

International Finance Corporation Additionality in Middle-Income Countries



IEG
INDEPENDENT
EVALUATION GROUP

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1818 H Street NW
Washington, DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org

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EDITING AND PRODUCTION

Amanda O'Brien

GRAPHIC DESIGN

Luisa Ulhoa

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An Independent Evaluation

April 17, 2022

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Abbreviations

AIMM	Anticipated Impact Measurement and Monitoring
AS	advisory services
CPF	Country Partnership Framework
DFI	development finance institution
E&S	environmental and social
EBRD	European Bank for Reconstruction and Development
FY	fiscal year
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFC	International Finance Corporation
INR	Infrastructure (IFC industry group)
IS	investment services
LIC	low-income country
LMIC	lower-middle-income country
MAS	Manufacturing, Agribusiness, and Services
MDB	multilateral development bank
MIC	middle-income country
MIGA	Multilateral Investment Guarantee Agency
PRA	portfolio review and analysis
UMIC	upper-middle-income country

All dollar amounts are US dollars unless otherwise indicated.

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Overview

Introduction

Additionality is a core feature of International Finance Corporation (IFC) development finance, which is integral to IFC’s mission. Additionality refers to the unique contribution that IFC (or other multilateral development banks) brings to a private investment project that is not offered by commercial sources of finance. The core idea is that the investment project should add value without crowding out private sector activity.

There are two types of additionality: financial and nonfinancial. Financial additionality can be realized through features such as the financing structure (for example, a long loan tenor or financing in local currency) and innovative financing (such as through derivatives or green bonds). Nonfinancial additionality encompasses other unique contributions such as the deployment of knowledge and standards or protection against noncommercial risk.

The concept of additionality is different from that of development impact, but additionality contributes to development impact. Where IFC provides unique support to a developmentally significant project that may not otherwise proceed, it is more likely to contribute to IFC’s goals of creating markets and mobilizing capital at scale in service of higher-level aims embodied in the Sustainable Development Goals. Projects may exhibit different types and combinations of additionality based on country income, sector, market, client, and other aspects of project context.

This evaluation distinguishes between anticipated and realized additionality. At the outset of a project, when it is being designed and appraised, IFC identifies the additionality it believes will be associated with its support. This is the project’s *anticipated additionality*. Once a project is complete or terminated, it may be evaluated to determine whether the anticipated additionality actually occurred—that is, whether IFC delivered a unique contribution to the client or partner consistent with its expectation. This is *realized additionality*. Additionality cannot be quantified, but evidence can be provided as to

whether it was present or not present—for example, whether the tenor of the loan was or was not available from another provider.

Properly identifying and articulating project additionality are important in middle-income countries (MICs), especially in upper-middle-income countries (UMICs). In these countries, financial markets are more developed, and private investment far exceeds official development assistance. These conditions create a special challenge for IFC additionality because its reliance on traditional financial additionalities is weaker in the context of competition from private financiers. Innovative financing and nonfinancial additionalities can be particularly important to ensure that IFC adds unique value and does not crowd out private finance in this context.

This evaluation examines the relevance and effectiveness of IFC’s approach to additionality in MICs and seeks to explain the factors that contribute to or constrain its realization. Although the main focus is on project-level additionality, the evaluation also applies the lens of country and sector context to add to its learning value. Thus, it considers whether additionality can occur beyond the level of a single project—for example, at the country and sector level. Both at the project level and beyond the project, we derive lessons on how IFC can further strengthen its additionality.

In assessing additionality, the evaluation sought to answer three main questions:

1. **Relevance.** To what extent does IFC’s anticipated additionality in lower-middle-income countries (LMICs) and UMICs vary, and what explains variance according to country and industry or sector context, IFC instrument type, and the presence and role of other providers of finance and services in the same industry, sector, or country?
2. **Effectiveness.** To what extent was IFC’s anticipated financial and non-financial additionality realized in MICs, and to what extent was it plausibly linked to enhanced development outcomes and impact at the project, industry or sector, and country level?
3. **Learning.** How can IFC strengthen its additionality at the country, industry or sector, and project or instrument level?

Our findings are based on mixed methods. They include the following:

- » A review and analysis of 579 projects evaluated between 2011 and 2022 and additional projects that were not evaluated but were initiated during this period
- » Statistical and econometric analysis of the portfolio using both data from project evaluations and external variables to relate the successful attainment of financial and nonfinancial additionality to a variety of explanatory factors
- » Nine country case studies, each with two nested sector studies, in countries selected to reflect a range of LMIC and UMIC experiences: Bangladesh, China, Colombia, the Arab Republic of Egypt, Indonesia, Mexico, Nigeria, South Africa, and Türkiye; sectors covered included electric power (traditional and renewable), commercial banking, microfinance, chemicals and fertilizers, and agroindustry
- » A structured literature review of a very limited academic literature on development finance institutions (DFIs) financial and nonfinancial additionality for private sector operations, including on links of additionality to development outcomes
- » Semistructured interviews of 21 IFC experts on aspects of IFC's additionality and IFC practices and experience relating to them
- » Deep dive input papers on DFI additionality in MICs and the additionality features of IFC's financing instruments in MICs

The approach used by the Independent Evaluation Group (IEG) has several acknowledged limitations. First, it treats additionality and its types only as defined in IFC's framework. Second, it is not an evaluation of IFC's development effectiveness. Third, it does not treat the additionality of IFC advisory services projects because IFC has not consistently identified and assessed such additionality. Fourth, because IFC's enhanced additionality framework was activated only in fiscal year 2019, there were few evaluated projects approved under the new framework. Next, although IEG applies country and sector lenses to additionality for learning purposes, it does not aggregate additionality at this level (as agreed in the Approach Paper). Finally, this evaluation focuses only on IFC's work in MICs.

Relevance

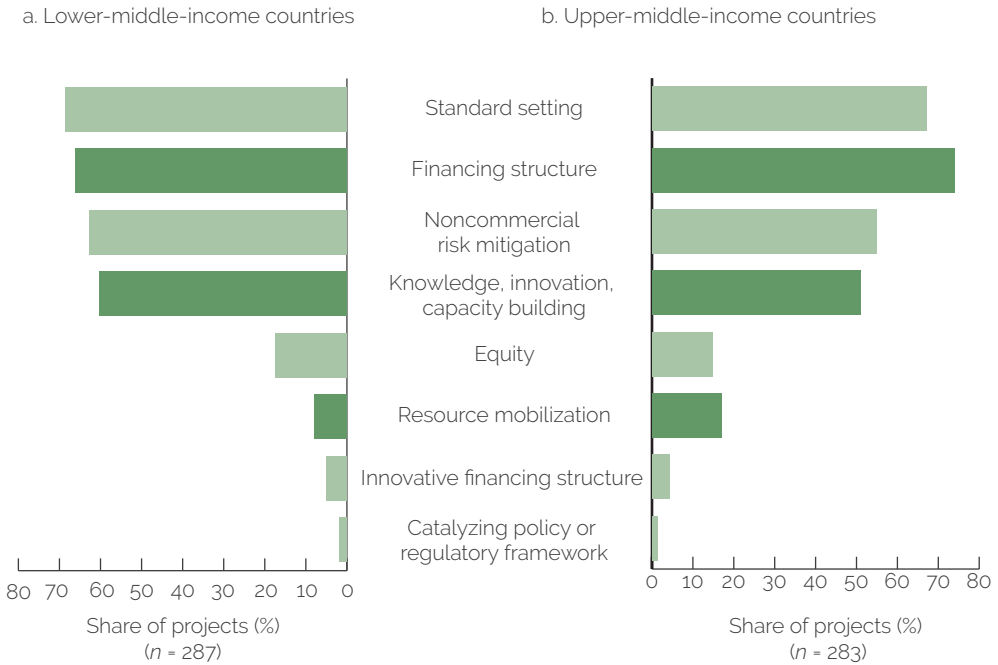
Several factors make IFC a leader among DFIs in identifying and articulating additionality at the time of approval. IFC's additionality framework and accompanying guidelines for staff provide the basis for clarity and rigor in articulating additionality in investment project approval documents. Furthermore, its internal review process enhances the quality of additionality claims. IFC does not apply a parallel process to its advisory services projects.

IFC's additionality has become more diverse over time to include both financial and nonfinancial attributes. This shift can be understood to arise in part in response to (i) the increased availability of private financing, which weakens IFC's claims to financial additionality, and (ii) the increased scrutiny of additionality in projects in UMICs by IFC's Board of Directors and management. The majority of projects (82 percent) anticipate both financial and nonfinancial additionality.

The patterns of anticipated additionality present in IFC's portfolio do not match IFC's assumptions about how additionality varies based on country income. IFC's corporate strategies indicate that, as country income rises, IFC will rely more on additionality types based on innovation (financial and nonfinancial) and deployment of knowledge. However, the portfolio tells a different story. IFC has not employed knowledge and innovation additionalities to a greater extent in UMICs than in LMICs. In practice, IFC has a significantly greater proportion of anticipated financial additionalities in UMICs than in LMICs and a significantly greater proportion of anticipated nonfinancial additionalities in LMICs than in UMICs (figure O.1).

The types of additionalities IFC anticipates also differ by sector. The pattern of additionality in infrastructure is different from those in financial markets and manufacturing and services. This points to the importance of considering sector characteristics when planning for additionality. The stage of sector development also influences the types of additionalities provided, which can evolve over time as markets grow in sophistication.

Figure O.1. Incidence of Additionality Subtypes, Lower-Middle-Income Countries Compared with Upper-Middle-Income Countries



Source: Independent Evaluation Group.

Note: Dark green indicates additionality types for which differences between upper-middle-income countries and lower-middle-income countries are statistically significant at 95 percent.

The additionality of IFC’s financing instruments is determined not only by their features but also by the context in which they are applied. The additionality of loans and equity is a function of country, sector, and client risk, and of the stage of market development. Context matters. For example, some short-term financing instruments that may not offer a unique contribution in normal times may offer substantial additionality during crises when liquidity is scarce.

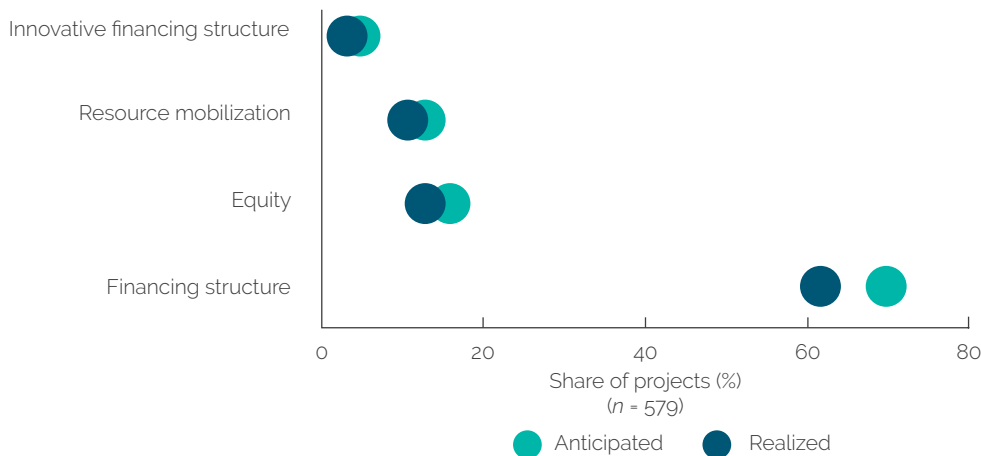
Although IFC has committed only to treating additionality at the project level, the evaluation finds promising examples where IFC considers additionality beyond the project level. For example, some country and sector strategy documents consider additionality. Such instances point to the potential for IFC to strategically add unique value at the country or sector level.

Effectiveness

Nearly all IFC investment projects in MICs (96 percent) realize some additionality. However, many projects realize only part of the additionality anticipated. Thus, although 82 percent of projects anticipate both financial and nonfinancial additionality, only 60 percent deliver both. Although 87 percent of anticipated financial additionalities were realized, only 63 percent of anticipated nonfinancial additionalities were realized. The overall additionality success rates in LMICs (61 percent) and UMICs (63 percent) are very similar. IFC sometimes realizes additionality it did not anticipate, particularly with regard to standard setting and noncommercial risk mitigation.

IFC is generally successful in realizing financial additionality. Overall, 86.7 percent of financial additionalities were realized. Financing structure additionality is the most common type of financial additionality. Equity and resource mobilization are less common, and innovative financing structure is only rarely identified as an additionality (figure O.2). Yet, IFC has a relatively high rate of realizing all these subtypes of additionality as anticipated. Several projects in country case studies realized innovative financing structures without anticipating them. IFC’s tool kit of financial instruments suggests different levels of success with different instruments, with loans offering the highest success rate and guarantees the lowest.

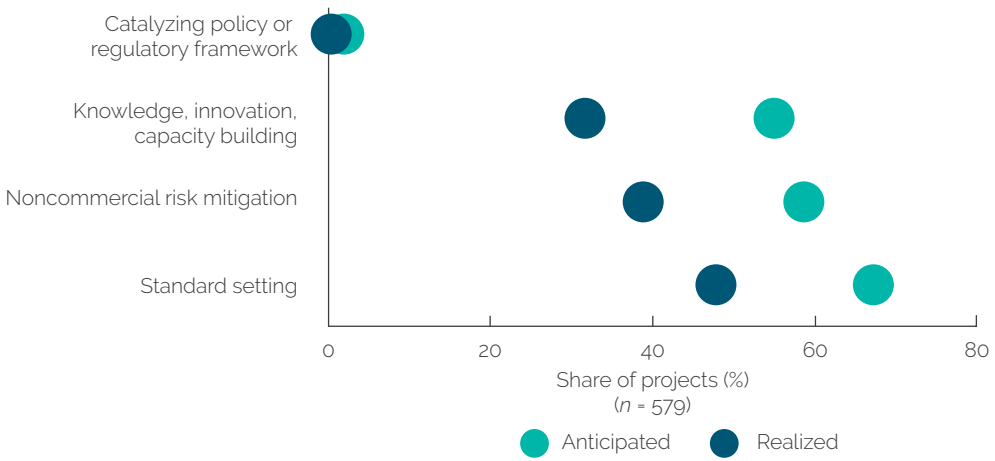
Figure O.2. Comparison of Anticipated and Realized Financial Additionality



Source: Independent Evaluation Group portfolio analysis of International Finance Corporation investment services projects evaluated 2011–21.

IFC is less successful at realizing nonfinancial additionality. Only 65 percent of anticipated nonfinancial additionalities were realized (figure O.3). Standard setting is the most common form of nonfinancial additionality. IFC is considered a leader among DFIs in its ability and willingness to monitor and enforce compliance with environmental and social standards, which often requires intensive, sustained client interaction. Corporate governance is the second-most common area of standard-setting additionality and another area where IFC is considered strong. Yet, this subtype of additionality is realized in only half of the projects where it is anticipated. IFC’s ability to add value through knowledge, innovation, and capacity building figures centrally in its value proposition in MICs; however, it has proved challenging to realize this form of additionality. Advisory services are a key instrument for nonfinancial additionality and are used more commonly in LMICs compared with UMICs. The advisory services actually materialized in only 57 percent of investment projects with nonfinancial additionality that anticipate complementary advisory services.

Figure O.3. Comparison of Anticipated and Realized Nonfinancial Additionality



Source: Independent Evaluation Group portfolio analysis of International Finance Corporation investment services projects evaluated 2011–21.

Realizing additionality is positively associated with both project development outcomes and project investment outcomes. IEG’s analysis of IFC’s evaluated portfolio indicates that 74 percent of projects with high additionality ratings

have successful development outcomes. Furthermore, 81 percent of projects with low additionality ratings have low development outcome ratings.

Realizing nonfinancial additionality is particularly important for development outcomes. Projects that realize nonfinancial additionality are more likely to produce a variety of positive outcomes. For example, our econometric analysis finds that projects realizing knowledge, innovation, and capacity-building additionality are 25.3 percent more likely to have a positive development outcome rating and are 15.4 percent more likely to show positive project business performance.

IFC treats additionality primarily at the project level, but the country and sector lens affords a potentially valuable additional perspective. Approaching transactions individually (that is, focusing strictly on projects) can miss opportunities to realize greater additionality to clients, sectors, and countries. Thinking about additionality arising from sequenced or complementary activities may identify more opportunities for IFC to tap into regional or global programs and partnerships or to increase collaboration across the World Bank Group and with other DFIs.

Factors of Success and Failure

For IFC to realize additionality, a chain of events must take place. They include identifying anticipated additionality, deploying tools or support to transform anticipated additionality into realized additionality, assessing whether the anticipated additionality is being realized, and addressing it if it is not being realized. Internal and external factors influence these events, both at the project level and at the country and sector levels.

Project-level internal factors include IFC's work quality, staff capabilities, and internal procedures. Work quality is the leading internal factor, although it has a larger influence on nonfinancial additionality than on financial additionality. Work quality during monitoring and supervision is especially important for nonfinancial additionality because nonfinancial additionality tends to be realized over the life of a project rather than at disbursement of financing (table O.1). Staff capabilities (expertise, experience, and local presence) are a second important internal factor noted prominently in case studies and interviews. Finally, IFC procedures (including safeguards, quali-

ty reviews, and systems for tracking additionality) and staff incentives both enhance and constrain the realization of additionality.

Internal procedures to assess additionality are incomplete. Although procedures at project identification and appraisal and at evaluation are well developed, practices related to monitoring and aggregate reporting are not. According to IFC’s guidelines, once a project is approved, IFC teams are expected to enter additionality information and related additionality milestones and indicators into a new additionality database and provide regular updates and evidence of when and how additionality was delivered during project implementation. However, the envisioned additionality database is not yet operational, and little monitoring of additionality is currently being done under the old system—the Development Outcome Tracking System. In addition, despite IFC’s guideline stating that, at the portfolio level, “IFC will provide annual reporting on achievement of additionality as part of development impact reporting,” (IFC 2018, 11), it does not do so.

Table O.1. Average Marginal Effect of Work Quality on Successful Delivery of Additionality (percent)

Aspect	Financial Additionality	Nonfinancial Additionality
Overall work quality	16.8	31.1
Screening and appraisal	11.4	20.6
Monitoring and supervision	7.8	16.3

Source: Independent Evaluation Group econometric analysis of evaluated International Finance Corporation investment projects.

Note: Relationships statistically significant above a 95 percent confidence level are indicated. The analysis controls for project tier, country income category, region, International Finance Corporation industry group, client and project characteristics, time period, and ratings of country political stability, government effectiveness, control of corruption, and domestic private sector credit depth.

Project-level external factors include client capacity and commitment, the political and policy environment, and competition and collaboration with other financiers. Realization of additionality is higher for repeat clients, especially in LMICs, perhaps because there is selection for clients with commitment and capacity. A supportive policy, regulatory, and political environment is vital for IFC to realize additionality, whereas unfavorable policies toward private sector solutions can impede its realization. Finally, the presence of other financiers creates fertile ground for collaboration but may also

induce competition if the flow of bankable deals is limited or private finance is abundant.

Through a learning lens, we also note that some factors affect additionality beyond the project level. One is IFC's long-term presence and engagement in particular sectors within a country. Long-term presence affords knowledge of the market, familiarity with potential clients, and the flexibility to respond quickly to changing conditions and priorities. A second factor that affects additionality beyond the project level is strategic planning tailored for engagement in the sector in a specific country context. IFC can have a larger impact in sectors where it can engage early in market development; apply multiple instruments in a sequential or complementary manner; collaborate with Bank Group institutions or other DFIs, financiers, and sponsors; and work at both upstream and downstream levels. A third factor is collaboration with the World Bank and the Multilateral Investment Guarantee Agency, which can enhance IFC additionality to clients and its impact on sectors. Finally, each of the external factors described above influences additionality not only at the project level but also at the country or sector level.

Recommendations to Enhance International Finance Corporation Additionality in Middle-Income Countries

Based on the preceding evidence-based analysis, we offer three recommendations to enhance IFC additionality in MICs.

Recommendation 1. To enhance institutional accountability, learning, and transparency, address gaps in internal systems related to monitoring, supervision, and reporting of additionality at the project and portfolio level.

IFC should update its internal additionality project-level tracking system, currently still hosted in the Development Outcome Tracking System platform. In addition, at the project level, IFC should systematically monitor whether necessary support is delivered within the stipulated timeline for anticipated additionalities that are to be fulfilled over the course of a project's life. This should be followed up by a final assessment of whether additionality was realized or not and why. Proactive monitoring and supervision

at the project level could enhance the realization of anticipated nonfinancial additionality claims.

IFC should introduce reporting of additionality at the portfolio level to enhance learning about patterns of additionality. Portfolio additionality ratings and information on additionality types (anticipated and realized) should be included in regular internal reports (for example, country- or sector-level portfolio reviews, scorecards) and considered in strategy discussions. Disclosure of anticipated additionality at the project level should continue, and external reporting of realized additionality at the portfolio level could follow the same approach as taken for development impact information.

Recommendation 2. To enhance commitment to and fulfillment of IFC's strategic objectives, IFC should bring its strategy for additionality in MICs and its pattern of activity in MICs into closer alignment.

This evaluation showed that IFC's stated strategy for MICs is not tightly linked to its actual patterns of anticipated and realized additionality. For example, IFC's activities in UMICs do not systematically show greater innovation or reliance on knowledge compared with its activities in LMICs. Because strategy serves to guide staff, management, and the Board of Executive Directors (the Board) regarding what to expect in IFC's approach, a closer alignment would enhance commitment to and fulfillment of IFC's strategic objectives. Given the intuitive logic of IFC's strategic statements on additionality, IFC could work to evolve its project design to better align with the stated strategy, with a stronger emphasis on innovation and nonfinancial additionality in UMICs. Doing so may require providing additional attention and resources to innovation and knowledge additionality, including at appraisal and supervision. This strengthened emphasis on innovation and knowledge additionality should include support for delivery of complementary advisory services. The alternative would be for IFC to offer the Board a revised strategy explaining how its additionality adapts to country and sector conditions, reflecting its actual practices in MICs, for example, adapting to the level of sector development.

Recommendation 3. To enhance its strategic approach to proactive creation of markets and mobilization of private capital to provide a critical contri-

bution to the Sustainable Development Goals, IFC should incorporate its additionality approach into its country strategies and sector deep dives.

IFC 3.0 is about being proactive to create markets and mobilize private capital at significant scale to increase development impact. IEG's observation of IFC's good practices in identifying and realizing additionality at the sector and country levels suggests an opportunity to more deliberately envision and articulate additionality beyond the project level. Given the new tools for strategic engagement at the country and sector levels that IFC introduced under IFC 3.0, there is a clear opportunity to increase the distinctive value that IFC adds in specific country and sector contexts. This opportunity raises the possibility of several potential enhancements to IFC additionality with greater benefits for creating sectoral markets and mobilizing capital at scale. As good practices discussed in this evaluation suggest, strengthening IFC's strategies by applying the additionality lens may open the door to realizing additionality from strategic planning for the explicit complementarity and sequencing of projects, combining projects that work upstream and downstream, and coordinating collaboration and distribution of responsibilities across the Bank Group. The recent China country strategy points to the potency of identifying sector-specific additionality within a country context—an approach that could be extended to other MIC country strategies. IFC's sector deep dives on housing and financial technology (fintech) provide a good-practice example of the potential benefits of a systematic consideration of IFC's unique potential to add value at the sector level. IFC clearly has the capacity to use the additionality lens more routinely in both its country strategies and its sector deep dives.

Management Response

International Finance Corporation (IFC) management welcomes the Independent Evaluation Group (IEG) report *International Finance Corporation Additionality in Middle-Income Countries* and appreciates the engagement and collaboration that IEG's task team extended to IFC throughout the preparation of the evaluation.

The broad scope of the evaluation offers IFC a good opportunity to reflect on evaluation findings and the progress made since the introduction of the new IFC Revised Additionality Framework and take into consideration useful recommendations for strengthening our additionality in middle-income countries (MICs). The evaluation is timely, given the ongoing discussions of the Evolution Roadmap of the World Bank Group.

Management expresses its appreciation for the analysis and recognition of IFC's comprehensive approach to additionality and welcomes the finding that IFC is the leading institution among development finance institutions with respect to additionality identification and articulation. Additionality is a core feature of IFC, a threshold condition for IFC involvement, and integral to our mission to promote private sector development. As such, it is IFC's unique input to a project or for a client and has the capacity to strengthen a project, improve its chances of success, and enhance its development impact—regardless of location. With the launch of IFC 3.0 in 2017 and the Revised Additionality Framework in 2018, additionality has come into greater strategic focus.

IFC notes that most projects realize additionality outlined at approval from the Board of Executive Directors, with financing structure and standard setting being the most frequent sources of expected and realized additionality. With respect to standard-setting, IFC appreciates IEG's recognition for standing out among development finance institutions for monitoring and enforcing compliance with environmental and social standards. At the same time, IFC acknowledges that we are comparatively less successful in realizing nonfinancial additionality than financial additionality, including where advisory services are an important vehicle for delivery. We agree that IFC needs

to be more deliberate, as nonfinancial additionality is usually significant in the context of programmatic and upstream advisory interventions under IFC 3.0. However, IFC would also like to affirm the importance of client commitment to realizing nonfinancial additionality.

Although this report finds that the expectation that innovation and knowledge as comparatively predominant sources of additionality in MICs does not hold, IFC would like to highlight that in the past years we have delivered a substantive number of projects with innovative features in MIC-heavy regions (Latin America and the Caribbean, Europe, and Central Asia). But teams may underreport on this type of additionality compared with other sources of financial and nonfinancial additionality for which more quantitative indicators and evidence may be available. Given that half of the evaluation period predates both IFC 3.0 and the Revised Additionality Framework, the evaluation's findings may not fully capture the progress of IFC's approach to additionality.

IEG notes that there is an alignment gap between IFC's strategic approaches and its activities in MICs. Although IFC's Revised Additionality Framework states that additionality in the client relationship typically evolves from financial to nonfinancial additionality, the report notes that IFC has generally more frequently identified and successfully delivered more on financial additionality compared with nonfinancial additionality in these markets. This is, at least in part, a response to market need—while the availability of capital tends to be greater in MICs compared with lower-income countries, the financing needs to address development gaps continue to far exceed supply. As such, the greater availability of funding sources in MICs does not necessarily imply lack of relevance of financial additionality. We fully agree with the importance of correctly identifying and articulating IFC's nonfinancial additionality in MICs in areas such as standard setting and innovation that have likely been underreported.

Finally, while noting the evaluation's portfolio-driven criteria for sector selection with regard to country case studies, we would like to highlight that a broader approach is needed to obtain a holistic view of IFC additionality in a particular MIC. This is especially true in the financial sector, where IFC additionality in debt capital markets, housing, and financial technology, for

example, is strong. In this case, limiting the scope of analysis to commercial banking and microfinance may not be representative of IFC's overall added value in the country. Similarly, the analysis comparing upper-middle-income countries (UMICs) with lower-middle-income countries could have been further strengthened by the incorporation of other differentiators like the size and development of financial markets, for example. India, which accounts for a large share of lower-middle-income country projects, is in many ways a more developed financial market than many UMIC countries.

Recommendation 1. “To enhance institutional accountability, learning, and transparency, address gaps in internal systems related to monitoring, supervision, and reporting of additionality at the project and portfolio level” (xvii).

IFC management agrees with this recommendation. We note useful recommendations on how to improve internal processes and systems, which IFC management will work to address. IFC's Development Impact Measurement Department will work to update our monitoring system for additionality.

IFC's Revised Additionality Framework allows for a more consistent assessment of additionality, better ability to benchmark and compare different sectors and countries as evidenced by widespread adoption of the additionality framework, and adherence to the requirements for evidence. This provides a strong foundation to build on.

Recommendation 2. “To enhance commitment to and fulfillment of IFC's strategic objective, IFC should bring its strategy for additionality in MICs and its pattern of activity in MICs into closer alignment” (xviii).

We would first like to highlight that the recommendation refers to a “strategy.” IFC does not have a formal strategy for additionality but recognizes that approaches to additionality are dynamic and context driven. IFC management agrees in principle with the recommendation.

IFC notes that, a priori, there is an expectation of greater opportunity for non-financial additionality in relation to financial additionality in MICs. In reality, the type of additionality needed by companies and the opportunities for IFC reflect the development context and changes in the external environment, including the emergence of crises such as the COVID-19 pandemic or intensifying global challenges such as climate change, varies. Although the availability

of capital is indeed greater in MICs—and in more affluent MICs—the financing needs continue to far exceed supply. This is particularly relevant in areas such as climate, where mobilization of capital can be challenging.

Further, we acknowledge that incidences of identifying and anticipating nonfinancial additionality are comparatively lower in UMICs than in lower-middle-income countries (though not significantly), and we will continue the effort to capture nonfinancial additionality particularly in relation to innovation and knowledge. We also suspect that the relatively lower incidence of nonfinancial additionality may stem from weak articulation or delivery rather than a need to bring IFC’s strategic approaches into closer alignment with its activities. As this report observes, certain types of innovations may be “challenging to document with compelling evidence and thus may be underreported” (37). The report also mentions that teams often focus on “additionality for which quantitative evidence could be provided to the exclusion of some other forms of additionality, such as innovative financing and mobilization” (58).

Moreover, the low proportion of projects claiming innovative financing structures in the anticipated additionality is likely the consequence of very specific criteria in the Revised Additionality Framework. This was acknowledged in the report as a possible reason; it points to examples where IFC did not declare innovative financing despite its presence or where it framed such innovations under a different category of additionality. It is thus noteworthy that IFC’s contribution to innovation is not limited to additionality categorized as innovative financing structure and might be framed as innovations under a different category of additionality. Specifically, older projects in the portfolio under review will not have been subject to the Revised Additionality Framework, which has yielded improvements in articulation and identification already. In the past few years in Latin America and the Caribbean and Europe, two regions with the highest concentration of UMICs, IFC delivered a large number of projects with innovative features (first blue bonds, first sustainability linked bonds, synthetic risk transfer instruments, climate tech, and so on). Many investment projects have been supported and enabled by upstream and advisory services (for example, gender advisory for banks, the EDGE [Excellence in Design for Greater Efficiencies] Green Buildings program,

Utilities for Climate initiative’s upstream interventions to optimize efficiency in water and power utilities, and so on).

A related but separate point highlighted in the report is that IFC is comparatively less successful in realizing nonfinancial additionality than financial additionality, including where advisory services are an important vehicle for delivery. This point warrants further investigation by IFC, specifically in taking a closer look at delivery of advisory services. However, it is noteworthy that channels for delivery of knowledge and capacity building may not be recognized due to challenges inherent in assessing them *ex ante* or monitoring them later, thus leading to underreporting.

Recommendation 3. “To enhance its strategic approach to proactive creation of markets and mobilization of private capital to provide a critical contribution to the Sustainable Development Goals, IFC should incorporate its additionality approach into its country strategies and sector deep dives” (xviii–xix).

Management appreciates IEG’s recognition that IFC’s additionality approach is useful for market creation and private capital mobilization. As highlighted in the report, the evaluation applies country and sector lenses primarily for learning purposes to explore achievement of additionality beyond the project level.

Although we agree in principle with the recommendation, we would nonetheless like to emphasize that IFC captures and realizes additionality at the project level. It is an approach shared by other multilateral development banks and forms the basis of the banks’ harmonized additionality framework. IFC management will explore how project-level additionality considerations can inform country- and sector-level engagement, where feasible. Moreover, IFC’s approach to assessing strategic priorities and engagement areas at the country level is based on a number of factors, including development needs, comparative advantage, and our role.

Finally, in terms of Bank Group collaboration, it is noteworthy that joint Bank Group Country Partnership Frameworks provide the authorizing context for IFC operations at a country level. Bank Group collaboration enhances value added at the country and sector level, which is acknowledged in

the report. The IFC 3.0 tool kit, which includes diagnostics such as Country Private Sector Diagnostics, Country Climate and Development Reports, and upstream activities, among others, has created a step change and provides a strong basis for both joint and sequenced Bank Group activities, enhancing overall value and delivery to clients. A stronger focus on the One World Bank Group Approach and the Cascade—as identified in the evolution roadmap—will support greater role and impact.

Report to the Board from the Committee on Development Effectiveness

The Committee on Development Effectiveness met to consider the Independent Evaluation Group report *International Finance Corporation Additionality in Middle-Income Countries* and the management response.

The committee welcomed the evaluation findings and recommendations, which emphasize that 96 percent of International Finance Corporation (IFC) projects realized some level of additionality, including both financial and nonfinancial additionality. Members noted IFC's leadership among other development finance institutions in identifying and articulating additionality at the time of project approval and underscored the timeliness and relevance of the subject in the context of the World Bank Group evolution roadmap discussion. They appreciated management's agreement with the Independent Evaluation Group's recommendations and urged them to ensure that the findings and recommendations, including the need to incorporate IFC's additionality approach to country strategies, are integrated into the roadmap discussions on the operational model and toward a more effective use of the Cascade approach.

Members acknowledged the evaluation's finding that IFC is comparatively less successful in realizing nonfinancial than financial additionality and underscored the importance of remedying this imbalance, which could undermine IFC's value proposition in middle-income countries. Members called on IFC to ensure that adequate measures are identified to better articulate and realize nonfinancial additionality, including the delivery of advisory services to support realization of nonfinancial additionality and by optimizing footprint and providing incentives to the project teams, for a more enhanced engagement.

Acknowledging that additionality is core to IFC's operations, members echoed IEG's findings that internal IFC systems to assess additionality are incomplete and as such encouraged IFC management to follow up on its

commitment to update IFC’s monitoring and reporting system for additionality. They called on IFC management to provide regular reporting on achievement of additionality at the sector, region, and portfolio level as part of development impact reporting while also improving the database. In addition, they urged IFC to take adequate steps toward improving client commitment, which is key to the successful realization of nonfinancial additionality. Members also stressed the importance of scaling up the One World Bank Group approach through IFC’s enhanced collaboration with the World Bank and the Multilateral Investment Guarantee Agency, as this offers an opportunity for IFC to create more markets, serve all clients, and enhance additionality and impact.

1 | Introduction

Highlights

Additionality is the unique contribution—not offered by commercial sources of finance—that a development finance institution, such as the International Finance Corporation, brings to a private investment project. It comprises financial and nonfinancial additionality.

Financial additionality includes features such as the financing structure (for example, loan tenor, local currency loans) and innovative financing (for example, derivatives, green bonds). Nonfinancial additionality encompasses other unique contributions such as the deployment of knowledge and standards.

Additionality is different from, but contributes to, development impact. It varies by country, sector, market, and client characteristics.

Proper articulation of additionality is especially important in middle-income countries, where private investment is much more common than official development assistance and where financial sectors are more developed.

This evaluation examines the relevance and effectiveness of the International Finance Corporation's approach to additionality in middle-income countries. This includes not only attention to project-level additionality but also—for the purpose of learning—consideration of additionality at the country and sector levels. From the evaluation, we derive lessons on how the International Finance Corporation can further strengthen its additionality.

The findings are based on mixed methods, including portfolio review and analysis, country case studies, statistical and econometric analysis, a structured literature review, semistructured interviews of experts, and deep dive input papers.

Definition and Nature of Additionality

The International Finance Corporation (IFC) defines additionality as the unique contribution that it brings to a private investment project that is typically not offered by commercial sources of finance (IFC 2019b). Development finance institutions (DFIs), such as IFC, play a critical role in supporting the development and growth of markets and private sector investment in low-income countries (LICs) and middle-income countries (MICs).¹ To avoid crowding out (displacing) the private sector, IFC's and other DFIs' investments have to provide unique value to clients, offering features not available from commercial sources of finance. IFC's unique value is rooted in its comparative advantage over the private sector in bridging the gap between private and public sectors, leveraging its global expertise and knowledge, investing in markets perceived as too risky for the private sector, and taking a longer-term view than other investors (IFC 2019b).

The concept of additionality can be traced back to IFC's Articles of Agreement and is articulated for all the major multilateral development banks (MDBs). The concept of adding to and not displacing private financing is outlined in IFC's Articles of Agreement, which state that "the Corporation shall not undertake any financing for which in its opinion sufficient private capital could be obtained on reasonable terms" (IFC 2020). The concept of additionality is most clearly articulated for all the major MDBs in the *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations* (the Harmonized Framework). In response to demand from stakeholders, IFC joined 10 other prominent MDBs to adopt this Harmonized Framework in 2018 (AfDB et al. 2018). The Harmonized Framework provides a common definition of additionality, requiring that "interventions by [MDBs] to support private sector operations should make a contribution beyond what is available in the market and should not crowd out the private sector" (AfDB et al. 2018, 3). IFC's Revised Additionality Framework is fully aligned with the MDBs' Harmonized Framework, while aiming to introduce more rigor to IFC's assessments of additionality (IFC 2019b). This framework, with its detailed typology and guidance, is consistent with prior IFC practice, enhancing the definitions and guidance IFC already had in place.

Additionality contributes to achieving development impact. IFC's Revised Additionality Framework acknowledges a direct link between additionality and development impact. It states that additionality is essential for delivering development impact that would not have happened without IFC's involvement (IFC 2019b). The link can be direct, for instance when IFC helps the client reduce emissions by introducing environmental standards, or indirect, when IFC's additionality reduces a project's risk profile and contributes to the likelihood of the development outcomes materializing.

Furthermore, the Sustainable Development Goals require DFIs to support private investment in a unique way. DFI additionality may be delivered, for example, by creating the market conditions for the private sector to invest (through noncommercial risk mitigation, a feature of nonfinancial additionality) or by mobilizing private capital (a feature of financial additionality). The unique support provided to the private sector is critical to allow DFIs to contribute to the objective of increasing development assistance from “billions to trillions” (AfDB et al. 2015). Examples of Sustainable Development Goals for which DFIs' additional support to the private sector is vital include combating climate change, building infrastructure, fostering innovation, and enabling access to energy.

There are two types of additionality: financial and nonfinancial. Financial additionality is based on the features of the financial package offered by IFC, including the financing structure (such as longer tenors and provision of local currency financing), resource mobilization (from the private sector or other DFIs), or innovative financing (such as derivatives and green bonds). Nonfinancial additionality relates to the deployment of knowledge and standards—for example, mitigation of noncommercial risks, such as country or project risks, or provision of expertise in environmental and social (E&S) standards or industrial standards that are material to improve development impact. A single project can anticipate more than one form of additionality—for example, by IFC offering both long tenor and resource mobilization. See table 1.1.

Table 1.1. Types of Additionality

Type	Subtype	Description
Financial additionality		
	1. Financing structure	Amount of financing provided, tenors and grace periods, provision of local currency financing
	2. Innovative financing structure and/or instruments	Includes financing structures not available in the market that add value by lowering the cost of capital or better addressing risks (such as trade finance, derivative products, green bonds, or securitizations)
	3. Resource mobilization	IFC's verifiable role in mobilizing commercial financing from an institutional or private financier that would be delayed, reduced, or unlikely in the absence of IFC involvement
	4. IFC's own account equity	IFC provides equity unavailable in the market in a way that strengthens the financial soundness, creditworthiness, and governance of the client.
Nonfinancial additionality		
	1. Noncommercial risk mitigation, including trusted partnerships	IFC provides comfort to clients and investors by mitigating noncommercial nonenvironmental and social risks, such as country, regulatory, project, or political risks, while adhering to IFC's principle of political neutrality.
	2. Frameworks: catalyzing policy or regulatory change	IFC's involvement in a project catalyzes the investment response to changes in the policy/regulatory framework. The project is the first to test a new or untested policy, regulatory regime, or legal framework/PPP model. IFC's involvement is also likely to mitigate further regulatory changes or other risks to the project.
	3. Knowledge, innovation, and capacity building	IFC plays a verifiable, active, and direct role in providing expertise, innovation, knowledge, and/or capabilities that are material to the project's development impact due to the perceived weak institutional capacity of the borrower or investee.
	4. Standard setting	IFC is a provider of expertise in environmental and social standards, corporate governance, insurance, and gender, and is additional where the laws and market practice do not reinforce this behavior. Changes in practices have to be significant enough to matter from a development impact angle: they have to pass the "so what" test.

Source: International Finance Corporation 2019b.

Note: IFC = International Finance Corporation; PPP = public-private partnership.

In IFC, documenting anticipated additionality is a condition for project approval. In IFC and many other DFIs, anticipated additionality is a condition for approval of potential private investment projects, along with strategic relevance, development impact, sustainability, and financial viability (IFC 2019b). Additionality types and combinations vary by country income, sector, market and clients, all of which evolve over time (AfDB et al. 2018). Yet for project approval, additionality is either present or not present—IFC and most DFIs do not rate its strength nor adapt their additionality requirements by context. The European Bank for Reconstruction and Development (EBRD) is an exception in this respect, as it does scale its evidence of additionality to context, by using triggers to identify cases where additionality requires enhanced scrutiny and evidence (box 1.1).

Proper identification of additionality is particularly important in MICs because of the higher availability of private capital in these countries relative to LICs. It is well recognized that global challenges embodied in the Sustainable Development Goals will require substantial progress in MICs, especially on issues related to poverty, inclusion, and the environment. Proper identification of additionality ensures that DFIs' activities in these markets do not displace private financing, which is increasingly available in MICs. Private capital flows to developing countries have grown over time, and private investment is prominent in both lower-middle-income countries (LMICs) and upper-middle-income countries (UMICs), with volumes of official development assistance being negligible in UMICs (figure 1.1). The detailed dimensions of additionality established in IFC's framework help it identify cases where, in financial or nonfinancial dimensions, it can contribute to development beyond what available private finance can do. If additionality is not present, there is a real danger of crowding out the private sector. Thus, assessing IFC's additionality in MICs and identifying lessons to increase it are vital.

Box 1.1. Sufficient Additionality: The Approach of the European Bank for Reconstruction and Development

For the International Finance Corporation, as for most other development finance institutions, additionality is a condition for approval of potential private investment projects and is considered either present or not present. This binary approach to additionality works most times. In some instances, however, discussions arise about whether the additionality presented is "sufficient" to justify the International Finance Corporation's engagements, for example, with a strong repeat client or in an upper-middle-income country with a well-developed financial sector.

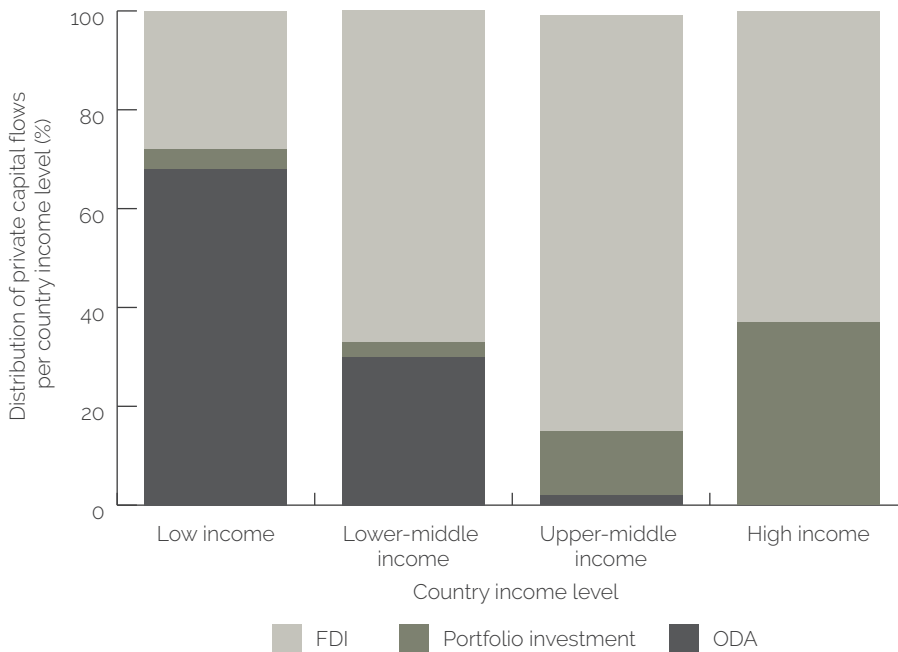
The European Bank for Reconstruction and Development tries to address this issue by applying a "triggers" system, by which stronger additionality evidence is required in potentially contentious cases where additionality appears weak. The triggers are related to the type of client, type of financing, and use of proceeds, among others.

For instance, projects with strong clients that are better able to find good financing terms (or rely on a parent for funds) or to access international capital markets more easily than other market players will trigger the requirement for a stronger articulation of additionality.

Although the International Finance Corporation implicitly follows a similar approach by providing a more thorough additionality rationale for some projects (for example, a project in an upper-middle-income country with a repeat client), the European Bank for Reconstruction and Development has an explicit procedure which introduces greater clarity on the circumstances under which teams should strengthen a project's additionality rationale.

Source: Independent Evaluation Group (see appendix F).

Figure 1.1. Private Capital Flows per Country Income Level



Source: World Development Indicators database 2018 (<https://databank.worldbank.org/source/world-development-indicators>).

Note: FDI = foreign direct investment; ODA = official development assistance.

Evaluation Questions

The evaluation investigates the relevance and effectiveness of IFC’s approach to additionality in MICs.

The evaluation seeks to answer three questions:

- 1. Relevance.** To what extent does IFC’s anticipated additionality vary, and what explains variance according to country and industry or sector conditions in LMICs and UMICs, IFC instruments and platforms, and the presence and role of other providers of finance and services in the same industry, sector, or country?
- 2. Effectiveness.** To what extent was IFC’s anticipated financial and non-financial additionality actually realized in LMICs and UMICs, and to what extent was it plausibly linked to enhanced development outcomes and impact at the project, industry or sector, and country level?

3. **Learning.** How can IFC strengthen its additionality at the country, industry or sector, and project or instrument level?

As is reflected in the questions, the evaluation distinguishes between anticipated and realized additionality. At the outset of a project, when it is being designed and appraised, IFC identifies the additionality it believes will be associated with its support. This is the project's anticipated additionality. Once a project is terminated, it may be evaluated to determine whether the anticipated additionality actually occurred—that is, whether IFC delivered a unique contribution to the client or partner consistent with its expectation. This is realized additionality.

Methods

The evaluation applied mixed methods. The evaluation applied a combination of methods that provide qualitative and quantitative evidence to answer the evaluation questions. The use of mixed methods supported triangulation of findings from multiple sources to enhance their robustness. The main methods included the following:

- » **Portfolio review and analysis (PRA) of evaluated and nonevaluated investment services (IS) projects (table 1.2).** The Independent Evaluation Group (IEG) conducted a PRA of the anticipated and realized additionality of 579 IFC IS evaluated during fiscal years (FY)11–21 and an analysis of success factors. IEG also conducted a PRA on the treatment of anticipated additionality in a representative sample of 95 unevaluated investment projects approved during FY11–21. IEG could not apply a parallel approach to analyzing advisory services (AS) projects because of shortcomings in additionality information in IFC AS documents.

Table 1.2. Summary of Identified International Finance Corporation Portfolio

Country Cases	Approved FY11–21 ^a				Evaluated FY11–21			
	Projects		Volume ^b		Projects		Volume ^b	
	(no.)	(%)	(US\$, millions)	(%)	(no.)	(%)	(US\$, millions)	(%)
IFC IS	2,400	100	97,966	100	661	100	22,395	100
Country cases ^c	811	34	38,572	39	227	34	8,232	37
Noncountry cases	1,589	66	59,394	61	434	66	14,163	63
IFC AS	1,010	100	1,524	100	414	100	539	100
Country cases ^c	204	20	311	20	92	22	148	28
Noncountry cases	806	80	1,213	80	322	78	390	72
MICs	3,410	100	99,489	100	1,075	100	22,934	100
Country cases ^c	1,015	30	38,883	39	319	30	8,381	37
Noncountry cases	2,395	70	60,606	61	756	70	14,553	63

Source: Independent Evaluation Group portfolio review and analysis.

Note: Totals may not add up because of rounding. AS = advisory services; FY = fiscal year; IFC = International Finance Corporation; IS = investment services; MIC = middle-income country.

a. Excludes rights issues, swaps, B-loan increase, risk management, agency master, and restructuring.

b. For IS projects, it consists of IFC's commitment at approval; for AS projects, it consists of total funds managed by IFC.

c. Includes projects from Nigeria and Bangladesh approved or evaluated between 2011 and 2021, when they were still low-income countries.

- » **Country case studies.** IEG conducted nine case studies in select countries: Bangladesh, China, Colombia, the Arab Republic of Egypt, Indonesia, Mexico, Nigeria, South Africa, and Türkiye. The selection reflected diverse country conditions, including income level (UMIC and LMIC), region, and fragility. Country selection also considered the size of the portfolio and the representativeness and comparability of sectors. For focus and comparability purposes, in each country case study, two sectors were chosen as areas of interest. The sectors were commercial banking, microfinance and chemical and fertilizers (assessed in four countries), and electric power (assessed in five countries). Case studies involved both desk-based research and field assessments

(mostly remote) that interviewed IFC staff, clients, governments, and other organizations (DFIs and others) that offer similar services and products.

- » **Statistical and econometric analysis.** The analysis used PRA data and other indicators to relate the successful realization of financial and nonfinancial additionality to a variety of explanatory factors, including work quality.
- » **Structured literature review on additionality.** The evaluation explored the very limited available literature on donor financial and nonfinancial additionality in the private sector, including on links between additionality and development outcomes and donor financial sustainability.
- » **Semistructured interviews of experts.** IEG interviewed 21 IFC staff with expert knowledge of additionality. The interviews discussed, among other topics, aspects of IFC's additionality and related practices beyond what is reflected in corporate documents, its use of additionality as a decision-making tool, the differences between additionality in LMICs and UMICs, and identification of best practices and challenges.
- » **Deep dive input papers.** The evaluation team produced in-depth papers on (i) DFIs' additionality in MICs and (ii) additionality features of IFC's financing instruments in MICs.

The evaluation focuses on assessing additionality at the project level but also applies country and sector lenses for learning purposes to explore achievement of additionality beyond the project level. The main focus of the evaluation is on examining additionality at the project level, consistent with IFC's commitment to achieve additionality at this level. However, as agreed with IFC management at the Approach Paper phase, the relevance of the country and sector lens can provide valuable learning and reveal where and how IFC's additionality transcended the project level, thus influencing sectors' or countries' development.

The remainder of this report is organized into four chapters that aim to address the evaluation questions.

- » Chapter 2 addresses question 1 on the relevance of additionality. It first describes anticipated additionality at the project level and how additionality varies depending on country income level, sector, and IFC's financing instruments.

For learning purposes, the chapter then presents a discussion of anticipated additionality that goes beyond the project level and speaks to the value that IFC may add in a sector in a given country (referred to as “country sector”).

- » Chapter 3 addresses question 2 on the effectiveness of IFC additionality. First, it analyzes the extent to which IFC is realizing anticipated financial and nonfinancial additionality in MICs. Second, it assesses the extent to which the additionality IFC is realizing plausibly contributes to enhanced project development outcomes. Finally, it applies the country and sector lenses to learn about where and when the additionality of IFC’s overall activities in a sector or country adds up to something greater than the value added by each individual project.
- » Chapter 4 presents evidence and findings on the factors that help explain both cases in which IFC realized additionality and cases in which it did not. It considers internal explanatory factors that IFC can directly control and external factors, some of which IFC may not be able to influence. It then applies the country and sector lens to consider factors influencing additionality that transcend the level of individual projects.
- » Chapter 5 discusses IEG recommendations to enhance IFC’s additionality, based on the analysis of the preceding chapters.

Limitations

The evaluation follows the definition and additionality types presented in IFC’s additionality framework. It does not consider types of additionalities that are not present in the framework, nor is it an evaluation of the framework itself. In addition, although the evaluation considers the relationship of additionality to development effectiveness, it is not an evaluation of IFC’s development effectiveness. Further, IEG was unable to consider the additionality of AS projects, because IFC did not consistently identify and evaluate AS project additionality over the evaluation period. Furthermore, because IFC’s Revised Additionality Framework was activated only in FY19, there were virtually no evaluated projects approved under the new framework. Trends can be observed in anticipated additionality through project documents and interviews with well-informed observers, but project evaluations do not include information about realized additionality in the recent period.

Although the evaluation conducted an analysis of anticipated additionalities in a sample of the unevaluated portfolio, its results are not conclusive given the sample size. In addition, although IEG considers additionality through sector and country lenses for learning purposes, as agreed at the Approach Paper stage, it does not aggregate additionality above the project level. Next, this evaluation focuses on IFC's work in MICs. IFC's work in LICs is outside its scope; the evaluation does not explicitly compare IFC's work in MICs to its work in LICs. Finally, country case studies were designed to focus on a limited number of sectors for comparability and critical mass of observation. It is recognized that other sectors in which IFC may have been highly additional were not analyzed.

¹ The term *development finance institutions* encompasses bilateral and multilateral donors. The term *multilateral development banks* refers exclusively to multilateral finance institutions such as the Asian Development Bank, the Inter-American Development Bank, the European Investment Bank, and the European Bank for Reconstruction and Development, among others. Bilateral donors include agencies such as Norfund and British International Investment.

2 | Relevance


Highlights

The chapter assesses the relevance of the approach of the International Finance Corporation (IFC) to additionality in addressing project and country sector needs. It first explores how financial and nonfinancial additionality are identified and articulated in IFC projects and instruments. It then explores the extent to which additionality as articulated in project design responds to the characteristics of projects, clients, sectors, and countries.


Several factors make IFC a leader among development finance institutions in identifying and articulating additionality at the time of approval. IFC's additionality framework and accompanying guidelines for staff provide the basis for clarity and rigor in articulating additionality in investment project approval documents. Furthermore, its internal review process enhances the quality of additionality claims.

IFC's additionality at the project level has become more diverse over time to include both financial and nonfinancial attributes. This change has occurred in response to (i) increased availability of private financing, which weakens IFC's financial additionality, and (ii) increased scrutiny of additionality in projects in upper-middle-income countries. Most projects (82 percent) anticipate both financial and nonfinancial additionality.


The patterns of anticipated additionalities in IFC's portfolio do not match IFC's assumptions about how additionality varies based on country income. IFC's corporate strategies indicate that, as country income rises, IFC will rely more on additionality types based on (financial and nonfinancial) innovation and deployment of knowledge. However, the portfolio tells a different story—IFC has not employed knowledge and innovation additionalities to a greater extent in upper-middle-income countries than in lower-middle-income countries.



The types of additionalities anticipated at the project level differ by sector, suggesting that sector characteristics are and should be considered when planning for additionality. The stage of sector development also influences the types of additionalities provided.



The additionality of IFC's financing instruments is determined not only by their features but also by the context in which they are applied. The additionality of loans and equity is a function of country, sector, and client risk, and of the stage of market development.



Although IFC has committed only to treating additionality at the project level, the evaluation found that IFC has the potential to add unique value at the country and sector level by discussing and planning for additionality in country and sector strategy documents.

The chapter assesses the relevance of IFC's approach to additionality in addressing project and country sector needs.¹ It first explores how financial and nonfinancial additionality are identified and articulated in IFC projects and embodied in its financial instruments. It then explores the extent to which additionality as articulated in project design responds to the characteristics of projects, clients, sectors, and countries. It looks at how IFC's anticipated additionality varies depending on these contextual characteristics and whether that variation is aligned with ensuring unique added value. Finally, for learning purposes, the evaluation considers the real and potential value of anticipating additionality beyond the project level.

Additionality at the Project Level

IFC's additionality framework and the accompanying guidelines provide clarity and rigor in articulating additionality in investment project approval documents. Following IFC's additionality guidelines, every investment project articulates IFC's anticipated additionality in Concept Review Meeting notes, Investment Review Meeting documents, and Board Papers. IFC staff confirm that additionality is discussed early in the investment decision process. IFC staff also report a good understanding of additionality and clarity about roles and responsibilities. IEG's portfolio review confirms that project approval documents systematically address IFC's anticipated financial and nonfinancial additionality (although specificity varies) and present information in line with internal guidelines.

IFC's review of anticipated additionality claims ensures the quality and consistency of additionality and development impact statements. The investment team is responsible for presenting IFC's anticipated additionality and development impact for each transaction. IFC sector economists from the Anticipated Impact Measurement and Monitoring (AIMM)² team play a substantial role in enhancing quality and reviewing evidence for anticipated additionality claims, as they do for development impact claims. The IFC Global Macro and Market Research team provides data to support anticipated financial additionality claims. In this way, IFC ensures consistency of information between additionality and development impact statements within a project, which is important given the link between these two concepts (as

described in chapter 1). Most leading DFIs have similar systems for articulating project-level additionality (box 2.1).

Box 2.1. Project-Level Articulation of Additionality in Development Finance Institutions

Like the International Finance Corporation, other development finance institutions improved articulation of anticipated additionality claims at approval through the 2010s. Additionality is usually discussed along with development impact. In some cases (for example, in the International Finance Corporation and the European Bank for Reconstruction and Development), articulation of anticipated additionality and development impact claims are independent but operate in parallel and are prepared by the same team. In other cases (for example, in the African Development Bank), articulation of anticipated additionality and development impact is done jointly under a single system. European Investment Bank's Additionality and Impact Measurement system and Inter-American Development Bank Invest's Development Effectiveness Learning, Tracking, and Assessment tool also fully integrate additionality and development impact.

Among development finance institutions, guidance documents support the articulation of anticipated additionality. These guidelines have improved over time to provide greater clarity about acceptable categories of additionality as per the Multilateral Development Banks' Harmonized Framework. They have also improved through rating systems (the European Investment Bank), flags and triggers (the European Bank for Reconstruction and Development), and other means to ensure that relevant questions are considered when reaching a view on additionality.

Source: Independent Evaluation Group (see appendix F).

IFC is a leader among DFIs in the identification and articulation of additionality and in providing guidance to staff at the time of approval. IEG concludes this based on its review of how additionality of all types is treated and discussed in Board documents and internal reviews and a comparison of practices across major DFIs. IFC and EBRD have aligned their additionality types with the MDBs' 2018 Harmonized Framework (ECG 2020). In addition to the framework, IFC has also developed detailed operational guidance that provides investment teams with definitions of each type of additionality and

a variety of project examples for each type. Several factors make IFC's guidelines best practice among the DFIs:

- » The level of detail provided in the guidelines;
- » The requirement that, for each nonfinancial additionality claim, IFC teams must discuss the mechanism for delivery, such as AS project, industry expert, or the Board appointee;
- » The guidance to staff to discuss specifics of the differential support from IFC (IFC 2019b), including the articulation of a counterfactual and development impacts attributable to IFC's intervention; and
- » The establishment of procedures for indicators, delivery, and timing.

IFC's presentation of additionality in approval documents takes the most comprehensive approach among DFIs (ECG 2020). IFC's board document template contains a section titled "IFC's Expected Additionality." This section lists, classifies, and describes the different types of expected additionalities according to the framework. Indicators (quantitative or qualitative) are also assigned to assess whether a project provided additionality, along with the timing for realization of the specified anticipated additionality. Box 2.2 includes a good-practice example.

Box 2.2. Articulation of Additionality in an International Finance Corporation Renewable Energy Project in a Middle-Income Country

Financial Additionality

Financing structure. The International Finance Corporation (IFC) will provide long-term financing with a maturity of up to 13 years that is not readily available in a country facing considerable macroeconomic and power sector vulnerabilities. The country's domestic credit to the private sector as a share of gross domestic product, at about 17 percent, lags relevant comparator averages (by region and income group). Over the previous 12 months, only one US dollar-denominated syndicated loan and no local currency-denominated syndicated loans had been provided to a corporation in this country.

(continued)

Box 2.2. Articulation of Additionality in an International Finance Corporate Renewable Energy Project in a Middle-Income Country (cont.)

Resource mobilization. IFC's involvement will facilitate the participation of other lenders and provide comfort on the financial sustainability of the power sector, given IFC's experience investing in independent power providers in the country. Over the previous three years, renewable energy projects had been on hold in the country as a result of regulatory uncertainties until a recent decision to allow projects at an advanced stage of development to proceed under new tariffs. The project will be the first wind project developed after this period of inactivity in the sector.

Nonfinancial Additionality

Risk mitigation. Investor interest has been relatively subdued in recent years because of growing macroeconomic and power sector vulnerabilities in the country. IFC's involvement in the projects, de facto preferred creditor status as a multilateral institution, and long track record of operating in the country's power market are expected to provide comfort to investors and help mitigate potential regulatory or political risks.

Knowledge, innovation, and capacity building. The financing is complemented by IFC's global knowledge in renewable energy, expertise in the country's energy sector, and ability to use a programmatic approach to increase efficiency in project structuring and preparation. The sponsors will benefit from IFC's deep experience investing in 18 independent power providers with a total capacity of 5,800 megawatts in the country over the past 25 years. The advisory services team is also exploring with the sponsors the potential for collaboration in addressing community development priorities to bring shared benefits to the local communities, with a special focus on women.

Standard setting. IFC will provide technical support and guidance to help strengthen the sponsors' capacity to manage environmental and social risks associated with the projects through implementing IFC performance standards. This is important as the sponsors attempt to increase their activity in the energy sector, and, in some cases, this is their first exposure to the power sector. IFC will provide guidance to improve the sponsors' environmental and social management systems and prepare a biodiversity management plan, including adequate measures to mitigate impacts.

Source: International Finance Corporation board report for a project in a middle-income country.

By contrast with IS projects, AS projects contain limited information about additionality, which constrains accountability and learning. Additionality discussions in AS project approval documentation have varied substantially over time. At some points during the evaluation period, additionality-related information was included in approval documents. It was then moved to early approval documents (Concept Notes), later disappeared, and more recently, has been brought back. Only at the time of project closure does some discussion of additionality occur in evaluations under the category “role and contribution,” which is a broader concept than additionality. Whereas investment projects switched from the role and contribution concept to additionality in 2018, AS has neither made that transition nor updated the definition or guidelines for role and contribution since the inception of AS project governance in the early 2000s. The lack of detail and consistency in IFC AS documents limits learning and accountability, as evidenced by IEG’s inability to conduct a portfolio analysis similar to the one for investments because of the lack of consistent information on anticipated additionality.

Types of Anticipated Additionality at the Project Level

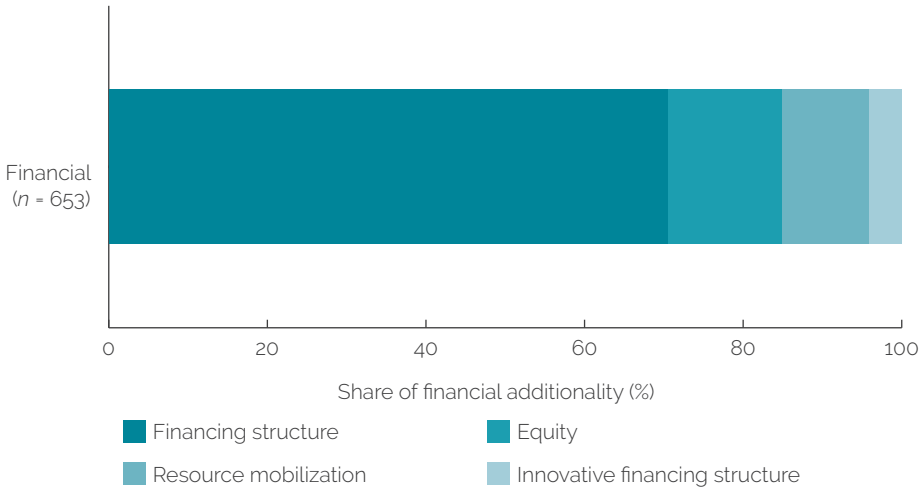
Claims of anticipated nonfinancial additionality in IFC’s investment portfolio in MICs have increased in number and diversity over time. IFC’s additionality framework states that IFC value addition to clients has broadened over time to include both financial and nonfinancial additionality. Indeed, IFC staff’s perceptions align with IFC’s corporate strategic view that nontraditional forms of additionality are important to IFC’s relevance in MICs. Staff perceive that to attract clients in more developed markets, IFC must supplement the traditional financial additionality based on financing structure with other forms of financial additionality (mobilization, innovation) and nonfinancial additionality (such as standard setting, knowledge, innovation, and capacity building). IFC staff also report greater scrutiny by the Board and management of additionality claims in MICs, particularly UMICs. This implies that the requirements for additionality are more stringent in UMICs. Meeting them is usually achieved through reliance on nonfinancial additionalities in addition to financial ones.

Most investment projects anticipate both financial and nonfinancial additionality. Eighty-two percent of investment projects evaluated in 2011–21

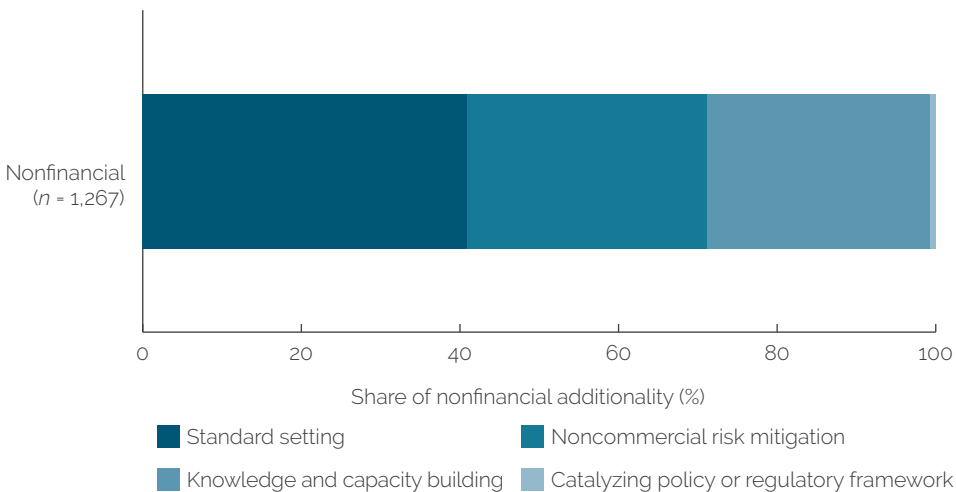
anticipated both financial and nonfinancial additionality. This was up from 78 percent in 2011–12 and only 41 percent in 2008–11 (World Bank 2015).

Figure 2.1. Anticipated Financial and Nonfinancial Additionality by Subtype: Investment Projects

a. Financial additionality



b. Nonfinancial additionality



Source: Independent Evaluation Group portfolio review.

Note: This figure does not include the distribution of additionalities considered in projects approved when Nigeria and Bangladesh were still low-income countries.

Anticipated nonfinancial additionality is more diverse than anticipated financial additionality. Financial additionality still relies, in most cases, on

the financing structure subtype (figure 2.1, panel a). Financing structure additionality, in turn, relies mostly on provision of long-term funds (present in 74 percent of financing structure additionalities). Equity and resource mobilization represent a small percentage of anticipated financing structure additionalities (14 percent and 11 percent, respectively), and the use of innovative financing structures is rarer (4 percent of financing structure additionalities). The distribution of anticipated nonfinancial additionality subtypes is more balanced (figure 2.1, panel b). Standard setting is the most common anticipated nonfinancial additionality (41 percent of nonfinancial additionalities). Noncommercial risk mitigation and knowledge and capacity building are represented in 30 percent and 28 percent of nonfinancial additionalities, respectively. Standard setting is mainly focused on E&S standards (present in 64 percent of projects anticipating standard setting additionalities). In contrast, corporate governance standards are less common (present in 27 percent of standard setting projects).

Additionality by Instrument

The additionality of IFC's instruments is determined not only by their features but also by the context in which they are deployed. The additionality of instruments such as various types of loans and equity is a function of country, sector, and client risk and stage of market development.³ For instance, common equity is usually additional only in unlisted clients in LMICs and not additional in UMICs. However, in times of financial crisis, IFC common equity may become additional for listed clients in UMICs when used in instances where investors attempt to reduce their risk by selling their equity positions (table 2.1). Similarly, short-term working capital loans are additional in some LMICs because of IFC's ability to supply credit to firms that do not have acceptable collateral, such as land titles. Furthermore, when LMIC markets face liquidity problems, such as during a credit crisis (as they did during COVID-19), short-term loans can be highly additional because of the lack of alternatives in the market, even to the point of enabling a firm to avoid default or bankruptcy. In all countries, IFC's short-term US dollar credit lines to banks and other financial institutions can be highly additional in times of currency devaluation, when access to US dollar liquidity may be extremely limited.

Table 2.1. Additionality of Selected Equity Instruments

Equity Instruments	Main Sources of Financial Additionality in LICs	Main Sources of Financial Additionality in LMICs	Main Sources of Financial Additionality in UMICs
Common equity Unlisted (pre-IPO) Listed (post-IPO)	<ul style="list-style-type: none"> » Taking equity risks that local investors will not take » In LICs, this usually includes all unlisted equities. » If there are listed equities, these are often illiquid and closely held and IFC can add liquidity and capital. 	<ul style="list-style-type: none"> » Taking equity risks that local investors will not take » In LMICs, these are usually only unlisted equities. » However, in a crisis, low investor demand can enable IFC to be additional in listed equities providing capital and liquidity. 	<ul style="list-style-type: none"> » Stepping in during crisis » In UMICs, this is often associated “risk-off” behavior by investors.
Preferred equity Unlisted Listed	<ul style="list-style-type: none"> » Providing higher-risk financing when common equity holders will not » This is associated with specific opportunities in specific companies. 	<ul style="list-style-type: none"> » May be associated with restructuring a troubled company or meeting a specific growth opportunity 	<ul style="list-style-type: none"> » Usually, crisis related in UMICs
Equity-linked options Puts Calls	<ul style="list-style-type: none"> » Puts and calls often enable IFC to participate in equity and can be additional for this reason. 	<ul style="list-style-type: none"> » Puts and calls often enable IFC to participate in equity and can be additional for this reason. 	<ul style="list-style-type: none"> » IFC puts are less common in more developed markets with higher liquidity. However, they can still be essential for unlisted equities.

Source: Independent Evaluation Group (see appendix E).

Note: IFC = International Finance Corporation; IPO = initial public offering; LIC = low-income country; LMIC = lower-middle-income country; UMIC = upper-middle-income country.

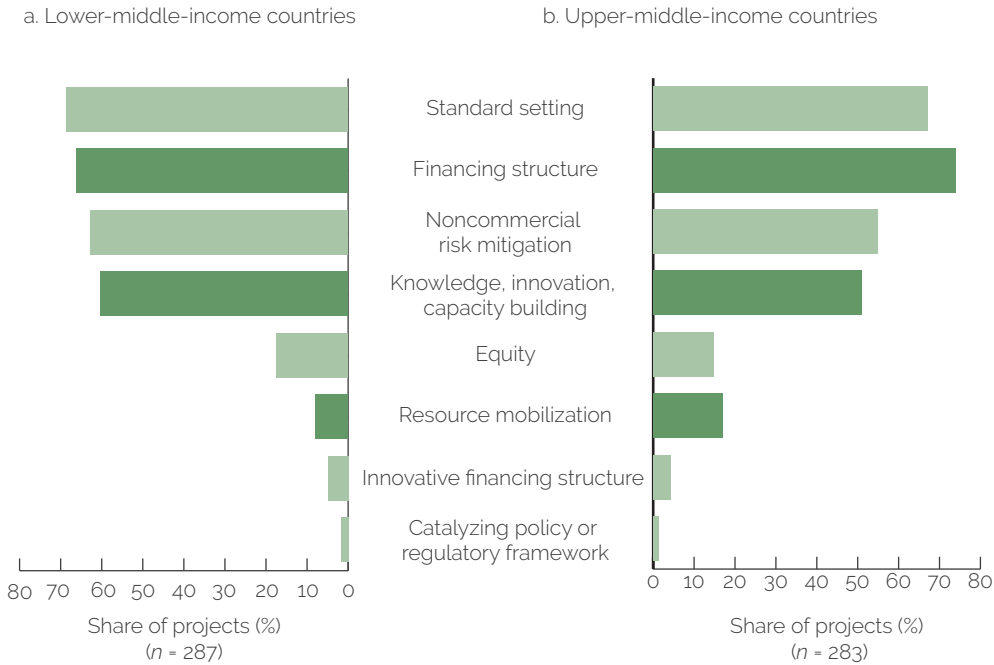
Additionality by Country Income

IFC's corporate strategies indicate that, as country income rises, so too will the innovation and knowledge content of IFC engagements. Several IFC strategy documents acknowledge that IFC's value added and activities in MICs generally and UMICs in particular will differ from those in LICs. IFC's 2012–14 road map, presented to the Board of Executive Directors, proposed a conceptual framework where, as the income level of countries rose, IFC would move to frontier markets and regions, take on more innovative projects, and address crises and global priorities (IFC 2011). Thus, to some extent in LMICs and to a greater extent in UMICs, additionality based on innovation (financial and nonfinancial) and deployment of knowledge was framed as key to enhancing development impact. IFC 3.0 poses MICs as a kind of laboratory for IFC where it can “utilize MIC work to prove out concepts and then transfer them to [the International Development Association / fragile and conflict-affected situations]” (IFC 2015; 2016, 41). IFC's strategy for 2020–22 indicates that in MICs IFC will focus on “selectivity, innovation[,] and profitability” (IFC 2019c, 36), the latter to ensure IFC's financial sustainability.⁴ IEG's interviews with IFC experts confirm an understanding that nonfinancial additionalities should play a stronger role in more sophisticated markets.

However, the portfolio tells a different story—the patterns of anticipated additionalities in IFC's portfolio do not match IFC's assumptions about how additionality varies based on country income. IFC additionality has not employed knowledge and innovation additionalities to a greater extent in UMICs than in LMICs. IFC has a higher share of anticipated financial additionalities in UMICs than in LMICs and more anticipated nonfinancial additionalities in LMICs than in UMICs. Statistical analysis (at the 95 percent confidence level) shows that financial additionality features such as financing structure and resource mobilization are more prominent in UMICs (present in 74 percent and 17 percent of projects, respectively) than in LMICs (66 percent and 8 percent, respectively). None of the nonfinancial additionalities have a significantly higher incidence in UMICs. However, two key nonfinancial additionalities (knowledge and noncommercial risk mitigation) have a higher incidence in LMICs than in UMICs (figure 2.2). Furthermore, additionality claims in UMICs do not show a higher incidence of innovation.

For example, additionality based on innovative financing structure has a low incidence in both UMICs (4 percent) and LMICs (5 percent).

Figure 2.2. Incidence of Additionality Subtypes, Lower-Middle-Income Countries Compared with Upper-Middle-Income Countries



Source: Independent Evaluation Group.

Note: Dark green indicates additionality types for which differences between upper-middle-income countries and lower-middle-income countries are statistically significant at 95 percent.

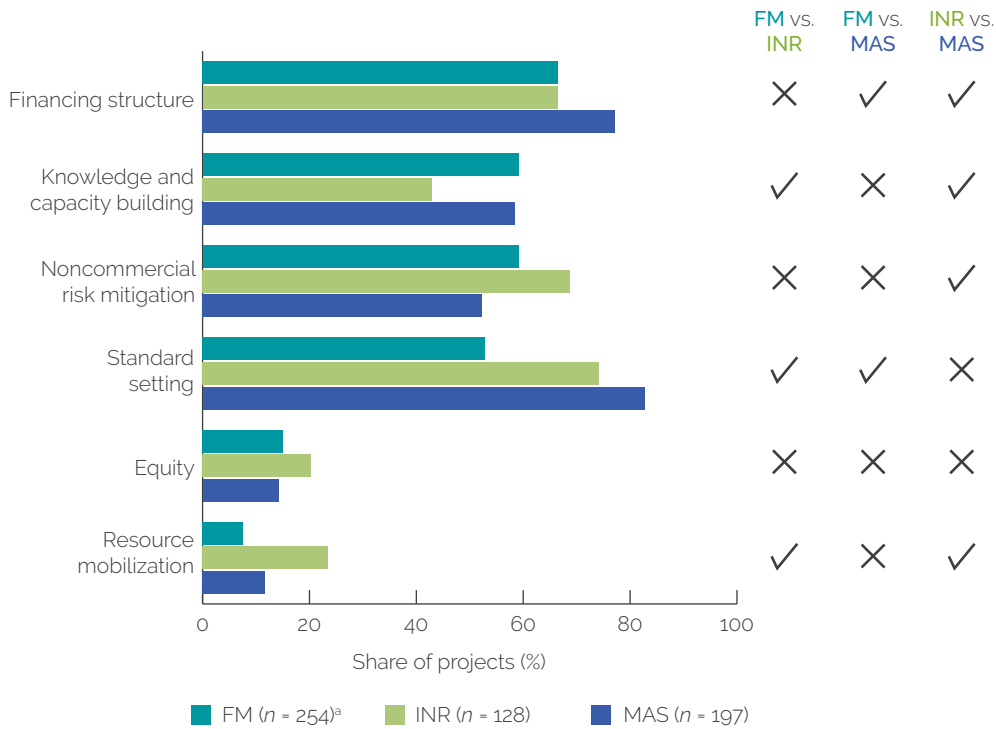
Additionality by Sector

The differences between anticipated additionality types by sector are statistically significant, suggesting that IFC may be adapting to sector characteristics when planning for additionality.⁵ By IFC industry group, Manufacturing, Agribusiness, and Services (MAS) and Infrastructure (INR) rely more on standard setting, mostly E&S, than does financial markets (figure 2.3). This differing reliance on standard setting makes sense because, in INR and MAS, IFC is more exposed to E&S risks and must ensure clients’ compliance with multiple E&S standards (for example, pollution, labor, and safety). In financial markets projects, IFC only has to ensure that clients set up internal E&S management systems to manage risks associated with their subprojects. As an example of the factors influencing greater reliance on standard setting in

MAS projects, IFC helped a manufacturing client in the Russian Federation design its corporate policies and guidelines. At the same time, it also supported the company in addressing issues related to air emissions, wastewater treatment, and workers' health and safety. MAS relies more on financing structure than financial markets and INR because MAS projects are highly variable in terms of the type of project, subsector, and local conditions (which requires careful customization of the financing). By contrast, INR relies mostly on noncommercial risk mitigation and resource mobilization. The large size of INR projects means that IFC's resources alone are insufficient.⁶ Therefore, IFC plans to either (i) directly mobilize additional funding from other DFIs or private investors (resource mobilization) or (ii) indirectly motivate other investors' financing (noncommercial risk mitigation). For example, for an INR project of \$166.6 million in Jordan, IFC mobilized \$72.6 million through subordinated and parallel loans.

In certain instances, the stage of sector development influences the types of additionalities provided. In Nigeria, for example, IFC entered the microfinance sector at an early stage of its development. IFC's main additionality was financial structuring through the provision of loans to local microfinance institutions. IFC also relied heavily on building knowledge and capacity (through AS) to create, develop, and strengthen institutions. By contrast, once a sector reaches maturity, IFC must innovate to continue to be additional and attractive to clients. The commercial banking sector in Türkiye is a good example. IFC's clients in Türkiye are strong banks with good capitalization and sound practices with little need for regular financing or knowledge and capacity support. With these clients, IFC deploys innovative financing products (for example, derivatives and green bonds) deemed too risky or unattractive for regular investors; nonfinancial additionality is limited to regular E&S standards.

Figure 2.3. Anticipated Additionalities by Sector and Type



Source: Independent Evaluation Group portfolio analysis.

Note: The figure includes only subtypes representing more than 5 percent of projects in all sectors. Check marks indicate that differences between sectors are statistically significant at the 95 percent confidence level. FM = financial markets; INR = Infrastructure; MAS = Manufacturing, Agribusiness, and Services.

a. FM includes projects by the Financial Institutions Group and Disruptive Technologies and Funds.

Additionality in Strategies: Beyond the Project Level

Although IFC has only committed to identifying additionality at the project level, it also, at times, discusses additionality at the country and sector level.⁷ Some IFC country and sector strategy documents include discussions about additionality patterns in LMICs and UMICs—the evaluation found a few examples of a higher-level strategic approach to additionality beyond the project (see chapter 3).⁸ In such approaches, IFC presents its unique value added at the country or sector level and is explicitly attempting to add value through a combination of activities in a sector or country that are complementary, sequenced, or coordinated with other actors.

IFC country strategies and sector deep dives show the potential of beyond-the-project strategic planning for additionality. IFC and World Bank Group country strategy documents for China show how the articulation of IFC's additionality was well addressed and became more explicit over time. The anticipated additionality and its sources in the 2013–16 Country Partnership Framework (CPF) had to be inferred because IFC's additionality, value added, or competitive advantages were not explicitly discussed (World Bank 2012). The 2020–25 CPF improved by identifying key IFC financial and nonfinancial additionalities (World Bank 2019). Finally, IFC's own country strategy FY20–24 demonstrates a best practice model in its explicit treatment of additionality and identification of additionality types by sector (figure 2.4; IFC 2019a). For example, the country strategy specifies IFC additionality in addressing greenhouse gas reduction, enhancing equality, and increasing productivity. IFC's sector deep dives also show the benefits of thinking about IFC's additionality (or unique value added) beyond the project level. In housing, for example, the sector deep dive identifies IFC's ability to bring best practice standards and innovative financing, both subtypes of additionality, to bear. In financial technology (fintech), IFC envisions how its AS can be deployed to add knowledge benefits in areas including risk management and corporate governance.

Figure 2.4. International Finance Corporation Additionality in International Finance Corporation's Country Strategy for China

Development Problem We Are Trying to Solve	IFC Strategic Pillars	Sectors of Engagement	IFC Additionality
<p>China is the world's largest emitter of GHGs, and rapid development has resulted in severe environmental degradation and pollution.</p> <p>1.6M Deaths caused by air pollution per year (17% of all deaths in China)</p>	<p>Strengthening environmental sustainability and resilience</p>	<ul style="list-style-type: none"> • Renewable energy and energy efficiency • Water conservation, wastewater and waste management, pollution abatement • Green buildings and green cities • Green finance 	<ul style="list-style-type: none"> • IFC brings best practice, expertise, and standards in climate and green financing, taking clients to new market segments and instruments.
<p>China's growth has increased inequality, with GDP per capita in the poorest provinces less than one-third that of the well-off provinces, leaving millions of people underserved.</p> <p>96M People living on less than US\$3.20 per day</p>	<p>Deepening inclusion and reducing inequality in rural or frontier areas</p>	<ul style="list-style-type: none"> • Human capital development: health care and aged care and education • Access to finance • Efficient agribusiness 	<ul style="list-style-type: none"> • IFC can share global industry knowledge in these sectors, refocus firms and FIs toward un- and underserved segments, where they would be unwilling to invest on their own.
<p>China's growth has slowed, reflecting a decline in productivity, and new models are needed to revise growth and reach traditionally forgotten segments (gender, MSMEs, and so on).</p> <p>US\$1.9 trillion Estimated SME financing gap</p>	<p>Spurring productivity-led growth</p>	<ul style="list-style-type: none"> • Financial technology, entrepreneurship, and technologies to promote inclusion • Private infrastructure, logistics, and PPPs 	<ul style="list-style-type: none"> • IFC AS can increase small technology to promote inclusion, bring best practices in risk management, corporate governance, and transparency. • Supporting private companies to spur growth in SOE dominated sectors

Source: International Finance Corporation 2019a.

Note: AS = advisory services; FI = financial institution; GDP = gross domestic product; GHG = greenhouse gas; IFC = International Finance Corporation; MSME = micro, small, and medium enterprise; PPP = public-private partnership; SME = small and medium enterprise; SOE = state-owned enterprise.

¹ According to the Development Assistance Committee of the Organisation for Economic Co-operation and Development, the relevance criterion for evaluation answers the question, “Is the intervention doing the right things?” by evidencing “the extent to which the intervention objectives and design respond to beneficiaries, global, country, and partner/institution needs, policies, and priorities, and continue to do so if circumstances change” (OECD, 2019, p. 7).

² The Anticipated Impact Measurement and Monitoring system allows the International Finance Corporation (IFC) to define, measure, and monitor the development impact of each project. The Anticipated Impact Measurement and Monitoring system is integrated into IFC’s operations, allowing development impact considerations to be weighed against a range of strategic objectives, including volume, financial return, risk, and thematic priorities (https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/development+impact/aimm).

³ Independent Evaluation Group (IEG) deep dive: additionality of IFC’s financial products (summarized in appendix F).

⁴ The World Bank Group capital increase document states: “[Upper-middle-income countries] provide IFC lower expenses and better return on capital than the IFC average and can offset underperformance in less financially sustainable environments, such as in [fragile and conflict-affected situations] and low-income [International Development Association] countries” (World Bank 2018, 12). This document also states that, for upper-middle-income countries above graduation discussion income, “IFC commits to apply rigorous additionality assessment for its investments, and aims to focus on global public goods, frontier regions, capital markets, and south-south partnerships” (World Bank 2018, 16).

⁵ Differences among sectors discussed in this paragraph are statistically significant at the 95 percent confidence level.

⁶ Based on investment projects evaluated during 2011–21.

⁷ The IEG recognizes that IFC management has committed to additionality principles only at the project level. This evaluation’s added lenses of country and sector level are applied to add to learning from IFC’s experience and build on existing IFC practices observed during the evaluation. However, the intent is purely learning—there is no accountability aspect of this coverage.

⁸ In a review of the nine country strategies for case study countries and an additional six sector deep dives, the IEG found that the treatment of IFC’s additionality ranged from very insightful to absent. IFC, like most multilateral development banks, generally does not discuss additionality in its strategic documents.

3 | Effectiveness

Highlights

Some 96 percent of International Finance Corporation (IFC) investment projects realize some additionality, but many realize only part of the additionality anticipated. Although 82 percent of projects anticipate both financial and nonfinancial additionality, only 60 percent realize both. The overall additionality realization rates in lower-middle-income countries (61 percent) and upper-middle-income countries (63 percent) are very similar.

IFC is less successful at realizing nonfinancial additionality than at realizing financial additionality. Although 87 percent of anticipated financial additionalities were realized, only 63 percent of anticipated nonfinancial additionalities were realized. Because financial additionality is usually built into the design of IFC's financing, it is often realized as soon as the financing is disbursed. In contrast, nonfinancial additionality is usually realized over time and often requires planning and continuing engagement.

Some additionality subtypes, such as standard setting and non-commercial risk mitigation, are realized in many projects where they were not anticipated. It is unclear why this happens.

Financing structure additionality is the most common type of financial additionality, whereas standard setting is the most common type of realized additionality. In 83 percent of cases, standard-setting additionality relates to environmental and social standards. IFC is a leader among development finance institutions in its ability and willingness to monitor and enforce compliance with environmental and social standards, which often requires intensive, sustained client interaction. Advisory services are a key instrument for nonfinancial additionality and are used more commonly in lower-middle-income countries than in upper-

middle-income countries. Yet, advisory services are realized for only 57 percent of investment projects that anticipate them.

Realizing additionality is positively associated with both project development outcomes and project investment outcomes. Of projects with a high additionality rating, 74 percent have a successful development outcome. Further, 81 percent of projects with a low additionality rating have a low development outcome rating. Realizing nonfinancial additionality is particularly important for development outcomes.

IFC treats additionality primarily at the project level, but the country and sector lenses afford a potentially valuable additional perspective. Focusing strictly on projects can miss opportunities to realize greater additionality for clients, sectors, and countries. Thinking about additionality arising from sequenced or complementary activities may expand the identification of opportunities for IFC to tap into regional or global programs and partnerships or to increase collaboration across the World Bank Group and with other development finance institutions.

This chapter addresses the effectiveness of IFC additionality. In alignment with evaluation question 2, we first examine the extent to which IFC realized anticipated financial and nonfinancial additionality in MICs (including LMICs and UMICs) during the implementation period. We assess this by looking at whether projects received a successful (“above the line”) rating in IEG’s subsequent project evaluations.¹ Second, we assess the extent to which the financial and nonfinancial additionality IFC is realizing is plausibly associated with enhanced outcome measures including development outcome. Finally, we apply the country sector lens to learn about where and when IFC’s overall activities in a country sector may add up to something greater than the value added by each individual project.

Realizing Project Additionality

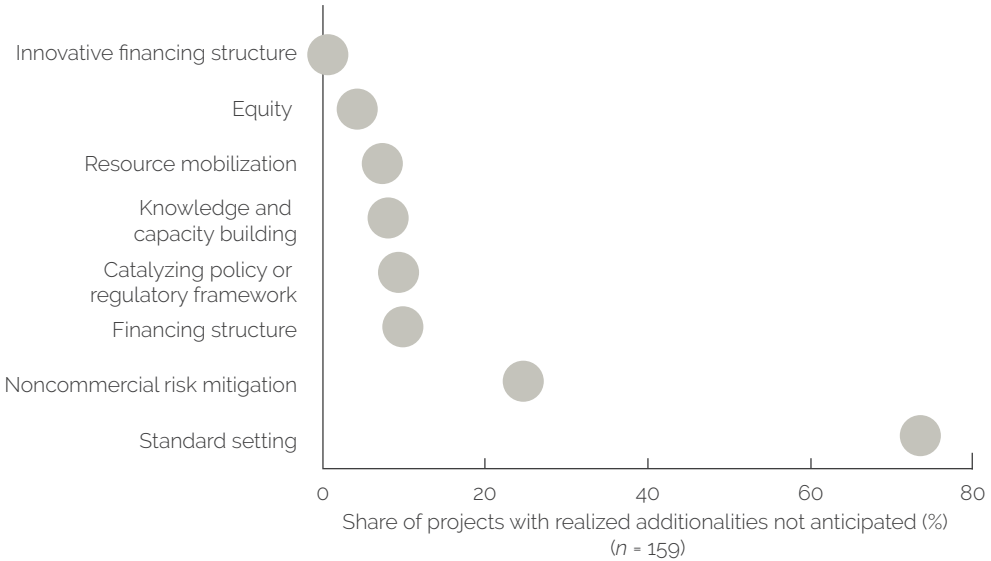
IFC almost always realizes some project additionality. IFC realized at least one type of additionality—financial or nonfinancial—in 96 percent of its evaluated investment projects. Financing structure (for financial additionality) and standard setting, noncommercial risk mitigation, and knowledge, innovation, and capacity building (for nonfinancial additionality) are the most frequently realized subtypes of additionality.

Realized project additionality often falls short of what is anticipated. Of 579 evaluated IS projects, IEG rated 62 percent successful (“above the line”) in additionality. The majority of projects anticipate more than one type of additionality; however, many do not realize all the additionalities anticipated. For example, 82 percent of projects anticipate both financial and nonfinancial additionality, but only 60 percent deliver on both.² The overall additionality success rates in LMICs (61 percent) and UMICs (63 percent) are very similar.

Two additionality subtypes are realized in many projects where they were not anticipated: standard setting and noncommercial risk mitigation (figure 3.1). IFC generally requires some compliance standards, which may bring standard-setting additionality to projects where it is not claimed as an explicit project feature. IEG’s review of evaluated projects indicates that this is exceptionally common—observed in 102 evaluated projects. Similarly, IFC’s presence may comfort investors even where it is not explicitly anticipated as an additionality. For example, noncommercial risk mitigation was realized

but unanticipated in 33 projects. It is unclear whether these additionalities are difficult to anticipate or, alternatively, difficult to document with quantitative evidence and, therefore, not claimed in project appraisal.

Figure 3.1. Projects with Additionality Realized but Not Anticipated



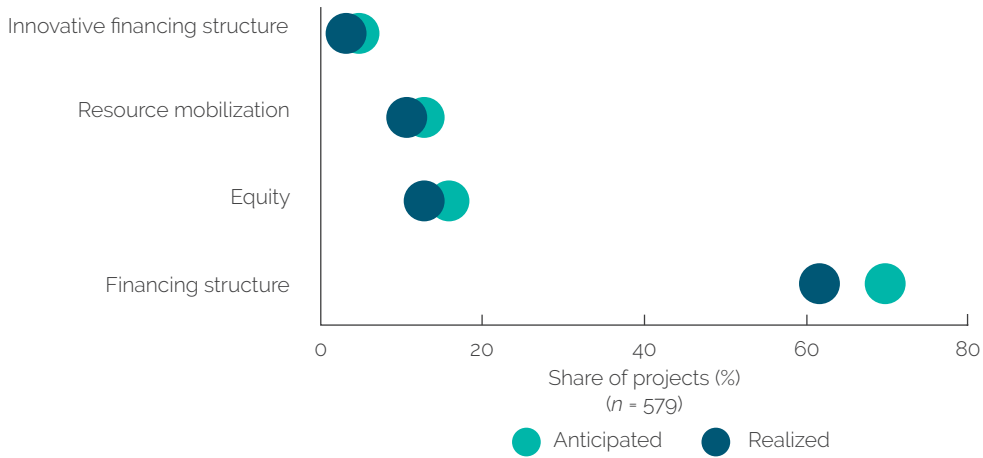
Source: Independent Evaluation Group.

Note: Data are based on portfolio analysis of 579 evaluated projects with complete documentation.

Financial Additionality

IFC is generally successful in realizing financial additionality. Overall, 86.7 percent of financial additionalities were realized (figure 3.2). Financial additionality is usually built into the design of IFC’s financing in a project. Hence, in its two most common forms, it is realized as soon as the financing is disbursed. By subtype, financing structure additionality is by far the most frequently anticipated and realized, followed by equity, then resource mobilization, and finally innovative financing structure.

Figure 3.2. Comparison of Anticipated and Realized Financial
 Additionality



Source: Independent Evaluation Group portfolio analysis of International Finance Corporation projects evaluated in 2011–21.

Financing structure additionality (through the amount, tenor, grace period, or provision of local currency financing) is the most common type of financial additionality anticipated. This form of additionality most commonly emphasizes IFC’s ability to offer financing of a longer tenor than the market can provide, which is appealing where it matches loan maturity to an investment activity’s maturity. Financing structure additionality is realized in 62 percent of IFC evaluated projects with a success rate of approximately 89 percent (figure 3.2). Financial additionality based on financing structure is primarily rooted in longer tenors to the exclusion of other subtypes of financing structure additionality (for example, local currency). In Pakistan in 2020, IFC was able to offer a wind power project a 13-year loan that would not have been readily available in the local market. However, in both Nigeria’s microfinance sector and South Africa’s renewable energy sector, IFC was able to offer two features of financial structuring—loans that were of long tenor and in local currency. In several countries, over time, other financiers began offering loans of similar characteristics; hence, it was the availability of long-tenor finance early in the market’s or sector’s development that strengthened IFC’s additionality. During the COVID-19 crisis, banks in several countries became particularly interested in IFC’s long-tenor financing (and liquidity support) as other sources dried up.

Equity (where IFC provides equity that is unavailable in the market in ways that strengthen client financial soundness, creditworthiness, or governance) is the second-most common subtype of financial additionality. It is anticipated in 16 percent of projects and realized in 13 percent of them (81 percent success). In Türkiye, IFC used combinations of equity and loans in the financial and energy sectors, also investing through equity funds. One use of equity was to help banks strengthen regulatory capital. In postconflict Sri Lanka, IFC used an equity investment in local currency to provide a stable source of funding for a bank aiming to expand and promote financial inclusion for poor people and small farmers. In Jamaica, IFC's \$20 million equity investment in a mobile communications firm provided long-tenor growth capital unavailable locally, provided IFC's seal of approval to attract investors, and opened an opportunity to advise the company on social responsibility and supply chain management. However, in a South Asian company, IFC's equity investment failed to realize additionality in part as a result of weak screening, and the company ceased operation.

Low interest rates are not a source of financing structure additionality. The evaluation did not find evidence of IFC relying on lower-than-market interest rates as a form of additionality. Because IFC's additionality framework does not include lower pricing as a form of additionality, none of the projects in the reviewed portfolio present such types of claims (as anticipated or realized additionality). Hence, IEG did not conduct a systematic analysis of IFC's prices in relation to the prices of other actors (private and DFIs) to assess whether IFC may be crowding out its competitors. IFC staff and stakeholders interviewed for the nine country case studies indicated that IFC competes on product and institutional features rather than on pricing. In addition, some clients and competitors stated that IFC's products were more expensive than those of other financiers, including of some other DFIs, pointing to no risk of crowding out. Nevertheless, there are certain products, such as concessional blended financing or performance-based incentives (for example, where interest rates are reduced if clients meet certain development targets), in which IFC has the potential of offering lower rates than the market, which in turn has the potential to crowd out competitors. In its case analysis, IEG did not, however, observe concrete examples of this.

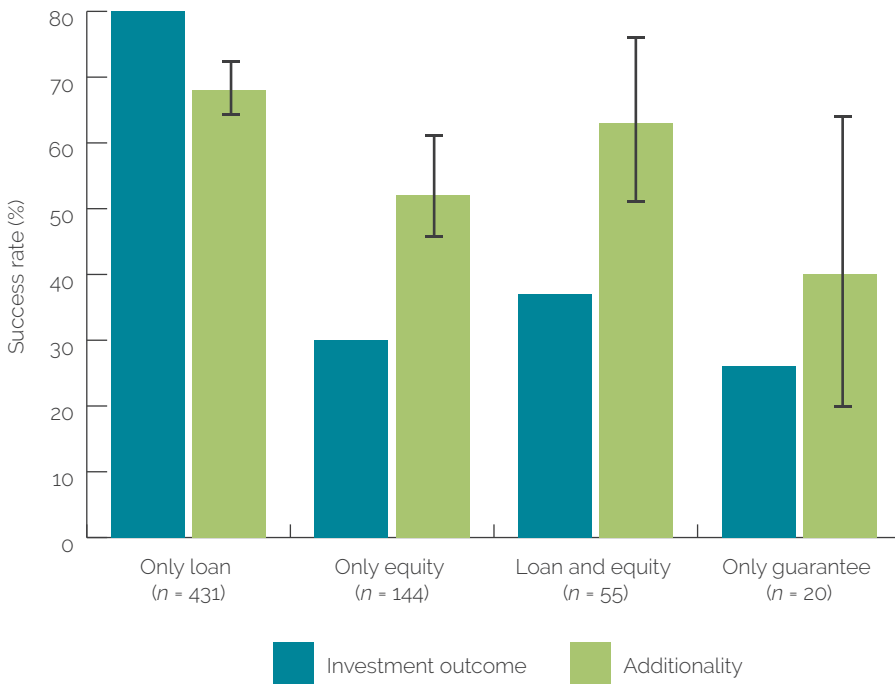
IFC anticipated resource mobilization additionality in 12 percent of projects and realized it in 11 percent of them (92 percent success). Resource mobilization is claimed only when IFC had a verifiable active and direct role in mobilizing other investors—for example, a syndication role, as mandated lead arranger or similar role. Anticipated and realized mobilization and additionality reported in the evaluation conform to this definition and are based on project-level validations. In Mexico’s energy sector, in the early days of independent power providers, IFC often brought in the Inter-American Development Bank (IDB) and sometimes other DFIs, commercial banks, and other financiers. In Egypt, IFC worked with EBRD and the Overseas Private Investment Corporation on a major wind power project, and in the Dominican Republic, IFC mobilized syndicated and parallel loan financing for a wind power project, providing comfort to investors wary of country risk and market volatility.

Financial additionality through innovative financing structure or instruments (including structures not available in the market that add value by lowering the cost of capital or better addressing risks) is anticipated in 4 percent of IFC projects and realized in 3 percent of them. IEG’s interviews suggest that IFC perceives its ability to provide innovative financing structures or products as its greatest source of value added, although their realization appears rare in the evaluated portfolio. Despite IFC’s strategic intention to deliver more innovation in UMICs compared with LMICs, the rate is similar in each.

Several projects in country case studies realized innovative financing structures without anticipating them. For example, in Colombia, IFC supported a repeat client in issuing a green bond—the largest issued at that time in the entire Latin America and the Caribbean Region. The market structure for green bonds was nascent; therefore, the financial innovation was clear. Nevertheless, the anticipated additionality was nonfinancial. IEG’s observation from case studies suggests that such innovations may, at times, be challenging to document with compelling evidence and thus may be underreported. For example, in the Nigerian chemical sector, IFC supported a first-of-its-kind (in Nigeria) privatization transaction, with substantial mobilization of capital from private banks. However, IFC framed the additionality as non-commercial risk mitigation rather than innovative financing.

Evaluative data suggest that IFC has different levels of success with different financial instruments (figure 3.3). IFC's loans are very common and are IFC's most successful financial instrument, both in terms of realizing project-level additionality and in terms of achieving a positive project-level investment outcome for IFC.⁵ The record of equity projects is weaker regarding project-level additionality and investment outcome. A combination of loan and equity affords results that fall between those of loans and equity. IFC guarantees are the least successful instrument in terms of both project-level additionality and investment outcome.

Figure 3.3. International Finance Corporation Additionality Success by Financial Instrument



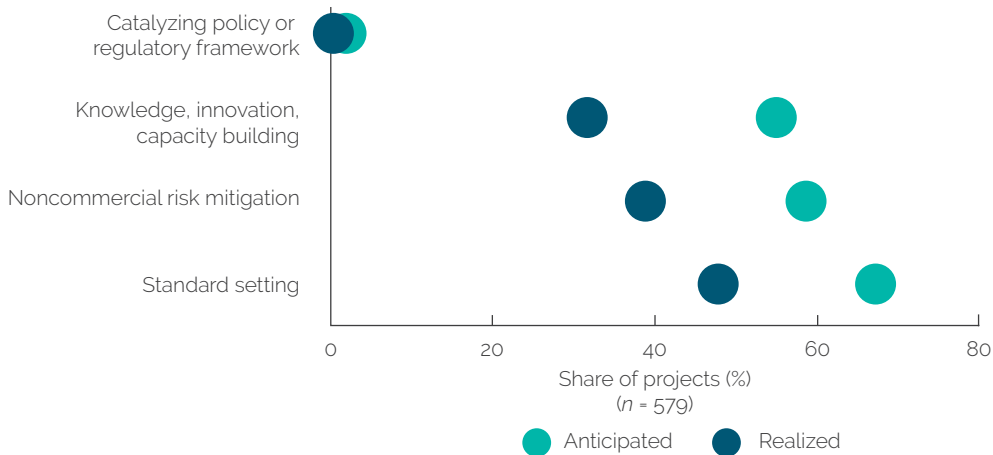
Source: Independent Evaluation Group analysis of evaluated projects.

Nonfinancial Additionality

IFC is less successful at realizing nonfinancial additionality than at realizing financial additionality. Only 65 percent of anticipated nonfinancial additionality was realized. In contrast with financial additionality, nonfinancial additionality is usually realized over time rather than at financial disbursement. Thus, it often requires planning, monitoring, and continuing engagement.

In fact, the leading reason for IFC not realizing anticipated nonfinancial additionality is its failure to deliver anticipated support, often embodied in AS. By subtype, the realization of additionalities in knowledge, innovation, and capacity building (58 percent realized), noncommercial risk mitigation (66 percent), and standard setting (70 percent) are lower than other non-financial types of additionality (figure 3.4). Additionality involving policy or regulatory changes, where IFC involvement in a project catalyzes investment response to a change in the policy or regulatory framework, was found anticipated in only 2 percent of IFC IS projects and realized in 1 percent; hence, it is not detailed in this section.

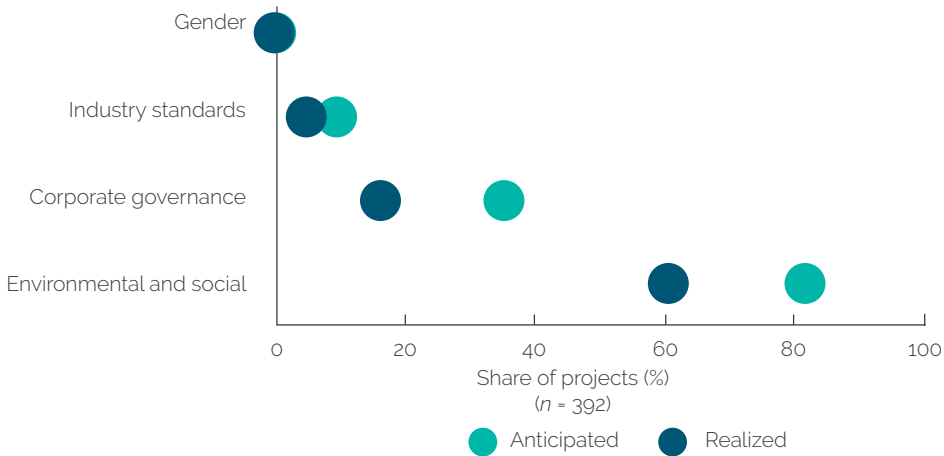
Figure 3.4. Comparison of Anticipated and Realized Nonfinancial Additionality



Source: Independent Evaluation Group analysis of evaluated projects.

Standard setting, where IFC provides expertise in E&S standards, corporate governance, industry standards, and gender, was the most common form of nonfinancial additionality. Overall, standard-setting additionality was anticipated in 68 percent of projects and realized in 48 percent (figure 3.4). Standard setting relates primarily to E&S standards (anticipated in 83 percent of projects with standard-setting additionality), corporate governance (36 percent), industry standards (11 percent), and gender standards (1 percent; figure 3.5). The objective of standard-setting nonfinancial additionality is to induce changes in client practices in these critical areas.

Figure 3.5. Anticipated and Realized Standard-Setting Additionality, by Subtype



Source: Independent Evaluation Group analysis of evaluated projects.

IFC is considered a leader among DFIs in its ability and willingness to monitor and enforce compliance with E&S standards. In IEG’s interviews of expert IFC staff, E&S was the second-most commonly identified source of major IFC value added. IFC’s ability to monitor and enforce compliance with E&S standards is a distinctive feature of IFC compared with other DFIs, so IFC is considered a leader. The portfolio review finds that it is realized with a 75 percent success rate. At the same time, as noted previously, IFC often realizes E&S additionality without anticipating it.

Successful realization of E&S additionality often requires monitoring and client “hand-holding,” often yielding superior results. IFC devotes substantial staff and resources to E&S relative to other DFIs, and its compliance monitoring reflects this. In several country case studies, including Colombia, Indonesia, Mexico, and Türkiye, it was clear that IFC invested significant resources in ensuring compliance, giving ongoing attention and interaction between IFC staff and clients. In multiple instances, other DFIs and investors with fewer resources in E&S rely on IFC’s monitoring reports.

Some clients report that compliance with IFC E&S standards makes it easier to attract other international financial institutions and international investors. For example, this benefit was reported by Indonesian domestic

businesses breaking into global supply chains. In Colombia, IFC provided a banking client with global climate finance knowledge through AS, transferring know-how in seeking climate finance opportunities. IFC also contributed to building the bank's capacity in E&S, its ability to use a web-based IFC tool to determine the climate eligibility of transactions, and its ability to monitor and assess its climate portfolio.

Sometimes, despite its efforts, IFC has difficulty getting clients to adopt improved E&S standards and systems. In the case of a Brazilian agri-food firm, IFC ensured that its E&S requirements were incorporated into the project, and during supervision, IFC followed up with the client, convincing it to hire a dedicated corporate manager responsible for E&S issues. However, very little progress was made in reaching the company's compliance obligations, and the additionality was not realized.

Corporate governance is the second-most common area of standard-setting additionality but is realized only in half the projects where it is anticipated. IFC has rigorous standards for the corporate governance of its clients and helps bring them into conformity with international norms. For example, IFC assisted a client involved in oil and gas pipelines in Colombia by bringing in an international corporate governance specialist to advise it. In China, IFC provided hand-holding assistance on corporate governance to a microfinance nongovernmental organization becoming a commercial entity. AS was structured as an ongoing process of capacity building and knowledge transfer. IFC staff took client executives on a study tour to Cambodia. Later, with IFC's equity stake, an IFC board member additionally helped build capacity and transfer knowledge on an ongoing basis. However, sometimes IFC's standards are not adopted by the client—for example, in Mexico, where despite the appointment of IFC's independent director to a corporate board, IFC's support did not change the governance structure and practices of the family-owned company. Client commitment and capacity, discussed in detail in chapter 4, are key factors for the realization of standard-setting additionalities.

Explicit standard-setting additionality on industry standards is less frequent and realized in 55 percent of projects where anticipated. IFC often brings international standards knowledge and experts to support client companies. In the case of a Vietnamese agri-food company, IFC food safety advisory worked

with the company's partner farmers to implement food safety standards. In Romania, IFC supported a leading health-care provider in raising standards by delivering services more efficiently and establishing benchmarks. However, in the case of a Nigerian private equity fund, IFC's advice on international best practice in the structuring of the fund and its ongoing operations, and IFC's participation on the fund's advisory board, did not improve fund management or performance.

Noncommercial risk mitigation, where IFC provides comfort to clients and investors by mitigating nonenvironmental, nonsocial, and security risks, such as country, regulatory, project, or political risks, is anticipated in 59 percent of projects but realized in only 39 percent of projects. Clients report valuing IFC's reputation (which has a risk mitigation effect) and influence (seen as risk mitigating with regulators). In both cases, IFC can add value by reducing risk from noncommercial sources, for example, the perceived risk of political interference or sudden policy changes. In Nigeria, IFC's presence provided market comfort to international investors and locally grown institutions because they were able to secure funding from various international lenders. In Mexico, in the early days of renewable energy independent power provision, even experienced conglomerates sought IFC's support to help shield themselves from potentially adverse government decisions. However, in some cases, IFC's support does not afford the additionality anticipated. In the case of IFC's support for a Turkish oil and gas services company, IFC's financing was anticipated to enhance the credibility of the company in the market in support of a planned initial public offering. IFC's additionality was expected to occur when the company did the initial public offering, but the initial public offering never occurred.

IFC's ability to add value through knowledge, innovation, and capacity building figures centrally in its value proposition in MICs; however, it has proved challenging to realize this form of additionality. This additionality, where IFC "plays a verifiable, active, and direct role in providing expertise, innovation, knowledge, or capabilities that are material to the project's development impact because of the perceived weak institutional capacity of the borrower or investee" (World Bank 2022, 3), was identified in 55 percent of IFC IS projects but delivered in only 32 percent. In IEG interviews, IFC experts identified knowledge, innovation, and capacity building far more

frequently than any other vehicle for realizing IFC additionality in MICs. IEG found multiple instances in the case studies and portfolio review in which IFC's global experience and industry experts delivered value to clients while its patient partnership built capacity. In Serbia, IFC augmented the value of its financing to an agribusiness client by guiding financial restructuring, financial reporting, and appropriate insurance policies. In Oman, IFC drew on its global experience to help a bank develop its financing for small and medium enterprises and housing finance.

Yet many projects faced challenges in realizing knowledge, innovation, and capacity-building additionality. In Costa Rica, IFC intended to support a housing finance institution in increasing its reach to low-income borrowers through an integrated investment and advisory approach. The advisory was intended to improve the client's capacity in risk management and its small and medium enterprises business and strengthen its strategy, sales model, products and services, policies and procedures and tools. However, the advisory project never materialized. In South Africa, IFC planned to support a second-tier South African bank to enhance its capacity in risk management, identify new opportunities, and support energy efficiency and renewable energy. The support delivered, as evaluated, was inadequate, yielding little evident benefit. Chapter 4 explores factors that help explain such missed outcomes.

AS are a key instrument for nonfinancial additionality. A quarter of projects anticipating financial additionality identify AS as a means of delivery.⁴ This is more common in LMICs than UMICs—37 percent of projects anticipating financial additionality identify AS as a means of delivery. Yet, as chapter 4 discusses, this has proven problematic, in part because in practice in only 57 percent of investment projects with nonfinancial additionality that anticipate complementary AS does the AS actually materialize. When additionalities are to be realized through AS in the financial sector, they achieve a slightly higher success rate (69 percent) than other delivery mechanisms. In real sectors, the use of AS projects is associated with a lower rate of realizing anticipated additionality than other mechanisms for supporting nonfinancial additionality. By contrast, in real sectors, use of a corporate governance or E&S specialist as part of an IS project is associated with a substantially higher rate of success (80 percent) than using AS (54 percent).

Development Outcomes

Realizing additionality is positively associated with both project development outcomes and project investment outcomes. IEG's analysis of IFC's evaluated portfolio indicates that 74 percent of projects with a high additionality rating have a successful development outcome, but only 19 percent of projects with a low additionality rating do. Similarly, 77 percent of projects with a high additionality rating have a high investment outcome rating, but only 34 percent of projects with a low additionality rating do. This suggests where IFC can deliver unique support to a client; it generally contributes to overall project success.

Realizing nonfinancial additionality is particularly important for development outcomes. Although IFC has more difficulty realizing nonfinancial than financial additionality, IEG's econometric analysis suggests that several subtypes of nonfinancial additionality are significantly associated with a higher probability of success in several important outcomes (table 3.1). Projects that realize nonfinancial additionality are 29 percent more likely to have positive social and environmental outcomes. (Projects that realize both financial and nonfinancial additionality are 40 percent more likely to have positive social and environmental outcomes.) For example, when IFC financed a Russian electronic materials manufacturer, it worked with the company to define and implement a platform that brought the company into compliance with IFC's E&S standards. By project evaluation, the company had established an E&S management system and a human resources policy; was monitoring most key environmental, social, and occupational health and safety parameters; and had a low accident rate.

Specifically, projects realizing knowledge, innovation, and capacity-building additionality are 25 percent more likely to have a positive development outcome rating. Those same projects have a significantly higher likelihood of showing positive project business performance (15 percent more likely), economic sustainability (17 percent more likely), and private sector development (24 percent more likely). For example, IFC supported a microfinance institution in Tunisia in developing a new commercial strategy to expand to new client segments and new financial products oriented toward microenterprises. As a result, by the time of project evaluation, the

institution had vastly increased its customer base, reaching over 140,000 new borrowers, 10 times its target.

Table 3.1. Average Marginal Effects for Outcomes Associated with Additionality (percent)

Additionality	Development Outcome	Project Business Performance	Economic Sustainability	Environmental and Social Effects	Private Sector Development
Nonfinancial additionality	..	..	..	27.1	..
Financial and nonfinancial additionality	39.8	..	..	33.4	..
Standard setting	13.9	..	..	28.0	..
Noncommercial risk mitigation	..	..	..	..	13.8
Knowledge, innovation, and capacity building	25.3	15.4	17.4	..	23.6

Source: Independent Evaluation Group econometric analysis of evaluated International Finance Corporation projects, with internal and external control variables.

Note: .. = negligible or insignificant.

Projects realizing the standard-setting subtype of additionality are more likely to have positive development outcome ratings and E&S effects. Projects realizing the standard-setting subtype of additionality are 14 percent more likely to have positive development outcome ratings, and standard setting is associated with a 28 percent higher likelihood of positive E&S effects. For example, in Indonesia, IFC supported a synthetic fiber producer in improving its energy efficiency and resource recovery. By the time of project evaluation, the client company had enhanced its energy efficiency, resource recovery, and clean production, reducing greenhouse gas emissions by more than 10 percent and water usage by more than 20 percent.

Finally, noncommercial risk mitigation is associated with a 14 percent higher probability of positive private sector development outcomes. For example, IFC supported a Palestinian microfinance institution to encourage other international financial institutions to enter the sector, by showing its willingness to take risks the private sector was not yet willing to bear. At evaluation,

it was determined that after IFC's initial loan, both local banks and international institutions became financiers of the microfinance institution.

Realizing Additionality beyond the Project

Although IFC treats additionality primarily at the project level, in several countries and sectors, a country or sector lens affords a more positive view than a project lens. In these cases, additionality creates or builds markets, often through combined upstream and downstream engagement over an extended period. Some of IFC's biggest value addition occurred when it came into a sector early, stayed, and adapted its support as the market developed.

- » In China's microfinance sector, IFC engaged early and long term, with government and carefully selected clients. It used multiple financing (equity and loans) and AS tools, adapted to specific needs. IFC transferred substantial knowledge to the government and businesses. Its China office supplemented unique in-country expertise with leading global experts mobilized as needed. IFC provided patient capital over 20 years and adapted the type of support over time as the market matured. It worked with carefully selected clients who generally proved to perform well with IFC's interventions, some of whom became repeat clients. IFC helped build supportive upstream institutions, including regulatory capacity and complementary institutions and a credit bureau and movable asset registry.
- » In the Turkish power sector, IFC complemented World Bank support by being among the first investors. The engagement demonstrated that properly structured private power projects could represent feasible and financially attractive investments for foreign investors. IFC's investments also tested new regulations supported by the World Bank.
- » In Bangladesh, the World Bank, IFC, and the Multilateral Investment Guarantee Agency (MIGA) engaged in a coordinated manner to support independent power providers. The World Bank worked upstream on unbundling and improving regulatory capacity. IFC financed independent power providers, some with MIGA guarantees.
- » In supporting a large Egyptian solar energy project, the Bank Group coordinated through a programmatic engagement. IFC supplied debt and equity

investments, the World Bank provided advisory support to the renewable energy structuring program, and IFC and MIGA mobilized other investors and gave them comfort.

- » In Colombia, green energy finance benefited from IFC's multiple interventions, both upstream and downstream. IFC brought innovation within the Colombian context through the introduction of a green taxonomy for financial sector regulators and the introduction of green bonds downstream through financial sector clients. IFC also led introduction of secondary markets—a way to offer bonds in the over-the-counter market. Multiple stakeholders interviewed for IEG's case study acknowledged its sector leadership.

In some cases, looking at additionality at the sector and country level raises questions, affording a more negative view than a project view would yield. This can happen where additionalities at the project level do not seem to add up to much at the sector level. In the banking sectors of South Africa and Türkiye, both known for their depth, IFC lending to banks was tiny relative to their assets, and the banks mostly had multiple funding sources. Despite success in delivering at the project level, the unique value added at the sector level was hard to discern.

Where IFC approaches transactions individually, there can be missed opportunities to sequence AS and IS or to collaborate with the World Bank and other DFIs. In such cases, IFC value addition may have been greater with a more coordinated approach. Most of the sectors covered in the case study do not reveal a strong complementarity of AS and IS to obtain a more programmatic benefit for the sector. The China chemicals case study indicated that the sector benefited only at the transaction level, with no greater sector impact. IFC found limited points of entry, working with small-scale clients because larger ones had alternative sources of finance. It entered the sector too late to influence its development and lacked the multi-instrument and upstream engagement it had in the microfinance sector in China. In Nigeria, IFC supported the first privatization in the chemical and fertilizers industry investment, but its additionality was limited to financial structuring and standard-setting benefits to very few clients. During the evaluation period, IFC was not able to scale its

engagement or to influence the sector development upstream. In some cases, there can be constraints in the enabling environment limiting IFC's opportunities to engage beyond isolated projects. This was seen at times during the evaluation period in the banking sector in South Africa and in the renewable energy sector in Bangladesh. In other cases, IFC's overall presence and program size in a country may not allow multiple engagements.

Similarly, a "beyond the project" perspective can enhance IFC's ability to take advantage of collaboration and external resources:

- » Regional or global programs and partnerships can enhance and extend IFC's ability to add value and may, in turn, have broader value added at the regional or global level.
- » Collaboration with the World Bank can enable and expand additionality at the country and sector level (as discussed in chapter 4).

Collaboration with other DFIs at the project or sector level was associated with successful realization of additionality, especially in undertaking large projects (also discussed in chapter 4).

¹ In Expanded Project Supervision Reports and Evaluative Notes (EvNotes), projects are rated for additionality on a scale that includes excellent, satisfactory, partly unsatisfactory, and unsatisfactory. Projects receiving the first two ratings are considered “above the line”—that is, successful. Projects receiving the second two ratings are considered “below the line”—that is, unsuccessful.

² Expanded Project Supervision Reports guidance states that, for additionality to be rated satisfactory, both of the following criteria must be met: (i) all important aspects of claimed additionality were borne out or there were unforeseen ways in which the IFC was additional, and (ii) there were no areas where IFC made a negative contribution. Where IFC has not fully realized all aspects of claimed additionality, for a satisfactory rating, the Expanded Project Supervision Report should present evidence as to why the deficiencies are not deemed important in retrospect.

³ In terms of loan income or equity returns.

⁴ All figures in this paragraph result from IEG’s analysis of the portfolio of evaluated IFC investment services projects.

4 | Factors of Success and Failure


Highlights

For the International Finance Corporation (IFC) to realize additionality, a chain of events must take place, including identifying anticipated additionality, deploying tools or support to transform anticipated additionality into realized additionality, and assessing and addressing whether the anticipated additionality is being realized or not. Internal and external factors influence these events, both at the project level and at the country and sector level.

Project-level internal factors include IFC's work quality, staff capabilities, and internal procedures. Work quality is the leading internal factor. Work quality during monitoring and supervision is especially important for nonfinancial additionality because it tends to be realized over the life of a project rather than at disbursement.

Staff capabilities (expertise, experience, and local presence) are the next most important internal factor, followed by IFC procedures and incentives (including safeguards, quality reviews, and systems for tracking additionality).

Project-level external factors include client capacity and commitment, the political and policy environment, and competition and collaboration with other financiers. Given that many (especially nonfinancial) additionalities are based on clients changing their behavior (for example, adopting new practices and standards), clients' willingness and capability to follow through are key. Realization of additionality is higher for repeat clients, especially in lower-middle-income countries. A supportive policy, regulatory, and political environment is vital for IFC to realize additionality, whereas unfavorable policies toward private sector solutions can sharply impede its realization. Finally, the presence of other financiers creates fertile ground for collaboration but may also



induce competition where the flow of bankable deals is limited, or private finance is abundant.



Through a learning lens at the country and sector level, we observe several factors influencing realization of additionality beyond the project level, including IFC's long-term presence and engagement—strategic planning for country sectoral engagement, collaboration with the World Bank and the Multilateral Investment Guarantee Agency, and the range of external factors described.

There is great value in learning what enables IFC to realize additionality and what prevents it from doing so. By identifying success and failure factors, IFC can realize more additionality more often. IEG finds further learning value in considering factors that may work beyond the project level to influence IFC's success in realizing additionality.

For IFC to realize additionality successfully, a chain of events must align. First, it must correctly identify the additionality its support will realize. Second, it must work toward transforming anticipated additionality into realized additionality. Doing so requires deploying the right tools or support. Finally, IFC must generate and use information about whether the anticipated additionality is being realized to supervise its projects and, in cases where anticipated additionality is not being realized, to take corrective action.

However, whether realization happens involves many factors, both internal (within IFC's control) and external (beyond it). Both internal and external factors can facilitate the steps required to realize additionality (if they are present) or frustrate them (if they are deficient). This chapter first presents evidence and findings on the factors internal to IFC that it can most directly control. Second, it presents evidence on factors external to IFC that it can seek to anticipate, mitigate, or influence. Understanding these factors helps explain both cases in which IFC realized additionality and cases in which it did not. A final section considers factors that may exist beyond the project level but have a direct bearing on project success in realizing additionality.

Project-Level Internal Factors

Several internal factors within IFC's control affect the realization of additionality. They include IFC's work quality, staff capabilities, and internal procedures.

Work Quality

IFC's work quality is the leading internal factor influencing the realization of anticipated additionalities, both positively and negatively. Because work quality and the realization of additionality are rated, we can observe the relationship between the two. IFC and IEG evaluate the quality of IFC's work at two stages: (i) project screening and appraisal and (ii) project monitoring

and supervision. Controlling for various potential explanatory characteristics and factors, IEG’s econometric analysis of evaluated projects shows that IFC work quality bears a significant positive relationship with the realization of both financial and nonfinancial additionality, but the magnitude of the influence is stronger for nonfinancial additionality. A project with good overall work quality is 17 percent more likely to realize financial additionality. However, when controlling for multiple possible explanatory factors, it is 31 percent more likely to realize nonfinancial additionality (table 4.1).

Table 4.1. Average Marginal Effect of Work Quality on Successful Realization of Additionality (percent)

Aspect	Financial Additionality	Nonfinancial Additionality
Overall work quality	16.8	31.1
Screening and appraisal	11.4	20.6
Monitoring and supervision	7.8	16.3

Source: Independent Evaluation Group econometric analysis of evaluated International Finance Corporation investment projects.

Note: Relationships statistically significant above a 95 percent confidence level are indicated. The analysis controls for project tier, country income category, region, International Finance Corporation industry group, client and project characteristics, time period, and ratings of country political stability, government effectiveness, control of corruption, and domestic private sector credit depth.

Both at project initiation and over the life of the project, work quality has a larger marginal effect on IFC’s realization of nonfinancial additionality. Good work quality at project initiation (screening and appraisal) increases the chance of realizing financial additionality by 11 percent and the likelihood of realizing nonfinancial additionality by 21 percent. Good work quality over the life of the project (monitoring and supervision) has a limited, significant benefit for financial additionality (an 8 percent higher likelihood of realization) but a larger benefit for nonfinancial additionality (a 16 percent higher likelihood of realization).

At screening and appraisal, additionality (in particular, financial additionality) is not always well identified. One important type of error at appraisal is when initial claims of additionality prove factually incorrect. Such claims can happen when IFC erroneously claims that a feature of its support is substantially superior to what is available in the market or other sources. For example, in the case of an Albanian property development company,

the evaluation found that local banks were providing competitively priced funding for up to 10-year tenors; therefore, IFC's financing was incorrectly claimed as additional. In IEG's portfolio review of evaluated projects, the anticipated additionality statement was not correct in 40 percent of project claims where financing structuring additionality was not realized. Regarding noncommercial risk mitigation, 23 percent of the unrealized claims were found at evaluation to be incorrect. Overall, 27 percent of unrealized financial additionality claims and 12 percent of unrealized nonfinancial additionality claims were found at evaluation to have been inaccurate.

IEG's analysis indicates that this type of error is diminishing in frequency in more recent projects as up-front analysis has strengthened. IEG compared a sample of 15 projects claiming financial structure additionality that had been approved before 2018 with a parallel sample approved between 2018 and 2021. In the older cohort, only one-third of projects offered a specific reference to country market conditions to justify their claims of additionality. In the more recent cohort, 80 percent of projects did so, and since FY20, the sample suggests that all projects have done so. This trend indicates that analysis to provide evidence that IFC is offering better than market terms has become routine (box 4.1). In recent years, the Global Macro and Market Research team has offered analysis of prevailing market terms for financing to support financial additionality claims.

A second problem at appraisal is when additionality is claimed for planned support that is later found not to have been delivered. This problem is especially common for nonfinancial additionalities such as standard setting and knowledge sharing additionality. This can happen either within a project or where a claim of additionality is made based on an anticipated subsequent AS project. An example is IFC's support for a Costa Rican housing society; it was approved as an integrated IS-AS project, but the AS was not delivered.

IFC anticipated using AS to support nonfinancial additionality in 25 percent of investment projects but realized it in only 14 percent. The knowledge, innovation, and capacity-building additionality subtype relies more on the use of AS projects than the standard-setting additionality subtype (33 percent and 8 percent of projects, respectively). It is, therefore, more affected by the lack of delivery of AS. A variety of factors may influence the ultimate

delivery of AS, including client commitment and resources, but the ability to accurately identify additionality and its delivery mechanism is an issue of work quality.

Box 4.1. Example of a Good-Practice Claim of Financing Structure Additionality

In one project, the International Finance Corporation is providing a long-term financing package, including blended finance, with an overall tenor of 19 years and a 46-month grace period. These terms improve the viability of the project by matching the long-term nature of revenue streams to debt service obligations while maintaining a competitive tariff. These financing terms are not available on the local market. Market data show that no international project finance in the local power sector had been provided over the previous 5 years. Over the previous 12 months, there was only one euro-denominated syndicated loan provided to a corporate in the country, benefiting the services sector, with a tenor of 7 years. There were no US dollar-denominated corporate bonds issued in the country over the previous 12 months.

Source: International Finance Corporation project document, anonymized to protect confidential information.

Good project supervision is associated with better additionality outcomes, especially regarding nonfinancial additionality. Because much nonfinancial additionality is realized over the life of a project, monitoring and supervision are essential to ensure its realization. Where IFC follow-up is lacking, the realization of additionality can suffer. An evaluation of IFC’s support for a telecommunication service company in Nigeria found that IFC did not follow up with the client on its plan for the client to implement an integrated E&S management system. In the case of a Brazilian telecommunications company, IFC failed to deliver on knowledge, innovation, and capacity-building additionality. The project evaluation determined that IFC had no direct contact with on-site management and staff after its investment, instead handling supervision from Washington, DC. It found that more intensive supervision by IFC’s technical specialist might have helped in diagnosing management and operational problems and achieving a better outcome.

Staff Capabilities

Staff expertise, experience, and presence in the field are key to IFC's delivery of additionality. In case studies, IFC's most successful sector engagements typically involved a combination of in-the-field capability and global industry expertise that could be mobilized as needed (table 4.2). Case studies also found that these were key IFC advantages in delivering industry and environmental, social, and governance knowledge. In IEG's expert interviews, 60 percent of respondents expressed the view that IFC's combination of local and global expertise was a key source of additionality. IFC brought its global experience to bear in Mexican independent power provision; renewable energy provision in Egypt and South Africa; microfinance in Bangladesh, China, and Nigeria; and green financing in Colombia and South Africa (see box 4.2 about Colombia). Clients appreciated IFC's ability to combine in-country expertise with international industry experts. In South African renewable energy, this combination enabled an early concentrating solar power project. In Bangladesh microfinance, a client praised IFC's in-house expertise, "No one knows the market like IFC." In addition, in Bangladesh, the ministry of finance praised IFC's role in sharing knowledge and capacity building as "pivotal." In China microfinance, much of IFC's expertise was locally based and easily accessible by clients, potential clients, and the government. Its in-house expertise extended to its policy advocacy and support function. Further, IFC's global knowledge was a major asset as digital finance came to the forefront in China.

Table 4.2. Country Case Study Evidence on Positive and Negative Factors Associated with Realization of International Finance Corporation Additionality

Country	Safeguards and Due Diligence	Staff Capabilities, Knowledge, and Long-Term Presence in the Field	Upstream Early Sector Work	Monitoring and Reporting Additionality	World Bank Group and DFI Collaboration	Client Capacity and Commitment	Policy and Political Environment
Bangladesh	+	+	+/-	n.a.	n.a.	n.a.	n.a.
China	n.a.	+	+	n.a.	n.a.	n.a.	n.a.
Colombia	+/-	n.a.	n.a.	n.a.	n.a.	+	n.a.
Egypt, Arab Rep.	n.a.	n.a.	n.a.	n.a.	+	+	n.a.
Indonesia	+	+	+	n.a.	n.a.	n.a.	n.a.
Mexico	+	+	n.a.	n.a.	+	n.a.	n.a.
Nigeria	n.a.	+	+	n.a.	n.a.	n.a.	n.a.
South Africa	n.a.	+	n.a.	n.a.	n.a.	-	n.a.
Türkiye	+/-	+	+	n.a.	+	n.a.	n.a.

Source: Independent Evaluation Group country case studies.

Note: + indicates evidence of a positive relationship; - indicates evidence of a negative relationship; +/- indicates mixed evidence. DFI = development finance institution; n.a. = not applicable.

Box 4.2. Colombia: From Global Knowledge to Local Green Finance

In Colombia, the International Finance Corporation transferred global knowledge on green building and climate finance—together with financial support—to a local bank. One embodiment of shared knowledge was the International Finance Corporation's Excellence in Design for Greater Efficiencies green building certification tool. The International Finance Corporation's support for green financing since 2018 was critical to structure a new operation to support the 2022 issuance of the second Basel III-compliant (B3T2) subordinated bond in Latin America and the Caribbean.

Source: Independent Evaluation Group Colombia country case study.

Internal Procedures

Internal IFC procedures and incentives enhance or constrain the realization of additionality. As noted in chapter 2, several procedures have been introduced since 2018 to support the quality of IFC additionality claims and the evidence behind them during project preparation. The new procedures include investment teams' interactions with AIMM on additionality. AIMM was cited in half of IEG's expert interviews as a factor enhancing IFC's articulation of additionality and rigor at approval. However, several staff members felt that AIMM focused on additionality for which quantitative evidence could be provided to the exclusion of some other forms of additionality, such as innovative financing and mobilization.

Similarly, staff saw IFC's safeguards and quality reviews as a double-edged sword. The same care and safeguards that could offer the comfort of IFC's imprimatur of approval impose significant transaction costs. Several interview respondents felt that the sum of IFC's procedures induced delays and imposed overheads that reduced IFC's ability to compete. In South Africa, clients noted the need to wait for approvals with IFC, although one client commended the IFC team for getting a project cleared in a time comparable to other financiers, which the client regarded as having required exceptional dedication.

IFC systems for recording, monitoring, and reporting project additionality are incomplete, constraining learning and transparency. Anticipated

additionality claims are reviewed for quality and credibility at project approval. According to IFC's guidelines, once a project is approved, IFC teams are expected to enter additionality information and related additionality milestones and indicators into a new additionality database and provide regular updates and evidence of when and how additionality was delivered during project implementation. Such a system could facilitate supervision and inform learning. However, the envisioned additionality database is not yet operational, and little or no monitoring of additionality is currently being done under the old system (Development Outcome Tracking System). In addition, despite IFC's guideline stating that "IFC will provide annual reporting on achievement of additionality as part of development impact reporting," (IFC 2018, 11), it does not do so. Information on additionality is disclosed to the public by project. For each investment approved, IFC discloses a factual summary of the main elements of the investment, including IFC's expected role and accountability in compliance with IFC's Access to Information Policy (IFC 2012). Transparency also remains limited and mostly constrained to anticipated additionality in the other MDBs (box 4.3).

At completion, IFC assesses whether additionalities were realized only for a sample of mature projects. Those sampled undergo IFC's self-evaluation process—the Expanded Project Supervision Report—and IEG's validation. Projects not selected for self-evaluation generate no information on whether or not anticipated additionality was realized.

Interviews with IFC staff indicated that some internal incentives might mitigate against the realization of additionality. The majority of staff interviewed raised reservations regarding the alignment of staff incentives with additionality. One issue is the lack of explicit recognition. Although anticipating additionality is mandatory, there is neither a reward nor a penalty for realizing additionality because IFC does not track realization. However, there are reportedly strong incentives to deliver projects and volume. Another factor cited was limited resources. For example, investment officers may not have time to carefully or strategically reflect on or support the delivery of additionality if they are under time pressure to meet targets.

Box 4.3. Multilateral Development Banks' Published Information on Project-Level Additionality

Multilateral development banks' transparency about project additionality has improved after recent system upgrades, although it remains shallow and mostly focused on anticipated additionality.

- » The European Bank for Reconstruction and Development publishes brief details on additionality in its project summary documents, usually identifying three sources.
- » With the introduction of its Additionality and Impact Measurement system, the European Investment Bank now discloses some information on additionality and impact in its project summary sheets but with limited detail or separation of the two elements and no rating.
- » For several years, the African Development Bank has produced a section on complementarity and additionality in its project summary notes. Details vary from project to project, but it is sometimes quite informative about additionality.
- » The Asian Development Bank produces no summary but, in limited cases, has released a redacted version of its board project document with a section on value added. This section identifies elements of financial and nonfinancial additionality in some cases, but the treatment varies widely.

Source: Independent Evaluation Group deep dive (see appendix F).

Project-Level External Factors

Several external factors also have a critical influence on realizing additionality. They include client capacity and commitment, the political and policy environment, and competition and collaboration with other financiers.

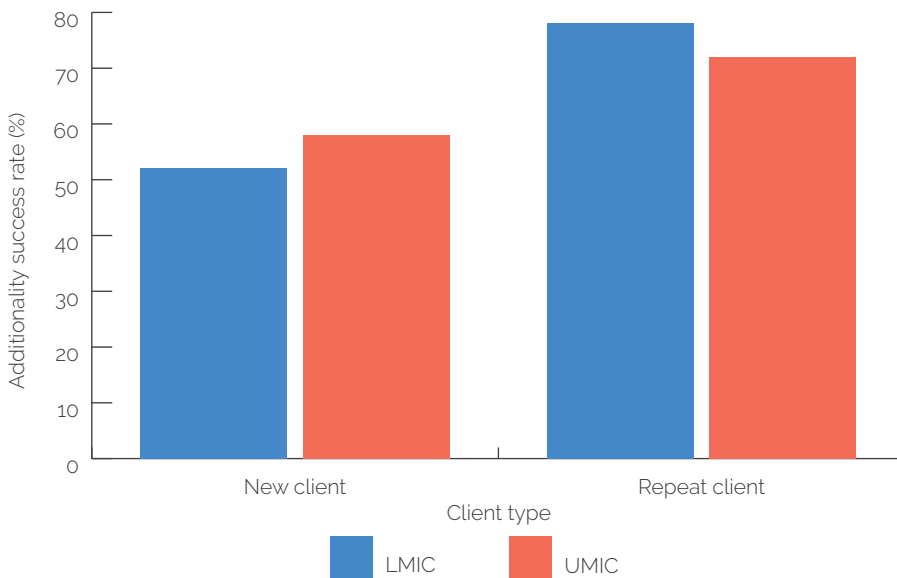
Client Capacity and Commitment

Client capacity and commitment are important factors in realizing additionality. Given that many additionalities (especially nonfinancial additionalities) are based on clients changing their behavior (for example, adopting

new practices and standards), clients’ willingness and capability to follow through are key. Thus, IFC’s selection of clients can determine whether the clients accept IFC’s advice and guidance on improving their businesses. As noted, one reason planned AS is not always delivered is a lack of client commitment and capacity. Several IFC experts interviewed see client capacity as constraining IFC’s realization of additionality.

Project evaluations often cite a lack of client commitment and capacity as a reason for failures to realize additionality. For a tourism client, IFC did not realize the anticipated E&S additionality in part because of a lack of client understanding and capacity. A financial sector client in Latin America ultimately rejected a planned advisory project intended to deliver knowledge and capacity on risk management for its smaller borrowers. A financial services group client rebuffed IFC’s efforts to get it to abide by IFC’s financial covenants promoting better banking practices to manage risk.

Figure 4.1. International Finance Corporation Additionality Success Rate by Client Type and Country Income Classification



Source: Independent Evaluation Group analysis of evaluated projects.

Note: LMIC = lower-middle-income country; UMIC = upper-middle-income country.

Furthermore, good clients often turn into repeat clients, and IFC's additionality (particularly nonfinancial additionality) is higher with repeat clients than with new ones (figure 4.1). The benefit of being a repeat client is less in UMICs, perhaps because new clients start from a higher capacity than in LMICs. However, the benefit that being a repeat client has on the realization of additionality appears magnified in LMICs. This advantage for repeat clients in realizing additionality in LMICs suggests either strong selectivity of repeat clients for those with commitment and capacity or strong success in building commitment and capacity among new LMIC clients.

A Supportive Political and Policy Environment

A supportive policy, regulatory, and political environment is vital for IFC to realize additionality. Where policy makers and regulators are open to input from the Bank Group, there are opportunities for IFC to engage upstream or work through the Bank Group for upstream sectoral reforms beneficial to private sector participation. One example is in Colombia, where IFC worked with regulators on a framework for green finance. In the Bangladesh power sector, the World Bank had a long-standing technical assistance and capacity-building relationship with power sector regulators. In some instances where the existing policy framework is weak, IFC's contribution can be stronger if local authorities are open to reform. For example, the realization of E&S additionality is inversely correlated with the local E&S legal framework and is more common in LMICs than in UMICs. Where the existing E&S regulatory framework is excellent (strong and well enforced), we may not see much IFC additionality on E&S.

Where local authorities are not open to favorable policies, IFC's potential additionality may be constrained. In Indonesia, Mexico (power), Nigeria (microfinance), and South Africa (power), policies enforced during FY11–21 worked against private sector solutions (see box 4.4 about Indonesia). Such policies constrained opportunities for IFC to add its distinctive value.

Box 4.4. Indonesia's Turn toward State-Owned Enterprises

Since 2014, the Indonesian government has relied more on public sector enterprises to drive economic growth. The emphasis on state-owned enterprises makes it difficult for the International Finance Corporation (IFC) to add value. IFC staff members note that the typical roles in other countries where IFC can add value are in large projects with the private sector that combine financial and nonfinancial additionality, especially in infrastructure. In such cases, IFC can offer industry-leading expertise to develop infrastructure projects that provide essential services while ensuring that environmental and social standards are met. In infrastructure, advisory services are a crucial component, and IFC can advise governments and support sector reforms that can translate into private investment for priority projects and sectors. IFC also offers its deep experience in providing financing and structuring solutions for sustainable infrastructure projects in developing countries, offering a range of financing and risk products tailored to meet project needs. The products include loans, equity, quasi-equity, currency swaps, and local currency products, along with World Bank and Multilateral Investment Guarantee Agency guarantees and insurance and mobilization of funding through IFC's syndication programs and work with IFC's Asset Management Company to engage with institutional investors. However, despite a tremendous need for national and municipal infrastructure, because of the government of Indonesia's reliance on state-owned enterprises for infrastructure, IFC is unable to engage in a significant way in this sector.

Source: Independent Evaluation Group Indonesia case study.

Competition and Collaboration with Other Financiers

The presence of other sources of development finance and support can afford fertile ground for collaboration but may also induce competition where the flow of bankable deals is limited or private finance is abundant. In cases where IFC was well established in a country or sector or a first mover, it often mobilized financing or support from other DFIs, magnifying its additionality and impact through collaboration. Financing large investments (especially in infrastructure)—which may exceed the capacity or exposure limits of a single institution for a single investment, client, or country—can motivate

DFIs to collaborate through co-investment. IEG found multiple examples of IFC partnering with EBRD and IDB, including a variety of other bilateral and multilateral donors, in case study sectors. DFIs often share a number of common goals in a country and sector, so they can augment each other's benefits and influence. In its early engagements in Turkish power generation, IFC often brought in EBRD as a partner. In Egypt's renewable energy sector, EBRD was also a collaborator on a major wind power project. In Mexico power generation, IFC often brought in IDB investment. IFC itself was sometimes brought in by another international financial institution to cofinance.¹ When IFC engaged early in private renewable power generation in South Africa, it brought in a sponsor it had worked with in another region and an investor.

Competition among DFIs is more common where the pipeline of "bankable" projects and reliable sponsors is limited or where opportunities are limited by a well-developed commercial finance market. IFC staff noted instances where other DFIs offered similar financing and competed on terms of financing or cost of services and were sometimes able to reduce the cost of lending or offer free AS to gain an advantage. As noted in chapter 3, in its case studies, IEG did not find IFC competing with other DFIs on the basis of pricing of its financial products but did hear of other DFIs that were able to offer better pricing on some deals.

Competition may enhance additionality for some clients, but scarcity of projects may also lead DFIs to projects where they offer lower additionality and risk crowding out private financiers. The *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations* states that MDBs should avoid competing with each other and that, when assessing additionality, they should seek to jointly contribute to the success of a project by relying on their respective core strengths rather competing or duplicating efforts (AfDB et al. 2018). Yet, clients may appreciate such competition. Sophisticated clients are assessing the advantages and complementarities of DFI financing on their own. In the case of a large commercial bank in Africa, the client knew well the different financial features of each DFI and used one, the other, or several of them depending on its financial needs. A large bank in Europe and Central Asia reportedly worked with an array of different DFIs (including IFC) and private financiers, considering their terms, investment capacity, and sectoral capabilities. In such cases, it may be ap-

appropriate to question the degree of additionality, given that the alternative to IFC engagement (the counterfactual) would be a project proceeding with a different source of finance.

IFC often engages in particular markets early in their development, but as markets mature and the risks and rewards are better understood, first mover advantages dissipate, and former financing partners (whether public or private) may emerge as competitors. Staff cited instances in which EBRD was able to offer free technical assistance to accompany its financing and others in which IDB Invest could offer less expensive local currency financing than IFC could offer. In fact, about half of IFC experts interviewed viewed competition with other financiers as a constraint on IFC's additionality. For example, in the Turkish power generation market, EBRD transitioned from a frequent partner to a frequent competitor. Where such competition is shaped by the availability of private finance, care is required to ensure that IFC (and other DFIs) are providing additionality and not crowding out private finance.

Additionality beyond the Project

Some additional internal factors and most of the external factors already identified have implications for additionality that go beyond the project level, pointing to the value of thinking in terms of country sector. IFC's additionality framework and related internal systems were conceived to capture additionality at the project level. Thus, they do not systematically capture additionality beyond the project level, and IFC does not envision them doing so.

Taking a wider perspective could reveal important additionality factors at the sector and country levels. IFC's distinctive benefit to a country or sector usually builds over a long period through a combination of sequenced interventions, policy dialogue, cooperation with other DFIs, interactions with stakeholders, and similar work. The absence of systematic ways to capture additionality beyond the project misses opportunities for learning and shaping strategy. It also omits important parts of the story about IFC's additionality. In the remainder of this section, we describe success factors for achieving additionality beyond the project.

Long-Term Presence and Engagement

IFC's long-term presence and engagement in country sectors emerged from several countries as a critical source of additionality. Long-term presence afforded not only knowledge of the market and potential clients but also the flexibility to respond quickly to changing conditions and priorities in circumstances where IFC's global knowledge and local knowledge gave it a unique ability to add value. In one East Asian country, IFC's long-standing relationships with national authorities helped it take an active and adaptive approach. This approach helped create the legal and regulatory framework for the establishment of the microfinance industry through a sequenced combination of upstream, downstream, investment, and advisory interventions. In Nigeria, faced with a restrictive authorizing environment and weak local capacity in microfinance, IFC required a long-term presence and engagement to realize some of its nonfinancial additionality through enhancing elements of the enabling environment by capacity building of financial institutions and sector reform.

Strategic Planning Tailored to the Context

Coinciding with long-term engagement is the element of strategic planning tailored for engagement in the sector in a specific country context. As noted in prior chapters, IFC can have a larger development effect in sectors where it can engage early in market development; apply multiple instruments in a sequential or complementary manner; collaborate with Bank Group institutions or other DFIs, financiers, and sponsors; and work both upstream and downstream. IFC realizes beyond-the-project additionalities through projects that build on or complement each other and its ability to take on, in aggregate, the financing of larger-scale activities. Examples discussed in chapter 3 include green finance in Colombia, microfinance in China, renewable energy in Egypt, and independent power generation in Mexico (until certain policy reversals) and Bangladesh. For example, at one point in the evaluation period, IFC-financed power generation in Bangladesh amounted to 20 percent of the total supply. In some of these engagements, as the market developed and evolved, so did IFC support. One example is the shift from more traditional microfinance models to digital financial service models. In

several markets, as IFC achieved a demonstration effect in one model and others came in to replicate it, IFC moved on to new models and challenges. For example, in Mexico, IFC moved from supporting conventional independent power providers to supporting renewable energy independent power providers. In market creation, as regulators and clients grow in sophistication, additionality derives from moving toward the frontier of technologies and financing.

World Bank Group Collaboration

Collaboration with the World Bank and MIGA offers an opportunity for IFC to enhance its additionality to clients and its impact on sectors, but it is uncommon. IFC 3.0 poses a coordinated, sequential cascade approach as a model for the interaction of Bank Group institutions. This approach is intended to enhance IFC's additionality and impact and functions largely at the sector level. In particular, it envisions IFC leveraging the World Bank's policy and institutional capabilities for upstream work and MIGA's ability to provide noncommercial risk insurance. In some of the examples above, it worked.

There have been cases where IFC and the World Bank (and occasionally MIGA) have collaborated after the model articulated in the cascade. In such instances, the World Bank often takes an upstream role, whereas IFC focuses on financial and advisory inputs to clients, and MIGA at times provides noncommercial risk guarantees. Where this occurred, IEG's portfolio review indicates that IFC's additionality was enhanced, for example, in the subtypes of additionality relating to the policy and regulatory framework, mobilization, and noncommercial risk mitigation.

However, such explicit coordination at the sector and project level is not common, except in power generation. In Türkiye's energy sector, IFC activity deliberately complemented World Bank upstream sector work to establish a regulatory framework for independent power provision, proving to foreign investors that properly structured, private projects in the power sector could be financially attractive investments. IFC also aimed with its early investments to test the new regulations. Without the World Bank, IFC could not have provided such additionality on catalyzing policy and regulatory change. In Bangladesh, the International Development Association, IFC, and MIGA

were able to work together in supporting new gas-fired power generation capacity, with substantial benefits for mobilization and commercial risk mitigation. In Egypt, this coordination was evident in support of a large solar energy project, described in the Realizing Additionality beyond the Project section in chapter 3. In South Africa’s power sector, a model of collaboration has emerged quite recently in which IFC identification of sector constraints to private provision informed World Bank policy dialogue, which, in turn, created opportunities for IFC additionality in subsequent projects.

IEG saw in the case studies at least four types of relationships:

1. Coordinated activity—seen in the Egypt and Bangladesh energy sectors.
2. Complementary activity—seen in China microfinance where World Bank analytics and policy dialogue complemented IFC’s long sectoral engagement; also seen where MIGA provided complementary guarantees for multiple IFC power projects.
3. Lack of coordination—in multiple sectors, the World Bank and IFC simply seemed to operate independently, communicating primarily at the time of the CPF. For example, in the case of Nigeria’s microfinance sector, IFC did not coordinate with the World Bank to change the restrictive policy environment.
4. Working at cross purposes—in Indonesia, the view of IFC was that the World Bank’s policy-based lending enabled the government’s embrace of state-owned enterprises. A similar view emerged in the Mexican power sector when the government turned away from reliance on independent private power providers.

Bank Group collaboration and dialogue could be increased and to some extent have been. IEG found in its case studies that collaboration varies markedly by country. Although some contributing factors to collaboration were identified (for example, co-location, need for upstream reform, country conditions, country engagement processes), an important explanatory factor still seemed to be the personalities of potential World Bank, IFC, and MIGA collaborators. Beliefs matter: IFC experts interviewed by IEG rarely embraced the cascade as a pathway to strengthening additionality. Only 15 percent identified engagement with the World Bank as a key means of achieving additionality.

Although case studies found no “silver bullet” to stimulating coordination to enhance IFC additionality, staff collaborative behavior appears to play a substantial role in shaping approaches, as do procedures that increasingly mandate a degree of joint planning. In China, coordination was stronger because of the orientation of IFC country leadership. Joint planning may also play a role. IEG also found that some IFC country strategies’ scenarios (“if-then”) rely heavily on precedent policy and regulatory actions that the World Bank could influence to reach a scenario where IFC engagement substantially expands, indicating that coordinated action could expand opportunities for IFC additionality. For example, IFC’s Indonesia country strategy envisions both substantial policy reform and sectoral collaboration with the World Bank as part of its higher case scenarios. The evolution of the country engagement model, according to which IFC’s country strategy is an input to the Bank Group’s CPF, expands the opportunity for consideration of complementary and collaborative opportunities.

Regional or global programs and partnerships can enhance IFC’s ability to add value and may have broader value added at the regional or global level. IEG saw examples of this in a number of areas where IFC has regional or global initiatives, including climate (green) finance in the Colombia and Türkiye case studies, microfinance in China and Nigeria, gender finance in multiple countries (including support from the Women Entrepreneurs Finance Initiative), capital markets development (with support from the Joint Capital Market Program of the World Bank and IFC), and trade finance (with support from the Global Trade Finance Program and the Global Trade Liquidity Program).

External Factors

Finally, each of the previously discussed external factors influences additionality not only at the project level but also at the country or sector level. Committed clients can be thought of not only in the context of individual transactions but also in terms of streams of interaction. As noted, on average, repeat clients yield stronger additionality, especially in LMICs. (Some strong clients become important sponsors or investors in other countries.) Working to achieve a supportive political and policy environment may not be practical in a single project. However, by means of engagement over

the long term and through multiple instruments and partners, it becomes possible to realize additionality on policy and regulatory frameworks to enhance conditions for private sector participation. Finally, collaboration with other financiers may be more likely where there is a shared vision for the sector. This, too, requires a beyond-the-project perspective that can realize higher-level additionality.

¹ There are also cases where the Inter-American Development Bank mobilized IFC investment for a project, but those would not be claimed by the IFC or validated by the IEG as IFC mobilization additionality.

5 | Recommendations to Enhance International Finance Corporation Additionality in Middle-Income Countries

This evaluation explored the relevance and effectiveness of IFC's approach to additionality in MICs and critical factors explaining why and where IFC realizes additionality. On the basis of the preceding chapters' evidence-based analysis, we offer three recommendations to enhance IFC additionality in MICs.

Recommendation 1. To enhance institutional accountability, learning, and transparency, address gaps in internal systems related to monitoring, supervision, and reporting of additionality at the project and portfolio level.

IFC should update its internal additionality project-level tracking system, currently still hosted in the Development Outcome Tracking System platform. In addition, at the project level, IFC should systematically monitor whether necessary support is delivered within the stipulated timeline for anticipated additionalities that are to be fulfilled over the course of a project's life. This should be followed up by a final assessment of whether additionality was realized or not and why. Proactive monitoring and supervision at the project level could enhance the realization of anticipated nonfinancial additionality claims.

IFC should introduce reporting of additionality at the portfolio level to enhance learning about patterns of additionality. Portfolio additionality ratings and information on additionality types (anticipated and realized) should be included in regular internal reports (for example, country- or sector-level portfolio reviews, scorecards) and considered in strategy discussions. Disclosure of anticipated additionality at the project level should continue, and external reporting of realized additionality at the portfolio level could follow the same approach as that taken for development impact information.

Recommendation 2. To enhance commitment to and fulfillment of IFC's strategic objectives, IFC should bring its strategy for additionality in MICs and its pattern of activity in MICs into closer alignment.

This evaluation showed in chapter 2 that IFC's stated strategy for MICs is not tightly linked to its observed patterns of anticipated and realized additionality. For example, IFC's activities in UMICs do not systematically show greater innovation or reliance on knowledge compared with its activities in LMICs. However, its additionality varies in accordance with industry and stage of sector development. Because strategy serves to guide staff, management, and the Board regarding what to expect in IFC's approach, a closer alignment between strategy and pattern of activity would enhance commitment to and fulfillment of IFC's strategic objectives. Given the intuitive logic of IFC's strategic statements on additionality, IFC could work to evolve its project design to better align with the stated strategy, with a stronger emphasis on innovation and nonfinancial additionality in UMICs. This may require providing additional attention and resources to innovation and knowledge additionality, including at appraisal and supervision. This would include support for delivery of complementary AS often associated with knowledge-based additionality. The alternative would be for IFC to offer the Board a revised strategy explaining how its additionality adapts to country and sector conditions, reflecting its actual practices in MICs, for example, adapting to sector or level of market sophistication.

Recommendation 3. To enhance its strategic approach to proactive creation of markets and mobilization of private capital to provide a critical contribution to the Sustainable Development Goals, IFC should incorporate its additionality approach into its country strategies and sector deep dives.

IFC 3.0 is about being proactive to create markets and mobilize private capital at significant scale to increase development impact. IEG's observation of IFC's good practices in identifying and realizing additionality at the sector and country level (chapter 4) suggests an opportunity to more deliberately envision and articulate additionality beyond the project level. Given the new tools for strategic engagement at the country and sector level that IFC introduced under IFC 3.0, there is a clear opportunity to increase the distinctive value that IFC adds in specific country and sector contexts. This

opportunity raises the possibility of several potential enhancements to IFC additionality with greater benefits for creating sectoral markets and mobilizing capital at scale. As good practices discussed in this evaluation suggest, strengthening IFC's strategies by applying the additionality lens may open the door to realizing additionality from strategic planning for the explicit complementarity and sequencing of projects, combining projects that work upstream and downstream, and coordinating collaboration and distribution of responsibilities across the Bank Group. As noted in chapter 2, the recent China country strategy points to the potency of identifying sector-specific additionality within a country context—an approach that could be extended to other MIC country strategies. IFC's sector deep dives on housing and financial technology provide a good-practice glimpse of the benefits of a systematic consideration of IFC's unique potential to add value at the sector level. IFC clearly has the capacity to use the additionality lens more routinely in both its country strategies and its sector deep dives.

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APPENDIXES

Independent Evaluation Group

International Finance Corporation

Additionality in Middle-Income Countries

Appendix A. Methodology

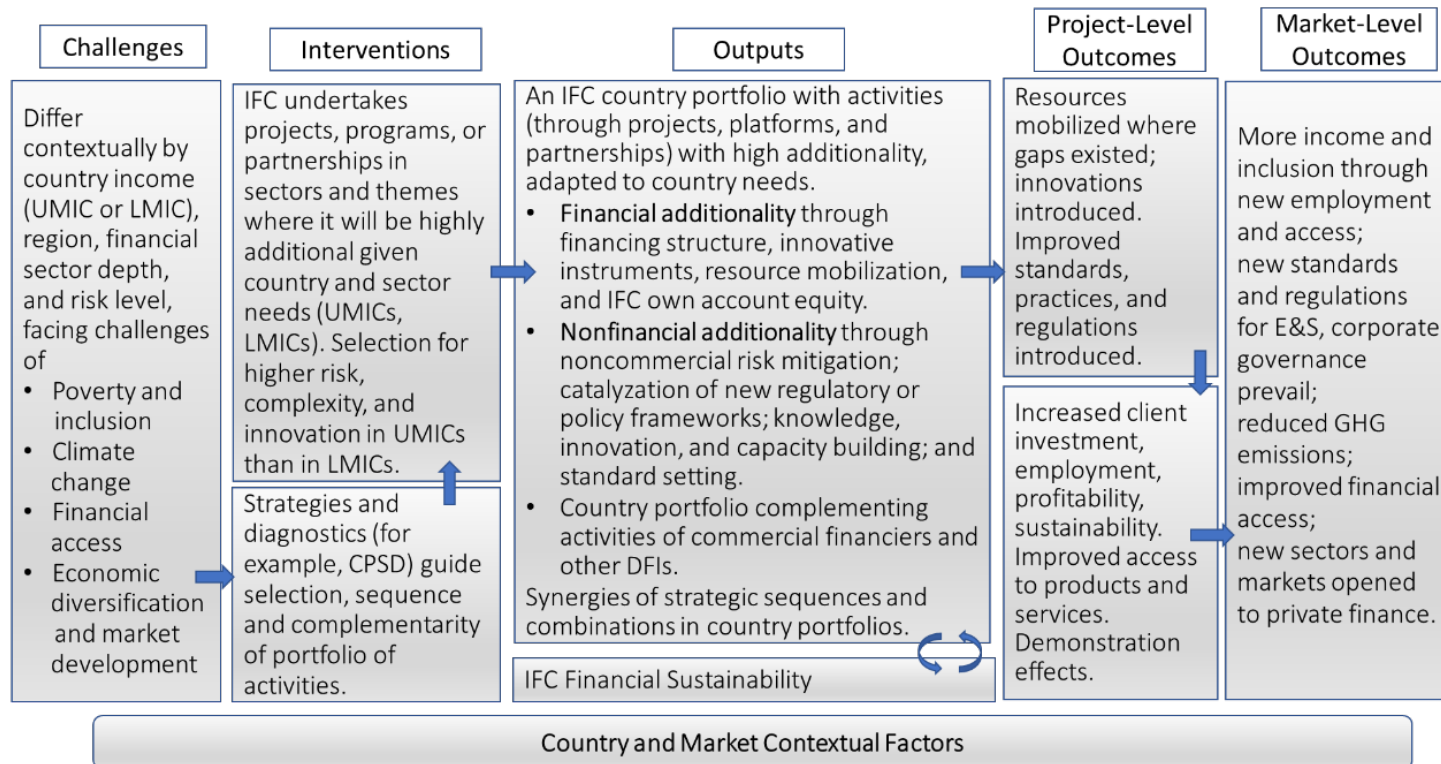
This appendix describes the evaluation framework and the overarching principles and methods applied to understand and assess the relevance and effectiveness of the approach of the International Finance Corporation (IFC) to additionality at the global, country, and project levels.

Evaluation Framework

The theory of change for IFC's approach to additionality in middle-income countries (MICs) in country context reflects IFC's stated aspirations.

Figure A.1 shows the theory of change. It begins with the identification of development challenges faced by the different types of MICs, often through analyses of country contexts (for example, political and social stability, legal frameworks, institutional capacity), which guides priorities for areas where IFC can have high additionality. At the project level, IFC's approach considers project risk and complexity and will decide the best possible combination of financial and nonfinancial additionality that would catalyze or boost a projects' development impact. At the country level, IFC's approach seeks complementary and well-sequenced interventions to maximize the portfolio's benefits for the country. Deployment of beyond-the-project solutions, such as long-term programs (for example, enabling environment), will contribute to enhancement of IFC's additionality and complement the country portfolio's development result. As noted, IFC has stated that it generally seeks to undertake projects of higher complexity and with greater innovation and knowledge content in upper-middle-income countries than in lower-middle-income countries. The bottom box of figure A.1 indicates other country and market contextual factors specific to each engagement.

Figure A.1. A Country-Level Theory of Change for International Finance Corporation's Approach to Additionality in Its Activities in Middle-Income Countries



Source: Independent Evaluation Group.

Note: CPSD = Country Private Sector Diagnostic; DFI = development finance institution; E&S = environmental and social; GHG = greenhouse gas; IFC = International Finance Corporation; LMIC = lower-middle-income country; UMIC = upper-middle-income country.

The evaluation assessed the relevance and effectiveness of IFC's approach to additionality at the project and country levels, capturing lessons from experience. The evaluation assessed the relevance of additionality for project and country needs, IFC's strategic objectives, and IFC's comparative advantages relative to other providers of finance and services. It also assessed the effectiveness of IFC's approach to additionality at the project and country levels in countries of differing characteristics. Finally, it captured lessons of IFC's experience for strengthening its additionality by building on success factors and learning from failure. For this purpose, the evaluation answered the questions shown in table A.1 under an overarching question about the relevance and effectiveness of IFC's approach to additionality in MICs as a means to enhance development impact. Table A.1 also describes sources, data collection and analysis methods, and the strengths and limitations associated with these.

Table A.1. Evaluation Design Matrix

Key Questions	Data Collection and Analysis Methods	Strengths and Limitations
<p>Overarching question: What is the relevance and effectiveness of IFC's approach to additionality in middle-income countries as a means to enhance development impact?</p> <p>Q1: Is IFC's approach to additionality, as embodied in country engagements and projects, relevant to</p>		
<p>1.1 Country and sector needs in various types of MICs (LMICs and UMICs)?</p>	<p>Portfolio review and analysis, and econometric assessment of additionality in IS projects in MICs</p> <p>Country case studies based on a purposively selected sample of countries</p> <p>Structured interviews with IFC counterparts (private sector clients, partners, public sector)</p>	<p>Limited additionality information and evaluative evidence at the country level beyond project-level validations</p> <p>Country case studies: Sample of countries will imperfectly reflect the universe of experience.</p> <p>Mitigant: IEG purposively selected countries for case studies to reflect major attributes of diverse global conditions in MICs. IEG recognizes potential biases from omitted factors.</p> <p>Portfolio: IEG was dependent on the quality of IEG's and IFC's prior analysis of additionality.</p> <p>In the age of COVID-19, when travel to countries is constrained, interviews and data gathering were also constrained.</p> <p>Mitigant: Consistent triangulation between multiple quantitative and qualitative methodologies to draw findings and conclusions</p>
<p>1.2 IFC's strategic objectives as laid out in corporate, country, and industry strategies?</p>	<p>Review of IFC and World Bank Group country strategies and diagnostic documents (CPFs, country strategies, IFC corporate strategy, SCD, sector deep dives)</p>	<p>Not all strategies discussed IFC's additionality at the country level. References to additionality were implicit and difficult to extract.</p>

(continued)

Key Questions	Data Collection and Analysis Methods	Strengths and Limitations
1.3 IFC's comparative advantages relative to other providers of finance and services?	<p>Deep dive on comparative analysis of DFIs' approaches</p> <p>Deep dive on IFC's financing instruments to analyze financial markets in MICs and value added of IFC's financial products</p> <p>Country case studies based on a purposively selected sample of countries</p> <p>Semistructured interviews with IFC counterparts (private sector clients, partners, public sector)</p>	<p>Limited publicly available data on DFI's additionalities, strategies, and project-level information</p> <p>Limited additionality information and evaluative evidence at the country level beyond project-level validations</p> <p>Limited information on availability of financial services in each market</p> <p>Sample of countries imperfectly reflected the universe of experience</p> <p>Mitigants: Countries were purposively selected for case studies to reflect major attributes of diverse global conditions in MICs. IEG recognizes potential biases from omitted factors.</p> <p>Consistent triangulation between quantitative and qualitative methodologies to draw findings and conclusions</p>
Q2: Is IFC's approach to additionality effective at the country and project level in		
2.1 Delivering financial and nonfinancial additionality in LMICs and UMICs?	<p>Portfolio review and analysis, and econometric assessment of additionality in IS projects in MICs</p> <p>Econometric analysis of the relationship between additionality and development impact, investment outcome, and other dimensions</p> <p>Country case studies based on a purposively selected sample</p> <p>Semistructured interviews with IFC staff on strategy and operations in MICs</p> <p>Structured interviews with IFC counterparts (private sector clients, partners, public sector)</p>	<p>Portfolio: IEG was dependent on the quality of IEG's and IFC's analysis of additionality.</p> <p>Project evaluations rarely showed outcomes or whether reforms were sustained.</p> <p>Country case studies: Incomplete information to judge (i) what financing, market developments, or reforms would have occurred without IFC engagement, and (ii) how much of observed changes are attributable to IFC activities</p> <p>Consistent triangulation between quantitative and qualitative methodologies to draw findings and conclusions</p>
2.2 Enhancing project-level and country-level development outcomes and impact while maintaining positive financial returns?	<p>Country case studies based on a purposively selected sample</p> <p>Semistructured interviews with IFC staff on strategy and operations in MICs</p> <p>Structured interviews with IFC counterparts (private sector clients, partners, public sector)</p>	<p>Country case studies: Incomplete information to judge (i) what financing, market developments, or reforms would have occurred without IFC engagement, and (ii) how much of observed changes are attributable to IFC activities</p> <p>Consistent triangulation between quantitative and qualitative methodologies to draw findings and conclusions</p>
Q3: What are the lessons for IFC to strengthen its additionality at the country and project level, building on success factors and mitigating factors constraining its additionality?		

(continued)

Key Questions	Data Collection and Analysis Methods	
	Analysis Methods	Strengths and Limitations
3.1 How does additionality vary by IFC sector, policy, and financing instruments? What do strengths and gaps imply for ways IFC could strengthen its additionality?	Portfolio review and analysis, and econometric assessment of additionality in IS projects in MICs Country case studies based on a purposively selected sample Semistructured interviews with IFC staff: strategy and operations in MICs	Country case studies: Incomplete information to judge (i) what financing, market developments, or reforms would have occurred without IFC engagement, and (ii) how much of observed changes are attributable to IFC activities Sample of countries imperfectly reflected the universe of experience.
3.2 How does additionality vary by country, sector, market, and project characteristics across MICs? What do lessons imply for ways IFC could strengthen its additionality?	Semistructured interviews with IFC counterparts (private sector clients, partners, public sector)	Mitigants: Countries were purposively selected for case studies to reflect major attributes of diverse global conditions in MICs. IEG recognizes potential biases from omitted factors. Consistent triangulation between quantitative and qualitative methodologies to draw findings and conclusions

Source: Independent Evaluation Group.

Note: CPF = Country Partnership Framework; DFI = development finance institution; IEG = Independent Evaluation Group; IFC = International Finance Corporation; IS = investment services; LMIC = lower-middle-income country; MIC = middle-income country; SCD = Systematic Country Diagnostic; UMIC = upper-middle-income country.

Overarching Principles and Methods

This evaluation adopted three key principles: its analysis was theory based, was multilevel, and applied mixed methods. First, the evaluation was based on a theory of change that outlines the causal links between interventions and additionality and outcomes achieved in IFC’s support for MICs (as shown in figure A.1). Second, the evaluation analyzed IFC’s additionality and contribution to development outcomes in MICs at the global, country, and intervention levels, considering key contextual factors as elaborated in the theory of change. Third, the evaluation applied a combination of methodologies that provided qualitative and quantitative evidence to answer the evaluation questions (figure A.2). The use of such mixed methods supported the triangulation of findings of the evaluation from multiple sources to enhance their robustness. Methods applied are the following:

- 1. Portfolio review and analysis (PRA) of evaluated projects.** The Independent Evaluation Group (IEG) conducted a PRA of IFC's additionality and development outcomes of investment services projects evaluated during fiscal years 2011–21 (appendix B). The review identified types of additionalities (financial and nonfinancial) anticipated at approval and subsequently realized and aspects that affected the delivery of the promised additionalities. The PRA analyzed broad patterns of additionality, including across different country characteristics, to provide insights into common types and sources of additionality, trends over time, the relationship of additionality promised to additionality as evaluated, and the use of linked investment services and advisory services work. The PRA also provided an important data source for analyzing the relationship among additionality, development impact, and profitability.
- 2. PRA of unevaluated projects.** Because more recent approved IFC projects are not yet evaluated, IEG conducted a PRA on the treatment of additionality in a sample of unevaluated projects that focused on anticipated additionality.
- 3. Econometric analysis.** The analysis used PRA data and external indicators to relate the successful attainment of financial and nonfinancial additionality to a variety of explanator factors, including country and sector characteristics, and state of market and institutional development (see appendix G on econometrics).
- 4. Country case studies with nested sector case studies.** IEG conducted case studies at the country and sector level in a purposively selected sample of nine countries (appendix D). Country selection was purposive to reflect diverse country conditions, including country income (upper-middle-income country compared with lower-middle-income country), region, stability or fragility, country risk, and leading sectors. Other considerations for country selection were learning potential and presence or absence of an IFC strategy and diagnostics (for example, a Country Private Sector Diagnostic). Nested within each country study were two sector studies, selected for both their importance in the country and their comparability to sectors in other countries. The case studies answered a template of questions linked to the evaluation questions. Cases involved both desk-based and remote field assessments and also included a review

of relevant advisory services projects in each country. IEG used the case studies to identify the relevance and effectiveness of IFC's additionality approach in diverse countries viewed through a project, sector, and country lens. Thus, case studies captured IFC's additionality at the country level, the alignment of IFC's additionality with country priorities, IFC's comparative advantages, and presence or absence of alternative sources of knowledge or funding. They also gathered evidence on IFC's contribution to development outcomes at the country level.

5. **Review of country strategies and diagnostics.** For each of the nine case study countries, IEG reviewed relevant documents including IFC-relevant sections of Systematic Country Diagnostics, Country Partnership Frameworks, Country Private Sector Diagnostics, and IFC's own Country Strategies. In addition, IEG reviewed six sector deep dives for their treatment of IFC additionality. The objective was to understand (i) how IFC positioned itself to achieve financial and nonfinancial additionality to contribute to achieving development objectives in terms of instruments and sectors, and the application of IFC 3.0 in using sequencing, complementarity, the cascade, and partnerships and (ii) the relationship of IFC's strategies to country and sector needs.
6. **Structured literature review on additionality.** The team commissioned a structured review following IEG's protocol to explore the available literature on donor financial and nonfinancial additionality in the private sector space, including on links of additionality to development outcomes (appendix C).
7. **Semistructured interviews of experts.** IEG followed a protocol for semistructured interviews on additionality with 21 IFC staff and management experts. Other unstructured discussions were conducted with additional World Bank Group and external stakeholders with relevant experience and perspectives.
8. **Input papers and deep dives.** The evaluation examined additionality features of IFC's financing instruments in MICs and conducted a comparative analysis of major development finance institutions' additionality approaches (appendixes E and F).

At the project level, the evaluation relied on assessments of additionality conducted by IEG and IFC through the established and validated self-

evaluation process (the Expanded Project Supervision Report [XPSR] system). The XPSR system rates additionality based on an assessment of delivery against additionality claims presented in the Board Paper (which uses the typology established in IFC's additionality framework). Box A.1 describes XPSR guidance when assessing the different types of additionalities. Most XPSRs discuss whether these claims were plausible given the circumstances at the time of approval. They also consider whether there were other areas of IFC additionality that arose during the project's life but that were not anticipated at the time of approval (for example, policy dialogue conducted through the project that was not anticipated at approval). These two aspects—delivery of promised additionalities and unforeseen positive or negative additionality—are considered at the time of assigning an additionality rating to the project (table A.2 and figure A.2).

Box A.1. Expanded Project Supervision Report Guidance Questions on Assessing Additionality at the Project Level

Financial risk mitigation. Did the International Finance Corporation (IFC) offer financial products and services that were not readily available elsewhere? Was IFC's money really needed? How uniquely did it address the client's financing needs?

Nonfinancial risk mitigation. To what extent did the client value IFC's engagement and take additional comfort from IFC's stamp of approval?

Policy setting. To what extent did the client benefit from an improving investment climate in its country or sector, which resulted from the advice to governments from the World Bank and IFC aimed at strengthening regulatory foundations and relevant laws?

Knowledge and innovation. To what extent did IFC bring in global knowledge and technical and industry knowledge when working with local clients and second-tier companies or when a client moved into new markets and sectors?

Standard setting. To what extent did the client value IFC's expertise in cases where the standards of the country or sector were insufficient or not well implemented and monitored?

Source: Independent Evaluation Group's elaboration based on the Independent Evaluation Group and International Finance Corporation 2016 instructions for preparing an Expanded Project Supervision Report.

Table A.2. Expanded Project Supervision Report Rating Benchmarks for International Finance Corporation's Additionality

Rating	Criteria
Excellent	All the following criteria are met: (i) All aspects of claimed additionality were borne out and there were significant unforeseen ways in which IFC was additional, and (ii) There were no areas where IFC made a negative contribution. An excellent rating should be supported by convincing evidence of the delivery of claimed or significant unforeseen additionality. For example, it is not sufficient merely to refer to prevailing illiquidity in the financial markets.
Satisfactory	All the following criteria are met: (i) All important aspects of claimed additionality were borne out and there were unforeseen ways in which IFC was additional, and (ii) There were no areas where IFC made a negative contribution. Where IFC has not delivered fully on all aspects of claimed additionality, for a satisfactory rating, the Expanded Project Supervision Report should present evidence as to why the deficiencies are not deemed important in retrospect.
Partly unsatisfactory	All the following criteria are met: (i) One or more important aspects of claimed additionality were not borne out, and (ii) There were no areas where IFC made a negative contribution.
Unsatisfactory	Either: (i) Most or all aspects of claimed additionality were not borne out, or (ii) IFC made a negative contribution in one or more areas (for example, by crowding out other investors, distorting risk allocation, giving inadequate advice, or setting or advocating low standards).

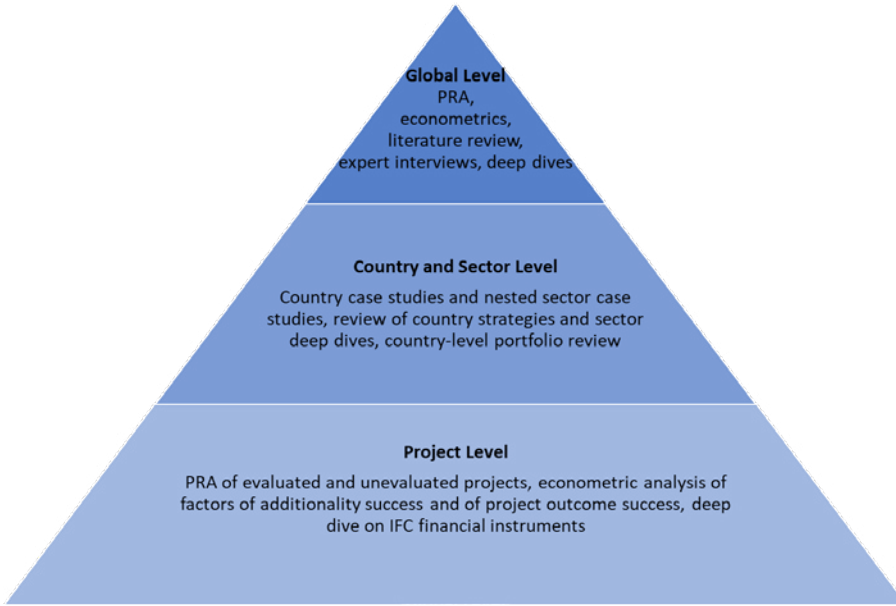
Source: Independent Evaluation Group's elaboration based on the Independent Evaluation Group and International Finance Corporation 2016 instructions for preparing an Expanded Project Supervision Report.

Note: IFC = International Finance Corporation.

At the country level, the assessment of additionality depended not only on what IFC could offer but on what the country or market needs and what other players were providing. Although the evaluation relied on the additionality definitions included in the additionality framework, a detailed consideration of country and sector context was needed to establish whether IFC's added value was unique and could be causally associated with

development outcomes. For this, the evaluation reviewed IFC’s strategy documents, which envisioned IFC’s additionally, and based on the PRA, case studies, and sector deep dives, it gauged whether IFC’s activities in the country over the evaluation period could be considered additional (figure A.2).

Figure A.2. Evaluation Levels and Methods



Source: Independent Evaluation Group.

Note: Evaluation methods: PRA of evaluated projects; PRA of unevaluated projects; econometric analysis; country case studies with nested project case studies; review of country strategies and diagnostics; structured literature review on additionality; semistructured interviews of experts; input papers and deep dives. IFC = International Finance Corporation; PRA = portfolio review and analysis.

Appendix B. Portfolio Review and Analysis

This appendix summarizes the methodology and key findings of the portfolio review and analysis. Tables presented underpin findings reported in the text. Other analysis and figures generated were omitted for brevity. The econometric analysis of the data generated by the portfolio review and analysis is treated in appendix G.

Identification Methodology

Portfolio review and analysis by the Independent Evaluation Group (IEG) aimed to provide an overview of support by the International Finance Corporation (IFC) in client countries classified as middle-income countries (MICs) between fiscal year (FY)11 and FY21 inclusive. This support could have been channeled through the two main product lines of IFC—investment services (IS) and advisory services (AS). To identify the relevant IS and AS projects for this evaluation, IEG followed these criteria:

- » **IS portfolio.** Available projects from IFC’s management information system approved or evaluated by IEG between FY11 and FY21. For the purposes of this study, IEG kept projects with active, closed or hold status, and omitted regional projects and dropped investment projects. In addition, IEG excluded rights issue, swap, B-loan increase, risk management, agency master, and restructuring projects. The final count of approved IS projects during the evaluation period was 2,811 projects, of which 2,400 (85 percent) were in MICs. Regarding evaluated projects, 799 projects were identified, of which 661 (83 percent) were in MICs.
- » **AS portfolio.** IEG collected available projects from the management information system that were approved or evaluated during the evaluation period. IEG kept projects whose stage was listed as portfolio active or completed. It excluded project types listed as IFC internal and scoping, and regional projects. In total, IEG identified 1,298 approved AS projects, of which 1,010 (78 percent) were in MICs. The final count of evaluated AS projects was of 570, of which 414 (73 percent) were in MICs.

- » In both cases, projects approved when Bangladesh and Nigeria were still low-income countries were included. The reason for considering these countries' complete portfolio during the evaluation period, regardless of their income status, was that they were part of country cases, so it was relevant to assess whether their transition from low-income countries to lower-middle-income countries (LMICs) had an impact on anticipated additionalities.

When focusing on MICs, the distribution of approved and evaluated IS projects between LMICs and upper-middle-income countries (UMICs) was practically even in number of projects and in volume. In contrast, 72 percent of approved and evaluated AS projects were implemented in LMICs, whereas 28 percent were implemented in UMICs. The same percentages hold in terms of volume (table B.1).

Table B.1. Summary of International Finance Corporation Portfolio in Middle-Income Countries, Fiscal Years 2011–21

Client Economy Lending at Approval	Approved FY11–21 ^a				Evaluated FY11–21			
	Projects		Volume ^b		Projects		Volume ^b	
			(US\$, millions)				(US\$, millions)	
	(no.)	(%)		(%)	(no.)	(%)		(%)
IFC IS								
LMICs ^c	1,250	52	45,672	47	335	51	10,099	45
UMICs	1,150	48	52,294	53	326	49	12,296	55
Subtotal investment	2,400	100	97,966	100	661	100	22,395	100
IFC AS								
LMICs ^c	725	72	1,092	72	298	72	390	72
UMICs	285	28	431	28	116	28	148	28
Subtotal advisory	1,010	100	1,524	100	414	100	539	100
Total								
LMICs ^c	1,975	58	46,764	47	633	59	10,489	46
UMICs	1,435	42	52,725	53	442	41	12,445	54
Total MICs	3,410	100	99,489	100	1,075	100	22,934	100

Source: Independent Evaluation Group portfolio review and analysis.

Note: Totals may not add up because of rounding. AS = advisory services; FY = fiscal year; IFC = International Finance Corporation; IS = investment services; LMIC = lower-middle-income country; MIC = middle-income country; UMIC = upper-middle-income country.

a. Excludes rights issues, swaps, B-loan increase, risk management, agency master, and restructuring.
b. For IS projects, it consists in IFC's commitment at approval; for AS projects, it consists in total funds managed by IFC.

c. Includes projects from Nigeria and Bangladesh approved or evaluated between 2011 and 2021, when they were still low-income countries.

Portfolio considered under the country cases amounted to 811 IS and 204 AS approved projects and 227 IS and 92 AS evaluated projects (table B.2).

Table B.2. Summary of International Finance Corporation Portfolio in Country Cases

Country Cases	Approved FY11–21 ^a				Evaluated FY11–21			
	Projects		Volume ^b		Projects		Volume ^b	
	(no.)	(%)	(US\$, millions)		(no.)	(%)	(US\$, millions)	
			(no.)	(%)			(no.)	(%)
IFC IS								
Bangladesh ^c	84	10	3,505	9	11	5	280	3
China	176	22	7,412	19	51	22	1,467	18
Colombia	61	8	2,565	7	25	11	706	9
Egypt, Arab Rep.	62	8	2,326	6	17	7	609	7
Indonesia	66	8	3,106	8	20	9	768	9
Mexico	103	13	4,280	11	24	11	620	8
Nigeria ^c	80	10	2,650	7	20	9	677	8
South Africa	54	7	3,200	8	16	7	732	9
Türkiye	125	15	9,529	25	43	19	2,374	29
Subtotal investment	811	100	38,572	100	227	100	8,232	100
IFC AS								
Bangladesh ^c	47	23	86	28	16	17	30	20
China	17	8	40	13	12	13	36	24
Colombia	22	11	34	11	15	16	22	15
Egypt, Arab Rep.	28	14	30	10	7	8	4	3
Indonesia	28	14	47	15	14	15	20	13
Mexico	8	4	6	2	8	9	4	3
Nigeria ^c	30	15	30	10	12	13	12	8
South Africa	19	9	30	10	5	5	12	8
Türkiye	5	2	10	3	3	3	9	6
Subtotal advisory	204	100	311	100	92	100	148	100
Total								
Bangladesh ^c	131	13	3,591	9	27	8	309	4
China	193	19	7,452	19	63	20	1,503	18
Colombia	83	8	2,599	7	40	13	727	9
Egypt	90	9	2,356	6	24	8	613	7
Indonesia	94	9	3,153	8	34	11	788	9

(continued)

Country Cases	Approved FY11–21 ^a				Evaluated FY11–21			
	Projects		Volume ^b		Projects		Volume ^b	
	(no.)	(%)	(US\$,		(no.)	(%)	(US\$,	
			millions)	(%)			millions)	(%)
Mexico	111	11	4,286	11	32	10	624	7
Nigeria ^c	110	11	2,680	7	32	10	690	8
South Africa	73	7	3,229	8	21	7	743	9
Türkiye	130	13	9,539	25	46	14	2,383	28
Total country cases	1,015	100	38,883	100	319	100	8,381	100

Source: Independent Evaluation Group portfolio review and analysis.

Note: Totals may not add up because of rounding. AS = advisory services; FY = fiscal year; IFC = International Finance Corporation; IS = investment services.

a. Excludes rights issues, swaps, B-loan increase, risk management, agency master, and restructuring.
 b. For IS projects, it consists in IFC's commitment at approval; for AS projects, it consists in total funds managed by IFC.

c. Includes projects approved or evaluated between 2011 and 2021, when the country was still a low-income country.

Out of the 661 evaluated IS projects identified by IEG as part of the MICs portfolio, IEG coded 579 projects that had complete documentation (that is, projects that had a Board Paper and an Expanded Project Supervision Report Evaluative Note available) to analyze in depth IFC's anticipated and realized additionalities and factors influencing IFC's delivery of claimed additionalities at approval.

As part of the coding exercise, IEG aimed to identify every additionality that IFC anticipated in projects' Board Papers and categorized them according to IFC's Revised Additionality Framework types and subtypes (IFC 2018), as shown in table B.3. In the case of financing structure additionalities, IEG classified their main features, such as amount of financing provided, long-term tenor, grace period, or provision of local currency financing. For standard-setting additionalities, IEG identified whether those referred to environmental and social (E&S) standards, corporate governance, industry standards, or gender. IEG also categorized the delivery mechanism of nonfinancial additionalities (for example, whether IFC aimed to deliver its anticipated additionality through an AS project, industry specialist, E&S specialist, corporate governance specialist, or a board member or representative). Moreover, IEG linked each anticipated additionality to an anticipated

development outcome when it was possible to relate them directly. Then, IEG followed each anticipated additionality in Expanded Project Supervision Report Evaluative Notes to record whether they had been realized or not. When not realized, IEG coded the reason why IFC failed in their delivery. IEG also reviewed whether the anticipated delivery mechanism was used or not and whether the development outcomes to which they were related were achieved at evaluation.

Table B.3. Additionality Types and Subtypes

Additionality Type	Additionality Subtype	Description
Financial	Financing structure	IFC provides financing typically not available in the market, on commercial terms and conditions at reasonable cost. Key considerations are related to (i) overall financing conditions in the country or sector, (ii) amount of financing provided, (iii) tenors and spreads, and (iv) provision of local currency financing.
	Innovative financing structure and instruments	IFC provides the client and partners with innovative financing structures that add value by lowering the cost of capital or better addressing risks and that are not available in the market at all or at a reasonable cost. Examples include trade finance, Islamic financing, derivative products, swaps, green bonds, structuring support, distressed asset resolution mechanisms, capital markets transactions, securitizations, and risk-sharing facilities.
	Resource mobilization (B-loan, syndication)	There is a verifiable active and direct role played by IFC in mobilizing financing on commercial terms from an institutional or a private financier. Examples include syndicated loans or any other case where IFC plays a role similar to a mandated lead arranger, equity mobilization platforms, long-term guarantees, unfunded risk transfers, or client bond issuances.
	Equity	IFC provides equity that is not available in the market in a way that strengthens the financial soundness, creditworthiness, and governance of the client.

(continued)

Additionality Type	Additionality Subtype Description	
Nonfinancial	Noncommercial risk mitigation (stamp of approval, comfort to clients and investors)	IFC's presence provides comfort to clients and investors by mitigating noncommercial risks such as country, regulatory, project, or political risk, while adhering to IFC's principle of political neutrality. Such additionality may be provided through specific instruments or through the comfort provided to the client and investors by IFC's presence in the project because of IFC's reputation in the market, its signaling function for sound projects, its convening power, and its due diligence.
	Catalyzing policy or regulatory framework	IFC's involvement in a project is designed explicitly to catalyze the investment response to a change in the policy or regulatory framework. The project is the first to test a new or "untested" policy, regulatory regime, or legal framework or PPP model, and there is a likelihood of further regulatory changes or other risks for the project, which are expected to be mitigated by IFC's involvement.
	Knowledge innovation, capacity building	IFC provides expertise, innovation, knowledge, and capabilities that are material to the realization of the project's development impact as a result of the perceived weak institutional capacity of the borrower or investee. This refers mostly to technical knowledge about the processes, the industry, and so on, based on IFC's experience.
	Standard setting	IFC is a provider of expertise in environmental and social standards, and corporate governance, and is additional where the laws and market practice do not reinforce this behavior. IFC introduces policies, provides guidance, establishes standards, offers technical support and training, and introduces international best practices to client companies and their suppliers. Examples include environmental and social risk management, corporate governance, helping clients to structure effective insurance programs, and gender.

Source: Independent Evaluation Group portfolio review and analysis, based on IFC's Revised Additionality Framework.

Note: IFC = International Finance Corporation; PPP = public-private partnership.

More recent approved IFC projects have not yet been evaluated by IEG, and those are mainly the ones that have been approved under the new additional-

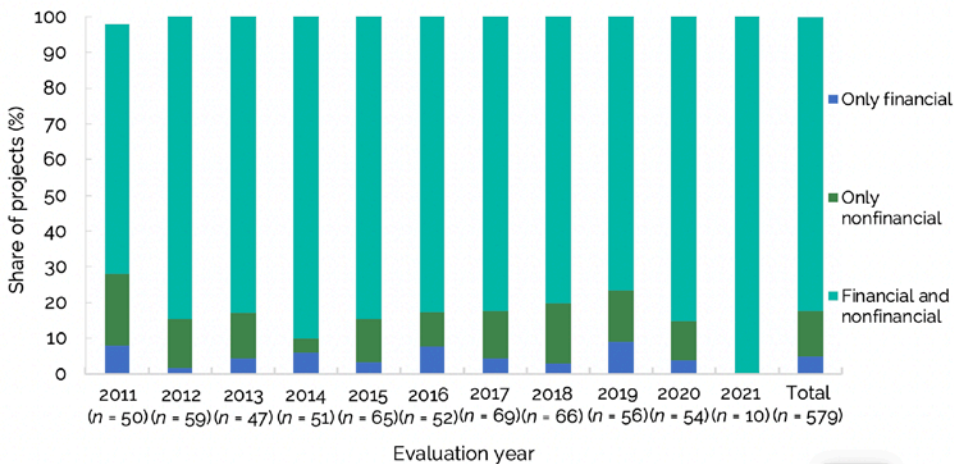
ity framework. To analyze whether there were differences in IFC’s anticipated additionalities between the new and previous frameworks, IEG’s methods team obtained a random sample of 95 projects based on a 95 percent confidence interval and 10 percent margin of error. The population consisted of 1,813 nonevaluated projects approved between FY11 and FY21. The criteria for obtaining this population were the same as those that IEG follows for choosing the sample to validate Expanded Project Supervision Reports. In this sense, projects classified as rights issue, swaps, short-term finance, B-loan increase, risk management, agency master, and restructuring were excluded. The sampling framework examined three strata: aggregated industry codes, region, and income level (LMICs and UMICs). In addition, projects approved under the new additionality framework (FY18–21) were oversampled. This resulted in a random sample of 95 nonevaluated IS projects, which were also coded by the portfolio review and analysis team (85 projects with complete documentation).

The following sections show the main findings that resulted from analyzing IS evaluated projects.

Anticipated Additionality

Most projects evaluated between FY11 and FY21 anticipated both types of additionalities (financial and nonfinancial; figure B.1).

Figure B.1. Evolution of Anticipated Financial and Nonfinancial Additionality over Time

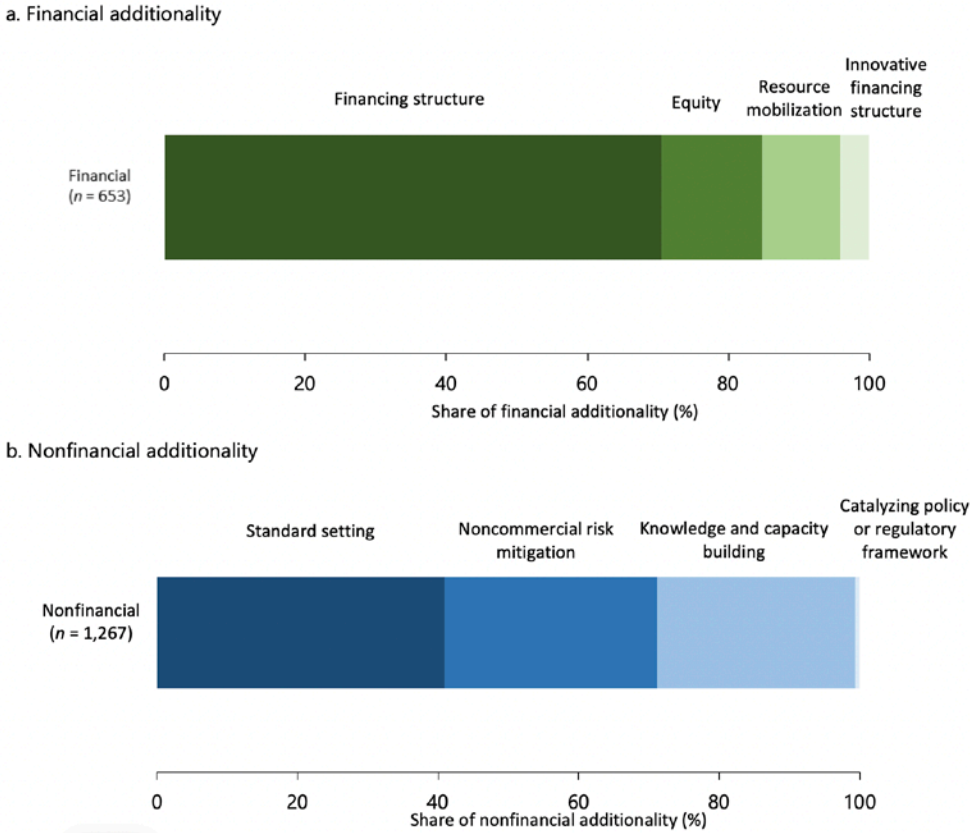


Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding.

Anticipated financial additionalities rely more on the financing structure subtype, whereas nonfinancial additionalities present a more balanced distribution of subtypes (figure B.2).

Figure B.2. Anticipated Financial and Nonfinancial Additivity by Subtype: Investment Projects

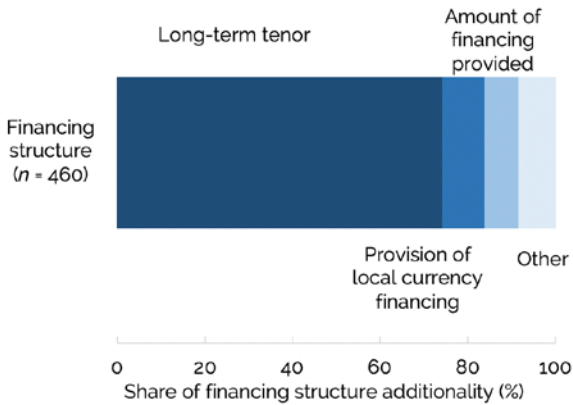


Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding. This figure does not include the distribution of additionalities considered in projects approved when Nigeria and Bangladesh were still low-income countries. This is the reason why the sum of lower-middle-income country and upper-middle-income country additionalities is slightly lower than the total.

Long-term tenor is the most common feature of anticipated financing structure additivity financing structure additivity (figure B.3).

Figure B.3. Categories of Anticipated Financing Structure Additionality

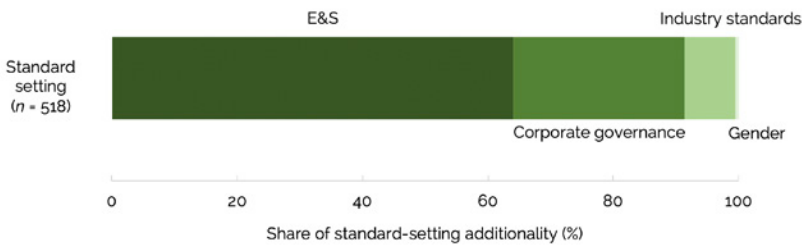


Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding.

E&S standards is the most frequent category of anticipated standard-setting additionality, followed by corporate governance (figure B.4).

Figure B.4. Categories of Anticipated Standard-Setting Additionality

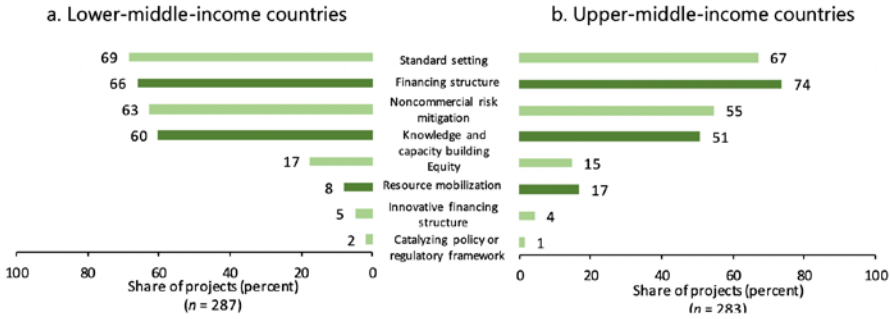


Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding. E&S = environmental and social.

IFC anticipates a higher share of financial additionalities in UMICs than in LMICs and more nonfinancial additionalities in LMICs than in UMICs (figure B.5).

Figure B.5. Incidence of Additionality Subtypes, Lower-Middle-Income Countries Compared with Upper-Middle-Income Countries

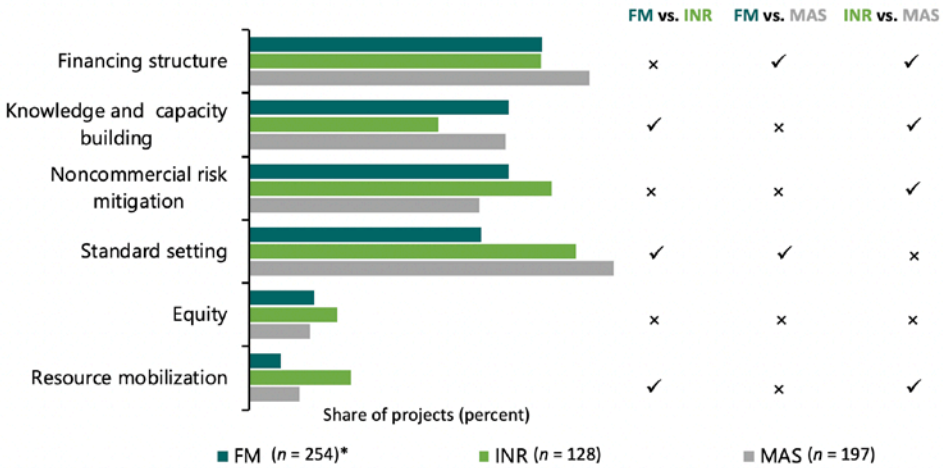


Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding. Dark green indicates additionality types for which differences between upper-middle-income countries and lower-middle-income countries are statistically significant at 95 percent.

Anticipated additionality subtypes show statistically significant differences by sector (figure B.6).

Figure B.6. Anticipated Additionalities by Sector and Type



Source: Independent Evaluation Group portfolio review and analysis.

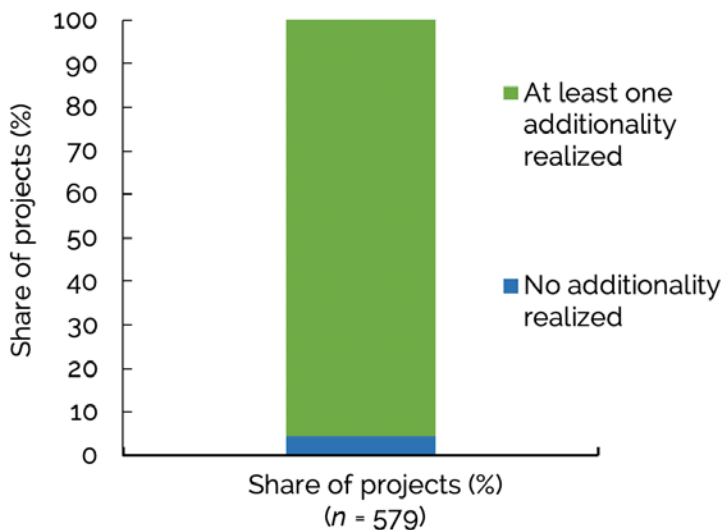
Note: The figure includes only subtypes representing more than 5 percent of projects in all sectors. Check marks indicate that differences between sectors are statistically significant at the 95 percent confidence level. FM = financial markets; INR = Infrastructure; MAS = Manufacturing, Agribusiness, and Services.

* FM includes projects by the Financial Institutions Group and Disruptive Technologies and Funds industry groups.

Effectiveness

IFC almost always realizes some project additionality (figure B.7).

Figure B.7. International Finance Corporation Realized Project Additionality

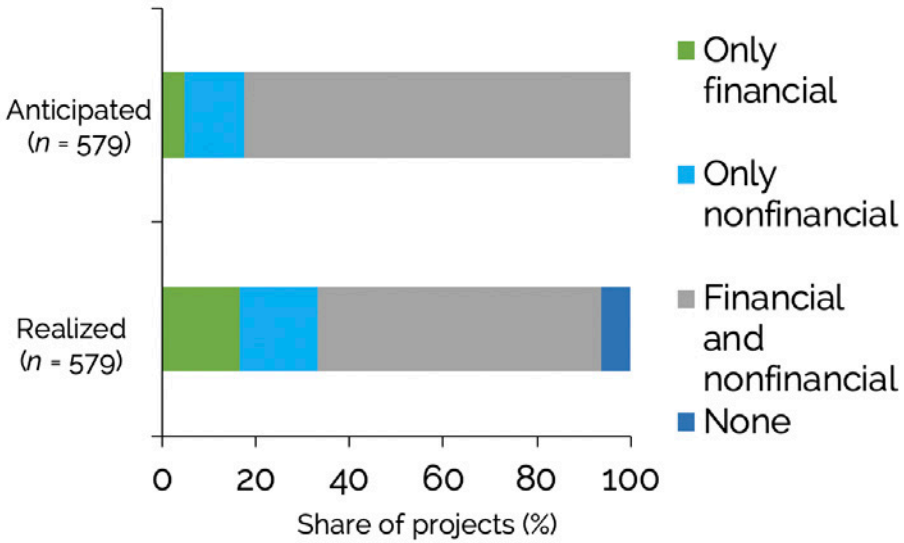


Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding.

Realized project additionality often falls short of what is anticipated. Not all projects that anticipate financial and nonfinancial additionality realize both (figure B.8).

Figure B.8. Realized Anticipated Financial and Nonfinancial Project Additivity



Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding.

Financial additionalities have a higher delivery rate than nonfinancial additionalities (table B.4).

Table B.4. Delivery Rate of Financial and Nonfinancial Additivity

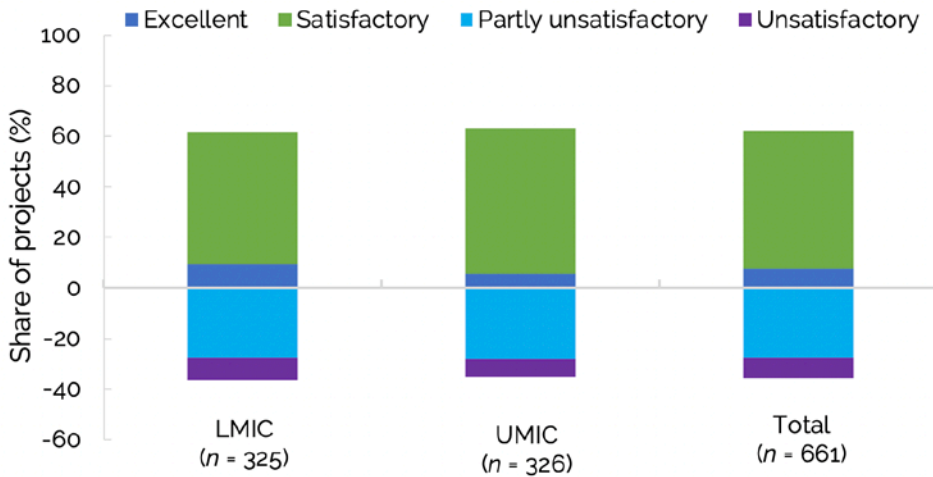
Additivity Type	Additivity (no.)	Realized (%)	Not Realized (%)	Not Mentioned (%)
Financial	653	86.7	12.6	0.8
Nonfinancial	1,267	62.6	31.0	6.4
Total	1,920	70.8	24.7	4.5

Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding.

Approximately 62 percent of projects show “above the line” additivity ratings. There is barely a difference between LMICs and UMICs (figure B.9).

Figure B.9. Additionality Ratings for Projects in Lower-Middle-Income Countries and Upper-Middle-Income Countries

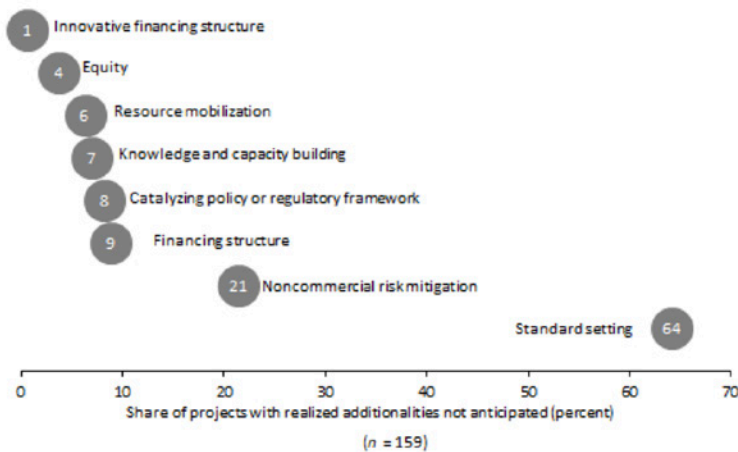


Source: Independent Evaluation Group portfolio review and analysis.

Note: This figure does not include the distribution of additionalities considered in projects approved when Nigeria and Bangladesh were still low-income countries. This is the reason why the sum of LMICs and UMICs additionalities is slightly lower than the total. LMIC = lower-middle-income country; UMIC = upper-middle-income country.

Some additionality subtypes are realized in many projects where they were not anticipated (figure B.10).

Figure B.10. Additionality Realized but Not Anticipated

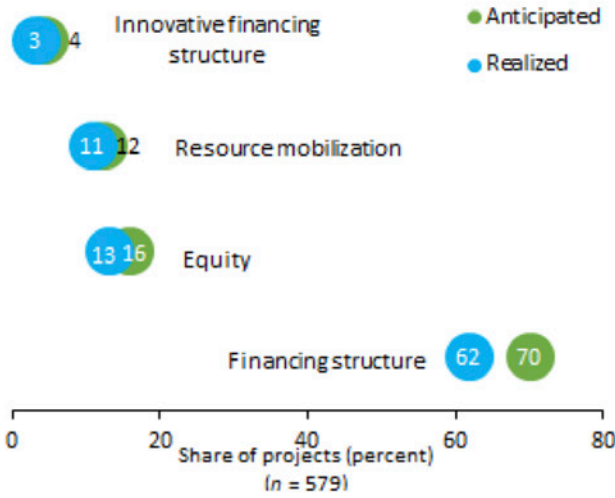


Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding.

IFC is generally successful in realizing financing structure additionalities at the project level (figure B.11).

Figure B.11. Comparison of Anticipated and Realized Financial Additionality

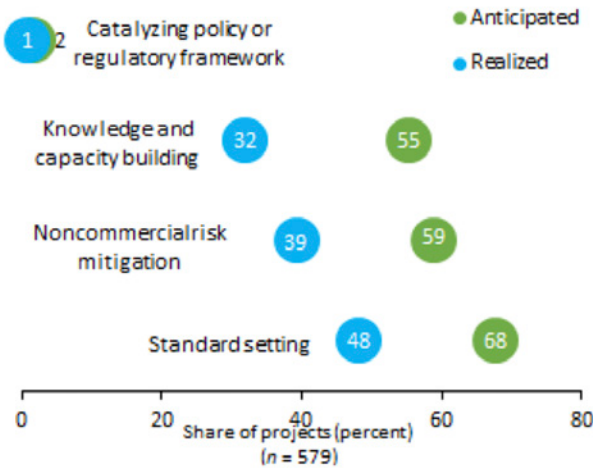


Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding.

IFC is less successful in realizing nonfinancial additionality (figure B.12).

Figure B.12. Comparison of Anticipated and Realized Nonfinancial Additionality

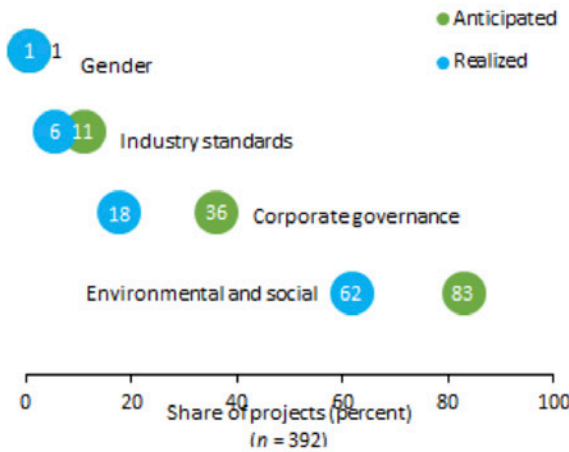


Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding.

E&S is the most common category of standard-setting additionalities, and it is realized in 74 percent of the projects where it is anticipated. Corporate governance comes second, but its delivery rate is lower at 49 percent (figure B.13).

Figure B.13. Anticipated and Realized Standard-Setting Additionality, by Subtype

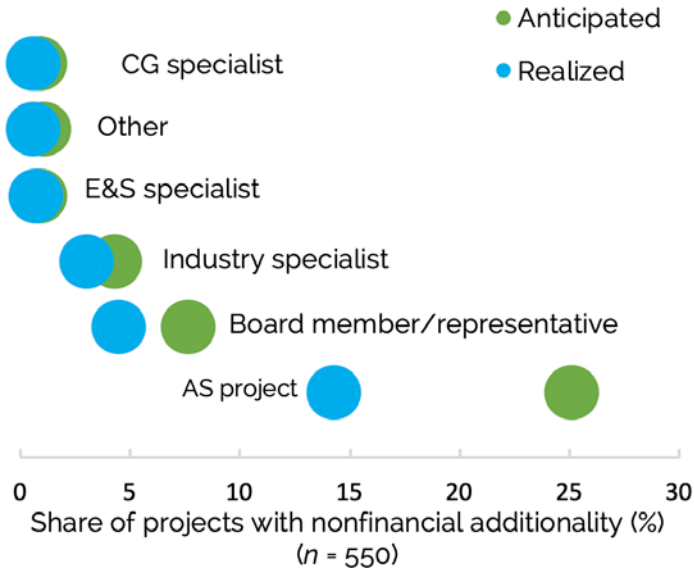


Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding.

AS is the most common anticipated mechanism for delivering nonfinancial additionalities; however, they were used only in 57 percent of projects that claimed them (figure B.14).

Figure B.14. Mechanisms for Delivering Nonfinancial Additionality



Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding. AS = advisory services; CG = corporate governance; E&S = environmental and social.

Realizing additionality is positively associated with both project development outcomes and project investment outcomes (figure B.15).

Figure B.15. Association of Realized Additionality with Project Development Outcome and Project Investment Outcome Ratings

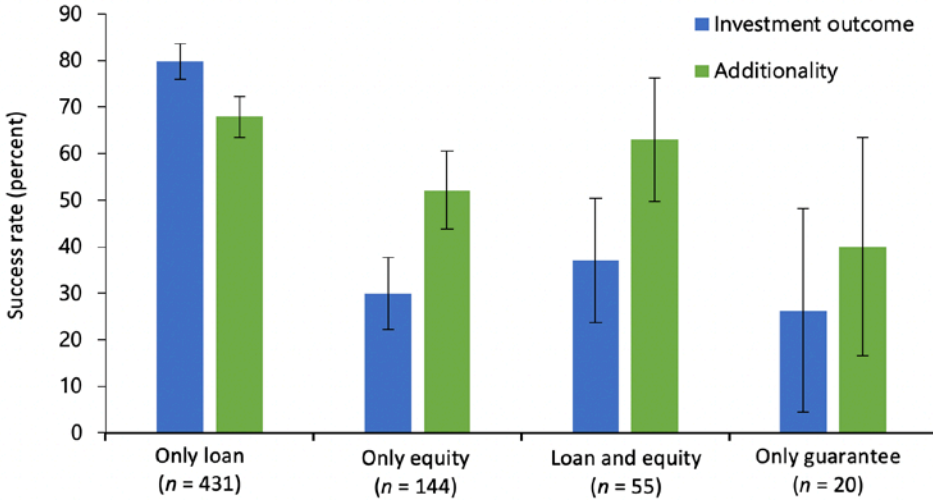
		Projects (% n=661)	
		Low	High
Development outcome rating	High	7	46
	Low	29	16
		Low	High
		Additionality rating	

		Projects (% n=661)	
		Low	High
Investment outcome rating	High	15	48
	Low	21	14
		Low	High
		Additionality rating	

Source: Independent Evaluation Group portfolio review and analysis.

Loans are the most successful financial instrument in terms of project-level additionality and project-level investment outcomes (figure B.16).

Figure B.16. Additionality Success by Financial Instrument

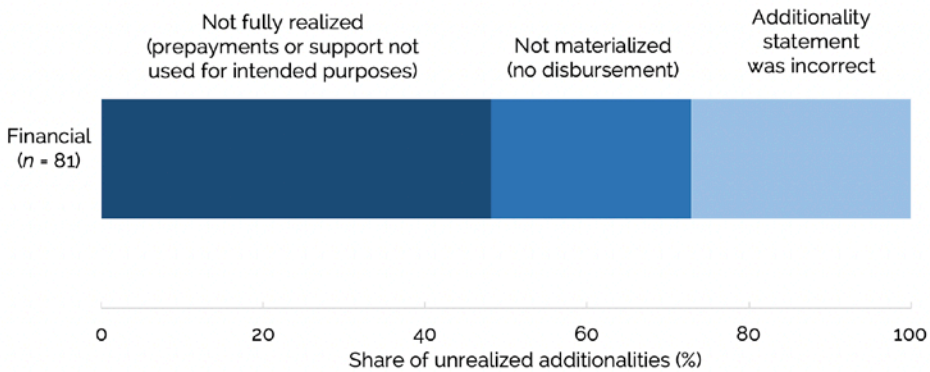


Source: Independent Evaluation Group portfolio review and analysis.

Factors of Success and Failure

The most frequent reason why financial additionalities were not realized is that IFC’s support was prepaid or was not used for the project’s purposes (figure B.17).

Figure B.17. Reasons for Unrealized Financial Additionality

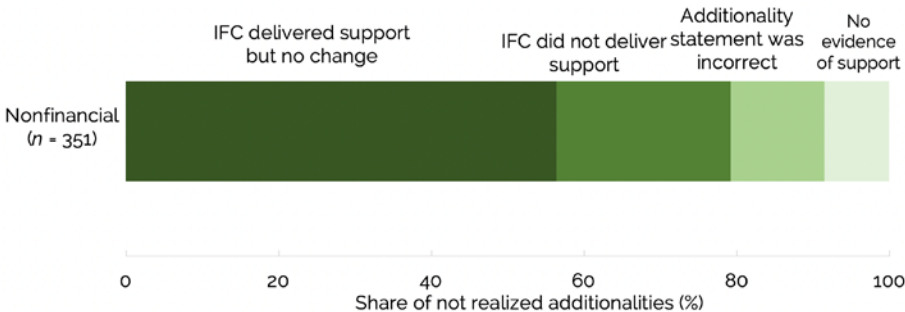


Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding.

When nonfinancial additionalities were not realized, it was mostly because IFC delivered support but there was no change (figure B.17).

Figure B.18. Reasons for Unrealized Nonfinancial Additionality



Source: Independent Evaluation Group portfolio review and analysis.

Note: The data consider projects with complete documentation for coding. IFC = International Finance Corporation.

Reference

IFC (International Finance Corporation). 2018. *Implementation of IFC’s Revised Additionality Framework*. Washington, DC: IFC.

Appendix C. Structured Literature Review Report Synthesis

Introduction

Typology of additionality of the International Finance Corporation (IFC) is adapted from multilateral development banks (MDBs; 2018), a report outlining a framework for additionality for a group of MDBs operating in the private sector in low- and middle-income countries. The concept of additionality finds its roots in the debate on the effectiveness of aid on economic growth and private sector development in developing countries (Jimoh 2002). Early quantitative investigations yielded mixed results; see, for example, Dasgupta and Ratha (2000), Ratha (2001) and Rodrik (1995). One of the first extensive reviews of IFC's effectiveness in supporting the private sector in developing countries was by the Independent Evaluation Group (World Bank 2008). The approach of the review was based on a definition of additionality as “[the financial and nonfinancial] inputs that a development institution, such as IFC, provides to developing countries” (IFC 2008, xxi). Today, a more common definition of the concept of additionality is “to make an investment happen that would not have happened in the absence of DFI [development finance institution] intervention” (Carter et al. 2021).

The foundations for the current framework on which the concept of additionality was built, and adopted by the major MDBs, was published first in a note prepared by an MDB ad hoc working group,¹ based on a joint report by 31 DFIs (IFC 2011). In the note, the principle of additionality maintains that MDB support for the private sector should make a contribution that is beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector.

Since the adoption of additionality as an operational principle, there have been many attempts to find evidence of whether MDBs have been successful in achieving this mandate. The broadness of the definition of additionality adopted by DFIs is problematic in the search for robust quantitative

evidence. For example, it is difficult to conceptually disentangle the overlap between additionality and development outcomes. One way of viewing additionality without the definitional opacity is to map out a causal chain of activity, output, and outcome, where additionality can be viewed as an enabler of better development outcomes as opposed to being an outcome itself (see Spratt and Collins for an example of this approach). Even then, insufficient data, lack of a counterfactual and the engagement of multiple MDBs in the same projects in the same country at the same time makes additionality difficult to quantify.

Methodology

The search strategy for the literature review was conducted using two different approaches. The first approach reviewed the initial literature identified on additionality. The second approach was a general search for relevant studies in predetermined databases. In the initial literature identified, each document was first reviewed to see if it matches the requirements of the review criteria. The documents that fit the criteria were searched for quantitative evidence of additionality summarized in the background, context, or literature review sections. This process was then repeated for all the studies found in the literature review of the initial study). The second approach had two stages. The first stage was a general search for relevant studies in identified databases. The databases searched included Google Scholar, EconLit, the World Bank Open Knowledge Repository and Web of Science. The search terms used evolved over the search period. Based on the results of the search, and the relevant literature identified using the first approach, more search terms were added to the list. The second stage was a manual search of the websites of development finance institutions. The first inclusion criterion was the relevance of the study to the search criteria: an impact evaluation or summary of evidence (to find evidence or reviewed literature that shows evidence) or a systematic analysis of DFI engagement. The second inclusion criterion is the income of the countries/regions of focus. The search focused on developing countries in generally and middle-income countries in particular.

Studies providing qualitative and descriptive quantitative evidence were excluded because the methods employed do not consider unobserved effects,

and hence no claims can be made about causality. These studies also tend to inaccurately interpret capital mobilization as evidence of additionality, which does not consider the part of the definition of additionality that emphasizes DFIs should make investments happen “that would not have happened in the absence of DFI intervention.” Also, using only data on capital mobilized by DFIs does not allow for a comparative analysis between projects or sectors with low and high DFI involvement, hence no conclusion can be drawn about the impact of DFI.

The quantitative studies that were included in the review had a clear methodology section that included details of the (generally econometric) empirical analysis: data, model specification and estimation method. Despite some reservations in the literature toward the usefulness of econometric techniques in establishing evidence of additionality, econometric methods allow for the inclusion of unobserved effects, establishing causality and investigating trends over time.

Findings

The literature reviewed in this report is specific to the additionality that DFIs deliver as part of their engagement with the private sector in developing countries, which is a subset of a broader literature on the effectiveness of aid delivery and the impact of donor engagement with developing countries.

Since the adoption of the *Principles to Support Sustainable Private Sector Operations*, the mandate of DFIs has centered on ensuring additionality of DFI engagement with and development of the private sector, catalyzing market development and mobilizing private sector resources, commercial sustainability during and after DFI involvement, efficiently address market failures, and promoting high standards of conduct in markets. Therefore, by design, economic development should follow as a corollary of DFI engagement with the private sector. Establishing the impact of DFI engagement on development outcomes is methodologically easier than it is for additionality. This is the case mainly because, unlike additionality, development outcomes are both visually verifiable, such as infrastructure, and easier to measure, such as the level of investment in a country or the number of hospital beds. This also means that there is more data available

for the endeavor. The definitional overlap between development outcomes and additionality can lead researchers to mistake evidence of the former for the latter. Together, the issues raised here can partially explain the scarcity in robust, quantitative evidence of additionality.

There is extensive evidence of the role and impact of DFI engagement on development outcomes (see Attridge et al. 2019b for the impact of DFIs on sustainable development, Attridge et al. 2019a for the impact of DFIs on incomes and access to goods and services, and Lemma 2015 on assessing the development impact of DFIs). It is clear, therefore, that DFI participation in developing country private sector projects has a positive impact on development. Evidence of additionality is not as clear. An empirical investigation of the impact of DFI exposure on the level of investment in a country finds mixed results for different DFIs. For example, European Investment Bank and IFC exposure is significantly positively correlated with investment, whereas exposure to European Bank for Reconstruction and Development and British International Investment shows no impact (te Velde 2011). More precisely, a 1 percent increase in IFC exposure increases investment by 1.3 percentage points.

It is understandable to expect DFIs to have a positive impact on development in general. Large, capital-intensive projects, which DFIs tend to target (Basilio 2014), have broad, positive effects on the economy. For example, a road connecting two major cities creates construction jobs and facilitates trade. The development impact of DFI engagement in a country doesn't only manifest in the secondary effects of large projects. Indeed, there is a positive and significant effect of DFI engagement on gross fixed capital formation (Massa et al. 2016). This result is specific to IFC, European Investment Bank, Overseas Private Investment Corporation and Norfund engagements. There is also evidence that DFI engagement positively affects growth (Massa 2011; Massa et al. 2016), and the effect is larger for low-income countries (Massa 2011). Both results make sense. More investment creates more jobs and adds to the capital stock. More jobs increase consumer spending, which increases demand for goods and services and spurs economic growth. And the same investment in a smaller economy would have a larger effect than in a relatively larger economy. By the same logic, the additionality of DFI engagement in

the private sector is more apparent in lower-income countries, where capital markets are smaller and less dynamic (Spratt and Collins 2012).

The size of the loans provided by DFIs and the stringent conditions under which DFI finance is made available to the private sector in developing countries have more nuanced effects on the economy. The relatively larger syndicate loans that DFIs tend to participate in (Taguchi and Yasumura 2021) and emphasis on capacity building can lead to increases in labor productivity (see Jouanjean and te Velde (2013) and Massa et al. (2016) for evidence). Capacity building increases the overall level of skills available in the local labor market and larger loans enable the adoption of more advanced technologies that were previously unattainable. The effect of DFI engagement on labor productivity is indirect and long-term, and hence the size of the effect is relatively smaller compared with aggregate economic growth (Massa et al. 2016). DFIs also an important role in the energy transition (Attridge et al. 2019b) where exposure to DFIs has positive effects on energy efficiency (et Velde 2011) and increased renewable energy adoption (Massa et al. 2016).

The literature thus far shows the different ways in which DFI engagement can lead to positive outcomes in developing countries. Despite being presented as evidence of additionality, the aggregate nature of the data and the limitations of the econometric methods adopted (Carter et al. 2021) is cause for skepticism.

Finding robust, quantitative evidence of DFI additionality is a demanding exercise that requires, at the very least, more disaggregated data. Broccolini et al. (2021), for example, approach the question of additionality using loan data to investigate the mobilization effect of DFI investments on private capital in developing countries. The results of the investigation show evidence of additionality: DFI involvement has a positive and significant effect on mobilizing bank inflows into developing countries. The results also show evidence of mobilization effects up to three years into the future and, crucially, no evidence of anticipation effects of DFI investments, meaning that there is no evidence that DFIs target country sectors that had already received large syndicate loans in the past. Finally, the authors find that every dollar of DFI investment mobilizes up to seven dollars in bank credit over three years.

Using a similar approach and a similar set of data, Hainz and Kleimeier (2012) find a positive association between political risk and involvement of development banks in syndicate loans for project finance in developing countries: basically, MDBs are more likely to participate in a syndicate loan if political risk is higher. The scope of the study is limited to identifying the determinants of the recourse structure of loan contracts and the participation of development banks in loan syndicate, and, hence, the study makes no claims about the impact of MDB participation on the political risk of the project or how much private capital it mobilizes. Given the data used in the study (syndicate loan transactions, that is, transactions that have already taken place), and given the positive association between political risk and MDB participation, it can be assumed that MDB participation was necessary for the transaction to take place. Having said that, only evidence of the likelihood of MDB participation in higher-risk projects is provided, and hence no quantitative claims can be made about the degree to which MDB participation achieved nonfinancial additionality.

One methodological difference between Hainz and Kleimeier (2012) and Broccolini et al. (2021) is in the specification method. The objective of Hainz and Kleimeier's (2012) study is to estimate the association between political risk and MDB participation in syndicate loans. On the other hand, Broccolini et al.'s (2021) approach measures the impact of MDB participation on number of syndicate loans, total size of syndicate loans, average number of banks per syndicate loan and average loan maturity. This method is a more direct way of assessing whether the participation of MDBs attracts private capital and allows for an estimation to be made of dollars mobilized from private banks against a dollar invested by DFIs. The inclusion of lags and leads of the main explanatory variable makes Broccolini et al.'s (2021) approach more robust to the unobserved effects that can impact syndicated lending, such as the possibility that MDBs following private capital.

Gurara et al. (2020) find similar evidence to Hainz and Kleimeier (2012). They investigate the drivers of terms of syndicated loans, including DFI participation. They find that DFI participation is associated with riskier loans with higher prices (13 percent higher than the average spread). Like Hainz and Kleimeier (2017), the results of Gurara et al. (2020) show that MDBs do in fact operate within a framework centered on additionality and participate

in lending that private finance is less able and less willing to participate in. Gurara et al. (2020) also find evidence—although at a much more aggregate level—of nonfinancial additionality of DFI participation: average credit risk rating of loans aggregated at the country level is lower after DFI engagement in a country. This result, however, is at an aggregate level, which the authors concede can be misleading. Other studies, such as Basilio (2014), find similar evidence of DFI operation within an additionality framework. Basilio (2014) tries to estimate the determinants of DFI engagement in infrastructure projects in developing countries. The results show more DFIs participation in infrastructure projects in poorer countries but find no relationship between DFI participation and political risk.

Finally, Taguchi and Yasumura (2021) investigate the financial additionality of DFI engagement in private participation in infrastructure projects. The authors adopt the MDBs (2018) definition of financial additionality, defined as “financing beyond what is available in the market,” which they interpret as “larger loan amounts.” Based on this definition, they define their research question as whether “PPI [private participation in infrastructure] projects with multilateral support have significantly larger investment values that those without support” (Taguchi and Yasumura 2021, 2). They find that DFI commitment to a project has a positive and significant effect on investment commitments, where projects with DFI participation have on average 17 percent higher investment commitments. This is interpreted as proof of financial additionality of DFI participation. They also claim to find evidence of additionality in low-income countries where financial markets are premature and no evidence of additionality with DFI participation when the host government has a low government effectiveness rating. In this context, additionality is seen as manifesting in larger loans as opposed to more private capital commitments after DFI engagement. Larger loans, however, could indicate that DFIs invest in more capital-intensive projects to make up for the lack of private capital available in the market (which is usually the case in developing countries; this is supported by the findings of Basilio 2014, who find more DFI participation in infrastructure in poorer countries).

Contrary to the findings of Taguchi and Yasumura (2021), Basilio (2017) finds that involvement of MDBs is negatively correlated with the degree of private participation in public-private partnership projects. They interpret

this result as evidence of a substitution effect, where MDB lending targets countries with underdeveloped financial markets and limited access to private capital from international markets.

Findings on the Literature

There are many studies that provide qualitative evidence of additionality (see Spratt and Collins (2012) for a very thorough review of evidence; see MDBs (2021) for self-reported, descriptive quantitative evidence of additionality). Most of the literature on additionality concedes that quantitative evidence of additionality is difficult to establish. The quantitative evidence found in this review can be split into two main categories: actual evidence of additionality and evidence of development impact. Most of the studies in the first category, despite using sound technical methods, fail to consider the temporal dynamics of additionality and have hence been judged as not evidence of additionality (see table C.1). One potential reason why additionality has been difficult to prove is because most assessments are done ex ante during the project design stage (Pfisterer and Van Tulder 2021) and rely heavily on self-reported information provided by potential recipients of donor finance (Heinrich 2014). Another reason is the difficulty of isolating additionality from other outcomes (see, for example, Massa 2011, te Velde 2011, and Massa et al. 2016, who claim to provide evidence of additionality that can easily be construed as development impact).

Table C.1 provides identified literature on additionality of DFI engagement in developing countries (Column 2 determines whether the study is in fact looking at additionality or development impact; Column 3 presents the type of additionality evidence is being provided for; Column 4 shows whether there is evidence specific to IFC; Column 5 is the author's verdict on whether the study provides evidence of additionality as it is defined in IFC's typology).

Table C.1. Identified Literature on Additionality of DFI Engagement in Developing Countries

Study	Additionality or Development Impact	Type of Additionality	IFC-Specific Result	Robust Evidence of Additionality
te Velde (2011)	Development impact	Financial	No	No
Massa (2011)	Development impact	Nonfinancial	No	No
Jouanjean and te Velde (2013)	Development impact	Nonfinancial	No	No
Massa et al. (2016)	Development impact	Nonfinancial	Yes	No
Broccolini et al. (2021)	Additionality	Financial	No	Yes
Hainz and Klei-meier (2012)	Additionality	Nonfinancial	No	No
Gurara et al. (2020)	Additionality	Financial	No	No
Taguchi and Yasumura (2021)	Additionality	Financial	No	No
Basilio (2017)	Additionality	Financial	No	No

Source: Independent Evaluation Group.

One potential approach is to use less aggregated data with dynamic specifications to capture impacts of DFI engagement on future private sector resource mobilization (see Broccolini et al. 2021). There is an extensive amount of literature on the need for better tools to demonstrate additionality of DFI engagement in developing countries (Carter et al. 2021, Kwakkenbos and Romero 2013, Miyamoto and Biousse 2014, and Winckler Anderson et al. 2021) and new frameworks of operation (Cohen et al. 2021, Di Bella et al. 2013, and Heinrich 2014). There is also literature on the importance of additionality, whether in blended finance (Bilal and Große-Puppenthal 2016, Pereira 2017, Kublbock and Grohs 2019) or in how DFIs should engage with the private sector in developing countries (Kindornay and Reilly-King 2013).

One obvious impediment to finding robust quantitative evidence of additionality is the availability of data. This is evident in the use of aggregate

data in most of the quantitative studies on the subject (see, for example, Massa 2011, te Velde 2011, and Massa et al. 2016). Furthermore, Carter et al. (2021) emphasize the need for a multimethod approach, where both quantitative and qualitative data are used to measure the additionality of DFI participation. But since some of the decision-making processes to determine DFI engagement happen behind closed doors, the prospects of detailed qualitative assessments are limited. Furthermore, there is a limit to how much information on additionality can be extracted from private finance decision-makers because of their mandate to make safe investments or the incentive to appear to support private sector development. Similarly, there are valid reasons why DFIs like IFC operate with a certain level of confidentiality. Part of their due diligence is to scrutinize company budgets, financial statements, tax records and other proprietary information. However, considering that additionality is a core principle of DFI engagement with the private sector in developing countries, it is both good practice and necessary for DFIs to allow for periodic, in-depth assessments to better understand where additionality was delivered, how it was delivered and why. Issues of confidentiality can be addressed by sharing anonymized data or allowing access under controlled conditions. Both researchers and DFIs can benefit from more transparent decision-making processes for evaluation purposes. One potential approach not discussed in the literature is to look at projects that were rejected for investment by one DFI but picked up by another, and how private capital commitments varied during that process. This, however, would require more data being made available to both independent researchers and evaluation departments within DFIs.

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¹ Multilateral Development Bank Principles to Support Sustainable Private Sector Operations.

Appendix D. Country Case Studies: Methodology of Selection and Summaries

Highlights

||| Nine countries were selected for case studies. The criteria focused on representing countries with large portfolios and evaluated operations with representativeness of income level (upper-middle-income country compared with lower-middle-income country), regions, fragility status, country risk, and variety of predominant sectors. The process can be summarized as follows:

||| For critical mass, identification of the 20 largest middle-income country portfolios from fiscal year 2011 through fiscal year 2021.

||| For representativeness, consideration of their income, region, fragility, and risk levels.

||| For analytical breadth and depth, consideration of the main industries and sector (levels 1 and 2) covered.

||| As a result, the nine selected countries were Bangladesh, China, Colombia, the Arab Republic of Egypt, Indonesia, Mexico, Nigeria, South Africa, and Türkiye.

||| By sector, nested studies of two sectors covered the industry groups of financial markets (commercial banking and microfinance), Infrastructure (electric power), and Manufacturing, Agribusiness, and Services (chemicals and fertilizers).

The case selection for the country case studies followed the Approach Paper guidelines. As stated in the evaluation Approach Paper, the country case studies selection would “explicitly differentiate between [upper-middle-income countries] and [lower-middle-income countries] and seek to reflect differences in region and fragility” (World Bank 2022, 5). A group of nine countries was selected using a purposive sampling and considering the Approach Paper criteria and the size of the portfolio, the representativeness and comparability of sectors, and availability of previous in-depth project evaluations. Namely, the selected countries were Bangladesh, China, Colombia, the Arab Republic of Egypt, Indonesia, Mexico, Nigeria, South Africa, and Türkiye.

The team initially identified the top 20 middle-income countries with the highest number of projects and amount approved during the evaluation period, fiscal years (FY)11–21 (table D.1). The group is balanced in terms of income group (upper-middle-income countries [UMICs] and lower-middle-income countries [LMICs]), with some countries (such as Indonesia and Romania) varying position during the evaluation period. All countries had enough projects for evaluation, from lowest investment services (IS) of 39 (Côte d’Ivoire) to highest of 290 (India). The representativeness of fragile and conflict-affected situation countries in the sample was 10 percent, with Côte d’Ivoire and Nigeria, even though their classification was recent (FY21).

Table D.1. Top 20 Middle-Income Countries

Top 20 Countries	Region	Investment Portfolio (IS)				Advisory Portfolio (AS)				Income Level	FCS Country
		Approved FY11–21		Evaluated FY11–21		Approved FY11–21		Evaluated FY11–21			
		Projects (no.)	Commitment (US\$, mil-lions)	Projects (no.)	Commitment (US\$, mil-lions)	Projects (no.)	Commitment (US\$, mil-lions)	Projects (no.)	Commitment (US\$, mil-lions)		
India	SA	289	10,795	61	2,070	103	121	55	52	LMIC	NFCS
China	EAP	176	7,412	51	1,467	17	40	12	36	UMIC	NFCS
Brazil	LAC	147	7,652	43	1,840	40	71	18	23	UMIC	NFCS
Türkiye	MENA	125	9,529	43	2,374	5	10	3	9	UMIC	NFCS
Mexico	LAC	103	4,280	24	620	8	6	8	4	UMIC	NFCS
Banglade-sh ^a	SA	84	3,505	11	280	47	86	16	30	LMIC	NFCS
Nigeria ^a	SSA	80	2,650	20	677	30	30	12	12	LMIC	FCS ^b
Indonesia	EAP	66	3,106	20	768	28	47	14	20	LMIC ^b	NFCS
Egypt, Arab Rep.	MENA	62	2,326	17	609	28	30	7	4	LMIC	NFCS
Colombia	LAC	61	2,565	25	706	22	34	15	22	UMIC	NFCS
Vietnam	EAP	57	5,562	4	50	33	58	13	19	LMIC	NFCS
South Africa	SSA	54	3,200	16	732	19	30	5	12	UMIC	NFCS
Pakistan	SA	46	1,744	11	605	34	46	11	10	LMIC	NFCS
Ukraine	ECA	46	1,244	18	468	24	80	11	32	LMIC	FCS
Romania	ECA	46	1,664	12	430	1	0.02	—	—	UMIC	NFCS

Top 20 Countries	Region	Investment Portfolio (IS)				Advisory Portfolio (AS)				Income Level	FCS Country
		Approved FY11–21		Evaluated FY11–21		Approved FY11–21		Evaluated FY11–21			
		Projects (no.)	Commitment (US\$, mil-lions)	Projects (no.)	Commitment (US\$, mil-lions)	Projects (no.)	Commitment (US\$, mil-lions)	Projects (no.)	Commitment (US\$, mil-lions)		
Ghana	SSA	38	1,668	7	490	20	43	4	12	LMIC	NFCS
Sri Lanka	SA	36	961	7	93	24	22	11	6	LMIC	NFCS
Kenya	SSA	34	1,077	5	128	35	73	4	4	LMIC	NFCS
Argentina	LAC	34	1,500	11	399	2	3	—	—	UMIC	NFCS
Jordan	MENA	33	1,019	6	253	26	32	4	4	LMIC	NFCS
Total CCSs		811	38,572	227	8,232	204	311	92	148		
Total top 20		1,617	73,458	412	15,058	546	860	223	312		
Total MICs ^a		2,400	97,966	661	22,395	1,010	1,524	414	538		

Source: Independent Evaluation Group.

Note: The country case studies are highlighted in blue. The source of rating levels is S&P or Fitch. AS = advisory services; CCSs = country case studies; EAP = East Asia and Pacific; ECA = Europe and Central Asia; FCS = fragile and conflict-affected situation; FY = fiscal year; IS = investment services; LAC = Latin America and the Caribbean; LMIC = lower-middle-income country; MENA = Middle East and North Africa; MIC = middle-income country; NFCS = non-fragile and conflict-affected situation; SA = South Asia; SSA = Sub-Saharan Africa; UMIC = upper-middle-income country; — = not available.

a. Includes projects from Nigeria and Bangladesh approved or evaluated during 2011–21, when they were still low-income countries.

b. Classification level has changed during the evaluation period.

After identifying the top 20 countries, nine of them were selected for case studies in a manner balancing representation of income level and regions. Together, the case study country portfolios represent about a third of the evaluation's portfolio. The group selected was composed of five UMICs (China, Colombia, Mexico, South Africa, and Türkiye) and four LMICs (Bangladesh, Egypt, Indonesia, and Nigeria) representing all Regions. Bangladesh and China transitioned during the evaluation period (the first went from low-income country to LMIC in FY16, and the second went from LMIC to UMIC in FY12), allowing the evaluation to identify evidence about additionality shifts related to income level in the countries within the evaluation period. Altogether, the selected group added up to 33 percent of the total IS portfolio and 23 percent of the total advisory services (AS) portfolio during the evaluation period (FY11–21). In terms of the number of projects, the selection represented 38 percent of IS and 22 percent of AS of the total portfolio. The country group also offers 43 evaluated projects (FY07–15), which provides a critical mass for coded projects for country-level in-depth lessons on additionality nuance. The fragile and conflict-affected situation country in the selection is Nigeria. The selected group was also representative of fragile and conflict-affected situations, with Nigeria, and of different credit risk levels, from China (AA–) to Egypt (B).

The selected countries covered multiple sectors central to engagement of the International Finance Corporation (IFC; table D.2):

- » **Financial markets.** This was the most frequent industry group within IFC and representative of 44 percent of the portfolio. Case studies covered commercial banking and microfinance.
- » **Manufacturing, Agribusiness, and Services.** The industry group represented 29 percent of the evaluation portfolio. The case studies covered chemicals and fertilizers.
- » **Infrastructure.** Infrastructure represented 21 percent of the total middle-income country portfolio. Case studies covered electric power (traditional and renewable).

Table D.2. Countries Chosen and Their Sector Focus

Country	Financial Markets		MAS	INR	Sectors Selected (no.)
			Chemicals	Electric	
	Commercial Banking	Microfinance	and Fertilizers	Power	
Bangladesh	X			X	2
Indonesia	X		X		2
China		X	X		2
Colombia	X			X	2
Egypt, Arab Rep.			X	X	2
Mexico		X		X	2
Nigeria		X	X		2
Türkiye	X			X	2
South Africa	X			X	2
Case studies focusing on the sector (no.)	4	3	5	6	

Source: Independent Evaluation Group

Note: FM = financial markets; INR = Infrastructure; MAS = Manufacturing, Agribusiness, and Services.

The case studies relied on three main sources of evidence: desk review, portfolio inputs, and interviews—virtually or through field missions. The desk review summarized the countries’ main development challenges; government priorities to address them; IFC’s approach to it in terms of diagnosis, strategies, and claimed impact; and project-level approval and evaluation documentation. The portfolio inputs were developed by the portfolio review and analysis team (see appendix B). They captured the nature of the additionality claimed (and, when available, delivered) at the project level, including insights in terms of operations’ development effectiveness.¹ The interviews were concentrated during missions (mostly virtual ones) and undertaken with directly engaged stakeholders (such as IFC staff and clients) but also indirectly engaged ones (such as government officials and other development finance institutions [DFIs]). The authors used a standard template linked to the evaluation questions. The team then conducted a workshop with all authors and the support team to exchange insights and collectively build hypothesis that the evaluation would test. Finally, the

evaluative evidence was compiled and integrated to bring together evidence for further generalization.

Country Case Studies Summary

Bangladesh—Commercial Banking and Electric Power

Relevance

Bangladesh offers an especially challenging environment for private sector development. IFC's 2021 Bangladesh Country Private Sector Diagnostic study notes that "Bangladesh's private sector faces one of the world's most burdensome business environments" (IFC 2021, xiii). It goes to state that Bangladesh has "reached the limit of its current development model" and that further progress will require a new round of reforms to overcome "an economic policy environment that increasingly undermines its potential to drive diversified, export-led growth" (IFC 2021, viii). The World Bank Group's 2021 Bangladesh Systematic Country Diagnostic observes that Bangladesh's existing private sector, which is dominated by a few large firms, is "mostly inward looking and benefit[s] from rents from the protected domestic market and RMG [ready-made garment] exports under special incentive programs, and from being supported by close links with the banking sector" (World Bank 2021, vi). There is strong agreement among IFC's Country Private Sector Diagnostic, the Bank Group's Systematic Country Diagnostic, and the government's five-year plan about the reforms necessary. However, there is no clear strategy as to how IFC can be additional in helping foster the reforms needed to unlock investment.

IFC and Bank Group strategies for Bangladesh do not explicitly address additionality. The strategies talk about funding gaps and discuss that filling these funding gaps will create financial additionality.

In terms of their anticipated additionalities, commercial banking focused on financial additionality, whereas in the electric power sector, there was a balance between financial and nonfinancial additionality. In the commercial banking sector, lending was dominated by the working capital systemic solutions product, first developed in Bangladesh and then rolled

out globally. This was the only product to generate repeat business. Here, financial additionality claims dominated since the funding constraint continued to exist because of government policy and systemic banking sector issues. The funding line was predicated on providing much-needed finance for small and medium enterprises (SMEs), but to what extent SMEs actually benefited is not known. Other credit lines saw a greater share of nonfinancial additionality claims. In the electricity sector, the share of financial and nonfinancial additionality claims was approximately the same. For both sectors, approximately a third of claims had no equivalent under the revised additionality framework, so were considered not valid—these included claims such as “long-term partnership,” “strategic partnership,” “stamp of approval,” “catalytic role,” “upstream work,” and “connecting project partners.”

Effectiveness

IFC’s realized additionality (ex post) in the electric power sector was achieved, but in the commercial banking sector, it was less systematic. For the electricity sector, IFC was additional at the sector level, contributing about 20 percent of national generation capacity. The effect of IFC’s additionality at the sector level for commercial banking was less, given systemic issues facing this sector. However, IFC introduced new products and lending lines to the market, including green and affordable housing finance. In this sector, IFC’s additionality was more reflected at the client and transaction level. At the client level, AS played a major role in delivering nonfinancial additionality.

Lessons

The case study also found that IFC documentation is not well suited to capture additionality. There was a considerable amount of value added or additionality that created room for upstream and downstream work and informal dialogue and advice, but this was not captured in documents. There is an inadequacy of results frameworks and monitoring and evaluation frameworks, particularly where there were scope changes. Deficiencies in results monitoring reduce the likelihood that the outcomes of realized additionality can be determined. One lesson also addressed the issue of inadequate monitoring and reporting by the client.

A second key conclusion is that there are many potential ways for IFC to be additional in Bangladesh, an LMIC, but facilitating reform is essential for unlocking investment. An implication of this is that one would expect to see increased focus on nonfinancial additionality—in particular, support for policy, sector, institutional, or regulatory change and the advocacy work that goes along with this via knowledge transfer. Although financial additionality at the individual client and transaction levels can be realized in an unfavorable policy and regulatory environment, development impact at the sector level is not likely to be achieved.

Realizing additionality (particularly, nonfinancial additionality) can take time, so downstream work also creates additionality. The case study found many examples of IFC staff creating value during implementation to ensure that nonfinancial additionality was delivered and was of a high standard. Environmental and social (E&S) specialists frequently spoke of “hand-holding” clients to assist them with applying IFC’s performance standards and for building their E&S management systems. Industry specialists gave technical advice, and investment staff engaged in frequent dialogue, including with industry regulators.

Capturing IFC’s additionality at the sector level requires a different approach to that required for individual transactions. Only investment transactions are categorized for source of additionality. AS not linked to a specific investment tend to stand apart and are not counted in terms of IFC’s additionality at the sector level. In addition, the value added or additionality from upstream work (whether by the upstream team or other IFC staff) goes uncounted at the transaction level as does the considerable amount of value added provided by IFC during supervision. On top of this, in some cases, there is a very significant amount of informal advice and information sharing that largely remains invisible and so uncounted. Collaboration with others, particularly the World Bank, can also be a source of considerable value added or additionality that is generally not recognized as additionality.

China—Microfinance and Chemicals and Fertilizers

Relevance

Frequent questioning of IFC’s additionality in China has provoked a positive reaction. IFC’s China country strategy FY20–24 treats additionality explicitly and in some depth (IFC 2019)—linking additionality to development challenges, the problems IFC intends to address, needed policy reforms, and what IFC intends to do in terms of investment and advisory support and World Bank collaboration. The case study considers this treatment of additionality in strategy as best practice.

The anticipated additionality claims were more diverse for microfinance, whereas the chemicals and fertilizers sector focused on nonfinancial additionality. In the chemicals and fertilizers sector, standard setting was the most frequently claimed source of additionality. Microfinance focused on financial and nonfinancial additionality and included other additionalities. Financial additionality was mostly through financing structure; nonfinancial was rooted in knowledge, innovation, and capacity building; and the remainder are related to “reputation and credibility,” “long-term partnership,” “stamp of approval,” and “financial institution building.” The microfinance sector also had mostly repeat clients, and, overall, investment projects developed with new clients were more ambitious in terms of how diverse the claimed additionality was, claiming both financial and nonfinancial additionalities.

Effectiveness

IFC was largely responsible for creating and developing the Chinese microfinance sector, even if documents reported generally less nonfinancial additionality delivery than originally claimed. Compiling evidence from all evaluated evidence available in the microfinance sector showed a sharp decrease in the delivery of nonfinancial additionality claims about knowledge, innovation, and capacity building and in the financial additionality of long-term partnership, and a considerable increase in the delivery of nonfinancial additionality through standard setting. The case study found IFC’s performance in microfinance in the country to be excellent, partly because of its knowledge and innovation (locally available staff expertise and sector

experience to choose the right clients and AS offerings), standard setting, and willingness to remain engaged in the long term. Other relevant features of IFC engagement in the sector were timeliness (including early approach with regulators through AS to create a conducive legal and regulatory environment), financial additionality in structuring and tolerating risk in own account equity (later complemented by resource mobilization and innovative products and instruments), and flexibility to adapt products to the local and client context and to introduce innovative instruments. Other current sectors of IFC engagement, including green (or climate) financing and agribusiness, also show strong additionality realization.

The story in the chemicals and fertilizers sector was different, as realized additionality was much less at both the transaction and sector levels. IFC's financial additionality was not always strong in the chemicals and fertilizers sector, and IFC was uncompetitive as a provider of finance for the larger firms in the sector. Consequently, IFC took on more risk with small to medium firms. Most IFC clients in the sector lacked sufficient scale of operations. Hence, IFC's involvement in the sector did not bring about many, if any, changes at the sector level. Based on this, IFC may have missed the best investment period with some of its transactions. This compares with the experience in the microfinance sector where IFC got in early, following a systematic and multipronged approach (dialogue with the regulator, policy advocacy, AS, IS, and informal relationship building and knowledge transfer).

Lessons

Lessons from the case include the following: (i) repeat transactions can continue to generate additionality; (ii) upstream work has long been carried out by IFC staff in China, and this has generated considerable additionality, which largely goes unrecognized; (iii) downstream work during supervision can also create significant additionality; (iv) capturing IFC's additionality at the sector level requires a different approach to that required for individual transactions, and fully capturing IFC's additionality in a sector requires storytelling efforts; and (v) there is room to improve the articulation of additionality in Board Papers.

Colombia—Commercial Banking and Electric Power

Relevance

Since the beginning of the evaluation period, commercial banking and electric power markets counted on private sector engagement. COVID-19 reversed decades of advances in job creation and poverty reduction, but the private sector was engaged in both sectors since the beginning of the evaluation period. The commercial banking sector has expanded in the previous decade, supported by growing intermediation, with recent years benefited by a higher capitalization of banks accompanying the expansion of assets. There have been several new entrants to the market, especially foreign-owned institutions. In the electric power sector, currently about half the generation capacity is privately owned, and IFC became a strong player in the sector since 2008 (Termoflores investment).

According to the main strategic documents, IFC value addition in the electric power sector was focused on granting access to long-term funding, aligned with its portfolio. IFC's anticipated claims in the sector were equally balanced between financial and nonfinancial additionalities. In terms of predominance, in financial additionality, there was long-term tenor support, and in terms of nonfinancial additionality, there were standard setting and noncommercial risk mitigation (mainly E&S and a stamp of approval). Another sector expectation was that IFC would transfer best practices with its global expertise and knowledge.

For its part, commercial banking strategic focus was on promoting best practices and raising standards on E&S by sharing its knowledge (particularly, on climate finance), also aligned with projects' design. The anticipated additionality claims for the sector were focused on nonfinancial additionality. Standard setting and knowledge innovation were the most frequent subtypes of nonfinancial additionality. Specifically, IFC intended to provide expertise about the development of new products to enter new markets and to introduce in traditional banks international standards in environmental policies, strengthening the banks' environmental and safety management systems.

Effectiveness

In terms of ex post additionality, the electric power sector generally realized its anticipated additionality. Anticipated additionality was less ambitious than in other sectors but was achieved in all the cases evaluated, proving its recognized capacity, knowledge, and expertise in specific topics such as renewable energy. Certain financial innovations introduced by IFC supported renewable energy, including green bonds.

By contrast, commercial banking presented mixed results. Even with project design of additionalities tailor-made to clients' needs, most additionalities were not realized (because of lack of client commitment and low replication of the products developed). Nevertheless, the success of the integration of green bonds into commercial banks is a significant achievement and one of the most successful IFC interventions in the country. Indeed, by providing ongoing AS and IS, IFC has been recognized by Colombian commercial banks as a valuable partner in supporting its growth and developing new products, some of which look to increase access to finance for low-income populations and microentrepreneurs in rural areas of Colombia. It is worth mentioning that, considering complex markets such as energy and banking, the anticipated nonfinancial additionality was pragmatic, and it appears it was designed case by case as a response to cover specific needs for clients.

On balance, IFC support was required to ensure the necessary volume and tenor of long-term funding for projects. Also, IFC was expected to provide a stamp of approval and market comfort for other participants, specifically DFIs and private investors. In terms of nonfinancial additionality, IFC planned to provide expertise based on Global Practices and lessons learned from different regions, aiming to add value to clients and consolidate them in nascent markets in the Colombian economy.

In most cases, IFC has successfully delivered additionality to repeat clients in Colombia. Repeated clients have benefited from more complex services as their projects' needs evolve into more mature collaboration, going from vanilla investments into more innovative and sophisticated instruments.

Lessons

In Colombia, IFC represented a more costly option for financing relative to comparators, but clients recognized IFC as innovator and valuable in terms of its financial and nonfinancial additionalities and others as replicators. IFC's operational side, bureaucratic processes, and due diligence are more demanding and time-consuming than those of other financiers. At the same time, IFC pushed boundaries within companies and at the national level, resulting in the introduction of alternative financing instruments with high success rates, such as green bonds, green taxonomy, secondary markets, and revolving lines of credit. This strategy pushed the market from their “comfort zone” leading to new development opportunities. In this light, and for many clients, IFC is seen as the innovator, whereas other DFIs are seen as replicators.

There are three main streams of IFC's additionalities that clients most value. This includes innovative financing structures (exemplified mainly by its leadership with green bonds), risk mitigation and stamp of approval (through IFC's AAA rating and resource mobilization), standard setting (specifically, in integrating gender components in companies), and knowledge and capacity building through the implementation of good practices (including the development of products, such as the green taxonomy). IFC AS have been recognized as one of the most valuable elements when seeking support.

Lessons learned found higher nonfinancial additionality performance in IFC support provided through equity as a financial instrument. In cases where IFC was a company shareholder, substantial leverage allowed a smoother process to institutionalize the additionality IFC was expecting to provide. Regarding the standard setting, gender inclusion policies proved to help bring more women on board.

It has been noticed that IFC staff has improved significantly in correctly differentiating between additionality and development impact. Financial and nonfinancial additionalities, as additional project's components aligned to its development impacts, have become increasingly easier to be defined at IFC's country office in the country because of advancements in guidelines and definitions.

Nevertheless, there was found to be space for IFC to adopt a risk-shared approach to the portfolio and promote new trends bringing new participants into a viable model with high levels of additionality. Pursuing new markets in a more complex context goes hand in hand with IFC country strategy regarding inclusion and improving competitiveness. It has been noticed that there are some prospective improvements to strengthen the delivery of additionality in Colombia. IFC can improve its delivery speed by exploring process simplification, diminishing bureaucratic burden, or introducing innovative products with lesser approval requirements, and continuing to work toward broadening its local currency pool availability.

The Arab Republic of Egypt—Electric Power and Chemicals and Fertilizers

Relevance

The Country Partnership Framework (CPF) FY15–19 came at an important juncture in the country’s efforts to support transformational socioeconomic change. Although Egypt had implemented political, economic, and social reforms in response to the economic downturn that began with the Arab Spring upheaval of 2011, significant development challenges remained by 2015. Under this context, the CPF looked to implement the World Bank’s then-new Middle East and North Africa Regional strategy, especially pillars on renewing the social contract, supporting economic recovery, and promoting regional cooperation (World Bank 2015). It also outlined a joint IFC and International Bank for Reconstruction and Development (IBRD) approach, focusing on energy, education, and competitiveness. Specifically in the power sector, IFC and IBRD planned to encourage cross-border private investments and stressed environmental sustainability. However, the CPF did not emphasize the chemicals and fertilizers sector in the same way.

Noncommercial risk mitigation was the additionality subtype most frequently mentioned in the CPF and in the portfolio. The CPF showed IFC as supplying countercyclical and confidence-boosting support to the broad private sector. Particularly, in the power sector, anticipated additionality did align with reforms in Egyptian sectoral policy and the selected sectors’ needs in 2015–16, but not necessarily later, because a major crisis in electricity

supply peaked in the summer of 2015. As such, there was emphasis in the CPF and individual project activities on more power generation, including clean power, but excess demand diminished in subsequent years. Regarding the portfolio, IFC also claimed a strong countercyclical role (in both the postrevolutionary and COVID-19 slumps) and expected to be instrumental in bringing outside investors into Egypt. There is also evidence of anticipated resource mobilization in some projects, since other lenders relied on IFC's due diligence and structuring experience. It is also worthwhile to note that the World Bank and the International Monetary Fund played a role in advocating for subsidy reform in this sector that somewhat diminished demand for independent power provision.

By contrast with the power sector, where IFC's additionality was largely financial, in the chemicals and fertilizers sector, anticipated additionality was mostly nonfinancial. The predominant subtypes were noncommercial risk mitigation (for example, stamp of approval, comfort to clients and investors) and standard setting.

Effectiveness

IFC was more successful in realizing standard setting than noncommercial risk mitigation additionalities. Additionalities found in evaluated operations in Egypt went increasingly toward nonfinancial, mainly related to standard setting. Within this additionality subtype, E&S was frequently realized, whereas delivering corporate governance fell greatly below expectations.

Cooperation with other DFIs also was an important source of realized additionality. There are a growing number of sources of financing for and advising on private sector development in Egypt, which have expanded over the past few years in response to the country's political and economic crisis in 2011. IFC now works more closely with other funding and advisory providers in Egypt (especially with others in the Bank Group on the upstream effort to shape policy or address sectoral constraints). Other international financial institutions (IFIs) have also been working increasingly closely with IFC and IBRD in tandem (or with the former alone) partly because of clients' beliefs in IFC's access to more and diverse types of resources as part of the Bank Group. Particularly, the European Bank for Reconstruction and Development

worked in 2017–21 with IFC in 9 of 13 designated business areas, more than with any other partner, tied only with IBRD.

Lessons

Intra-Bank Group coordination was an important internal factor promoting additionality. IFC has a strong local office in Cairo, which enjoys close Bank Group coordination and where IFC staff has incentives for interacting with local stakeholders. Especially during the past three years, IFC has worked more closely with IBRD and the Multilateral Investment Guarantee Agency, which allows a wider agenda. Likewise, collaboration with other multilateral or bilateral development banks, other organizations, and the government contributes to delivering anticipated additionalities. Externally, client commitment and motivation were also prominent, as there is evidence that both factors helped address Egypt's electricity undersupply and high generation costs.

Indonesia—Microfinance and Chemicals and Fertilizers

Relevance

Indonesia's capital markets are underdeveloped. Since approximately eight years ago, the government of Indonesia has emphasized the role of state-owned enterprises—an emphasis that makes IFC's work in the country difficult. According to IFC's staff, the typical roles in other countries where IFC can have nonfinancial additionality are in large projects with the private sector, especially in the infrastructure sector. Because of the rising importance of state-owned enterprises in several industrial sectors, IFC finds that investment opportunities are scarce in chemicals, manufacturing, and heavy industry. This leaves the financial markets as the main IFC industry group where there are opportunities.

IFC's strategy for Indonesia focuses on financial additionality (long-term financing). Strategies mention the sectors that IFC intends to engage in, the role of its advisory work, its work in mobilizing funds from other institutions, and its promotion of new technologies. In IS, IFC's additionality relied mostly on financial additionality, specifically on provision of long-term financing, whereas the most common nonfinancial additionalities were

noncommercial risk mitigation and environmental, social, and governance (ESG) standard setting. The presence of all of them have been confirmed to some extent within the nested sectors of the evaluated projects. The delivery mechanisms of standard and knowledge additionality were mostly through ESG teams and industry experts, with the occasional use of technical assistance. AS were expected to play a significant role in IFC's additionality in supporting its investments, especially in the financial sector.

Specific to the Manufacturing, Agribusiness, and Services industry, to which the chemicals and fertilizers sector belongs, additionality claims were both financial and nonfinancial. The categories of expected nonfinancial additionality were mainly standard setting (mainly E&S standards, E&S standard setting, and corporate governance), knowledge innovation and capacity building, noncommercial or political risk mitigation. The financial additionality was aligned with IFC strategies for the country, focusing on the provision of longer-tenor loans but also supporting more stable financial structure. Notably, investment projects with new clients were more ambitious in their financial and nonfinancial additionality claims, going beyond E&S standards and corporate governance to include knowledge, innovation, and capacity building. In the microfinance sector, the additionality claims were also focused on financial and nonfinancial.

Effectiveness

Ex post additionality assessment counted on a small number of Independent Evaluation Group validated self-evaluations. Microfinance projects realized their claimed additionality regarding financing structure but not as much in resource mobilization and knowledge and capacity building. The evaluation counted on two validated IFC evaluations from the microfinance sector and one from the chemicals and fertilizers sector. In the first, resource mobilization claimed was not achieved and knowledge delivery diminished substantially. In the chemicals and fertilizers sector, achievement rate was higher because its claims about financing structure, resource mobilization, and standard setting were all verified ex post.

In both the microfinance and chemicals and fertilizers sectors, the value addition by IFC was similar and had some modest spillover beyond the sum of indi-

vidual projects. In both cases, IFC claimed financial additionality from providing long-term loans that were not easily available in Indonesia. In microfinance, in addition to the provision of long-term financing, IFC brought value in the form of stamp of approval, and IFC's engagement contributed to some extent by providing comfort to local lenders. In the chemicals and fertilizers sector, IFC's nonfinancial additionality arose from IFC's global sector knowledge and expertise, which provided a window on the industry trends and benchmarks. In addition, IFC worked to help improve the E&S aspects of the firms' operations, well beyond what was required by national and local regulations.

In both sectors, IFC had repeat clients, pointing to the borrower becoming comfortable with IFC and its requirements and the branding arising out of IFC's stamp of approval. Although there is little documented evidence, interviews showed a general impression that in both areas IFC was able to influence project design toward gender inclusion and E&S standards. In microfinance, IFC pushed for support to borrowers in the peri-urban and rural areas and to women borrowers. In the chemicals and fertilizers sector, IFC's E&S standards are seen as rigorous, and its monitoring is seen to be diligent and thorough. Consequently, other DFIs and local lenders acknowledge that these areas need to be supported for overall development. Possible collaboration with the World Bank is seen as another more general additionality, especially in projects with public-private partnership components, but there have not been enough projects financed by IFC to substantiate that impression.

The link between additionality and development impact is difficult to draw out for IFC projects. In microfinance, IFC provided much-needed long-term financing; this could also have been provided by other DFIs. IFC's push to quantify beneficiaries with particular characteristics (rural and women borrowers) may have led the institutions to meet the targets agreed to with IFC, but in some cases that would have happened in the normal course of expanding the business. In the chemicals and fertilizers sector, IFC's E&S standards were welcome because they provided credibility to the larger community, and IFC's follow-up during supervision forced companies to institutionalize E&S aspects into their business operations.

Lessons

IFC's additional value from its global experience was highlighted. From IFC's unique position in global projects, interviewees emphasized its capacity to help the adoption and implementation of international norms, through its E&S performance standards; disseminate best practices in corporate governance; provide firms and the government with tailored options through its AS; and provide innovative financing that was easily available in Indonesia, such as loans, with longer tenors, subordinated loans, equity and quasi-equity, and the selective use of guarantees.

Other strengths and qualities of IFC that contribute to its additionality include the following: IFC is well established in Indonesia, recognized as a part of the Bank Group, and seen as the market leader for supporting the private sector; IFC's due diligence process is very detailed and rigorous and its decision to invest in a company is taken as a stamp of superior project concept, design, governance, and adherence to higher corporate standards (which facilitates other financing opportunities); IFC has real technical expertise, and its industry specialists are unmatched, which, in turn, benefits IFC's clients with networking in the sector and getting access to the global knowledge; IFC's investment in upstream work sets IFC apart because it helps to make a promising project bankable; and IFC's AS, although uneven, when relevant, are a key value addition by IFC. Additional lessons are that repeat transactions can continue to generate additionality, that more attention should be given to capturing IFC's additionality at a sector or policy level, and that capturing IFC's additionality at the sector level requires a different approach to that required for individual transactions.

Mexico—Microfinance and Electric Power

Relevance

The electric power sector was a national priority from 2013 to 2017. During these years, IFC participated actively in promoting private investments.

Supporting financial markets has been a strong and permanent IFC priority in the past decade. In financial markets, IFC's support evolved during FY08–

14 from focusing on private equity funds to directly investing in companies by supporting them to institutionalize better corporate practices in FY14–19, and most clients were part of the microfinance sector. To summarize, in the first period evaluated, IFC’s strategic support to microfinance was indirectly through private equity funds investing in new enterprises. In the second period, IFC’s approach was more hands-on, trying to support their growth and integrating international standard into their operations.

The anticipated additionality claims for electric power were financial and nonfinancial and aligned with country needs, and for microfinance they were predominantly nonfinancial. Considering that for the first time in the history of the country, private investments entered the generation at scale of electricity, offering comfort to national and foreign investors was key. The most frequent anticipated additionality provided, nonfinancial noncommercial mitigation, was in line with that need. In addition, given the expertise and global knowledge in this sector, IFC supported clients in developing solid E&S systems, aligned with international standards, and in some cases even going further, creating guidelines to manage birds and bats in wind energy projects. In terms of financial additionality, IFC supported the electric power sector through financing structure (especially long-term tenor and amount provided considering the capital intensity of this kind of infrastructure projects). Microfinance was considered a strategic area within financial markets, the most representative industry in the country’s overall IFC portfolio. Non-financial additionality claimed was diverse. Projects referred to additionality derived from knowledge and innovation, standard setting, and noncommercial risk mitigation.

Effectiveness

The realized additionality in electric power was substantial as a result of IFC’s flexibility, expertise, and cooperation efforts. All anticipated additionalities were realized. Explaining factors include flexibility to adapt products to the national context and the country’s priorities and the great local expertise available and IFC’s reputation, which facilitated solid cooperation with government and private sector. IFC has proven to be a pioneer of key projects in Mexico and has pushed other multilateral development banks to provide financing in sectors that were previously neglected because of risk

aversion or lack of expertise. In this context, IFC’s support for the establishment of a range of businesses in newly opened-up or core sectors was largely successful. In the electric power sector, some clients mentioned that IFC also provides “political additionality” as it can help clients shield against abuse or regulatory change when governments or priorities change, or even influence the government to be more careful in making decisions that may affect them. Nowadays, IFC is recognized in the Mexican electric power sector as a pioneer in providing support to authorities and private entities navigating the regulatory—in some cases constitutional—changes in the country.

For its part, in microfinance, realized additionality was modest. IFC’s low achievement was concentrated in clients with bad financial performance whose businesses failed in the process—indeed, operations with clients that did thrive managed to deliver their additionality claims. IFC supported the introduction of new products and services and clients in their credit and risk management functions. It also pushed for standard setting through board members who achieved governance functions. Noncommercial risk mitigation made IFC support go beyond the funding to fuel the company’s growth but it also was a stamp of approval that would open doors to other potential funding. Nevertheless, when it comes to development impact, it must be said that IFC’s support to microfinance institutions reached large numbers of clients, especially women.

Lessons

In terms of the relationship between additionality and development effectiveness, the microfinance sector has shed light on an existing trade-off. Microfinance projects were overwhelmingly done with repeated clients. Several interviewees mentioned a trade-off in trying to reach the bottom of the pyramid and the risk approach of the institution and the clients IFC supported. For instance, the increasing annual average value of projects in overall IFC’s portfolio supporting established banks points to the low feasibility of reaching small and medium clients in the country’s poorest regions, which are not served by commercial banks. It was difficult to identify the specific benefits provided by clients in the microfinance space to their customers (beyond access), which raises doubts in terms of IFC’s additionality and its link to development impact. The fact that IFC repeatedly worked with

the same companies (some that have only 30,000 clients in a large country) raises questions about why IFC did not work with new clients in a sector with a high potential for disruption, especially considering the concentration of commercial banks and their inability to reach low-income and rural populations. At the same time, it is important to mention that IFC's support for microfinance institutions reached large numbers of clients, especially women.

Additionality can be boosted by cooperation with other DFIs in contexts of capital-intensive industries. In the electric power sector, IFC and other DFIs have created a cooperative approach in the country. This approach has enhanced reaching financial close for projects, contributed to the creation of solid E&S systems within companies based on IFC's performance standards, and also created a joint front to tackle regulatory concerns (which have been trying to regain power for the state-owned company in the generation of energy).

Nigeria—Chemicals and Fertilizers and Microfinance

Relevance

The Bank Group Country Partnership Strategies for Nigeria during the evaluation period were aligned with the country's 2020 vision to support transformational changes. Given the country's considerable development challenges and the government's poverty reduction determination, the Bank Group provided an ambitious but adaptive approach. Nevertheless, IFC sector priorities were mainly electric power, financial sector, and agribusiness, with climate change and inclusion of vulnerable groups as cross-cutting themes. The industry groups from the selected sectors were the most frequently found in the country portfolio (financial markets for microfinance and Manufacturing, Agribusiness, and Services for the chemicals and fertilizers sector).

The 2012–16 IFC microfinance strategy is aligned with IFC sector priorities laid out in Country Partnership Strategy 2014–17 and CPF 2021–25 strategies (World Bank 2014, 2020). The program will (i) support existing clients with IS and AS to achieve scale of improved operations and provide a greater range of services; (ii) engage new entities in green fielding with sponsors that specialize in creating deposit taking institutions, transforming well-performing nonprofit institutions, downscaling top lower-income

populations, and locally expanding well-managed entities; and (iii) selectively intervene to improve regulatory frameworks. IFC ramped up support for SMEs through banking institutions in Nigeria after the 2016 recession.

The financial sector had anticipated additionality claims that were financial and nonfinancial. The most common financial additionality was financing structure. For nonfinancial additionality, it focused on standard setting and knowledge, innovation, and capacity building. For manufacturing, IFC claimed mostly financial additionality and had a single claim of nonfinancial standard setting.

Effectiveness

In microfinance, according to clients, IFC provides more comprehensive support when compared with other DFIs and multilateral development banks. Other DFIs acknowledge IFC's important role in the microfinance space, with relevant value added in the period in providing local currency financing not available in the market at the time and bringing technical knowledge to the sector. IFC's presence also enabled noncommercial risk mitigation by providing market comfort to international investors and to locally grown institutions because they were able to secure funding from a variety of international lenders. Nevertheless, some of these output-related financial additionalities can now be matched by DFIs, and interviews found that IFC needs to differentiate or be less risk averse.

AS played an important role in the microfinance sector. It did so in different ways for greenfield and existing local institutions. In greenfield institutions, it was mainly through capacity building by IFC providing subsidized services (grants) to establish and strengthen these institutions. In local institutions, IFC provided nonsubsidized capacity building to improve management practices, risk management procedures, and processes; build micro, small, and medium enterprise strategy and product development framework; identify new distribution channels (agent banking); and provide support for developing digital financial service strategy.

In the chemicals and fertilizers sector, financial structuring and standard setting were delivered at a project level. In the chemicals and fertilizers

sector, IFC and the World Bank provided an upstream type of support in the first (and only) privatization in the sector. This investment provided a good demonstration effect but did not lead to further privatizations because of the difficult operating environment in the country. The sector remains nascent and requires significant expansion to make a difference. To make a difference at a sector level, IFC is working on improving the sector by building petrochemical clusters.

Lessons

IFC's strategic process, timeliness, willingness to remain engaged in the long term, and projects' terms and conditions were sources of additionality, but many can be matched in the market by now. (i) IFC has been additional in the microfinance sector by engaging early on and by following a clear sector strategy. IFC engaged early in the sector when no one else was prepared to provide finance—as a result, IFC had high financial additionality through financing structure; no other financier was prepared to take the risk at this early stage of sector development. (ii) However, some sectors require a long-term presence to realize nonfinancial additionality. IFC has been supporting local institutions since 2012, and although capacity of the institutions has improved, much more remains to be done. (iii) Longer tenors are easily matched now. IFC needs to increase its risk appetite to remain additional. Indeed, other investors regard IFC as a risk-averse institution. (iv) In terms of specific areas of opportunity, clients continuously mentioned processes as the main obstacle when working with IFC. Several staff also mentioned the need to balance between the increased emphasis on Anticipated Impact Measurement and Monitoring and additionality with the efficiency costs. Specific to the chemicals and fertilizers sector, a lesson learned was that the sector needs and challenges are significant and require Bank Group support to be developed at scale. Although IFC supported the first privatization in the sector, the market has not continued development beyond single transactions.

South Africa—Electric Power and Commercial Banking

Relevance

South Africa is a UMIC that struggles with private sector development challenges related to the lack of competition. Despite its relatively high income level, the country has a dual economy characterized by income inequality, high poverty, and high unemployment levels. Government interventions have constrained entry and competition in many markets. The playing field is uneven, limiting private participation, with barriers resulting in concentration within markets and vertical integration. In the electric power sector, access to water, electricity, sanitation, and transportation depends largely on state-owned enterprises that benefit from a favorable market position but are inefficient and lack resources for investment. In commercial banking, a small number of large banks dominate the South Africa's financial sector, hindering entry, competition, and innovation. The top five banks in the country own approximately 90 percent of banking assets. Micro, small, and medium enterprises face obstacles in accessing financial resources, especially in the informal sector.

IFC goals from successive country strategies often targeted support to micro, small, and medium enterprises and a growing focus on renewable energy, other than challenges specific to its period. In the initial period of the evaluation, IFC's stated strategic aims included to support the better targeting of assistance to SMEs, to support foreign direct investment, and to support investment in regional infrastructure. From 2014 through 2017, IFC aimed at supporting the government in eliminating poverty through the job creation, primarily through micro, small, and medium enterprises. Major areas of IFC focus included increasing access to SME financing, advancing the clean energy transition while providing access in isolated areas, and supporting energy efficiency and inclusive growth and employment generation. The strategy from 2020 through 2024 had as major goals inclusive finance and sustainable infrastructure (with electric power), including digital economy as a cross-cutting theme. In commercial banking, IFC's response to COVID-19 included providing working capital and trade lines to banks and long-term funding to help financial institutions and their clients. In energy, it included financing captive

generation projects (energy). During the evaluation period FY11–21, there were 62 relevant IFC IS operations, including 15 in commercial banking and 4 in electric power. IFC also provided AS in multiple and cross-cutting areas focused on Cross-Industry Advisory (4 operations), Financial Institutions Group (4 operations), and Manufacturing, Agribusiness, and Services (3 operations).

IFC struggled to find relevance over most of the period for several reasons, including policies and market concentration in both sectors constraining likely activities, deep resources of banking sector to respond to bankable projects, the small scale of IFC engagement relative to magnitude of sectors and of commercial bank financing, and limited opportunities for donor support leading to competition between DFIs. Overall, additionality expected in commercial banking was financial and nonfinancial, with financing structure, risk mitigation, and knowledge and capacity building as main channels. Additionality in electric power was also financial and nonfinancial and expected to prioritize financing structure and knowledge sharing.

Effectiveness

IFC was able to achieve some relevance through innovation and counter-cyclical engagement in both sectors. In electric power, IFC's relevance was primarily in using its global industry knowledge to support first-in-country projects that could influence the course of development. In financing early independent power provision in renewable energy, it financed concentrated solar power and wind projects that had a rapid demonstration effect on the viability. It brought in sponsors and investors from other regions on early projects. Based on their demonstration effects, highly capable investors and bankers proceeded without IFC's assistance. In commercial banking, IFC supported a banking client in a first-of-its-kind international green bond, drawing on its international experience to support the introduction of the product. IFC drew on its global knowledge and financing to provide advisory and financial support to banks and other financial institutions to expand their lending to small enterprises and women and to support climate finance. Because of pre-COVID-19 limitations to commercial bank borrowing from IFC, IFC engaged substantially through AS.

Financial structuring was also an important source of additionality for both sectors. In energy, longer tenors and provision of financing in local currency was deemed financially additional in capital-intensive renewable energy projects (concentrated solar power and wind). Meanwhile, in commercial banking, IFC working capital and long-term capital became far more interesting to South African banks and financial institutions when economic crisis and the COVID-19 crisis dried up traditional sources of liquidity and financing. Its long-term presence in the country and ability to provide dollar finance in a crisis were regarded as highly relevant.

Among the evaluated IS projects (14), IFC relied heavily on the nonfinancial additionality subtype of noncommercial risk mitigation. It was anticipated in 93 percent of projects and realized in 71 percent of them. Financial structuring was an additionality in 57 percent of projects and always realized. Knowledge, innovation, and capacity building was anticipated in 64 percent of projects and realized in 43 percent. However, standard setting was both anticipated and realized in 43 percent of projects. Interestingly, overall, South Africa was a rare context where IFC was more successful in realizing nonfinancial additionality than financial additionality. For example, its efforts to support second-tier financial institutions with long-term finance were undermined by the limited capacity and disadvantageous market position of these clients.

Factors that influence additionality were long-term engagement, staff expertise, global experience, and financial availability in times of low liquidity. In both sectors, IFC's additionality was substantially enhanced by its long-term presence and engagement, often through exchange of knowledge in the country and with key sector players; by the capability and knowledge of its local staff; by its ability to draw on global industry expertise (for example, concentrated solar power, green finance); and by its liquidity in times of crisis.

Policy and market conditions shaped IFC's approach in both sectors. Over most of the period, IFC was extremely constrained in its engagements in South Africa in both renewable energy and commercial banking and responded opportunistically, seizing appropriate opportunities when they arose, but was unable to take a more longitudinal approach. In the case of renewable energy, sector policies limited uptake of renewables until quite re-

cently, and the dominance of a power sector monopolist that oversaw sector regulation constrained opportunities for private sector participation. When the COVID-19 crisis and the government's carbon reduction priorities opened the door for shifts in sector policy, IFC was able to influence policy dialogue through the Bank Group.

In the case of commercial banking, the oligopolistic structure, with four to five leading banks dominating the sector, constrained competitive pressure to innovate and seek out new markets and products. The government's own reluctance to take advice from DFIs constrained upstream influence and traction. In banking, the existence of deep-pocketed, sophisticated major banks that dominated the sector limited opportunities for IFC to influence the sector. IFC struggled for traction with the major players, achieving it only recently when recession and COVID-19 created an appetite for IFC's long-term finance (and short-term trade finance) and when government priorities in inclusion and decarbonization shifted client demand for IFC's services.

Lessons

Lessons of additionality enhancement relate to the benefits of longer-term engagements, the multiplying effect of limited opportunities when the World Bank is also constrained on the policy side, and the need to have a competitive enabling environment to be additional. IFC's long-term presence and engagement through knowledge and advisory work creates opportunities to engage when policies shift or crises change its value proposition. IFC's opportunities may also be limited where sector policies are not favorable, and the World Bank cannot lend its leverage in influencing the policy and regulatory environment. Intense concentration discourages IFC's support of secondary players or new businesses and dampens its opportunities for additionality. In most IFC projects, it was also found that efforts to support clients should be accompanied by a careful assessment of the partner's ownership and commitment. When a new product, instrument, or approach is being introduced, it is important to ensure its alignment with the client's business strategy.

There are other lessons that may be of interest to assess in future endeavors. First, because of recent opportunities in commercial banking, IFC has

been able to engage more programmatically and strategically, enhancing additionality at a sectoral level through combinations and sequencing of engagements. This is a recent phenomenon and is difficult to evaluate. In addition, in one case, IFC was initially able to engage with a client by working with it to bring its unique form of SME support to other countries in the region. Only years later did IFC find openings to engage financially with the partner within South Africa. Such regional approaches appear to open valuable opportunities.

Türkiye—Commercial Banking and Electric Power

Relevance

Since early 2000s, Türkiye achieved economic and social development improvements, but recent years posed challenges to the enabling environment in Türkiye. Fiscal sector reform, close economic ties with the European Union, and the shift in economic development from agriculture to manufacturing and services were the main drivers of economic growth. However, excessive external borrowing has been sustaining Türkiye's growth, and political issues also presented a challenge in the final years (2018–21). As a result, sovereign rating of Türkiye decreased over time to below investment grade, reflecting increasing political risk and eroding independence of state institutions. This pressure translated into a constant depreciation of the Turkish lira and diminished foreign direct investment flows. By early 2020, the economy had started to recover, just as it was hit by the COVID-19 crisis in the second quarter of the year. However, Türkiye was among the few countries with a growth performance in 2020 (at 1.8 percent), on account of a sizable credit push by the government.

IFC's development objectives in the financial sector were to enhance access to finance to underserved segments—namely, microfinance, SMEs, and women—and extend the reach to underserved regions. These objectives were already present in the Country Partnership Strategy 2008–11 and continued in the subsequent Country Partnership Strategy (World Bank 2008, 2012). IFC's additionalities referred to in the strategy documents focused on provision financial additionality, which was then implemented in the sector portfolio. IFC would prioritize long-term funding, local currency financing, and equity to strengthen banks' regulatory capital but also deploy resource mobiliza-

tion and innovative financing structures (diversified payment rights, green bonds, covered bonds). Strategies do not emphasize nonfinancial additionality. Complementarity with IBRD work, with references to the cascade approach, is presented as a competitive advantage as it is cofounding with other development partners. Anticipated additionalities in IFC's portfolio matched those of the investment.

In the electric power sector, the Bank Group was set to accompany the privatization process by adopting a cascade approach, first through IBRD policy support, followed by IFC's investments that aimed to demonstrate viability of the sector to foreign investors. World Bank support energy sector liberalization started in the early 2000s, with IBRD providing the government technical assistance and lending support, including support for the adoption of the 2001 electricity and gas market laws, the 2004 and 2009 energy security and privatization strategies, the 2005 and 2007 renewable energy and energy efficiency laws, and the 2013 electricity market law.

IFC's strategic focus evolved from nonfinancial to financial additionality, and the portfolio also aligned itself nicely with it. Additionality in the early years of privatization focused on nonfinancial additionality, such as non-commercial risk mitigation, rooted in IFC's ability to provide comfort by being one of the first investors under the new regulatory regime. In subsequent years, additionality evolved toward financial additionality based on IFC's mobilization role, equity, and long-term financing. Standard setting, mostly through ESG standards, was the other main nonfinancial additionality. The portfolio aligned itself with stated prioritization.

Effectiveness

IFC was effective in delivering additionality ex post in the commercial banking sector, mainly through financing structure but also through innovative products. Financial additionality of financing structure was based on long-term funding with tenors above five years and some cases of two-year grace periods (although most of the financing was in foreign currency rather than local currency, as intended in the CPFs). IFC, along with other DFIs, played a role in supporting innovative financing structures through innovative products in equity and quasi-equity investments for capital strengthening (for

example, covered bonds for mortgage lending) or investing in transactions (for example, diversified payment rights) perceived as risky by other investors. Noncommercial risk mitigation was the key nonfinancial additionality. It was based on (i) mobilization of parallel financing mostly from other DFIs and (ii) IFC acting as anchor investor. Clients appreciated the mobilization effect resulting from IFC and other DFIs jointly investing, which leveraged each other (complementarily, as per *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations*; AfDB et al. 2018). IFC's local client banks usually work with an array of different IFIs and know well IFIs' distinctive features and how to complement their funding. Diversification of fundings sources seems to be one of the reasons for engaging with IFC and other DFIs.

Nevertheless, additionalities from commercial banking were not unique to IFC; neither went beyond the project level. IFC is an important DFI in the market, but other DFIs are also active and present similar additionality claims. For example, the European Bank for Reconstruction and Development and IFC share about 10 clients and in several instances have co-invested to meet the clients' financial needs. European Bank for Reconstruction and Development's additionality claims are also very similar to those of IFC (long-term funding, innovative financing, mortgage covered bonds) and knowledge and standard setting in areas such as energy efficiency and lending to women. Additionality was present at the project level; however, additionality beyond the project was not found. Given the size of the market size, IFC's investments, even when combined with those of other IFIs, do not make much of a difference. In many instances, volume at the client level is achieved through combined interventions with other DFIs, yet it is a small amount compared with the size of clients' liabilities and size of the sector.

A unique value of IFC compared with other multilateral development banks was E&S (standard setting), which relied on IFC's ability to enforce and monitor compliance according to stakeholders. However, there is the perception that E&S additionality in commercial banking may have been stronger 10 years ago, as nowadays most clients, particularly big banks, have some E&S standards in place if only for reputational purposes. Additionality is still there, particularly when there is a change in the type of financial product (for

example, climate financing), but not as strong. Presence of non-ESG standard setting and knowledge additionalities is rare in the portfolio because of the level of sophistication of IFC client banks, which do not need advice on corporate governance, risk management, or other standard IFC offerings.

As the country risk increased, IFC worked with less risky, systemically important, and well-capitalized clients. In such cases, although additionality at the project level was present (based on mostly innovative financial structures), it was not strong given the clients' profile. Thus, justification for IFC's engagement seemed to rely more on what IFC could achieve (development impact) through those clients (for example, increase access to finance to women, introduce a new lending product in the market) than on IFC's value added to the client. This is not necessarily a bad approach, but one that should be clearly articulated.

When it came to electric power, IFC built on IBRD's actions and was among the first international investors in Türkiye's newly liberalized sector. IFC tested new regulations, demonstrated viability of the liberalized power sector to other investors, and contributed to mobilization of capital to the entire sector. The total IFC commitment amount for the period reaches \$1.2 billion through a combination of equity and loans with an additional \$1.4 billion of funding raised through mobilization (B loans). IFC clients acknowledge the catalytic effect of IFC's financing in attracting other investors. Innovative financing structure (merchant plant financing) could be also claimed by IFC. Although Türkiye's banking sector provided large volumes of financing to energy investors, the local banks were risk averse and required equity and corporate finance as opposed to project finance or the merchant plant financing structure used by IFC and which was new to the market. Therefore, project-level additionality was found to be strong, particularly in the early years, although diminished once the market matured.

Compliance with ESG standards has also been reported by as having a non-commercial risk mitigation effect. High IFC quality standards can work as a credible signal to other investors. Indeed, IFC delivered knowledge to the local market drawing on its international expertise. Knowledge delivery was done through exchanges of industry experts with local authorities. At the market level, early investments represent a significant addition to coun-

try's generation and distribution capacity. In terms of IFC's contribution to increased scale in the market, an IFC report estimated that based on investments as of 2015, IFC's investments represented 4.4 percent and 2 percent of country's total generation and distribution capacity, respectively.

Lessons

Lessons relate to the important role of IFC's upstream approach and of the complementarity with DFIs, including existing trade-offs between profitability and additionality. Effects at the sector level have been achieved in instances in which IFC took an upstream approach, such as the case of the energy sector, where IBRD first tackled regulatory issues and IFC was the early investor providing proof of concept. This type of support requires formulating additionality at a strategic level. Complementarity and co-investment with other DFIs can be an important source of additionality. The electric power sector presents a good example, given the big size of some investments IFIs would agree to co-invest in to meet the project's funding needs. Trade-off between IFC's profitability and additionality exists when external conditions affect IFC's financial returns on investments. Weak financial performance of IFC's energy portfolio suggests that, in some instances, there is a trade-off between IFC's profitability (investment outcome) and additionality. Several IFC investments are not doing well because of external factors; however, the additionality of IFC, particularly in the early years, is strong.

Other lessons were about ESG, the use of technical assistance, and the role of IFC experts in projects' design. ESG is a powerful source of additionality and delivers unexpected benefits such as noncommercial risk mitigation that attracts other investors. However, in some instances IFC approach to ESG is perceived by IFC teams as too compliance oriented. Clients and IFC teams note that higher value added would be achieved if ESG teams were able to increase support to clients on adoption of ESG standards. Technical assistance has not been used as a mechanism to deliver nonfinancial additionality. There are two main reasons. One is competition of free technical assistance offered by other DFIs. The other is IFC's clients not demanding or needing the type of knowledge because they have the necessary experience and knowledge. Use of industry experts to deliver knowledge takes an unplanned, ad hoc approach, and its value added depends on the level of sophistica-

tion of the client and willingness of the industry expert to engage with the relevant counterparts (clients or even governments). No proper records are kept of such support, making it difficult to trace and prove the nonfinancial additionality emerging from these interactions.

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¹ The portfolio review and analysis products were a compilation of project-level evidence from the International Finance Corporation and, when available, the Independent Evaluation Group. First, it included a sampled analysis of approval documents to grasp additionality claims. The sample was stratified by aggregated industry codes, region, and income level, with more recent years oversampled (2018–21). The analysis included general characteristics of the operations (for example, greenfield or existing, new or repeated clients) and types of additionalities claimed (for example, financial or nonfinancial) and was used for the relevance assessment. Second, it included an analysis of the approval and evaluative evidence when the Independent Evaluation Group had a corresponding Evaluative Note of the operation. It also offered insights on the operations’ general characteristics and types of anticipated additionalities claimed, and in addition, it included the additionalities delivered ex post and their performance in time, by sector, and according to financial instrument, and the evidence of the operations’ development impact delivered. The product was used for the effectiveness assessment.

Appendix E. Additionality of International Finance Corporation Financial Products

Table E.1. Sources of Financial Additionality by Type of Financial Instrument: Equity Instruments (List Is Not Comprehensive)

Equity Instruments	Main Sources of Financial Additionality LICs	Main Sources of Financial Additionality LMICs	Main Sources of Financial Additionality UMICs
Venture capital, early stage equity	<p>NA—in general, LICs are not attractive markets for venture capital. Most LIC venture capital is essentially provided by global resource companies—oil, gas, and mining companies exploiting resources in a LIC.</p>	<ul style="list-style-type: none"> » Taking equity risks that local investors won't take. » Can include technology, Fintech, and other investments with higher risk and return prospects. 	<ul style="list-style-type: none"> » Taking equity risks that local investors won't take. » At this stage of development, IFC's role is limited because both local and international venture funds, institutional investors, and private equity funds are already active in these markets.
Common equity Unlisted (pre-IPO) Listed (post-IPO)	<ul style="list-style-type: none"> » Taking equity risks that local investors won't take. » In LICs this usually includes all unlisted equities. » And, if there are listed equities, these are often illiquid and closely held and IFC can add liquidity and capital. 	<ul style="list-style-type: none"> » Taking equity risks that local investors won't take. » In LMICs this is usually only unlisted equities. » However, in a crisis, low investor demand can enable IFC to be additional in listed equities providing capital and liquidity. 	<ul style="list-style-type: none"> » Stepping in during crisis. » In UMICs this is often associated "risk-off" behavior by investors.

(continued)

Equity Instruments	Main Sources of Financial Additionality LICs	Main Sources of Financial Additionality LMICs	Main Sources of Financial Additionality UMICs
With Governance role (this is nonfinancial additionality, but often linked to further financing and financial additionality).	<ul style="list-style-type: none"> » Bringing basic governance standards and risk management to clients. » Focus on improving risk adjusted return on capital. » Improving firm valuation. 	<ul style="list-style-type: none"> » Fintech applications. » Bringing clients into the capital markets with equity listings, bond issues, and so on (IFC financing). » Broadening products sets—SME lending, housing finance, thematic bond issues (IFC financing). 	<ul style="list-style-type: none"> » Bringing E&S standards, innovative products, and network to clients. » Securitizations. » Thematic bond issues. » Link to mobilization.
Preferred Equity Unlisted Listed	<ul style="list-style-type: none"> » Providing higher-risk financing when common equity holders will not. » This is associated with specific opportunities in specific companies. 	<ul style="list-style-type: none"> » May be associated with restructuring a troubled company or meeting a specific growth opportunity. 	<ul style="list-style-type: none"> » Usually, crisis related in UMICs.
Convertible debt	<ul style="list-style-type: none"> » Providing backup equity commitment when others in the market are unwilling to do this in a large enough amount and/or at a commercial price. 	<ul style="list-style-type: none"> » Providing backup equity commitment when others in the market are unwilling to do this in a large enough amount and/or at a commercial price. 	<ul style="list-style-type: none"> » Providing backup equity commitment when others in the market are unwilling to do this in a large enough amount and/or at a commercial price.
Equity-linked options Put Calls	<ul style="list-style-type: none"> » Puts and calls often enable IFC to participate in equity and can be additional for this reason. 	<ul style="list-style-type: none"> » Puts and calls often enable IFC to participate in equity and can be additional for this reason. 	<ul style="list-style-type: none"> » IFC puts are less common in more developed markets with higher liquidity. » However, they can still be essential for unlisted equities.

Source: Independent Evaluation Group.

Note: E&S = environmental and social; IFC = International Finance Corporation; LIC = low-income country; LMIC = lower-middle-income country; SME = small and medium enterprise; UMIC = upper-middle-income country.

Table E.2. Sources of Financial Additionality by Type of Financial Instrument: Debt Instruments (List Is Not Comprehensive)

Debt Instruments: Loans, Bonds, Placements	Main Sources of Financial Additionality LICs	Main Sources of Financial Additionality LMICs	Main Sources of Financial Additionality UMICs
Tenor and repayment	<ul style="list-style-type: none"> » Primarily longer-tenor loans » May include long grace periods or bullet payments » Topical financings, like supply chain or trade can create a network that unlocks ST debt flows. 	<ul style="list-style-type: none"> » Longer-term loans. » 1st in market bond issues. » 1st in market private debt funds. 	<ul style="list-style-type: none"> » 1st in market thematic bond issues. » LT loans in time of crisis with extended repayment terms. » Large loans in small markets.
	<p>When a market faces liquidity problems, such as during a credit crisis, ST loans can be highly additional, even to the point of enabling firms to avoid default and/or bankruptcy. Therefore, ST working capital facilities can be highly additional even in UMICs under crisis conditions.</p>		
Level of subordination	<ul style="list-style-type: none"> » Subdebt is unusual in LICs (at least in FIG). » More commonly use equity or straight debt—secured or unsecured. 	<ul style="list-style-type: none"> » Subordinate convertible debt can bolster regulator and market confidence and improve credit rating reducing cost of funds. 	<ul style="list-style-type: none"> » Subordinated convertible debt can provide capital support in times of crises or instability.
Security	<ul style="list-style-type: none"> » Taking mortgages or other asset classes as security enables more borrowing at better prices and creates a transactional pathway to securitizations later. 	<ul style="list-style-type: none"> » Covered bonds provide a way to raise low-cost, long-term funding and help create the pathway to securitizations. 	<ul style="list-style-type: none"> » Main additionality from securitizations and thematic bond issues secured by pledged assets—ESG loans, gender loans, and so on.

(continued)

Debt Instruments: Loans, Bonds, Placements	Main Sources of Financial Additionality LICs	Main Sources of Financial Additionality LMICs	Main Sources of Financial Additionality UMICs
Liquidity	<ul style="list-style-type: none"> » LICs are illiquid markets, and it is very difficult to sell loans. » IFC provides liquidity by lending. » Debt fund investments can increase liquidity. 	<ul style="list-style-type: none"> » LMICs have higher liquidity and loans are often packaged and sold. » IFC can be additional by buying assets sustaining market (DARP, Private debt). 	<ul style="list-style-type: none"> » IFC may be able to provide larger longer-term facilities in UMICs than is commonly available in smaller UMIC markets.
Currency	<ul style="list-style-type: none"> » US\$ and other hard currency are often in very short supply in LICs » This funding is needed for imports. 	<ul style="list-style-type: none"> » US\$ liquidity is highly unstable in some LMICs and \$ loans help manage currency, FX, and Liquidity risk. 	<ul style="list-style-type: none"> » UMICs are generally investment grade and can obtain ample local currency and US\$ funding at good rates.

Source: Independent Evaluation Group.

Note: DARP = distressed asset recovery program; ESG = environmental, social, and governance; FIG = Financial Institutions Group; FX = foreign exchange; IFC = International Finance Corporation; LIC = low-income country; LMIC = lower-middle-income country; UMIC = upper-middle-income country.

Table E.3. Sources of Financial Additionality by Type of Financial Instrument: Debt Instruments (List Is Not Comprehensive)

Debt Instruments, Loans, Private Placements, Bond Issues, and So On.	Main Sources of Financial Additionality LICs	Main Sources of Financial Additionality LMICs	Main Sources of Financial Additionality UMICs
Pricing	» IFC will price longer-term debt in markets that do not have a government bond yield curve.	» IFC can mobilize donor funding to provide risk-sharing and loss guarantees that induce clients to try new products/markets.	» IFC may take a subordinated role for a longer-term than other market participants and may use unlisted options to make this work.
Funding	» In LICs, IFC funding is in US\$ and local currency is very hard to source at competitive rates because of government risk ratings.	» As debt markets emerge, IFC can be highly additional raising US\$ or local currency bond issues for clients, helping bond markets develop.	» In UMICs, IFC can raise US\$ or local currency through bond issues or direct borrowing and IFC's additionality declines.
Derivatives	» Workable derivatives are difficult to structure in LICs due to high risks and high interest rates.		» In UMICs, IFC can more easily hedge FX and interest rate risk at reasonable prices.
Covenants	» IFC covenants impose better risk management practices on most LIC borrowers.		» IFC covenants are rarely additional to clients in well regulated financial systems.
Syndications	» Syndications are less common in LICs because they are not investment grade.		

(continued)

Debt Instruments, Loans, Private Placements, Bond Issues, and So On.	Main Sources of Financial Additionality LICs	Main Sources of Financial Additionality LMICs	Main Sources of Financial Additionality UMICs
Securitizations	» Uncommon in LICs because there are no enabling laws, regulations, infrastructure, and so on.	» IFC can be highly additional in leading and investing in the first several securitizations that establish the market.	» Securitizations are common in many UMICs and are often listed and traded on exchanges and IFC's additionality diminishes.
Thematic bonds	» In general, assets are not well enough organized and standardized to enable thematic bond issues.	» As assets reach scale, can be rated and tracked, thematic bonds become possible, and IFC can be additional.	» Limited additionality for IFC, usually focused on the newest class of thematic bonds in each market.
Short-term working capital loans/ST US\$ facilities	<ul style="list-style-type: none"> » When markets face liquidity problems such as during a credit crisis, ST loans can be highly additional, even to the point of enabling a firm to avoid default and/or bankruptcy. » In LMICs, IFC's ability to assess credit risk based on cash-flow analysis, or based on a deeper analysis of the balance sheet can mean that IFC can responsibly supply credit to firms that do not have acceptable collateral, like land titles. » In illiquid markets, IFC can also be additional by requiring lower security or collateral requirements than the market. In many countries, banks will require land as the only acceptable collateral in times of financial stress and firms that have good businesses but do not own land, can be shut out of credit markets in times of stress. 		» UMICs have usually evolved credit systems that rely on cash-flow analysis and credit ratings, not just collateral. In these markets, IFC's additionality with ST debt is usually related to systemic credit crisis that shutdown credit markets. This occurred repeatedly in the GFC in many countries, , and also occasionally due to COVID-19 supply and labor disruptions. In these cases, IFC ST credit to client firms can be life preserving for firms until the crisis subsides.

(continued)

Debt Instruments, Loans, Private Placements, Bond Issues, and So On.	Main Sources of Financial Additionality LICs	Main Sources of Financial Additionality LMICs	Main Sources of Financial Additionality UMICs
	<p>» In all countries, IFC's ST US\$ credit lines to banks and other FIs can be highly additional in times of currency devaluation, when access to US\$ liquidity may be extremely limited. Many companies depend on US\$ imports to survive and need access to US\$ to settle obligations. At times of currency crisis, IFC's US\$ lines can help prevent firms from defaulting, due to temporary liquidity problems, and preserve companies' operations until the crisis subsides.</p>		

Source: Independent Evaluation Group.

Note: IFC = International Finance Corporation; FX = foreign exchange ; GFC = global financial crisis; LIC = low-income country; LMIC = lower-middle-income country; ; ST = short term; UMIC = upper-middle-income country.

Appendix F. Deep Dive Summary: Development Finance Institution Additionality or Value Added

This appendix contributes to the Independent Evaluation Group evaluation of International Finance Corporation’s additionality in middle-income countries (MICs) by looking at how a number of development finance institutions (DFIs) approach the topic of additionality and, in particular, in relation to MICs.¹ The set of multilateral DFIs covered includes the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the Inter-American Development Bank (IDB) Invest, which are private sector-oriented financial institutions and thus similar to the International Finance Corporation, the Asian Development Bank (ADB), and the African Development Bank (AfDB). The main bilateral DFIs covered, which are purely private sector focused, are British International Investment (formerly known as CDC) and FMO, the Dutch development bank. Some others, such as German Development Finance Institution (DEG) and Norfund, are included where relevant. MICs make up a majority of the borrowing countries of these institutions and their annual investment commitments.

Thinking about additionality has advanced considerably over the past decade. Before improvements were introduced toward the end of the 2010s, the additionality of projects was always tested; however, generally this was done in an ad hoc manner and without much effort to provide evidence or monitor additionality dimensions. Collective efforts to respond to shareholder requests for a more harmonized approach led to the publication of the *Multilateral Development Banks’ Harmonized Framework for Additionality in Private Sector Operations* (the Harmonized Framework; AfDB et al. 2018). In addition to clarifying the understanding of additionality, the Harmonized Framework provided a set of typologies for key sources of additionality, split between financial and nonfinancial additionality. Multilateral development banks have adopted its approach toward framing additionality by differentiating between financial and nonfinancial

additionality (AfDB, EBRD, EIB, and IDB Invest), or are in the process of doing so (ADB).

Identification of Additionality

DFIs have made important strides in assessing additionality at the project level. DFIs make clear that they take additionality seriously, and all the institutions looked at in this summary have systems in place with which to assess it. Similarly, they all treat additionality as a project-level matter and require some evidence (whose quality varies) relating to project inputs that the DFI's intervention is additional. Narrative explanations complement the picture.

Procedurally, there is little difference among the various approaches. Investment officers are aware of the need to demonstrate project additionality and consider the issue early on in the process, internal investment committees review the arguments, narratives are written on sources of additionality for board documents, and assessments are made subsequently as part of the project evaluation process. Initial judgments on additionality are made by economists or credit officers who are independent (or partially so) from the deal teams. Approval of projects by the Board of Directors also provides a safety valve. An important further factor rests with the use of evidence. Although projects differ widely in their additionality claims, and information is not suitably collected to allow a proper assessment, it is common ground that the quality of evidence produced in support of additionality is highly variable and often sparse. The pressure to improve this depends mostly on the organization's attitude toward additionality and management's attention to it.

Judgments on additionality are aided by guidance. This appears to have improved over time, not only from greater clarity over acceptable categories of additionality as a result of the Harmonized Framework but also through rating systems, some of which, such as EIB's, are quite prescriptive;² the use of flags (as in EBRD or more generally for repeat projects); and others help, as in British International Investment's case, to spell out relevant questions to be considered when reaching a view on additionality (BII 2021, 11).

Systems

New and upgraded systems are in place that help identify different sources of additionality and value the contribution the multilateral development bank makes. Some multilateral development banks rate these efforts to give a reading of the strength of the additionality to a project alongside the development impact expected from the project itself. But in other instances, the relevance of additionality and its scale and effect on a project are left to one side in favor of a declaration that a minimum threshold has been met (that is, that the DFI offered something that did not prevent the client from choosing a commercial player to do so or to lead the financing).

The first DFI to systematically bring together additionality and development impact under one roof with its Additionality and Development Outcomes Assessment system (piloted in 2008) was AfDB. Others have followed with more comprehensive systems since, spurred on by the increasing focus on the private sector as a route to fostering economic development and facing shareholder pressure to strengthen assessments. AfDB unveiled Additionality and Development Outcomes Assessment 3.0 in 2022, and upgraded systems have come on stream among other DFIs in recent years (EBRD, EIB, IDB Invest, and British International Investment). ADB is in the process of updating its additionality system right now.

The integration of systems of additionality assessment with those for development impact makes for a coherent narrative on a DFI's contribution and impact. AfDB's Additionality and Development Outcomes Assessment, EIB's Additionality and Impact Measurement system, and IDB Invest's Development Effectiveness Learning, Tracking, and Assessment tool offer useful examples. Bringing together the analysis of inputs (the additionality side) with the ultimate results expected from a project—its development impact—accords well with the theory of change. A summary of key characteristics of the DFI systems is shown in table F.1.

Updated systems have the potential to develop a rich granularity on project additionality (and on development impact). Identifying and storing data on different types of additionality, their relative strengths and weaknesses, and the prevalence of certain financial or policy instruments would allow

analysis of the contributions (and differences) DFIs make across countries and regions. Patterns across country income levels might be more clearly seen and present the opportunity for DFIs to focus on their relative strengths in particular country contexts.

None of these systems, however, makes any formal distinction between low-income countries, MICs, or high-income countries in terms of the types of additionalities that might be expected to be seen at different levels of income and development.

Table F.1. Development Finance Institution Systems of Additionality and Development Impact

Institution	Fully Integrated or Parallel System for Additionality and Development Impact	Rated: Additionality and Development Impact	Financial and Non-financial	Use of Harmonized Framework	Latest System Update	System Publicly Available	Additionality Public Summary Project Level	Additionality Aggregate Info
AfDB	Integrated	A&DI	Y	HFW	ADOA 3.0 2022	tbd	Y	N
ADB	Integrated*	A&DI	Y	HFW*	2022*	tbd	Y, a	tbd
EBRD	Parallel	DI	Y	HFW	EAA 2018	N, a	Y	N
EIB	Integrated	A&DI	Y	HFW (v, b)	AIM 2021	Y	Y, b	Y
IDB Invest	Integrated	A&DI	Y	HFW	DELTA	Y	N	N
IFC	Parallel	DI	Y	HFW	2018	N, b	Y	N
BII	Parallel	A&DI	Y	HFW (v, a)	2021	Y	Y	Y**
FMO	N	N	Partially	HFW (v, c)	2017	N, a	N	N

Source: Independent Evaluation Group.

Note: A = additionality; ADB = Asian Development Bank; ADOA = Additionality and Development Outcomes Assessment; AfDB = African Development Bank; AIM = Additionality and Impact Measurement; BII = British International Investment; DELTA = Development Effectiveness Learning, Tracking, and Assessment; DI = development impact; EAA = enhanced approach to additionality; EBRD = European Bank for Reconstruction and Development; EIB = European Investment Bank; FMO = Dutch development bank; HFW = Harmonized Framework; IDB = Inter-American Development Bank; IFC = International Finance Corporation; N = no; N, a = some impact system information is available; N, b = information is available for the development impact measurement system, Anticipated Impact Measurement and Monitoring, but there is no equivalent for additionality; tbd = to be determined; v.a = HFW is split into financial additionality, value additionality, and mobilization; v.b = mainly, HFW with financial contribution, financial facilitation and advice (includes financial advantage/subsidies); v.c = partially, HFW with financial additionality; environmental, social, and governance; and mobilization; Y = yes; Y, a = for some projects, the Report and Recommendation of the President is published, which includes information on value added; Y, b = some limited additionality information is published; * = in process/planned; ** = aggregate impact only.

Monitoring

An area where DFIs generally fall behind the curve is in their monitoring of additionality. Many elements of nonfinancial additionality only come to fruition over time and deserve some regular reporting and assessment. This appears to be a mostly uneven endeavor, at least until the project completion stage. IDB Invest's inclusion of an evaluability score offers a way to exert greater discipline from the origination stage, and the Development Effectiveness Learning, Tracking, and Assessment tool includes a consistent tracking system.

Transparency

Transparency on project additionality has improved after recent system upgrades but remains limited in its depth.

- » EBRD publishes brief details on additionality, usually identifying three sources, in its project summary documents. This inclusion of additionality is a relatively recent disclosure (since 2020) and mirrors International Finance Corporation's approach. EBRD does not score additionality but discloses its transition impact assessment and related score.
- » With the introduction of Additionality and Impact Measurement, EIB now discloses some information in its project summary sheets in the "Additionality and Impact" section. However, this appears to lack any real detail or separation of the two elements, and no scores are presented.
- » AfDB has produced a section on complementarity and additionality in its project summary notes for some years. Details vary from project to project but at times can be quite revealing on additionality.
- » ADB is different. Rather than giving a summary picture, it sometimes provides a redacted version of the ADB Board project document with the relevant section being "Value Added." In some instances, this clearly identifies financial and nonfinancial components of additionality, but the quality varies widely. The number of such disclosures is limited.
- » IDB Invest appears not to disclose any information on additionality, nor do DFIs.

Aggregation from Project Level

Aggregate reporting on additionality is also more or less nonexistent, with the exception of EIB, making it impossible to discover the main sources of additionality by sector, client or instrument type, income level, and even by country. This severely limits an understanding of the bigger picture on how DFIs influence projects and where their inputs are likely to have most success.

Table F.2 from EIB’s most recent Development Report shows average rating scores for the previous year for the three categories it measures on additionality—financial contribution, financial facilitation, and advice. Scores are reported for a set of different instrument types (direct and framework loans, credit lines for small and medium enterprises, and so on) along with several additionality subcomponents (EIB 2021, 61).

Table F.2. The European Investment Bank’s Technical and Financial Contribution to Projects—Average Values for Different Instrument Types

Instrument Types		Credit			
		Direct and Framework Loans	Lines for SMEs and Mid-Caps	Credit Lines for Microfinance	Equity Funds
	Projects (no.)	45	36	7	10
EIB contribution	Overall rating	3.1	2.7	3.4	3.4
Financial contribution	Overall rating	3.4	3.1	3.4	3.5
	Subsidy (%)	3.6	3.6	0.0	0.0
	Subsidy (rating)	2.4	1.5	1.0	1.0
	Local currency (rating)	1.3	1.7	3.1	2.8
	Extension of loan maturity (%)	146	133	155	108
	Extension of loan maturity (rating)	3.5	3.5	3.3	3.8

(continued)

Instrument Types		Credit			
		Direct and Framework Loans	Lines for SMEs and Mid-Caps	Credit Lines for Microfinance	Equity Funds
	Match with economic life (%)	93	98	100	93
	Match with economic life (rating)	3.8	3.9	4.0	3.7
Financial facilitation	Overall rating	2.5	2.3	2.7	3.4
	Innovative financing	1.6	1.8	2.4	3.0
	Attracting private sector financiers	1.8	2.3	2.1	3.3
	Working with public sector partners	2.5	n.a.	2.0	3.1
	Raising standards	3.4	2.6	2.7	3.1
Advice	Overall rating	2.8	2.0	3.0	2.6
	Financial advice and structuring	2.4	1.6	1.0	2.8
	Technical contribution and advice	2.9	2.2	4.0	1.8

Source: European Investment Bank 2021.

Note: European Investment Bank contribution ratings for individual projects: 4 = high; 3 = significant; 2 = moderate; 1 = low. The table shows simple average ratings or percentages across projects. "Equity Funds" includes three microfinance investment vehicles. A grant-only infrastructure project (Ruzizi III Regional Hydropower and Transmission public-private partnership) is not included. EIB = European Investment Bank; n.a. = not applicable; SME = small and medium enterprise.

Strategic Level Perspectives

Although the understanding of project-level additionality has improved, DFIs do not articulate well their additionality at the sector, country, or strategic level.

Given the prominence of additionality in DFI mandates and its application in individual investments, it might be expected that significant attention would be paid to additionality in strategic documents, including in-country strategies and especially those covering more advanced countries. However, this does not appear to happen to any great degree. In the various strategic documents reviewed, it is striking how little additionality is mentioned. The selection of “unique contributions” proffered at the project level disappears at the strategy level. Other than on mobilization, DFIs are largely silent on the dimensions of additionality when setting out their plans for the future. Although they set out the areas they intend to target based on a description of the development challenges their region faces, corporate strategies do not identify in any detail the extent to which only they are able to fill these gaps. In addition, although they may comment on complementarities with other DFIs operating in the region, they do not spell out the specific characteristics or uniqueness of their own contribution.

Furthermore, the strategies do not present differentiated approaches by country income or stage of market development. Although in some instances, country groupings by per capita income levels, or other characteristics such as smallness and the disconnected nature of island countries, are noted (but without further analysis), it is not possible to identify differences in likely additionality or sources of additionality between groupings such as low-income countries, lower-middle-income countries, or upper-middle-income countries. Neither do these strategies tackle arguments on the limits of additionality in more advanced developing countries and when, and under what conditions, it might be appropriate to scale back activities in a particular sector or country. Nor as a rule do they address the issue of graduation.³

Where markets are more advanced, and the public finances and capacity of the authorities stronger, several DFIs recognize in their strategic documents the general need for a more focused approach toward investments, although this is rarely spelled out in any detail. Thus, although there is acknowledgment that some countries are more advanced than others, that development gaps differ, and that a different approach may be warranted among them, descriptions of the underlying market capacity to close the gaps that MICs face—for example, the ability of commercial banks and capital markets to

provide finance, the level of penetration and rate of diffusion of renewables, the strength and spread of broadband connectivity, degree of regional integration, and so on—are largely missing.

References

AfDB (African Development Bank), ADB (Asian Development Bank), AIIB (Asia Infrastructure Investment Bank), EBRD (European Bank for Reconstruction and Development), EIB (European Investment Bank), IDB (Inter-American Development Bank), IsDB (Islamic Development Bank), NDB (New Development Bank), and World Bank. 2018. *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations*. Washington, DC: World Bank.

BII (British International Investment). 2021. *Our Approach to Investor Contribution: 2022–26 Strategy Period*. London: BII.

EIB (European Investment Bank). 2021. *Global Solutions, International Partnerships: The European Investment Bank Development Report*. Luxembourg: EIB.

¹ The International Finance Corporation is not covered as it is dealt with in the evaluation.

² For example, European Investment Bank’s detailed financial “customized terms” category where after a minimum number of elements (from a selection of approximately 10 options) are reached (such as flexible grace periods and sculpted repayment schedules), scores can be increased by offering further financial advantages to clients.

³ With the limited exceptions of the Asian Development Bank and the European Bank for Reconstruction and Development, where discussion of graduation in strategies is minimal.

Appendix G. Econometric Analysis

Approach

The Independent Evaluation Group (IEG) team sought to apply econometric methods

1. To relate successful attainment of financial and nonfinancial additionality to a variety of explanatory factors such as International Finance Corporation (IFC) work quality and country characteristics (Part 1), and
2. To relate development outcome and IFC's investment outcome to ex post financial and nonfinancial additionality (part 2).

The purpose of the two econometric analyses was to reveal the statistical relationships and to triangulate them with findings from other methods conducted during the evaluation, including portfolio review and analysis (PRA) and country case studies. Econometric methods were not used to evidence causal relationships between variables. This appendix describes the methodology of the econometric analyses and, for brevity, summarizes the main findings; the integration of findings with those from different methodological approaches are left for the main body of the evaluation.

Part 1: Learning from Relationships between Explanatory Factors and Additionality

Methodology

This section explored relationships between potential explanatory factors including IFC's work quality, which was assumed as a key project-level factor, and the successful attainments of financial and nonfinancial additionality in IFC investment projects. By estimating a multivariate logistic regression, the team analyzed which factors are statistically associated with (or predictive of) the probability of realization of additionalities when controlling for other potential predictors at the project and country level.

The data set used in this analysis was a pooled cross-section of additionalities in IFC investment projects evaluated, which came from the database constructed by IEG for the PRA. The methodology and key findings of the PRA are described in a separate appendix. The team set two models to examine possible effects of (i) overall IFC's work quality and (ii) IFC's work quality at the two stages of project screening/appraisal and monitoring/supervision on realization of additionalities, respectively. To complement the analysis, the team controlled for other project-level factors, such as client experience (repeat client or new client) and country characteristics, such as income level and Worldwide Governance Indicators including political stability, government effectiveness, and control of corruption, and domestic credit to private sector, which have proved useful in predicting success of interventions in earlier IEG evaluations.

The outcome variables of interest included financial additionality, non-financial additionality, and the eight subtypes of additionality: (i) financing structure, (ii) innovative financing structure and/or instruments, (iii) resource mobilization, (iv) IFC's own account equity, (v) noncommercial risk mitigation, (vi) catalyzing policy or regulatory framework, (vii) knowledge, innovation, and capacity building, and (viii) standard setting.

The outcome variables of the additionalities took the form of a dichotomous present/not present for the econometric analysis (that is, $y = 1$ or 0). This analysis estimated marginal effects, which show the change in probability of success when the explanatory variable increases by one unit, since the magnitudes of coefficients themselves cannot be interpreted in logit models. The functional form of the basic models was the following: where y_{it} was an additionality for project i in country c at year t ; α was an intercept; the explanatory variables were IFC's work quality (WQ) for Model 1 and screening, appraisal, and structuring (SA) and supervision and administration (SA) for Model 2; X was a vector of control variables such as country income level. The definitions of variables are listed in table G.1.

$$\text{logit}(y_{pct}) = \ln \left[\frac{p(y_{pct} = \text{present})}{1 - p(y_{pct} = \text{present})} \right] = \beta_0 + \beta_1 IWQ_{pct} + \beta_2 \chi_{pct} + \varepsilon_{pct} \quad (1)$$

$$\text{logit}(y_{pct}) = \ln \left[\frac{p(y_{pct} = \text{present})}{1 - p(y_{pct} = \text{present})} \right] = \beta_0 + \beta_1 SAS_{pct} + \beta_2 SA_{pct} + \beta_3 \chi_{pct} + \varepsilon_{pct} \quad (2)$$

Table G.1. Variable Definitions for Part 1

Variable	Definition	Coding
Outcome variable		
Financial additionality	Financial additionality consists of the four types: (i) financing structure, (ii) innovative financing structure and/or instruments, (iii) resource mobilization, and (iv) IFC's own account equity.	Dummy (0–1): 1 for financial additionality attained and 0 for financial additionality not attained.
Nonfinancial additionality	Nonfinancial additionality consists of the four types: (i) noncommercial risk mitigation, (ii) catalyzing policy or regulatory framework, (iii) knowledge, innovation, and capacity building, and (iv) standard setting.	Dummy (0–1): 1 for nonfinancial additionality attained and 0 for nonfinancial additionality not attained.
Financing structure	Financing structure is present when IFC provides financing typically not available in the market (from other financial institutions) on commercial terms and conditions at reasonable cost.	Dummy (0–1): 1 for financing structure attained and 0 for financing structure not attained.
Innovative financing structure and/or instruments	Innovative financing structure and/or instruments is present when IFC provides the client and partners with innovative financing structures that add value by lowering the cost of capital or better addressing risks, and that are not available in the market at all or at a reasonable cost.	Dummy (0–1): 1 for innovative financing structure and/or instruments attained and 0 for innovative financing structure and/or instruments not attained.
Resource mobilization	Resource mobilization is present when there is a verifiable active and direct role played by IFC in mobilizing financing on commercial terms from an institutional or a private financier.	Dummy (0–1): 1 for resource mobilization attained and 0 for resource mobilization not attained.

(continued)

Variable	Definition	Coding
IFC's own account equity	IFC's own account equity is present when IFC provides equity that is not available in the market in a way that strengthens the financial soundness, creditworthiness and governance of the client.	Dummy (0–1): 1 for IFC's own account equity attained and 0 IFC's own account equity not attained.
Noncommercial risk mitigation	Noncommercial risk mitigation is present when IFC's presence provides comfort to clients and investors by mitigating noncommercial risks such as country, regulatory, project, or political risk, while adhering to IFC's principle of political neutrality.	Dummy (0–1): 1 for noncommercial risk mitigation attained and 0 for noncommercial risk mitigation not attained.
Catalyzing policy or regulatory framework	Catalyzing policy or regulatory framework is present when IFC's involvement in a project is designed explicitly to catalyze the investment response to a change in the policy/regulatory framework and the project is the first to test a new or "untested" policy, regulatory regime, or legal framework/PPP model and/or there is a likelihood of further regulatory changes or other risks for the project that are expected to be mitigated by IFC's involvement.	Dummy (0–1): 1 for catalyzing policy or regulatory framework attained and 0 for catalyzing policy or regulatory framework not attained.
Knowledge, innovation, and capacity building	Knowledge, innovation, and capacity building is present when IFC provides expertise, innovation, knowledge and/or capabilities that are material to the realization of the project's development impact due to the perceived weak institutional capacity of the borrower or investee.	Dummy (0–1): 1 for knowledge, innovation, and capacity building attained and 0 for knowledge, innovation, and capacity building not attained.

(continued)

Variable	Definition	Coding
Standard setting	Standard setting is present when IFC is a provider of expertise in environmental and social standards, and corporate governance, and is additional where the laws and/or market practice do not reinforce this behavior and when IFC introduces policies, provides guidance, establishes standards, and/or offers technical support and training and introduces international best practice to client companies and their suppliers.	Dummy (0–1): 1 for standard setting attained and 0 for standard setting not attained.
Explanatory variables		
IFC's work quality	IFC's work quality is an overall assessment of its operational performance, including in relation to E&S aspects, with respect to precommitment work in screening, appraising and structuring/underwriting, and its supervision after project approval by the board and subsequent commitment.	Dummy (0–1): 1 for the positive ratings (<i>Excellent, Satisfactory</i>) and 0 for the negative (<i>Partly Unsatisfactory, Unsatisfactory</i>).
Screening, appraisal, and structuring	Screening, appraisal, and structuring is an assessment of its operational performance, including in relation to E&S aspects, with respect to precommitment work in screening, appraising and structuring/underwriting.	Dummy (0–1): 1 for the positive ratings (<i>Excellent, Satisfactory</i>) and 0 for the negative (<i>Partly Unsatisfactory, Unsatisfactory</i>).
Supervision and administration	Supervision and administration is an assessment of its operational performance, including in relation to E&S aspects, with respect to its supervision after project approval by the board and subsequent commitment.	Dummy (0–1): 1 for the positive ratings (<i>Excellent, Satisfactory</i>) and 0 for the negative (<i>Partly Unsatisfactory, Unsatisfactory</i>).
Control Variable		
Project Tier I	A dummy variable indicating whether a project was Project Tier I.	Dummy (0–1)
Project Tier II	A dummy variable indicating whether a project was Project Tier II.	Dummy (0–1)
Project Tier III (base category)	A dummy variable indicating whether a project was Project Tier III.	Dummy (0–1)

(continued)

Variable	Definition	Coding
Repeat client	A dummy variable indicating whether a project was with a repeat client.	Dummy (0–1)
New client (base category)	A dummy variable indicating whether a project was with a new client.	Dummy (0–1)
Greenfield	A dummy variable indicating whether a project was a greenfield investment.	Dummy (0–1)
Brownfield (base category)	A dummy variable indicating whether a project was a brownfield investment.	Dummy (0–1)
Financial Markets	A dummy variable indicating whether a project was for the industry of financial markets.	Dummy (0–1)
Infrastructure	A dummy variable indicating whether a project was for the industry of infrastructure.	Dummy (0–1)
Manufacturing, Agriculture, and Services	A dummy variable indicating whether a project was for the industry of manufacturing, agriculture, and services.	Dummy (0–1)
Disruptive technologies and funds (base category)	A dummy variable indicating whether a project was for the industry of Disruptive Technologies and Funds.	Dummy (0–1)
2019–21	A dummy variable for projects validated from FY19 to FY21.	Dummy (0–1)
2015–18	A dummy variable for projects validated from FY15 to FY18.	Dummy (0–1)
2011–14 (base category)	A dummy variable for projects validated from FY11 to FY14.	Dummy (0–1)
Political stability and absence of violence/terrorism	Political stability and absence of violence/terrorism measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism.	Estimate in standard normal units, ranging from approximately -2.5 (weak) to 2.5 (strong) performance.
Government effectiveness	Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.	Estimate in standard normal units, ranging from approximately -2.5 (weak) to 2.5 (strong) performance.

(continued)

Variable	Definition	Coding
Control of corruption	Control of corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, and "capture" of the state by elites and private interests.	Estimate in standard normal units, ranging from approximately -2.5 (weak) to 2.5 (strong) performance.
Domestic credit to private sector	Domestic credit to private sector refers to financial resources provided to the private sector by financial corporations, such as through loans, purchases of nonequity securities, and trade credits and other accounts receivable that establish a claim for repayment	Percent of GDP
Upper-middle income	A dummy variable for projects in upper-middle income countries at approval.	Dummy (0-1)
Lower-middle income (base category)	A dummy variable for projects in lower-middle income countries at approval.	Dummy (0-1)
East Asia and Pacific	A dummy variable for projects in East Asia and Pacific.	Dummy (0-1)
Europe and Central Asia	A dummy variable for projects in Europe and Central Asia.	Dummy (0-1)
Latin America and the Caribbean	A dummy variable for projects in Latin America and the Caribbean.	Dummy (0-1)
Middle East and North Africa	A dummy variable for projects in Middle East and North Africa.	Dummy (0-1)
South Asia	A dummy variable for projects in South Asia.	Dummy (0-1)
Sub-Saharan Africa (base category)	A dummy variable for projects in Sub-Saharan Africa.	Dummy (0-1)

Source: Independent Evaluation Group.

Note: E&S = environmental and social; IFC = International Finance Corporation; PPP = public-private partnership.

Main Findings

Table G.2 shows the average marginal effects for part 1 resulting from the estimation. In result, the findings from this econometric analysis suggested that IFC’s work quality was the leading explanatory factor that influenced

the realization of additionalities, although results were not estimated for the four outcome variables of innovative financing structure and/or instruments, resource mobilization, IFC's own account equity, and catalyzing policy or regulatory framework due to the limited sample size.

The results of Model 1 showed that the overall IFC work quality bore a positive relationship with the realization of both financial and nonfinancial additionalities. The estimated marginal effects also revealed that the magnitude of the influence is stronger for nonfinancial additionalities; a project with good overall work quality is 16.8 percent more likely to realize financial additionality and 31.1 percent more likely to realize nonfinancial additionality.

Model 2 further found that IFC's work quality had a larger marginal effect on realization of nonfinancial additionality both at project screening/appraisal and monitoring/supervision. Good IFC's work quality at the stage of project screening and appraisal increased the chance of realizing financial additionality by 11.4 percent and the likelihood of realizing nonfinancial additionality by 20.6 percent. Similarly, an IFC IS project with good IFC's work quality at the stage of monitoring and supervision had a higher likelihood of realizing financial additionality and nonfinancial additionality by 7.7 percent and 16.3 percent, respectively. In addition, IFC projects with repeat clients were more likely (9.6 percent in Model 1 and 11.7 percent in Model 2) to achieve nonfinancial additionality. This suggested that client capacity in terms of experiences with IFC projects might influence realization of additionalities.

Table G.2. Multivariate Logistic Regression Output for Additionality, Marginal Effects for Part 1

	Financial Additionality		Nonfinancial Additionality		Financing Structure		Noncommercial Risk Mitigation		Knowledge, Innovation, and Capacity Building		Standard Setting	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
IFC's Work Quality	0.168***		0.311***		0.162***		0.352***		0.370***		0.286***	
Screening, Appraisal, and Structuring		0.114***		0.206***		0.077**		0.243***		0.238***		0.179***
Supervision and Administration		0.078**		0.163***		0.112**		0.132*		0.246***		0.164***
Project Tier I	0.042	0.043	-0.061	-0.061	0.015	0.011	-0.335**	-0.333**	-0.079	-0.104	0.092	0.101*
Project Tier II	-0.012	-0.006	-0.034	-0.027	-0.031	-0.028	-0.048	-0.054	-0.124	-0.125	0.022	0.043
Project Tier III (base category)												
Repeat Client	0.013	0.023	0.096***	0.117***	-0.015	-0.003	0.135***	0.145***	0.053	0.091	0.086**	0.105***
New Client (base category)												
Greenfield	0.032	0.035	0.026	0.023	0.041*	0.043*	0.082	0.065	0.017	0.017	0.008	0.007
Brownfield (base category)												
Financial Markets	0.015	0.008	0.122**	0.119**	0.129	0.124	0.076	0.077	0.045	0.020	0.193***	0.194***
Infrastructure	0.012	0.006	0.052	0.054	0.081	0.085	-0.103	-0.097	-0.139	-0.145	0.162***	0.168***
Manufacturing, Agribusiness, and Services	-0.001	-0.006	0.058	0.060	0.126*	0.126	-0.078	-0.072	-0.088	-0.098	0.193***	0.197***
Disruptive Technologies and Funds (base category)												
2019–21	0.036	0.028	0.080**	0.066*	0.038	0.034	0.073	0.032	0.139*	0.133	0.057	0.058

(continued)

	Financial Additionality		Nonfinancial Additionality		Financing Structure		Noncommer- cial Risk Miti- gation		Knowledge, Innovation, and Capacity Building		Standard Setting	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
2015–18	0.020	0.009	-0.010	-0.022	0.017	0.007	-0.046	-0.067	-0.002	-0.010	0.020	0.014
2011–14 (base category)												
Political Stability and Absence of Violence/Terrorism	-0.004	-0.007	0.009	0.007	-0.002	-0.002	0.001	0.008	0.056	0.066	-0.018	-0.025
Government Effectiveness	0.010	0.012	-0.013	-0.006	0.101**	0.105**	0.027	0.017	-0.014	0.015	-0.025	-0.011
Control of Corruption	0.015	0.015	0.010	0.012	-0.031	-0.033	-0.064	-0.041	-0.001	-0.019	0.071	0.068
Domestic Credit to Private Sector	-0.001	-0.001	0.000	-0.001	-0.001	-0.001	-0.001	-0.002*	0.001	0.001	0.000	0.000
Upper-Middle Income	0.024	0.020	-0.059	-0.056	-0.012	-0.015	-0.078	-0.066	-0.144*	-0.144*	-0.008	-0.015
Lower-Middle Income (base cate- gory)												
East Asia and Pacific	0.039	0.035	0.061	0.084*	-0.042	-0.037	0.066	0.102	-0.059	-0.001	0.042	0.049
Europe and Central Asia	0.072***	0.063**	0.060	0.056	0.038	0.022	0.032	0.014	0.114	0.106	0.007	0.008
Latin America and the Caribbean	0.035	0.033	0.017	0.015	0.024	0.023	0.092	0.092	-0.038	-0.061	-0.048	-0.043
Middle East and North Africa	0.026	0.012	0.015	-0.003	-0.014	-0.033	0.004	-0.023	-0.067	-0.069	0.024	0.000
South Asia	0.051*	0.050*	0.018	0.035	0.008	0.013	-0.048	-0.014	0.051	0.074	0.008	0.016
Sub-Saharan Africa (base category)												
Observations	632	632	1,263	1,263	429	429	362	362	324	324	559	559

Source: Independent Evaluation Group.

Note: * p < 0.10, ** p < 0.05, *** p < 0.01.

Part 2: Learning from Relationships between Additionality and Development Outcome/ International Finance Corporation Investment Outcome

Methodology

This part studied how ex post financial and nonfinancial additionality might influence development outcome and International Finance Corporation (IFC) investment outcome. The team analyzed whether ex post additionalities are statistically associated with (or predictive of) the probability of the outcomes by estimating a multivariate logistic regression, when controlling for other variables at the project and country level. As elaborated in the theory of change (figure A.1.), both financial additionality and nonfinancial additionality are assumed as key outputs to achieve project-level and market level outcomes.

The outcome variables of interest included development outcome and IFC's investment outcome. To further examine relationships in detail, the analyses also developed separate models using the four indicators for development outcome as the outcome variables: project business performance, economic sustainability, environmental and social effects, and private sector development. The outcome variables of development outcome, the four indicators, and IFC's investment outcome took the form of a dichotomous successful/ unsuccessful or satisfactory/unsatisfactory rating for the econometric analysis (that is, $y = 1$ or 0). Therefore, the estimation technique chosen was a logit model, where the variable coefficients are estimated by maximum likelihood. This analysis estimated marginal effects, which show the change in probability of success when the explanatory variable increases by one unit, since the magnitudes of coefficients cannot be interpreted in logit models.

The data set used in this analysis was a pooled cross-section of IFC investment projects evaluated, which came from the database constructed by IEG for the PRA. The methodology and key findings of the PRA are described in a separate appendix. To explore statistical associations in terms of the type and subtype of additionalities separately, Model 1 below used (i) financial

additionality, (ii) nonfinancial additionality, and (iii) financial and non-financial additionality, and Model 2 set (i) financing structure, (ii) innovative financing structure and/or instruments, (iii) resource mobilization, (iv) IFC’s own account equity, (v) noncommercial risk mitigation, (vi) catalyzing policy or regulatory framework, (vii) knowledge, innovation, and capacity building, and (viii) standard setting as explanatory variables. To complement the analysis, the team controlled for other project-level factors such as IFC’s work quality and country characteristics such as income level and Worldwide Governance Indicators including political stability, government effectiveness, and control of corruption, and domestic credit to private sector, which have proved useful in predicting success of interventions in earlier IEG evaluations. Some critics view ratings of IFC’s work quality as being influenced by rating of outcomes and, thus believe there is a potential circularity that may undermine statistical reliability. However, in accordance with IEG’s guidelines, the evaluation of IFC’s work quality is made independently of that for development outcome and investment outcome.

The functional form of the basic models was the following: where y_{pct} was development outcome, the four indicators of development outcome, or IFC’s investment outcome for project p in country c at year t ; β_0 was an intercept; the explanatory variables were financial additionality (FA_{pct}), nonfinancial additionality (NA_{pct}), and financial and nonfinancial additionality (FNA_{pct}) for Model 1, and the four subtypes of financial additionality and the four subtypes of nonfinancial additionality that were financing structure (FS_{pct}), innovative financing structure and/or instruments ($IFSI_{pct}$), resource mobilization (RM_{pct}), IFC’s own account equity ($IOAE_{pct}$), noncommercial risk mitigation (NRM_{pct}), catalyzing policy or regulatory framework ($CPRF_{pct}$), knowledge, innovation, and capacity building ($KICB_{pct}$), and standard setting (SS_{pct}) for Model 2; χ_{pct} was a vector of control variables such as country income level. The definitions of variables are listed in table G.3.

$$\text{logit}(y_{pct}) = \ln \left[\frac{p(y_{pct} = \text{successful})}{1 - p(y_{pct} = \text{successful})} \right] = \beta_0 + \beta_1 FA_{pct} + \beta_2 NA_{pct} + \beta_3 FNA_{pct} + \beta_4 \chi_{pct} + \varepsilon_{pct} \quad (1)$$

$$\begin{aligned} \text{logit}(y_{pct}) = \ln \left[\frac{p(y_{pct} = \text{successful})}{1 - p(y_{pct} = \text{successful})} \right] \\ = \beta_0 + \beta_1 FS_{pct} + \beta_2 IFSI_{pct} + \beta_3 RM_{pct} + \beta_4 IOAE_{pct} + \beta_5 NRM_{pct} + \beta_6 CPRF_{pct} \\ + \beta_7 KICB_{pct} + \beta_8 SS_{pct} + \beta_9 \chi_{pct} + \varepsilon_{pct} \quad (2) \end{aligned}$$

Table G.3. Variable Definitions for Part 2

Variable	Definition	Coding
Outcome variable		
Development outcome	Development outcome is a bottom-line assessment of the project's results on-the-ground, as measured across four indicators: project business performance, economic sustainability, environmental and social effects, and private sector development.	Dummy (0–1): 1 for the positive ratings (<i>Highly Successful, Successful, Mostly Successful</i>) and 0 for the negative ratings (<i>Mostly Unsuccessful, Unsuccessful, Highly Unsuccessful</i>).
Project business performance	Project business performance is an assessment of the project's actual and projected impact on the company's profitability and overall prospects for sustainability and growth.	Dummy (0–1): 1 for the positive ratings (<i>Excellent, Satisfactory</i>) and 0 for the negative ratings. (<i>Partly Unsatisfactory, Unsatisfactory</i>).
Economic sustainability	Economic sustainability is an assessment of the project and/or project company's contribution to growth in the economy.	Dummy (0–1): 1 for the positive ratings (<i>Excellent, Satisfactory</i>) and 0 for the negative ratings (<i>Partly Unsatisfactory, Unsatisfactory</i>).
Environmental and social effects	Environmental and social effects is an assessment of the project's environmental and social performance and its environmental and social impacts.	Dummy (0–1): 1 for the positive ratings (<i>Excellent, Satisfactory</i>) and 0 for the negative ratings (<i>Partly Unsatisfactory, Unsatisfactory</i>).
Private sector development	Private sector development is an assessment of the extent to which the project company has developed into a corporate role model—positive or negative—and whether the project has contributed to IFC's purpose by spreading the benefits of growth of productive private enterprise beyond the project company or financial intermediary.	Dummy (0–1): 1 for the positive ratings (<i>Excellent, Satisfactory</i>) and 0 for the negative ratings (<i>Partly Unsatisfactory, Unsatisfactory</i>).
IFC's investment outcome	IFC's investment outcome is an overall assessment of the extent to which IFC has realized to date and expects to realize over the remaining life of the investment, the loan income and/or equity returns that were expected at approval.	Dummy (0–1): 1 for the positive ratings (<i>Excellent, Satisfactory</i>) and 0 for the negative ratings (<i>Partly Unsatisfactory, Unsatisfactory</i>).

(continued)

Variable	Definition	Coding
Explanatory variable		
Financial additionality	Financial additionality consists of the four types: (i) Financing structure, (ii) innovative financing structure and/or instruments, (iii) resource mobilization, and (iv) IFC's own account equity.	Dummy (0-1): 1 for a project with financial additionality only and 0 for a project with nonfinancial additionality only, a project with financial and nonfinancial additionality, or a project with no additionality.
Nonfinancial additionality	Nonfinancial additionality consists of the four types: (i) non-commercial risk mitigation, (ii) catalyzing policy or regulatory framework, (iii) knowledge, innovation, and capacity building, and (iv) standard setting.	Dummy (0-1): 1 for a project with nonfinancial additionality only and 0 for a project with financial additionality only, a project with financial and nonfinancial additionality, or a project with no additionality.
Financial and non-financial additionality	Financial additionality and non-financial additionality was coded when a project has both of financial additionality and nonfinancial additionality.	Dummy (0-1): 1 for a project with financial and nonfinancial additionality and 0 for a project with financial additionality only, a project with nonfinancial additionality only, or a project with no additionality.
No additionality (base category)	No additionality was coded when a project has no financial additionality nor nonfinancial additionality.	Dummy (0-1): 1 for a project with no additionality and 0 for a project with financial additionality only, a project with nonfinancial additionality only, or a project with financial and nonfinancial additionality.
Financing structure	Financing structure is present when IFC provides financing typically not available in the market (from other financial institutions) on commercial terms and conditions at reasonable cost.	Dummy (0-1): 1 for a project with financing structure and 0 for a project without financing structure.
Innovative financing structure and/or instruments	Innovative financing structure and/or Instruments is present when IFC provides the client and partners with innovative financing structures that add value by lowering the cost of capital or better addressing risks, and that are not available in the market at all or at a reasonable cost.	Dummy (0-1): 1 for a project with innovative financing structure and/or Instruments and 0 for a project without innovative financing structure and/or instruments.

(continued)

Variable	Definition	Coding
Resource mobilization	Resource mobilization is present when there is a verifiable active and direct role played by IFC in mobilizing financing on commercial terms from an institutional or a private financier.	Dummy (0–1): 1 for a project with resource mobilization and 0 for a project without resource mobilization.
IFC's own account equity	IFC's own account equity is present when IFC provides equity that is not available in the market in a way that strengthens the financial soundness, creditworthiness and governance of the client.	Dummy (0–1): 1 for a project with IFC's own account equity and 0 for a project without IFC's own account equity.
Noncommercial risk mitigation	Noncommercial risk mitigation is present when IFC's presence provides comfort to clients and investors by mitigating noncommercial risks such as country, regulatory, project, or political risk, while adhering to IFC's principle of political neutrality.	Dummy (0–1): 1 for a project with noncommercial risk mitigation and 0 for a project without noncommercial risk mitigation.
Catalyzing policy or regulatory framework	Catalyzing policy or regulatory framework is present when IFC's involvement in a project is designed explicitly to catalyze the investment response to a change in the policy/regulatory framework and the project is the first to test a new or "untested" policy, regulatory regime, or legal framework/PPP model and/or there is a likelihood of further regulatory changes or other risks for the project that are expected to be mitigated by IFC's involvement.	Dummy (0–1): 1 for a project with catalyzing policy or regulatory framework and 0 for a project without catalyzing policy or regulatory framework.
Knowledge, innovation, and capacity building	Knowledge, innovation, and capacity building is present when IFC provides expertise, innovation, knowledge and/or capabilities that are material to the realization of the project's development impact due to the perceived weak institutional capacity of the borrower or investee.	Dummy (0–1): 1 for a project with knowledge, innovation, and capacity building and 0 for a project without knowledge, innovation, and capacity building.

(continued)

Variable	Definition	Coding
Standard setting	Standard setting is present when IFC is a provider of expertise in environmental and social standards, and corporate governance, and is additional where the laws and/or market practice do not reinforce this behavior and when IFC introduces policies, provides guidance, establishes standards, and/or offers technical support and training and introduces international best practice to client companies and their suppliers.	Dummy (0–1): 1 for a project with standard setting and 0 for a project without standard setting.
Control variable		
IFC's work quality	IFC's work quality is an overall assessment of its operational performance, including in relation to E&S aspects, with respect to precommitment work in screening, appraising and structuring/underwriting, and its supervision after project approval by the board and subsequent commitment.	Dummy (0–1): 1 for the positive ratings (<i>Excellent, Satisfactory</i>) and 0 for the negative (<i>Partly Unsatisfactory, Unsatisfactory</i>).
Project Tier I	A dummy variable indicating whether a project was Project Tier I.	Dummy (0–1)
Project Tier II	A dummy variable indicating whether a project was Project Tier II.	Dummy (0–1)
Project Tier III (base category)	A dummy variable indicating whether a project was Project Tier III.	Dummy (0–1)
Repeat client	A dummy variable indicating whether a project was with a repeat client.	Dummy (0–1)
New client (base category)	A dummy variable indicating whether a project was with a new client.	Dummy (0–1)
Greenfield	A dummy variable indicating whether a project was a greenfield investment.	Dummy (0–1)
Brownfield (base category)	A dummy variable indicating whether a project was a brownfield investment.	Dummy (0–1)

(continued)

Variable	Definition	Coding
Financial Markets	A dummy variable indicating whether a project was for the industry of financial markets.	Dummy (0–1)
Infrastructure	A dummy variable indicating whether a project was for the industry of infrastructure.	Dummy (0–1)
Manufacturing, Agriculture, and Services	A dummy variable indicating whether a project was for the industry of manufacturing, agriculture, and services.	Dummy (0–1)
Disruptive Technologies and Funds (base category)	A dummy variable indicating whether a project was for the industry of Disruptive Technologies and Funds.	Dummy (0–1)
2019–21	A dummy variable for projects validated from FY19 to FY21.	Dummy (0–1)
2015–18	A dummy variable for projects validated from FY15 to FY18.	Dummy (0–1)
2011–14 (base category)	A dummy variable for projects validated from FY11 to FY14.	Dummy (0–1)
Political stability and absence of violence/terrorism	Political stability and absence of violence/terrorism measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism.	Estimate in standard normal units, ranging from approximately –2.5 (weak) to 2.5 (strong) performance.
Government effectiveness	Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.	Estimate in standard normal units, ranging from approximately –2.5 (weak) to 2.5 (strong) performance.
Control of corruption	Control of corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, and "capture" of the state by elites and private interests.	Estimate in standard normal units, ranging from approximately –2.5 (weak) to 2.5 (strong) performance.

(continued)

Variable	Definition	Coding
Domestic credit to private sector	Domestic credit to private sector refers to financial resources provided to the private sector by financial corporations, such as through loans, purchases of nonequity securities, and trade credits and other accounts receivable that establish a claim for repayment	Percent of GDP
Upper-middle income	A dummy variable for projects in upper-middle income countries at approval.	Dummy (0–1)
Lower-middle income (base category)	A dummy variable for projects in lower-middle income countries at approval.	Dummy (0–1)
East Asia and Pacific	A dummy variable for projects in East Asia and Pacific.	Dummy (0–1)
Europe and Central Asia	A dummy variable for projects in Europe and Central Asia.	Dummy (0–1)
Latin America and the Caribbean	A dummy variable for projects in Latin America and the Caribbean.	Dummy (0–1)
Middle East and North Africa	A dummy variable for projects in Middle East and North Africa.	Dummy (0–1)
South Asia	A dummy variable for projects in South Asia.	Dummy (0–1)
Sub-Saharan Africa (base category)	A dummy variable for projects in Sub-Saharan Africa.	Dummy (0–1)

Source: Independent Evaluation Group.

Note: E&S = environmental and social; IFC = International Finance Corporation; PPP = public-private partnership.

Main Findings

Table G.4 shows the average marginal effects for part 2 resulting from the estimation. First, the results suggested that the combination of financial and nonfinancial additionality was positively related to some important outcomes. Specifically, projects with financial and nonfinancial additionalities had a higher probability of positive development outcome (39.8 percent more likely), Environmental and Social Effects (33.4 percent more likely), and IFC’s investment outcome (29.8 percent more likely).

Second, this analysis also suggested that nonfinancial additionality and its several subtypes were statistically associated with a higher probability of success in some outcomes. Projects with nonfinancial additionality were 27.1 percent more likely to have positive environmental and social effects. In terms of the subtypes, projects realizing knowledge, innovation, and capacity-building additionality had a higher likelihood of showing positive development outcome (25.3 percent more likely), project business performance (15.4 percent more likely), economic sustainability (17.4 percent more likely), and private sector development (23.6 percent more likely); the additionality of knowledge, innovation, and capacity-building may be a key output to achieve expected outcomes. Projects realizing standard-setting additionality were more likely to have a positive development outcome (13.9 percent more likely) and environmental and social effects (28.0 percent more likely). Projects with noncommercial risk mitigation was associated with a higher probability of positive private sector development (13.8 percent more likely).

Third, influence of financial additionalities on the outcomes are subject to the types of additionalities. Although there was no statistically significant association between financial additionality and the outcomes, projects with the financing structure additionality had a higher probability of positive economic sustainability (16.6 percent more likely), private sector development (12.9 percent more likely), and IFC's investment outcome (22.8 percent more likely). On the other hand, projects with the resource mobilization additionality were less likely to have positive project business performance (15.7 percent less likely) and economic sustainability (18.1 percent less likely). Likewise, projects realizing IFC's own account equity additionality were less likely to have positive environmental and social effects (24.5 percent less likely) and IFC's investment outcome (37.5 percent less likely). Further research is necessary to clarify mechanisms of these negative relationships.

Table G.4. Multivariate Logistic Regression Output for Development Outcome and International Finance Corporation Investment Outcome, Average Marginal Effects for Part 2

	Development Outcome		Project Business Performance		Economic Sustainability		Environmental and Social Effects		Private Sector Development		IFC's Investment Outcome	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Financial additionality	0.224		0.213		0.061		-0.008		0.024		0.110	
Nonfinancial additionality	0.303*		0.196		0.042		0.271***		0.105		0.108	
Financial and nonfinancial additionality	0.398**		0.213		0.196		0.334***		0.250*		0.298**	
No additionality (base category)												
Financing structure		0.105		0.100		0.166**		-0.031		0.129**		0.228***
Innovative financing structure and/or instruments		0.013		0.205		0.118		-0.106		-0.007		0.075
Resource mobilization		-0.008		-0.157**		-0.181**		0.054		0.019		-0.119
IFC's own account equity		-0.182*		-0.121		-0.106		-0.245***		-0.084		-0.375***
Noncommercial risk mitigation		0.078		0.021		-0.011		0.025		0.138***		0.040
Catalyzing policy or regulatory framework		0.291*		0.045		0.261		0.100		0.031		0.199**
Knowledge, innovation, and capacity building		0.253***		0.154***		0.174***		0.077*		0.236***		0.044
Standard setting		0.139**		0.058		0.034		0.280***		0.034		0.039

(continued)

	Development Outcome		Project Business Performance		Economic Sustainability		Environmental and Social Effects		Private Sector Development		IFC's Investment Outcome	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
IFC's work quality	0.616***	0.611***	0.496***	0.487***	0.510***	0.507***	0.255***	0.228***	0.504***	0.466***	0.414***	0.433***
Project Tier I	0.042	0.068	0.061	0.055	-0.028	-0.055	0.249***	0.229***	0.045	0.072	0.246***	0.215***
Project Tier II	-0.054	-0.041	0.030	0.023	0.000	-0.020	0.273***	0.255***	-0.059	-0.046	0.111	0.056
Project Tier III (base category)												
Repeat client	0.195***	0.204***	0.118**	0.132**	0.133**	0.148**	-0.003	0.024	0.171***	0.180***	0.074	0.090*
New client (base category)												
Greenfield	-0.122**	-0.134**	-0.118**	-0.132**	-0.152***	-0.171***	0.015	0.017	-0.011	-0.022	-0.134***	-0.169***
Brownfield (base category)												
Financial Markets	0.066	0.073	0.304*	0.279	-0.040	-0.052	0.185*	0.149	-0.025	0.014	0.195	0.201
Infrastructure	-0.006	0.022	0.260	0.280	-0.097	-0.078	0.247***	0.216***	0.013	0.088	0.159	0.161
Manufacturing, Agribusiness, and Services	0.070	0.095	0.222	0.216	-0.088	-0.091	0.094	0.028	0.108	0.166	0.174	0.158
Disruptive technologies and funds (base category)												
2019–21	-0.106	-0.128	0.044	0.049	-0.139*	-0.131*	0.000	-0.043	-0.191**	-0.219**	-0.021	-0.035
2015–18	-0.146**	-0.179**	-0.102*	-0.101	-0.184***	-0.195***	0.029	0.011	-0.114*	-0.142**	-0.079	-0.079
2011–14 (base category)												
Political stability and absence of violence/terrorism	-0.095*	-0.114**	-0.054	-0.064	-0.066	-0.084*	0.084**	0.085**	-0.074*	-0.077*	-0.079*	-0.084*

(continued)

	Development Outcome		Project Business Performance		Economic Sustainability		Environmental and Social Effects		Private Sector Development		IFC's Investment Outcome	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
Government effectiveness	0.056	0.003	-0.061	-0.115	0.000	-0.061	0.125	0.106	-0.082	-0.111	-0.070	-0.134
Control of corruption	-0.024	0.040	0.076	0.127	0.021	0.087	-0.279***	-0.260***	0.148	0.184*	0.198**	0.233**
Domestic credit to private sector	0.000	-0.001	0.001	0.001	-0.001	-0.001	0.001	0.001	0.000	-0.001	0.001	0.000
Upper-middle income	-0.044	0.042	-0.089	-0.038	-0.043	0.023	0.047	0.068	-0.016	0.048	-0.094	-0.012
Lower-middle income (base category)												
East Asia and Pacific	0.051	0.155	0.059	0.153	0.063	0.180	0.010	0.034	-0.074	0.007	-0.017	0.110
Europe and Central Asia	0.015	0.013	0.103	0.120	-0.099	-0.083	0.137**	0.093	-0.179	-0.184	0.089	0.070
Latin America and the Caribbean	0.055	0.085	0.118	0.169	0.056	0.111	0.029	0.020	-0.074	-0.068	0.081	0.087
Middle East and North Africa	-0.044	-0.001	-0.081	-0.045	-0.150	-0.103	0.048	0.064	-0.168	-0.134	-0.092	0.004
South Asia	0.144	0.220**	0.016	0.074	0.181	0.263**	0.108	0.119*	-0.056	0.006	-0.073	0.079
Sub-Saharan Africa (base category)												
Observations	536	536	536	536	536	536	501	501	521	521	536	536

Source: Independent Evaluation Group.

Note: * p < 0.10, ** p < 0.05, *** p < 0.01. IFC = International Finance Corporation.



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The World Bank
1818 H Street NW
Washington, DC 20433