

## Approach Paper

# International Finance Corporation Additionality in Middle-Income Countries

March 2, 2022

## 1. Development Challenges in Middle-Income Countries

1.1 Accounting for almost half of global gross domestic product and 70 percent of the world's population, middle-income countries (MICs) face multiple development challenges limiting achievement of the Sustainable Development Goals (SDGs), including poverty and inclusion, climate change, financial access, and economic diversification and market development.

- **Poverty and inclusion.** MICs are home to 73 percent of the world's people living in poverty. MICs face challenges of inclusion, reflected in high rates of inequality, migration, and unplanned urbanization. With some exceptions, gender equality rises with country income level—lower-middle-income countries (LMICs) rank behind upper-middle-income countries (UMICs) in gender equality.
- **Climate change.** MICs are also among the highest contributors to carbon dioxide emissions. In 2018, MICs accounted for 21.2 kilotons (62 percent) out of a global output of 34.0 kilotons of carbon dioxide.<sup>1</sup>
- **Financial access.** Although MICs tend to have far better developed financial sectors than low-income countries, they face important gaps and limitations to the range of financial services available and to the type of firms reached. The International Finance Corporation (IFC) finds, for example, that 35 percent of micro, small, and medium enterprises in UMICs and 48 percent in LMICs are at least partially financially constrained (IFC 2017).
- **Economic diversification and market development.** Finally, although MICs are heterogeneous, many suffer from limited economic diversification, in part because of underdeveloped markets, which limit opportunities to mobilize private finance to deliver services (for example, through public-private partnerships) and develop and diversify their economies.

1.2 Development in MICs is recognized by the development community as essential to achieving the SDGs. According to the International Monetary Fund, MICs achieve an index rating of 66 out of 100 on an SDG index (higher is better) compared with 78 out of 100 for high-income countries (Gaspar et al. 2019).<sup>2</sup> Key areas for improvement to attain

the SDGs include health, education, roads, electricity, and sanitation. MICs, or rather emerging market economies, would need to spend an average annual equivalent of an additional 4 percent of gross domestic product to meet SDG targets in these five areas. Country estimates vary by country; for example, it is 8.7 percent for Guatemala, 6.4 percent for Vietnam, and 5.6 percent for Indonesia (Gaspar et al. 2019). Financing climate mitigation and adaptation costs adds significantly to these estimates. Given political economy and policy limitations to public financing of these gaps, private investment must play a substantial role.

1.3 IFC's portfolio is focused heavily on MICs. The Independent Evaluation Group (IEG) estimates that from fiscal year (FY)11 through FY21, roughly 84 percent of its long- and short-term investment projects (by number) and 76 percent of its advisory services projects were delivered in MICs. China, Brazil, Turkey, Mexico, and Colombia lead IFC's UMIC investment, and India, Vietnam, Indonesia, Nigeria, and the Arab Republic of Egypt lead IFC's LMIC investment.

## **2. International Finance Corporation Additionality in Middle-Income Countries**

2.1 Additionality is the unique support that IFC brings to a private client or client country that is not typically offered by commercial sources of finance (IFC 2019b). The concept of additionality would have IFC intervene where there are development challenges or market failures preventing a beneficial project or activity from proceeding. Additionality is not a policy or objective, but a requirement embedded in IFC Articles of Agreement, intended to ensure that IFC brings value without crowding out potential market activity (IFC 2020). It is a threshold consideration in supporting potential projects, along with judging strategic relevance, development impact, sustainability, and financial viability. IFC's additionality includes both financial and nonfinancial attributes.

2.2 Additionality is different from development impact but essential for its achievement. According to *Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations*, in private sector operations, additionality refers to key inputs brought by multilateral development banks to make a project happen or to improve its design or development impact, whereas development impact refers to the development results that the project is expected to deliver (African Development Bank et al. 2018 ). IFC's own definition of additionality is aligned with that of the multilateral development banks. IFC regards additionality as essential to achieving development impact, whether in the form of delivering beneficial outcomes to stakeholders or contributing to market development.

2.3 IFC’s definition of additionality distinguishes two types: financial and nonfinancial additionality. Financial additionality arises from the financing structure of IFC’s projects, IFC’s use of innovative financing structures or instruments, its capacity to mobilize private capital to complement its loans or investments, or its ability to provide equity that is unavailable in the market. Nonfinancial additionality comes from IFC’s ability to mitigate noncommercial risks; its support to policy and regulatory changes; its advice to improve clients’ knowledge, capacity, and innovation; and its global and national contributions to standard setting, including environmental, social, and corporate governance standards (table 2.1). IFC need not deliver all types of additionality to be additional, but only those essential for achieving development outcomes.

**Table 2.1. International Finance Corporation Typology of Additionality**

Typology	Description
Financial additionality	
1. Financing structure	Amount of financing provided; tenors, grace periods, or both; provision of local currency financing.
2. Innovative financing structure, instruments, or both	Includes financing structures not available in the market that add value by lowering the cost of capital or better addressing risks—for example, trade financing, 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 sounds, 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 or regulatory framework. The project is the first to test a new or untested policy, regulatory regime, or legal framework or 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, or capabilities that are material to the project’s development impact because of 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 or market practices do not reinforce this behavior. Changes in practices must be significant enough to matter from a development impact angle; they must pass the “so what?” test.

Source: Adapted from IFC 2018.

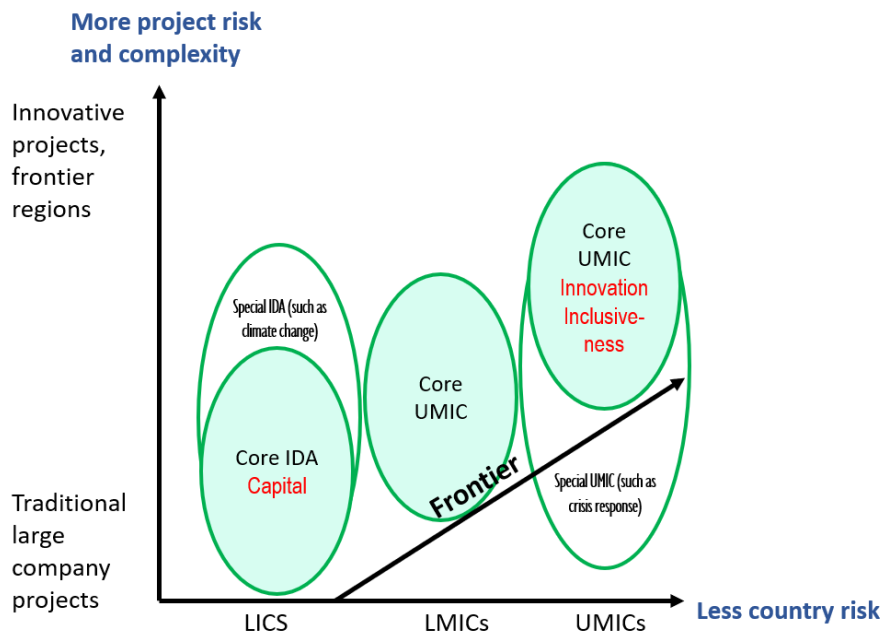
Note: IFC = International Finance Corporation; PPP = public-private partnership.

2.4 IFC’s strategy recognizes that additionality will be different depending on country context, including country income level. IFC strategy documents note that

where country risks are lower (that is, in UMICs), IFC must achieve additionality through projects that bear greater complexity and higher risk through supporting innovative financing and focusing on inclusion (for example, those that target frontier regions; figure 2.1). For LMICs, IFC envisions supporting a blend of traditional large company projects (such as those of low-income countries) and projects with higher risk and complexity (similarly to the projects supported in UMICs).

2.5 The additionality of IFC’s interventions in MICs is sometimes questioned at the Board of Executive Directors and beyond,<sup>3</sup> on the grounds that some MICs (especially UMICs) already have access to sources of financing and technical support of the type IFC offers. At face value, IFC additionality seems less likely in countries with well-developed financial sectors and consultancy service markets. IFC acknowledges in its strategies that it must be particularly selective in choosing engagements in which it has a strong additionality that unlocks high development impact (IFC 2011). Its declared aim is to work in frontier, high-risk regions and sectors in MICs to avoid crowding out private flows of debt and equity. IFC further acknowledges that in MICs, nonfinancial additionality, such as knowledge and innovation, is especially relevant. Thus, IFC intends for its projects in UMICs to be, for example, more innovative, inclusive, and environmentally friendly.

**Figure 2.1. International Finance Corporation Additionality Strategy for Middle-Income Countries**



Source: IFC 2011.

Note: IDA = International Development Association; IFC = International Finance Corporation; LIC = low-income country; LMIC = lower-middle-income country; UMIC = upper-middle-income country.

2.6 IFC aims to balance its strategic focus on additionality and development impact with its objective to maintain its financial sustainability. IFC states that under IFC 3.0 and its commitments under the Capital Package,<sup>4</sup> there will be a shift of part of the portfolio to the International Development Association or fragile and conflict-affected situation countries “with opportunity for greater impact but potential higher risk and lower risk-adjusted returns” (IFC 2019a). Under its portfolio approach, IFC aims to balance the objective of development impact with that of financial sustainability, considering each project based on its contribution to broad program objectives rather than on a stand-alone basis. In the theory of change shown in figure 4.1, the objective of financial sustainability is taken as context for IFC’s pursuit of high additionality. In this regard, IEG will explore the empirical relationships among financial sustainability, additionality, and development impact in MICs at the project level. However, IFC’s portfolio approach will not be addressed by this evaluation.

### **3. Objectives, Scope, and Audience**

3.1 This evaluation assesses the unique support and value addition (additionality) that IFC provides to MICs. The main objectives of this evaluation are the following:

1. To understand IFC’s approach to (and delivery of) additionality and its relationship to country context and to development outcomes in MICs.
2. To identify lessons for IFC to strengthen its additionality at the country and project level in MICs, by building on success factors and by mitigating constraining factors.

3.2 The evaluation will cover IFC’s support of MICs through investment and advisory projects and through its platforms and partnerships. It will cover FY11–21. Because the additionality concept could apply to the entire IFC portfolio, the scope will be limited (to keep the evaluation manageable) to two dimensions:

- The portfolio analysis of unevaluated projects will rely on a stratified random sample of the entire IFC MIC portfolio.
- The country case studies will be purposely selected to reflect a variety of country contexts and conditions. Consistent with IFC strategy, IEG will explicitly differentiate between UMICs and LMICs and seek to reflect differences in region and fragility.

3.3 The primary audience of this evaluation is the World Bank Group Board and IFC management and staff. However, some findings of the evaluation will be relevant to a broader audience, including other multilateral and bilateral agencies financing private sector activities, investors, and government officials and practitioners in client countries.

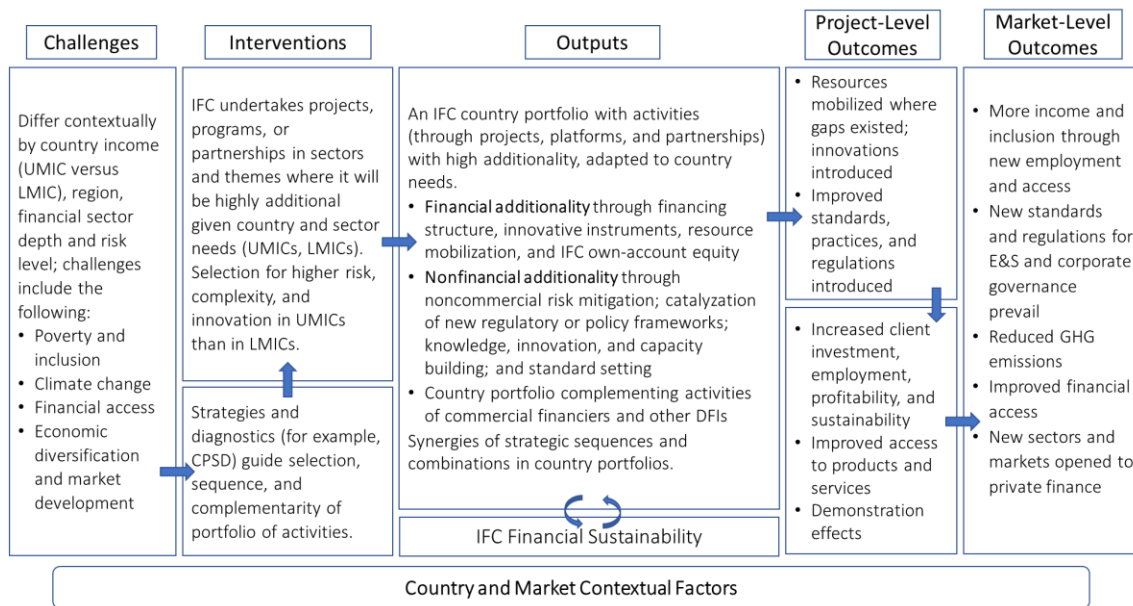
IEG will seek to disseminate relevant findings (with appropriate redactions) to multiple audiences to stimulate discussion and encourage the exchange of ideas. A blog and relevant materials will be posted on IEG's website, and the team will also explore internal and external forums for further dissemination.

3.4 The evaluation will build on findings of previous IEG work and extend its scope beyond prior work. Previous evaluations focused on projects,<sup>5</sup> whereas this evaluation is intended to also focus on IFC's additionality in country and sectoral context, taking into account varying country needs and sectoral priorities and differences. Looking at the country level allows IEG to explore IFC's engagement over time (sequencing) and in the context of other Bank Group and external activities (complementarity). This is the first IEG evaluation of additionality to be conducted after IFC's adoption of the enhanced additionality framework in 2018, a key part of the IFC 3.0 approach. Although too little time has passed since 2018 for IEG to conduct a full assessment of its implementation, the evaluation will aim to identify emerging issues and trends that may help IFC enhance its approach to additionality. In addition, through its country case studies and a deep dive on IFC instruments, the evaluation will consider additionality through IFC platforms and partnerships.

## **4. Evaluation Framework and Questions**

4.1 IFC states that its engagement in MICs is guided by an intention to achieve high additionality, leading to strong development impact. Country- and project-level considerations are used to identify IFC's additionality. Figure 4.1 offers a theory of change for IFC's approach to additionality in MICs in country context, reflecting IFC's stated aspirations. 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.<sup>6</sup> 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 projects' development impact. At the country level, IFC's approach seeks complementary and well-sequenced interventions to maximize portfolios' effects on the country. Deployment of "beyond-the-project solutions," such as platforms and 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 risk, complexity, and innovation in UMICs than in LMICs. The bottom box of figure 4.1 indicates that other country and market contextual factors specific to each engagement will influence outcomes.

**Figure 4.1. 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.

4.2 The evaluation will assess the relevance and effectiveness of IFC’s approach to additionality at the project level and in country context to capture lessons of experience. The evaluation will assess 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 will also assess the effectiveness of IFC’s approach to additionality at the project and country levels, in countries of differing characteristics. The evaluation will use the country level as a lens to understand the types of additionalities most commonly claimed and delivered by IFC in MICs in diverse contexts and to understand patterns of sequencing and complementarity of activities. IEG will not aggregate project additionalities at the country level. Finally, it will capture lessons of IFC’s experience for strengthening its additionality by building on success factors and learning from failure.

4.3 The evaluation questions include the following.

Overarching question: What is the relevance and effectiveness of IFC’s approach to additionality in MICs as a means to enhance development impact?

Q1. To what extent does IFC’s promised additionality vary and what explains variance according to the following:

- a. Country and industry/sector conditions in LMICs and UMICs?
- b. IFC instrument?
- c. The presence and role of other providers of finance and services in the same industry, sector, or country?

Q2. To what extent was IFC's promised financial and nonfinancial additionality:

- a. Actually realized in LMICs and UMICs?
- b. Plausibly linked to enhanced development outcomes and impact at the project, industry or sector, and country level?

Q3. How can IFC strengthen its additionality at the country, industry or sector, and project or instrument level?

## 5. Evaluation Design

5.1 This evaluation is theory based and multilevel and applies mixed methods. First, the evaluation will be based on a theory of change that outlines the links among IFC's interventions, additionality, and outcomes achieved. Second, the evaluation will analyze IFC additionality and contribution to development outcomes in MICs at the global, country, and intervention level, taking into account key contextual factors as elaborated in the theory of change (figure 4.1). Third, the evaluation will apply a combination of methodologies that will provide qualitative and quantitative evidence to answer the evaluation questions. The use of such mixed methods will support triangulation of findings of the evaluation from multiple sources to enhance their robustness. Finally, to the extent possible the evaluation will consider evidence of any differences in the treatment of additionality before and after the introduction of IFC's additionality framework. Methods include the following:

- **Portfolio review and analysis (PRA) of evaluated projects.** IEG will conduct a PRA of IFC additionality and development outcomes of all evaluated investment services and advisory services projects (evaluated during FY11–21) and an analysis of success factors. Project identification and classification will be based on a country's MIC status at approval. Evaluated projects include IFC's investments in funds but not platforms and programs that are excluded from the self-evaluation system. Through a review of project documents and project evaluations, the team will capture types of additionality (financial and nonfinancial) identified at approval and the extent to which they were subsequently delivered, and aspects that affect the realization of the promised additionalities. The PRA will analyze broad patterns of additionality, including



across different country characteristics (for example, income, region, financial depth, and risk level) to provide insights into common types and sources of additionality, trends over time, trends across project types (investment and advisory instruments), and the use of both stand-alone advisory services projects and those accompanying investment projects. This PRA will also provide an important data source for analyzing the relationships among additionality, development impact, and profitability, including through an econometric analysis. It will also provide a first look at the relationship of additionality to development impact as captured in project-level evaluations.

- **PRA of unevaluated projects.** Because more recent IFC projects are not yet evaluated, IEG will conduct a PRA on the treatment of additionality in a representative sample of unevaluated projects. From a representative sample of unevaluated projects, the PRA will explore the types and sources of additionalities claimed in approval documents, variation across instruments, relevance to sector and country characteristics, and the use of linked investment services and advisory services.
- **Statistical and econometric analysis.** The analysis will use PRA data and outside indicators to relate the successful attainment of financial and nonfinancial additionality to a variety of explanatory factors, including country and sector characteristics, the state of market and institutional development, and more.
- **Country case studies with nested industry/sector case studies.** IEG will conduct case studies at the country and project level in a purposive sample of up to 10 countries. Country selection will be purposive to reflect diverse country conditions, including country income (UMIC versus LMIC), region, and fragility. To enhance learning, case study countries will be chosen from among those with significant IFC engagement, and some sectoral clustering will be sought to understand relevance and effectiveness across varying conditions. The case studies will answer a template of questions linked to the evaluation questions. Cases will involve both desk-based and remote field assessments. IEG will use case studies to identify the relevance and effectiveness of IFC's engagement in diverse countries viewed through an additionality lens. Thus, case studies will capture IFC's additionality delivered in the context of country conditions and priorities, IFC's comparative advantages, and the presence or absence of alternative sources of funding or know-how. They will also gather evidence on IFC's contribution to development outcomes at the country level, including to the two stated goals under IFC 3.0 of capital mobilization at scale and market creation. Case studies allow IEG to explore the relevance and effectiveness of the full range of IFC engagements, including through platforms and partnerships.

Given the large number of projects in some countries (for example, 171 in China), a sharper focus at the industry/sector level may help derive lessons. Nested industry/sector studies will, as part of each country case, look in greater detail at one or two sectors, interviewing relevant clients or stakeholders to understand project relevance and effectiveness in achieving additionality, and capturing lessons. IEG will use a contribution analysis framework to assess IFC's contribution—considering the likely additionality of IFC activities and support on observed outcomes and constructing plausible accounts of IFC contribution while taking into account rival explanatory factors and unintended effects.

- **Review of Country Strategies and diagnostics.** The evaluation will conduct a systematic document review for a sample of MICs that will include IFC-relevant sections of Systematic Country Diagnostics, Country Partnership Frameworks, Country Private Sector Diagnostics, and IFC's own Country Strategies. The objective is to understand (i) how IFC positioned itself in these countries to achieve financial and nonfinancial additionality to contribute to achieving development objectives in terms of instruments, sectors, and application of IFC 3.0 in using sequencing, complementarity, the cascade, and partnerships, and (ii) the relationship of IFC's strategies to identified country needs.
- **Literature review on additionality.** The evaluation will explore the available literature on donor financial and nonfinancial additionality in the private sector, including on links of additionality to development outcomes and to donor financial sustainability.
- **Semistructured interviews of experts.** Using a protocol for semistructured interviews, the team will interview IFC staff and management, IFC clients and counterparts, and Bank Group and external stakeholders with relevant experience and perspectives. The interviews will discuss, among other topics, aspects of IFC's additionality beyond what is reflected in corporate documents, contributions of alternative instruments (including projects, platforms, and partnerships or funds) to additionality, use of additionality as a decision-making tool, differences between LMICs and UMICs, and identification of best practices.
- **Input papers and deep dives.** The team will produce input papers covering important topics for the evaluation. These are anticipated to include the following:
  - A needs assessment of UMICs versus LMICs;
  - An examination of additionality features of IFC's financing instruments (including platforms and partnerships) in MICs;

- An examination of how IFC addresses environmental and social dimensions of additionality;
- An exploration of relationships among additionality, development impact, and profitability;
- A comparative analysis of development finance institutions' additionality approaches.

5.2 At the project level, the evaluation will rely on assessments of additionality conducted by IEG and IFC through the established and validated self-evaluation process (the Expanded Project Supervision Report system). This system rates additionality based on an assessment of delivery against additionality claims presented in the Board report (which uses the typology established in IFC's additionality framework). Most Expanded Project Supervision Reports consider both delivery of promised additionalities and unforeseen positive or negative additionality in assigning an additionality rating to the project (appendix B). Although the evaluation will rely on the additionality definitions included in the additionality framework, a detailed consideration of country and sector context is needed to establish whether IFC value added was unique and can be causally associated with development outcomes. At the country level, where IFC strategy documents describe the envisioned IFC's added value, the evaluation can gauge, based on the PRA or case studies, whether IFC's activities in the country over the evaluated time period can be considered to have delivered it.

## **6. Evaluative Limitations and Risks and Their Mitigation**

6.1 The team recognizes that each of the methods will face multiple challenges and limitations. The first is the challenge of identifying additionality, which requires establishing a counterfactual that is rarely available, and of measuring it. Data to support this are limited. In the case of project documents, IEG will be dependent on the quality of IEG's and IFC's prior analysis of additionality. In the case of country case studies, it is anticipated that there will be incomplete information to judge (i) what financing, market developments, or reforms would have occurred without IFC engagement, and (ii) to what extent observed changes are attributable to IFC activities (and what might have occurred without IFC's engagement). IEG will use a contribution analysis framework to assess IFC's contribution—to build plausible accounts of the extent to which observed outcomes can be explained by IFC's activities and additionality. This approach will assess IFC's contribution while taking into account rival explanatory factors and unintended effects.<sup>7</sup> To address the challenge of generalization of the findings of the evaluation, IEG will conduct country case studies that reflect major attributes of diverse global conditions in MICs. IEG also recognizes

potential biases from omitted factors that may in fact contribute to some observed outcomes. Omitted variable bias can lead to misestimation of the influence of observed factors. For example, the coronavirus (COVID-19) pandemic may be an important but difficult-to-capture explanatory factor in the later part of the evaluation period. To mitigate this risk, IEG will actively explore alternative explanations for observed outcomes through its analysis and interviews. IEG also recognizes that, in the age of COVID-19, when travel to countries is constrained, interviews and data gathering may also be constrained. Remote interviews may be limited by response rates, stakeholder availability and candor, or competing stakeholder priorities. To address this, IEG has developed protocols for remote missions to increase the likelihood of successful interviews. The team will also cross-check individual interviews for consistency with other information sources. Ultimately, IEG will rely on triangulation among multiple data sources and methods to increase the quality and reliability of its findings and conclusions. Triangulation facilitates validation of data through cross-verification from multiple sources, testing the consistency of findings obtained through different instruments.

## **7. Staffing, Resources, and Quality Assurance**

7.1 This evaluation will be led by Belen Barbeito (Financial and Private Sector Micro Unit) and Andrew Stone (Financial, Private Sector, Infrastructure, and Sustainable Development) under the guidance of Marialisa Motta (Financial, Private Sector, Infrastructure, and Sustainable Development) and the direction of Carmen Nonay (Financial, Private Sector, and Sustainable Development). The team will also include Hiro Kambe, Aurora Medina Siy, and Stephan Wegner (all Financial, Private Sector, Infrastructure, and Sustainable Development) and Gurkan Kuntasal (Financial and Private Sector Micro Unit). Other team members include Sylvie Bishweka, Mariana Calderon, Doruk Yarin Kiroglu, Orlando Rodriguez, and Rasec Niembro Urista. Specific case studies or deep dives will be led by Amitava Banerjee, Andrew Kilpatrick, Keith Leonard, and Riad al Khouri. Methods team support will be provided by Harsh Anuj, Ariya Hagh, and Estelle Raimondo. Other expertise (including on IFC instruments) will be contracted as needed. Beata Lenard (Financial and Private Sector Micro Unit) will advise the team. Elisabeth Crespo, Feruza Abduazimova, and Romaine Pereira will provide administrative support. Other IEG staff will be consulted as needed.

7.2 This evaluation will be subject to IEG's standard internal quality assurance and external quality review process. Three peer reviewers will provide guidance and quality assurance at the concept stage. These include Rashad Kaldany, Roland Michelitsch, and Inder Sud. The evaluation has an estimated budget of US\$850,000.

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<sup>1</sup> See <https://data.worldbank.org/indicator/EN.ATM.CO2E.KT?view=chart>.

<sup>2</sup> The International Monetary Fund's analysis is of "emerging market economies," which it distinguishes from "low-income developing countries" and "advanced economies" and which roughly, but imperfectly, correspond to middle-income countries (Gaspar et al. 2019).

<sup>3</sup> See, for example, Kenny and Moss (2020).

<sup>4</sup> "For [the International Finance Corporation (IFC)], delivering both the Capital Package commitments and IFC 3.0 requires further shifts to challenging and complex markets, and as a consequence, a higher cost of doing business. To do this in a sustainable manner, IFC resources will be judiciously deployed toward creating markets, upstream work and implementation of the Cascade. As such, the continuation of operational and financial strategies to conserve capital and optimize its balance sheet, including mobilization, asset sales and the application of a 'portfolio approach' to investments, remain critical" (World Bank Group 2019).

<sup>5</sup> Independent Evaluation Group evaluations treating IFC additionality include the following: World Bank 2008, 2011a, 2011b, 2015, 2016, 2017a, 2017b, 2018.

<sup>6</sup> This evaluation is one of a cluster examining important aspects of IFC 3.0 and IFC corporate effectiveness. This includes parallel fiscal year (FY)24 work on new tools for engagement employed by IFC, covering Country Private Sector Diagnostics, IFC sector deep dives, and IFC Country Strategies (FY23), and an FY24 evaluation of Anticipated Impact Measurement and Monitoring (AIMM) and the Multilateral Investment Guarantee Agency's Impact Measurement and Project Assessment Comparison Tool (IMPACT) frameworks.

<sup>7</sup> Contribution analysis is an approach designed to reduce uncertainty about the contribution the intervention is making to the observed results through an increased understanding of why the observed results have occurred (or not) and the roles played by the intervention and other internal and external factors. It involves six steps: (i) establish the attribution problem to be addressed, (ii) develop a theory of change with a clear acknowledgement of assumptions and risks to it, (iii) gather relevant evidence, (iv) assemble and assess a contribution story and challenges to it, (v) seek out additional evidence confirming or challenging the contribution story, and (vi) revise and strengthen the contribution story in line with the evidence. See Mayne (2008).

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## Appendix A. Evaluation Design Matrix

Table A.1 indicates the key questions, sources, and 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
Overarching: What is the relevance and effectiveness of IFC's approach to additionality in MICs as a means to enhance development impact?		
Q1. How does IFC's additionality vary in relation to the following:		
a. Country and industry/sector conditions in LMICs and UMICs?	Portfolio review and statistical and econometric analysis of additionality in IS and AS projects in MICs	Limited evaluative evidence at country level beyond project-level validations Country case studies: Sample of countries will imperfectly reflect the universe of experience.
b. IFC instrument?	Country case studies based on a purposive sample. UMICs versus LMICs deep dive will identify and compare key MIC development needs (for example, basic services, infrastructure, inclusion of underserved populations, and so on). Structured interviews with IFC counterparts (private sector clients, partners, public sector)	IEG will purposively select countries for case studies to reflect major attributes of diverse global conditions in MICs. IEG also recognizes potential biases from omitted factors. Portfolio: IEG will be dependent on the quality of IEG's and IFC's prior analysis of additionality. In the age of the coronavirus pandemic, when travel to countries is constrained, interviews and data gathering may also be constrained. Consistent triangulation among multiple quantitative and qualitative methodologies to draw findings and conclusions
c. The presence and role of other providers of finance and services in the same industry, sector, or country?	Deep dive on comparative analysis of DFIs' approaches Deep dive on IFC's financing instruments will analyze financial markets in MICs and value added of IFC's financial products in the context of local markets. Input note on E&S will map legal and regulatory frameworks in MICs. Requirement and enforcement of E&S standard by commercial financiers and other DFIs and as compared with IFC's own E&S requirements Country case studies: Purposive sample (criterion for selection: representativeness of UMICs and LMICs, significant IFC's portfolio size) Semistructured interviews with IFC counterparts (private sector clients, partners, public sector)	Limited publicly available data on DFIs' additionalities, strategies, and project-level information Limited additionality information and evaluative evidence at country level beyond project-level validations Limited information on availability of financial services in each market Sample of countries will imperfectly reflect the universe of experience. IEG will purposively select countries for case studies to reflect major attributes of diverse global conditions in MICs. IEG also recognizes potential biases from omitted factors. Consistent triangulation among quantitative and qualitative methodologies to draw findings and conclusions.



Key Questions	Data Collection and Analysis Methods	Strengths and Limitations
Q2. To what extent was IFC's promised financial and nonfinancial additionality:		
a. Actually realized in LMICs and UMICs?	<p>Portfolio review and analysis of additionality in IS and AS projects in MICs</p> <p>Statistical and econometric analysis of relationship among additionality and development impact, investment outcome, and other dimensions</p>	<p>Portfolio: IEG will be dependent on the quality of IEG's and IFC's analysis of additionality.</p> <p>Project evaluations rarely show outcomes or whether reforms were sustained.</p>
b. Plausibly linked to enhanced development outcomes and impact at the project, industry or sector, and country level?	<p>Country case studies based on a purposive 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; (ii) to what extent observed changes are attributable to IFC activities</p> <p>Consistent triangulation among quantitative and qualitative methodologies to draw findings and conclusions.</p>
Q3. How can IFC strengthen its additionality at the country, industry or sector, and project or instrument level?	<p>Portfolio review and analysis of additionality in IS and AS projects in MICs</p> <p>Country case studies based on a purposive sample</p> <p>Semistructured interviews with IFC staff: strategy and operations in MICs</p> <p>Semistructured 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; (ii) to what extent observed changes are attributable to IFC activities</p> <p>Sample of countries will imperfectly reflect the universe of experience. IEG will purposively select countries for case studies to reflect major attributes of diverse global conditions in MICs. IEG also recognizes potential biases from omitted factors.</p> <p>Consistent triangulation among quantitative and qualitative methodologies to draw findings and conclusions</p> <p>The evaluation will not conduct a systematic review of procedures or incentives. It will rely mostly on staff feedback and triangulation with other sources.</p>

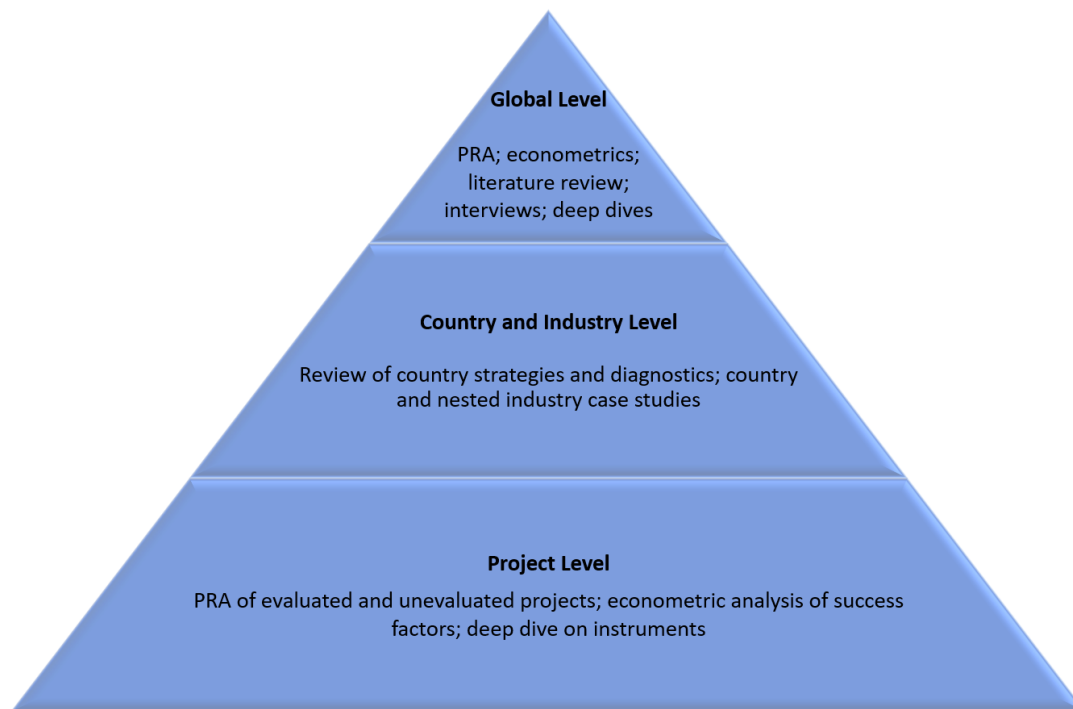
Source: Independent Evaluation Group.

Note: AS = advisory services; DFI = development finance institution; E&S = environmental and social; IEG = Independent Evaluation Group; IFC = International Finance Corporation; IS = investment services; LMIC = lower-middle-income country; MIC = middle-income country; UMIC = upper-middle-income country.

## Appendix B. Methodology

This evaluation adopts three key principles: its analysis is theory based and multilevel and applies mixed methods. First, the evaluation is based on a theory of change that outlines the causal links among interventions and additionality and outcomes achieved in the International Finance Corporation's (IFC) support for middle-income countries (MICs). Second, it will analyze IFC additionality and contribution to development outcomes in MICs at the global, country, and intervention level, taking into account key contextual factors as elaborated in the theory of change. Third, the evaluation will apply a combination of methodologies that will provide qualitative and quantitative evidence to answer the evaluation questions (figure B.1). The use of such mixed methods will support triangulation of findings of the evaluation from multiple sources to enhance their robustness.

Figure B.1. Evaluation Methods and Levels



Source: Independent Evaluation Group.

Note: PRA = portfolio review and analysis.

1. Portfolio review and analysis of additionality for all evaluated investment services and advisory services projects and econometric or statistical analysis of success factors.
2. Portfolio review and analysis on treatment of additionality for sample of unevaluated projects.
3. Country case studies with nested project case studies in a purposive sample of up to 10 countries.
4. Broader review of Country Strategies and diagnostics.
5. Literature review on additionality.
6. Semistructured interviews.
7. Deep dives or input notes on comparative analysis of multilateral development bank or donor additionality approaches; upper-middle-income countries versus lower-middle-income countries; financing instruments in middle-income countries; environmental and social dimensions; relationships among additionality, development impact, and profitability.

Methods include the following:

- **Portfolio review and analysis (PRA) of evaluated projects.** The Independent Evaluation Group (IEG) will conduct a PRA of IFC additionality and development outcomes of all evaluated investment services and advisory services projects (evaluated during fiscal years [FY]11–21) and related econometric analysis on success factors. The review will identify types of additionality (financial and nonfinancial) promised at approval and subsequently delivered, and aspects that affect the realization of the promised additionalities. The PRA will analyze broad patterns of additionality, including across different country characteristics (income, state of financial sector and market development, sources of comparative advantage, fragile and conflict-affected situation status, and so on) to provide insights into common types and sources of additionality, trends over time, across project types (investment and advisory instruments), the relationship of additionality promised to additionality as evaluated, and the use of linked investment services and advisory services. The PRA will also provide an important data source for analyzing the relationship among additionality, development impact, and profitability.
- **PRA of unevaluated projects.** Because more recent IFC projects are not yet evaluated, IEG will conduct a PRA on the treatment of additionality in a sample of unevaluated projects that will focus on their treatment of additionality. The PRA will explore the types and sources of additionalities claimed in approval documents, variation across instruments, relevance to sector and country characteristics, and the use of linked investment services and advisory services.
- **Statistical and econometric analysis.** The analysis will use PRA data and outside indicators to relate the successful attainment of financial and nonfinancial additionality to a variety of explanatory factors, including country and sector characteristics, the state of market and institutional development, and more. In addition, relationships among project-level data on additionality, financial performance, and development outcomes will be explored.
- **Country case studies with nested industry/sector case studies.** IEG will conduct case studies at the country and project level in a purposive sample of up to 10 countries. Country selection will be purposive to reflect diverse country conditions, including country income (upper-middle-income country versus lower-middle-income country), region, financial sector depth, and risk level. Nine countries will be selected on case studies based on the following criteria:
  - Critical mass: Identification of 20 largest MIC portfolios from FY11 through FY21;

- Income, region, and fragility;
- Consideration of the main industries and sectors (levels 1 and 2) covered to achieve both diversity and sectoral clustering (including financial markets, electricity, agribusiness, and forestry and manufacturing).
- **Country case studies.** The case studies will answer a template of questions linked to the evaluation questions. Cases will involve both desk-based and remote field assessments. IEG will use the case studies to identify the relevance and effectiveness of IFC's engagement in diverse countries viewed through an additionality lens. Thus, case studies will capture IFC's additionality delivered at the country level in the context of country conditions and priorities, IFC's comparative advantages, and presence or absence of alternative sources of funding or know-how. They will also gather evidence on IFC's contribution to development outcomes at the country level. Case studies allow IEG to explore the relevance and effectiveness of the full range of IFC engagements, including through platforms and partnerships. Given the large number of projects in some countries (for example, an estimated 166 projects in Brazil, 171 in China, and 364 in India), a sharper focus at the industry/sector level may help derive lessons. Nested industry studies will, as part of each country case, look in greater detail at one or two sectors, interviewing relevant clients or stakeholders to understand project relevance and effectiveness in achieving additionality, and capturing lessons. IEG will use a contribution analysis (box B.1) framework to assess IFC's contribution—considering the likely additionality of IFC activities and support on observed outcomes and constructing plausible accounts of IFC contribution while taking into account rival explanatory factors and unintended effects.
- **Review of Country Strategies and diagnostics.** The evaluation will conduct a systematic document review for a sample of MICs that will include IFC-relevant sections of Systematic Country Diagnostics, Country Partnership Frameworks, Country Private Sector Diagnostics, and IFC's own Country Strategies. The objective is to understand (i) how IFC positioned itself in these countries to achieve financial and nonfinancial additionality to contribute to achieving development objectives in terms of instruments, sectors, and application of IFC 3.0 in using sequencing, complementarity, the cascade, and partnerships, and (ii) the relationship of IFC's strategies to identified country needs.
- **Structured literature review on additionality.** The team will commission a structured review after IEG's protocol to explore the available literature on donor financial and nonfinancial additionality in the private sector, including on links of additionality to development outcomes.

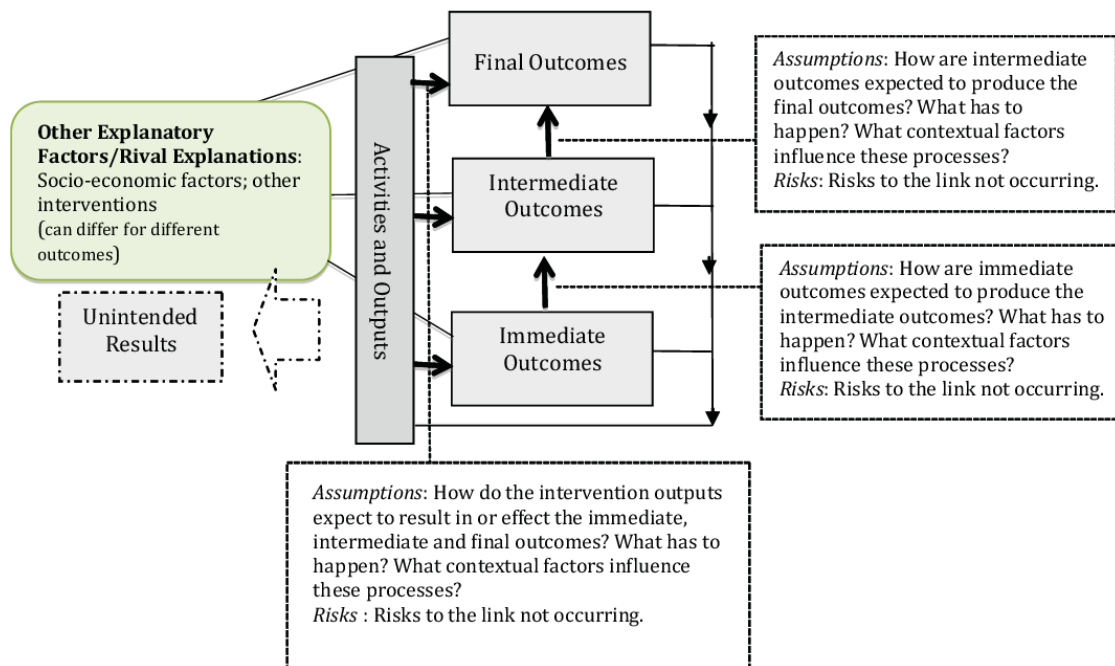
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## Box B.1. Contribution Analysis

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Contribution analysis is an approach for assessing causal questions and inferring causality in real-life program evaluations. It offers a step-by-step approach designed to help managers, researchers, and policy makers arrive at conclusions about the contribution their program has made (or is currently making) to particular outcomes through an increased understanding of why the observed results have occurred (or not) and the roles played by the intervention and other internal and external factors. The report from a contribution analysis is not definitive proof, but rather provides evidence and a line of reasoning from which we can draw a plausible conclusion.

Figure BB.1.1



Six steps are taken to produce a credible contribution story:

1. Set out the attribution problem to be addressed;
2. Develop a theory of change and risks to it;
3. Gather the existing evidence on the theory of change;
4. Assemble and assess the contribution story, or performance story, and challenges to it;
5. Seek out additional evidence;
6. Revise and, where the additional evidence permits, strengthen the contribution story.

Source: [https://www.betterevaluation.org/en/plan/approach/contribution\\_analysis](https://www.betterevaluation.org/en/plan/approach/contribution_analysis).

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- **Semistructured interviews of experts.** The team will follow a protocol for semistructured interviews on additionality with IFC staff and management and World Bank Group and external stakeholders with relevant experience and perspectives.
- **Input notes or deep dives.** The team and specialist consultants will produce input papers covering important topics for the evaluation. These are anticipated to include the following:
  - A needs assessment of upper-middle-income countries versus lower-middle-income countries;
  - An examination of additionality features of IFC's financing instruments in MICs;
  - An examination of how IFC addresses environmental and social dimensions of additionality;
  - An exploration of relationships among additionality, development impact, and profitability;
  - A comparative analysis of various development finance institutions' additionality approaches.

At the project level, the evaluation will rely 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 of Executive Directors report (which uses the typology established in IFC's additionality framework). Most XPSRs consider both delivery of promised additionalities and unforeseen positive or negative additionality in assigning an additionality rating to the project. Although the evaluation will rely on the additionality definitions included in the additionality framework, a detailed consideration of country and sector context is needed to establish whether IFC value added was unique and can be causally associated with development outcomes.

At the country level, where IFC strategy documents describe the envisioned IFC additionality, the evaluation can gauge, based on the PRA or case studies, whether IFC's activities in the country over the evaluated time period can be considered additional.

At the project level, the evaluation will rely on assessments of additionality conducted by IEG and IFC through the established and validated self-evaluation process (the XPSR system). Box B.2 describes XPSR guidance when assessing the different types of

additionality. The XPSR system rates additionality based on an assessment of delivery against additionality claims presented in the Board report (which uses the typology established in IFC's additionality framework). 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 B.1).

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### Box B.2. XPSR Guidance Questions on Assessing Additionality at the Project Level

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**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 that 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:* Adapted from IFC 2016.

*Note:* XPSR = Expanded Project Supervision Report.

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**Table B.1. International Finance Corporation Additionality: XPSR Rating Benchmarks**

<b>Rating</b>	<b>Benchmarks</b>
Excellent	<p>Both the following criteria are met:</p> <ul style="list-style-type: none"><li>• All aspects of claimed additionality were borne out, and there were significant unforeseen ways in which IFC was additional, and</li><li>• There were no areas where IFC made a negative contribution.</li></ul> <p>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.</p>
Satisfactory	<p>Both the following criteria are met:</p> <ul style="list-style-type: none"><li>• All important aspects of claimed additionality were borne out, or there were unforeseen ways in which IFC was additional, or both, and</li><li>• There were no areas where IFC made a negative contribution.</li></ul> <p>Where IFC has not delivered fully on all aspects of claimed additionality, for a satisfactory rating the XPSR should present evidence as to why the deficiencies are not deemed important in retrospect.</p>
Partly unsatisfactory	<p>Both the following criteria are met:</p> <ul style="list-style-type: none"><li>• One or more important aspects of claimed additionality were not borne out, and</li><li>• There were no areas where IFC made a negative contribution.</li></ul>
Unsatisfactory	<p>Either one or both criteria are met:</p> <ul style="list-style-type: none"><li>• Most or all aspects of claimed additionality were not borne out, or</li><li>• 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).</li></ul>

Source: Adapted from IFC 2016.

Note: IFC = International Finance Corporation; XPSR = Expanded Project Supervision Report.

Assessment of additionality in country context depends not only on what IFC can offer but on what the country or market needs and what other players are providing. Hence, although the evaluation will rely on the additionality definitions included in the additionality framework, a detailed consideration of country and sector context is needed to establish whether IFC value added was unique and can be causally associated with improvements in the country's development challenges. Additionality might be enhanced at the market or country level through a combination of interventions (as noted in IFC's comments when referring to some programmatic approaches) rather than by individual projects, and additionality is relative as it depends on what others are doing. Hence, looking at the country level allows IEG to explore IFC's engagement over time (sequencing) and in the context of other Bank Group and external activities (complementarity).

Where IFC strategy documents describe the envisioned IFC additionality in a particular country or set of countries, the evaluation can gauge, based on portfolio work or case study, whether IFC's activities in the country over the evaluated time period can be considered additional. In the case of country case studies, it is anticipated that there will



be incomplete information to judge (i) what financing, market developments, or reforms would have occurred without IFC engagement and (ii) to what extent observed changes are attributable to IFC activities. IEG will use a contribution analytic framework to consider the likely additionality of IFC activities and support on observed outcomes.

## **Reference**

IFC (International Finance Corporation). 2016. "Instructions for Preparing an XPSR" (Internal). Washington, DC: IFC.