



Lessons from Evaluation: Private Sector Development in a Changing World

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What Have We Learned from the Global Economic Crisis?

The 2008 global economic crisis, which originated in developed countries, weakened world economies and threatened the progress that has been made in the developing countries over the past several years. The crisis spread quickly and took many governments and international organizations by surprise. According to World Bank Group estimates, by the end of 2010 an additional 114 million people worldwide had been pushed below the \$1.25 a day poverty line by the crisis.

The Bank Group responded to this crisis with an unprecedented infusion of development money, with worldwide disbursements of \$80 billion in 2009 and 2010 fiscal years. While the World Bank allocated a large portion of its aid money in middle-income countries (MICs), the International Finance Corporation (IFC) focused on trade finance, mainly in low-income countries (LICs), and the Multilateral Investment Guarantee Agency (MIGA) concentrated on guarantees in Eastern Europe.

The World Bank used lending approaches that were guided by the crisis impact, financing needs, and availability of resources in the affected countries. In Latin America and the Caribbean the focus was on social protection and other countercyclical programs, while in Europe and Central Asia it was on fiscal and debt sustainability. These two Regions received more lending than others because they were most severely impacted by the

crisis. Conversely, in Sub-Saharan Africa and East Asia and the Pacific, the World Bank's lending did not increase, because these Regions were not as severely affected by the crisis.

In the same fiscal years, IFC made \$20 billion in net commitments from its own account to address the crisis through greater investments, and responded with new initiatives targeting trade finance, infrastructure, microfinance, bank capitalization, and distressed asset management. IFC also participated in joint international financial institution (IFI) initiatives in Europe and Central Asia, Latin America and the Caribbean, and Sub-Saharan Africa. It was envisioned that IFC support would be implemented in three stages—short-term liquidity, longer-term liquidity and equity capital, and recovery support. Unfortunately, the implementation of all three stages has been well behind schedule. While IFC increased in its new business in LICs, it decreased its work in MICs. Also, the crisis accelerated a trend in IFC toward short-term financing and increased IFC's activities in advisory services.

MIGA's response was built around a new global Financial Sector Initiative focused on the Europe and Central Asia Region. Under this new initiative, MIGA committed to provide up to €2 billion in political risk insurance on cross-border investments by financial institutions to recapitalize or provide liquidity to subsidiaries. MIGA issued guarantees totaling \$918 million under the initiative in fiscal 2010.

The IEG evaluation identifies some early lessons. First, in these uncertain times, early warning, preparedness, and timeliness, including keeping a close watch on long-term capital adequacy, are key attributes for the World Bank and IFC.

Second, the benefits of the Bank's country focus go hand in hand with the need for a cross-country strategy to ensure consistency with global initiatives and to deploy scarce resources where they will produce the best results. Therefore, IEG recommends capitalizing on the existing knowledge and expertise within the Bank Group. It is costly—particularly in averting a crisis—to let the Bank's expertise in key areas (in this case, the financial sector) decline.

IEG also finds that the Bank Group needs to keep the requisites

Georgia: A Systemic Crisis Response by IFC

The dual crises in Georgia in 2008 had strong adverse effects on the economy: trade fell by a third, private capital inflows dropped by more than half, and remittances and tourism were also badly affected. Growth slowed sharply, and declined in 2009. There was an initial run on deposits, and confidence in the banking sector was very fragile. As part of the package developed quickly by the international financial institutions (IFIs) for Georgia, supported by a Bank-led joint needs assessment, IFC has made \$182 million worth of investments (loans, interest rate swaps, and trade finance lines) to help recapitalize the country's two leading banks, Bank of Georgia and TBC. These banks represented more than half of banking sector assets at the time, and both were IFC clients.

Lessons

- Speed and scale. Rapid IFI responses with significant commitments of financing were important in maintaining confidence in the country, particularly in fostering banking sector stability.
- Existing relationships. Country presence and existing relationships with key banking sector players (TBC and Bank of Georgia) helped IFC's responsiveness. It also meant IFC had a financial interest (ensuring sustainability of prior investments).
- Strong coordination. The value of a quick and comprehensive joint needs assessment, which provided a clear division of labor among IFIs (and facilitated investment front-loading), was clear.
- Strategic fit. IFC's corporate strategic focus on IDA and post-conflict countries fit with the country profile of Georgia.
- Client commitment and institutional strength. Strong government ownership and capacity, with clear objectives, had a material effect on the speed and nature of the response.
- Small country. It was realistic for IFC to seek to have a systemic effect.

Source: IEG.

of sustainable long-term growth—among others, fiscal and debt sustainability, the structural reform agenda, and the environmental and climate change agenda—in focus as it responds to the crisis.

There is also a need to balance the value of innovation and new initiatives in the middle of a crisis with continuity of support using more established and proven approaches. This understanding highlights the need for coordination among the World Bank, IFC, and MIGA (and other partners) to capitalize on linkages across government and business and to catalyze economic activity.

To read more, visit IEG's Web site and download the report *The World Bank Group's Response to the Global Economic Crisis*.

World Bank Group Instruments to Support Sustainable Private Sector Development

Safeguards and Sustainability Policies

IEG conducted a comprehensive evaluation of the safeguards and sustainability policies of the Bank Group. The World Bank Group is using two paradigms to address environmental and social risks: the safeguards framework of the World Bank, largely for the public sector, and the Performance Standards framework of IFC and MIGA, for the private sector. The two paradigms share similar objectives and have different strengths and weaknesses.

The Performance Standards approach is based on a commitment by the private sector client or partner to the principles of the policy and the Performance Standards to be achieved, with covenanted remedies if the standards are not met. IFC places considerable responsibility for implementation and monitoring of the performance indicators specified by IFC on the business client, and envisages supporting this with supervision and documentation of performance. The implementation and reporting on environmental and social effects are the responsibility of the private sector client. The crucial question is whether this self-assessment by the private sector captures public concerns, which, in the final analysis, can only be judged by the environmental and social results achieved. Greater disclosure of environmental and social information, including the sharing of information with local communities, and verification of results are needed to capture these public good concerns more fully.

A paradigm that is based on more relevant thematic coverage, procedural flexibility (but without compromising the integrity of the standards), and client responsibility and capacity for monitoring seems to lead to more client ownership. However, the quality of implementation and monitoring, which depends on client capacity and commitment, must be adequate, and checks and balances are needed to ensure that the intended social and environmental outcomes are achieved.

The assessment of benefits and costs shows that the Bank Group's safeguards framework generates significant benefits for the mitigation of the environmental and social risks of projects, although these benefits need to be systematically measured

or quantified. The costs of the safeguards to World Bank clients are estimated at about 5 percent of World Bank financing and 3 percent of total project cost. World Bank clients tend to allocate resources efficiently in meeting safeguards requirements, but such results cannot be established for IFC clients, because IFC does not collect client cost data. Benefit-cost analyses of two stylized models of World Bank and IFC projects illustrate that, on their own, the benefits of safeguards outweigh the costs.

IFC's business has evolved in recent years from project finance toward a growing portfolio of trade finance and equity investments. IFC's corporate or equity investments in companies with multiple production facilities and varied activities pose a substantial challenge for environmental and social appraisal, supervision, and evaluation. MIGA's portfolio composition has also shifted over time, with a significant increase in the share of guarantees for financial sector projects whose environmental and social effects are more difficult to assess and supervise. These portfolio shifts present a challenge for the Bank Group in ensuring continued relevance and effectiveness of the safeguards and sustainability policies.

IEG's evaluation recommended strengthening safeguards in private sector development by providing incentives for IFC investment officers to share ownership of the Performance Standards and to mainstream their implementation. Furthermore, IEG recommended using IFC advisory services to build social and environmental management systems and implementation capacity, especially among small and medium-size enterprises, financial intermediaries, and clients in countries and sectors with weak environmental and social management. For more information, download ***Safeguards and Sustainability Policies in a Changing World: An Independent Evaluation of the World Bank Group Experience.***

Guarantees and Insurance

Foreign direct investment and private capital flows are highly concentrated geographically—almost half reach five top destinations. These flows tend to evade many high-risk countries. Regulatory and contractual risks, particularly in infrastructure, have inhibited investments in many parts of the developing world. A core objective of the Bank Group has been to support the flow of private investment for development; guarantees and insurance have been among the instruments that the World Bank Group has used to pursue this objective.

Although guarantee instruments remain an important tool for supporting Bank Group strategic priorities, the use of the instruments has fallen short of Bank Group expectations to varying degrees. Several factors contribute to the perception that there is significant unmet demand for Bank Group guarantee instruments: (1) political risk is consistently ranked as a main constraint; (2) regulatory and contractual risks are perceived as the main reason for the growing investment gaps in infrastructure; and (3) abundant liquidity in emerging markets calls for enhancements that can help deepen the market, extend maturities, lower spreads, and

redirect resources to underserved market segments and new areas unfamiliar to financiers in emerging markets.

Some external factors explain limited deployment. To some extent, the Bank Group has had overly optimistic expectations, particularly in the case of public-private partnerships across a range of infrastructure sectors, based on rapid growth in the mid-1990s. Moreover, some studies indicate that 65 percent of investors self-insure rather than take third-party insurance, suggesting a more limited effective demand than expected. Private sector providers of risk mitigation products have expanded their coverage in terms of both products and markets. Liquid markets in the 2000s have reduced the demand for sovereign partial-credit guarantees.

Internal factors have also constrained the deployment of instruments. MIGA's Convention and Operational Regulations limit its adaptability to new market trends. MIGA has also not been sufficiently aggressive in innovating within the flexibility allowed by current policies. Internal constraints to the deployment of Bank Group guarantees include the application of standards designed for public sector operations to private sector projects and the lack of both internal and external promotion of the instruments. IFC has tended to apply a traditional project financier's approach to guarantee-type instruments. It has taken an overly conservative stance toward risk-sharing facilities, which has constrained their utilization. Although some progress has been made in innovation, there has been limited replication and scaling up.

The evaluation recommended that the Bank Group consider either maintaining the existing structure of the guarantees, while addressing its problems, or developing and proposing a new one. If a new structure is recommended, three alternative perspectives should be considered in any organizational realignment: the client perspective, the country perspective, and the product perspective. If the current structure is to be preserved, the evaluation recommends that each institution within the Bank Group take actions to improve policies and procedures, eliminate disincentives, increase flexibility, and strengthen skills for the deployment of the products. To read more, visit IEG's Web site and download the report ***The World Bank Group Guarantee Instruments 1990-2007: An Independent Evaluation.***

Doing Business Indicators

The Doing Business Indicators are the Bank Group's well-known, closely watched tool for comparing the business regulatory environments of 178 countries. IEG's evaluation finds that although the indicators have been highly effective in drawing attention to the burdens of regulation, they have not taken into account other development needs. By using indicators with a narrow approach, the Bank Group may inadvertently be signaling that it values reduced regulatory burdens more than other development goals because it does not grant equal weight to improvements in other important development outcomes. Therefore, the evaluation recommended that the Bank Group and its stakeholders consider the indicators in a country context and interpret them accordingly.

Doing Business should be clear about the limitations of the indicators and their use for a broader policy dialogue on a country's development priorities. To read more, please visit IEG's Web site and download the ***Doing Business: Independent Evaluation. Taking the Measure of the World Bank-IFC Doing Business Indicators*** study.

Leveraging Synergies and Ensuring Sustainability—Key to Greater Development Effectiveness in Agriculture and Agribusiness

Worldwide, demand for food is expected to double by 2050 as population and incomes grow. These circumstances call for a steady increase in agricultural production driven by increased productivity. Between 1998 and 2008, the Bank Group provided about \$23.7 billion in financing for agriculture and agribusiness activities in 108 countries. Bank Group lending to the sector rose substantially between 2008 and 2009 (adding another \$5.4 billion), although this came at the expense of sector-relevant analytical work, which has contributed to positive outcomes across Regions.

The evaluation assesses the Bank Group's contribution in (i) irrigation and drainage, (ii) research and extension, (iii) access to credit, (iv) access to land and formalization of land rights, and (v) roads and marketing infrastructure—with a goal of identifying lessons for the future.

In *irrigation and drainage*, World Bank Group support for physical infrastructure has helped provide farmers with access to water, and thus has contributed to increased agricultural productivity, but lack of reliable funding for operation and maintenance has made sustainability an issue. The World Bank Group needs to devote more attention and resources to help governments design and implement politically and institutionally feasible mechanisms for cost recovery, to facilitate a larger role for the private sector by helping clients foster an environment in which public-private partnerships can succeed, and to monitor more diligently.

Both the Bank and IFC have supported *research and extension*. Sustainability has been an issue in the Bank's support for research and extension because of insufficient government funding and limited cost recovery, whereas IFC's trader-processors can recover costs through the prices paid for farmers' crops.

Access to credit, whether for buying inputs in the short term or for investing in land improvements in the long term, is a major constraint to investments to improve agricultural productivity, and the Bank and IFC are both important for expanding credit supply and efficiency. Addressing risks related to weather and prices in the agriculture sector requires synergies among agriculture, financial sector, and disaster and risk-management lending. IFC has used investments in trader-processors, trade finance, private equity, wholesaling through banks, and index insurance products to promote access to credit. Some of these approaches have demonstrated effectiveness in improving the livelihood of small-

scale farmers; for example, providing small amounts to thousands of individual farmers through large trader-processors can make a big difference, sometimes involving commercial lenders and buy-back arrangements.

Access to land and formalization of land rights are thought to contribute to both poverty reduction and improvements in agricultural production and productivity, and the Bank and IFC have been quite active in both—most notably land administration—in recent years. Given the multifaceted nature of agricultural development, in some settings it may be important to combine land administration with other support services to achieve productivity gains.

The Bank has been engaged extensively in building *roads and marketing infrastructure*, including rural roads, and both the Bank and IFC have invested in other market infrastructure and logistics, such as storage, ports, forwarders, and trading platforms. Available data point to high average success rates in these projects, although this is less so in Sub-Saharan Africa than in other Regions. Given the low rates of market access in Sub-Saharan Africa, the World Bank and IFC need to continue to seek innovative ways to support the development and maintenance of transport and market infrastructure in the Region through both public and private investments.

To learn more, visit IEG's Web site at <http://www.worldbank.org/ieg/agriculture/> and download the report: ***Growth and Productivity in Agriculture and Agribusiness: Evaluative Lessons from World Bank Group Experience***.

What Does the World Bank Group Need to Be More Effective in the Climate Change Dialogue?

Climate change is one of the biggest long-term risks to global development. Thus, choices and investments made in climate change mitigation and adaptation are vital to ensuring sustainable growth. The Bank Group's work in climate change has expanded rapidly in recent years, scaling up annual investments in renewable energy and energy efficiency from \$200 million to \$2 billion and mobilizing more than \$5 billion in concessional funds for greenhouse gas reduction between 2003 and 2008. IFC's support to energy efficiency finance started in the late 1990s, and since then IFC has spread its operations to Eastern Europe, the Russian Federation, and East Asia. Financing energy efficiency is now an integral part of IFC's strategic focus on sustainability and climate change, and it is planning to scale-up its operations in this field.

Given the increasing role of the Bank Group in the climate change debates, and in energy efficiency specifically, IEG undertook several evaluations of the institution's work in this area. The latest evaluation focused on the Bank Group's efforts in mitigating climate change effects in the energy, forestry, and transport sectors. It highlighted the importance of paying greater attention to energy efficiency, slowing down deforestation, providing long-duration



loans, developing carbon markets, ensuring technology transfer, and accelerating learning. In general, the evaluation recommends that the Bank Group create incentives and mobilize resources to support effective pilot, demonstration, and technology transfer projects that have a clear logic of demonstration and diffusion. This will include mitigating the risks to World Bank borrowers, reshaping incentives for staff and managers, providing adequate resources for the design and supervision of complex projects, and making available specialized expertise in technology transfer and procurement through a real or virtual technology unit.

IEG evaluations also recommended that the Bank Group leverage the debates through advice and support for favorable policies, particularly the removal of energy subsidies and other biases against renewable energy and energy efficiency.

Another finding suggests that the Bank Group should refocus its work on high-impact sectors and instruments such as energy efficiency. One such instrument is distribution of compact fluorescent lightbulbs, which research has shown offer economic returns that dwarf those of most Bank Group investments, while providing significant cobenefits in CO₂ reduction. In Ethiopia, for instance, a US\$5 million investment in efficient

light bulbs prevented the need to spend more than US\$100 million to lease and fuel polluting diesel generators. Another efficient instrument can be the use of indigenous and protected areas that permits sustainable exploitation of land combined with consideration of local growth needs and environmental risks. To learn more, please download ***Climate Change Phase II: The Challenge of Low Carbon Development***.

IFC's China Utility-Based Energy Efficiency Finance (CHUEE) Program

IFC launched the CHUEE program in 2006 with the goal of stimulating energy efficiency investments through bank guarantees and technical assistance. Given China's size and growth rates as well as its rates of carbon dioxide (CO₂) emissions, this program became very important in a short period of time. As of June 2009, the 98 energy efficiency investments supported by the program had reduced greenhouse gas emissions by 14 million CO₂ tons per year, slightly in excess of the target set at the beginning of the program.

According to results of an IEG survey on the impact of CHUEE, the program is well known in China, and there is interest among banks to learn from its approaches. Because the Chinese government also adopted policies targeting energy efficiency and pollution, there are several other programs that support investments in energy savings. This makes it difficult to estimate the real impact of the CHUEE program. The real quantifiable impacts from the guaranteed loans are estimated at \$384 million over the 10-year period since inception of the program. It is possible that the impact is underestimated—more than 68 percent of borrowers indicated in the IEG survey that without the program, they would still have implemented their energy efficiency projects but on a smaller scale or over a longer time frame. The evaluation also estimates that less than 10 percent of bank clients would not have invested in energy efficiency without the loans guaranteed by the program.

To achieve greater impact, IEG's evaluation recommended that the program target areas where the potential additionality is high, such as small enterprises, and concentrate on activities that have the potential to reduce emissions significantly, such as energy efficiency for buildings. Additionally, IEG recommends that the program reorient its subsidy elements to the areas of market failure, with IFC increasing its coverage of first loss from its own resources.

Source: Lessons from Assessing the Impact of IFC's China Utility-Based Energy Efficiency Finance (CHUEE) Program.





How Can Sharing Knowledge Benefit Private Sector Development?

IFC's dual role as a financier and knowledge provider has become critical. IEG conducted a global review of IFC's effectiveness in financing development through its growing portfolio of investment operations and IFC's advisory services, which include knowledge services to private firms and governments in support of private sector development.

In Advisory Service operations, about 70 percent of reviewed projects achieved high development ratings. In facilitating beneficial change through knowledge transfer, experience suggests a number of factors that could affect the chances of success: (i) the absorptive capacity of the recipient and the capacity gap between provider and recipient—the bigger the capacity gap, the more difficult the transfer; (ii) the level of overall development of the host country—typically, the bigger the development gap between the source and the recipient country, the more difficult the transfer; (iii) the level of commitment of both supplier and recipient—the greater the provider's stake in the process, involvement over time, and the level of supporting assistance, the greater the value (but also the cost) to the recipient (there is no substitute for the active role of the recipient in absorbing the knowledge and the information); (iv) complementarity with other relationships between the provider and the recipient—if the exchange of knowledge and know-how is supported by exchange of other services, the effectiveness of the transfer is likely to be higher; and (v) complexity of the knowledge being transferred—the more codified and explicit the knowledge, the easier (and less costly) transfer.

Key drivers of results have been client commitment (as evidenced by contribution to project costs, especially for environmental and social sustainability projects), strong project design and implementation, IFC's proximity to the client as defined by IFC's

local presence and involvement, programmatic (rather than one-off) interventions, and effective M&E. Strong additionality has been fundamental in achieving results, and has been particularly noticeable among business enabling environment operations in IDA countries with high business climate risk and in some packages of services, such as small and medium enterprise linkage projects in the agribusiness, manufacturing, and extractive sectors. Such packaging raises potential conflicts of interest, which must be tackled effectively, and needs appropriate pricing. Intrinsic constraints in capturing the impact of Advisory Services are compounded by the relatively weak application of M&E guidelines to date by IFC staff.

The evaluation recommends that IFC adapt an overall strategy for Advisory Services that addresses the need for a clear vision and business framework and is closely linked with IFC's global corporate strategy. It also highlights that IFC should strengthen Advisory Services by measuring its performance and deepening internal knowledge-sharing. To read more, visit IEG's Web site and download the report ***Independent Evaluation of IFC's Development Results: Knowledge for Private Sector Development***.

Upcoming Evaluations

IEG carried out an evaluation of IFC's Poverty Focus and Results covering fiscal years 2000–2010. The evaluation aims to contribute to the enhancement of IFC's poverty focus and its effectiveness in achieving greater poverty impact. Poverty focus is assessed in terms of how IFC's strategies, projects, and results measurement framework contribute to growth and to distributional patterns of growth that create opportunities for the poor. The evaluation recommends that IFC sharpen its shared understanding of poverty and provide guidance to staff; establish a consultative framework on private sector approaches to poverty reduction; better define, monitor, and report on poverty outcomes; and strengthen support and advice on poverty issues to IFC clients. The evaluation will be available in May of this year.