APPENDIX B: PROJECT EVALUATION METHODOLOGY—INVESTMENT OPERATIONS

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

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

- ***Project business success:*** In financial market (FM) operations, project business performance measures the project's long-term impact on the financial intermediary's profitability and viability, using such indicators as capital adequacy, asset quality, management quality, earnings performance, and liquidity structure and balance sheet. In non-financial market (non-FM) operations, project business performance measures the project's actual and projected financial impact on the company's financiers, that is, lenders and equity investors. The principal indicator of a project's business performance is its real, after-tax, financial rate of return.
- ***Economic sustainability***: In non-FM operations, this indicator evaluates the project's effects on the local economy, and on the associated benefits and costs that are measured by economic rates of return. In addition to the project's effects, subprojects' effects are included in the FM operations' economic sustainability analysis.
- ***Environmental and social effects:*** IFC's Policy and Performance Standards on Social & Environmental Sustainability (2006) consider social and environmental sustainability to be an important component of development outcome quality in the IFC-financed projects. The XPSR's assessment of environmental and social effects should cover: (i) the project's environmental performance in meeting IFC's requirements; and (ii) the project's actual environmental impacts (through sub-projects in the case of FM operations), including pollution loads, conservation of biodiversity and natural resources. More broadly, it should also cover social, cultural, and community health aspects, as well as labor and working conditions and workers' health and safety.
- ***Private sector development impacts*** (beyond the project): IFC's *Purpose*, specified in Article I, is "encouraging the growth of productive private enterprises," and to that end, IFC shall "seek to stimulate, and to help create conditions conducive to the flow of private capital, domestic and foreign, into productive investment." This indicator addresses to what extent the 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.

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

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

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

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

For each of the above principles, a four-point rating scale is used (excellent, satisfactory, partly unsatisfactory, and unsatisfactory), except for the synthesis development outcome rating, which involves a six-point scale (highly successful, successful, mostly successful, mostly unsuccessful, unsuccessful, and highly unsuccessful). In IEG's binary analysis, "high" refers to satisfactory or better on the four-point scale, and mostly successful or better on the six-point scale. Specific rating criteria for each indicator are set out in table B.1.

Table B.1. Project Performance Indicators and Rating Criteria for IFC Investment Operations

Rating	*Excellent*	*Satisfactory*	*Partly Satisfactory*	*Unsatisfactory*
Project Development Outcome				
Project Business Success	*Real Sector:* FRR >= WACC + 2.5% *FM:* Project substantially raised the FI's profitability and substantially improved its viability (targeted funding); High overall profitability of the FI expected in the case of newly established FIs (general funding)	*Real Sector:* FRR >= WACC *FM:* Project had a neutral to positive effect on profitability and improved viability (targeted funding); Adequate overall profitability expected (general funding)	*Real Sector:* FRR >= WACC – 2% *FM:* Project returns were sufficient to cover cost of associated debt, but did not provide adequate returns to equity holders or detracted from viability (targeted funding); Expected long-run returns to equity holders don't provide a risk premium over the cost of debt financing (general funding)	*Real Sector:* FRR < WACC – 2% *FM:* Project returns were insufficient to cover cost of associated debt or harmed viability (targeted funding); Expected long-run returns to equity holders less than cost of debt financing (general funding)
Economic Sustainability	*Real Sector:* ERR >= 20% *FM:* Project substantially increased the efficiency of financial markets and/or the vast majority of sub-projects are economically viable and the project has made a substantial and widespread contribution to improving living standards.	*Real Sector:* ERR >= 10% *FM:* Project positively influenced the efficiency of financial markets and/or most of the sub-projects are economically viable as defined by: (a) sub-borrower portfolio quality is better than, or equal to, the higher of the rest of the FI's loan portfolio or the market average; (b) the aggregate equity fund portfolio return before management fees is satisfactory; or (c) more than half of equity fund investees have positive equity returns while aggregate portfolio return before management fees is less than satisfactory but no less than zero.	*Real Sector:* ERR >= 5% *FM:* Project made no positive contribution to the efficiency of financial markets and/or a large portion of the sub-projects is not economically viable as defined by: (a) sub-borrower portfolio quality is worse than the higher of the rest of the FI's loan portfolio or the market average; or (b) more than half of equity fund investees have zero or negative equity returns, while aggregate portfolio return before management fees is less than satisfactory but no less than zero.	*Real Sector:* ERR < 5% *FM:* Project negatively affected living standards or the efficiency of financial markets and/or the majority of sub-projects are not economically viable as defined by: (a) sub-borrower portfolio quality is worse than both the rest of the FI's loan portfolio and the market average; or (b) the aggregate equity fund portfolio return before management fees is negative.
Environmental and Social Sustainability	*Real Sector:* The project either: (i) maintained the company's excellent environmental management or materially improved the company's overall environmental performance (e.g., through training and addressing environmental, social, cultural and community aspects, as well as labor and	*Real Sector:* The project is—and was over its lifetime—in material compliance with either IFC's current or at-approval requirements, including World Bank Group environmental, health and safety policies and guidelines. *FM:* The project meets either IFC's at approval requirements or IFC's current	*Real Sector:* The project is not in material compliance with either IFC's current or at-approval requirements, but deficiencies are being addressed through ongoing and/or planned actions; or earlier non-compliance (meanwhile corrected) resulted in environmental damage.	*Real Sector:* The project is not in material compliance with either IFC's current or at-approval requirements, and mitigation prospects are uncertain or unlikely; or earlier non-compliance (meanwhile corrected) resulted in substantial and permanent environmental damage.

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Table B.1. Project Performance Indicators and Rating Criteria for IFC Investment Operations ***(continued)***

Rating	*Excellent*	*Satisfactory*	*Partly Satisfactory*	*Unsatisfactory*
Project Development Outcome (continued)				
Environmental and Social Sustainability *(continued)*	working conditions, or introducing an Environmental Management System (EMS) or corporate program for environmental and social responsibility broader than IFC's requirements; or (ii) raised the environmental performance of local companies (e.g., by raising industry standards and serving as a good practice example for regulators). In addition, the project consistently met IFC's at-approval requirements and environmental effects are deemed acceptable in view of IFC's current requirements. IFC should be able to use projects rated excellent as role models for positive environmental effects. *FM:* The project maintained the FI's excellent Environmental Management System (EMS) or materially improved the efficacy of the FI's overall environmental risk management (e.g., through training and introduction of a well-functioning EMS) and the environmental performance of portfolio companies. In addition, the FI has provided transparent and detailed reports on time, verifying that the project (and sub-projects, as applicable) has consistently met IFC's requirements at approval and its environmental effects are deemed acceptable in view of IFC's current requirements. IFC should be able to use projects rated excellent as role models for positive environmental effects.	requirements and its environmental effects are deemed acceptable overall. For all FI project types, trained staff implement an appropriate EMS that has been functioning over the project life (as reflected also in acceptable environmental standards being applied to projects financed by the FI). The sub-projects are and have been in substantial material compliance with IFC's requirements for the life of the project.	*FM:* The project does not meet IFC's requirements, but the shortfalls are either being corrected or negative impacts are moderate. For example: the FI's EMS is adequate, but some sub-projects have resulted in environmental damage; or the sub-projects visited have acceptable environmental standards, but the EMS is materially inadequate; or an FI (type 1) initially had no EMS, but has recently introduced a functioning EMS.	*FM:* The project does not meet IFC's requirements and substantial negative effects are known or likely, (e.g: the FI's EMS is completely inadequate and nothing is known about sub-project performance); the EMS has material shortcomings and some sub-projects have negative environmental effects; while the EMS appears adequate, a significant portion of sub-projects have negative environmental effects; some sub-projects have resulted in substantial and irreversible environmental damage.

Table B.1. Project Performance Indicators and Rating Criteria for IFC Investment Operations *(continued)*

Rating	*Excellent*	*Satisfactory*	*Partly Satisfactory*	*Unsatisfactory*
Project Development Outcome (continued)				
Private Sector Development Impacts (beyond project)	*All Sectors:* Considering its size, the project improved the enabling environment or otherwise made a substantial contribution to the growth of private enterprises or efficient financial markets.	*All Sectors:* The project had some, but no major positive impacts.	*All Sectors:* The project had mostly negative impacts, which, however, are not expected to be of long duration or broad applicability (e.g., a failed project without substantial negative demonstration effects).	*All Sectors:* Substantial negative impacts of broad applicability and/or expected to be of long duration.
IFC Investment Outcome				
Loan	Fully performing and, through a sweetener (e.g., income participation), it is expected to earn significantly more than a loan priced "without sweetener" would have earned if paid as scheduled. There is no indication that debt service payments will not remain current in future.	(i) loan expected to be paid as scheduled; or (ii) loan is prepaid in full; or (iii) loan has been rescheduled and is expected to be paid as rescheduled with no loss of originally expected income. In the case of an IFC guarantee, all fees are expected to be received, and guarantee not called (or called but expected to be fully repaid in accordance with the terms of the guarantee agreement). In the case of an IFC swap or other risk-management facility, IFC has not suffered any loss and expects no loss due to non-performance of the swap counterparty. There is no indication that debt service payments to IFC will not remain current in future.	Loan has been rescheduled, or guarantee is called and in either case IFC expects to receive sufficient interest income to recover all of its funding cost but less than the full dollar margin originally expected. If all payments to IFC are current, but there is doubt whether payments can remain current in future, then a partly unsatisfactory rating may be preferable. For example, IFC may establish "flag" loss reserves of modest size (no more than 10%) for reasons such as country conditions, which are not related specifically to IFC's project. In these cases, a partly unsatisfactory rating may be used rather than unsatisfactory.	(i) loan is in non-accrual status; or (ii) IFC has established specific loss reserves; or (iii) loan has been rescheduled but IFC does not expect to recover at least 100% of its loan funding cost; or (iv) loan has been or is expected to be wholly or partially converted to equity in restructuring of a "problem" project; or (iv) IFC experiences a loss on its guarantee or risk-management facility.
Equity	Benchmarks vary, depending on the nature of the equity investment.			

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Table B.1. Project Performance Indicators and Rating Criteria for IFC Investment Operations ***(continued)***

Rating	*Excellent*	*Satisfactory*	*Partly Satisfactory*	*Unsatisfactory*
IFC Work Quality				
Structuring, Appraisal and Screening	IFC's front-end work could serve as a best-practice example.	Materially met IFC's good practice standards.	Material shortfall in at least one important area.	Material shortfalls in several areas or a glaring mistake or omission bordering on negligence in at least one important area.
Supervision and Administration	IFC has always kept itself promptly and fully informed about the project's and FI's performance in all material areas and used this knowledge proactively to improve the project's development outcome and/or IFC's investment outcome.	IFC has kept itself sufficiently informed to react in a timely manner to any material change in the project's and FI's performance and took timely action where needed.	IFC's supervision was insufficient to monitor the project's and FI's performance and/or IFC did not take timely and appropriate action.	IFC missed material developments, and/or did not use information to intervene in a timely and appropriate manner.
Role and Contribution	IFC's role was essential for the project to go ahead <u>and</u> IFC made a major contribution to make it a success.	IFC's role and contribution were in line with its operating principles (of being catalytic and making a special contribution).	IFC's role or contribution fell short in a material area.	IFC's role was not plausibly additional and IFC did not deliver its expected contribution.

Source: IEG.
Note: ERR = economic rate or return, FRR = financial rate of return, WACC = weighted average cost of capital.

APPENDIX H: PROJECT EVALUATION METHODOLOGY—ADVISORY SERVICES

The development performance indicators and rating criteria applied by IEG in reviewing Advisory Services Project Completion Reports (PCR) are set out in table H.1 below.

Table H.1. Project Performance Indicators and Rating Criteria for IFC Advisory Services Operations

Rating	Definition	*Excellent*	*Satisfactory*	*Partly Satisfactory*	*Unsatisfactory*
Strategic Relevance	Importance to achieving country strategic objectives, appropriateness at initiation and completion, including whether Advisory Services was the appropriate instrument	Major priority issues addressed; National/regional level impact was achieved; Highly appropriate for conditions at initiation and completion; Appropriate client contribution was achieved	Major priority issues addressed to a large extent; Potential major impact on direct recipients and/or local community; Appropriate for conditions at initiation and completion; Majority of appropriate cost recovery achieved	Some priority issues overlooked; Assistance was appropriate at initiation, but conditions changed and assistance was not adopted accordingly; Less than appropriate cost recovery achieved	Addressed low priority issues; Not appropriate given the conditions at initiation; No cost recovery, or contribution was not appropriate
Output Achievement	Immediate project deliverables (products, capital goods, services or advice)	All major outputs achieved with excellent quality; or More than expected outputs achieved with at least satisfactory quality	All major outputs achieved with satisfactory quality	At least one major deliverable not achieved; or At least one major output of less than satisfactory quality	Few or no major outputs achieved; or Several major outputs of less than satisfactory quality
Outcome Achievement	Short- or medium-term (positive and negative, intended or unintended) behavioral changes resulting from the advisory project	All or most major outcomes achieved; Client attributed changes in behavior and performance to the advisory project.	Most of the major outcomes achieved; Client indicated the advisory project contributed to major changes in behavior and performance.	Less than half of the major outcomes achieved; Client attributes limited influence on behavior/performance changes.	Few or none major outcomes achieved; Client attributes limited influence on behavior/performance changes or they had perverse effects
Impact Achievement	Intended longer-term effects of the advisory intervention	Exceptional benefits beyond direct recipients, at the national, regional, global level; Impacts extended nationally or internationally as best practice and recommended for replication; All major impacts achieved with strong attribution to the project backed by evidence from a solid methodology.	All intended impacts on direct recipients have been achieved with attribution to the project backed by solid evidence; Most direct impacts have been achieved and some impacts were achieved beyond direct recipients with attribution to the project backed by solid evidence.	Intended impacts on direct beneficiaries mostly achieved, but attribution to the project is weak; Intended impacts partly achieved; Intended impacts mostly achieved, but some negative impacts occurred	Intended impacts not achieved; or Negative impacts occurred
Efficiency	Ratio of costs to benefits; Economy in use of resources; Cost in relation to alternatives	Highly positive cost-benefit ratio; Resources expended highly economically; Resources far less costly than alternatives	Positive cost-benefit ratio; Resources expended economically; Resources reasonable in relation to alternatives	Negative cost-benefit ratio; Resources could have been at times expended more economically; More reasonable alternatives available and could have been used	Highly negative cost-benefit ratio; Resources could have generally been expended more economically; Significantly more reasonable alternatives available and could have been used
Development Effectiveness	Synthesis (not an average) of the above five dimensions	6-point scale, ranging from Highly Successful (overwhelmingly positive development results and virtually no flaws) to Highly Unsuccessful (negative developments and no positive aspects to compensate).			

Source: IEG