

The Private Sector and Poverty Reduction

LESSONS FROM THE FIELD



April 2012





Contents

Foreword	iv
Introduction	1
Dimensions of Poverty: Responding to Diverse Concerns	2
Understanding the Perspective of the Poor: A Demand Assessment	3
TELECOM	3
FARM FORESTRY	4
MICRO-FINANCE	5
WATER AND SANITATION	6
Adjusting Supply to Meet Market Realities: How Companies Engage with Beneficiaries	9
MICRO-FINANCE	9
TELECOM	11
FARM FORESTRY	12
WATER AND SANITATION	14
Access to services	16
MICRO-FINANCE	16
WATER AND SANITATION	19
FARM FORESTRY	20
Affordability	22
Synthesis and Conclusion	25
Acknowledgments and Credits	27
PHOTOGRAPHY	27

Abbreviations

CSR	Corporate Social Responsibility Policy
GPOBA	Global Partnership on Output-Based Aid
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
NGO	nongovernmental organization
PRSP	Poverty Reduction Strategy Paper
SME	Small and medium enterprise

Foreword

Private sector investments create jobs, improve productivity, and foster innovation and technology adoption—which can all lead to reductions in poverty. But it's not just a numbers game. In order for the poor to benefit, the jobs created should be those that take advantage of the skills and talents they have to offer and innovation and technology should truly make life easier for those expected to use it.

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. The Independent Evaluation Group's (IEG) evaluation, *Assessing IFC's Poverty Focus and Results*, aimed to contribute to the enhancement of IFC's poverty focus and its effectiveness for greater poverty impact.

Behind all the numbers are the real affect such programs have on people's lives. Understanding the human dimension of poverty is vitally important when determining whether a project really achieved the impact it was designed to. The findings from the field studies that are included in this report illustrate that success, or lack thereof, is a result of the manner in which each project addressed the fulfillment of a legitimate identified need.

I hope the case studies and lessons presented here offer a deeper look into some of the issues that must be thought about when developing projects intended to improve the lives of the poor.

Caroline Heider
Director-General, Evaluation



Introduction

People are the arbiters of their own development. The mission of the International Finance Corporation (IFC) is to create opportunities for people to escape poverty and improve their lives. How people perceive their own capacity in relation to opportunities presented by a development initiative will profoundly affect their motivation and ultimate effectiveness in escaping poverty and improving their living conditions. There is a subjective dimension to poverty which relates to peoples' perceptions and translates into such basic human concerns as self-confidence, motivation, and hope. Successful development projects tap into this dimension and enhance the meaning people give to their endeavors so that people become the architects of their own development. Understanding this human dimension of poverty is best carried out by respectful listening, amplifying the voice of the people. It was to gain this human understanding that the Independent Evaluation Group (IEG) selected four case studies in as many countries and, with the collaboration of local research teams, listened to randomly selected intended beneficiaries of development assistance to understand what projects in diverse sectors meant to their own self-development process. These case studies were done as part of the broader

IEG evaluation, "Assessing IFC's poverty Focus and Results."

The countries for these case studies were drawn from the two areas of the world with the highest incidence of absolute and proportional poverty—Asia and Africa. The projects represented four different sectors of economic activity, each important to poverty reduction:

- A micro-credit and savings financial service in a large Central African country;
- A telecom project in a small East African country;
- A farm forestry project in a large South Asian country; and
- A water and sanitation project in a middle-sized East Asian country

Field work for these case studies was conducted from June through September of 2010.

This report will discuss a number of issues relating to the poverty reduction effectiveness of these four projects: the rationale behind their support; understanding the perspective of the poor (demand assessment); adjusting supply to market realities (how companies engage with beneficiaries); access to services; affordability; and effects (results), followed by a summary and conclusion.



Dimensions of Poverty: Responding to Diverse Concerns

Each of the four case studies selected for this IEG evaluation addressed a set of needs particular to a local cultural and institutional context:

- Financial services in a large Central African International Development Association (IDA) country—the dearth of such services can be seen in the fact that at the time of the field work for this study there were only 350,000 people holding bank accounts in a population estimated at 70 million. Part of the reason for this low number of users of the banking system was a lack of transparency in this system in the 1990s, which led to widespread suspicion of banks, voiced by 80 percent of people sampled in this study. During the intervening years, between the time of the high-cost banking system and the launching of the project, banking became a service confined to large enterprises and the rich; ordinary folks kept much of their money at home. This project addressed this financial void.
- Telecom project in small East African nation—a participatory poverty assessment done in the late 1990s found that the poor of that country signaled isolation as a major factor contributing to their poverty; most of the population, living in small, remote villages were simply cut off from markets, sources of employment, and, broadly speaking, each other. Indicative of the peoples' isolation is the fact that as late as 2006, two years prior to the inception of the IFC telecom project, the telephone penetration rate was only 6.4 percent; many villages had no telephone service at all. Given this situation and the dire poverty of much of the country's population (it is considered one of the

poorest countries in the world), there was an understandable, if partial, rationale for the Village Phone Program supported by the IFC in 2008.

- Farm forestry project in large South Asian country—here the project was to facilitate the provision of eucalyptus trees to small farmers, with loans for the purchase of the trees where needed. Income obtained from the sale of the pulpwood to local pulp mills was to augment the meager earnings of these farmers.
- Water and sanitation project in medium-sized East Asian country—a clear-cut rationale: the urban poor were paying significant amounts of money for low-quality water. They wanted and needed better water, *at prices they could afford*. The IFC project, in collaboration with the World Bank, addressed this need.

All of these projects were meant to respond to particular needs which, if well addressed, could help reduce poverty: micro-finance, both credit and savings, in a country lacking in a sound, credible financial system; telephone communication in a land hampered by the remoteness of its already isolated population; the provision of trees to enhance the income of poor farmers in a land where agriculture still employs the majority of the population; and quality, potable water and sanitation for urban poor suffering from poor hygiene and health, and low self-esteem, as a result of high-cost, poor-quality water. Much of the success of these endeavors, or lack thereof, will be seen not primarily in the rationale for their support but rather in the manner in which each addressed the fulfillment of a legitimate identified need.

Understanding the Perspective of the Poor: A Demand Assessment

One would expect that development institutions are more comfortable and competent in determining issues of supply than those of demand. After all, these entities and their grantees/borrowers manage and control what they offer. The demand for what they offer is, however, beyond their control and hence poses potential difficulties. Ascertaining the potential and real demand for a good or service is a challenge which requires an understanding of the culture, the values, and the behavior of the persons for whom this good or service is intended. While there are shortcuts to gaining this understanding, the most effective manner is simply structured listening to the points of view of the people meant to benefit from a development project, using largely qualitative, yet quantifiable, research methods such as those used in the four case studies discussed in this report.

While these case studies focused primarily on gaining an appreciation of the perspectives of intended beneficiaries, not on the methods employed by the IFC-supported companies to understand their client populations, the lens of the people permits a sound assessment of the effectiveness of ways used to know them. This chapter will highlight the manner in which the perspective of the poor, the intended beneficiary, was or was not understood in each project that was studied. Reviewing the four case studies, two—telecom and farm forestry—clearly missed the mark and two—micro-finance and water—were far closer to the mark in the proper assessment of demand.

TELECOM

The Village Phone Project in a small East African country may well have understood its intended beneficiaries at the time of launching, or at least to a considerable degree, but it failed to properly gauge the imminent rise of the primary competing product, the

individually-owned mobile cell phone. The two key advantages of the village phone were signal permanence and economy of scale. Given that the population of this country was among the poorest in the world and its rural majority lived in remote, isolated villages, this combination of low cost usage with a permanent telephonic signal probably seemed like a sound basis for estimating a large untapped demand for village phones. In retrospect, it is difficult to severely fault this project for failing to foresee a rise in the use of mobile phones from close to six percent in 2006, two years before the inception of the project, to 92 percent of those randomly sampled at the time of this case study in late 2010. Poor people living in remote villages wanted and needed to communicate with persons outside of their



villages. The village phone could well have met this need. Low cost mobile phones were simply more convenient and more appropriate to the peoples' needs and values than the village phone.

The telecom company supported by IFC did appear to misunderstand the perspective of the poor in one major way. This misunderstanding can perhaps best be grasped in the story of the entrepreneurs, a group that was intended to particularly benefit from the village phone. The sample of 29 entrepreneurs interviewed in the four villages covered in this case study is small but indicative. Over two thirds (69 percent) of these small businesspersons possessed mobile phones, but

only five, less than one fifth (17 percent), had used the village phone. Only one entrepreneur used the village phone to conduct business. She, like other sand collectors in her village, had no mobile phone and was thus obliged to use the village phone to contact customers. Two other entrepreneurs used the village phone only for family reasons. The remaining two entrepreneurs used the village phone for business in a limited way—to place orders or inform buyers, never to discuss money. This need for confidentiality in discussing business affairs appears to have been seriously overlooked in the design of this project. People in this country—not unlike those in many other countries—simply desire to keep information about business strategy and money matters between themselves and their interlocutors, outside the public domain. In the words of one businessman who lived in a village with a village phone:

I have my secrets and the village phone limits privacy. This is the reason why I use my own cell phone, even if it is a little difficult to capture the signal. I have to go upstairs and stand at a precise place and at the lightest movement, the signal is gone.

Even if the village phone were priced low enough to compete advantageously with mobile and taxi phones, this cultural value placed on confidentiality, particularly regarding financial matters, would likely do much to thwart the success of this communal phone endeavor.

FARM FORESTRY

The farm forestry project in South Asia seemed to misunderstand the value of its product (eucalyptus trees) to not-so-poor farmers who, enticed by what they were told and ignorant of realities, got into a situation which left most disaffected. First, as mentioned above, the project was simply not consistent with the immediate needs of poor farmers. Those farmers that appeared to have the means to



benefit—possessing from two to ten hectares of land—comprised the middle—to upper-middle-income stratum of farmers in the project region. The small and marginal farmers, who included the poor and made up over two thirds (68.3 percent) of all farmers, were not likely to benefit from growing this costly crop. Eucalyptus cultivation has been shown to be expensive: \$638–\$851 per hectare with a long gestation period bringing returns in three to five years. Marginal, poor farmers simply cannot afford to invest in a product which takes this amount of time to bring returns. As one put it:

We do not invest in farm forestry, because it takes a lot of time to give results. We prefer to do farming on a yearly basis, so that we may get monthly or yearly income.

The farm forestry project did tap into a desire on the part of farmers for increased incomes. Fully 95 percent of the participants said they got involved in the project to increase their incomes. What the project failed to do was properly understand the livelihood realities of its intended beneficiaries to profit from their investment in eucalyptus trees. The reality that investing in the cultivation of this tree was above the means of many farmer-participants can be seen in the fact that over half (52 percent) took out credit to meet the high costs of the initial investment required. Many of the farmers were unable to pay their debts on time and thus the project had the unintended result of increasing indebtedness. A further misreading of the beneficiary farmer population was that farmers wanted and needed training and extension on a regular basis to help them get the yield they needed on their tree crop. Many had no previous experience growing eucalyptus trees. They were disappointed at the lack of follow-up visits on the part of the company.

The farm forestry project bypassed two important components of the beneficiary population: women and youth. Effective outreach for understanding a poor population requires coming to terms with all major elements of this population. While the percentage of

participating farmers who stated that the project had fulfilled their expectations was low, at 21.4, it was particularly telling that whereas close to a third (30.9 percent) of the male farmers expressed this fulfillment of expectations by the project, only a small 6.7 percent of the female farmers had this positive reaction to it. The apparent neglect of engagement of the female segment of the beneficiary population does not show a keen understanding of the perspective of the poor.

MICRO-FINANCE

The micro-finance institution in a large Central African country tapped into a vast latent demand for financial services in its client population. This is a remarkable achievement given the dire situation in which the people of this country find themselves. The country has been placed at the very bottom of all the countries of the world in development, meaning its health, education, nutrition, and life expectancy indices are the lowest on earth. The Interim Poverty Reduction Strategy Paper (PRSP) of 2000 stated that “nearly 80 percent” of this country’s “52 million inhabitants survive on the edge of human dignity.” Compounding the country’s poverty, and contributing to it, are the 30-year and continuing war and political instability. In such a desperate situation, one might expect people to lose hope and live only for the present, doubting whatever good fortune might arrive tomorrow. What is so commendable about the micro-finance project reviewed here is that it capitalized on the hope of the people of this tortured land for a better life, one more secure and less impoverished than the one being suffered through at present.

The country’s financial sector was in a state of profound disarray during the lifetime of this project, 2005–2010. Less than one percent (.005 percent) of the country’s population had a bank account. Of the randomly-selected small and medium enterprise (SME) managers (108) interviewed for this case study 80 percent suspected the integrity of the financial system because of fraudulent

practices in this sector in the 1990s. Informal micro-financial institutions, while popular in their particular localities, had little penetration in the population as a whole. Street credit, at 50 to 70 percent monthly interest was understandably prohibitive for most. Into this bleak financial picture stepped the IFC-supported bank, which, as seen, was the first financial entity to set up branches in the trading sector and urban neighborhoods of the country's capital city. This bank grew to have 120,000 customers from the time of its inception to the time of this case study in 2010.

This IFC-supported micro-finance institution seemed to understand that people living in an impoverished land with poor public services and an unstable political system would need to rely on themselves as much as possible. They would need to believe in themselves and build on this belief for a hoped-for better future. One needed tool for constructive self-reliance was clearly financial. Access to credit and a secure savings account would help people gain the means and the security to help lift themselves out of poverty and provide the confidence needed to weather the harsh economic and political conditions in which they lived. Indeed, when asked about the major changes customers of the IFC-supported bank experienced after roughly two years of service by the bank, the major change given was "social stability" (50 percent of those interviewed in one area with a bank branch and 32 percent in the other area). As one person with a savings account put it, "Money is safe and we obtain more social stability." Money in a bank is more secure, protected from robbery/ confiscation and less apt to be spent. More basically, of course, financial services are a needed underpinning of business and family transactions. The bank customers in the two urban areas where a bank branch was located who were interviewed for this case study mentioned a number of major benefits received by their association with the bank: improved education for their children, purchase of a house, expansion of commercial activities, access to credit, and good money management. All of

these are building blocks in a foundation for a better future.

One solid indicator of the pervasive and future-oriented nature of this micro-finance project may be seen in its effective reach to all segments of the urban population. In stark contrast to the farm forestry project, which left women and youth disaffected, this micro-finance project was seen as particularly useful by both women and youth. Women were shown to be especially prone to obtaining credit due to their perceived increased credibility and reliability. A clear majority (83 percent) of IFC-supported bank customers in areas of intense commercial activity in one community where the bank had a branch, mentioned easy access to credit for women as a major benefit provided by the bank. The importance of financial services to women is testament to the value of this project as a facilitator for opportunity for future advancement. Women were most apt to use financial services, credit, and banking for the health and education of their children and for better nutrition for the household. Youth also expressed satisfaction with the financial services they received from this project. For most (62 percent) of the youth, savings were an important way to discipline spending. Access to the bank also provided more business-related benefits, such as increases in sales and revenues, expansion of commercial activities, addition of new products, and, more generally, enhanced self-confidence. This IFC-supported micro-finance project clearly understood and responded to a real human need of ordinary, largely poor persons in a distressed society to gain a more solid footing to help themselves improve their own condition.

WATER AND SANITATION

Of the four case studies reviewed here, the water and sanitation project in East Asia was the most holistic, responding to the multifaceted living conditions of the poor. As seen, the IFC-supported company in this case made a concerted effort to address the urban poor,

as part of its Sustainability and Corporate Social Responsibility (CSR) policy. The project had clear economic benefits for the people it affected: it reduced water costs, freed up time from waiting in line for water, and created water-related employment opportunities. The project also brought improvements in health and hygiene, concomitant with improvements in the quality of water. What made this project unique and truly responsive to the wants and needs of the poor were two primary factors, its attention to basic needs and its social dimension.

Attention to Basic needs

Providing improved, potable water at lower cost to previously poorly-served communities is in itself a major, most appreciated achievement. The intrinsic value of what a project delivers may seem overly self-evident to warrant mention. Nevertheless, it would be remiss to neglect the importance of the link between what a project provides and what a given beneficiary population feels it truly needs. The additional income made possible by the eucalyptus trees in South Asia was appreciated, but not basic. Telecom services were a clear benefit to the people of East Africa in the telecom project, but, again, these were hardly basic. Even the financial services reviewed in the Central African country, despite their real benefits, were more of a facilitator than a precondition for a good life. Water, on the other hand, was seen by the beneficiaries of this East Asian project, as it is all over the world, as one of the basic ingredients of life itself. The case study report quotes mothers among the urban poor population benefiting from this project as saying:

"Water is central to our life! Without it, life is not possible."

They said they can afford to lose their access to electricity but not water. Much of the value of this project, then, was that it addressed a basic need, water, seen by its beneficiaries as essential to their lives.

The Social Dimension

This water project transcended the inherent value of what it provided by valuing the humanity of the people for whom its goods were intended. People here were seen as active participants in development rather than passive beneficiaries. They were also seen as members of a community, in relation to their neighbors and as a function of their own self-worth, or dignity, in the eyes of others.

The community-involvement program of the water company has been seen to serve as an effective mobilizer of the people on their own behalf. With this program, the community association, led by local officials, mobilized the savings of households and other resources of the community for the installation fees and monthly collection of user fees. The poor were not treated as objects of charity but as subjects of their own betterment process, responsible for choosing the connection scheme and collection arrangement of their own community. The organization and mobilization of beneficiary groups in the improvement of the water



system led to these groups being accessed by local officials for other, non-project related, community services. This collective development effort had an additional advantage of providing leadership training. Because they had to organize the beneficiaries in terms of installation of the pipes and collection of the fees, this project trained community officials in forging collaborative partnerships with local government and the water concessionaire, the IFC-supported company. Thus, both communal self-help and local leadership were enhanced by this project.

Certainly as significant as this communitarian aspect of the project was its response to a more psychological need of the poor, the need for dignity. Part of the perspective of the poor is that they do not want to be treated as poor, or lesser in worth. Having quality water and sanitation is one indicator of a person's status. This has been one of the indirect, insufficiently heralded benefits of the urban upgrading projects supported by the World Bank Group and other public and private entities all over the world. Certainly this water project in a medium-sized East Asian country touched a positive chord with its beneficiaries in making them feel more integral to and respected by the larger society of which they were a part. As the field report put it:

In general, having no access to potable water in the home is a clear marker of poverty in the city because walking to fetch water in plastic containers (or bamboo tube container) is highly associated with rural poverty, backwardness, and ignorance. For the beneficiaries, then, having access to piped water in their homes became a clear marker of social improvement in their lives. They argued that now they feel equal with the better-off residents of their community. They also said that being able to pay for water makes them feel that they have better economic capability and have improved their social standing in the community; "we are not anymore viewed by the others here as very poor!"

This water project recognized that man is a social animal. We do not ultimately live alone but with each other. By building with and on communal association, the project strengthened people's trust in each other. By providing important roles for local leadership, the project increased respect for local authority. By facilitating a benefit which increased self-esteem and one's worth in the eyes of others, the project responded not only to the basic material need of water, but the basic human need of dignity as well.

Adjusting Supply to Meet Market Realities: How Companies Engage with Beneficiaries

Providing access to affordable goods and services is clearly a key ingredient of successful development endeavors. Also important is the manner in which a company, the IFC client, adjusts supply to market realities, or demand or, alternatively, how the company engages its intended beneficiaries. This engagement can take the form of providing information about the product, training in the use of this product, enlisting the collaboration of the community to expedite project-related work and reduce costs and, underpinning all of this, consultation. The four case study projects reviewed here displayed a discernible diversity in their forms of interaction between company and beneficiary. Generally, the more engaged the company, the more successful the project. The micro-credit institution responded effectively to a clear, pent-up demand for financial services among the population it served. The telecom company not only misread the advances in technology in its field but inadequately informed beneficiaries of the advantages of the service it was providing. A more dire situation was seen in the farm forestry project, where the company

raised high expectations among farmers, provided them insufficient training and extension, and poorly informed them about their credit obligations thereby deepening their indebtedness. By contrast, the water project met with accolades from its beneficiaries as a successful activity which made partners out of low-income households to assure the provision of quality water in an affordable and sustainable manner.

MICRO-FINANCE

Perhaps the most important reason for the success of the micro-finance project in a large Central African country was simply that the product (finance) met the unrealized need of a large beneficiary population. Less than one percent of the vast population of this country was served by any formal financial institution at the time of project inception, 2007. The distrust of the banking system was due to a lack of transparency on the part of many financial institutions. For instance, among credit



cooperatives, two thirds (66 percent) of funds deposited in banks disappeared causing a loss of 80 percent of customers between 1991 and 1993. There were a number of other kinds of informal financial institutions operating at this time, nongovernmental organizations (NGOs), tontines, and other mutual aid groups. But the rate of penetration of these private financial entities was extremely low and, concomitantly, the demand for the kind of services they provided very strong. One NGO which began operations in early 2003 was offering these financial services to over 7,000 clients after only eight months of existence in the capital city of this country. The IFC-supported bank acquired more than 120,000 customers from 2005, its time of inception, to 2010, representing a penetration rate of 24,000 customers per year.

Part of the wonder of this micro-finance project is that, despite the dire poverty of much of the country's population, it served such an unfulfilled demand. The poverty condition can be seen in the food budget of \$94/month of the average family of seven persons which works out to \$0.45 per person a day, less than half the low internationally-recognized rate of poverty of \$1.00 per person per day. One developmental truth is that money takes on particular significance for the poor. Money meets major needs. Money also provides security against unpredictable acts of man and nature. The former of these, in the form of war, corruption, and unstable politics, characterized this country and heightened the value of credit and savings in this impoverished nation.

The IFC-supported micro-finance entity featured in this case study not only offered a product in high demand; it did so in a proactive, responsive manner. This bank was the first to open branches in the urban neighborhoods where ordinary people lived, seven over the first five years of existence. Furthermore, this bank reduced the conditions for opening a savings account to the presentation of an ID card and an initial deposit. *No fee is required for opening a savings account.* The gearing of these financial services to the poor may be

seen in the statistic that close to two thirds (64 percent) of bank customers had balances of less than \$100 at the time of the case study. The importance of having a branch in one's neighborhood is seen in the phenomenon of a clear majority (75 percent) of the residents of communities with a bank branch had opened a savings account, whereas this proportion dwindles to less than a fifth for people living in neighborhoods without bank branches.

Much of the success of this IFC-supported financial institution may well be due to having the right product in the right place at the right time: credit and savings in a war-torn country with a troubled past including a discredited financial system. Place branches close to where people live and work and facilitate savings and the people will come. People interviewed for this case study mentioned a number of areas where this bank could have been even more proactive and responsive than it already was:

- Much as with savings accounts, the bank could reduce the conditions for opening accounts and granting of credit to customers;
- Allow flexibility for repayment by granting a grace period. In the words of one group of women in one of the communities where the bank had a branch: "Grant the amount actually requested and allow borrowers enough time to make profits before requiring repayment;"
- Educate the people (in this financially underserved population) regarding what banking is all about. As one SME owner in a community with a bank branch put it, "The bank should teach us how the services to clients work, how and why to save;"
- Related to the previous point, place more emphasis on training, as follow-up and for supervision. Training, provided with support from the IFC, has been seen to be most effective for bank borrowers;
- Improve bank physical facilities: reception area and waiting room conditions; and increase the number of counters.

TELECOM

While there was more than ample demand for financial services in the large Central African country, there was insufficient demand for the village phone in the small country to the east. This low demand made publicity and consultation with users, village phone operators, and potential consumers, all the more important. Yet, despite this need, there was minimal engagement on the part of the company with its clients. Given the effective and pervasive competition from individually-owned cell phones, it is likely that this project would have had difficulty meeting its objectives regardless. Nevertheless, the low level of engagement with beneficiaries exacerbated an already difficult project development process.

The premise of the village phone program was sound: providing affordable phone service to a sparsely settled population living in one of the poorest countries on earth. The village phone program was designed as a cost-efficient addition to existing network infrastructure, effectively extending coverage beyond the point at which a conventional network rollout would be too expensive. The village phone program provided a village phone operator with a mobile phone to be used as a public phone. The problem was that the public didn't use this village phone. One clear reason for this low buy-in of the village phone was the competition from increasingly available and inexpensive cell phones. Another obstructive factor, as noted above, was that people were averse to using the village phone because they did not want their private conversations to be overheard. One wonders whether there was sufficient consultation between the company and potential users of the phone program to adequately understand this popular aversion to conversing in public. This kind of prior consultation, during project identification and design, is of paramount importance in assuring a sound development project.

A positive feature of the village phone program noted by company officials during field visits was its facility as a provider of information, particularly on public health

and agricultural production. Given that this information service was meant to supplant the mere use of the village phone over time, it is remarkable that there was close to no knowledge of this service in the sample villages containing a village phone. Three of the four village phone operators had never heard of the service; the fourth remembered a written message she had seen months before the interview. She did not know important details about the program, such as her ability to sell information via the village phone. Not only village phone operators, but none of those interviewed either individually or in focus groups had heard about this information service provided by the IFC client. Indeed, it appears that the telecom company took a decidedly passive stance vis-à-vis its intended beneficiaries. Approximately 80 percent of villagers interviewed had never used the village phone operator services provided by the project.

Personal interaction between company staff and the village population it served was



infrequent and sporadic, at best. The only training provided by the company for the village phone operators was at the time of village phone launching. The ignorance about and low usage of the village phone was seen by one village phone operator as evidence of a need for support from the company to advertise the nature of its business. The problem wasn't only a lack of consultation by the company, but a lack of clarity in consultation. Two of the 29 entrepreneurs interviewed for this case study said they had expressed interest in managing village phones but had not been selected by the company. The reasons for their not having been selected were never made clear. One of the village phone operators complained about a lack of transparency on the part of the phone company; she was not selected by the company for a certain installation. Again, no explanation was given.

Effective engagement with intended beneficiaries touches all levels of a community. Key informant interviews with community leaders done for this case study revealed that there had been little to no consultation between company officials and village mayors. These mayors felt that communication with them could have been relevant inasmuch as they knew conditions in their localities. One advantage of the village phone was that it offered the cheapest price of electronic voucher distribution and airtime with a strong, permanent signal. One mayor explained "this village phone could be very interesting for us because only five of the 15 villages in the Commune can capture a good signal (one of the two competing companies)." This same advantage of the village phone was mentioned by other mayors whose constituent populations also suffered from weak signals. Despite the strong, apparently unforeseen competition from mobile phones, with their low prices, convenience and privacy, the village phone may well have been a viable service in remote villages still lacking good, permanent signals for phone communication and with a well-publicized, useful information facility particularly oriented to agricultural production, the major source of livelihood for the country's rural population.

FARM FORESTRY

Similar to the telecom project in East Africa, the farm forestry project in a large South Asian country suffered from inadequate engagement by the IFC client and the beneficiary population. The farmers who were intended to benefit from this project often did not do so because they had been led to believe, in discussions with the company's representatives, that they would receive higher returns on their investment than they in fact received. Rather than recapitulating information already provided, this issue of finding a proper fit between supply and market realities, or engaging the beneficiaries, regarding this farm forestry project, may be best addressed by looking at four issues: training, gender, livelihood needs, and age.

Eucalyptus trees are a difficult crop to grow. Aside from the long gestation period, this crop has special requirements concerning fertilizer, insecticides, weeding, and irrigation, all of which require good training. Indeed, the field report on this project signaled four characteristics of successful project beneficiaries: those who planted on wasteland, those with access to irrigation, those aware of the technical aspects of farm forestry and those who took proper care of tree plantations. The last two of these depend directly on training. While the great majority (91 percent) of the project participants received training from the company, the average time of the last training received was 3.5 years. Generally, training was provided at the time of the farmers' inception and in the early phases of the program. There were no follow-up visits, a cause for disappointment on the part of many farmers. As one put it,

They [company officials] came and clarified what steps we must undertake to grow these crops, what precautions should be taken, and many other important points. Two or three people used to come. Earlier, they came frequently, but these days they do not come.

The full participation of women in a development activity is a prerequisite to its success. This gender issue is particularly important in agriculture, an area in which women in most developing countries participate as much or more than men. Yet in this farm forestry project, the company engaged primarily, if not exclusively, with men. It is noteworthy that a mere 6.7 percent of the women farmers stated that their expectations had been fulfilled by this farm forestry program compared to close to a third (30.9 percent) of the men. It appears that the company had simply failed to inform many women of a number of aspects of the program, including, notably, the financial aspects. Over a third (35 percent) of the women said they were unaware of the economic aspects of this project. Women were often simply not informed as one woman farmer expressed it:

See, we worked on the farm; then they came, brought their people, and planted trees. At the same time they gave only \$32 once and later paid us \$43. That is all that I know... They did not tell us anything, so how will we know.

In the country where this project was located, as in many others, the sale of agricultural produce is made by men. Men receive the income from the sales and often spend much of it to fulfill their own wants. In the case of this project, added income often went to improved tobacco and alcohol and other “conspicuous consumption...confined to the male personal economy.” If there had been fuller engagement with the female farmers, proceeds of the project might have been more devoted to the betterment of nutrition and education for children than was the case.

Another significant group of the local population that was dissatisfied with this farm forestry project was the youth. Given the importance of youth to the future development of a country, it is obviously important to take its interests into account in the design and preparation of a development endeavor. Yet, youth were not favorably disposed to this project, not because of its being farm forestry, but simply because of their antagonism to agriculture. Youth preferred “stable, permanent monthly incomes,” a security not offered by agriculture. One young farmer expressed these sentiments as follows:



They [the participant farmers] wanted to earn income and they were made to believe that they will benefit from farm forestry. But, the reality was very different. They had to spend out of their own pocket. This is just plain cheating. Some officials from the company came initially, but nowadays no one comes to ask or check about the condition of the trees. People do not have the knowledge of how to plant.

This farm forestry project has been seen to be targeted at farmers who are above the median income (possessing two to ten hectares of land). When the company initiated contact with farmers, it raised expectations unduly regarding returns from investment and provided poor information regarding credit requirements. Furthermore, the company did not provide ongoing training or extension service needed by the farmers, most of whom had no prior experience with cultivation of the eucalyptus crop, which, with its long gestation period, took years returning investment.

Finally, the company seemed to neglect the proper engagement of women farmers and failed to orient its activities to the interests of youth. This mismatch of supply to market realities and inadequate or faulty engagement with beneficiaries helps explain the conclusion of the field report that this farm forestry program “did not have any significant impact on the overall economy of the village” where it operated.

WATER AND SANITATION

There is a social dimension to the sustainability of development activity which is often overlooked: the finding of consonance between a good or service offered by a project and what an intended beneficiary values, what provided meaning in his or her life. Often, aside from the intrinsic worth of a development input, what one values is determined, at least in part, by the degree to which one has invested of oneself. The water and sanitation project in



East Asia managed to provide a service for which people felt a real need, potable water, in such a way that it was both affordable and involved the labor and money of the beneficiary such that he or she gained ownership for the endeavor and saw it as effectively a part of their own development. The IFC client in this case even had a “sustainability report,” in which it laid out its CSR policy. One of the primary initiatives of this policy was the Water for Low-Income Communities program, “the Company’s main vehicle to reach out to the urban poor to address their basic need for clean water.” Unlike the farm forestry project, which was affordable by not poor, but middle-income farmers, the water and sanitation project had a “bias towards serving the urban poor” as part of its CSR. One way this program reached the urban poor was to affiliate with the World Bank’s Global Partnership on Output-Based Aid (GBOPA), a grant facility which subsidizes connection charges for water and thus increases accessibility of this basic need.

A key factor explaining the strength and sustainability of this water project, aside from the obvious value of the basic need it provides, was the process of development encompassed by its mode of operations. Thanks to the GBOPA and communal cost sharing, the cost of water, *of improved quality*, was reduced by about 300 percent. This allowed a major buy-in on the part of the poor. But it was the manner in which water and sanitation were

provided which was the key to its success. The company approached the communities where it worked very much as partners, coordinating project activities with them, implementing schemes chosen by them, and relying on community-based organizations for planning and implementation. In this way, the “beneficiary” became an active decision maker with participation and ownership in a development initiative which, like the water it provided, became an important part of the person’s life.

In the case of this water project, the most successful demonstration of positive engagement between company and beneficiary of any of the four projects reviewed here, the company served the people in such a way that they served themselves. The utility tapped the cooperation of the community officials and the leading community associations to facilitate the organization and mobilization of the residents for the improvement of the water system. The community association disseminated information (including their rights and obligations) about the improvement. More importantly, they mobilized the savings of the households and other resources of the community for the installation fees and the monthly collection of user fees. Thus, the company was able to enlist the community’s human and material resources for the organization and administration of the water improvement program in their respective communities. It also made possible the socialized arrangements of the installation and use fees.

Access to services

Access to services is clearly instrumental to the success of a development project. Two of the four projects reviewed here facilitated access effectively, the micro-finance and water projects, while a third, farm forestry, was more a case of increasing access to a good than a service. The fourth project, village phone, provided access but ran into a problem of dearth of demand, so it is not discussed in this section. Lessons may be learned from examining how and to what effect each of the three projects discussed dealt with access.

MICRO-FINANCE

The Central African country where IFC supported the micro-finance project selected for this case study has been rated by the United Nations as the least developed country in the world. All development indicators, infant

mortality, education, life expectancy, etc. are the lowest, or among the lowest, of any of the world's nations. The dire state of peoples' lives can be seen in the nutrition status: per capita consumption is 1,500 calories a day, a deficit of 40 percent of the 2,500 calories deemed necessary for living a healthy and active life. The country is last on the 2011 Global Hunger Index, a measure of malnutrition and child nutrition compiled by the International Food Policy Research Institute. Underlying and exacerbating this dismal development picture is an ongoing war which, over the last 30 years, has caused over five million deaths. The banking sector suffered from mismanagement and corruption in the 1990s; even at the time of this study, in late 2010, over half (60 percent) of the SME managers stated that access to financial services was restricted to only the rich and big businesses. Much of the positive impact of this project can be seen from the fact that 90 percent of the customers of the IFC client bank, SMEs and individuals, said that traditional banks are accessible to everyone.

The case study bank which received support from the IFC made an explicit attempt at reaching out to potential customers by locating branches in seven of the capital city's neighborhoods. Conditions for receiving loans from this bank (similar to those for other financial entities in the country) were onerous:

- Presentation of an ID card;
- Assessment of the loan applicant's assets;
- Verification of payment of water and bills;
- Having a running SME;
- Evaluation of reported SME activity;
- Presentation/reference of a witness, necessarily a business operator;
- Statement of intended use of credit.

While the short period of time most of the respondents had been clients of the bank, an average of two years, did not allow for much significant measurable change, it did seem that



access to credit had a favorable impact on the lives of most borrowers. One key area where improvement was registered was income. In the two sample communities where a bank branch was located over one third (37 percent) of the borrowers stated that their income had increased since taking out a loan compared to less than one quarter (23 percent) among non-borrowers. Other indicators are more sporadic but could be harbingers of change over time: improvements among borrowers (over non-borrowers) in sales, profits, and nutrition in one of these communities and in new products in the other.

The community where the bank had a branch for the longest time, roughly four years, at the time of this study, registered significant changes. In this site, before access to credit, 64 percent of contacted entrepreneurs had a current account against 36 percent who had a savings account. The use of the current account is justified by the fact that money is kept safe, in the form of cash, and available at any time that the entrepreneur needs it. Moreover, it is through the use of the financial services of banks—the savings and current accounts—that people gain access to credit. The behavior of entrepreneurs towards the financial services of banks completely changed after obtaining access to credit. At the time of the study, 48 percent of the entrepreneurs had a savings account, 20 percent had access to a credit account, and only one third (33 percent), roughly half the percentage as before gaining access to credit, continued to use current accounts. More useful and specialized financial services replaced more general ones after the bank branch opened in the neighborhood. The indirect benefits accruing to the enterprises after gaining access to credit included increases in sales (27 percent) and profits (22 percent); at the level of the household increases were registered in nutrition (21 percent), parental investment in schooling (24 percent) and better management of household expenses (16 percent).

The popularity of savings accounts was an unexpected and important positive feature of this IFC-supported micro-finance institution.

Indeed, a 2009 evaluation of this project stated that “savings is as important as credit for low-income groups;” while average loan amounts of the bank increased five times from 2005 to 2010, customer deposits increased 38 times in the same period. In the field study done for this case study, the preponderance of savings was evident: among customers interviewed in the two sample communities where bank branches were located, 91 percent had opened savings accounts compared to 42 percent with current accounts. In areas of intense commercial activity, 79 percent had opened savings accounts, while about half (46 percent) had received credit. As evidence of the low income of these savers, roughly two-thirds (64 percent) had balances of less than \$100. Access to savings was facilitated by minimal entry requirements, ID documents and a deposit for opening an account, for which no fee was charged.

Revisiting the community where the IFC client bank had been located for the longest period of time, a number of improvements could be attributed to access to savings:

- Increased investment in children’s education (28 percent);
- Improvements in health (34 percent);
- Better housing accommodation (19 percent); and
- Increased demand for and diversification of products (44 percent).

While there were other advantages voiced by the people regarding savings, such as reducing the temptation to spend and serving as collateral for loans, perhaps the most significant, given the insecurity of the country, was voiced by one bank client who had opened a savings account: “Money is safe and we obtain more social stability.” Bank deposits become a fortress for people buffeted by uncertain winds in a conflict-ridden country of economic deprivation and political instability.

One social objective met by this micro-finance project was in the important area of gender. An unusual unanimity of interviewees in one area where a bank branch was located

maintained that women have more advantages getting credit than men because “they are more credible and comply with the repayment deadlines better than men.” The common belief was that “women are more serious in business than men.” Women’s ready access to credit led to improved education and better health care for children as well as a more balanced diet for the family. With training in credit management, advantages to women were more pronounced: the percentage of women experiencing increased revenue doubled (from 25 percent to 50 percent), while that of men increased only marginally (30.7 percent to 30.8 percent). There were also significant increases for women, after training, in health care for children, self confidence, and motivation.

Access to credit for youth (under 30 years of age) had a number of positive effects:

improved sales (29 percent), income (50 percent), profits (18 percent), better nutrition (20 percent), increased motivation (60 percent) and self-confidence (30 percent), and growth and expansion of business activities (35 percent). Young people are the only ones mentioning the possibility of travel as a result of increased savings; yet, most of the youth interviewed said they saved to control their spending (compared to 25 percent of women). Generally, access to financial services was seen by the young as a door-opener, increasing opportunities for advancement and, importantly, increasing hope.

Access to training in capacity building for financial management, along with access to credit, appeared to be a clear benefit which transcended gender. For this part of the case study collaboration was made with a local IFC staff member who was engaged in training the managers of SMEs. In-depth interviews were conducted with 32 entrepreneurs with or without training and/or credit. Those businesspersons who registered the most change were those who received both training and credit. Before obtaining access to these services, these persons kept their money at home (78 percent), with savings cards (56 percent), and in cooperatives (89 percent). After receiving credit and training, the same entrepreneurs no longer kept their money at home but, instead, bought goods (56 percent) or, as cash, deposited in cooperatives (56 percent) and the bank (78 percent). Now their money was safe and secure in a clearly unstable and hazardous environment.

Despite the smallness of the sample, the findings recorded for entrepreneurs receiving credit and training are considered significant and indicative:

- Employment increased threefold;
- Income doubled;
- Investment capacity quadrupled;
- Diversification of activities increased on average from one to five;
- Training of existing employees increased from 0 to 5 (on average).



The families of these entrepreneurs were also favorably impacted:

- Improvement of children's education through the regular payment of school fees (double increase);
- Improvement of nutrition (25 percent)
- Increased self-confidence; and
- Improved motivation.

WATER AND SANITATION

Access to quality water and sanitation is one of the prerequisites to a decent and respectable livelihood in an urban area. Unfortunately, this access is still not common among the poor of most cities in the developing world. In the East Asian country, a client of the IFC displayed a remarkable combination of social and economic acumen by managing to provide access to large numbers of the urban poor in such a way that the poor themselves became partners in the endeavor, with a pride of ownership that helped them generate their own development.

An appropriate place to start this success story is recognizing a cornerstone of the client's business policy, the CSR. In the company's own words this utility stated that:

Instead of casting off low-income communities and informal settlers as a non-priority market with low profitability" the client "showed bias towards serving the urban poor as part of its CSR. In 1998, the Company started implementing a Water for Low-Income Communities Program to tackle the most basic water problems of the urban poor.

The company worked in tandem with the World Bank's GPOBA, which provided a grant to subsidize connection charges. The company demonstrated its flexibility in adapting to the low-income population's financial constraints by paying two thirds of the connection cost while charging the customers one-third of the cost payable over a period of up to 24 months.

The CSR program mobilized the communities of urban poor such that they become not passive recipients of water and sanitation services but active decision makers responsible for choosing the connection scheme and collection arrangements for their own community. With the combination of flexible pricing policies adapted to beneficiary capabilities and community involvement the company with its CSR program has provided a 24-hour supply of safe-to-drink and affordable water to over 1.6 million people all over the eastern portion of the metropolitan area where it has operations. The effects of this water and sanitation project on the urban poor were immediate and far-reaching:

- Improved access to safe/potable and better quality water
- Regular supply (around the clock) and increased consumption of quality water
- Increased number of water-based income-generating activities
- Reduction in water—and hygiene-related diseases
- Reduction in water expenditures per household (from \$17 per month before the project to \$4 per month after)
- Gained free time from previous queuing/fetching water for leisure, economic, and community activities, and
- Improved environmental sanitation.

Beyond these direct benefits brought about by this water project were "multiplier effects" which were at least equally important. People receiving the new, improved water asserted that the water program improved their personal and collective social confidence and led to the overall improvement of their social status before the larger community and society. Community-based organizations and water and sanitation committees, tapped by the utility increased their leadership and mobilization capacities and served as models for other community-based activities.

According to the beneficiaries, the quality of water greatly improved under the new

system. They complained that, previously, the water they obtained from public wells (dug or motor-powered) or artesian pumps was murky, had an unpleasant smell and was sometimes muddy with sand, “hard,” and unsuitable for drinking. They bought water for drinking and used this poor quality water for bathing, washing, and cleaning. Because of its poor quality, this water made their clothes yellowish and subject to quick deterioration; laundry washing was difficult because the “hard” water did not make their detergent/soap sudsy. When taking a bath, their hair was stiff, their skin rough. The housewives also commented that previously their household appliances would become quite rusty because of the corrosive elements of their water. As one of the women beneficiaries observed:

Now, my things do not get rusty anymore and the uniforms of my children appear cleaner and brighter. You can understand why it was hard for our children to bathe everyday or do their regular ablutions; their hygiene was not good.

Of particular relevance to the poverty-reduction orientation of the IEG evaluation were the effects of this water and sanitation project on creating new income and employment for the beneficiaries. Much of the time that used to be spent waiting in line for public water faucets could now be spent on income-generating activities. Roughly 20 percent of those interviewed for the study said that after the new water connections, they were able to generate new income from water-based/related economic activities, such as selling ice water, having a water station, producing iced candy, and preparing food. Some got engaged in water-based services such as car wash, laundry, and beauty parlors (shampoo, facials, hair coloring, etc.). Improved water supply also attracted lodgers and renters to the community and, more generally, increased the value of land in the neighborhood for new business investment and appreciation of real estate assets.

As important as all of these tangible benefits provided by the greater access to water and sanitation made possible by this IFC client, an overriding and perhaps even more significant result was a sense of dignity and empowerment. In the words of one community leader who had benefited from this program:

We used to fetch water in water cans... We were really poor like those in the province! Now, that we have a faucet inside our house, we feel we are equal to those better-off in our community. We are just like other citizens in this city.

FARM FORESTRY

The farm forestry project in a large South Asian country is a conundrum: while it targeted low-income farmers, for whom it offered and financed eucalyptus trees, its major objective appeared to be to augment the supply of raw material (pulpwood, or eucalyptus) for the IFC-supported company. The farmers who participated in this program were not the poorest, but rather middle-income farmers (holding 2–10 hectares of land) Almost all (over 95 percent) of the participants interviewed said they participated in order to increase their income. A similarly large majority stated that they participated in the program due to visits of company officials who enticed them with promises of very large returns on investment in eucalyptus plantation, \$2,127 per hectare, considerably more than the average actual return of \$1,276. While relatively poor (despite their small land holdings), farmer participants were often unable to meet the high costs of planting this tree crop and incurred debt which, largely due to the long gestation period of the eucalyptus tree (3–5 years), they had difficulty paying. Furthermore, many farmers lacked the training and technical knowhow to grow this tree. Faced with these difficulties it is not surprising to learn that while roughly three quarters (76 percent) of the farmers in control villages reported an increase in

household income over the five years preceding the survey conducted for this case study, a lower proportion of two thirds (67 percent) of the participant farmers reported an increase in income. More revealing, only roughly one fifth (21.4 percent) of the farmers stated that the farm forestry project had fulfilled their expectations. The farmers had simply not received the returns on investment that they had been promised. One participating woman farmer expressed her discontent as follows:

Our five years of labor in farm forestry has gone to waste. They [the company] took our land certificate and now we have loan on our heads. We worked so hard, but did not get single penny. ...Initially, when they came, they took signatures from each person who cultivated eucalyptus trees and they said you will get lot of money. But we did not get anything. We did the weeding, gave fertilizer, added insecticides, employed additional labor and spent extra money, but all in vain. Now, where will people like us go? We don't even know in which bank we will have to go.

Clearly, the creation of access to eucalyptus trees was problematic for the farmers who were supposed to benefit from this farm forestry program.

It was the mismatch between the provision of eucalyptus and the financial wherewithal of the farmers intended to benefit from this product that led to the belief that perhaps the major intended beneficiary of this program was indeed the IFC client, a pulpwood buying company. If this was the true objective, ironically it also failed. This case study revealed that only one third of the farmers, who had harvested their produce, sold this produce to the company; the two thirds majority sold their produce to contractors who, in turn, sold it in the pole market. The reasons for the farmers' preference for contractors over the company were clear:

- The contractors paid more (125 percent) for the produce than the company;
- The contractors covered the costs of transportation and wood cutting while the company did not;
- The contractor paid in cash, with no delay, while the company paid by check with some delay.

Access to financial services and water was successfully provided in two countries, while access to a forestry product met the requirements of neither farmers nor the client company in a third country. We now turn to another condition for project success, affordability.



Affordability

Access and affordability are related, even overlapping issues; the more affordable a good or service, the more accessible to intended beneficiaries. As has been seen, three of the four case study projects provided services at affordable rates. In the micro-finance project, compared to the street credit rate of 100 to 200 percent offered in the city, the 6 to 8 percent borrowing fee offered by the financial institution was attractive indeed. This project eliminated the requirement for minimum deposits when opening an account; savings accounts were completely free. Testimony to the attractiveness of the low cost of financial services offered by the IFC-supported bank is seen in the fact that in the two areas of the city where the bank had opened branches, 75 percent of the respondents had opened a savings account, whereas in the two that did not have bank branches, less than 20 percent reported having opened a savings account. As confirmation of the value people ascribed to these financial services, close to three quarters (73 percent) of the people in these two underserved urban areas said they would like to have a branch of the micro-finance entity open in their communities.

The urban water project in East Asia, with the help of generous subsidies and community participation, lowered the price of water, *while increasing the quality*, by at least two thirds. Reducing the costs of accessing potable water for drinking, washing, cooking, and laundry was found to have high multiplier effects such as better hygiene and health and increased social confidence in the community.

As for the telecom project, while affordability was a positive feature (its use cost roughly 30 percent of the cost of airtime for cellular phones) and was mentioned as such by 78 percent of the village phone users, this was not a decisive factor. The vast majority of the population far preferred using their inexpensive cell phones to using the village phones provided by the project. Their own cell phones were more convenient and allowed private conversations.

As broached in the previous section, it was the fourth case study project, the farm forestry project in a large South Asian country that suffered from a clear lack of understanding of the issue of affordability. Generally, the costs to the farmers participating in this activity outweighed the benefits, or returns. A project evaluation states that “the expansion of the farm forestry initiatives of the company was severely constrained by the resource availability to farmers.” The planting and cultivation of the eucalyptus trees provided by this project cost from \$640 to \$850 per hectare over the roughly five-year period of gestation of this tree. Given the family income of beneficiary farmers of roughly \$130 to \$160 per year, this outlay for tree rearing is clearly high. Indeed, the nature and costs of the program made it prohibitive for the poor and unappealing for the large farmers. Landless agricultural workers, who constitute about one fourth of the total rural households in the region of the project, are by definition excluded from a farm forestry program. Most of the “marginal farmers” (who have less than one hectare of land) found the costs of the program excessive, largely due to the long gestation period of the eucalyptus tree. The marginal farmers’ priority is to meet their basic needs. Given their limited resources and small land size, their natural tendency is to undertake cultivation of crops for self consumption. Two marginal farmers explained why they did not participate in this farm forestry program:

We do not invest in farm forestry because it takes a lot of time to give results. We prefer to do farming on a yearly basis, so that we may get monthly, or yearly income.

We cannot purely survive on this farm forestry because money is required throughout the year.

The large farmers (owning over 10 hectares) do not choose to plant eucalyptus because they can make more money growing

other crops. Thus, the majority of farmers participating in this farm forestry program are considered small and semi-medium farmers (who, together, form nearly 70 percent of the total participants). These farmers have a certain amount of vacant land which they cannot afford to cultivate but which can be used potentially profitably for eucalyptus growing. Thus, the participant farmers in this program are not the very poor but rather those in the mid-range of farmers in the area of study.

To defray the costs associated with the cultivation of eucalyptus the project provided loans, yet these loans were also heavy and placed many farmers in considerable debt. While close to half of the participating farmers used their own money, from savings or the sale of assets, to defray the costs of the project, slightly more than half (52 percent) took out loans due to the high costs of the initial investment required. Many farmers had difficulty repaying their loans; at the time of the case study 15 percent of all farmers interviewed were defaulting on their loan. The problem was not only the size of the loans but miscommunication about them on the part of the company administering the program. Half of those farmers that had taken out loans (50 percent of all participating farmers) did not know the interest rate due on the loan; the remaining half incorrectly reported the interest rate. In the words of one farmer: “they did not tell us how much the loan is for...or the interest rate that is due.”

After interviewing 313 farmers, key informants and randomly selected individuals, one-by-one and in focus groups, the local team doing this case study concluded that most of the farmers participating in this project simply “did not know of their debt condition.” Access to credit was facilitated by the IFC-supported company. In collaboration with the bank, credit was provided to the farmer in the form of tangible inputs. While in a very few cases money was directly disbursed to the farmer, in most cases farmers were provided with farm inputs and the cost was charged to the loan. Given the precarious nature of the process followed in loan disbursement, it was unclear to farmers

whether they had taken out a loan or not. Of all the participant farmers interviewed, not one had a copy or any documentary evidence of the bank loans. Reflecting the confusion and misunderstanding surrounding the credit component of this project are three comments of participating farmers:

I don't know where these people came from. They did not tell us the loan amount or which bank and what is the loan amount.

We don't have any calculation [about the loan amount] because it was not told to us. We do not know anything about the loan amount; we only know that in 2005 they had planted 1,992 trees but they recorded 2,500 trees have been planted.

Yes, we signed on papers that were given by the officer. It did not have anything written on it.

The farmers' lack of knowledge regarding their debt situation may be inferred to have led to another major conclusion of this case study: “indebtedness appears to be one of the unintended outcomes of the farm forestry program. Contributing to this indebtedness was confusion regarding training and the provision of farm inputs, all of which combined to cause significant dissatisfaction with this program among farmers intended to benefit from it. This discontent, and the confusion surrounding it, is graphically expressed by one farmer:

Like when we planted saplings, these officials from the company came and took the land certificate from us, but they didn't inform what the purpose for taking the land certificate was. Now, my trees have grown fully and are ready for cutting. However, I won't sell to the company because, this is my land and I feel that every farmer who has participated in eucalyptus farming [farm forestry] was cheated. I did not know that I had taken loan for this purpose. When I said, first let me know what is the loan amount taken in my name, they didn't give any information.

I feel that they do not have any record of my plantation and the fertilizers and insecticides provided. I don't know why you are doing all this, but this [agriculture] is my bread and butter and I just want to know how much money I have in the bank in my own name.

The long gestation period for the eucalyptus trees provided by the project, from three to five years, served as an obstacle to the participation of poorer farmers; in addition, it exacerbated the project's contribution to farmer indebtedness. If, and when, farmers do not receive remunerative prices for their produce, the breakeven point for the investment shifts to the next harvesting cycle. The gestation period for farm forestry has meant that farmers have to wait a long time to completely pay back the entire loan. A young farmer expressed his frustration as follows:

We earned little profits only from our first produce. But, still we could not repay the loan completely. It is very important to repay the loan first. What will we do if we are not able to get any profits out of this current farm cycle? Then, we will suffer loss finally and will not be able to repay this loan. This may happen with anyone. I am under a lot of pressure to repay this loan.

The farm forestry project in South Asia simply provided too few returns on investment

over too long a period of time to be considered advantageous by the farmers who participated in it. Most crops grown in the area, black gram, paddy, soybeans, and cotton, had a gestation period of four months and were on average one third cheaper than eucalyptus, which required from three to five years. The combination of delayed return on investment, necessity of taking out a loan and low income of the farmer population made for a project found wanting by the farmers who were supposed to benefit from it. Less than one quarter (21.4 percent) of the participant farmers interviewed stated that the project fulfilled their expectations, while close to two thirds (63.6 percent) said their expectations were unfulfilled. Indeed, household income rose more in the five years preceding the study in control than in intervention villages (76 percent vs. 67 percent). As summed up by one woman farmer:

No, no there is no advantage in eucalyptus plantation. We have to wait 3 to 4 years for wood cutting. We waited for five years and after we cut it, we got only \$149. And we had taken a loan of \$170. This means we were in loss.

Women and youth were particularly dissatisfied with this farm forestry project, but this was more a result of a poor fit between supply and market realities and a misreading of culture than affordability.

Synthesis and Conclusion

The fundamental lesson emerging from these four case studies is that development projects work better when they are based on a sound and thorough understanding of the micro-economic and cultural conditions prevailing among the people for whom the projects are intended. A corollary, more practical lesson is that this kind of grounded understanding is best gained by systematic inquiry based largely on listening to intended beneficiaries in the communities where they work and live. Each of the four country case studies, or field studies, represented a different sector of developmental activity. One, in a large Central African IDA country, is financial, supporting a local bank to provide micro-financial services to people lacking them. A second, in a small East African country, is in the information and communication sector, supporting a local phone operator to provide village phone services to persons lacking access to telephony. A third project, in agriculture, supports a company in a large South Asian IDA blend country as it seeks to expand farm forestry and thereby generate income for low-income farmers. The

fourth project, in a medium-sized East Asian country, addresses one of man's most basic needs by supporting a company that provides water and sanitation for the urban poor at affordable rates.

All four of these projects had, in addition to profitability, objectives of reducing poverty, three by increasing access to services (credit, communications, and water connections) and the fourth by forging a stronger linkage between farmers and the private sector whereby the former could benefit from the sale of pulpwood to the latter. The effectiveness of the poverty reduction strategy of each of these IFC-supported endeavors may be seen to vary in direct proportion to the degree to which the project product was adapted to the particular needs and conditions of the intended beneficiaries.

The field studies component of the IEG's IFC poverty focus had a dual purpose. First, it was to verify the consistency of project objectives with project implementation and design, that is, assess the consonance between project means and ends. Second, and more directly,



the field studies were meant to validate the projects from the perspective of the intended beneficiaries. In each of the four countries chosen for the case studies, local social scientists and trained interviewers carried out the field work under the guidance and orientation of IEG staff and consultants.

There are a number of lessons which follow from the discussion of these four case studies. While most of these may appear commonsensical, the fact that they are not followed in at least one of these four projects attests to the fact that they may well be honored more in the breach than in the observance.

- Understanding the poor through some kind of demand assessment is clearly essential to project success.
- Supply needs to be adjusted to market realities, and companies need to engage with beneficiaries in a positive manner.
- Facilitating access to a good or service provided by a project is a key element of project success.
- The affordability of what a project offers is a precondition of high performance in a development project.
- A final lesson which may be drawn from these four projects is the need for ongoing training to assist the beneficiaries to make full and proper use of the development opportunities provided by the project.

Good development projects resonate with the people for whom they are intended. The people's behavior and values should never be assumed, or taken for granted. Prior to and during project implementation, a project's intended beneficiaries should be consulted as partners in an endeavor which will ultimately become their own. This review of four IFC-supported development projects shows the importance of integrating people with activities carried out in their name such that they are enabled and empowered to become the determining instruments of their own self-realization.

Acknowledgments and Credits

This report presents findings from field studies conducted for an evaluation of the relevance and effectiveness of the International Finance Corporation's (IFC) poverty focus and results. The evaluation on which it is based was conducted by a team led by Ade Freeman, drawing on contributions from (in alphabetical order) Unurjargal Demberel, Hiroyuki Hatashima, Naoko Koyama, Maction Komwa, Andres Liebenthal, Erkin Yalcin, and Izlem Yenice. Lawrence Salmen coordinated the field studies and drafted the synthesis report. 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. Cheryl Toksoz edited this report and it was designed by Will Kemp. The evaluation was conducted under the guidance of Marvin Taylor-Dormond, Stoyan Tenev, and Amitava Banerjee.

PHOTOGRAPHY

All photographs courtesy of the World Bank Group.

Cover

Bangladesh/Shehzad Noorani

Indonesia/Ray Witlin

South Africa/Trevor Samson

Page ii

Philippines/Edwin Huffman

Page iv

South Africa/Trevor Samson

Page 1

India/Ray Witlin

Page 3

Madagascar/Yosef Hadar

Page 4

Bhutan/Curt Carnemark

Page 7

Bhutan/Curt Carnemark

Page 9

Mozambique/Eric Miller

Page 11

Kenya/Curt Carnemark

Page 13

India/Curt Carnemark

Page 14

Vietnam/Curt Carnemark

Page 16

Mozambique/Eric Miller

Page 18

Indonesia/Curt Carnemark

Page 21

Sri Lanka/Dominic Sansoni

Page 25

Bangladesh/Thomas Sennett

The Independent Evaluation Group

IMPROVING THE WORLD BANK GROUP'S DEVELOPMENT RESULTS THROUGH EXCELLENCE IN EVALUATION

The Independent Evaluation Group (IEG) is an independent unit within the World Bank Group. It reports directly to the Board of Executive Directors, which oversees IEG's work through its Committee on Development Effectiveness. IEG is charged with evaluating the activities of the World Bank (the International Bank for Reconstruction and Development and the International Development Association), the work of the International Finance Corporation in private sector development, and the guarantee projects and services of the Multilateral Investment Guarantee Agency.

The goals of evaluation are to learn from experience, to provide an objective basis for assessing the results of the Bank Group's work, and to provide accountability in the achievement of its objectives. It also improves Bank Group work by identifying and disseminating the lessons learned from experience and by framing recommendations drawn from evaluation findings.