)</td>
<td>+13%</td>
</tr>
</tbody>
</table>

Source: IFC  
Note: * Compares the three fiscal years pre-crisis with the three fiscal years post-crisis.
and 2002. Looking at crisis countries one by one, there was variation in the extent to which IFC invested on a counter-cyclical basis. IFC significantly increased its investments post-crisis in Brazil, Korea, Mexico, the Philippines, and Russian Federation, while investment levels in Argentina, Indonesia, and Thailand fell and those in Turkey were slightly above their pre-crisis levels (figure 5).

Looking at outcomes across all crisis-hit countries, IFC projects have fared better when approved in the aftermath of a crisis than when they have faced a crisis during operations (figure 6), which is consistent with the earlier finding of above average results in countries with improving business climates (since business climate risk is usually at its highest at the time of the crisis). Box 3 provides examples of IFC’s varying experiences assisting clients during times of financial crises in Argentina, Korea, Russian Federation, and Thailand.

Data on how well IFC has met specific country and client group objectives are limited

Country Assistance Strategy Completion Reports (CASCR) as yet offer limited information on IFC performance on a country-by-country basis.

As part of the CAS process, IFC has begun to participate in CASCR, which are designed to assess performance in pursuit of World Bank Group strategic priorities in a country during the prior CAS period (where the CAS was developed jointly with the World Bank; IFC is not involved in CASCRs where the CAS was not joint). Of the CASCRs that IEG has reviewed to date, the information on IFC performance has been variable and is yet to be of consistently sufficient detail to offer a thorough account of IFC’s effectiveness in pursuing its strategic objectives. For example, many CASCRs have focused on the direction of IFC’s investment operations but have typically said little about where IFC Advisory Services were targeted and the extent to which they were effective. Many CASCRs have also offered little reasoning where objectives have not been achieved.

Box 3: Examples of IFC’s experiences assisting clients during times of financial crisis

<table>
<thead>
<tr>
<th>Approved pre-crisis</th>
<th>Bank in Argentina – low development outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ IFC provided a mid-sized loan to the bank from its own account (A-loan) and mobilized a significant amount of funds from B-lenders, for the purpose of strengthening mortgage markets in the country. The Argentine crisis had a devastating effect on both the bank’s balance sheet (following the devaluation of the local currency (peso), which meant that local currency assets and US$ loan liabilities were significantly mismatched) and on mortgage origination and securitization in general. While these conditions would have made it difficult for any project to succeed, given a likely crisis was anticipated at project appraisal and poor pre-approval performance by the bank, IFC might have proceeded differently with this project.</td>
<td></td>
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<table>
<thead>
<tr>
<th>Bank in Thailand – low development outcome</th>
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<tbody>
<tr>
<td>▪ IFC provided the bank with longer-term dollar-denominated financing than it could have obtained in the capital markets, but IFC’s facility was insufficient to help the company withstand the regional financial crisis. IFC also facilitated a revolving B-loan facility, of a shorter three year maturity, which did not have a positive impact on the bank’s overall maturity and was viewed more by the bank and co-financiers as a revolving placement line rather than a credit line for SME financing. The B-loan might have met its objectives better if it had been structured as a long-term loan/credit line with an amortizing maturity. A local currency, rather foreign currency, loan would have been particularly useful (as would have been the case in other crises) to help insulate the bank from asset/liability mismatches arising due to the loss in value of the local currency (bhat) relative to the dollar and other currencies.</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Approved post-crisis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate restructuring and securitization in South Korea - high development outcome</td>
</tr>
<tr>
<td>▪ IFC helped foreign investors to take over a failing security firm. The investors restructured the firm, introduced new marketing methods, and issued new financial instruments (US$ denominated corporate bonds). The result was a successful corporate turn around, with retention of jobs and regained market share. Other investors subsequently copied this deal structure, and the company was ultimately bought by a domestic bank as foreign investors exited.</td>
</tr>
<tr>
<td>▪ IFC helped one of the first cross-border lease asset transactions in Korea following the crisis. The transaction was expected to provide much needed liquidity and term-funding to the client company, and to demonstrate the feasibility of securitization of domestic assets. While international placement of the securitized notes was limited, the transaction had a capacity building effect on local agencies, institutions and counterparts and demonstrated effective securitization.</td>
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<table>
<thead>
<tr>
<th>Corporate restructuring and liquidity provision in Russian Federation - high development outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ IFC invested in a restructuring fund following the Russian crisis in 1998. The fund was to provide additional equity for corporate restructuring, capital investment, and working capital. The investment was successful as it provided valuable capital to the portfolio companies to weather the crisis when external capital was scarce. IFC’s investment was catalytic in enabling new capital injections and helped the funds stay intact during difficult fund-raising years.</td>
</tr>
</tbody>
</table>
Assessing the results of south-south and municipal investments is similarly difficult.

Supporting south-south investments (investments by a company in one developing country into another developing country) was defined and established as a strategic priority only recently and it remains too early to systematically assess IFC performance toward this objective. Meanwhile, IFC has approved five municipal finance operations in MICs since 2003 – including projects in Mexico, Russian Federation, and South Africa. These operations have yet to reach early operating maturity and have, therefore, not been evaluated.

Data limits aside, evaluation shows that IFC has made a contribution to sectoral diversification in some resource-rich MICs, but more lessons can be drawn from these experiences.

IFC committed to 72 projects worth a total of $708 million in the non-mineral sectors of six resource-rich MICs (Algeria, Azerbaijan, Gabon, Kazakhstan, Syria, and Venezuela) since 1996. These investments represented around 50 percent of IFC’s commitments in these countries. Sectors that IFC invested in included tourism, finance, and wholesale and retail trade. Of the evaluated projects in non-mineral sectors in resource-rich countries, 70 percent had high development ratings, above the rest of IFC averages for these sectors. In some specific countries such as Angola and Algeria, however, IFC has found it particularly difficult to identify suitable quality sponsors and to deal with very poor business environments. There were no IFC investments in the non-mineral sector in Angola, and non-extractive projects in Algeria have had limited success. In sum, IFC has contributed to the economic diversification in some resource-rich countries, but more lessons can be drawn across similar countries in this regard.

Available data also shows that IFC has achieved better results supporting MSMEs in MICs than in LICs.

Seventeen percent of IFC investments in MICs since 1996 were aimed at the development of MSMEs (a key client group for IFC), mainly through financial intermediaries (FIs), leasing companies and private equity funds - for a total committed amount of $5 billion. In ECA and Africa, nearly 40 percent of IFC investments involved support for MSMEs. Of those projects with evaluation data, 62 percent achieved high development outcome ratings compared to 39 percent in LICs. Investments in MSME-FIs performed particularly strongly, achieving high development ratings in 76 percent of cases (compared to 58 percent in LICs).

IFC has achieved better results in infrastructure, commercial banks, leasing and agribusiness

Around half of IFC’s MIC investments were in its strategic sectors of infrastructure and financial markets, while investments in health and education were limited.

Investments in financial markets made up 33 percent of IFC’s investments in MICs, and infrastructure 14 percent. However, investments in the social sectors accounted for just 2 percent of investments. The rest of IFC’s investments were spread across general manufacturing and services (24 percent); agribusiness (9 percent); extractive (6 percent); and chemicals (5 percent). Sixty-eight percent of infrastructure investments in MICs involved transport and communications infrastructure – two sectors which are critical for trade competitiveness.

IFC has achieved better results in two of its three key strategic sectors in MICs - infrastructure and financial markets – while there is room for improvement in health and education.

IFC has achieved above average results in two of its three key strategic sectors: infrastructure and financial markets (figure 7). Seventy-nine percent of evaluated infrastructure projects had high development ratings, compared to the sector average of 62 percent (60 percent excluding infrastructure). Among projects supporting transport and communications infrastructure, 90 percent had high development ratings. A good example of IFC’s activities in developing trading...
IFC’s Role and Contribution

IFC’s Experience and Additionality in Middle Income Countries

Figure 7: Within its strategic sectors, IFC has achieved better results in infrastructure, banking, and leasing

infrastructure and helping reduce transportation costs, is in its support for port development in Brazil in the 1990s. These projects were also assessed as having a significant impact on private sector development beyond the project, with over 90 percent achieving a high private sector development impact rating. Financial markets projects also achieved average results overall (64 percent). In IFC’s third key strategic sector, health and education, only three of the nine evaluated projects were rated as having achieved satisfactory or better development ratings. IEG is undertaking a detailed evaluation of IFC projects in the health sector to better understand IFC’s performance and challenges going forward. Among the nine projects, exposure to country financial crises was an important driver of results.

In other sectors, performance in the food and agribusiness sector stands out.

As figure 6 shows, 62 percent of IFC projects achieved high development outcome ratings in food and agribusiness. This contrasts with 40 percent of projects achieving high ratings in LICs, and was driven by particularly strong ratings for larger scale agribusiness projects in the LAC region that had strong linkages to local farmers, as well as transport, storage, wholesale, retail, and export enterprises.

IFC achieved weaker results in most non-bank financial services

Within the financial sector, just over two-thirds of commercial bank and leasing projects achieved high development outcome ratings.

Within the financial sector, nearly 70 percent of IFC projects in commercial banking achieved high development ratings, well above the 43 percent achieving high ratings in LICs. Sixty-eight percent of leasing projects in MICs had high development ratings, compared to 33 percent in LICs. The main beneficiaries of these projects are often SMEs, particularly where financing is being pioneered for previously under-served markets.

Performance in some parts of the non-bank financial sector (key for broad-based access to credit and growth) has, however, been weaker.

Development of the non-bank financial sector is an important way to contribute to economic growth and poverty reduction as it expands the provision of credit to business people. In areas of the non-bank financial sector other than leasing (particularly projects in insurance, securities markets, and development finance companies), however, IFC has achieved limited success, with just 11 of 25 evaluated projects in these sub-sectors (44 percent) delivering high development outcome ratings. Weaker performance in some of these areas partly reflects competition from public sector companies for instance in insurance, absence of a facility for local currency lending on IFC’s part, as well as a need for further regulatory reform to facilitate private sector participation in these sectors (as, for example, in Turkey). On the other hand, 71 percent of projects in these sub-sectors in LICs achieved high ratings, indicating that there is considerable room for improvement in IFC’s performance. Finally, the World Bank has not placed much focus on the non-bank financial sector (concentrating more on institutional reforms in banking) and, going forward, cooperation between the World Bank and IFC in this area will be important.

Available data on IFC’s investment projects in MICs suggest that IFC’s role and contribution was satisfactory or better in 83 percent of cases

As a development institution with a special mandate for private sector development, IFC must seek to provide something unique that is not being provided for by other investors, governments and financial agents. But measuring this contribution can be difficult. In carrying out its operations, IFC is expected to offer services additional to those already provided by the private sector and governments. In other words, IFC needs to help address market and

Source: Independent Evaluation Group
Notes: Based on the evaluated results of 424 projects; * Only nine projects evaluated to-date.
IFC’s Experience and Additionality in Middle Income Countries

Institutional failures that represent obstacles to development. However, these failures and imperfections can be hard to identify precisely and measuring IFC’s effectiveness in this regard is challenging. In general, IFC can bring additionality to a project in both a financial and non-financial sense (see box 4). The former is associated with its pure financial agent role, while the latter pertains to its role in the broad area of operational and institutional development (i.e. regulations, standards, corporate governance).

Available project data suggests that—judged against what was expected at approval—in 83 percent of its investment operations in MICs, IFC had satisfactory or better role and contribution. With the above caveats in mind, IEG’s Expanded Project Supervision Report (XPSR) evaluation system seeks to track IFC’s additionality by comparing what IFC outlined to the Board at project approval as its expected areas of additionality with what transpired up to early operating maturity. These data suggest that IFC had satisfactory or better role and contribution in 83 percent of its investment projects in MICs, compared with 74 percent of projects judged to have achieved satisfactory or better role and contribution in LICs. The lower performance in LICs is unexpected given generally more serious market failures and weaker institutional frameworks in LICs. IEG will be exploring this and other dimensions of IFC’s additionality in its annual Independent Evaluation of IFC’s Development Results report.

Initial data indicate that the most common form of IFC additionality has been funds mobilization and long term finance. Non-financial additionality appears to be increasing in importance.

IFC can bring additionality to a project in both financial and non-financial sense (see box 4). Within IFC’s financial additionality, IFC facilitated some $13.7 billion of syndicated B-loans in MICs, a mobilization rate of 45 percent compared to the $30.2 billion of investments (A-loans) from IFC’s own account. This contrasts with a 24 percent mobilization rate in LICs ($8 billion of A-loans and $1.9 billion of B-loans). Among 160 MIC operations evaluated in the years 2000-01 and 2005-06, IFC’s funds mobilization and long term financing roles were assessed as providing IFC additionality in over 56 percent of projects.

Non-financial: Independent of the funding that the institution provides, and includes the introduction of new or better standards (of, for instance, corporate governance and/or environmental and social sustainability), advisory services and innovation (for example to help with business strategy or management development), new or improved regulations (such as to enable the development of a leasing sector), better public/private risk allocation (through, for instance, the development of sustainable, long-term public-private partnership in the infrastructure, health and education sectors), as well as investing and advising on a programmatic basis.

Box 4: IFC’s financial and non-financial additionality

IFC is expected to bring two types of additionality into its operations:

- **Financial**: Relates directly to the funding that the institution provides and includes long-term finance (where it is not otherwise available), mobilization of other funds, providing confidence to potential investors in a sector or country that might otherwise be considered high-risk, and supporting clients in a counter-cyclical manner (during times of crisis).

- **Non-financial**: Independent of the funding that the institution provides, and includes the introduction of new or better standards (of, for instance, corporate governance and/or environmental and social sustainability), advisory services and innovation (for example to help with business strategy or management development), new or improved regulations (such as to enable the development of a leasing sector), better public/private risk allocation (through, for instance, the development of sustainable, long-term public-private partnership in the infrastructure, health and education sectors), as well as investing and advising on a programmatic basis.

Source: Independent Evaluation Group
Notes: Based on 160 evaluations carried between 2000-01 and between 2005-06, projects may feature more than one type of additionality.
IFC's Experience and Additionality in Middle Income Countries

Box 5: Examples of high and low role and contribution

High (83 percent of cases)

- Infrastructure project in Turkey (financial additionality): IFC provided affordable long-term financing, which was seriously lacking at the time in the country following a recent financial crisis, while also mobilizing B-loan funding for the project.
- Manufacturing project in Lithuania (financial and non-financial additionality): At the time, financing from private sources was not available to Lithuanian borrowers in significant volumes. IFC provided a long-term loan for the project, while also facilitating the involvement of a bilateral development bank as co-financier. On the non-financial side, IFC provided strategic guidance and help with receivables collection, as well as structuring know-how to the sponsor and a local investee, each of whom was unfamiliar with large-scale, cross-border investments.
- Leasing project in Vietnam (financial and non-financial additionality): In a then-risky business environment, IFC invested its own funds and helped bring in both local and foreign shareholders to form and operate the company. IFC has played an “honest broker” role between at times competing local and foreign sponsor interests and has provided strategic direction to the company through its representation on the Board. Finally, IFC has maintained a close dialogue with the regulator to help develop effective regulations for a then-emerging leasing sector.

Low (17 percent of cases)

- Infrastructure project in Indonesia (non-financial additionality): IFC’s involvement encouraged a European company to make a sizeable investment in the project. Also, with IFC’s assistance, the company restructured and divested loss-making entities. However, as an equity investor, IFC was expected to help the company achieve its growth targets and associated development impacts. In the event, the contribution of IFC in this area was lacking and detracts from IFC’s overall value-added in the project.
- Manufacturing project in Poland (non-financial additionality): While IFC helped get the project off the ground and to reach financial close, IFC did not— as was anticipated— help mitigate the sponsor's lack of technical expertise in operation and development of the distribution company. IFC made more significant efforts in helping to develop future projects than in assuring that the first phase of the program was successful.

Half (58 and 56 percent) of cases, while offering “comfort” to other investors (on political and/or regulatory risk) was cited as a special IFC contribution in 31 percent of cases. Project data also suggest a range of non-financial contributions by IFC (see figure 8), including knowledge and innovation in areas such as business development and corporate restructuring (29 percent), as well as new and/or improved standards of corporate governance and environmental and social sustainability (21 percent). Initial analysis suggests that in recent years IFC has provided at least one form of financial additionality in around four-fifths of investment projects and that non-financial additionality seems to be increasing in importance (figure 9).

Where role and contribution was rated low, development results tended to be weaker

Where additionality was rated less than satisfactory, development results were much weaker.

In the 17 percent of projects where IFC’s role and contribution was rated less than satisfactory, problems included over-optimism about IFC’s role and shortfalls in client commitment and capacity. Examples of projects that featured high and low IFC additionality are featured in box 5. Of the 71 projects (out of a total 414 projects) where IFC’s additionality was rated low in MICs across the whole period, only 6 percent achieved high development outcome ratings and 29 percent high investment return ratings. This contrasts with a 73 percent development success rate, and 68 percent investment return success rate, when IFC’s additionality was rated high.

The available data suggest that IFC’s additionality was markedly lower for projects approved during the relatively buoyant mid-1990s. Some 24 percent of projects approved in MICs between 1995-98, when private capital flows to these countries were at or around then record highs (Asia excepted in 1998), were rated as having a less than satisfactory IFC additionality. All but three of these projects (92 percent) achieved less than satisfactory project business success (compared to 45 percent otherwise), suggesting that IFC was taking on an increased share of projects that did not pass the test of financial viability and where its additionality may have been marginal.

Initial data suggest that non-financial additionality may significantly contribute to development results

Preliminary analysis indicates that IFC has achieved better development results when it has made a contribution beyond financing.

IEG’s analysis of 160 operations evaluated in the years 2000-01 and 2005-06 suggests that when IFC effectively provides financial additionality, it achieves high development outcome ratings in 62 percent of cases. This compares with 73 percent of cases when IFC also makes a special non-financial contribution to a project. This pattern shows up even more significantly 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 (figure 10).
Going forward, IFC faces a range of opportunities and tough challenges in MICs

Based on IEG’s review, a range of opportunities and challenges for IFC in MICs are apparent:

- MICs have benefited from increased private investment, but a large development agenda remains and IFC can play an important role (together with other development partners) in tackling that agenda.

  **Experience:** Many MICs still have serious weaknesses in banking capacity, non-banking financial services, infrastructure provision, as well as corporate governance and environmental and social sustainability. Even in MICs with access to foreign funds, there can still be need for equity and/or long-term local currency funds.

  Infrastructure development has often been curtailed due to regulations governing private participation in infrastructure as well as access to long-term local currency financing for infrastructure projects that obtain their returns in local currency.

  **Opportunity:** To expand public-private partnerships in infrastructure provision, by working closely with international development partners (including the World Bank) and country governments, as well as finding new ways to deepen non-bank financial sector capacity including through possible reforms in pension and life insurance systems. IFC will also need to continue to promote sound corporate governance and environmentally and socially sustainable practices in its client companies.

- With private capital flows again at record levels, there is an increased emphasis on IFC adding value beyond financing to produce stronger development results; IFC will also need to be ready to act counter-cyclically if they fall.

  **Experience:** IFC has made some important development contributions in MICs, such as support for—and above average results in—infrastructure, banking, leasing, and agribusiness development and in its investments in the wake of financial crises (particularly in Brazil, Korea, and Russian Federation). In pursuing these and other development goals, IFC’s role and contribution was judged to be satisfactory or better in 83 percent of its projects in MICs. IFC’s role and contribution has, conversely, been rated less than satisfactory in 17 percent of cases (a higher proportion for projects approved in the then buoyant mid-1990s). On a related note, initial data suggest that where IFC has been able to provide non-financial additionality (such as through its knowledge, innovation, and standard-setting roles) development results have been better.

  **Opportunity:** With private capital flows again at record levels, it will benefit IFC to exploit the areas of its comparative advantage well beyond financing so that it effectively complements and adds value alongside existing capital flows. At the same time, IFC will also need to be ready to make full use of its counter-cyclical financing role in the event of a downturn in the emerging markets (either overall or in certain countries).

- A downturn in a few key MIC markets could harm client and IFC profitability, and emphasizes the crucial need for sound risk mitigation going forward.

  **Experience:** IFC projects have achieved far higher investment returns in MICs (62 percent of projects achieved above benchmark returns) than in LICs (46 percent). Including unrealized gains, IFC’s profitability rate from investment operations since 1996
was approximately 9 percent in MICs, compared to less than 2 percent in LICs. However, this profitability rate in MICs was driven by returns from investment operations in five LAC countries (Mexico, Chile, Brazil, Argentina, and Colombia) and China. These six countries make up more than half (55 percent) of IFC’s total loan and equity net income from investment operations. These same countries also account for more than half of MICs’ total equity net income, of which almost a quarter (21 percent) – as of June 2007 - was made up of unrealized capital gains. The overall profitability rate of MICs thus masks the fact that in the event of a downturn in these markets, there is a risk not only to client company and country development, but also to IFC’s returns (which are used to support future IFC projects and are contributing to lending by the World Bank Group’s International Development Association (IDA) to poor countries, especially in Africa).  

Challenge: Given IFC’s high dependence on unrealized equity gains in a few MICs for its near term profitability, a challenge remains for IFC to strengthen its risk mitigation schemes, including improved equity exit options, to help both IFC and its client companies in the event of a downturn in the emerging markets.

- IFC must also rise to the challenge of more comprehensively capturing its development performance and additionality in MICs (particularly at the country level).

Experience: Data are available to track many of IFC’s contributions to its development objectives in MICs, such as the extent to which the institution helped clients during times of crisis and focused on higher-risk countries. However, in terms of objectives such as expanding the geographical spread of economic activity in a country, supporting second tier companies, and facilitating south-south investment, information is more limited. An important missing piece in the data jigsaw is the provision of a thorough review of experiences on a country-by-country basis, with CASCR reviews as yet not providing sufficient detail on IFC’s performance in pursuing its strategic objectives. IEG’s analysis shows that IFC has contributed to the economic diversification in some resource rich countries, but more lessons can be drawn across similar countries in this regard. Finally, while IFC’s additionality relative to other private investors has been reviewed in project level evaluations (and IFC’s Development Effectiveness Unit is starting to track IFC’s expected value added at project approval), the changing nature, and impact of, IFC’s additionality (including the distinction between financial and non-financial additionality) has until now not been systematically assessed.

Challenge: To more effectively capture IFC’s development contributions, and to improve the classification and tracking of IFC’s additionality, particularly at the country level.
1. Management welcomes IEG-IFC’s independent conclusion that IFC has an important role in the large and complex development agenda in middle income countries (MICs), home to about a third of the world’s population earning less than $2 a day. IEG-IFC found that IFC delivered significant additionality and achieved strong development results, confirming the relevance and efficacy of IFC’s approach amidst rising private sector investments in this highly diverse group of countries. We would also like to note that while MICs continue to be important client countries, IFC has also expanded the share of its activities in low income countries (LICs). In FY07, 37 percent ($3 billion) of IFC’s investment commitments were made in IDA countries.

2. We are pleased with IEG-IFC’s finding that, ex-post, IFC has strong additionality in 83 percent of its projects in MICs. We also note that IEG-IFC found that we were counter-cyclical in most crisis countries but less in some. This reflects the difference in the severity of the impact of the crisis on IFC’s portfolio and the fact that in some countries, post-crisis adjustments took longer to make markets conducive to private sector investments.

3. We recognize the opportunities identified by IEG, namely public-private partnership and providing additionality beyond financing, and are looking to expand in these areas. We also take note of the challenges pointed out in the report, i.e., risk mitigation and tracking development contributions and additionality. IFC continues to strengthen its risk management with new initiatives in connection with increased decentralization while enhancing the management of its equity investments with the recent creation of a central equity department. IFC will maintain a diversified range of risk profiles within countries, sectors, and regions. Moreover, IFC has recently reviewed its ex-ante additionality in investment projects in the past few years. IFC will also continue to monitor risks and additionality at the aggregate level. At the same time, IFC’s Development Outcome Tracking System (DOTS) enables it to track development impacts at the country and sector levels on all its projects.

4. We note that IEG-IFC plans to further evaluate IFC’s ex-post additionality in all markets. This should give us an opportunity to understand better what evaluation can tell us about enhancing our additionality. We look forward to this evaluation for learning and for further deepening our impacts.
IFC’S EXPERIENCE AND ADDITIONALITY IN MIDDLE INCOME COUNTRIES

ENDNOTES

1. This was the income range defined by the World Bank’s World Development Indicators in 2004 as middle-income.

2. Developing countries are defined as all low- and middle-income countries. This data exclude regional investments and a small number of investments in high-income countries (HICs), which together account for $6.3 billion of investments between 1996-2007. By instrument, loans accounted for 86 percent of investment volumes and equity 14 percent, similar to the split between loans and equity in LICs (88 percent and 12 percent, respectively). By number of projects, 65 percent involved straight loans, 24 percent straight equity, and 11 percent some combination of the two instruments.

3. The following evaluation data formed the basis for this paper: 858 XPSRs for projects that reached early operating maturing between 1996-2006 (investment project evaluations that IEG has independently validated, 414 of which were for projects carried out in MICs), 293 Project Completion Reviews for projects completed between 2004-06 (advisory services project evaluations that IEG has independently validated), Risk Profiling Reviews of 576 projects (IEG’s assessment of the high risk intensity of projects that reached early operating maturity between 2000-05 and will do so between 2007-10), 10 CASCR reviews, and addi


5. This pattern contrasts sharply with World Bank lending to these countries over the same period, which fell in real terms. See An Evaluation of the World Bank’s Support to Middle Income Countries, Independent Evaluation Group – World Bank, September 2007, for a fuller discussion of the World Bank’s experiences in MICs. It is also worth pointing out that IFC’s investments in LICs have grown at a faster pace than those in MICs, reflective of IFC’s frontier strategy that specifically prioritizes investments and advisory services low-income and/or high-risk countries.

6. This is according to the latest 2008 Doing Business rankings.

7. In MICs, it costs on average some $1,162 to export one container overseas. This compares to $811 per container in HICs. Source: World Bank Group Doing Business database (accessed in February 2007). See “Beyond Cheap Labour: Lessons for Developing Countries”, McKinsey Quarterly, 2005, no. 1, on the need for strong enabling infrastructure and an effective regulatory structure in helping MICs exploit their comparative advantages.

8. Unique because this figure includes substantial lending to state-owned enterprises that are nominally classified as private enterprises.

9. Source: World Bank Global Development Finance database. IEG’s evaluation, World Bank: Assistance to the Financial Sector: A Synthesis of IEG Evaluations explores the World Bank’s efforts to support the financial sector in borrowing countries between 1993-2005 and finds that the Bank has “helped catalyze changes in the right direction in the depth and access to credit of financial systems” but that there is “room for improvement” in the quality and impact of Bank assistance (p. vii).

10. Average private sector credit to GDP was 20 percent in Argentina and 19 percent in Mexico between 1996-2005. While the region represents over 4 percent of global GDP, it has less than 2 percent of the world’s total financial assets. See Mapping the Global Capital Market 2006: Second Annual Report, McKinsey & Company, January 2006, p11.

11. Non-bank financial services have been constrained by the lack of development of long-term debt markets, which provides necessary local currency financing for the provision of these services.


14. See IFC Strategic Directions papers; regional strategies for LAC and ECA.

15. The countries, covering all regions as well as varying income and business risk levels were: Angola, Argentina, Azerbaijan, Brazil, China, Egypt, Jordan, Kazakhstan, Mexico, Morocco, the Philippines, Russian Federation, South Africa, Ukraine, and Uruguay.

16. Note that IFC’s development results cannot be directly compared with those of other multilateral institutions such as the World Bank, which employ different evaluation approaches, including in terms of focus, timing of evaluation, and benchmarks used. For example, the World Bank evaluates projects right after disbursement while IFC does so a few years after disbursement (at early operating maturity). The Bank assesses results based on achievement of objectives while IFC considers financial and economic results based on market benchmarks, along with environmental and social impacts as well as private sector impacts beyond the project company.

17. See Independent Evaluation of IFC’s Development Results 2007: Lessons and Implications from 10 Years of Experience, Independent Evaluation Group – IFC, August 2007. The differential in performance by number and by volume is smaller in MICs than in LICs because average project size in MICs is much greater than it is in LICs.

18. Each assessment is carried out on a case-by-case basis and is not a simple arithmetic sum of the four sub-indicators.


20. The fixed loan interest rate is either the actual interest rate of a fixed rate loan, the fixed rate equivalent of an actual variable loan, or the notional interest rate IFC would have charged to a similar company in the same country.

21. If IFC’s substantial commitments in China and India are excluded, MIC performance (China is a MIC) decreases from 42 percent to 38 percent and LIC performance (India is a LIC) increases from 57 percent to 67 percent.


23. Between 1996-2006, high-risk MICs accounted for 9 percent of developing country GDP, 7 percent of developing country FDI, but 10 percent of IFC’s investments in developing countries. This contrasts with non-high risk MICs, which accounted for 77 percent of developing country GDP, 85 percent of developing country FDI, and 69 percent of IFC’s investments in developing countries.

24. The database of IFC Advisory Services projects that closed between FY2004-06 is part of the initial pilot exercise to better track and evaluate IFC Advisory Services projects. Many projects in this initial round lacked sufficient data to make an assessment and the methodology for evaluating Advisory Services projects is still being refined. The results from this database of evaluated Advisory Services projects under the initial pilot should therefore be interpreted with a little caution.

25. The share of IFC Advisory Services operations in other business lines was as follows: Access to finance = 22 percent; Value addition to firms = 19 percent; Infrastructure = 14 percent; Environmental and social sustainability = 6 percent.


27. While the fact that CASs normally last for four years does limit what can be reported about the results of investment projects initiated in the CAS period (since they reach early operating maturity typically after five years), it is still possible to discern the direction of IFC’s investments over the CAS period (to see if they are aligned with strategic priorities), the risk profile of these investments, the results of most advisory services projects that were carried out during that time (at least in output terms), and lessons emerging from investment projects that were instigated prior to the CAS (to feed into the next CAS).

28. IFC’s own investment returns have also suffered in projects exposed to crisis, with 55 percent of projects achieving high ratings in these circumstances, compared to 64 percent of projects when not exposed to crisis. IEG evaluated 95 projects that were crisis affected.

29. The role of the state and lack of transparency in business dealings have been particular problems for IFC in these countries.

30. IFC shifted its approach from direct to a wholesale support of MSMEs in 2000 (through financial intermediaries on the investment side and thematic programs on the advisory
services side), following weak performance with direct investments and advisory services projects, especially in Africa.


32. Results of IFC Advisory Service operations in the financial markets sector, as evaluated in the first pilot, did however show below average results, with 60 percent of projects having a high development rating, compared to 77 percent of projects in other sectors.

33. The relative newness of the social sectors to IFC may be a factor in driving results, in that IFC is in the learning phase with investments in these sectors and trying out different approaches.

34. Twenty out of 29 agribusiness projects in the LAC region achieved high development ratings (68 percent success rate). Of those projects that had high ratings, the average project size was almost $100 million, compared to an average of $36 million for all other agribusiness projects that IFC supported.


37. At project approval, IFC outlines to the Board the areas in which it expects to provide additionality to a project. At early operating maturing (typically five years after approval), IFC’s performance is evaluated against these expectations (first by investment officers, and then verified by IEG, following guidelines that are in line with those agreed by the Multilateral Development Bank Evaluation Cooperation Group’s Working Group on Private Sector Evaluation. These guidelines are set out in full at http://www.ifc.org/ifcext/ieg.nsf/Content/EvalInvOps.

38. In satisfactory or better cases, either IFC’s role was deemed essential for the project to go ahead and IFC made a major contribution to its success (excellent) or at least it was in line with IFC’s operating principles of making a special contribution and being catalytic (satisfactory). In less than satisfactory cases, IFC’s role or contribution either fell short in a material area (partly unsatisfactory) or IFC’s role was not plausibly additional and IFC did not deliver its expected contribution (unsatisfactory). There was an overall disconnect of -2 percent between investment officer and IEG ratings, with 5 percent of ratings downgraded and 3 percent upgraded. The same level of overall disconnect was found in LICs.

39. IFC has recently developed a similar typology for its investment operations, based around the following four categories of additionality: risk mitigation (which includes 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).

40. In effect, as IFC’s Environmental and Social Review Procedures articulate, this would mean an improvement in a project’s baseline conditions (for example, a reduction in sulphur dioxide emissions) due to IFC’s involvement.

41. Investment returns as a percentage of outstanding balance.

42. See http://www.ifc.org/ifcext/media.nsf/Content/IFC_WBG_2007_Performance


44. See, for example, IEG Findings: China Country Impact Review, Independent Evaluation Group-IFC, 2005.