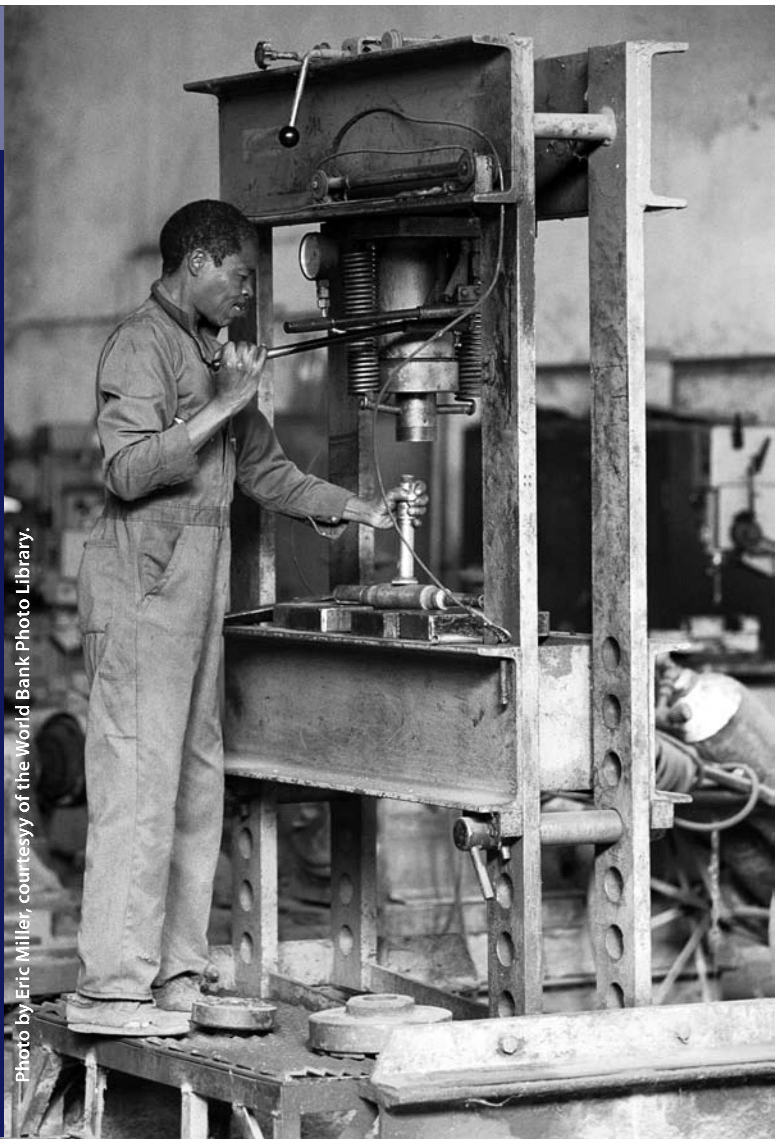
Management Response

Introduction

The report provides a welcome support for the International Finance Corporation's (IFC) continuing pursuit of poverty reduction. Poverty reduction is at the core of IFC's strategic outlook, as reflected in its vision of people having the opportunity to escape poverty and improve their lives. The report notes IFC's continuing evolution in strategic approaches to poverty reduction and recent initiatives aimed at enhancing broad development impact such as the piloting of IFC Development Goals.

We broadly agree with report's lessons and recommendations. They come at an opportune time, given: (i) the need to balance inclusiveness and broad-based growth, as reflected in IFC's FY12–14 Road Map, (ii) the recent consolidation of results measurement under a department exclusively focused on development impact, and (iii) the creation of an Inclusive Business Group aimed at supporting companies with financially sustainable inclusive business models that provide goods, services, and livelihoods to people at the base of the pyramid.



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A key next step for IFC in its poverty focus is to better articulate poverty dimensions in its projects. As this report shows, IFC has not been consistent in stating ex ante the anticipated poverty reduction effects of a project, and then either tracking the outcomes when appropriate or undertaking periodic evaluations to update the assumptions on which these expectations were based. As the report indicates, the fact that a project does not provide evidence of poverty reduction effects does not mean that there was no contribution to poverty reduction. We feel, however, that the report's core recommendation about making assumptions more explicit, and building learning about poverty reduction into project design, is welcome.

Specific Comments

Besides the response to recommendations below in the recommendation matrix, we would like to provide some comments on a few other points.

- *Sponsor motivation.* The report is silent on the question of sponsor motivation. The majority of IFC private sector clients do not have a poverty reduction objective. A key challenge IFC staff face is to acknowledge clients' perspectives and explore how best to incorporate poverty reduction objectives in ways that are acceptable to the client. We continue to learn how best to do this and the judgment calls involved.
- *Focus on a few IDA* (International Development Association) *countries.* The report suggests IFC's investments need to be allocated to more than a few countries. This is based on the report's finding that IFC's relative share of investments in IDA is higher than the relative share of foreign direct investments, and IFC's investments are concentrated on four countries (most recently India, Nigeria, Pakistan, and Vietnam). The report's suggestion should, however, be put in the following context: (i) the concentration on these countries has declined

recently, and (ii) focus on these four countries did not prevent IFC from doing significant work in other IDA countries—as the report indicates, IFC has greatly increased the number of IDA countries it is engaged in and overall volumes and number of projects.

- *Frontier regions.* The observation on absolute numbers of poor is interesting. But IFC does not aim to reach the majority of the poor or the largest possible number. As the report notes in other sections, IFC's role is to be selective, intervening when it believes it can help demonstrate innovation or be catalytic, opening up markets, sectors, or population segments that have been unserved or excluded. The absolute number analysis needs to be considered alongside opportunity; there may well be more private sector–led opportunity in urban areas than in remote rural areas. So the principles the Independent Evaluation Group (IEG) suggests in chapter 2 may need an additional principle related to opportunity.
- *Advisory Services.* The report's review of advisory services demonstrates the rapid evolution in this business in recent years. In this context, caution needs to be exercised in drawing conclusions from a random sample of closed projects, which were often approved and launched several years ago. This influences the extent to which project documents explicitly elaborate links between project outputs and poverty and other development impacts. The suggestion that issues associated with access to basic and essential services and to jobs receives relatively little attention and also seems to be influenced by the sampling approach. For example, most projects in the public-private partnership (formerly infrastructure) business line have a strong focus on expanding or improving access to basic and essential services, and most projects in the investment climate business line have a strong focus on growth, investment, and job creation. The question of whether IFC advisory services should expand its focus on issues related to access to land depends in part on issues of comparative advantage within the World Bank Group.
- *IDA volumes and project count.* The IDA project count used in the IEG report does not capture multicountry projects with IDA components. For this reason, the report underestimates the IDA participation, including the fact that IFC's projects in IDA have been consistently growing in terms of commitment volume and project count.


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Conclusion

The above points should not dilute the fact that the report offers relevant and timely recommendations for going forward. We agree with the general thrust of these recommendations, as shown in the Management Response Table that begins on page 22.

Management Response Table: Assessing IFC's Poverty Focus and Results

IEG findings and conclusions	IEG recommendations
• At the strategic level, IFC's priorities on frontier areas and sectors such as infrastructure, agribusiness, health and education, and financial markets are largely consistent with a poverty focus in that they reflect geographic, sectoral, and equity aspects that, as evidence suggests, are correlated with enhanced opportunities for the poor. But strategic sectors are defined in such broad terms that although they are consistent with a pro-poor orientation, they need to be designed and implemented in ways that enhance opportunities and impact on poor people. • Frontier regions in middle-income countries are defined on the basis of per capita income differential between country and regional averages. This criterion tends to focus IFC on the regions with the highest poverty rates. However, poverty maps show that the largest concentrations of poor people are not in the locations with the highest poverty rates. • Although there is growing recognition that IFC's support for private sector development can benefit the poor, there is less clarity about what poverty means within the IFC context, which segments of the poor are likely to benefit, and how they benefit from interventions.	**1. At the strategic level, IFC needs to:** • Adopt a more strategic approach to addressing poverty, including sharpening the definition and shared understanding of poverty and poverty impact within the IFC context and providing guidance to staff on how to operationalize it within the development effectiveness framework at the strategy and project levels. In particular, in middle-income countries, adopt more nuanced concepts of poverty when defining frontier regions, taking into consideration the incidence of poverty, spatial distribution of the poor, and non-income dimensions.
• To know what helps reduce poverty, what works and what does not, and what changes over time, poverty has to be defined and measured. IFC, as a member of the World Bank Group, does benefits from different methods of defining and measuring poverty. However, to be able to meet the needs of the poor, it needs to know: Who are the poor? Where they are located? How can they be reached them with appropriate interventions? IFC needs to think carefully about these questions and produce answers based on its own experience and evidence. • Enhancing IFC's poverty focus implies the need to be more strategic, including paying greater attention to sectorwide approaches that effectively combine development goals, IFC's investment and advisory services instruments, and country strategic priorities. Maximizing development impact from a limited capital base also means greater effort at seeking complementary relationships with partners, including within the World Bank Group.	• Establish a consultative framework to support institutional efforts on articulation, measurement, and reporting of poverty impacts within the IFC context, including the participation of Poverty Reduction and Economic Management, Development Economics, and the Finance and Private Sector Development Networks of the World Bank Group and partner organizations to better address poverty and distributional issues, beyond company-level impacts.

Acceptance by management (yes/no)	Management response
Yes	We welcome this recommendation, which is consistent with the findings of IFC's internal review of its middle-income country strategy. The report indicates that IFC contributes to poverty reduction on two dimensions (i) indirectly through broad-based growth and (ii) directly through inclusive growth. In developing its strategy, IFC is cognizant of the fact that not all projects could focus on both dimensions. The upcoming FY12–14 Road Map indicates that at the portfolio level, IFC aims to achieve a balance of projects that can maximize IFC's contribution to poverty reduction. Where possible, IFC will undertake projects that address both dimensions, for example, infrastructure projects that provide access to the poor. On indirect poverty reduction, IFC will make more explicit the anticipated indirect poverty effects at project approval and continuously update its learning. On direct poverty reduction, IFC will continue to invest in learning about best practice in projects that aim to address the needs of the poor and underserved, for example, inclusive business projects, and seek to systematically apply that learning in new business design. IFC will consider revising the existing stakeholder framework to help staff clearly articulate up front the poverty outcomes of IFC's projects. Staff will be trained using existing training programs such as Development Impact Workshops. Following the FY11 review of IFC's engagement in middle-income countries, IFC is considering broadening its definition of "frontier" to encompass inclusiveness and target the poor regardless of geographical area.
Yes to the intent	We agree with the intent of this recommendation, which we believe can be achieved with existing collaboration structures, rather than establishing any additional formal consultation framework. The World Bank and IFC collaborate at the institutional strategy level, such as in the development and implementation of the World Bank Group's Post Crisis Directions strategic pillars. At the country level, IFC's more focused engagement in joint Country Assistance Strategies allows closer Bank—IFC collaboration in strategy formulation and results measurement. On overall results measurement, IFC's Development Impact Department has a strong relationship with the Operations Policy and Country Services Results Secretariat

(*Continues on the following page.*)

Management Response Table: Assessing IFC's Poverty Focus and Results (*continued*)

IEG findings and conclusions	IEG recommendations
• Incorporating distributional issues into projects has been challenging for IFC. Despite the increase in poverty focus at the broader strategic level, 43 percent of projects had an expected economic rate of return greater than the benchmark and included at least one type of mechanism that addressed distributional issues at design or implementation. • Few projects incorporated a clear mechanism for targeting the poor. In the cases where projects did target the poor, geographic targeting—such as focusing project activities in frontier and rural areas or urban slums—was the most frequently used mechanism. • Projects that engaged the poor performed better on development outcomes and investment outcomes, although the differences were not statistically significant. • Evidence from case studies: Understanding the livelihoods of the stakeholders is key to meeting their needs • The fact that projects did not have evidence of identifiable effects on the poor does not necessarily mean that they did not contribute to poverty reduction. Projects that achieve adequate economic rates of return contribute to growth and most likely to poverty. However, these projects do not articulate the causal links between growth and poverty reduction or explicitly state the underlying assumptions associated with such relationships. • IEG's review of 71 randomly selected closed advisory services projects showed that 13 percent had identified benefits to the poor and 37 percent delivered benefits to society but did not specifically identify the poor. Nearly half of the cases did not have evidence of identifiable benefits for society or the poor, so it was difficult to make a judgment on whether these benefits actually reached the poor or the extent of these benefits. • Improving the investment climate can have significant impacts in IFC client countries. IFC's effectiveness in enhancing these impacts critically depends on demonstrating the poverty implications of outputs by clearly specifying the causal links and assumptions through which growth is translated into poverty impacts. Periodically testing these assumptions in country situations would provide valuable insights into the impacts of these interventions.	**2. At the project level, IFC needs to:** • Re-examine the stakeholder framework to address distributional and poverty issues in project design. • Make explicit the causal pathways, transmission channels, and underlying assumptions about how projects can contribute to growth and patterns of growth that provide opportunities for the poor.

Acceptance by management (yes/no)	Management response
Yes	IFC will consider revising project document guidelines, including both advisory services and information services project approval documentation, to sharpen and standardize relevant sections.
Yes	Project documentation will be revised to incorporate discussions on direct and indirect anticipated poverty outcomes, underlying assumptions, and rationales at inception.

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Management Response Table: Assessing IFC's Poverty Focus and Results (*continued*)

IEG findings and conclusions	IEG recommendations
• Projects' social and poverty outcomes were not extensively tracked during implementation. Twenty-one percent of sample projects had tracked social and poverty outcomes during supervision. Yet IFC has a well-developed framework for monitoring and evaluation of a project's development outcomes. The finding that project outcomes were not extensively tracked for poverty outcomes may reflect current challenges with the Development Outcome Tracking System framework, particularly in tracking or determining poverty impacts from activities in IFC-supported companies. • The link from growth to poverty reduction is not automatic, particularly in situations where market failures and other inefficiencies limit participation of the poor in growth. Deliberate action is often required to ensure that project outcomes and transmission channels focus on the poor. Such proactivity is particularly important for institutions such as IFC that aim to achieve poverty reduction objectives through support for the private sector, where the traditional focus has been on the pace of growth. As a financier and adviser, IFC only produces outcomes through supporting private companies, governments, and nongovernmental organizations. Enabling poverty-related outcomes from the projects it supports is therefore determined by its effectiveness in selecting partners and projects as well as its ability to influence the design and implementation of projects. Such opportunities for leveraging poverty impacts are enhanced when IFC is involved early rather than later in the project cycle. • It is quite challenging to establish the extent to which IFC investments create opportunities that engage the poor, because the evidence base for measuring poverty impact is very thin.	**3. With respect to its result measurement, IFC needs to:** • Monitor and report poverty outcomes for projects with poverty reduction objectives and complement with selected impact evaluations; for projects that focus primarily on growth with anticipated poverty reduction outcomes, the assumption underlying the expected relationship should be stated at project data sheet approval with a rationale based on prior results or lessons from similar projects. Assumptions about poverty outcomes should be strategically revisited and verified by product or sector evaluations. • Provide technical support and advice to help develop the capacity of willing clients to track, assess, and report the impacts of their interventions on identified beneficiary groups. • Periodically test assumptions on how IFC's interventions contribute to growth and poverty reduction with field data in a few significant cases to learn lessons about what works, what does not work, why, and in what contexts.

Acceptance by management (yes/no)	Management response
Yes	As mentioned earlier, project documentation will be revised to incorporate assumptions and rationales that support anticipated poverty outcomes, both direct and indirect. IFC will track and report on the results of all projects that are expected to have direct poverty reduction outcomes. In the case of projects that have anticipated indirect poverty reduction outcomes, IFC will only selectively conduct product or sector evaluations to learn about results in terms of contribution to growth and poverty reduction.
Yes	IFC will test client interest in monitoring and reporting on the outcomes of their projects. IFC will pilot a capacity building program if such needs are identified.
Yes	IFC will occasionally conduct IS product or sector evaluations to learn about impact in terms of contribution to growth and poverty reduction, consistent with advisory services experience gained in recent years

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