

Assessing IFC's Poverty Focus and Results



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1 2 3 4 5 14 13 12 11

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How to cite this report:

IEG (Independent Evaluation Group). 2011. *Assessing IFC’s Poverty Focus and Results*. Washington, DC: World Bank.

Cover: Woman in street in Ghana. Photo by Arne Hoel, courtesy of the World Bank Photo Library.

ISBN-13: 978-1-60244-178-1

ISBN-10: 1-60244-178-2

World Bank InfoShop
E-mail: pic@worldbank.org
Telephone: 202-458-5454
Facsimile: 202-522-1500
Printed on Recycled Paper

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Abbreviations

CAS	Country Assistance Strategy
CODE	Committee on Development Effectiveness
DOTS	Development Outcome Tracking System
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
ERR	Economic Rate of Return
FDI	Foreign Direct Investment
GPOBA	Global Partnership on Output-Based Aid
GTFP	Global Trade Finance Program
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MICs	Middle Income Countries
MSMEs	Micro, Small, and Medium Enterprises
NGOs	Non-Governmental Organizations
PBGI	Performance-Based Grants Initiative
PSD	Private Sector Development
XPSR	Expanded Project Supervision Report

Acknowledgments

This report presents findings of the relevance and effectiveness of the International Finance Corporation's (IFC) poverty focus and results. The evaluation was conducted by a team led by Ade Freeman, drawing on contributions from (in alphabetical order) Unurjargal Dembe-
rel, Hiroyuki Hatashima, Naoko Koyama, Maction Komwa, Andres Liebenthal, Lawrence
Salmen, Erkin Yalcin, and Izlem Yenice. In addition, the evaluation benefited from research
under the leadership of Emma Porio, Charles Kinkela, Holy Raharinjanchary, and Av Surya.
Richard Kraus and Rose Pena were responsible for administrative and production aspects.
Heather Dittbrenner and William Hurlbut edited the document.

The peer reviewers for this evaluation were Peter F. Lanjouw, Research Manager, Develop-
ment Economics and Chief Economist Vice Presidency, World Bank; Ambar Narayan, Se-
nior Economist, Poverty Reduction and Economic Management Network, World Bank; and
Guy Pfeffermann, Chief Executive Officer of the Global Business School Network and for-
mer Chief Economist for IFC. The evaluation benefitted from comments and suggestions by
colleagues in the Independent Evaluation Group and from a Working Group meeting at
IFC.

The evaluation was conducted under the guidance of Marvin Taylor-Dormond, Stoyan Te-
nev, and Amitava Banerjee. The work is carried out under the overall leadership of Vinod
Thomas, Director-General, Evaluation.

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Foreword

The impact of growth on poverty reduction depends on both the pace and the pattern of growth. Attention to the type of growth that the International Finance Corporation (IFC) supports is therefore critical for the institution's effectiveness in poverty reduction.

IFC's strategic priorities on frontier areas and sectors such as infrastructure, agribusiness, health and education, and financial markets are consistent with support to an inclusive growth pattern, but improvements are needed in three areas. First, although priority to frontier markets has led to increases in IFC investments in International Development Association (IDA) countries, these investments need to be allocated in more than the few IDA countries where they are currently concentrated. Second, IFC investments in targeted sectors need to expand beyond financial markets where trade finance has contributed most to expansion. Third, IFC needs to continue to strengthen its partnership with the World Bank to enhance its poverty focus and results.

IFC's interventions are designed to contribute to growth, although it has been challenging for the Corporation to integrate distributional aspects in projects. Fewer than half the projects reviewed included evidence of poverty and distributional aspects in project design, although the lack of such evidence does not necessarily rule out actual poverty impacts. Projects that paid attention to these aspects performed as well, if not better, than other projects on development and investment outcomes. This suggests that poverty focus need not come at the expense of financial success. A broad range of IFC's interventions can therefore be simultaneously pro-growth and pro-poor, but this link is neither universal nor automatic. A project's poverty focus is positively associated with the development orientation of partners, a link with World Bank Group country strategies, and alignment of investment and advisory services.

Most IFC investment projects generate satisfactory economic returns but do not provide evidence of identifiable opportunities for the poor. The relatively high proportion of projects that do not generate such identifiable opportunities suggests a primary reliance in operations on the pace of growth for poverty reduction at a time when the institution's strategies point more attention to the pattern of growth that it supports. Greater effort is needed in translating the strategic intentions into actions in investment operations and advisory services to enhance IFC's poverty focus.

Going forward, IFC needs to (i) sharpen the shared understanding of poverty and poverty impact within the IFC context and guide staff on how to operationalize poverty focus; (ii) adopt more nuanced concepts of poverty when defining frontier regions in middle-income countries; (iii) establish a consultative framework that includes the participation of relevant networks of the World Bank Group and partner organizations to deepen understanding and develop innovative approaches to poverty reduction; (iv) make explicit in its interventions

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the underlying assumptions about how projects can contribute to growth and the pattern of growth in a way to provide opportunities for the poor, and periodically test these assumptions through select in-depth evaluations; (v) define ex ante, then monitor and report on poverty reduction outcomes; and (vi) 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.

A handwritten signature in dark ink, reading "Vinod Thomas". The signature is written in a cursive, flowing style.

Vinod Thomas
Director-General, Evaluation

Executive Summary

Growth is good for the poor, but the impact of growth on poverty reduction depends on both the pace and the pattern of growth. A pattern of growth that enhances the ability of poor women and men to participate in, contribute to, and benefit from growth should not come at the expense of a slower pace of growth. Including the poor in the growth process is also good for the pace of growth. This relationship underscores the critical importance of the pattern of growth for poverty reduction.

The International Finance Corporation's (IFC) mission is to create opportunities for people to escape poverty and improve their lives. It pursues this mission by promoting growth through support for private sector development. Attention to the type of growth that the institution supports is therefore critical for the fulfillment of its mission. IFC's approach in this respect has evolved over the years: from support to private sector-led growth in general, to promoting environmentally and socially sustainable growth, to—more recently—beginning to pay explicit attention to inclusive growth. There have been different perspectives of how IFC's support for private sector development is helping to tackle poverty. Yet, there is not enough clarity about what poverty means within the IFC context and how its interventions reach and affect the poor.

In the context of IFC's business model, IEG defined poverty focus as support for private sector development that contributes not only to growth but equally to patterns of growth that enhance opportunities for the poor. This type of growth is often referred to as inclusive, pro-poor, or broad-based growth. IFC is on the right track in its poverty focus, including making development impact a key driver of strategy, testing development goals in operational activities, and participating in funding the International Development Association (IDA). But it can more fully exploit the vast potential for poverty orientation in its growth supporting activities.

This evaluation covering fiscal year (FY) 2000 to 2010, aims to contribute to the enhancement of IFC's poverty focus and its effectiveness for a greater poverty impact. Poverty focus is assessed in terms of how its strategies, projects, and results measurement framework contribute to growth and to distributional patterns of growth that create opportunities for the poor.

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 actually enhance opportunities and the impact on poor people.

The emerging development goals offer an opportunity for a stronger poverty focus along strategic priorities. Beyond the identification of priorities, improvements are needed in three areas. First, although the priority given to frontier markets has led to increases in IFC investments in IDA countries, these investments need to be allocated in more than the few IDA countries where they are currently allocated. Second, targeted sectors are based on sound development rationale, but IFC investments need to increase in these sectors, beyond financial markets where trade finance has contributed most to the expansion of investments. Third, IFC needs to con-

EXECUTIVE SUMMARY

continue to strengthen its partnership and communication with the World Bank to enhance its poverty focus and results.

At the project level, the assessment of poverty focus is based on a project's contribution to growth and the extent to which it addresses distributional aspects, including the opportunities that the project creates for the poor. Projects are designed to contribute to growth and therefore may have poverty effects. However, it has been challenging for IFC to incorporate distributional issues in interventions. Fewer than half of projects reviewed included evidence of poverty and distributional aspects in project objectives, targeting of interventions, characteristics of intended beneficiaries, or tracking of impacts. Where projects reflected distributional aspects, targeted the poor, and monitored the results, they were more likely to achieve better poverty outcomes. Projects that paid attention to distribution issues performed as well, if not better than, other projects on development and investment outcomes; this suggests that poverty focus need not come at the expense of financial success. A broad range of IFC's interventions can therefore be simultaneously pro-growth and pro-poor, but this link is neither universal nor automatic. A project's poverty focus is positively associated with the development orientation of partners, the link with WBG country strategies, and the alignment of investment and advisory services.

On development results, most IFC investment projects generate satisfactory returns but do not provide evidence of identifiable opportunities for the poor to participate in, contribute to, or benefit from the economic activities that the project supports. The fact that projects do not provide evidence of enhanced opportunities for the poor does not necessarily mean that they do not contribute to poverty reduction. Achieving satisfactory economic returns suggests that they make a positive contribution to growth and therefore most likely to poverty reduction. However, the relatively high proportion of projects that do not generate identifiable opportunities for the poor suggests the primary reliance on the pace of growth for poverty reduction, at a time when IFC's strategies point to more attention to the pattern of growth that it supports. Greater effort is needed in translating the strategic intentions into actions in investment operations and advisory services to enhance IFC's poverty focus.

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 level. In particular, IFC needs to 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 of poverty. IFC would also benefit from establishing a consultative framework, including the participation of relevant networks of the World Bank Group and partner organizations to deepen understanding and develop innovative approaches for understanding, measuring, and reporting of poverty impacts within the IFC context.

At the project level, there is a need to re-examine the stakeholder framework to address distributional and poverty issues in project design. IFC needs to make explicit in its interventions the underlying assumptions about how projects can contribute to growth and patterns of growth that provide opportunities for the poor.

On measuring results, for projects with poverty reduction objectives, poverty outcomes ought to be defined ex-ante, then monitored and reported. For projects that focus primarily on growth

but anticipates poverty reduction outcomes the assumption underlying the expected relationship should be stated at PDS approval with a rationale based on prior results or lessons from similar projects. These assumptions need to be tested periodically using field data and selected in-depth evaluations to learn about what works, what does not work, why, and in what contexts. IFC needs to 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.

Poverty Focus at the Strategic Level

IFC's approach to addressing poverty has evolved. Yet, its ability to reduce poverty through support for the private sector needs to be based on a clear understanding of poverty within the IFC context. As a member of the World Bank Group, IFC is in close proximity to expertise, knowledge, and resources on poverty issues. However, IFC needs to think carefully about questions such as who the poor are, where they are located, and how they can be reached. Such insights, based on experience and evidence, can enhance its growth and poverty reduction agenda.

IFC's strategic pillars are important parts of its poverty agenda. Three of the five strategic pillars—frontier markets, real sectors with widespread engagement of the poor, and certain types of financial services—aim explicitly at supporting the kind of growth that provides enhanced opportunities to the poor to participate in, contribute to, or benefit from growth.

Investment Services

Focus of Frontier Markets: IFC increased the volume and share of investment commitments to IDA countries over the evaluation period. The share of its total commitments in IDA countries rose from 19 to 31 percent from 2001 to 2010. The number of IDA countries with investments nearly doubled, from 32 to 58 over the period. Investments and country coverage in Sub-Saharan Africa also increased significantly. Involvement in IDA countries accelerated starting in FY 05, mainly because of the Global Trade Finance Program (GTFP). IFC's relative investment share in IDA countries is higher than that of foreign direct investment (FDI). However, IFC's investments in IDA countries have been heavily concentrated in few countries. From 2000 to 2007, IFC's level of concentration in the top four IDA countries was higher than that of FDI flows as well as IDA's own lending. This pattern changed during the cri-

sis. Since 2008 IFC's investments in the top four IDA countries have been less concentrated than FDI. This change reflects the effects of IFC's crisis response which focused mainly on smaller markets, developing countries, and SME clients.

IFC's relevance and additionality in middle-income countries (MICs) depends crucially on how well it defines its poverty agenda there. Frontier regions in MICs 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. This, together with the diversity of poverty in MICs and the importance of non-income dimensions of poverty in providing access to opportunities, suggests the need for a broader set of criteria that incorporates income and non-income dimensions of poverty.

Focus on Targeted Sectors: IFC is also targeting sectors with the potential for widespread engagement of the poor, such as financial markets, infrastructure, health and education, and agribusiness. Within these targeted sectors, investments have also been highly concentrated. In FY10, commitments in financial markets accounted for 75 percent of total investments in targeted sectors. In IDA countries, the concentration was even higher. Within financial markets, investments are highly concentrated in the GTFP, which grew rapidly after 2005.

In principle, short-term trade finance can make important contributions to growth and poverty reduction by facilitating easier access to credit, helping importers, exporters, and SME clients with financing needs that support trade transactions. Through the GTFP, IFC increased its presence in the poorest countries, helped fill finance gaps for essential goods, and increased activity in

sectors such as agribusiness. Yet, the development and poverty impacts of these interventions have not been assessed at the project level. IFC is aware of this and is currently developing a results measurement framework for GTFP. In relative terms, IFC investments in infrastructure, agribusiness, and health and education have changed little over time. Investments in infrastructure, agribusiness, and health and education could have significant growth and poverty impacts. But the extent to which projects in these sectors actually benefit the poor depends on strategic choices relating to the type of projects selected; incorporation of design features that benefit the poor; and robustness of monitoring and evaluation systems to track progress, take corrective actions, and assess impacts on the poor.

IFC's strategic directions emphasize a focus on micro, small, and medium size enterprises (MSMEs) as major elements of its growth and poverty agenda. IFC's total investment commitments in MSMEs grew from \$400 million in fiscal 2000 to \$3.1 billion in 2010, accounting for 17 and 24 percent of investments respectively. IFC's strategy of supporting MSMEs through financial intermediaries has been effective in that it is reaching a large number of MSMEs. For example, IFC reports that the SME and microfinance loans extended by IFC clients almost doubled from 2006 to 2009 to reach \$101.3 billion and \$10.8 billion respectively.

MSMEs account for the largest part of the private sector in many developing countries, creating jobs and investment opportunities. The needs of MSMEs are substantial in both IDA and non-IDA countries. However, responding to these needs in an effective manner has been a challenge for the development community. Empirical evidence on the poverty impacts of microfinance institutions (MFIs) is mixed with some studies showing a positive impact on borrowers' welfare while others point to significant risks and downsides. SMEs tend to face greater constraints to their growth compared to large firms. Thus there is strong development rationale for IFC's support. However, research shows that there are many questions about the efficacy and welfare impacts of interventions seeking to support SMEs that need to be addressed to enhance the impact of SMEs on growth and poverty reduction. The magnitude of

the challenges imply that carefully targeting investments in these diverse situations will be critical in leveraging growth and poverty impacts in both IDA and non-IDA countries

Advisory Services

Advisory services have become an important pillar of IFC's operations, having grown more than tenfold in expenditures and sixfold in staffing between FY01 and FY10. Advisory services have been the primary vehicle for IFC's interventions in the poorest countries and those with more difficult and challenging business environments, where the opportunities to support private investments have been more limited. This is reflected in Advisory Services allocation today: Access to Finance is the largest business line, and IDA and Sub-Saharan Africa account for the largest share of expenditures and portfolio.

Improving the Investment Climate: Activities in this area have often been the entry point for IFC in IDA countries. Products in recent years have been adapted to needs and constraints in poor countries. Areas that tend to support a more inclusive growth pattern, such as formalization through entry and tax reforms, alternative dispute resolution mechanisms, and sub-national and rural investment climates, are beginning to receive more attention. In moving towards addressing sector-specific investment climate issues, IFC's effectiveness would be enhanced by aligning with investment activities in targeted sectors and clarifying the causal links and assumptions through which growth induced by improvements in the investment climate is translated into poverty impacts.

Integrating Small and Medium-Size Enterprises (SMEs) into Supply Chains: The ability of poor people to benefit from growth often depends critically on the extent to which they can take advantage of the opportunities created by the linkages to larger investments. This is an area where the potential for synergies between IFC's investment and advisory services for leveraged impact on the poor is particularly strong.

IFC is helping clients improve the efficiency of their supply chains by creating business opportunities for local suppliers, including local sourcing platforms and community investment strategies.

In recent years, an increase in these activities has been accompanied by a substantial shift in product mix, from community investment activities and local sourcing to a focus on inclusive supply chains. The potential of such operations to leverage benefits for the poor depends critically on building trust between the transacting parties and helping address capacity, information, and incentive issues associated with the reliability of supply and purchases—areas where a third party with a development focus like IFC can play a useful role.

Increasing Access to Finance: More than half of Access to Finance expenditures are in IDA countries. Support to institutions that provide access to finance at the micro and retail level make up around one-third of expenditures; this is closely followed by support to institutions that provide access to finance to SMEs. In FY10, 12 percent of funds were allocated to financial infrastructure work such as support for credit bureaus, securities markets, collateral registries, and payment systems. These activities have been shown to be critical in unlocking barriers to expanded access to financial services and financial sector deepening.

Going forward, there will need to be a careful balance between sector-wide approaches, such as supporting financial infrastructure, with approaches that provide support for access to finance through financial intermediaries. The impact that different types of intervention have on poverty is not always clear. A few carefully selected and rigorously conducted impact studies could thus provide valuable lessons of what works, does not work, why, and under what conditions.

Performance-Based Grants Initiative (PBGI): In 2005, IFC's Board approved funding for a result-based financing mechanism to enhance access to services to the poor in developing countries. PBGI focuses on delivery of infrastructure services and access to finance. In these areas, PBGI interventions show promise and there is appetite for mainstreaming PBGI. But before scaling up PBGI, greater consideration needs to be given to a number of key issues, including its long-run sustainability, effectiveness of delivery mechanisms, private sector incentives, and fiscal implications.

Poverty Focus in IFC Projects

Extent of Poverty Focus at the Project Level

The measure of poverty focus in this evaluation is broader than IFC's support to companies with inclusive business models, which is defined as companies and projects that offer goods, services, and livelihoods to the poor in financially sustainable and scalable ways.

At the project level, 481 investment projects approved between FY2000 and FY2010, including 158 projects evaluated between 2005 and 2009, were randomly selected to examine how projects addressed growth and distributional issues. A project's contribution to growth is measured by its expected economic rate of return (ERR), insofar as it is well estimated. The incorporation of distributional aspects of growth in projects was assessed based on design and implementation features using one or more of the following criteria:

- Project objective had an explicit focus on the poor and/or underserved.
- Project identified mechanisms, such as geographic and household criteria, for targeting the poor and underserved.
- Project design pays attention to distributional issues, measured by explicit consideration of poverty characteristics (geographic, community, individual) of intended beneficiaries.
- Mechanisms were incorporated to track poverty and social outcomes during project implementation.

The majority of IFC projects are designed to contribute to growth. Of 211 nonfinancial sector projects, 86 percent reported ERR estimates of more than 15 percent. Given a benchmark ERR of 10 percent, this shows that the majority of projects are expected to generate net positive returns in the economies in which they are being implemented.

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. Thus deliberate action is often required to incorporate distributional aspects of growth into project design and implementation.

With respect to distributional issues, based on IEG's definition, across the sample, 13 percent of projects had objectives with an explicit focus on poor people. Of projects with objectives that explicitly focused on the poor, 87 percent had interventions that engaged poor people directly through employment or provision of goods and services.

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. Identification of distributional effects on the intended beneficiaries was the most frequently used design feature to address poverty issues at this level.

Incorporating distributional issues into projects has been challenging for IFC. Despite the increase in poverty focus at the broader strategic level, less than half (43 percent) of projects had both (i) an expected ERR greater than the benchmark and (ii) included at least one type of mechanism that addressed distributional issues at design or implementation.

The choice of sponsors, joint investment and advisory services work, quality of analytical work, and links to Country Assistance Strategies are important drivers of attention to distributive issues in project. IFC's work quality did not significantly correlate with incorporation of distributional issues. This suggests that such issues were not considered adequately at project design.

In IDA countries, there was a significant difference in development outcome ratings when projects paid attention to distributional issues. By and large, greater attention to poverty-related distributional issues is associated with improved development outcomes in frontier countries.

Market failures and distortions tend to affect access to economic opportunities (access to markets, access to employment opportunities), assets (finance, land, information), or basic or essential services (electricity, justice) by the poor. Through its advisory services, IFC should seek to address market failures and distortions that limit the participation of the poor in the growth process. A review of 98 randomly selected projects indicates

about one-third provided evidence of alleviating market failures or distortions that inhibit participation of poor people in markets and other growth opportunities. Of these projects, the most frequently addressed problems related to enhanced access to markets, business opportunities, and finance for disadvantaged groups. Issues related to access to land, employment opportunities, and basic and essential services receive relatively little attention. Greater attention on addressing these types of market failures can increase participation of the poor in markets and enhance growth opportunities that benefit them. Some projects addressed economy or sector wide issues with potentially significant growth and poverty reduction effects. However, there was limited evidence of the linkages between project outputs and poverty outcomes.

Impact through a Poverty Lens

Poverty Outcomes in Investment Services

In the evaluation, a distinction is made between projects that rely on growth in general to distribute benefits to the poor and those that support a more inclusive growth pattern. Data for the assessment come from 158 mature projects that were evaluated between 2005 and 2009, with Expanded Project Supervision Reports randomly selected from IEG's database of project evaluations.

Projects that supported a more inclusive growth pattern performed as well as, if not better than, the rest of IFC's projects on development and investment outcomes, suggesting that poverty focus should not come at the expense of financial success. Projects were more likely to provide evidence of poverty outcomes when there was a focus on the poor in expected development outcomes, project activities targeted the poor, distributional issues were made explicit, or poverty outcomes were tracked during project implementation.

IFC's evaluation framework does not quantify benefits to poor and vulnerable groups and thus has no specific indicator for measuring a project's poverty effects. Given the limited attention to distributional issues in the monitoring and evaluation framework, IEG used a poverty index to characterize project benefits on the basis of their contribution to growth and inclusion of the poor.

The majority of investment projects generated satisfactory economic returns but did not provide evidence of identifiable opportunities for the poor to participate, contribute to, or benefit from the economic activities that projects directly or indirectly support. The fact that projects did not provide evidence of identifiable opportunities for the poor does not necessarily mean that they did not contribute to poverty reduction. The findings reflect a failure to articulate the poverty effects of projects that focus primarily on economic growth. Achieving satisfactory economic returns suggests that they make a positive contribution to growth and therefore most likely to poverty reduction. However, the relatively high proportion of projects that do not provide evidence of identifiable opportunities for the poor suggests a primary reliance on the pace of growth for poverty reduction, at a time when IFC's strategies point to more attention to the pattern of growth that IFC supports.

Only a few of the sample projects both delivered high levels of growth and demonstrated evidence of inclusion of the poor. Such projects provide learning opportunities that can be used to enhance IFC's poverty focus. It will also be useful to understand the poverty implications on projects in the high-growth, evidence of low-poverty outcome quadrant to articulate and better understand how IFC's overall poverty focus can be enhanced.

Poverty Outcomes in Advisory Services

Analysis of development outcomes from advisory services was based on qualitative assessments and development effectiveness ratings. A review of 98 randomly selected closed advisory services projects showed that 10 percent had identified benefits to the poor and 40 percent delivered benefits to society but did not provide evidence of enhanced opportunities to the poor. The rest consisted mainly of company level support or explorative market studies that helped prepared the ground for more substantive forms of engagement with stakeholders. This limited evidence on identifiable benefits to the poor may reflect difficulties in capturing poverty outcomes from projects where the main deliverable is knowledge, a product that is intangible and very difficult to measure.

Looking Forward

As part of its commitment to achieve financial sustainability and greater development impact IFC is working to enhance its poverty focus and emphasize a shift from a volume output culture to development impact and financial sustainability, as well as measurement of development results. This shift is coalescing around the IFC Development Goals (IDG), a new set of development goals that is being piloted in selected investment operations and advisory services, and the creation of the Development Impact Department. The newly created Inclusive Business Models Group aims to enable IFC to expand its investment and advisory services support to companies with financially sustainable inclusive business models that provide goods, services, and livelihoods to populations at the base of the pyramid. . Most recent regional and sectoral strategies reflect an increasing focus on reaching the poor and linking with development objectives.

The evaluation findings provide lessons that can be used to help IFC translate its strategic intentions into further actions that enhances its poverty focus:

Lesson 1: Both the rate of growth and the distributional pattern of growth are key elements of a sound private sector-led strategy that creates opportunities for the poor.

Lesson 2: IFC's relevance and effectiveness in engaging the poor needs to move beyond a company-by-company orientation toward a focus on achieving broader development impact.

Lesson 3: Experimentation and innovation, combined with effective monitoring and evaluation, are key elements of a strategy to engage the poor for broader development impact.

Lesson 4: An enhanced understanding of the intended beneficiaries is key to creating opportunities for them.

Lesson 5: Acceleration of supportive activities that complement each other within IFC, the World Bank Group, and other partners can enhance effectiveness in delivering development impact.

Conclusions and Recommendations

IFC is on the right track to enhance its poverty focus, yet strategic intentions need to be more strongly translated into actions and impacts.

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 level. In particular, in MICs 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 of poverty.
- Establish a consultative framework to support institutional efforts on understanding, measuring, and reporting of poverty impacts within the IFC context, including the participation of Poverty Reduction and Economic Management, Development Economics, and Finance and Private Sector Development networks of the World Bank Group as well as partner organizations to better address poverty and distributional issues, beyond company level impacts.

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.

With respect to its result measurement, IFC needs to:

- Define, monitor, and report poverty outcomes for projects with poverty reduction objectives; for projects that focus primarily on growth with anticipated poverty re-

duction outcomes, the assumption underlying the expected relationship should be stated at PDS approval with a rationale based on prior results or lessons from similar projects.

- Periodically test assumptions on how IFC interventions contribute to growth and poverty reduction through select in-depth evaluations to learn lessons about what works, what does not work, why, and in what contexts.
- 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.

Management Response

I. Introduction

The report provides a welcome support for International Finance Corporation (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.

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.

II. 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 although 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.

III. 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.

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

IEG findings and conclusions	IEG recommendations	Acceptance by management (yes/no)	Management response
<ul style="list-style-type: none"> • 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. • 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 	<p>1. At the strategic level, IFC needs to:</p> <ul style="list-style-type: none"> • 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. 	<p>Yes</p>	<p>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.</p> <p>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.</p> <p>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.</p>

MANAGEMENT RESPONSE

<p>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.</p> <ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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. 	<p>Yes to the intent</p>	<p>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</p>
<ul style="list-style-type: none"> • 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 	<p>2. At the project level, IFC needs to:</p> <ul style="list-style-type: none"> • 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. 	<p>Yes</p> <p>Yes</p>	<p>IFC will consider revising project document guidelines, including both advisory services and information services project approval documentation, to sharpen and standardize relevant sections.</p> <p>Project documentation will be revised to incorporate discussions on direct and indirect anticipated poverty outcomes, underlying assumptions, and rationales at inception.</p>

<p>differences were not statistically significant.</p> <ul style="list-style-type: none"> • 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. 			
<ul style="list-style-type: none"> • 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 	<p>3. With respect to its result measurement, IFC needs to:</p> <ul style="list-style-type: none"> • Monitor and report poverty outcomes for projects with poverty reduction objectives and 	<p>Yes</p>	<p>As mentioned earlier, project documentation will be revised to incorporate assumptions and rationales that support</p>

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<p>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.</p> <ul style="list-style-type: none"> • 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. 	<p>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.</p> <ul style="list-style-type: none"> • 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. 	<p>Yes</p> <p>Yes</p>	<p>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.</p> <p>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.</p> <p>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</p>
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Chapter 1

Introduction

Investments by private companies create jobs, improve productivity, foster innovation and technology adoption, and provide tax revenues that support investments in public goods. Thus, market-based private sector development is crucial for driving broad-based growth, reducing poverty, and achieving the Millennium Development Goals (MDGs) (United Nations 2010). But market forces can also lead to concentration of opportunities in certain countries, regions, sectors, and groups while leaving other behind. This suggests a role for the public sector at local, national, and international levels.

Today the International Finance Corporation (IFC) is the largest multilateral development bank providing financial support and technical advice to private firms in developing countries. IFC's Articles of Agreement state that "...the purpose of the Corporation is to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas, thus supplementing the activities of the International Bank for Reconstruction and Development."¹ The focus on inclusive growth is thus embedded in IFC's Articles of Agreement. The development dimensions of this agenda have evolved since IFC was created in 1956, when it was the only development institution focusing on the private sector.

In the 1980s and 1990s, the collapse of the former Soviet Union, changes in transition countries, and structural adjustment policies in developing countries led to changes in the needs of stakeholders and clients. In response, IFC shifted its focus to emphasize sustainable development and small and medium-size enterprises (SMEs). Further shifts occurred in the early 2000s, with an additional focus on investment climate. More recently, the focus has shifted toward support for inclusive growth, providing opportunities for those at the base of the pyramid.

The objective of this evaluation is to assess the relevance and effectiveness of IFC's poverty focus and results, giving explicit attention to corporate strategies, policies, investment operations, and advisory services. In assessing relevance, the Independent Evaluation Group (IEG) examined the extent to which IFC's strategic objectives are aligned with the development agenda on private sector development, growth, and poverty reduction. In assessing IFC's effectiveness, IEG examined the extent to which IFC's programs and projects have achieved their stated development objectives, particularly relating to the poor and vulnerable.²

Evaluation Essentials

- ❖ Growth is good for the poor, but some kinds of growth are better than others.
- ❖ Private sector activities can have considerable effects on patterns of growth and distribution of rising incomes.
- ❖ Leveraging the private sector to accelerate growth has risks as well as rewards.

Evaluation Design

EVALUATION RATIONALE

IFC investment commitments increased fivefold and advisory services tenfold over 2001–10.

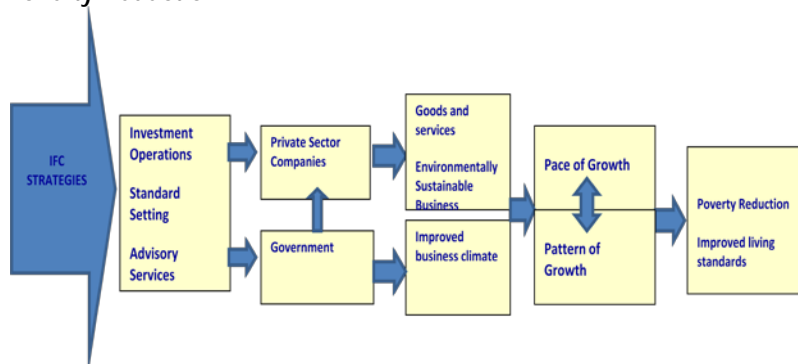
Two issues set the context for this evaluation. The first is the substantial increase in IFC’s investment activities and advisory services over the past 10 years. Investment commitments increased more than fivefold, from \$2.4 billion in fiscal 2000 to \$12.7 billion in 2010, and expenditures on advisory services increased about tenfold, from \$24 million in fiscal 2001 to \$260 million in 2010. This sharp increase over the decade has drawn attention to IFC’s development impact, including the additionality of its interventions in poor and middle-income countries (MICs).

Second, starting from around fiscal 2000, IFC’s strategies, development objectives, and policies have articulated an increased focus on creating opportunities for the poor and improving living standards. Yet empirical evidence to assess the extent to which IFC’s support for private sector development has actually contributed to achieving these development objectives is scarce. Therefore, it is important (i) to better understand how well IFC’s activities have actually helped reduce poverty, as stated in its strategies and objectives, and (ii) to learn lessons from the past to better orient future IFC strategies and operational activities to meet the organization’s development objectives and the demands of its key stakeholders.

CONCEPTUAL FRAMEWORK FOR ASSESSING IFC’S CONTRIBUTION TO GROWTH AND POVERTY REDUCTION

A conceptual framework, as shown in figure 1, is used to guide this assessment of how IFC’s support for growth through private sector development contributes to poverty reduction. It reflects IFC’s strategic directions and official documents, including its annual reports, which provide normative statements and anecdotal evidence of how projects implemented by IFC-supported companies help reduce poverty.

Figure 1. Conceptual Framework Guiding Assessment of IFC’s Contribution to Poverty Reduction



Source: IEG.

The broad consensus is that growth is good for the poor and necessary for making sustained progress on widespread poverty reduction (Kraay 2004; Dollar and Kraay 2002; Lopez Humberto 2008). The literature on economic growth and poverty reduction provides a useful starting point for developing a framework to explore the role of private sector development, economic growth and poverty reduction.³ Evidence from cross-country studies of developing countries that experienced positive growth rates in the 1990s showed that on average, a 1 percent increase in gross domestic product (GDP) per capita for these countries reduced poverty by 1.7 percent (World Bank 2005).

Growth is good for the poor, but some kinds of growth are better than others.

However, some kinds of growth are more effective in reducing poverty than others. This is because, in addition to the pace of growth, the pattern of growth (or how growth is distributed) also matters for poverty reduction (OECD 2006a; Commission on Growth and Development 2008). The pattern of growth may reflect sectoral, geographic, distributional, or equity dimensions that are correlated with poverty characteristics.

For example, agribusiness investments that spur productivity growth and thus supply response can raise incomes of rural households and reduce food prices, thereby benefiting the poor. Growth in labor-intensive manufacturing may increase incomes of the poor by providing increased employment opportunities. Microfinance interventions may intend to redress unequal access of the poor to financial services. Furthermore, broad-based growth that encompasses the economy and regions where the poor live can lead to reforms that lower the risk and the cost of doing business, improve access to productive and financial resources, and create greater opportunities for the poor.

This pattern of pro-poor inclusive growth also tends to promote a higher pace of growth (OECD 2006a; Commission on Growth and Development 2008). It does so by bringing underutilized assets into the growth process, by upward equalization of opportunities, and by correcting market failures and distortions that tend to discriminate against certain regions, sectors, or groups of people.

IFC's mission is to promote sustainable private sector investment in developing countries; this helps reduce poverty and improve people's lives. IFC pursues this mission by promoting growth through its support for private sector development. It supports private sector development with investment and advisory services and standard setting for private companies. It also works with government agencies (mainly through advisory services) to help improve countries' business environments and reduce the risks of conducting business in developing countries. Thus, attention to the type of growth that IFC supports is critical for the fulfillment of its mission.

A poverty focus means providing support that contributes to growth and growth patterns that enhance opportunities for the poor.

To assess IFC's effectiveness in achieving its mission, it is necessary to understand the incidence of the institution in accelerating the pace of growth and patterns of growth that create opportunities for the poor.

In this evaluation, IEG defines poverty focus as support for private sector development that contributes to growth and to patterns of growth that enhance opportunities for the poor. This definition is consistent with recent discussions on inclusive growth, pro-poor growth, and other development perspectives that explore the essential elements of successful growth strategies (Commission on Growth and Development 2008; OECD 2006a; World Bank 2005; Ravallion 2004).

IEG assesses IFC's poverty focus in terms of how its strategies, projects, and results measurement framework contribute to growth and to distributional patterns of growth that are likely to reduce poverty. Thus, IEG examines the following:

- How IFC's poverty focus is reflected in its strategic priorities and their implementation
- The extent to which growth and distributional issues are addressed in IFC's design and implementation of investment operations and advisory services
- How effective IFC's interventions are in supporting growth and enhancing opportunities for the poor.

IFC poverty focus is therefore examined at three levels: (i) the strategic level, with a primary focus on corporate strategic priorities; (ii) the project level, focusing on design and implementation of investment operations and advisory services; and (iii) the actual development results. The linkages among strategies, operational activities, and development results allow IEG to focus on strategic choices and how they are translated into concrete measures and actions that help IFC achieve its mission.

EVALUATION METHODOLOGIES

Evaluating the relevance and effectiveness of IFC's poverty focus requires employing a consistent standard for assessing performance. Given that all the evaluation questions are descriptive or normative, the study adopts a nonexperimental design. Performance is assessed against criteria for relevance and effectiveness, ensuring consistency in the application of standards for judging impact (IEG 2007b).

The evaluation combines data from qualitative and quantitative approaches to analyze and triangulate information from different sources. Data for the evaluation come from IFC strategies, policies, official and project documents, Board papers, World Bank and other

secondary databases, a survey of IFC investment and advisory services staff, interviews with IFC and World Bank managers and staff, interviews with IFC clients in four countries, and a survey of project beneficiaries and nonbeneficiaries in four countries. The evaluation also draws from a literature review on growth and poverty reduction as well as lessons from evaluations conducted by IEG and others (table 1 and appendix A).

Table 1. Evaluation Methodologies and Data

<i>Evaluation criteria</i>	<i>Evaluation activities</i>	<i>Data sources</i>
Relevance of IFC operations for the poor	Literature review on growth and poverty reduction	Theoretical and empirical literature; evaluation findings
	Content analysis of IFC strategies, policies, and guidelines	IFC strategic direction papers between 2000 and 2009; IFC policies, procedures, and guidelines
	Desk review of Country Assistance Strategies	50 randomly selected Country Assistance Strategies approved between 2000 and 2009
	Mapping of poverty and IFC investments	World Bank poverty database; IFC investment database
	Trend analysis of investment and Advisory Services activities	IFC investment and advisory services databases
Effectiveness of IFC's poverty focus	Evaluation synthesis of IFC portfolio between FY 2000 and FY2010	Random sample of 481 IFC investment projects approved between FY2000 and FY2010, including 158 projects evaluated between 2005 and 2009. Ninety-eight advisory services operations evaluated between 2007 and 2010
	Quantitative analysis of poverty focus and development outcomes	Evaluation synthesis findings
	Case studies	Case studies from four countries
	Survey of IFC staff	Random sample of 487 IFC investment and advisory service staff
	Semi-structured interviews with IFC and World Bank staff	Headquarters and field-based staff

Source: IEG.

Private Sector Development, Growth, and Poverty Reduction: Findings from the Literature

The private sector, comprising small and large firms, individuals, and businesses, is the engine of growth. It is responsible for investments and economic activity that make a major contribution to GDP and employment. In market economies, private agents engaged in risk taking to earn profits drive economic growth, which happens as enterprises increase their value-added through production and market exchange. Because the private sector has been dominant as the main engine of growth, its role has been associated with increasing the pace of growth. However, private sector activities can have considerable effects on patterns of growth as well as on the distribution of rising average incomes from growth (box 1).

Box 1. Private Sector Growth and Poverty Reduction

There are a number of ways that the private sector can be involved in poverty reduction. Several examples are listed here.

Jobs and opportunities: Jobs created by private investment provide opportunities and upward mobility that improve living standards for poor families. The World Bank's Voices of the Poor Initiative at the turn of the new century showed that poor people identify getting a paid job and self-employment as key to moving out of poverty.

Role of micro, small, and medium enterprises (MSMEs): Privately run MSMEs span a wide range of sectors and provide important sources of livelihoods for the poor in low- and middle-income countries. MSMEs, characterized mainly by informality, account for about 72 percent of non-farm employment in Sub-Saharan Africa, 65 percent in Asia, 51 percent in Latin America, and 48 percent in North Africa.

Contribution to human development: Governments remain the largest source of financing for health and education, but private companies are extensively involved in delivering these services in many developing countries. For instance, in many countries in Africa and Asia, private companies are the main providers of health and education services to the urban and rural poor. In addition, private companies lead the development of innovative approaches to expand access to health and education services to the poor, including through partnerships with governments and nongovernmental organizations (NGOs).

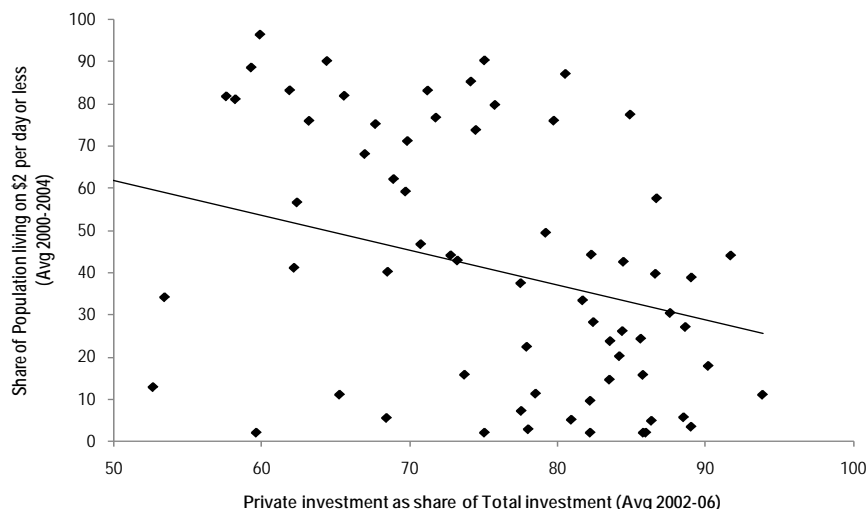
Investment in infrastructure: Such investments are essential for economic growth and poverty reduction. Private financing of infrastructure is growing in importance, particularly in IDA (International Development Association) countries. Between 1995 and 2008, total per capita private investment in IDA countries was 64 percent of the levels in IDA-blend countries and only 23 percent of that in non-IDA countries. That points to a major investment gap. The private sector also provides significant efficiency gains in infrastructure service delivery, compared with the public sector.

Source of innovation: Private enterprises are key in developing and bringing innovations in the form of products, services, and processes to the marketplace. Many innovations expand access to affordable goods and services for poor people and more affluent consumers. They also provide income and livelihood opportunities for the poor, in addition to investment opportunities for private businesses.

Private investment is associated with declining rates of poverty. Data from the World Bank show that the incidence of poverty declines with rising private share of total investment in developing countries (figure 2). Increasing private investment is associated with declining poverty rates. However, there is wide variability in the incidence of poverty at any given level of private investment. That suggests that much more can be done to enhance the impact of private investments

on poverty reduction by focusing on the pattern of growth and private sector investments.

Figure 2. Private Investment and Reduction in Poverty



Source: World Bank Development Data Platform.

The extent to which support for private sector development benefits the poor depends on the pace and the pattern of growth (OECD 2004; Ravallion 2004). Understanding the factors that influence the magnitude and direction of the pace and pattern of growth is key to designing strategies and interventions that benefit the poor. Income inequality, opportunities, assets, and access to services can put a brake on the ability of poor people to benefit from aggregate economic growth (Birdsall and Londona 1997; Bourguignon 2004; Ravallion 2004; World Bank 2004, 2006a, 2006b). Patterns of growth relate mainly to distributional aspects of growth. Geographic and sectoral patterns of growth, such as a focus on areas where poor people are concentrated and sectors where they obtain their livelihoods, is likely to provide greater opportunities for the poor to contribute to and benefit from economic growth. Expanding economic opportunities create new pathways for businesses to directly engage the poor as workers, suppliers, distributors, and consumers in financially sustainable ways (Jenkins 2007).

Leveraging the private sector to accelerate growth and poverty reduction has the potential for both rewards and risks. Private companies respond to market signals that reflect existing distribution of resources and assets. In situations where markets fail or are inefficient or there are high levels of inequality (both incomes and opportunities), private sector responses to market signals can exacerbate existing inequalities, leaving the poor worse off.

Private sector activities can have considerable effects on patterns of growth and distribution of rising incomes.

Leveraging the private sector to accelerate growth has risks as well as rewards.

For example, individuals and firms with assets can have a better access to finance, which in turn provides better access to opportunities and can reinforce the initial advantages reflected in existing distribution of assets. In the delivery of services, such as health, education, and sanitation, private companies may have difficulties addressing distributional and equity considerations, particularly where market failures are widespread (World Bank 2004, 2008). In addition, there is often little information to track how well private sector interventions actually reach the poor (London 2009).

Engaging the private sector also means that the government's role will remain critical, although with somewhat different emphasis.

Private companies have new and important roles in development processes, and leveraging the role of the private sector should be an essential element of strategies to achieve development impact (World Bank 2009). However, the effectiveness of the private sector is enhanced when governments develop better regulations and new capacities to design and manage relationships with private organizations and NGOs. Thus, efforts to support private sector innovation as well as to design, manage, and evaluate new approaches – as well as ensuring coordination and regulation across a wide range of actors – could have significant development payoffs.

Lessons for Enhancing Poverty Focus through Support for Private Sector Development

The literature on growth, poverty reduction, and the role of the private sector provides lessons to promote growth and poverty reduction through support for private sector development. Those lessons include the following:

- Sustained economic growth is typically associated with lower absolute poverty, but some kinds of growth reduce poverty more effectively than others.
- The poor are not a homogeneous group and the causes of poverty vary between countries. Such diversity in the circumstances of the poor implies that effective strategies for reducing poverty should be country and context specific.
- Growth strategies that are effective in reducing poverty should be based on a solid understanding of an intervention's growth and poverty implications.

IFC's Poverty Focus: Evolution of Strategic Directions

IFC's approach to addressing poverty has evolved (box 2, appendix B). Since its inception, IFC has grappled with the basic challenge of combining successful business operations with development impact (Haralz 1997). From its early days, the institution's development strategy rested on the assumption that supporting successful private sector development contributed to economic growth and that the benefits from growth will contribute to reducing poverty through market mechanisms. The common assumption was that any project that meets IFC's environmental and social criteria and generates an economic rate of return (ERR) of 10 percent or more contributes to reducing poverty. Recent strategic direction papers, however, demonstrated a stronger commitment to focus on the poor (appendix C).

Box 2. Key Phases in the Evolution of Strategic Directions

Four phases can be observed in the development of IFC's approach to poverty.

Inception–1994: *Private sector and economic growth*—Starting in 1978, there was a focus on social cost-benefit analysis with ERR to capture project development impacts. Projects' distributional effects, including effects on the poor—if they occurred at all—relied mainly on the operation of market forces.

1994–2000: *Measuring development impact*—IFC examined alternative methodologies to measure development impact in response to a request from the Committee on Development Effectiveness of the World Bank Group Board. A stakeholder framework proposed assessing development impact from investments. Projects' distributional impacts were assessed in terms of stakeholders (employees, suppliers, neighbors, consumers, and so forth), which may or may not include the poor.^a

2000–04: *Private sector development, growth, and enhanced poverty focus*—IFC increasingly emphasized poverty reduction in its strategic directions papers, following the 2001 World Development Report.

The core agenda focused on private sector and growth. The poverty focus included a shift to frontier markets and work on investment climate. Advisory services were strengthened to provide value added services and knowledge products.

2004–present: *Growth and scaling up for development impact*—A strengthened focus was put on frontier markets and targeted sectors selected for growth and poverty reduction potential. The Development Outcome Tracking System (DOTS) was launched in 2005 as a framework for measuring development results. New approaches included public-private partnerships, increased collaboration between IFC and IDA, greater field presence, and increased innovation to reach underserved segments in the IFC markets.

a. *Staff Guidelines for Measuring Development Impact.*

IFC's ability to reduce poverty through support of the private sector in frontier markets needs to be based on a clear understanding of who the poor are and where they are located. Box 3 defines poverty and briefly describes its multiple dimensions. 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.

IFC's messages on poverty have varied over time. For example, the traditional view is that a focus on promoting a successful private sector will benefit the poor through the working of private markets. Another view based on environmental and sustainable growth takes a risk management perspective, in which interventions should seek to avoid negative impacts on the poor. More recently, the base of the pyramid approach views poverty in a multidimensional way beyond income thresholds and takes into account lack of access to basic goods, services, and income generation opportunities.

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, is in close proximity to expertise, knowledge, and resources on poverty issues. 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. Such insights are important in developing an effective poverty-focused agenda, because the definition of poverty within the IFC context will drive the strategies and approaches for tackling it.

The evaluation explores key dimensions of poverty, including opportunities, capabilities, and vulnerabilities. In practical terms, poverty is measured through disaggregation of existing indicators, such as income, geographic area, employment opportunities, and access to services, capacities, and so forth, to focus attention on the poor and/or underserved. This is a broad approach, but it provides a systematic lens for addressing IFC's poverty focus in a range of investment operations and advisory services.

Box 3. Who Are the Poor?

According to the World Bank, poverty is “pronounced deprivation in well-being.” A common definition is based on income or consumption expressed in monetary terms. Poverty is measured by comparing income or consumption against a defined threshold. Individuals or households that fall below this threshold are considered poor. Income or consumption based measures of poverty are common, frequently providing a starting point for poverty analyses.

Poverty definitions have expanded beyond income measures to embrace other dimensions of well-being, including human development and participation of the poor in the economy. The 2001 World Development Report *Attacking Poverty: Opportunity, Empowerment, Security* recognized that poverty is a complex, multidimensional phenomenon, reaching beyond a lack of material well-being, and including a lack of voice and power, lack of access to services, and excessive vulnerability and exposure to risk. The Bank’s *Handbook on Poverty and Inequality* (Haughton and Khandker 2009) focuses the definition on the capability of the individual to function in society. “Poor people” often lack key capabilities; they may have inadequate income or education, be in poor health, feel powerless, or lack political freedoms.

A study coauthored by IFC (Hammond et al. 2007) used the “base of the pyramid” concept as shorthand for defining the poor. An income threshold of \$3,000 per person per year in purchasing power parity is equivalent to \$1.72/day in India, \$2.09/day in Ghana, \$2.32/day in China, and \$3.69 in Brazil. Using the income threshold alone, IFC estimates that there are 4 billion people at the base of the pyramid in developing countries.

This approach also considers the lack of access to basic goods, services, and income generation opportunities in its broader definition of poverty. Using this definition, the number of people living in poverty is likely to be much higher than estimated above. On this basis, people at the base of the pyramid make up the overwhelming majority of the population in Africa, Asia, Eastern Europe, and Latin America and the Caribbean.

This rest of the report is organized as follows. Chapter 2 examines IFC’s poverty focus, defined in terms of how its activities contribute to the pace of growth and patterns of growth. This focus is reflected in the formulation and implementation of strategic priorities, resource allocation to investment operations and advisory services, and sectors that have been selected for focused attention. Chapter 3 examines the extent to which growth and distributional issues are addressed in IFC’s design and implementation of investment operations and advisory services. This is followed in Chapter 4 by an assessment of the effectiveness of IFC’s interventions in supporting growth and enhancing opportunities for the poor. The evaluation concludes by drawing lessons and making recommendations for enhancing the effectiveness of IFC’s poverty focus, taking into account both growth and the distributional issues that enhance opportunities for the poor.

Chapter 2

IFC's Poverty Focus at the Strategic Level

Relevance of IFC's Strategic Pillars for the Poverty Focus and Allocation of Resources

As noted in chapter 1, IFC's strategies have increasingly articulated a clear intent to support the private sector in creating opportunities for people to escape poverty and improve their lives. These intentions are reflected in strategic priorities that target investments and advisory services to poor countries, poorer regions of MICs, and sectors that engage the poor or generate positive externalities that benefit the poor.

FC strategic priorities target poverty reduction, but three of the current five Strategic Pillars are key elements of IFC's approach to poverty reduction because of their sectoral, geographic, and distributional potentials for targeting the poor:⁴

- **Pillar 1:** Strengthen the focus on frontier markets (IDA countries, fragile and conflict-affected states, and frontier regions in non-IDA countries).
- **Pillar 4:** Address constraints to private sector Growth in infrastructure, health, education, and food supply chain.
- **Pillar 5:** Develop local financial markets through institution building, use of innovative financial products and mobilization, and a focus on MSMEs.

How relevant are these strategic priorities with respect to IFC's overarching vision of creating opportunity for people to escape poverty and improve their lives? Overall, the priorities remain relevant, given the international consensus that the private sector is a key driver of growth and poverty reduction in developing countries (UNDP 2008; United Nations 2010). They are also fully relevant in light of the World Bank Group strategic priorities for poverty reduction.⁵ Among multilateral development banks (MDBs), IFC has led the way in consideration of development impact from supporting the private sector. This includes setting strategic priorities, defining guidelines for involvement in poor countries and sectors that provide opportunities

Evaluation Essentials

- ❖ The volume and share of commitments to IDA countries increased over the period.
- ❖ The definition of frontier regions should not focus exclusively on the income dimensions of poverty.
- ❖ Investments are concentrated in targeted sectors.
- ❖ Advisory services have been a primary vehicle for interventions in poor countries with challenging environments.
- ❖ IFC has increased its advisory services operations in IDA countries.

for poor people, and developing systems for monitoring and evaluation (Perry 2010).

Focus on frontier markets: IFC uses the level and extent of its investment operations and advisory services activities in IDA countries as key indicators to measure its support for private sector development in the world's poorest countries (IFC 2010). This includes an enhanced focus on Sub-Saharan Africa, a Region where, despite progress in recent years, the absolute number of poor people rose steadily between 1980 and 2005 (Chandy and Gertz 2011). To what extent has IFC's focus on frontier markets led to a shift in the actual allocation of investments to poorer countries?

RESOURCE ALLOCATION IN INVESTMENT OPERATIONS

The volume and share of commitments to IDA countries increased over the period.

IFC increased the volume and share of investment commitments to IDA countries over the evaluation period. From fiscal 2000 to fiscal 2010, IFC investment commitments increased more than fivefold. During that period, investment in IDA countries has been increasing: commitments rose from \$459 million in fiscal 2000 to \$4 billion in 2010 (figures 3 and 4).

Correspondingly, the share of IFC's total commitments in IDA countries rose from 19 to 31 percent over the same period. In fiscal 2010, the portfolio invested in IDA countries stood at \$10 billion, a threefold increase from the \$2.9 billion invested in fiscal 2000. The number of IDA countries with IFC investments increased from 32 in fiscal 2001 to 58 in 2010. The volume of IFC investments and involvement in IDA countries accelerated starting in fiscal 2005, mainly because of IFC's response to the global financial crisis.

Figure 3. IFC's Investment Commitments Fiscal 2000–10

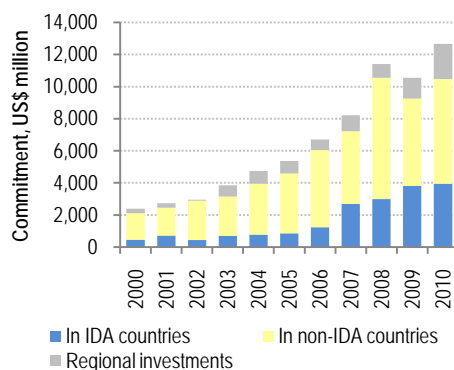
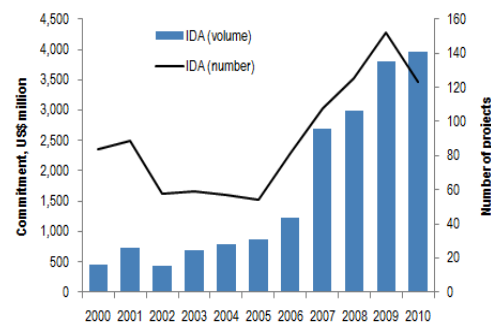


Figure 4. IFC's IDA Investment Commitments and Number of Projects, Fiscal 2000–10



Source: IFC MIS, June 2010.

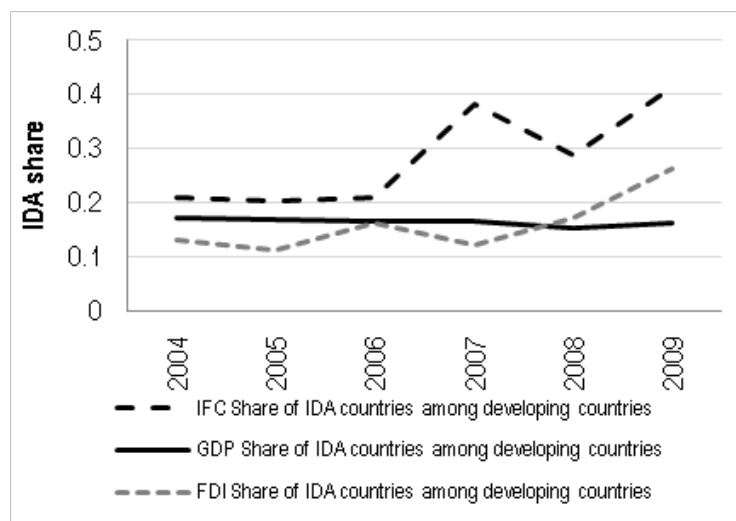
Note: Excludes rights issues, currency swaps, subsequent commitments and trade finance sub projects. (This calculation is not based on IFC's new counting methodology, which includes trade finance transactions.)

IFC has also increased its investment operations in Sub-Saharan Africa. Investments in this Region grew from \$320 million in fiscal 2000 to \$2.3 billion in 2010, far above its target of \$900–1,000 million (appendix D). In terms of aggregate shares, Sub-Saharan Africa's share rose from 13 to 18 percent during this period. The implementation of the Strategic Initiative for Africa since fiscal 2004 saw a significant increase in resource flows to the Region.

Between fiscal 2004 and 2010 the number of investment projects increased from 22 to 70, and the number of countries with investments rose from 11 to 30. During the same period, regional investment projects operating in more than one country increased from two to five. This trend in investment commitments is consistent with the upward trend in the share of financial support to the private sector in Sub-Saharan Africa among MDBs.

IFC is playing a leadership role in supporting private enterprises in IDA countries. It is the largest MDB supporting the private sector in developing countries, accounting for about 30 percent of investment volumes in 2008. IFC's relative investment share in IDA countries is higher than the relative foreign direct investment (FDI) shares flows, which is a proxy for private investments (figure 5).

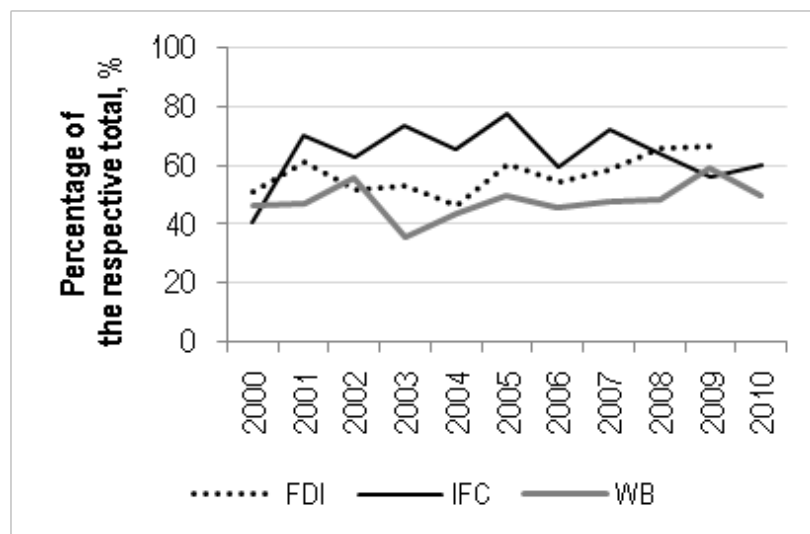
Figure 5. Concentration of IFC and FDI in IDA Countries



Source: IFC MIS, June 2010; Development Data Platform.

Note: FDI = foreign direct investment; GDP = gross domestic product; IDA = International Development Association; IFC = International Finance Corporation.

Figure 6. Concentration of IFC and FDI in top-4 IDA Countries



Source: IFC MIS, June 2010, Development Data Platform.

IFC is a leader in supporting private enterprise in IDA countries, but its investments are highly concentrated in a few countries.

However, IFC's IDA investments are highly concentrated in a few countries. The top four recipients have accounted for more than half of IFC's total investments in IDA countries since fiscal 2001, reaching a peak of 78 percent in 2005 (see figure 6). In fiscal 2010, the top four countries in terms of commitments – India, Nigeria, Pakistan, and Vietnam – accounted for 59 percent of IFC investments in IDA countries. In aggregate terms, from 2000 to 2007, IFC's level of concentration in IDA countries was higher than that of FDI in IDA countries, as well as IDA's own lending. This trend has shifted in recent years; from 2008, IFC's investments in IDA countries were more diversified across the top four investment recipients compared to FDI. This change reflects the effects of several IFC crisis response initiatives that allowed the Corporation to do more in IDA countries.

Focus on frontier regions: IFC's relevance and additionality in middle-income countries depends crucially on how well it defines its poverty agenda. Poverty is not only a development challenge in IDA countries since there are large concentrations of poor people in MICs. For example, in 2007 three MICs – India, Nigeria, and Pakistan – collectively accounted for two-fifths of the world's poor (Chandy and Gertz 2011). Thus, any strategy that is trying to address poverty has to address the challenges in MICs.

In some MICs, rapid economic growth has resulted in a dramatic decline in poverty rates – but not enough to reduce the absolute number of poor people. In these countries, IFC's poverty-related work is concentrated in frontier regions, which are defined as geographic areas with per capita incomes that fall below the average for the country.

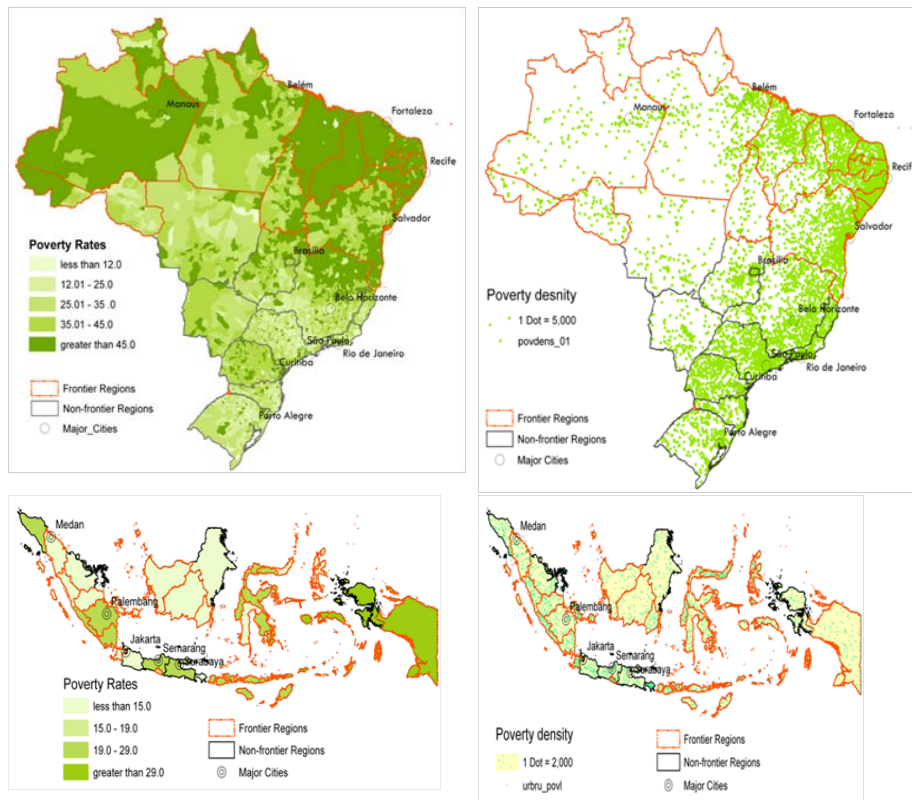
Maximizing poverty impacts of IFC operations in MICs through this focus gives prominence to the way such regions are defined.

Poverty maps are useful tools for assessing how well the poor are targeted in frontier regions. Given the importance of accurately targeting the poor to maximize poverty impacts, IEG assessed the relevance of IFC's definition of "frontier regions" using overlaid poverty maps with IFC's frontier regions in Brazil and Indonesia (figure 7). Based on the headcount index, poverty *intensity* is used to capture the proportion of the population that is poor in a given area, whereas poverty *density* captures the absolute number of poor people concentrated in a given area.

Poverty maps show that the largest concentration of poor people, measured by poverty density, is not in locations with the highest poverty rates. In Brazil, for example, the bulk of the poor reside in the southeast and in major cities, whereas the northeast lowlands, coastal areas, and the northwest register the highest poverty rates. Similarly, in Indonesia, the highest concentration of poor people is in the cities, and poverty rates are highest in the rural provinces of the eastern region, Sumatra, and central and eastern Java.

Poverty maps are useful for assessing how well the poor are targeted in frontier regions.

Figure 7. Poverty Maps, Including IFC Frontier Regions in Brazil and Indonesia



Source: World Bank.

The largest density of poor people is not in locations with the highest poverty rates.

These examples from Brazil and Indonesia, however, do not capture the diversity of poverty situations in MICs in which IFC operates.

In some counties, economic and poverty density may overlap because the market forces that drive labor mobility are not strong (World Bank 2009). In others, an area may contain indigenous populations that disproportionately lack market opportunities and basic services. Such a case may justify IFC's interventions, even if poverty density is lower than in urban areas.

Given that IFC also aims to achieve social and human development outcomes, the definition of frontier regions should not be focused exclusively on the income dimensions of poverty. If poverty reduction is also about opportunities, capabilities, and vulnerability, then non-income dimensions of poverty, such as levels of education, health, and extent of vulnerability, are valid considerations as well.

The definition of frontier regions should not exclusively focus on the income dimensions of poverty.

The divergence between poverty intensity and poverty density and the importance of income and non-income dimensions of poverty suggest a diversity of situations for targeting poverty interventions in MICs. Such diversity suggests a broad set of principles that IFC can consider in defining frontier regions: (i) average per capita incomes; (ii) absolute concentration of poor people; (iii) the likelihood of galvanizing the private sector, either directly or through public-private partnerships to achieve efficiency or IFC distributional goals; and (iii) the likelihood of generating growth and widespread poverty impacts by addressing non-income dimensions of poverty.

Focus on targeted sectors: IFC strategic priorities for investment and advisory services target particular sectors because of their potential contribution to growth and poverty reduction. Growth is more effective in helping reduce poverty when it occurs in sectors where poor people earn their livelihoods, creating jobs, increasing the quantity and productivity of their assets, and increasing their access to markets for goods and services, including financial services.

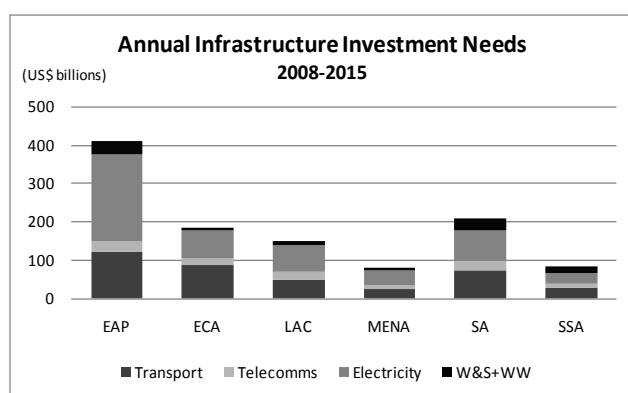
Strategic priorities for investment and advisory services target infrastructure, agribusiness, financial markets, and health and education.

IFC's targeted sectors – infrastructure, agribusiness, financial markets, and health and education – can make significant contributions to growth and poverty reduction. The development needs in these sectors are huge, so interventions need to be carefully selected to maximize impacts on growth and poverty reduction (box 4). Infrastructure has a broad reach that is likely to include poor people and is also a prerequisite for access to markets and other services (box 5); agribusiness has very strong upstream and downstream linkages with agriculture where the majority of poor people in agriculture-based countries earn their livelihoods (box 6); deepening of the financial sector and increased access to financial services provides opportunities for poor people to improve their livelihoods and contribute to growth (box 7); health and education is key for building capacities of the poor

in order to participate in productive and high return activities. In addition, MSMEs have been identified as priorities for investment and advisory services because of their importance to growth, job creation, and poverty reduction in many IDA and middle-income countries. But what has the trend in IFC investments to these sectors and activities been?

Box 4. Gaps in Infrastructure and Financial Service Needs

Based on demand trend, East Asia and Pacific represents the highest of infrastructure investment needs among all Regions. Although there are millions of people to reach before meeting the water and sanitation MDG, the sector represents a relatively small portion of total infrastructure investment needs.



Source: Yepes and Foster 2008.

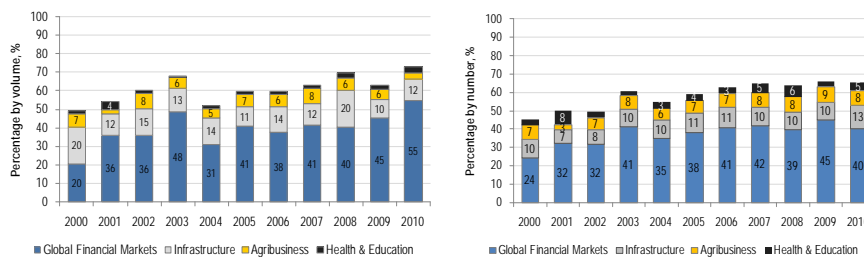
For all countries to achieve the same financial penetration rate as one of the top performing peers in a respective region, more than 200 million additional people should have access to finance in the world.

Source: World Bank 2007.

IFC's investments have been concentrated in targeted sectors. The composition of these sectors has changed over time and now includes infrastructure, health and education, agribusiness, and domestic financial markets. Between fiscal 2001 and 2003, the share of sectors designated as high impact ranged from 66 to 69 percent of IFC investments. This is comparable to more recent data showing that targeted sectors have steadily accounted for a relatively high share of investment commitments. Between fiscal 2009 and 2010, targeted sectors as a share of total investment ranged from 60 to 70 percent of volume of investments and from 64 to 66 percent in number of projects (figure 8).

Investments are concentrated in the targeted sectors.

Figure 8. IFC Commitment and Number of Projects Share, FY00–10



Source: IFC MIS, June 2010.

The composition of investment commitments within targeted sectors is dominated by financial markets. In this regard, IFC is similar to other MDBs, whose support for the private sector is highly concentrated in domestic financial markets. In IFC, investments in financial markets nearly doubled, from \$4.6 billion in fiscal 2008 to \$6.9 billion in 2010; in particular, in IDA countries, the sector accounted for 87 percent of total investments in targeted sectors in fiscal 2010.

Within financial markets, investments are highly concentrated in the Global Trade Finance Program (GTFP), which grew rapidly after 2005 following IFC’s response to the global financial crisis. In principle, short-term trade finance can make important contributions to growth and poverty reduction by facilitating easier access to credit, helping importers and exporters as well as SME clients with financing needs that support trade transactions. Through GTFP, IFC increased its focus in the poorest countries during the crisis period, playing an important role in filling trade finance gaps and increasing activity in some key sectors, such as agribusiness (IEG 2010b).

Financial markets dominate the investment commitments; commitments to other sectors have changed little over time.

IFC investment shares in infrastructure, agribusiness, and health and education have changed little over time. Between fiscal 2000 and fiscal 2010, the share of infrastructure investments in total IFC commitments declined from 20 to 12 percent and agribusiness from 7 to 3 percent. The share of health and education in total investments slightly, from 1 to 3 percent. The declining share of investments in infrastructure and agribusiness reflected demand and supply constraints, including cancellation and postponement of deals, relatively longer preparation time for project financing, and limited sponsor contribution to project financing, particularly for infrastructure projects (IEG 2010b). In IDA countries commitments in non-financial targeted sectors declined from \$877 million in fiscal 2008 to \$540.9 million in fiscal 2009, and to \$344.8 million in 2010. These investment shares accounted for 14 percent and 9 percent, respectively, of IFC total commitments in these countries.

Box 5. Infrastructure, Growth, and Poverty

Infrastructure supports growth and poverty reduction in the following ways:

- Enhancing economic activities through raising margins and thus value-added and GDP. Investments in transport, energy, and water help reduce production and transaction costs, which provides incentives for private firms to invest and expand production and marketing activities in key sectors such as agriculture, manufacturing, and services (OECD 2006a; Agenor and Dodson 2006; Calderon and Servén 2004).
- Improving access to basic services such as water and sanitation, electricity, and communication services in developing countries, where the poor tend to account for the majority of underserved populations. Research shows that investment in infrastructure has strong links to poverty reduction. For example, a 1 percent increase in infrastructure stocks is estimated to cut poverty by half a percentage point (Estache, Foster, and Wodon 2002; World Bank 2004).
- Providing opportunities for increasing the participation of poor people in growth processes by enhancing complementarities and synergies across sectors where poor people obtain their livelihoods. For example, investments in rural roads stimulate agricultural productivity and supply response, bringing about substantial poverty impacts that may be even greater than those induced by direct agricultural expenditures particularly in agriculture-based countries (World Bank 2007; Fan, Mogues, and Benin 2009; ECG 2010).
- Positively affecting non-income dimensions of poverty such as improvements in health, nutrition, and education (Fay and others 2005; OECD 2006a; Commission on Growth Development 2008).

The composition and design of operations also influence the extent to which investments contribute to the pace of growth and provide opportunities for the poor. In financial markets, short-term trade guaranty – particularly GTFP – has helped IFC build trade finance systems and supported trade transactions in IDA countries. Yet the development and poverty impacts of these interventions have not been assessed at the project level (IEG 2010b). IFC is aware of this and is currently developing a results measurement framework for GTFP for expected implementation in FY12.

Investment in infrastructure services in IDA countries has been dominated by investments in the power sector and information and communication technology, areas that are critical for growth. In cases where project design features incorporate distributional aspects that focus on the poor, such as strong linkages to agriculture, access to markets, and financial services, these investments can have a significant impact on poverty reduction (OECD 2006a; ECG 2010). IFC's investment in water utilities has been relatively small mainly because

the business case for private sector investments is weak without effective public sector engagement in poor countries (McKinsey 2010).

Box 6. Agribusiness, Growth, and Poverty

Investments in agribusiness support growth and poverty reduction mainly through the strong links between agriculture and agribusiness in the following ways:

- Enhancing/providing incentives for productivity growth in agriculture, a sector accounting for 29 percent of GDP in agriculture-based countries and providing livelihood opportunities for an estimated 2.5 billion people, many living in rural areas that contain 75 percent of the poor (in developing countries) (World Bank 2007).
- Strengthening agribusiness-agriculture linkages. This is a key component of successful strategies for sustainable reduction in poverty, particularly in agriculture-based countries (World Bank 2007). A 1 percent increase in agricultural GDP is estimated to lead to 1.66 percent poverty reduction in Ethiopia and 1.78 percent in Ghana (Diao and others 2007).
- Poor net food-buying households benefit from lower food prices because they tend to spend a relatively high share of their household budgets on food (World Bank 2007).

Investment in agribusiness comprising production, marketing, logistics, processing, and distribution can have extensive impacts on growth, rural development, and poverty reduction (ECG 2010a). Agribusiness's contribution to GDP increases as economies grow, providing employment and income opportunities and expanding demand for farm products for large numbers of smallholder farmers and landless workers in the farm and non-farm sectors (Timmer 2007; World Bank 2007; Fan and others 2008).

IFC's investment in agribusiness in IDA countries has increased sharply since 2007. However, agribusiness investments have not increased substantially in agriculture-based countries, particularly in Sub-Saharan Africa (IEG 2010a). Agribusiness investments have been dominated by food manufacturing, beverages, and high-value export crops (coffee, cocoa, and tea). Agribusiness can be a major driver of growth in the agricultural and nonfarm sectors in rural areas. But its impact on poverty depends mainly on the strength of upstream and downstream linkages between agribusiness and agriculture in the local economy. Growing agribusiness concentration in the production-processing-distribution chain can, in some cases, reduce the participation of small agricultural producers and suppliers, reducing a project's poverty impact (World Bank 2007).

Box 7. Financial Markets, Growth, and Poverty

Despite a lack of consensus, the vast majority of research finds a positive and significant correlation between financial sector development, growth, and poverty reduction (Beck, Demirguc-Kunt, and Levine 2004; DFID 2004; Demirguc, Beck, and Honohan 2008).

Research also provides evidence that improved access to finance encourages the entry of new firms, innovation, and growth; small firms are among the major beneficiaries of financial sector development (Demirguc, Beck, and Honohan 2008).

Interventions that support financial sector development can have direct and significant impacts on poverty in the following ways:

- Expanding access to financial services, such as saving facilities, credit, payment instruments, and insurance products contributes to building and improving productivity of assets held by poor people.
- Creating new opportunities for entrepreneurship and investment as well as facilitating remittances that can be used to smooth consumption or make investments for the poor.
- Creating opportunities for small firms by relaxing key capital and financial constraints to growth.

Improvements in financial infrastructure contribute to financial market deepening that increase competitiveness, improve efficiencies in product and factor markets, and stimulate private sector development and growth. Poor people and small firms benefit from increased wages as well as from increased employment and entrepreneurial opportunities in a vibrant economy (Demirguc, Beck, and Honohan, 2008; Huang and Singh 2009; OECD 2006a).

IFC's focus on promoting investment in targeted sectors remains relevant for achieving development impact. IEG's analysis, however, shows that with the exception of GTFP, IFC's actual allocation of investments to these sectors has been declining. Investments in infrastructure and other sectors such as agribusiness, health, and education could have significant growth and poverty impacts. However, these broad sector categories do not ensure that project interventions actually reach the poor. Projects have to be designed to incorporate both growth and distributional objectives to foster growth patterns that benefit the poor.

Evidence from previous IEG evaluations shows in many cases that project interventions have to be carefully targeted to benefit the poor. For example, the evaluation of health, nutrition, and population (IEG 2009a) showed that IFC's support to pharmaceuticals for production of generic drugs lowered prices and enhanced access for the poor, thereby having important direct impacts on poverty. In contrast, IFC's investments in hospitals have focused on the segment with high purchasing power – expatriates and high-income individuals. Even

The focus on promoting investment in targeted sectors remains relevant for achieving development impact.

though such investments may have indirect effects on the poor, such as reducing brain drain and freeing up public resources, their short-term poverty impacts are likely marginal. These examples suggest that the extent to which projects in these sectors actually benefit the poor depends on strategic choices relating to the type of projects selected; incorporation of design features that benefit the poor, including careful targeting within each of these sectors to increase the likelihood of having impact on the poor; and robustness of monitoring and evaluation systems to track progress, take corrective actions, and assess impacts on the poor. Private sector projects can have significant impacts on the poor when their design, for example, incorporates innovations that expand access and reduce cost, making services affordable to the poor (box 8).

Focus on MSMEs: IFC's Strategic Directions papers have highlighted an emphasis on MSMEs – enterprises that employ fewer than 250 people – as a major element of its growth and poverty agenda.

MSMEs account for the largest part of the private sector, particularly in poor countries, creating jobs and investment opportunities that enhance livelihoods. MSMEs in IDA countries and MICs face formidable challenges. For example, the credit gap to fully meet the financing needs of all formal and informal MSMEs in emerging markets is estimated at \$2.1–\$2.5 trillion (Stein, Goland, and Schiff 2010).

IFC takes a four-pronged approach to MSMEs: direct support, indirect support through financial intermediaries, linkages to large firms, and improving business environment. The first two of these are addressed through investment operations and the others through advisory services. IFC's total investment commitments in MSMEs grew from \$400 million in fiscal 2000 to \$3.1 billion in 2010, accounting for 17 and 24 percent, respectively (figure 9). In IDA countries, investment commitments in MSMEs increased tenfold, from \$83 million in fiscal 2000 to \$895 million in fiscal 2010.

Strategic Directions papers have emphasized MSMEs, and investments in MSMEs are concentrated in non-IDA countries.

MSME investments are concentrated in non-IDA countries. In fiscal 2010, non-IDA countries accounted for 63 percent of total MSME investments, compared with 21 percent in IDA countries. As stated earlier, the needs of MSMEs in MICs are also substantial. Stein, Goland, and Schiff (2010) estimated that MSMEs in Sub-Saharan Africa, the Middle East and North Africa, and Latin America have the largest financing gaps. The magnitude of the challenges facing MSMEs, which go beyond financing, imply that carefully targeting investments in these diverse situations will be critical in leveraging growth and poverty impacts in both IDA and non-IDA countries.

Box 8. Evidence from Case Studies: Innovations That Made Services Affordable Critical in the Poor's Access to Services

Two IFC supported companies—a microfinance bank and another implementing a water concession—provide good examples of how innovations that reduce cost can enhance the poor's access to services.

In the microfinance case, innovations on saving deposits, such as not requiring minimum deposits or personal references when clients opened an account, were important factors driving expansion of savings deposits by the poor. For example, the number of account holders in the bank increased from 3,679 in 2005 to 111,935 in 2010. Small depositors were specifically attracted by the relatively low transaction costs. As a result, 64 percent of customers had balances under \$100.

Respondents from field surveys confirmed the massive growth in savings deposits among low-income households, stating that the affordability of these services made savings accounts very attractive. In two urban areas where new bank branches had been opened, about 75 percent of respondents had opened a savings account. In contrast, in two areas that did not have bank branches, less than 20 percent of respondents reported having a savings account. In these areas, the vast majority—73 percent of the people interviewed—reported that they would like to have a branch of the microfinance bank in their area.

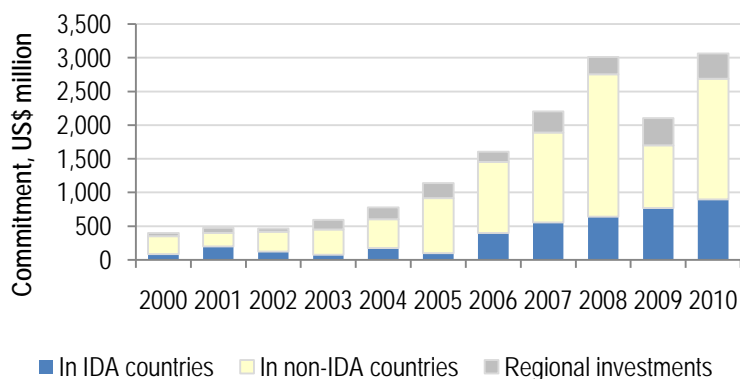
A water concession used several innovations to make water services affordable to the poor. This doubled the number of customers in the concession area, from 3.1 million in 1997 to 6.1 million in 2009.

From 1998 the water concession company launched a program that used local and community based mechanisms for planning and implementation. This program emphasized the role of the poor as active decision makers with clear responsibilities for choosing the connection scheme and collection arrangements for their communities.

An output-based aid financing facility provided a subsidy on connection costs that helped reduce the initial cost of connections for poor households. Connection fees ranged from about \$170 for an individual residential connection to \$64 for output-based aid beneficiaries. Cross-subsidy-based innovative pricing schemes that considered variations in minimum consumption rates across different categories of consumers also kept rates affordable for the poor.

These rates significantly reduced the cost of obtaining water. Households in the survey reported that on average they spent about \$17 a month for irregular supplies of water before the project, whereas with the project they spend about \$4 a month for 24-hour water supply. Households in a comparison area that was not covered by the water concession reported spending about \$25 a month for irregular water supply. Households also reported significant time savings—up to four hours a day—after the project.

Figure 9. IFC Investment Commitments in MSMEs

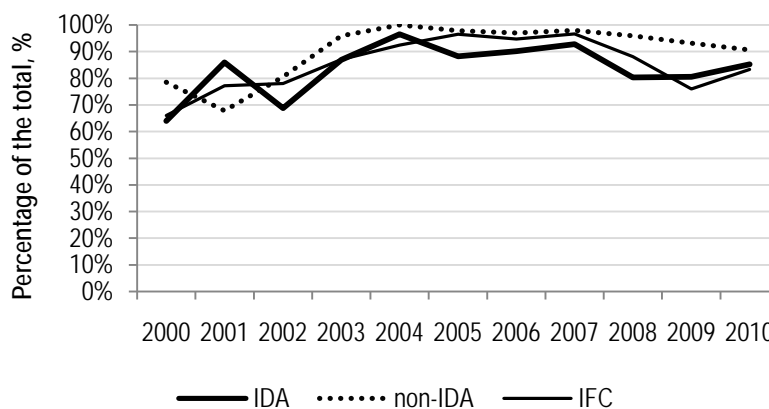


Source: IFC MIS database, June 2010.

Most MSME financing is through financial intermediaries

IFC provided the bulk of MSME financing through financial intermediaries (for example, commercial banks and specialist microfinance institutions). The share of MSMEs being supported this way rose from 66 percent of total MSME operation in fiscal 2000 to 83 percent in 2010 (figure 10). This shift appears to be driven by the greater efficiencies of providing services to a large number of MSMEs in client countries.

Figure 10. IFC Support to MSMEs through Financial Intermediaries



Source: IFC MIS database, June 2010.

IEG found that projects with MSME financial intermediary clients achieved higher development outcomes than the average for IFC projects across all sectors (IEG 2009b). IFC's strategy of supporting MSMEs through financial intermediaries was also found to be effective in terms of reaching a large number of MSMEs, which IFC could not achieve through direct approaches (table 2). However, as observed by IEG (2011), simply taking successful project ratings at face value can be misleading when interpreting broader impacts, such as those on growth and poverty reduction. The potential for MSMEs to

make meaningful contributions to growth and poverty reduction involves addressing significant financial and nonfinancial factors that limit their growth (Stein, Goland, and Schiff 2010; Perry 2010; IEG 2009b).

Table 2. The Reach of IFC's MSME Investments

<i>Reach indicators</i>	<i>CY06 portfolio</i>	<i>CY07 portfolio</i>	<i>CY08 portfolio</i>	<i>CY09 portfolio</i>
SME (\$ billions)	52.2	86.0	90.6	101.3
Number of SME loans (\$ millions)	0.72	1.02	1.3	1.5
Microfinance loans (\$ billions)	5.0	7.9	9.3	10.8
Number of microfinance loans (\$ millions)	4.3	7.0	8.5	8.5

Source: IFC.

Note: IFC considers its reach in terms of the number of people touched by goods and services provided by IFC clients, or the dollar benefits to particular stakeholders affected by the activities of IFC clients. The reach of IFC's clients cannot be attributed solely to IFC's investment: Sometimes, one company can contribute a large percentage to the overall reach of IFC's clients. For example, the reach figures for 2008 include about \$11.7 billion in loans to about 800, MSMEs by a large Latin American client, in which IFC invested about \$350 million. SME = small and medium size enterprise.

Empirical evidence on the poverty impacts of microfinance institutions (MFIs) is mixed. Some studies show a positive impact of access to microfinance on borrowers' welfare, whereas others have not (Demirguc, Beck, and Honohan 2008; Beck and Demirguc-Kunt 2008). Several evaluations of the impact of microfinance on poor households do not provide evidence of poverty impacts (ECG 2010b, IEG 2011). Consequently, the good intention of targeting the poor and vulnerable has not often yielded the expected results. This is because much of microcredit is not used for investment purposes and/or the assumed linkages between interventions and expected outcomes may be missing (Demirguc, Beck, and Honohan 2008; IEG 2011). As noted by Demirguc, Beck, and Honohan (2008), more research is needed to assess the relationship between microfinance and the welfare of borrowers, including poverty impacts.

The importance of SMEs in the economies of low- and middle income countries and their potential to contribute to growth and poverty reduction deserve attention. Compared to large firms, SMEs tend to face greater constraints to their growth, including access to finance, and burdensome regulatory, licensing, and legal requirements. Theory and empirical evidence show that improved access to finance can promote growth and reduce income inequality.

Thus, there is a strong development rationale for IFC's support to SMEs. Research does show, however, that there are many questions about the efficacy and welfare impacts that need to be addressed to enhance the impact of SMEs on growth and poverty reduction (Beck, Demirguc-Kunt, and Levine 2004). A key issue is whether support for MSMEs would be more effective if the emphasis shifted from direct

support for firms to a focus on interventions that lead to policy and institutional changes that improve market outcomes in which MSMEs and poor people participate (OECD 2004).

The magnitude of the challenge and mixed evidence on welfare impact suggest that effective interventions to support growth and enhance opportunities for the poor through MSMEs will involve complementary and well-coordinated action. Interventions will need to address both financial and nonfinancial constraints to growth, including access to a wide portfolio of financial products and services.

This would help provide enabling environments that foster the growth of MSMEs and promote policy and institutional reforms that lead to patterns of growth that favor MSMEs and reach the unbanked poor. The implication of this broad agenda is that there would continue to be closer coordination of approaches between IFC investment and advisory services, as well as between IFC and other donors, including the World Bank Group.

RESOURCE ALLOCATION TO ADVISORY SERVICES

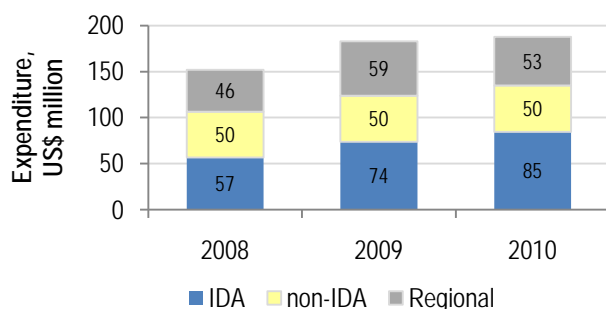
Advisory services have been a primary vehicle for interventions in poor countries with challenging environments.

Advisory services have been the primary vehicle for IFC's interventions in poor countries with more difficult and challenging environments, where the opportunities for IFC to support private investments have been limited. Advisory services expenditures increased more than tenfold, from \$24 million in fiscal 2001 to \$260 million in 2010. During that period, staffing increased sixfold, from 168 to 1,061. In comparison to other MDBs, IFC allocates significant resources to advisory services, accounting for about a quarter of advisory staff working on private sector development across all MDBs (IEG 2009b).

IFC has increased its advisory services operations in IDA countries.

IFC has increased its advisory service operations in IDA countries. The majority of advisory services resources, as measured by project expenditures, have been allocated to IDA countries (figure 11). Over the past three years, advisory service expenditures in IDA countries have been increasing, with shares rising from 37 percent in fiscal 2008 to 44 percent in fiscal 2010. In addition, some regional project expenditures are spent in IDA countries. Corresponding to these expenditures, advisory service operations were active in 55 IDA countries in fiscal 2008, increasing to 62 countries in fiscal 2010.

Figure 11. IFC Advisory Services Project Expenditures in IDA versus Non-IDA Countries



Source: IFC, January 2011.

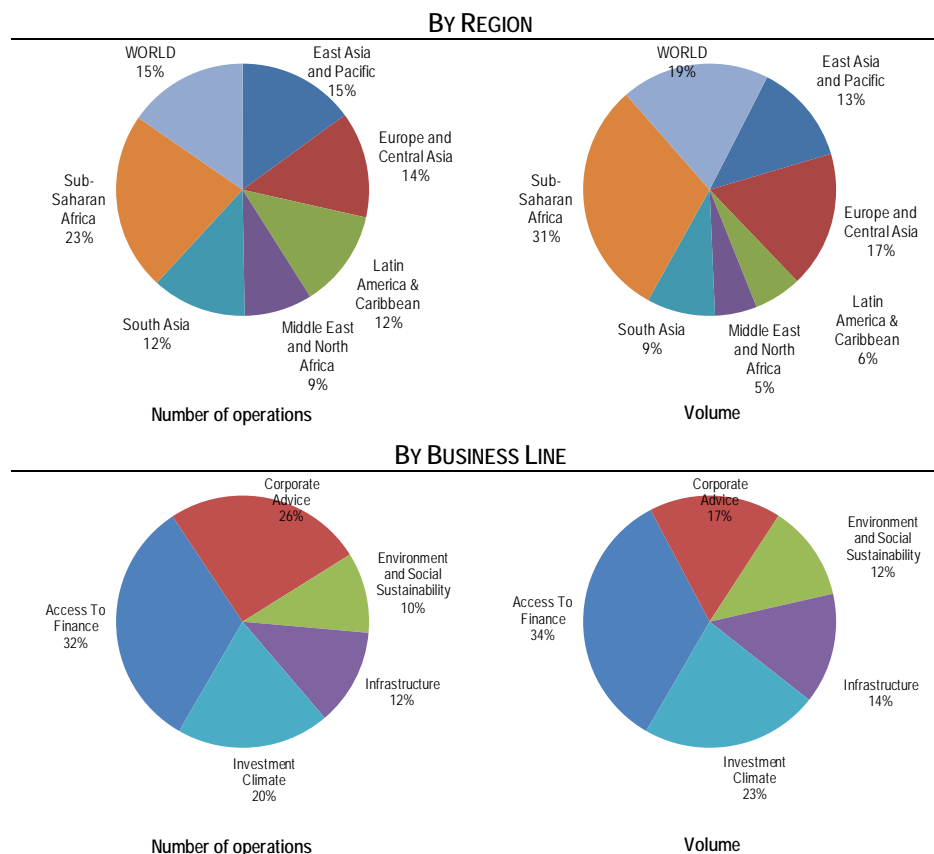
Note: Excludes IDA country share of project expenditure of regional projects.

IFC's advisory service operations aim to improve the overall enabling environment for private investment and to integrate advisory services and investment operations in ways that improve additionality and development impact. IFC's role as a knowledge provider on private sector development started gaining prominence in the 1980s, with the creation of dedicated advisory services programs. These efforts were boosted by the creation of the Foreign Investment Advisory Services in 1985 and regional development facilities, focusing mainly on the development of SMEs in Africa, the Caribbean, and the Pacific.

Advisory services have grown rapidly since 2001, driven mainly by increasing recognition that knowledge is an essential ingredient for stimulating growth and poverty. Because advisory services were designed to be the instrument of entry for IFC in frontier markets, a key issue is the extent to which IFC's poverty focus has led to a change in the size and allocation of its advisory services.

Advisory services operations were organized into five business lines in 2006.⁶ In terms of the number of projects and volume of operations measured by the value of the portfolio, access to finance is the largest business line. In Regional terms, Sub-Saharan Africa dominates use of advisory services (figure 12).

Figure 12. IFC Advisory Services Portfolio as of June 2010, by Region and Business Line



Source: IFC database, June 2010.

Advisory services provide a wide range of interventions.

The products delivered through advisory services business lines provide a wide range of interventions. Some product lines, such as investment climate, financial infrastructure, and public-private partnerships, support broad-based growth that encompasses entire economy and key sectors (table 3). The outputs from such interventions can lead to policy reforms and new institutional arrangements that affect both the poor and non-poor. Other product lines, such as linkage programs and microfinance, provide support to firms and individuals, often in alignment with investment operations.

Table 3. IFC Advisory Services Number and Volume of Projects by Business Line

Primary business line	End FY08			End FY09			End FY2010		
	No.	AMOUNT (\$ MILLIONS)	EXPENDITURE	No.	AMOUNT (\$ MILLIONS)	EXPENDITURE	No.	AMOUNT (\$ MILLIONS)	EXPENDITURE
	Access to Finance	232	321.3	38.3	235	329.0	54.5	238	268.7
Corporate Advice	197	189.3	42.4	191	149.0	37.6	187	133.6	37.0
Environment and Social Sustainability	142	145.4	16.6	93	98.2	15.9	76	97.4	17.2
Infrastructure	102	114.5	19.9	85	100.3	23.6	91	112.4	27.9
Investment Climate	171	142.1	34.8	178	170.8	51.5	144	179.7	54.3
Total	844	912.6	152	782	847.3	183.1	736	791.8	188.1

Source: IFC, January 2011.

Improving the investment climate: An improved investment climate is critical for accelerating growth and poverty reduction (World Bank 2005). Research also shows that investment climate reforms can enhance a firm's entry into the market; enable new firms to survive and grow; and result in increased labor productivity, output, and investment (Motta, Oviedo, and Santini 2010). Under the Investment Climate business line, IFC's products focus on identifying and removing specific constraints to private investment (usually by sector) and to other bottlenecks (institutional, administrative) that constrain it. A significant proportion of IFC's investment climate work is undertaken jointly with the World Bank (IDA-IFC Secretariat).

Investment climate expenditures are concentrated in IDA countries. Table 4 shows that 75 percent of projects (169 of 224) and 82 percent of expenditures (\$115 million of \$140 million) for investment climate products are spent in IDA countries. Key products—such as doing business reforms, subnational doing business, and business operations—and public-private dialogue foster policy reform and institutional arrangements that provide incentives for entrepreneurship and investment. These opportunities influence the pace and pattern of growth. The pattern of growth is likely to be faster and provide greater opportunities for poor people when the focus is in regions and sectors engaging a large number of small firms and the poor. Investment climate reforms in sectors such as agriculture and tourism can have significant impacts on growth and poverty reduction in terms of increased productivity, increased investment, and jobs.

Investment climate expenditures, which can have significant impacts in client countries, are concentrated in IDA countries.

Table 4. Investment Climate Business Line Portfolio by Product

Product	End FY10 IDA portfolio				End FY10 non-IDA portfolio			
	No.	%	AMOUNT (\$ MILLIONS)	%	No.	%	AMOUNT (\$ MILLIONS)	%
Industry-specific investment climate	15	9	9.6	8	1	2	0.5	2
Special economic zones	11	7	14.5	13				
Business taxation	18	11	14.8	13				
Doing Business reform advisory	10	6	5.5	5	1	2	0.04	0.2
Subnational Doing Business	4	2	2.6	2	5	9	2.4	9
Investment policy and promotion	20	12	13.3	11	4	7	1.3	5.0
Public-private dialogue	20	12	16.9	15	5	9	0.6	2.5
Special initiatives: Investment climate-other	1	1	0.9	1	1	2	0.4	1.7
Business entry	21	12	7.9	7	13	24	4.3	16.6
Business operations	28	17	21.7	1	16	29	11.8	46
Trade logistics	7	4	2.5	2	2	4	0.9	3
Access to land	6	4	2.6	2	1	2	0.3	1
Alternative dispute resolution	8	5	2.9	3	6	11	3.2	12
Total	169	100	115.7	100	55	100	25.7	100

Source: IFC Advisory Services database, June 2010.

Note: Numbers are rounded up; thus, percentages may not add up to 100.

Small firms often face greater constraints on growth, some arising from a weak investment climate that may hurt them disproportionately (World Bank 2004). The cost of regulatory burdens, bribes, weak property rights, poor infrastructure, and low access to finance is up to one-third higher for small firms than for larger or foreign firms (World Bank 2009). Such broad-based interventions, which improve conditions for investment, foster cross-sectoral linkages, protect property rights, level the playing field for all firms, and increase information flows. Thus, they are likely to lead to significant gains in growth and poverty reduction.

Improving the investment climate can have significant impacts in IFC client countries. IFC's effectiveness in enhancing these impacts critically depends on (i) ensuring stable funding through IFC funding

formulas and donor funds, because outcomes are typically public goods; (ii) taking proactive steps to align the outputs from of macro and sectorwide work, with project-based investments in key sectors such as infrastructure, agriculture, and tourism; and (iii) 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.

Integrating SMEs into the supply chains of investment clients: **In the Corporate Advice business line, IFC has supported several programs to help its clients improve the efficiency of their supply chains.** These programs create business opportunities for local suppliers. Linkage activities have good potential for improving the livelihoods of the poor, as well as for developing approaches that can foster sustainable community development:

- Inclusive supply chains: Helping clients improve productivity in their supply chains by developing and fostering local suppliers that lack the resources or technical expertise to improve their product offering, services and productivity
- Local sourcing platform: Creating business opportunities for MSMEs on national, regional, and/or community levels, mostly in conjunction with extractive industry projects
- Community investment strategy/income generation: Assisting companies to help communities address their development priorities and take advantage of opportunities created by private investment in ways that are sustainable and support business objectives.

Advisory services linkage activities can play an important role in sharpening IFC's poverty focus. When they are well designed and managed, they can be used to provide solutions to market failures and other sector constraints that tend to inhibit the access of the poor to business opportunities created by larger investments. In this way they can enhance the growth of MSMEs and create opportunities to relatively poor private sector actors. Such intervention can focus on distributional issues, particularly benefits accruing to farmers, local suppliers, and small firms.

Within the Corporate Advice business line, the mix of products has experienced a substantial shift. In fiscal 2006–07, at the beginning of the period for which consistent data are available, more than half of these operations involved the development of community investment strategies, income-generation activities, and local sourcing platforms, mostly in conjunction with IFC investments in oil, gas, and mining

Several programs have aimed to help clients improve supply chain efficiency.

The mix of products in the Corporate Advice business line has shifted toward advice on developing inclusive supply chains.

operations. Toward the end of the review period, from fiscal 2008 to 2010, the focus had shifted almost entirely to providing advice on inclusive supply chains.

For example, by fiscal 2010, 13 of 14 approved operations in these 3 product lines had inclusive supply chain components valued at \$4.5 million (table 5). These operations were mostly linked to IFC investments in the agribusiness and the information, communication, and technology sectors, in line with the priority given to targeted sectors.

Table 5. Corporate Advice Business Line Portfolio by Product

Product	End FY10 IDA portfolio				End FY10 non-IDA portfolio			
	No.	%	AMOUNT (\$ MILLIONS)	%	No.	%	AMOUNT (\$ MILLIONS)	%
Linkages—inclusive supply chains	26	23	11.9	17	11	20	7.1	20
Linkages—local sourcing platform	7	6	10.0	14	2	4	3.3	9
Community investment strategy	4	4	1.5	2	2	4	1.0	3
Revenue management	1	1	0.1	0.2	10	18	4.4	12
Corporate governance	16	14	13.4	19	13	24	7.4	20
SME management solutions	24	21	9.6	13	1	2	0.1	0.1
Sustainability strategy					1	2	0.1	0.4
Non-investment-linked value chain work	2	2	4.6	6	1	2	3.2	9
Special initiatives—Value chain FCS	4	4	1.6	2	1	2	0.6	2
IFC against AIDS	10	9	1.7	2	5	9	2.9	8
Other	18	16	17.3	24	8	15	6.2	17
Total	112	100	71.7	100	55	100	36.1	100

Source: IFC Advisory Services database, June 2010.

Note: SME = small and medium enterprise. Totals may not add up to 100 due to rounding.

Linkage operations provide opportunities to support development of SMEs and growth of the private sector. However, their potential to actually leverage benefits for the poor depends critically on building trust between the transacting parties and helping address capacity, information, and incentive issues associated with reliability of supply and purchases – areas where a third party with development focus like IFC can play a useful role.

Access to Finance is the largest advisory services business line.

Increasing access to finance: **The Access to Finance business line is the largest advisory services business line both in value and in number of projects** (table 6). Its strategy emphasizes a focus on financial inclusion, involving a combination of financial products and services geared toward addressing the tremendous need for financial services (credit, savings, and payments) in IFC client countries (OECD 2006a;

Stein, Goland, and Schiff 2010). An estimated 2.5 billion households are unbanked and some 300 million MSMEs in developing countries face a credit gap in excess of \$2 trillion. Access to Finance products help address these needs through interventions at the level of households and firms. They also provide advice and capacity building in climate change mitigation and risk management.

Table 6. Access to Finance Business Line Portfolio by Product

Product	End FY10 IDA portfolio				End FY10 non-IDA portfolio			
	No.	%	AMOUNT (\$ MILLIONS)	%	No.	%	AMOUNT (\$ MILLIONS)	%
Climate change	10	6	5.1	6	15	17	30.6	44
Financial infrastructure(credit bureaus, securities markets, collateral registries, payment systems)	27	17	11.0	12	8	9	4.5	7
Micro level (microfinance, housing finance, mobile banking/retail payments)	53	33	35.0	39	27	31	15.3	22
Risk management (incl. NPL)	11	7	2.4	3	8	9	3.4	5
SME(SME banking, leasing, trade finance, agribusiness finance)	48	30	33.4	37	20	23	10.7	15
Other	13	8	2.5	3	8	9	4.8	7
Total	162	100	4	100	86	100	69.3	100

Source: IFC Advisory Services database, June 2010.

Note: NPL = Nonperforming Loans; SME = small and medium enterprise. Totals may not add up to 100 due to rounding

More than half of Access to Finance expenditures are in IDA countries, with less IDA exposure for climate change and risk management products. Support to institutions providing access to finance at the micro and retail level is a major component of expenditures, closely followed by support to institutions that provide access to finance for SMEs. In fiscal 2010, access to finance at the micro and retail level accounted for 39 percent of expenditures and 33 percent of the number of projects. Support to SMEs accounted for 37 percent of funds and 30 percent of the number of projects. Twelve percent of funds were spent on financial infrastructure, an area that is critical in addressing constraints to access to financial services and promoting financial sector development that have significant impacts on the poor (World Bank 2008; Huang and Singh 2009).

To enhance poverty impacts, there will need to be a careful balance between sectorwide approaches such as supporting financial infrastructure and approaches that provide direct support for access to finance for households and firms. Even though support for providing access for microfinance still dominates access to finance expendi-

tures, the impact that this has had on poverty is not clear (World Bank 2008; ECG 2010a; IEG 2011). Meanwhile, sectorwide interventions that deepen financial markets might have greater impacts on growth and poverty reduction through their effects on overall growth of the private sector and increased efficiencies in product and labor markets (World Bank 2008; OECD 2006b).

A few impact evaluations would provide valuable information about what works, what does not, why, and in what contexts.

A few carefully selected and rigorously conducted impact studies would provide valuable lessons of what works, what does not work, why, and in what contexts. Understanding the welfare impacts of sectorwide approaches, such as interventions supporting financial infrastructure, would be enhanced by making explicit the causal links between intervention and growth, job creation, and poverty reduction. These hypothesized linkages can also be tested.

Infrastructure: Infrastructure advisory work requires working with governments to design and implement public-private partnership (PPP) transactions. Given the significant gaps in access to infrastructure services in developing countries, technical advice and structuring of deals that involve the public and private sectors will be critical for supporting growth and poverty reduction. The traditional focus of the business line has been advice to infrastructure privatization efforts of government (table 7). About 54 percent of funds are spent in IDA countries. This business line is also responsible, together with access to finance, for the Performance Based Grants Initiative discussed below.

Table 7. Infrastructure Business Line Portfolio by Product

Product	End FY10 IDA portfolio				End FY10 non-IDA portfolio			
	No.	%	AMOUNT (\$ MILLIONS)	%	No.	%	AMOUNT (\$ MILLIONS)	%
Advisory mandate	29	71	46.5	85	34	85	41.0	96
Subnational advisory	1	2	1.2	2				
Assistance to private operators	6	15	4.3	8	2	5	0.5	1
Support for extending access	1	2	1.4	3				
Other	4	10	1.1	2	4	10	1.2	3
Total	41	100	54.5	100	40	100	42.7	100

Source: IFC Advisory Services database, June 2010.

Infrastructure and access to finance: Performance-Based Grants Initiative (PBGI): **In 2005, IFC's Board approved funding for a results-based financing mechanism that goes beyond the traditional IFC approach to enhance access to services in developing countries.** PBGI focuses on delivery of infrastructure services and access to finance. The

designation of \$180 million in 2009 included \$97.5 million for infrastructure, \$40 million for access to finance, and \$30 million for African MSMEs. Disbursement of PBGI funds for infrastructure is made to the Global Partnership on Output Based Aid (GPOBA),⁷ whereas disbursements for access to finance are made from the Access to Finance business line. As of November 2010, \$125 million had been committed to infrastructure through GPOBA, with about \$43 million funded by IFC. In Access to Finance, about \$28 million had been committed by September 2010. The distribution of projects by sector and region is shown in appendix E.

PBGI, a results-based financing mechanism, provides incentives for a third party to deliver services to the poor or extend into new areas.

PBGI provides incentives for a third party – private sector, PPP, or government agency – to deliver services to poor people or to extend services to new areas. The financing instrument is results based because funds are disbursed only against the delivery of services or outputs. PBGI also explicitly targets the poor by focusing on geographic areas and/or targeting services to specific income groups.

Pilot tests through GPOBA and IFC's Access to Finance business lines show promise, but it is still too early to assess the effectiveness of PBGI in reaching the poor with improved services on a wide scale. There is appetite for mainstreaming PBGI. But before scaling it up, greater consideration needs to be given to a number of key issues, including its long-run sustainability, effectiveness of delivery mechanisms, private sector incentives, and fiscal implications. Lessons from World Bank Group experience suggest that decisions to mainstream such initiatives must be informed by careful evaluation and learning of what works, what does not work, why, and in what context.

Chapter 3

Poverty Focus in Design and Implementation of IFC Projects

Projects that contribute to growth and generate productive jobs, increase asset returns, and deliver services at affordable prices can influence the pace and pattern of growth. Sound project design is a fundamental prerequisite for successful project performance and impact (IEG 2001). Thus, IFC's poverty focus is enhanced when project design and implementation incorporate mechanisms through which the poor participate in and benefit from growth.

This chapter assesses IFC's poverty focus by examining growth and distributional issues at project design and implementation. By focusing attention on growth and distribution of benefits from growth, IEG's treatment of a project's poverty focus is consistent with evidence from the literature that both the pace and the pattern of growth are critical for achieving sustainable growth and poverty reduction (OECD 2006a; Commission on Growth and Development 2008). The measure of poverty focus in this evaluation is broader than IFC's support to companies with inclusive business models, defined as companies and projects that offer goods, services, and livelihoods to the poor in financially sustainable and scalable ways.

For investment operations, a project's development impact is assessed using a stakeholder framework. Performance standards are also used to assess projects' expected social and environmental impacts and risks and measures to address them, including mitigating adverse impacts on the poor. IFC's results monitoring framework, DOTS, monitors development results during project implementation, and the Expanded Project Supervision Report (XPSR) system provides an evaluative perspective. These analytical tools, together with accompanying guidance notes, can be used to incorporate distributional issues in IFC projects at project design and implementation.

IEG reviewed a random sample of 481 IFC investment projects that were approved across all sectors and regions between fiscal 2000 and the first half of fiscal 2010 (see appendixes F and G). The portfolio review involved extensive reviews of project documents developed at design, supervision, monitoring, and evaluation stages. In addition to approval and evaluation reports, IEG reviewed project

Evaluation Essentials

- ❖ The majority of IFC projects are designed to contribute to growth.
- ❖ The distribution of benefits to the poor is expected to come from both nonfinancial and financial sector projects.
- ❖ In IDA countries there was a significant difference in development outcome ratings when projects paid attention to distributional issues.
- ❖ IFC advisory services products influence the pace and pattern of growth.

supervision reports, social and environmental reviews, DOTS, and other relevant project documents (see appendix A).

A project’s poverty focus is assessed based on its contribution to growth and the extent to which it addresses distributional issues. A project’s contribution to growth is measured by its expected economic rate of return (ERR). Attention to distribution issues is based on the extent to which a project incorporates mechanisms through which poor people can participate in and benefit from growth. The specific distributive mechanisms considered include provision of employment and entrepreneurial opportunities, access to goods and services, and asset creation.

Measuring Project Contribution to Growth

IFC projects are expected to make positive contributions to the economy and society in the countries in which they are implemented. For nonfinancial sector investments, IFC estimates an investment project’s contribution to the economy and economic growth by its expected ERR.^{8, 9} A project boosts growth, delivering benefits to society when it yields a high ERR than what the return would have been without IFC’s involvement. Societal benefits are distributed beyond the financiers to consumers, suppliers, workers, and so forth through various transmission channels that may or may not benefit the poor. The analysis is based on a sample of 211 randomly selected projects with expected ERR estimates from nonfinancial sectors.

Table 8. Expected ERRs from Non-Financial Sector Projects

<i>Ex ante</i> ERR	<i>n</i>	%
15 > ERR ≥ 10 (category 1)	29	14
25 > ERR ≥ 15 (category 2)	108	51
ERR ≥ 25 (category 3)	74	35

Source: IEG.

Note: ≥ = equal and greater

The majority of IFC projects are designed to contribute to growth.

The majority of IFC projects are designed to contribute to growth. Of the 211 nonfinancial sector projects, 86 percent reported ERR estimates of more than 15 percent. Given a benchmark ERR of 10, this shows that the majority of projects are expected to generate net positive returns in the economies in which they are being implemented. Median values of expected ERR have been consistently high, ranging from 19 to 24 percent from fiscal 2000 to fiscal 2010. Slightly over half—51 percent—of expected ERR estimates fell between 15 and 25 percent in all Regions, with Latin America and the Caribbean recording a relatively higher proportion of projects (38 percent), with expected ERR greater than 25 percent. Across sectors, investments in

oil, gas, and mining; education services; and textiles, apparel, and leather recorded the highest expected ERRs.

Projects with relatively high returns may generate positive benefits for society, but the extent to which poor people benefit depends on structure of the industry, initial levels of inequality, and the market context in which benefits are generated. Projects with expected ERR greater than the benchmark generate benefit flows that help consumers through price and nonprice effects and help suppliers through new and enhanced opportunities to provide inputs and other services. Market mechanisms provide the main instruments for distributing the benefits from growth to different stakeholders. However, the extent to which poor people participate in and benefit from such growth depends on the structure of the industry, initial levels of inequality – particularly of assets and opportunities – and the market context in which benefits are generated.

Where industry structure involves high levels of capital intensity relative to labor, benefits for the poor through labor markets may be limited. Where initial levels of inequalities are high, the poor may not benefit from growth. In cases where market failures and other inefficiencies persist, market instruments may not be effective in creating opportunities for the poor. Taking actions to directly address these issues can enhance the poverty focus of projects.

Addressing Distributional Issues at Project Design and Implementation

The link from growth to poverty reduction is not automatic, particularly in situations where market failures and other inefficiencies limit participation of the poor (DFID 2008). Deliberate action is often required to ensure that project outcomes and transmission channels focus on the poor. Such a proactive position is particularly important for institutions such as IFC, which aim to achieve poverty-reduction objectives through support for the private sector, where the traditional focus has been on the pace of growth (OECD 2006a). As a financier and adviser, IFC only produces outcomes through supporting private companies, governments, and NGOs. 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 (World Bank 2008). Such opportunities for leveraging poverty impacts are enhanced when IFC is involved early rather than late in the project cycle.

The distribution of project benefits to the poor is expected to come from both nonfinancial and financial sector projects that IFC supports. Therefore, the analysis of how projects incorporate distributional

The distribution of benefits to the poor is expected to come from both nonfinancial and financial sector projects.

issues at design and implementation looks at the entire sample of 481 projects, from nonfinancial and financial sectors. The incorporation of distributional issues from growth in projects was assessed based on design and implementation features using the following criteria:

- Project objective has an explicit focus on the poor and/or underserved.
- Project identifies mechanisms, such as geographic and household criteria, for targeting the poor and underserved.
- Project design pays attention to distributional issues, measured by explicit consideration of poverty characteristics (geographic, community, individual) of intended beneficiaries.
- Mechanisms are incorporated to track poverty and social outcomes during project implementation.

This broad perspective of how projects address distributional issues captures the various ways IFC client companies can engage the poor. These include:

- Direct engagement with the poor – for example, projects focusing on creating opportunities at the base of the pyramid engage poor people as workers, suppliers, distributors, consumers, and so forth.
- Engagement with the poor through community activities. Some companies engage local communities to help mitigate environmental and social impacts from project activities; community development projects provide opportunities for local procurement and employment; corporate social responsibility programs provide benefits, such as health and education, for the poor.
- Limited or unknown engagement with poor:¹⁰ Projects produce goods and services for society with limited engagement of the poor. Such limited engagement does not imply that poor people do not benefit from the goods and services produced by these companies. As indicated earlier, project benefits may contribute to growth without any clear linkages to the poor. In other cases, the linkages may exist but are not made explicit in project documents.

FINDINGS FROM THE INVESTMENT PORTFOLIO REVIEW

Across the entire sample, 13 percent of projects had objectives with an explicit focus on poor people (table 9). Projects that engaged poor people directly were more likely to explicitly include the poor in their objectives. Of projects with objectives that explicitly focused on the poor, 87 percent had interventions that engaged poor people directly through employment or provision of goods and services.

Table 9. Distributional Issues in Sample Projects

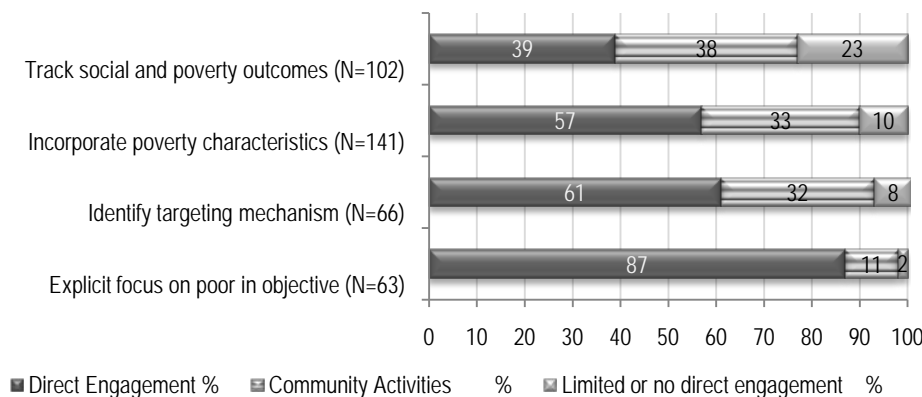
Poverty focus criteria	No. of projects	%
Explicit focus on poor in objective	63	13
Identify targeting mechanism	66	14
Incorporate poverty characteristics	141	29
Track social and poverty outcomes	102	21

Source: IEG portfolio review.

These interventions were dominated by microfinance and other non-financial sector projects with targeted interventions that provided services to poor or underserved populations. Projects that engaged the poor through community activities were less likely to have objectives that focused on the poor. Such projects accounted for only 11 percent of projects with poverty-oriented objectives (figure 13). IEG case studies provided examples of the different approaches IFC-supported companies use to engage poor people (box 9).

Targeted interventions in microfinance and other nonfinance sectors that provided services to poor or underserved populations dominated.

Figure 13. Projects Addressing at Least One Distributional Issue



Source: IEG portfolio review.

Few projects incorporated a clear mechanism for targeting the poor. Just 14 percent of the projects in the sample included mechanisms for targeting poor people directly. Where projects targeted the poor, geographic targeting was the most frequently used mechanism. Targeting project outputs to specific areas where poor people live, such as rural areas or urban slums, was used in 89 percent of cases when targeting was done. Household targeting mechanisms focusing on activities that disproportionately benefited the poor were used less frequently (in 24 percent of cases). Projects that engaged the poor directly were more likely to focus on activities that disproportionately affected the poor; this category of project accounted for 14 of 16 such projects.

Few projects had a clear mechanism for targeting the poor.

Box 9. Evidence from Case Studies: Project Engagement with the Poor

All the companies in the IEG case studies were investing in goods and services that benefit poor and underserved communities, using a mix of business and social motivations. There was no single approach for engaging the poor, but field work identified a range of approaches that companies were using to integrate business and social focus.

A client company in the village phone project did not have a clear development objective. Its approach was mainly a business approach, although it targeted its services to underserved rural areas. SMEs in rural areas were engaged as distributors of village phone services.

A microfinance bank considered itself a full-service bank, with a development mission and socially responsible approach. It provided financial services to underserved populations, engaging them mainly as customers of its services. It used geographic targeting and an appropriate mix of financial services to reach an underserved banking population.

One client company in a farm forestry program had social objectives (a corporate social responsible program), but this was not integrated into the program. Low-income farmers were engaged as suppliers of pulp for the company's plant. The program also integrated farmers into markets for seedlings, credit, and the company's supply chain.

In a water concession, a social objective was fully integrated into the company's business focus. Its corporate social responsibility initiative identified water provision to the urban poor as one of three focus areas contributing to both its business goals and poverty alleviation objectives.

Geographic, household, or community characteristics were the most frequently used distributive mechanisms.

Geographic, household, and community characteristics were the most frequently used distributive mechanism to address poverty issues at project design. Project distributional impacts, including effects on winners and losers, were identified in 29 percent of projects. Six percent of projects explicitly identified gender issues in project design, and only three percent analyzed a project's potential effects on women's assets, capacities, and decision making.

The relatively limited attention to incorporation of distributional issues—fewer than 30 percent of projects—at design may reflect weaknesses in the analytical tools that IFC has developed to address distributional issues in projects. For example, the stakeholder framework requires that real sector projects comment on the distribution of benefits to different stakeholder groups, including the poor. However, this is not used as extensively as intended. Responses from the staff survey are consistent with this finding (appendix H). More than half of the survey respondents—54 percent—reported that they rarely or never used the stakeholder framework for measuring a project's impact on the poor.

Box 10. Evidence from Case Studies: Understanding Beneficiaries' Needs

The case studies identified a number of areas where improvements in the efforts of development donors, including IFC, and client companies can be used to exploit scale or increase levels of service delivery. Examples show how the lack of understanding kept projects from being fully successful.

Choosing investment returns: A major explanation for low adoption of cultivation of trees for the pulp plant in the farm forestry project was the limited understanding of the resource endowments and livelihood of farmers. Only 10 percent of targeted farmers were cultivating pulpwood, much less than what was expected.

This low adoption rate is partly due to the fact that the project design did not adequately take farmers' livelihood situations into account. The bulk of targeted farmers were small and marginal farmers whose priority needs were cash flows to meet household expenditures throughout the year. The cash needs of such households are immediate; hence the farmers were not willing to undertake long-term investments with high initial costs and income streams that accrue four to five years in the future.

All the small farmers in the survey reported that that they would choose paddy cultivation, with a four-month growing cycle and investment return of \$333 per acre, over cultivating pulpwood, with a growing cycle of four to five years and an investment return of \$1,333 per acre.

Accessing information services. Microentrepreneurs in villages with a village phone operator program did not use these phones for commercial purposes because they owned cell phones. Villagers also did not want to discuss their business operations in public places. Thus, even though pricing innovations made the cost of information services affordable, use was much lower than expected. In the field studies, 20 of the 29 entrepreneurs (69 percent) owned cell phones, stating that they would not use the village phone operator for conducting business.

A lack of understanding of the demand for information was also a key factor explaining limited use of information disseminated through village phones. Respondents reported that they were not using the village phone operator to get access to information on agriculture and services such as health care. In the case of agriculture, most participants in focus group discussions suggested that they would be willing to pay for information if it helped them get better prices or farm more productively.

A limited understanding of the priorities and constraints facing SMEs made it difficult to design innovative loan products that met their needs. During the survey, there was no indication that the client bank or IFC had undertaken an analysis of the productivity of SMEs, the main constraints they were facing, or the impact of credit on their investment needs. SMEs receiving training from IFC reported such training enhanced their business performance allowing them to use credit more effectively. However, without a broad sense of factors limiting performance, it would be difficult to target assistance to SMEs.

Social and poverty outcomes were not extensively tracked during implementation.

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 (M&E) of a project’s development outcomes. The finding that project outcomes were not extensively tracked for poverty outcomes may reflect current challenges with the DOTS framework, particularly in tracking or determining poverty impacts from activities in IFC-supported companies.

Projects with an explicit focus on the poor in their objectives were more likely to incorporate other distributional aspects in project design. Projects with objectives that explicitly focused on the poor tended to address distributional issues much more frequently than projects without such objectives (table 10). Where projects incorporated distributional issues or expected outcomes that focused on the poor, these issues were more likely to get focused attention, increasing the likelihood of being realized.

Table 10. Distribution and Project Objectives

<i>Distributional issue</i>	<i>Projects with poverty objective</i>		<i>Projects without poverty objective</i>	
	NO. OF PROJECTS	% SHARE	NO. OF PROJECTS	% SHARE
Project design targeting mechanism	29	46	37	9
Project design pays attention to distributional aspects	54	86	87	21
Project tracks achievement on social	30	48	72	17

Source: IEG portfolio review.

Projects typically used more than one transmission channel to link interventions and outcomes.

Projects typically used more than one transmission channel to link interventions and outcomes. Transmission channels included employment, access to goods and services, access to finance, assets, prices, and capacity building. Among the sample projects, the most frequently used channel was access to finance, followed by access to goods and services, creation of jobs, and entrepreneurship opportunities. Very few projects focused on building the skills and capacities of target beneficiaries. That limited attention given to building capacity raises concerns for distribution of benefits to the poor. Poor people are more inclined to take advantage of the livelihood opportunities from growth in cases where they have the capacity to do so, such as good health, skills, and training.

Table 11. Transmission Channels Used in Projects

Transmission channels	No. of projects	%
Employment	138	29
Access to finance	213	44
Access to goods and services	151	31
Prices	46	10
Physical assets (for example, local sourcing)	91	19
Capacity building	9	2
Total projects	481	

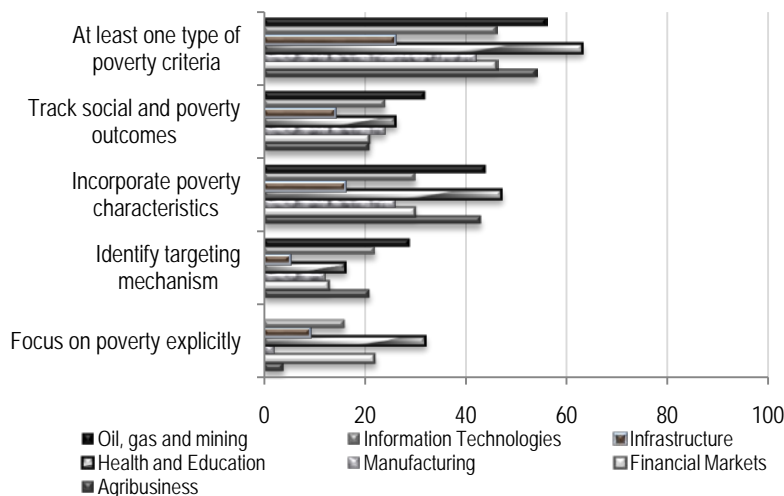
Source: IEG portfolio review.

Note: Projects may have more than one transmission channel.

Projects in the health and education, extractive industries, and agribusiness sectors had the greatest share of projects that addressed distributional issues. This is followed by financial products, information technology, and general manufacturing (figure 14). Health and education and agribusiness are designated as targeted sectors for IFC’s growth and poverty reduction objectives; hence, there is the expectation that projects developed in these sectors would have a greater likelihood of incorporating poverty characteristics.

Health and education, extractive industries, and agribusiness most often addressed distributional issues.

Figure 14. Projects by Distributional Issue and Sector (%)



Source: IEG portfolio review.

IFC’s poverty focus is enhanced by projects that both contribute to growth and address distributional issues that allow poor people to participate in and benefit from growth. Forty-three percent of projects simultaneously had an ERR greater than the benchmark and included at least one type of mechanism that addressed distributional

issues at design or implementation – that is, were designed with a good degree of poverty focus as hereby defined.

Table 12. Growth and Distributional Aspect at Project Design

<i>ERR and distributional aspects</i>	<i>No. of projects</i>	<i>%</i>
Growth (ERR > 10 percent) and at least one distributional aspect identified during project design	90	43
Growth (ERR > 10 percent) but no distributional aspect identified during project design	121	57
Total	211	100

Source: IEG.

In IDA countries there was a significant difference in development outcome ratings when projects paid attention to distributional issues.

The choice of sponsors, joint investment and advisory services work, quality of analytical work, and links to Country Assistance Strategies are important drivers of distributive impact in project. Correlation analysis shows that these factors were significantly associated with the likelihood of incorporating distributive mechanisms in project (appendix I). IFC’s role and contribution was not significantly correlated with the incorporation of distributional issues. This suggests that such issues were not considered adequately at project design (appendix J).

In IDA countries there was a significant difference in development outcome ratings when projects paid attention to distributional issues. In these countries, 74 percent of projects that paid attention to distributional issues achieved ratings of satisfactory or better. That was significantly higher than the 55 percent achieved by projects without such mechanisms. This finding suggests that, by and large, greater attention to poverty-related distributional issues is associated with improved development outcomes in frontier countries.

Table 13. Development Outcomes of Projects with and without Distributive Mechanism

<i>Distributive mechanism</i>	<i>IDA country</i>		<i>Non-IDA country</i>		<i>All projects^a</i>	
	<i>No.</i>	<i>High DO %</i>	<i>No.</i>	<i>High DO %</i>	<i>No.</i>	<i>High DO %</i>
All projects with at least one distributive mechanism	33	74	36	69	72	72
All projects with no distributive mechanism	31	55	43	86	85	71
All projects	64	64	79	78	157	71

Source: IEG portfolio review.

Note: DO = development outcome.

a. Totals include 15 regional and global projects.

FINDINGS FROM THE REVIEW OF ADVISORY SERVICES PROJECTS

IFC’s advisory services aim to influence the pace and pattern of growth. Of the 98 randomly selected advisory services that IEG reviewed, 28 percent involved governments as clients and 72 percent provided direct support to IFC client companies (appendix K). In-

vestment climate work with objectives to improve business climate dominated outputs delivered to government clients. Projects included diagnostic and sector studies, formulation of investment promotion strategies, and review of administrative barriers to investment or business regulations.

As indicated earlier, these products have good potential to foster growth with rapid and significant impacts on growth and poverty reduction. However, the projects reviewed did not explicitly identify the causal links among outputs, growth, and poverty reduction or the poverty implications of the interventions. The absence of such critical information makes it difficult to assess the extent to which these projects actually contributed to growth and poverty reduction.

Market failures can exclude the poor from participating in or contributing to the growth process. Certain types of market failures and distortions tend to affect access to economic opportunities (access to markets or access to employment opportunities), assets (finance, land, information), or basic or essential services (electricity, justice) by the poor. Most advisory service projects seek to address market failures and other contributions to sustainable economic growth. The review of 98 randomly selected advisory services operations indicates that about one-third of projects provided evidence of alleviating market failures or distortions that inhibit the participation of poor people in markets and other growth opportunities. Of these projects, the most frequent problems addressed related to access to markets, business opportunities, and finance for disadvantaged groups. Issues related to access to land, employment opportunities, and basic and essential services received relatively little attention.

More focused attention on addressing these types of market failures in advisory service projects can increase participation of the poor in markets and enhance growth opportunities that benefit them (OECD 2004; DFID 2008). One third of the projects reviewed addressed economic or sectorwide issues that can stimulate growth with likely significant effects on the poor. However, there was limited evidence from project documents of the linkages between project outputs and poverty outcomes. Box 11 shows examples of how IFC advisory services projects are addressing market failures.

A project financing model based on a company-by-company approach has important limitations for assessing wider development impacts. As IFC enhances its focus on poverty reduction objectives, it is important to consider the limitations of project financing based on a company-by-company approach, particularly its effectiveness in reaching the poor. An important limitation of this micro-oriented model is that it is difficult to attribute project-level impacts to broader development in a country, especially when there is no clear model for scaling up project outcomes to achieve broader development impacts.

Box 11. Examples of Advisory Services That Address Market Failures

Information failure inhibiting access to markets for farmers: One IFC advisory services project provided technical assistance to seven olive oil bottling companies to improve the quality of their products and enable them to gain access to export markets. As result, their exports increased by 35 percent, contributing to sustainable enhancement of income for farmers and investment in presses and bottling companies along the olive oil supply chain. The project further helped companies acquire internationally recognized quality certificates and linked them to a large food company that was an investment client of IFC.

Incomplete market inhibiting access to finance for SMEs: The objective of this project was to develop the leasing industry in a country where it was struggling to take off. The project supported the government, with inputs from lessors, lessees, and other stakeholders, in developing a new draft leasing law and amendments to other corresponding laws. The project also helped a local bank establish a subsidiary leasing company. Six existing and potential lessors received in-depth assistance from the project. Additionally, the project supported the re-establishment of the leasing association.

Coordination failure restricting access to employment opportunities for the poor: The objective of this project was to support the development of environmentally and socially responsible recycling businesses by working with four to seven processors/mills and their supply chains (paper, plastic, metals, glass, tires). It specifically targeted SME development, improving lives of the poorest sections of society, whose livelihood depended on collecting scrap materials. This regional project achieved some development in terms of a cleaner environment and an increase in the number of locally sourced sustainable recycling businesses. A number of SMEs benefitted from technical assistance on business plan development, ultimately leading to access to finance for the purchase of equipment.

Even though many countries are making progress on reducing poverty, the absolute numbers of poor people and those at the base of the pyramid are growing much faster than the resources IFC can apply. 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 service 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. Recent decisions to increase strategic collaboration between IFC and the World Bank make a step in the right direction, providing a strategic framework for greater collaboration on investment and advisory services in ways that address priority needs, including those of the poor and vulnerable populations, in client countries.

Chapter 4

Delivering on Development Impact through a Poverty Lens

Delivering development outcomes that benefit the poor is at the core of IFC's mission. This chapter focuses on IFC's results agenda, paying particular attention to the development performance of projects and the extent to which investment and advisory services delivered outcomes that benefit the poor.

In assessing development performance, IEG first considered projects' contribution to economic growth. The assessment of projects is based on three performance measures: development outcome, investment outcome, and poverty outcome. The first two measures are used by IFC and IEG to assess development performance, and the third was developed by IEG based on components of development outcome ratings. Data for the assessment come from mature projects, with XPSRs randomly selected from IEG's database of project evaluations conducted during the evaluation period.

Poverty Focus, Development Outcomes, and Investment Profitability

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 (IFC, undated). IFC measures the development results from investment using the development outcome rating. This rating is a synthesis of a project's overall impact measured across four indicators: financial performance, economic sustainability, environmental and social performance, and private sector development. IEG uses these indicators to evaluate and rate the development impact of each project using a four-point scale, six-point scale for development outcome.¹¹ The Development Outcome Tracking System (DOTS) uses a similar outcome-based system and the same parameters for monitoring project performance.

Investment outcome is a measure of IFC's investment profitability, which is essential for its sustainability and the accomplishment of mission. The analysis is based on 158 randomly selected projects and follows the earlier approach of categorizing projects based on engagement with the poor. However, the small sample of XPSRs availa-

Evaluation Essentials

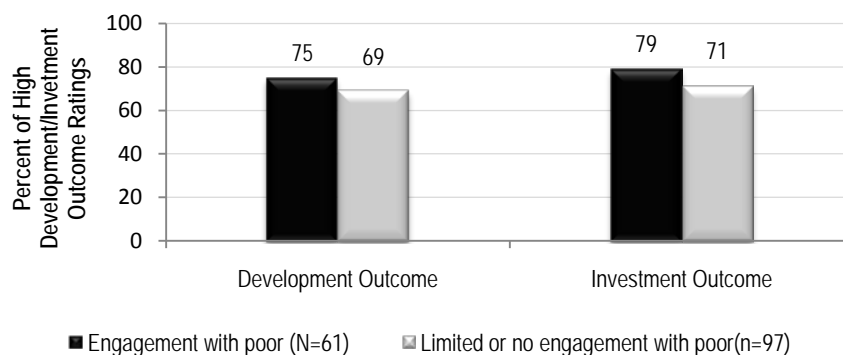
- ❖ The evidence base for measuring the poverty impact of IFC projects is very thin in part because IFC's existing M&E framework does not quantify benefits to poor and vulnerable groups.
- ❖ Projects that engaged the poor performed better on development and investment outcomes, but the differences were not significant.
- ❖ Projects that included distributive mechanisms were more likely to be associated with satisfactory poverty outcomes.

ble did not allow IEG to distinguish between projects that directly engaged the poor and those that did so through community activities. For this analysis projects were identified as (i) projects with evident engagement of the poor and (ii) projects with limited or unknown engagement with the poor. Based on these criteria, 61 projects engaged the poor (39 percent) and 97 had limited or no engagement with the poor (61 percent).

Projects that engaged the poor performed better on development outcomes and investment outcomes, although the differences were not statistically significant. Projects that engaged the poor achieved development outcomes that were rated satisfactory or higher in 75 percent of the sample, compared with 69 percent for projects with limited or unknown engagement with the poor (figure 15). On IFC's profitability, projects that engaged with the poor had satisfactory or higher investment outcomes ratings in 79 percent of projects, compared with 71 percent for projects with limited or unknown engagement with the poor.

Even though these differences are not statistically significant, they are still instructive, because they do not support the hypothesis of a trade-off between IFC's profitability and enhanced engagement with the poor. In other words, IFC can support projects that engage the poor without compromising its profitability and financial sustainability.

Figure 15. Project Performance on Development and Investment Outcome



Source: IEG.

IFC's existing project M&E framework does not quantify benefits to poor and vulnerable groups and thus has no specific indicators for measuring a project's direct poverty effects. IFC's instructions for project evaluation provide guidance for describing significant non-quantified benefits, stating whether the project had any direct impact – positive or negative – on the poor or on living standards in the community. However, IEG's project review shows that where projects

explicitly considered local development or livelihood impacts, such as the creation of jobs or the delivery of goods and services, the benefits were not quantified and were rarely associated with poor people or underserved populations. This limited consideration of a project's impact on the poor from IFC's result measurement framework made it challenging to evaluate the outcomes of investment projects using a poverty lens.

Among MDBs, IFC is a pioneer in measuring development impact from supporting the private sector. Since the establishment of the Good Practice Standards by the Evaluation Cooperation Group, IFC has been rated as the MDB with the highest level of compliance (currently at 93 percent) in terms of adoption and application of the private sector evaluation standards.

In addition, IFC is the leader in evaluation of advisory services. In 2005, IFC launched DOTS to systematically monitor the development results of its investment projects. DOTS is structured to track IFC's performance in the financial, economic, environmental and social, and private sector development areas, as well as overall development effectiveness. For each of these areas, IFC's investment departments have identified industry-tailored lists of standard development indicators. These indicators are used to highlight the anticipated project outcomes in the project data sheet that is included in the Board report. At the supervision stage, these indicators are used to monitor development impacts against expectations at approval.

But neither the standard indicator lists nor the suggested template for use in the Development Impact Section of IFC Board reports identify indicators for project outcomes on the poor, poverty, low-income, underserved, or vulnerable people at the "base of the pyramid." In the absence of specific guidance and faced with a comprehensive and demanding list of "standard" indicators, only a few project teams have gone the extra mile and made the effort to add social and poverty outcomes to the list of project monitoring indicators. Box 12 provides examples of such best practice cases.

In the absence of M&E data that provide reliable information on quantifiable benefits for the poor, IEG developed an inclusiveness index to capture a project's effect on economic growth and engagement with the poor. This index is based on a project's ex post ERR, a quantitative measure of net benefits to society, and qualitative descriptions of project benefits to the poor. Project evaluation findings from the description of a project's nonquantified benefits are used to identify cases where there is evidence of direct benefits for the poor through (i) creation of employment and entrepreneurial opportunities, (ii) access to goods and services, (iii) access to finance, and (iv) improved capacity to engage in productive or market activities.

Box 12. Best Practice Examples for Monitoring Social and Poverty Outcomes

Few projects in the review provided best practice examples for monitoring social and poverty outcomes.

In one case, the Board report for a multicountry operator of water and sanitation and electricity utilities appropriately identified the following development impact indicators to be monitored throughout the life of the concession:

- Expenditure by the poor on clean water as a percentage of their income (to measure affordability)
- Number of new connections of poor households and average consumption per household
- Avoidance of waterborne diseases
- Time savings from closer access to clean water
- Gains in productive workdays and school attendance
- Number of employees trained per year and cost of training.

As another example, the Board report for an SME lending project with a particular focus on lending to the mid- to low-income segment of the population featured the following development impact indicators:

- Increased SME access to financing (in terms of lending amount and number of borrowers)
- Increased mid to low-income population access to financing (in terms of the size of the consumer lending portfolio [auto loans and direct credit] and the number of additional borrowers).

A project's inclusiveness index characterizes projects in terms of their contribution to economic growth and delivery of benefits to the poor. The index was used to classify 58 real sector projects with complete data into: (i) projects with satisfactory returns (ERR equal to or greater than 10 percent, that is, the IFC benchmark) and evidence of identified benefits that can be associated with the poor; (ii) projects that achieved satisfactory returns but without benefits that can be associated with the poor; (iii) projects that did not achieve satisfactory returns (ERR lower than 10 percent) but did have benefits associated with the poor; and (iv) projects that did not achieve satisfactory returns and without evidence of identifiable benefits associated with the poor.

The majority of investment projects generated satisfactory returns but did not provide evidence of identifiable benefits for the poor. Of the 58 projects with satisfactory ERRs, 24 percent generated satisfactory economic returns and evidence of identifiable direct benefits to the poor, 62 percent had generated satisfactory returns with no evidence of direct benefits to the poor, and 12 percent had not generated a satisfactory return to society or delivered direct benefits associated with the poor (table 14).

Table 14. Classification of Project Development Impacts

Criteria	No. of projects	%
ERR > benchmark and identified benefits to poor	14	24
ERR > benchmark and no identified benefits to poor	36	62
ERR < benchmark and no identified benefits to poor	7	12
ERR < benchmark and identified benefits to poor	1	2
Total (N)	58	

Source: IEG.

Note: ERR benchmark = 10 percent.

Projects that incorporated distributive mechanisms were more likely to be associated with satisfactory poverty outcomes. In the sample, 53 percent of projects with at least one distributive mechanism achieved an identifiable direct impact on the poor (table 15). In contrast, only 6 percent of projects that did not have evidence of a distributive mechanism actually delivered benefits that could be traced to the poor. This suggests that inclusion of distributive mechanisms in project design and implementation enhances the likelihood of creating opportunities for the poor to participate in and benefit from growth. This finding, however, is not conclusive because the descriptive analysis does not control for relevant characteristics, including project, sector, and country effects.

Inclusion of distributive mechanisms in project design and implementation enhances the likelihood of creating opportunities for the poor.

Table 15. Inclusiveness in Sample Projects

<i>Poverty characteristic</i>	<i>No inclusiveness outcomes and low economic growth</i>		<i>No inclusiveness outcomes but economic growth</i>		<i>Inclusiveness outcomes with economic growth</i>	
	No. OF PROJECTS	% SHARE	No. OF PROJECTS	% SHARE	No. OF PROJECTS	% SHARE
Projects with at least one distributive mechanism	13	19	20	29	37	53
Projects with no distributive mechanism	18	22	57	71	5	6
All projects	31	21	77	51	42	28

Source: IEG portfolio review.

A model to assess project distribution effects: Given the limited attention to distributional issues in the M&E system, IEG used the following assessment model to analyze a project's contribution to growth and inclusiveness, in terms of providing opportunities for the poor (box 13). This model is used to assess the extent to which project development results provide evidence of going beyond generating eco-

conomic returns to society to capture distributional issues linked to broader set of outcomes that created opportunities for the poor.

Box 13. Model to Assess Project Growth and Distribution Effects

The model estimates an inclusiveness outcome score for each project based on (i) ERR; (ii) qualitative descriptions of significant nonquantifiable benefits from project evaluations to identify cases where there is evidence of employment opportunities or delivery of goods and services for the poor; and (iii) performance ratings for economic sustainability and private sector development. A project's ERR is the best single indicator of a project's contribution to economic growth. A project with a high ERR (above an acceptable benchmark) makes a positive contribution to a country's economic growth, whereas a project with a low ERR does not. Economic sustainability ratings measure a project's effects on society, including quantifiable and non-quantifiable benefits and private sector development ratings include the project's contribution to IFC's mission and private sector growth beyond the IFC-supported company.

The model is specified as: $IO = i(ES + PSD)$, where

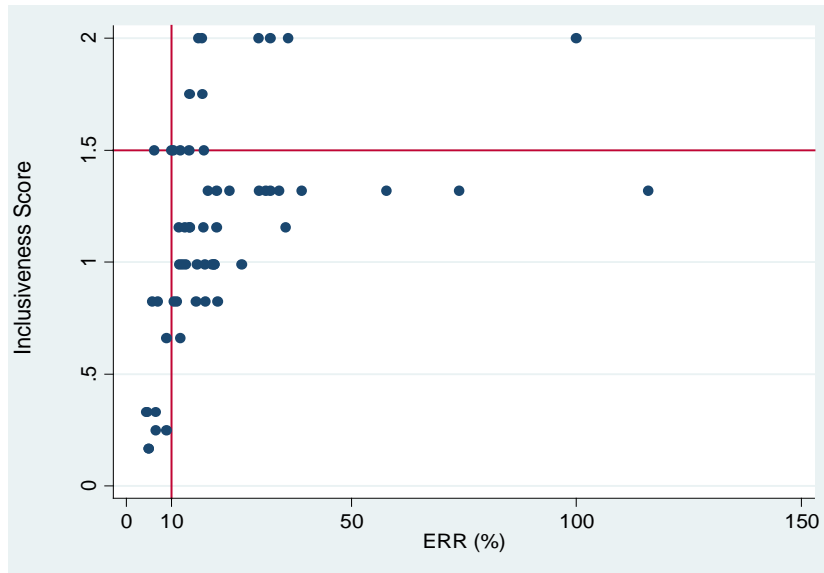
- where IO = inclusiveness outcome score
- i is an inclusiveness index defined at three levels (0.33 = unsatisfactory growth and no evidence of identifiable benefits to the poor; 0.66 = growth but no evidence of identifiable benefits to the poor; 1 = growth and evidence of identifiable benefits to the poor)
- ES and PSD are economic sustainability and private sector development performance rating, respectively; individual performance ratings are assigned scores (U = 0.25; PU = 0.5; S = 0.75; E = 1).

The inclusiveness outcome score is used as proxy indicator to capture evidence of a project's broader development impact, including employment opportunities and delivery of goods and services to the poor, and the ex post ERR is a measure of project contribution to growth.

The threshold for high and low levels of IO and ERR are determined in two ways: (i) The lower limit of the inclusiveness outcome score is set at 1.5, because this is the minimum score that can be attained by a project with evidence of identifiable benefits for the poor and satisfactory ES and PSD outcomes; and (ii) the lower limit of ex post ERR is set at 10 percent because this is the benchmark level of expected return from real sector investments.

The analysis is based on 58 real sector projects from the random sample of 158 investment projects with evaluation findings. Model results are shown in figure 16.

Figure 16. Inclusiveness Score and ERR



Source: IEG.

The sample projects from IFC’s real sector revealed some interesting insights. The usefulness of the model lies in examining the characteristics of projects that lie in different quadrants. Very few projects fall in the quadrant with low growth and evidence of low inclusiveness outcome, confirming that most IFC projects make important contributions to growth in the countries where they are implemented. The majority of IFC projects, 59 percent of the sample, are positioned in the quadrant where they make a positive contribution to growth but without evidence of discernible benefits to the poor. Twenty three percent of the projects fall into the category of high growth and evidence of high inclusiveness outcome.

As noted above, the fact that the majority of projects show strong contributions to growth but limited evidence of benefits to the poor does not mean that they did not have an impact on the poor. Rather, there is no conclusive evidence of how the benefits from growth actually created employment for poor people or delivered good and services that reached the poor. The findings reflect a failure to articulate the poverty effects of projects that focus primarily on economic growth.

A few projects delivered high levels of growth and provided evidence of positive distributive effects on the poor. Given the focus of this evaluation, projects that combined evidence of a high inclusiveness outcome score and a high ERR are of particular interest. Of the 13 projects in the upper right quadrant (figure 16), where growth and inclusiveness outcomes are both high, 11 incorporated specific meas-

The majority of projects show strong contribution to growth but limited evidence of discernible benefits to the poor.

Limited evidence of benefits to the poor does not mean that projects did not have an impact on the poor

ures and actions to ensure that the poor are included in the design and implementation of projects. Such projects provide learning opportunities that can be used to enhance IFC’s poverty focus. It will also be useful to understand the poverty implications on projects in the high growth and evidence of low inclusiveness outcome quadrant to articulate and better understand how IFC’s overall poverty focus can be enhanced.

Measuring Poverty Outcomes in IFC’s Advisory Services

A qualitative assessment of project benefits from advisory services project evaluations indicated that few projects articulated how project outputs resulted in growth and poverty reduction. IEG’s review of 98 randomly selected closed advisory services projects showed that 10 percent identified benefits to the poor and 40 percent delivered benefits to society but did not specifically identify the poor (table 16). Half of the cases had no 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.

This limited evidence of identifiable benefits for the poor from advisory services projects may reflect difficulties in capturing poverty outcomes from such projects where the main deliverable is knowledge, a product that is intangible and very difficult to measure (IEG 2009b).

Table 16. Benefits of Advisory Services

<i>Benefits</i>	<i>% Share (No. of projects)</i>
Identified benefits to the poor	10 (n = 10)
Identified benefits to society in general	40 (n = 39)
No indication of identified benefits	50 (n = 49)
Total	100 (n = 98)

Source: IEG portfolio review.

Chapter 5

Conclusions and Recommendations

IFC's strategic focus on economic growth and the needs of the poor is highly relevant for addressing the pressing development challenges in poor and middle income countries. Projects by IFC-supported companies engaged poor people directly or through community activities. Some projects have limited or unknown engagement with the poor, but activities may have important impacts on the poor through indirect pathways.

Incorporating poverty-oriented design and implementation features into projects has been challenging. IFC is on the right track to enhance its poverty focus, including using development impact and financial sustainability as key drivers of institutional strategy, the development and testing of IFC development goals to help reach strategic goals, and growing strategic collaboration within the World Bank Group. A sustained effort is needed to translate these decisions into actions.

The poverty impacts of IFC interventions that stimulate growth of the private sector may be large. Sectors that have grown rapidly in the last decade, such as financial markets, need to do more to demonstrate discernible and measurable impacts on the poor. Key sectors that have been identified because of their potential to contribute to development and poverty reduction have not grown significantly. Across sectors where projects do engage the poor, there is a need for greater consideration for an enhanced poverty focus in project design and implementation.

IFC has opportunities to strengthen the connection between its activities to poverty reduction. There are good opportunities for strengthening the poverty focus in some projects by strengthening existing procedures and processes in ways that address poverty and distributional impacts more consistently throughout the project cycle. Where projects do engage the poor, IFC's poverty focus can be enhanced by paying closer attention to poverty-oriented design features such as (i) explicit attention to poverty issues in expected outcomes; (ii) actions and mechanisms to link outputs to outcomes that benefit the poor; (iii) criteria and mechanisms to target the poor; and (iv) M&E activities to assess progress, take corrective actions when necessary, and capture as best as possible the poverty impacts of interventions. Even in cases where projects have limited or no implications on the poor, there is value in articulating the causal links from growth to poverty

reduction, identifying the assumptions underlying these hypothesized links, and monitoring the poverty implication of such activities.

Looking Forward

As part of its commitment to achieve financial sustainability and greater development impact, IFC is working to enhance its poverty focus and emphasize a shift from a volume culture to development impact and financial sustainability and the measurement of development results. This focus is coalescing around the IFC Development Goals, a new set of goals that is being piloted in selected investment operations and advisory services and the creation of the Development Impact Department. The newly created Inclusive Business Models Group aims to enable IFC to expand its investment and advisory services support to companies with business models that provide goods, services, and livelihoods to populations at the base of the pyramid. Most recent regional and sectoral strategies reflect an increasing focus on reaching the poor and linking with development objectives.

The evaluation findings provide lessons that can be used to help IFC translate its strategic intentions into actions that enhance poverty focus.

Lesson 1: Both the rate of growth and the distributional pattern of growth are key elements of a sound private sector-led strategy that creates opportunities for the poor. Focusing IFC's approach on growth is appropriate, but IFC needs to give more attention to incorporating the distributive components of growth into project design, implementation, and results measurement. A major finding of IEG in this evaluation is that the integration of poverty characteristics (an explicit poverty-oriented objective, attention to distributional issues at the design stage, identification of targeting mechanisms, and monitoring of social and poverty outcomes) is essential to achieve positive poverty outcomes. IEG also found that the greater the number of poverty characteristics a project addresses, the greater the likelihood is of achieving positive outcomes.

Lesson 2: IFC's relevance and effectiveness in engaging the poor need to move beyond a company-by-company deal orientation toward an approach that focuses on achieving broader development impact. IEG found that there is too much emphasis on direct support to private companies and not enough on analysis and support mechanisms that will overcome market failures and other inefficiencies that limit the growth of the private sector and prevent poor people from participating in markets and lucrative value chains.

Lesson 3: Experimentation and innovation, combined with effective M&E, are key elements of any strategy to engage the poor for broader development

impact. Field studies show that innovations that made it possible to provide affordable high-quality service were a key factor driving access to services. IFC's current model for supporting experimentation and innovation outside its traditional investment instruments is limited. Advisory services work on results-based financing systems and PPPs is promising. Such work needs to be accelerated, paying particular attention to carefully designed M&E systems in order to learn what works, what does not work, why, and in what contexts.

Lesson 4: An enhanced understanding of the intended beneficiaries is key to creating opportunities that directly engage the poor. IEG's field studies of four projects found that in several cases, projects fell far short of achieving their expected poverty reduction outcomes because of an inadequate understanding of the perspective of the intended beneficiaries. Although the projects had explicit objectives to engage directly with the poor, inadequate attention was given to the beneficiaries' needs, circumstances, and preferences at the design stage. Understanding the needs of beneficiaries, including enhanced data collection on MSMEs, is a key priority area.

Lesson 5: Acceleration of supportive activities that complement each other within IFC, the World Bank Group, and other partners is necessary to enhance effectiveness in delivering development impact. The development challenges that IFC seeks to address are huge, but its resources are limited. Collaboration with partner organizations will therefore be essential. There are several opportunities for strengthening linkages to enhance IFC's poverty focus. For example, moving beyond a company-by-company approach to one that focuses on achieving broader development impact and experimentation and innovation, aided by M&E and an enhanced understanding of intended beneficiaries, can all benefit from closer collaboration and knowledge sharing between investment and advisory services as well as between IFC and the World Bank. There is potential benefit for both partners. Analytical work on poverty issues, including tools and techniques for poverty analysis, can help IFC strengthen the linkages of investment and advisory services to poverty reduction. At the same time, the World Bank can learn from IFC's extensive experience with the private sector, including PPPs. Collaboration, however, needs to be based on clear understanding of benefits and costs from doing so.

Recommendations for IFC

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 MICs adopt a more nuanced concept of poverty when defining frontier regions, taking into consideration the incidence of poverty, spatial distribution of the poor, and non-income dimensions of poverty.

- Establish a consultative framework to support institutional efforts on understanding, measuring, and reporting of poverty impacts within the IFC context, including the participation of Poverty Reduction and Economic Management, Development Economics, and Finance and Private Sector Development Networks of the World Bank Group as well as partner organizations to better address poverty and distributional issues beyond company level impacts.

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.

With respect to its results measurement, IFC needs to:

- Define, monitor, and report poverty outcomes for projects with poverty reduction objectives; for projects that focus primarily on growth with anticipated poverty reduction outcomes, the assumption underlying the expected relationship should be stated at PDS approval with a rationale based on prior results or lessons from similar projects.
- Periodically test assumptions on how IFC's interventions contribute to growth and poverty reduction through select in-depth evaluations to learn lessons about what works, what does not work, why, and in what contexts.
- 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.

APPENDIXES

Appendix A: Methodology

The evaluation combines data from qualitative and quantitative approaches to analyze and triangulate information from different sources. Data for the evaluation were gathered from several sources, including (i) strategy and policy documents; (ii) advisory services and investment operations project documents; (iii) case studies; (iv) a staff survey; and (v) discussions with the International Finance Corporation (IFC) and World Bank staff. Data were also obtained from secondary sources such as the World Bank development data platform and poverty database.

Strategy Review Methodology: At the strategy level, the team reviewed corporate and Country Assistance Strategies (CAS). Staff of the Independent Evaluation Group (IEG) reviewed all corporate strategies (Strategic Directions and Road Map) approved between 2000 and 2009. IEG used content analysis to analyze the contexts in which poverty related concepts were used in corporate strategies. At the country level, sample CASs were selected based on three criteria: (i) had contributions by IFC and World Bank; (ii) completed for an International Development Association (IDA) or non-IDA country with frontier region(s); and (iii) approved between 2000 and 2009. Fifty percent of CASs were randomly selected from the population of 97 completed CASs. In cases where the country had more than one CAS, the most recent strategy document was considered. The CAS reviews used content analysis and structured literature review to examine (i) the discussion of poverty reduction strategy in the CAS, (ii) the link between PSD and poverty, (iii) the extent to which analytical work by the World Bank Group related to the private sector, and (iv) IFC's expected contribution to private sector development (PSD) and poverty.

Portfolio Review Methodology: The portfolio review consisted of desk reviews of IFC investment operations and advisory services of projects approved between fiscal 2000 and 2010. The review team was guided by a standard set of questions related to design, implementation, monitoring, and evaluation of IFC projects. Investment operations and advisory services project supervision, environmental and Development Outcome Tracking System (DOTS) documents were reviewed in addition to approval documents (Investment Review Meeting and project data sheet approval) and evaluation reports (Expanded Project Supervision Reports, or XPSRs, and project completion reports).

The population of investment operations included all active and closed projects that were approved between fiscal 2000 and 2010. Specifically, the population was limited to IDA and non-IDA countries with frontier regions with the exception of right issues and swaps. The data were collected from IFC's management information system. The sampling was conducted at two levels: projects with XPSRs (N = 400) that were approved between 2000 and 2004 and the projects without XPSRs (N = 1,228) that were approved between fiscal 2000 and fiscal 2010. In total, 481 projects were randomly selected from a population of 1,628 investment projects. The final sample comprised 158 investment project with XPSRs and 323 without.

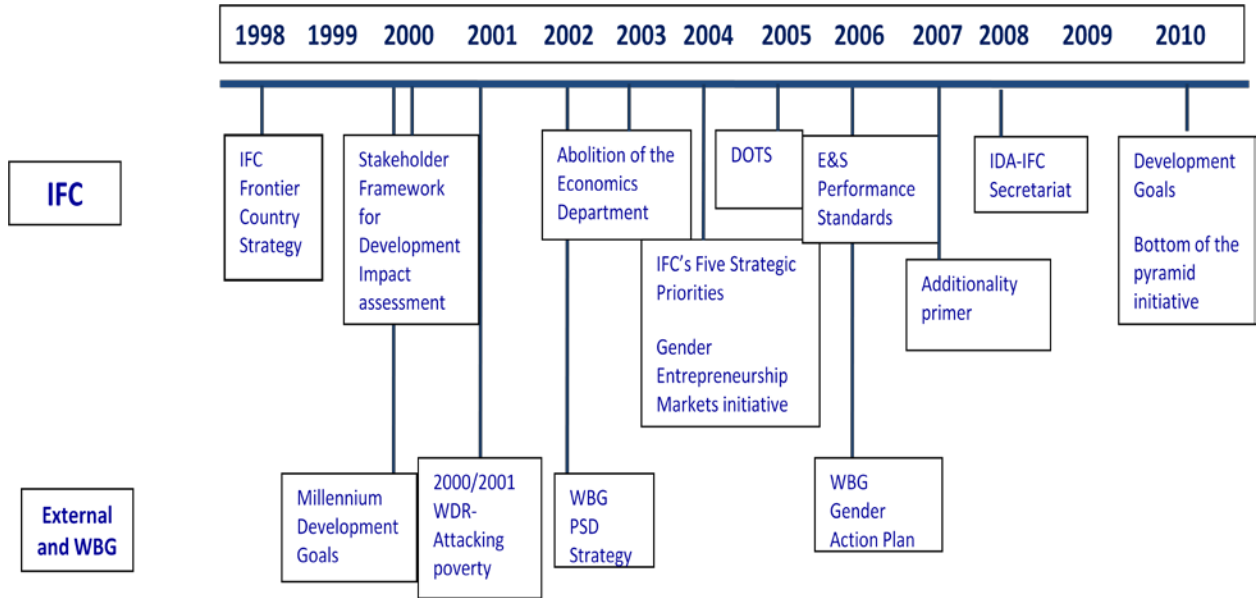
IEG reviewed advisory services following the same procedure. The population comprised 540 closed projects, which were all of the advisory services projects that IEG has reviewed as

of June 2009. Ninety-eight projects were randomly selected from the population of 540. All projects had project completion reports and evaluation notes.

Field Study Methodology: The objective of the field studies was to validate the projects' results from the perspective of the intended beneficiaries, using a qualitative social research methodology. For each of the four projects, local social scientists were chosen to carry out the field work, employing three techniques: key informant interviews with local community leaders (school principals, heads of health centers, leaders of women's and youth associations, local religious and political leaders) around themes concerning local economic and social conditions, and trends affecting living conditions in the community; (ii) conversational interviews with representative samples of community members, generally divided equally according to gender, around a thematic interview guide to determine peoples' conditions, experience, and attitudes related to the product or service offered by the project; and (iii) focus group discussions with diverse groups of community residents and/or intended beneficiaries, generally divided by age and gender, on themes similar to the second group but reaching more people in less time and eliciting responses given in the presence of peers rather than in one-on-one conversation. In total, 1,441 persons were consulted for the four case studies, of which 36 percent were interviewed individually and the remainder in focus groups.

Staff Survey Methodology: The objective of the staff surveys was to obtain additional information on IFC's approach to addressing poverty based on staff experiences. The data were also used to triangulate findings from other data sources. Four hundred eighty-seven IFC investment and advisory staff were randomly selected from 1,401 staff working, as of June 2010, at the analyst and above levels in investment and advisory operations.

Appendix B: Key Milestones in IFC's Strategic Directions Related to Poverty



Appendix C: Poverty Concepts Mentioned in IFC's Strategic Directions from 2002 to 2009

Over time, IFC's strategic intentions reflected a stronger commitment to focus on the poor. A content analysis of IFC's strategic directions papers indicated increased use of poverty concepts in the articulation of its strategic goals and objectives. However, the institution's success in meeting the needs of the poor depends on how well its strategic intentions are translated into measures and actions that create opportunities for poor people to benefit from its support for private sector developments.

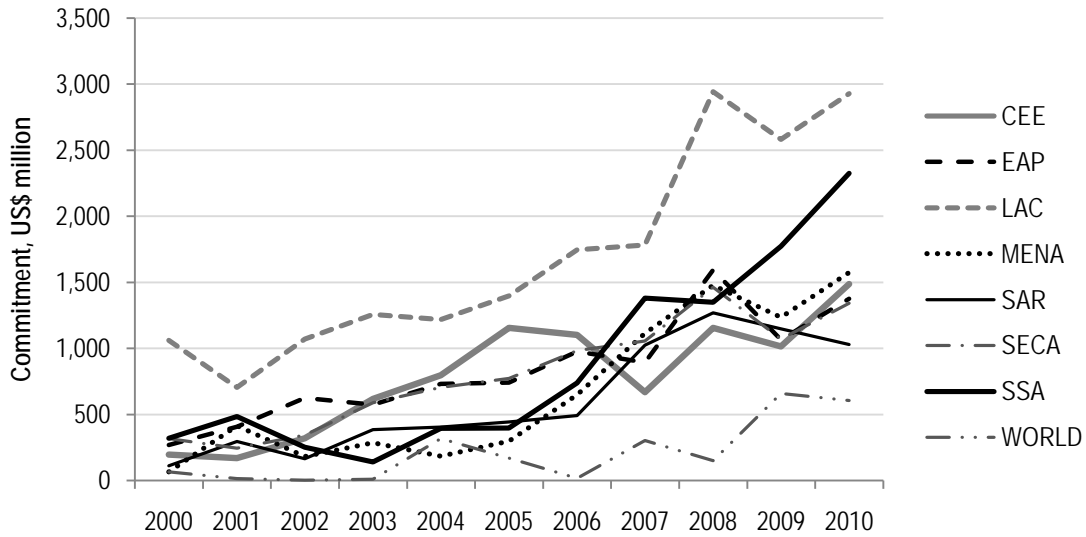
Poverty Concepts Mentioned in IFC's Strategic Directions from 2002 to 2009

	2002	2003	2004	2005	2006	2007	2008	2009
Poverty	6	8	3	11	19	25	36	23
Poor	1	0	1	6	5	11	29	34
Low income	1	4	3	6	2	5	16	16
Underserved	1	1	1	6	6	14	22	17
Opportunity	1	2	7	7	5	26	24	9
Vulnerable	0	0	0	1	0	2	1	18
Affordable	0	0	0	1	0	3	7	5
Livelihood	0	0	0	0	0	0	0	2
Gender/women	0	0	6	4	11	24	27	15

Source: IFC strategic directions paper and road maps, 2002–09.

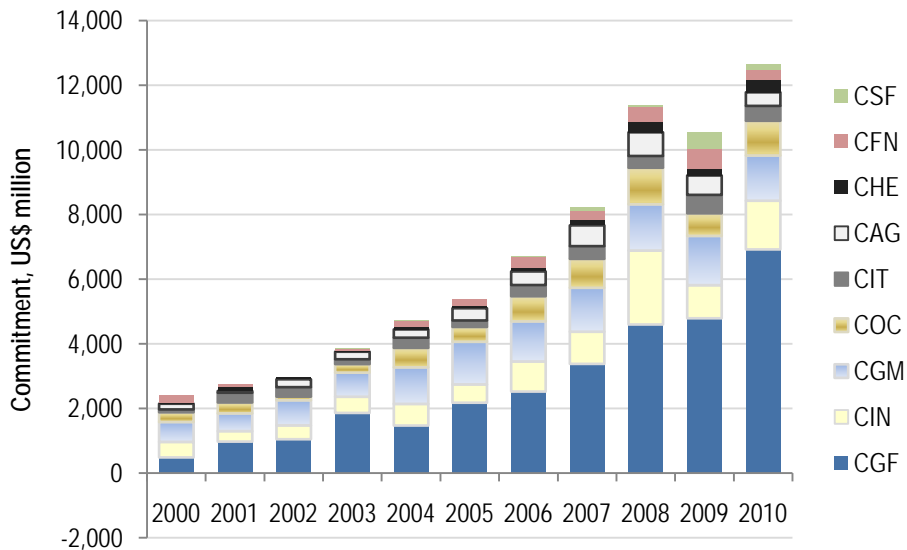
Appendix D: IFC Commitments over Fiscal Years

BY REGION



Source: IFC MIS, June 2010.

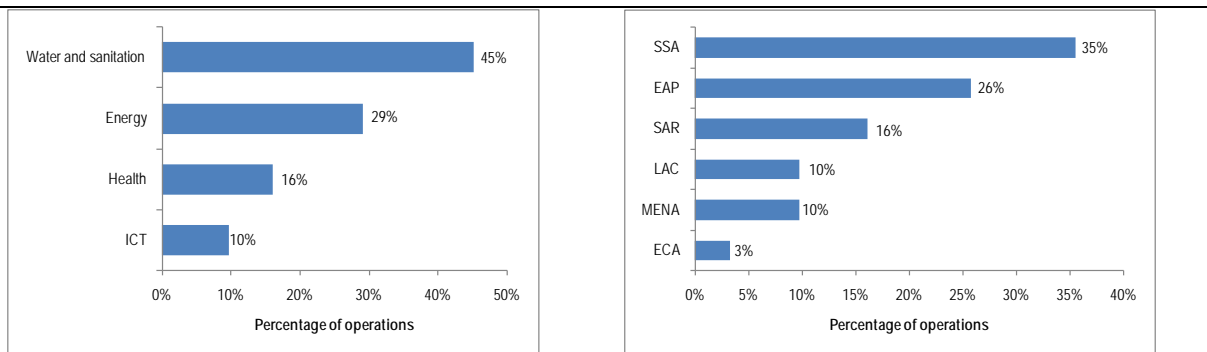
BY DEPARTMENT



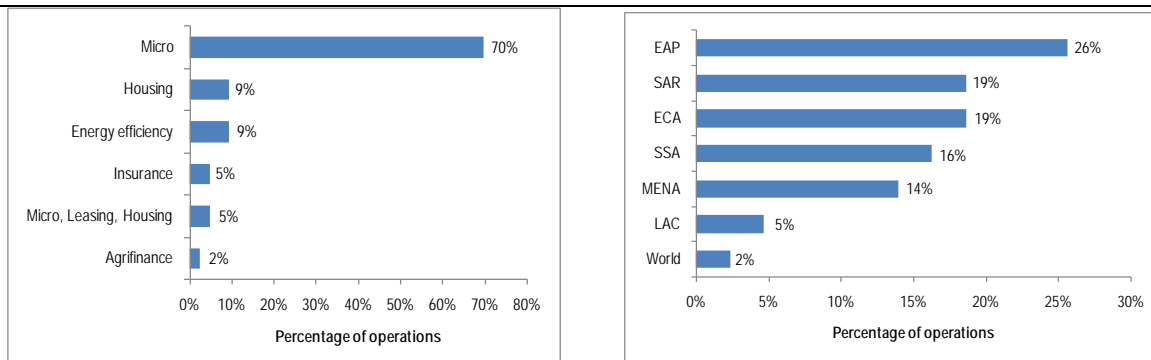
Source: IFC MIS, June 2010.

Appendix E: The Distribution of Performance-Based Grants Initiative Projects by Sector and Region

Infrastructure



Access to Finance



Source: IFC; GPOBA.

Appendix F: Investment Portfolio Review

Project Characteristics over Calendar Years

BY REGION

<i>Region</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>Total</i>
CEE	4	6	4	3	7	9	8	4	7	2	54
EAP	6	6	6	5	11	9	5	8	6	2	64
LAC	11	11	7	13	16	10	13	15	8	6	110
MENA	3	5	5	2	4	4	4	8	4	2	41
South Asia	8	5	6	5	7	6	7	11	12	4	71
SECA	3	8	5	6	10	7	5	6	6	2	58
SSA	12	4	3	6	6	6	7	18	6	5	73
WORLD	1		1	2	2		2	1	1		10
Total	48	45	37	42	63	51	51	71	50	23	481

BY DEPARTMENT

<i>Department</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>Total</i>
CAG	2	1	3	4	1	4	2	5	5	1	28
CFN	2	2	2	3	7	3	3	3	3	2	30
CGF	19	19	12	18	26	18	22	32	12	6	184
CGM	8	14	11	7	10	9	5	13	10	3	90
CHE	3	2	1		1	3	5	2	1	1	19
CIN	7	4	3	3	10	8	5	7	7	3	57
CIT	4	2	4	3	3	4	1	7	7	2	37
COC	3	1	1	4	5	2	8	2	5	3	34
CSF										2	2
Total	48	45	37	42	63	51	51	71	50	23	481

Appendix G: Questionnaire for Investment Portfolio Review

Available upon request.

Appendix H: Staff Survey Questionnaire

Available upon request.

Appendix I: What Explains a Project's Poverty Focus?

What factors explain an IFC project's poverty focus? Previous IEG evaluations have shown that a project's performance is determined by a combination of factors that are external and internal to IFC. Some of these are relevant in formulating hypotheses that explain a project's poverty focus, including the following:

1. Country conditions:
 - Improving business climate condition is more conducive to private sector-led growth, providing better opportunities for the poor to engage in markets.
 - IDA classification captures IFC's support to the world's poorest countries. Projects in IDA countries are expected to have stronger poverty focus than those in non-IDA countries.
2. Project factors:
 - Approval year: Projects are expected to reflect increased poverty focus over time, with projects approved after the strategic priorities of 2005 reflecting stronger poverty focus.
 - Size of project: Larger projects are expected to have stronger poverty focus than smaller ones because of economies of scale, scope of activities, and potential for innovation.
 - Environment category: The categorization of a project's environment category (A, B, or C) is a reflection of the level of its environmental and social risk. The most sensitive category A projects are expected to pay greater attention to mitigating negative social outcomes.
 - Client objective: Clients with development-oriented objectives are more likely to incorporate poverty-oriented features in their projects.
3. IFC-related factors:
 - Investment links to advisory services: Investments that are linked to advisory services have been shown to generate better development outcomes, particularly when the work focuses on addressing a market failure or imperfection that limits the poor from engaging in markets.
 - Involvement of social specialists: Social specialists have the primary responsibility for addressing social and poverty dimensions of projects throughout the project cycle.
 - Links to CAS agendas: Projects that link closely to CASs are more likely to be linked to private sector priorities in countries' poverty reduction strategies.
 - Work quality: Projects that incorporate findings from social assessments, poverty and social impact analysis, and other poverty-related diagnoses are more likely to have a sound analytical basis for addressing poverty issues during project design and implementation.
 - Policy and institutional context: A country with policies and institutions that support PSD is more likely to have a faster rate of growth and poverty reduction.

A correlation analysis of the relationships between the above variables and project's poverty focus shows the following results:

- A sponsor or client with development goals and/or objectives was strongly associated with a project's poverty focus. IFC is more likely to influence project design and implementation to bring about positive poverty outcomes with development-oriented clients because of the greater alignment of strategic objectives. This is particularly the case when the engagement is early in the project cycle.
- Good quality poverty diagnosis was critical in enhancing a project's poverty focus. Projects that included social assessment and/or drew from poverty and social impact analysis demonstrated stronger poverty focus. Similarly projects that had a clear link to the CAS agenda demonstrated a stronger poverty focus.
- Investments linked with advisory services were more likely to have a poverty focus than those that did not. However, the relatively small sample size of linked projects did not allow the evaluation to be conclusive about the sequence between advisory services and investment or the nature of the linkage (direct support to companies compared to addressing market failures and other market inefficiencies that affected market outcomes).
- Triggering a safeguard, particularly category A projects, was significantly associated with stronger poverty focus in projects. Performance Standard 1 and 5 provided many opportunities for IFC and its clients to engage directly with communities, which include the poor in many cases.
- Including a social specialist in the project team, particularly at the design stage, was positively correlated to a project's poverty focus.

Table Bivariate Relationships between Project Characteristics and Poverty Focus

Factors	Objective	Trans. Channel	Targeting	Poverty characteristics	Tracking
IDA	NS	*	**	NS	NS
Country risk (low, medium, high risk)	NS	HR*	HR**	NS	HR**,LR**
Year (post 2005)	NS	NS	NS	NS	**
Size of investment (small: <= 5m, large > 50m)	Small**	Small**	Small**	Small*	Small**
Env't category (A, B, FI)	B**, FI**	B*,FI**	A**	A**	A**
Sponsor has a clear focus on developmental issues	**	**	**	**	**
Link with advisory services	**	**	**	**	**
Social specialist	NS	*	*	**	NS
Safeguard trigger S&E assessment, community health, land acquisition, indigenous people, cultural heritage)	NS	**	**	*	**
Link to CAS's poverty agenda	**	**	**	**	**
The project incorporated relevant analytical work and lessons learned	**	**	**	**	**
The project discussed policy/institutional context	NS	NS	NS	NS	*

Source: IEG-IFC Investment portfolio review.

Note: N = 481. NS = not significant; S&E = social and environmental assessment. ** significant at 1%, *significant at 5%.

Appendix J: The Effect of Quality of IFC's Involvement in Poverty Focus

The tables below indicate that IFC's involvement in a project including front end, supervision quality and role and contribution, did not make a significant difference on its poverty focus; including objectives, transmission channels and distributional aspects.

Screening, Appraisal, and Structuring

	<i>Transmission channel</i>	
	No (%)	Yes (%)
High front end quality (n = 119)	55	20
Low front end quality (n = 38)	19	5

	<i>Poverty characteristics (distr.)</i>	
	No (%)	Yes (%)
High front end quality (n = 119)	53	23
Low front end quality (n = 38)	20	4

Supervision:

	<i>Poverty objective</i>	
	No (%)	Yes (%)
High front end quality (n = 119)	75	11
Low front end quality (n = 38)	13	2

	<i>Transmission channel</i>	
	No (%)	Yes (%)
High front end quality (n = 119)	62	23
Low front end quality (n = 38)	12	3

	<i>Poverty characteristics (distr.)</i>	
	No (%)	Yes (%)
High front end quality (n = 119)	61	25
Low front end quality (n = 38)	12	3

Role and contribution:

	<i>Poverty objective</i>	
	No (%)	Yes (%)
High front end quality (n = 119)	75	11
Low front end quality (n = 38)	12	2

	<i>Transmission channel</i>	
	No (%)	Yes (%)
High front end quality (n = 119)	62	24
Low front end quality (n = 38)	12	2

	<i>Poverty characteristics (distr.)</i>	
	No (%)	Yes (%)
High front end quality (n = 119)	61	25
Low front end quality (n = 38)	11	3

Source: IEG portfolio review.

Note: Chi square is not significant.

Appendix K: Advisory Services Portfolio Review Project Characteristics

BY DEPARTMENT

<i>Region</i>	<i>Number of projects</i>
Central and Eastern Europe	6
East Asia and Pacific	18
Latin America & Caribbean	11
Middle East and North Africa	13
South Asia	11
Southern Europe and Central Asia	12
Sub-Saharan Africa	21
World	6
Total	98

BY BUSINESS LINE

<i>Business line</i>	<i>Number of projects</i>
Access to finance	19
Business enabling environment	30
Environment and Social Sustainability	14
Infrastructure	12
Corporate advice	23
Total	98

Note: Twenty seven of these advisory services, mainly investment climate, provided just to government clients.

Appendix L: Methods Manual for Fieldwork

Available upon request.

Appendix M: Field Studies Summary Report

Available upon request.

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Endnotes

Chapter 1

¹ <http://www.ifc.org/ifcext/about.nsf/Content/ArticlesofAgreement>.

² Within the larger portfolio of evaluation, the issues examined by the assessment of relevance and effectiveness are related to but different from an impact evaluation, which judges results based on attribution in relation to a counterfactual situation (a situation in which the intervention did not take place).

³ Hereafter, economic growth is simply referred to as growth.

Chapter 2

⁴ Two other strategic priorities, building long-term partnerships with emerging partners in developing countries and addressing climate change and environmental and social sustainability activities, are also important aspects of IFC's poverty agenda. However, the three priority areas addressed in this report are those in the corporate scorecard that was agreed with the Board in 2005.

⁵ IFC presentation at an Executive Director's Seminar on Developing Long-Term Strategy for IFC, September 24, 2010.

⁶ Advisory services operations were reorganized into four business lines in 2010: Access to Finance, Investment Climate, Sustainable Business, and Public-Private Partnerships.

⁷ GPOBA aims to help increase access to reliable basic infrastructure and social services (water, sanitation, energy, ICT, transport, health, and education) for the poor in developing countries.

Chapter 3

⁸ IFC's support through corporate loans and equity stakes in established companies are not analyzed in this manner, because the performance of IFC's investment depends on the performance of the entire company, not just on the program financed by IFC. Most of IFC's investments in the financial sector follow this pattern, and they accounted for nearly 60 percent of IFC's new commitments in fiscal 2010. IFC does not make any attempt to estimate ERR for trade finance or its advisory services projects.

⁹ Advisory service projects do not estimate a proxy measure for contribution to growth, such as ERR, hence these projects are not included in the analysis.

¹⁰ In some cases, potential benefits may exist but are not adequately recorded or captured in design documents.

Chapter 4

¹¹ This four-point scale is excellent, satisfactory, partly unsatisfactory, and unsatisfactory.

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