‘Creating Markets’ to Leverage the Private Sector for Sustainable Development and Growth

An Evaluation of the World Bank Group’s Experience Through 16 Case Studies
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April 26, 2019
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### Abbreviations

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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABM</td>
<td>Access Bank Madagascar</td>
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<tr>
<td>AS</td>
<td>Advisory Services</td>
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<td>ASA</td>
<td>Advisory Services and Analytics</td>
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<td>AMP</td>
<td>Africa Microfinance Program</td>
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<td>CAS</td>
<td>Country Assistance Strategy</td>
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<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
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<td>CPSD</td>
<td>Country Private Sector Diagnostics</td>
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<td>EASSy</td>
<td>East Africa Submarine Cable System</td>
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<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>EIB</td>
<td>European Investment Bank</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FinTech</td>
<td>finance and technology</td>
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<td>FCS</td>
<td>fragile and conflict-affected situations</td>
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<tr>
<td>FSAP</td>
<td>Financial Sector Assessment Program</td>
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<td>GAFSP</td>
<td>Global Agriculture and Food Security Program</td>
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<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>ICT</td>
<td>information communications and technology</td>
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<td>IEG</td>
<td>Independent Evaluation Group</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IEG</td>
<td>Independent Evaluation Group</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>MDB</td>
<td>multilateral development bank</td>
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<tr>
<td>MFD</td>
<td>Maximizing Finance for Development</td>
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<tr>
<td>MFI</td>
<td>microfinance institution</td>
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<tr>
<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
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<td>MSME</td>
<td>medium, micro and small enterprise</td>
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<td>PPP</td>
<td>public-private partnership</td>
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<td>SDG</td>
<td>Sustainable Development Goal</td>
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<tr>
<td>SME</td>
<td>small and medium enterprise</td>
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*All dollar amounts are U.S. dollars unless otherwise indicated.*
Acknowledgments

This evaluation was prepared by an Independent Evaluation Group (IEG) team led by Stefan Apfalter (task team leader), with the core team comprising Jacqueline Andrieu, who led the case design and analytics, and George Polenakis, Konstantin Atanesyan, Maria Elena Pinglo, and Sanjivi Rajasingham, contributing case studies. The team gratefully acknowledges the analytical support received from Victor Malca, Xuetong Rebecca Wang, and Arianna Ranuschio.

Sector Deep Dives were prepared by Jacqueline Andrieu (agribusiness), Michael Minges (information communications and technology) and Andrew Stone (financial inclusion), who also advised the team on general private sector development issues. Marc Lundy from the International Center for Tropical Agriculture and Alexandra Horst contributed with their sectoral expertise in agriculture. The evaluation benefited from the insights provided by all relevant IEG thematic leads. Javier Lanza Ferrera and Daniel Musiitwa advised the team on dissemination and outreach. Kia Dionis Penso edited the report and Emelda Cudilla provided administrative support.

The report was prepared under the direction of Stoyan Tenev, senior manager; and José Carbajo Martínez, director, under the overall guidance of Caroline Heider (former Director-General), Sophie Sirtaine as acting Director-General at the pre-finalization of the evaluation, and Alison Evans, Director-General, Evaluation.

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Overview

Background and Rationale

IFC’s new corporate strategy (IFC 3.0) focuses the institution on creating markets and mobilizing private capital, with increased support to countries where private capital flows are the most inadequate to address major development gaps, including those linked to the sustainable development goals (SDGs).

Creating Markets has been part of the World Bank Group’s development agenda for at least the last 15 years. The 2002 World Bank Group’s Private Sector Development Strategy, for example, identified the ingredients for market creation, including sound rules, the expectation that such rules be adhered to, and physical access to markets.

Because of IFC’s and the Bank Group’s long history supporting market creation in its client countries, the Independent Evaluation Group (IEG) has identified many lessons of experience in recent evaluations that are relevant to such efforts.

As the IFC implements its new corporate strategy, the rationale for this evaluation is to share those lessons of experience and add to them with findings from a set of purposefully selected case studies across sectors and countries at different stages of development.

With a strong learning focus, the findings and the three recommendations of this evaluation intend to inform the implementation of IFC’s corporate strategy (IFC 3.0) and the contributing roles of the World Bank and MIGA to that strategy.

Evaluation Approach

The conceptual framework for the evaluation derives from IFC’s own creating market concept. IEG validated it through a literature review, interviews with experts, and a workshop with practitioners in the field.

The evaluation methodology includes 16 case studies typically centered around a cluster of IFC interventions in three areas: (i) agriculture; (ii) financial inclusion; and (iii) information and communications technology (ICT). The interventions were identified in coordination with WBG staff, based on a review of more than 1,000 World Bank, IFC Investment and Advisory Services interventions and MIGA guarantees across 62 countries. The three areas were chosen for their relevance to achieving the SDGs and for the distinctive role that the private sector can play in each of them.

To enhance the generalizability of the case study findings, the evaluation triangulated them with a structured analysis of 23 IEG evaluations from the past seven years relevant to the market-creation concept, and a systematic literature review that focused on peer-
reviewed publications and systematic reviews of the economic activity areas covered by the evaluation.

The evaluation was designed to shed light on several key aspects of the IFC’s creating markets agenda and experience on the ground. Those key aspects include the following:

- Identification of market creating opportunities;
- Channels through which IFC contributes to market creation;
- Results from IFC’s market creating interventions; and
- Success factors driving the Bank Group’s market creation results.

Identifying Market Creating Opportunities

To address barriers to market creation and systematically look for, and act on, opportunities to create markets, the Bank Group, not just IFC, requires a sound understanding of the sectors and areas that they get involved in their countries of operations.

The above statement may seem obvious, however, a recent IEG assessment of the Country Partnership Framework (CPF) process found that reflecting a country’s private sector agenda adequately in CPFs remains a challenge. Current tools for country-level assessments, such as the Systematic Country Diagnostics (SCDs), cover the private sector agenda, but too unevenly. The Bank Group’s traditional Advisory Services and Analytics (ASA) does not provide the needed assessment of market opportunities and market constraints at the country level. On the other hand, the recently introduced Country Private Sector Diagnostics tool (CPSD) provides a more in-depth and structured assessment of market creating opportunities.

Strengthening the analytical base at the country level, for example, through the CPSDs, coincides with several recommendations of previous IEG evaluations, which called for addressing the private sector development agenda in a more strategic manner, based on comprehensive and systematic country-level analytics. The need to integrate analysis of key constraints and opportunities for market creation in future CPF processes is the basis for the first recommendation.

**Recommendation 1.** Enhance the understanding of market creating opportunities and associated constraints at the country level and ensure that such knowledge is adequately reflected in the CPF process to allow for a more strategic deployment of Bank Group programs and interventions.

Ways That IFC Interventions Contribute to Market Creation

The case studies evidence suggests that IFC’s activities and interventions that contribute to creating markets can be
clustered around four interrelated channels:

i. fostering innovation;

ii. generating demonstration effects;

iii. enhancing skills, capacities and governance structures at firm level; and

iv. supporting integration into value chains.

**Fostering innovation.** Innovation in the form of new products, processes, standards, or financing instruments, can increase productivity and enhance market competition and trade competitiveness, thereby contributing to market creation. Across all 16 case studies IFC was found to contribute the most to creating markets through fostering innovation.

In the agribusiness area, for example, IFC’s innovation took the form of financing solutions, such as the Risk Sharing Facilities and Blended Finance, which were essential for reaching the smaller end of the producer segment. In the Solomon Islands, for example, the IFC and the Global Agriculture and Food Security Program (GAFSP) partnered to develop a blended finance package of $30 million to support sustainable tuna producers.

The evaluation also confirms that IFC Advisory can play a vital role by enhancing the capacity and transforming market actors along the agricultural and agribusiness value chains into potentially viable investee companies. The engagement of IFC advisory services in Cambodia, for example, illustrates well an approach that supported rice farmers to increase their access to better seeds, and helped rice millers reach international standards in quality and food safety, thereby creating export markets for their products.

Innovative solutions used by IFC are also crucial in creating markets for financial inclusion. IFC’s FinTech investments, for example, are a promising avenue to “disrupt” the traditional financial intermediation industry and provide new, more efficient and effective financial services delivery models that can reach the poor. The experience of IFC’s FinTech investments, although limited in scope, suggest the need for IFC to maintain cutting-edge knowledge of FinTech market developments to be able to assess and balance risks and returns of its equity investments given the nascent and rapidly evolving nature of the market.

**Generating demonstration effects.** Supporting a new firm entering the market to compete, or supporting an incumbent launching a pioneering product or service in an established market, or helping a client issue a new financing instrument to mobilize capital are all examples of IFC interventions.
that can contribute to market creation by generating demonstration effects. Those effects manifest themselves over time when other producers imitate the pioneer product or service by launching their own competing products or services; or through the scale up of a financing instrument, for example.

Generating demonstration effects is the second most prominent channel through which IFC contributes to market creation, according to the case studies, but they require the right conditions to materialize. Case studies evidence and the literature review indicate that such demonstration effects not only require markets that are “ready to move” (that is, the presence of potential competitors that can respond to signals of business success), but they also need conducive regulatory and legal frameworks to allow project success to scale up.

A good example of the above is IFC’s support to the East African Submarine Cable System (EASSy), which generated demonstration effects with positive externalities for the entire East Africa region, including a catalytic effect in the building of another submarine cable in the region.

Enhancing skills, capacities and governance structures at firm level. Firms financial and corporate capabilities and governance are important sources of competitive advantage in the market place and thus essential ingredients to creating markets. IFC’s role enhancing the skills, capacities and governance at firm level was evidenced in case studies carried out in the financial inclusion and agribusiness areas. IFC investments paired with advisory support in Peru, for example, contributed to market creation and financial inclusion by improving the governance structure of an investee Microfinance Institution (MFI). Likewise, IFC contributed to market creation in the ICT sector by enhancing the managerial skills of SMEs in Papua New Guinea and by advising on an optimal governance structure for the EASSy Project in East Africa (connecting Kenya and other participating countries with the international ICT network).

Supporting integration into value chain. Integrating suppliers and consumers into the value chain can contribute to market creation through fostering linkages and inclusion of underserved communities. Evidence of integration effects of IFC intervention was only observed in agribusiness case studies. To achieve a market integration effect requires a value chain focus based on a solid technical understanding of the targeted value chains, market actors, and prevailing technologies.

Case study projects that aimed at integrating small-scale producers and SMEs into value chains showed mixed outcomes: successful in IFC’s Cambodia Rice project but limited in scale in IFC’s Agrofusion Ukraine (tomato paste}
producer) and Solomon Islands SoITuna (cannery) projects.

The evaluation also confirmed, through a portfolio-based review, the presence of the above channels and creating market features in MIGA projects.

Results from IFC’s Market-Creating Interventions

The evaluation assessed the success of market creation activities from IFC’s interventions through two sets of indicators:

i. increased size or reach of markets, enhanced competition, lower prices, enhanced environmental sustainability and market resilience standards;

ii. provision of sustainable market access to the poor.

Market size and access, competition, and enhanced standards. Based on the evaluation case studies, IFC’s market creation efforts resulted in increased size or reach of markets, often for small and medium enterprises. They also contributed to competition by lowering barriers to entry or increasing the number of market participants. However, such competition did not lead systematically to lower prices. Beyond competition-related effects, IFC’s support also helped markets to enhance environmental sustainability and resilience, albeit to a limited extent.

Market creation effects were sector specific. In the financial inclusion area, for example, IFC’s support to greenfield microfinance institutions (MFIs) played a significant role in increasing the number of market participants and expanding their reach to underserved segments of the population. The World Bank, with the Madagascar Financial Services Project, likewise, enabled new market entrants through a partial portfolio guarantee.

IFC’s market creation efforts in the ICT area led to extended market reach, increased competition and, in some cases, to reduced prices. Such contributions were most visible in East Africa’s ICT sector through the construction of the EASSy cable, supported by the IFC and the World Bank. The extra supply of bandwidth placed additional pressure on competition, thus improving conditions for the end users in terms of capacity, pricing, and services.

Market creation efforts in ICT usually attracted private sector participation. But liberalization and greater private sector participation did not necessarily go hand in hand with price reductions in all case studies. When they led to the emergence of quasi-monopolies, trade-offs were often observed between improving efficiency and reducing prices for consumers. IFC’s market creation interventions should consider such trade-offs and underlying market structures.
IFC’s market creation efforts in the agribusiness case studies resulted mainly in enhanced market access for specific market segments often through implementing better standards for quality and food safety (e.g., first poultry processing facility in Madagascar; EU food safety standards for small producers in Ukraine).

In addition to IFC’s investments and advisory services, MIGA’s guarantees have contributed to enhancing market reach and access, and to increasing competition. By mitigating political risks, MIGA’s guarantees have encouraged entry into difficult markets by foreign investors who often bring financial resources, modern technologies and access to export markets.

**Market access to the poor.** Providing market access to the poor, in a sustainable manner, ought to be a critical development outcome from Bank Group’s market creation interventions. Yet, based on the case studies, it remains a challenge.

- In the financial inclusion case studies, reaching the base of the pyramid and providing financial services outside urban and peri-urban centers proved difficult and took longer than expected for IFC-supported MFIs. The evaluative evidence suggests that investing in MFIs which provide access to the poor requires “patient capital” because it takes time for companies to reach breakeven.
- In the ICT case studies, some of the (subsidized) efforts to reach the rural poor and expand reach beyond what initially is commercially viable, had limited success.
- In the agribusiness case studies, IFC has found it easier to integrate relatively large farmers in supply chains than to integrate smallholders. Innovative financing solutions together with a revised approach that leverages IFC Advisory Services to target capacity constraints along the value chain, and elevates market actors into viable investment partners, are key to reach the smaller end of the producer segment in agribusiness value chains.

The evaluation confirmed a general lack of evidence of the direct welfare implication of market creation efforts for the poor. Evidence from previous IEG evaluations, the 16 case studies, and portfolio reviews, point to the need to invest in and improve the monitoring and evaluation resources (M&E) to understand the effects of market creation on the poor. In agriculture, for example, the IEG evaluation of the rural nonfarm economy carried out in 2016 found that despite IFC’s stated objectives of reaching the poor through its agribusiness portfolio, in most cases
there was little in the project design that identified, targeted or tracked benefits for the poor. Likewise, a portfolio review found that 40 percent of World Bank projects with a focus on providing market access for smallholders had shortcomings in M&E. Evidence from the 16 case studies suggests a similar pattern.

Thus, future Bank Group market creation interventions must improve the articulation and measurement of how and to what extent such interventions benefit the poor.

**Recommendation 2.** Enhance access to markets for the underserved groups, including the poor, and entailing adequate M&E provisions to understand how market creation affect the poor.

**Success Factors Driving IFC’s Market Creation Results**

**The enabling environment’s critical role.** The evaluation case studies illustrate that markets are rarely, if ever, created by investments or firm-level advice alone. It also confirmed the well-known fact that the enabling environment is essential for market creation, an area where the World Bank plays a leading role. The following specific aspects related to the enabling environment were derived from the evaluation case studies:

- **Regulation quality.** Deficiencies in the regulatory and legal framework slow down market creation and can jeopardize the progress achieved in building markets;
- **Private sector reach.** When trying to reach the poor, private sector investments perform better when combined with regulatory reform interventions. Nonetheless, good sector regulations are not enough;
- **Country-wide perspective.** Market creation requires a broader view of a country’s constraints to market creation, including country governance capacity, transparency, efficient and predictable public administration, and physical infrastructure.
- **Private sector experience and capacity.** Countries with limited experience in working with the private sector, such as many low-income countries (or fragility and conflict-affected situations (FCS)) face the greatest challenges in creating markets given their growing debt burden and limited domestic resource mobilization.

Overall, the evidence points to the significance of the “Cascade” approach as a tool for implementing the Bank Group’s Maximizing Finance for Development (MFD) objectives, with its
focus on remedying the obstacles that block private sector solutions and help client countries create markets.

**Work quality aspects.** Other success factors relate to work quality aspects of World Bank Group engagements with clients:

- *Local presence.* Presence of Bank Group staff, their familiarity with local risks, and the quality of engagement matter (e.g., Madagascar, where the appropriate balance was achieved between local presence of senior staff in a leading role and support by experts at headquarters).

- *Policy dialogue.* Long-term policy dialogue and design flexibility can help navigate political change. Early and broad stakeholder involvement matters (e.g., Paraguay, where initial high-level engagement was not maintained).

- *Programmatic involvement.* Overly complex project design often causes low performance. This poses challenges for how the Bank Group designs country programs. To create markets successfully, a comprehensive action program is required, including interventions that address the country’s physical infrastructure, governance, sector regulations, and legal aspects; yet project outcomes of Bank Group interventions are better when projects are more narrowly focused (e.g., Kyrgyz Republic, where a comprehensive and programmatic approach on financial inclusion delivered impact).

**IFC’s risk-taking capabilities.** Market creation opportunities develop with the application of modern technologies, for example in FinTech, the renewable energy sector or ICT. Seizing those opportunities requires cutting-edge knowledge, nimbleness and appetite for risk, coupled with the expertise to manage those risks.

The case studies suggest the need to have an adequate appetite for risk and a long-term engagement horizon to fulfil the Bank Group’s ambition to advance the MFD agenda in IDA countries, Fragile and Conflict States (FCS), and other structurally weak economies.

Because reform efforts take up to 10–15 years, and hence much longer than the standard World Bank project cycle of about 5–7 years, the Bank Group needs to anticipate that sector reform efforts foreseen by the Cascade Approach will not create markets soon in many of those countries. This must be taken into consideration in planning Bank Group engagement plans (for example, through the Joint Implementation Plans) and in managing expectations and risks regarding anticipated IFC investments.
Moreover, market creation opportunities can arise spontaneously, even in unregulated or poorly regulated environments. Some of the evaluation case studies suggest that a successful business can create a “constituency for reforms” when downstream activities have a demonstration effect that make policymakers shape the rules of the market. Such findings in turn suggest being flexible in the application of the “Cascade Approach” in sequencing market creation reforms and investments.

More generally, expanding the Bank Group’s efforts into IDA and FCS countries is likely to entail, for IFC investments, smaller deal sizes, taking higher business risks while simultaneously allocating more business development resources upfront, which it is likely to produce lower investment returns for IFC in some segments of its portfolio. This will have implications for IFC’s overall business model, for how IFC pursues its so-called portfolio approach, and on how the Bank Group incentivizes its staff.

**Recommendation 3.** Regularly assess the risk-taking capabilities of IFC to carry out its market creation activities in IDA and other structurally weak economies in a financially sustainable way.
Management Response

Management of the World Bank Group welcomes the report of the Independent Evaluation Group (IEG), ‘Creating Markets’ to Leverage the Private Sector for Sustainable Development and Growth: An Evaluation of World Bank Group’s Experience Through 16 Case Studies. Overall, the report provides Management with useful observations of the experience of the World Bank Group with identifying and supporting the development and growth of inclusive markets in the context of private sector development. We are grateful for the opportunities to engage with our IEG colleagues through discussions at various stages of the evaluation. Management of the World Bank Group acknowledges and is largely in agreement with IEG’s recommendations.

World Bank Management Response

This report anchors its evaluative approach on IFC’s “Creating Markets” concept, launched in 2017. The evaluation explicitly emphasizes shedding light on IFC’s activities and its contributions to market creation, and the selection of 16 cases centered around a cluster of IFC interventions (pages vii–viii; paragraphs 1.14–1.16). The Bank Group’s 2002 Private Sector Development Strategy identified “the various ingredients for market creation” as an important aspect of the overall strategy, but market creation as defined under the current IFC strategy was not the explicit objective. The evaluation consequently relies on the examination of projects and interventions which did not explicitly have market creation as an objective when they were designed and implemented. Given this challenge, Management welcomes the report’s deliberate focus on learning through its case study approach, which considers the Bank Group’s earlier private sector development activities as they support market creation and leverage private sector resources for sustainable development and growth.

A sound understanding of market-creating opportunities and constraints in a particular country or sector is critical and should be reflected in the diagnostics and analyses relevant to private sector development. The Bank Group’s Maximizing Finance for Development (MFD) approach aims to fully leverage private sector resources for sustainable development. To that end, the County Private Sector Diagnostic (CPSD) is a welcome additional tool that focuses on creating markets and strengthening opportunities. Management wishes to note that the purpose of the Systematic County Diagnostic (SCD) is to provide a comprehensive picture, identifying the most critical constraints and opportunities as countries work to end extreme poverty and promote shared prosperity in a sustainable manner. The SCD
draws from various analytical work or in-depth diagnostics in specific areas but is not meant to include detailed analysis of every topic. The CPSD is being employed where warranted with clear client demand and priorities, and to provide a deeper understanding of market development issues and potential solutions. Its findings should be reflected in the SCD and will inform country-level private sector development strategy and the Bank Group’s Country Partnership Framework (CPF).

Management will continue to apply an inclusive approach to extending access to markets for the underserved and the poor, with particular attention to improving monitoring and measuring to better understand the effects of interventions on these groups. The twin goals of eliminating extreme poverty and boosting shared prosperity are built on a foundation underpinned by the concept of inclusiveness, among others. This is considered across all Bank Group activities in all sectors. Management acknowledges the challenges that must be overcome to ensure access for the poor and other underserved groups to services, markets and market opportunities as well as to measure development effects. Hence, it will continue to develop and refine innovative products and customized solutions aiming to maximize development outcomes. For example, the development of products/services for bottom-of-the-pyramid populations to overcome barriers to market participation are quite different from those associated with improving small- and medium-scale enterprise participation in value chains.

IFC Management Response

IFC Management thanks the Independent Evaluation Group for a valuable, informative and balanced report on a topic that is a critical part of IFC strategy. We are grateful for the opportunities to engage with IEG colleagues through discussions at various stages of the evaluation, which led to a well-balanced report. IFC Management welcomes the learning focus of the evaluation and very much appreciates the report’s recognition of strong relevance, quality and extensive private sector development effects of IFC’s interventions in creating markets.

As the report correctly points out, creating markets and mobilizing private capital are key pillars of IFC’s new strategy, with increased support to Fragile and Conflict Situations (FCS) and International Development Association (IDA) countries. IFC’s updated vision for market creation is underpinned by a new tool box with several new instruments and the Anticipated Impact Measurement and Monitoring (AIMM) framework, which assesses projects for their contribution to market creation. Further, this focus emphasizes collaboration with other partners. IFC Management believes that this approach is distinct from past Bank Group frameworks and is more
than simply elevating those past ones to a corporate priority for systematic focus; it is a new way of doing business.

**The scope of the evaluation—16 case studies across 3 sectors in 9 countries** represents a small subset of our work, which predates our current thinking on ‘creating markets’ and as such, was not developed with the objective of creating **markets as a primary focus**. Notwithstanding these facts, we appreciate that the rationale for the evaluation is to share lessons of experience to inform implementation of our new strategy and that there are lessons to be learned from the case studies.

**IFC Management is in broad agreement with the report’s findings and recommendations.** IFC will take the key lessons and findings of this evaluation into consideration as we continue to implement IFC 3.0 strategy to create markets, especially in IDA and FCS countries.

**On recommendation 1, IFC Management agrees that an enhanced understanding of creating markets opportunities and associated constraints is critical to ensure more strategic deployment of programs and interventions.** IFC acknowledges that the Creating Markets strategy requires taking a systematic approach, often Bank Group-wide, that draws on country strategies together with diagnostic tools, including CPSDs, Sector Deep Dives, and IFC Country Strategies, to identify, assess, and prioritize new opportunities to deliver comprehensive solutions addressing constraints to market creation and development. This approach is most often a Bank Group one, where the World Bank Group institutions reach a common understanding of what binding constraints are to broad sector or market development, which they can address jointly following the Cascade principles. As IFC continues to implement the IFC 3.0 strategy, it is developing a set of tools and initiatives to enable better understanding, diagnostics, coordination, and more collaboration to unlock creating markets opportunities. IFC will leverage these tools to adequately assess and reflect countries’ private sector agenda in the CPFs. IFC is also creating three Upstream Units within the Global Industry Departments (Financial Institutions Group; Infrastructure and Natural Resources; and Manufacturing, Agribusiness, and Services) to drive the upstream mandate to incubate opportunities, focus resources, and coordinate initiatives across IFC and the Bank Group to create new markets. These dedicated staff will connect expertise from investment and advisory staff, the World Bank Global Practices, and external partners to priority initiatives and co-develop global delivery platforms and identify opportunities to pilot and scale them.
On recommendation 2, IFC Management acknowledges the importance of ensuring that creating markets efforts will have strong impact if they ultimately reach and benefit the underserved. However, IFC should also note that there may be important market creation impacts that do not directly benefit the poor or underserved, but which are still highly impactful in the broader development context. In this context, IFC Management would like to highlight that IFC engagements are focused on private sector development, job creation, and sustainability and are therefore a means to an end to reduce poverty; the effects on poverty reduction may be indirect. In addition, as acknowledged in the report, creating markets efforts take time to achieve different milestones. As such, IFC’s efforts to create markets are cognizant of direct, indirect, and induced benefits of creating markets to the underserved. This would mean that there are markets where the benefits of IFC efforts do not immediately reach the poor and other underserved groups. Support to develop mortgage finance markets, which serve individuals with formal sector jobs, is one example. Here the initial efforts to develop mortgage finance projects in low- and lower-middle-income countries typically start with establishing that market for higher-income groups. Over time, as the sector develops, IFC support shifts to working with partners and addressing obstacles to extending down the market to lower-income segments. The development of mobile phones is another example, where initial deployment was at times criticized for being a “luxury good” but with the rapid decline in prices of both equipment and networks, mobile phones are now the primary access point for the poor to communications and the internet, and to the range of benefits that they bring.

Markets such as these are still important to develop, given their broad, and, in particular, long-term development impacts and their effects on other underserved groups. IFC will continue to develop these types of markets while also developing those that have a more direct and immediate impact on the poor.

Management also acknowledges the importance of monitoring and evaluation (M&E) provisions to understand and analyze how market creation affects the poor and underserved. However, tracking impact on ultimate beneficiaries requires a degree of M&E resources not present in most investment projects. Where IFC has additional resources through Advisory engagements, Blended Finance, or other types of support, it seeks to identify and assess impacts on final beneficiaries. IFC will continue to monitor and evaluate projects for these important impacts in the most appropriate manner possible.

On recommendation 3, Management agrees that IFC’s risk-taking capabilities need to be regularly assessed to ensure that IFC delivers its market creation efforts in IDA and FCS countries. Implementation of IFC 3.0 strategy envisions increased
Management Response

Investments in FCS and IDA countries, which will involve heightened challenges and risks to IFC’s business model and investment returns. Historically, projects in FCS and Low-Income Country (LIC)-IDA have been smaller, take more time to develop, and in some cases have poorer performance. The challenge will be, over time, to generate flows of sustainable private investment through market creation efforts which will actually be profitable. However, IFC recognizes the point IEG is making regarding the potential risks to the conventional IFC business model. In response to this, IFC has been developing a range of tools and targeted advisory capacities to better assess and manage these risks, including for example the FCS Risk Envelope, which seeks to accommodate transactions which are outside IFC’s standard risk-return profile, on IFC’s balance sheet. Even with these efforts, FCS and IDA contexts will be challenging and represent greater risk to our business model. In this context, IFC will continue to ensure that we have the required knowledge, resources and tools to manage the risks and challenges in successfully delivering our creating markets strategy, including in IDA and FCS.

We appreciate that IEG has taken on board much of our feedback in the exchanges on the draft. For example, IFC’s drive on financial inclusion through the Universal Financial Access initiative is now recognized. While some differences remain, these are specific to the cases and sectors identified in the report and do not affect the validity of the overall findings.

MIGA Management Response

MIGA Strategy and Market Creation. MIGA welcomes the IEG Evaluation Report on the World Bank Group’s support for Creating Markets and finds it useful and important. The Evaluation Report recognizes and confirms the creating markets features of MIGA guarantee projects. MIGA notes that Creating Markets by driving comprehensive country solutions and spurring private sector investment and development, working within the Bank Group’s Cascade approach, is a key element of MIGA’s Strategic Directions, FY18–20.

MIGA—Channels and Drivers in Market Creation. The Evaluation Report found that MIGA guarantee projects play a vital role in market creation through four interrelated channels: (i) fostering innovation; (ii) generating demonstration effects; (iii) enhancing skills, capacities, and governance structures at firm level; and (iv) supporting integration into value chains. MIGA notes the Report’s identification of channels and drivers in market creation to be useful for articulating the development impact of its guarantee projects.
Creating Markets and Joint World Bank Group projects. The Evaluation Report underscores the importance of coordination across World Bank Group and other development partners for market creation. MIGA notes the finding to be consistent with the Bank Group’s Cascade approach, similar to the evidence presented in IEG’s FY15 Electricity Access evaluation. The Electricity Access evaluation identified MIGA’s value-added in Joint World Bank Group projects in the electricity sector as: (i) providing long-term political risk insurance for high-risk countries not available from international commercial insurers; (ii) enhancing creditworthiness of projects; and (iii) mobilizing additional capital. The World Bank (IBRD, IDA) brings the value of its upstream work for country clients on policy and institutional frameworks, and the Partial Risk and Partial Credit Guarantee instruments backstop government payment obligations to private investors. IFC brings long-term financing that is rarely available in countries with underdeveloped financial markets and high investor risk.
**Management Action Record**

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<td>To address barriers to market creation and systematically look for, and act on, opportunities to create markets, the Bank Group, not just IFC, requires a sound understanding of the sectors and areas that they get involved in their countries of operations. The above statement may seem obvious, however, a recent IEG assessment of the Country Partnership Framework (CPF) process found that reflecting a country’s private sector agenda adequately in CPFs remains a challenge. Current tools for country-level assessments, such as the Systematic Country Diagnostics (SCDs), cover the private sector agenda, but too unevenly. The Bank Group’s traditional Advisory Services and Analytics (ASA) does not provide the needed assessment of market opportunities and market constraints at the country level. On the other hand, the recently introduced Country Private Sector Diagnostics tool (CPSD) provides a more in-depth and structured assessment of market creating opportunities. Strengthening the analytical base at the country level, for example, through the CPSDs, coincides with several recommendations of previous IEG evaluations, which called for addressing the private sector development agenda in a</td>
<td>Recommendation 1. Enhance the understanding of market creating opportunities and associated constraints at the country level and ensure that such knowledge is adequately reflected in the CPF process to allow for a more strategic deployment of Bank Group programs and interventions.</td>
<td>Agree</td>
<td>Management of the World Bank Group agrees that an enhanced understanding of creating markets opportunities and associated constraints is critical to ensure more strategic deployment of programs and interventions. World Bank Management notes that the Bank Group’s Maximizing Finance for Development (MFD) approach aims fully to leverage private sector resources for sustainable development. To enhance this approach, the CPSD is being employed, where warranted, with clear client demand and priorities; its findings are typically reflected in the SCD and also inform the country’s private sector development strategy as well as the Bank Group’s CPFs. The MFD approach is strengthened by CPSDs, which provide a structured and more in-depth analysis of local circumstances and the enabling environment to better understand the steps required to enhance market creating opportunities.</td>
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<td>more strategic manner, based on comprehensive and systematic country-level analytics. The need to integrate analysis of key constraints and opportunities for market creation in future CPF processes is the basis for the first recommendation.</td>
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<td>identify, assess, and prioritize new opportunities to deliver comprehensive solutions addressing constraints to market creation and development. This approach is most often a Bank Group one, where the Bank Group institutions reach a common understanding of what the binding constraints are to broad sector or market development, which they can address jointly following the Cascade principles. As IFC continues to implement the IFC 3.0 strategy, it is developing a set of tools and initiatives to enable better understanding, diagnostics, coordination and more collaboration to unlock creating markets opportunities. IFC will leverage these tools to adequately assess and reflect countries’ private sector agenda in their CPFs. IFC is also creating three Upstream Units within the Global Industry Departments (Financial Institutions Group; Infrastructure and Natural Resources; and Manufacturing, Agribusiness, and Services) to drive the upstream mandate to incubate opportunities, focus resources, and coordinate initiatives across IFC and the Bank Group to create new markets. These dedicated staff will connect expertise from investment and advisory staff, the Bank Global Practices, and external partners to priority initiatives and co-develop global delivery platforms and identify opportunities to pilot and scale them.</td>
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Providing market access to the poor, in a sustainable manner, ought to be a critical development outcome from Bank Group’s market creation interventions. Yet, based on the case studies, it remains a challenge.

- In the financial inclusion case studies, reaching the base of the pyramid and providing financial services outside urban and peri-urban centers proved difficult and took longer than expected for IFC-supported MFIs. The evaluative evidence suggests that investing in MFIs which provide access to the poor requires “patient capital” because it takes time for companies to reach breakeven.

- In the ICT case studies, some of the (subsidized) efforts to reach the rural poor and expand reach beyond what initially is commercially viable, had limited success.

- In the agribusiness case studies, IFC has found it easier to integrate relatively large farmers in supply chains than to integrate smallholders. Innovative financing solutions together with a revised approach that leverages IFC Advisory Services to target capacity constraints along the value chain, and elevates market actors into viable investment partners, are key to reach the smaller end of the producer segment in agribusiness value chains.

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<td>Providing market access to the poor, in a sustainable manner, ought to be a critical development outcome from Bank Group’s market creation interventions. Yet, based on the case studies, it remains a challenge.</td>
<td>Recommendation 2. Enhance access to markets for the underserved groups, including the poor, and entailing adequate M&amp;E provisions to understand how market creation affect the poor.</td>
<td>Agree</td>
<td>World Bank Management will continue to apply an inclusive approach to extending access to markets for underserved groups, including the poor, with particular attention to improving monitoring and measuring the effects of interventions on these groups. Acknowledging the challenges to be overcome to ensure access to services, markets and market opportunities for the poor and for underserved groups, Bank Management will continue to develop and refine innovative products and customized solutions to maximize development outcomes. IFC Management acknowledges the importance of ensuring that creating markets efforts have strong impact if they ultimately reach and benefit the underserved. That said, IFC also notes that there may be important market creation impacts that do not directly benefit the poor or underserved, but which are still highly impactful in the broader development context. In this context, IFC Management would like to highlight that IFC engagements are focused on private sector development, job creation and sustainability and are therefore a means to an end to reduce poverty; the effects on poverty reduction may be indirect. In addition, as acknowledged in the report, creating markets efforts take time to achieve different milestones. As such, IFC’s efforts to create markets are cognizant of</td>
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The evaluation confirmed a general lack of evidence of the direct welfare implication of market creation efforts for the poor. Evidence from previous IEG evaluations, the 16 case studies, and portfolio reviews, point to the need to invest in and improve the monitoring and evaluation resources (M&E) to understand the effects of market creation on the poor. In agriculture, for example, the IEG evaluation of the rural nonfarm economy carried out in 2016 found that despite IFC’s stated objectives of reaching the poor through its agribusiness portfolio, in most cases there was little in the project design that identified, targeted or tracked benefits for the poor. Likewise, a portfolio review found that 40 percent of World Bank projects with a focus on providing market access for smallholders had shortcomings in M&E. Evidence from the 16 case studies suggests a similar pattern.

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<td>direct, indirect and induced benefits of creating markets to the underserved. This would mean that there are markets where the benefits of IFC efforts do not immediately reach the poor and other underserved groups. Support to develop mortgage finance markets, which serve individuals with formal sector jobs, is one example. Here the initial efforts to develop mortgage finance projects in low- and lower-middle income countries typically start with establishing that market for higher-income groups. Over time, as the sector develops, IFC support shifts to working with partners and addressing obstacles to extending down-market to lower income segments. The development of mobile phones is another example, where initial deployment was at times criticized for being a “luxury good” but with the rapid decline in prices of both equipment and networks, mobile phones are now the primary access point for the poor to communications and the internet, and the range of benefits that they bring. Markets such as these are still important to develop given their broad and in particular, long-term development impacts and their effects on other underserved groups. IFC will continue to develop these types of markets while also developing those that have a more direct and immediate impact on the poor.</td>
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<td>IFC Management also acknowledges the importance of monitoring and evaluation (M&amp;E) provisions to understand and analyze how market creation affects the poor and underserved. However, tracking impact on ultimate beneficiaries requires a degree of M&amp;E resources not present in most investment projects. Where IFC has additional resources through Advisory engagements, Blended Finance or other types of support, it seeks to identify and assess impacts on final beneficiaries. IFC will continue to monitor and evaluate projects for these important impacts in the most appropriate manner possible.</td>
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<td>Recommendation 3. Regularly assess the risk-taking capabilities of IFC to carry out its market creation activities in IDA and other structurally weak economies in a financially sustainable way.</td>
<td>Agree</td>
<td>IFC Management agrees that IFC’s risk-taking capabilities need to be regularly assessed to ensure that IFC delivers market creation efforts in IDA and FCS countries. Implementation of IFC 3.0 strategy envisions increased investments in FCS/IDA countries, which will involve heightened challenges and risks to IFC’s business model and investment returns. Historically, projects in FCS and LIC-IDA have been smaller, take more time to develop, and in some cases have poorer performance. The challenge will be, over time, to generate flows of sustainable private investment through market creation efforts which will actually be profitable. However, IFC recognizes the point IEG is making regarding the potential risks to the conventional IFC business model. In</td>
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Market creation opportunities develop with the application of modern technologies, for example in FinTech, the renewable energy sector or ICT. Seizing those opportunities requires cutting-edge knowledge, nimbleness and appetite for risk, coupled with the expertise to manage those risks. The case studies suggest the need to have an adequate appetite for risk and a long-term engagement horizon to fulfil the Bank Group’s ambition to advance the MFD agenda in IDA countries, Fragile and Conflict States (FCS), and other structurally weak economies. Because reform efforts take up to 10–15 years, and hence much longer than the standard World Bank project cycle of about 5–7 years, the Bank Group needs to anticipate that sector reform efforts foreseen by the Cascade Approach will not create
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<td>markets soon in many of those countries. This must be taken into consideration in planning Bank Group engagement plans (for example, through the Joint Implementation Plans) and in managing expectations and risks regarding anticipated IFC investments. Moreover, market creation opportunities can arise spontaneously, even in unregulated or poorly regulated environments. Some of the evaluation case studies suggest that a successful business can create a “constituency for reforms” when downstream activities have a demonstration effect that make policymakers shape the rules of the market. Such findings in turn suggest being flexible in the application of the “Cascade Approach” in sequencing market creation reforms and investments. More generally, expanding the Bank Group’s efforts into IDA and FCS countries is likely to entail, for IFC investments, smaller deal sizes, taking higher business risks while simultaneously allocating more business development resources upfront, which it is likely to produce lower investment returns for IFC in some segments of its portfolio. This will have implications for IFC’s overall business model, for how IFC pursues its so-called portfolio approach, and on how the Bank Group incentivizes its staff.</td>
<td></td>
<td>response to this, IFC has been developing a range of tools and targeted advisory capacities to better assess and manage these risks, including for example the FCS Risk envelope, which seeks to accommodate transactions which are outside IFC’s standard risk-return profile, on IFC’s balance sheet. Even with these efforts, FCS/IDA contexts will be challenging and represent greater risk to IFC’s business model. In this context, IFC will continue to ensure that it has the required knowledge, resources and tools to manage the risks and challenges in successfully delivering on creating markets strategy, including in IDA and FCS.</td>
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Chairperson’s Summary: Committee on Development Effectiveness


The Subcommittee welcomed the evaluation as a timely report to inform upcoming Strategy and Business Outlook discussions for the World Bank Group, as well as a valuable input vis-à-vis the implementation of IFC 3.0 and subsequent organizational changes in the International Finance Corporation (IFC). They underscored the usefulness of the Report, noting that impact analysis should represent a bigger share of IEG’s work program. Members were encouraged to learn that the World Bank Group institutions had already contributed to creating markets through their distinct roles and by deploying a range of tools and services, even before articulating the notion of creating markets in the “Forward Look” in 2015 or introducing the proactive strategic approach in IFCs 3.0. They stressed the relevance of markets and the private sector role to achieve the Sustainable Development Goals (SDGs).

Praising the engagement and broad agreement between IEG and Management, Members enquired about specific Management plans to address the evaluation’s findings and recommendations. In particular, they asked about actions aiming to (i) strengthen the analytical base and articulate more systematically the approach to creating markets in the Country Partnership Frameworks (CPFs); (ii) enhance access to markets for the underserved groups, including the poor; and (iii) implement a regular assessment on IFC’s risk-taking capabilities in International Development Association (IDA) and fragile and conflict-affected situation (FCS) countries.

Members highlighted the important role of CPFs to support the evaluation’s recommendation on achieving stronger country-level understanding of creating markets. Members deemed CPFs as a key tool to integrate the findings of Country Private Sector Diagnostics (CPSDs) and to inform the Board on strategic priorities. They were pleased to hear about Management’s plans to improve consistency and coordination between World Bank Group institutions, and to expand the use of CPSSDs as critical inputs to Systematic Country Diagnostic (SCD) processes and CPFs. In response to members request to provide a forecast of the incremental resource requirements needed to mainstream the CPSSDs, Management noted that rather than budgetary constraints, Management would have to address staff and managerial...
capacity limitations, which would have significant organizational implications, to mainstream CPSDs.

While acknowledging Management’s explanations about the broad development impact of initiatives that did not directly benefit underserved communities, Members underscored the need to enhance diagnostic tools to measure projects’ “second-round” effects on the poor. Members encouraged Management to regularly assess IFC’s risk-taking capabilities to carry out its market creation activities in IDA and other structurally weak economies in a financially sustainable way. They pointed out that such assessment should consider both the portfolio approach and staff performance and insisted on the prevalence of additionality over profitability.
1. Introduction

Highlights

- Achievement of the Sustainable Development Goals in developing countries faces an annual investment gap of $2.5 trillion, of which up to 70 percent is expected from the private sector. However, engaging the private sector as a financier or service provider in the pursuit of the Sustainable Development Goals requires efficiently functioning markets.

- Helping markets form or perform more efficiently has been part of the Bank Group–wide development agenda for the past 15 years and has in recent years become a corporate priority to be explicitly pursued in the Maximizing Finance for Development approach.

- This evaluation offers IEG’s first systematic assessment of the Bank Group’s experience in creating markets during the past 10 years (FY07–17) with focus on IFC. It aims to inform the future rollout of the creating markets and Maximizing Finance for Development approach.

Despite overall progress in achieving the Sustainable Development Goals (SDGs) and the World Bank Group’s twin goals, 767 million people remain in extreme poverty, and progress has been uneven. Billions lack access to health care, education, infrastructure, credit, jobs, and safe food. Globally, 1.06 billion people still live without electricity access, with 80 percent of them concentrated in just 20 countries. More than half the people without electricity live in Sub-Saharan Africa (UN 2017).

The international development community acknowledges that the SDGs will not be achieved without greater participation from the private sector. Estimates for investment needs in developing countries alone range from $3.3 trillion to $4.5 trillion per year. Up to 70 percent of the investment gap could come from the private sector, according to international estimates. The annual investment gap of $2.5 trillion could be bridged by the private sector by providing funding of up to $1.8 trillion annually—double the current rate. Public investment will remain vital, however, because the potential for increasing private sector participation is greater in some areas than others.

Engaging the private sector as a financier, operator, service provider, or innovator in the pursuit of the SDGs requires efficiently functioning and competitive markets and effective governments. Such markets only emerge when there is a sufficiently conducive enabling environment that includes (i) public sector capacity, policies, and regulatory frameworks; and (ii) private sector institutions and firm-level capacity (skills and governance) to enhance the technical and operative and managerial performance or to foster innovation. Private institutions, (for example, credit bureaus) may provide services that underpin markets or set standards. A level playing field and associated competition are further enablers to market creation (Murphy, Shleifer, and Vishny1989; EIB 2016). Therefore, creating markets requires not only addressing market failures.
through policy reform but also improving underperforming markets through
demonstration effects, enhancing competition, innovation, integration and enhancing
skills through investments and advisory services.

“Creating” such markets for the private sector contribution to the SDGs encompasses
many activities. Markets are generally defined as a process that facilitates exchange and
enables the distribution and allocation of resources in a society, by which the prices of
goods and services are established; and as a system with a structure of (perfect)
competition.\(^3\) In reality, most markets are characterized by varying degrees of market
imperfection, often rooted in market failures. Establishing well-functioning markets
hence involves a range of activities, from fixing of market failure in structurally weak
economies to enhancing how markets work through, for example, increasing
competition. Figure 1.1. illustrates the various forms that creating markets can take.
Appendix E has details on market failures and how the various Bank Group
interventions can address them.\(^4\)

In this context, the term creating markets is somewhat misleading. The IFC introduced it
as a technical term in the context of the Maximizing Finance for Development (MFD)
agenda. However, it evokes the idea of establishing genuinely new markets, which is
rarely ever the case; most efforts expand markets or provide market access to unserved
or underserved groups or enhance competition (see figure 1.1). With these caveats and
for the sake of ensuring consistency with Bank Group’s own language, this evaluation
still uses the term creating markets. Note that although public sector entities participate in
markets, this evaluation focuses on markets that mainly engage private sector actors as
suppliers, intermediaries, facilitators, market makers, aggregators, or buyers.

Creating markets is an inherent element of a broader private sector development
agenda. The literature review and a portfolio review of Bank Group projects suggest that
there is no threshold to differentiate genuine market creation from gradual enhancement
of private sector development. The case studies across the three sectors tested this
hypothesis.
World Bank Group’s Strategy and Interventions

Creating markets is a well-established part of the Bank Group–wide development agenda, evidenced not least by the World Bank’s 2002 World Development Report: Building Institutions for Markets (World Bank 2002a). The 2002 private sector development strategy refers to the various ingredients of creating markets, including sound rules for the market, the expectation that such rules be adhered to, and physical access to markets. It introduced the primacy of investment climate influenced by “macroeconomic stability, well-defined property rights, a sound judicial and contracting system, a reasonable level of certainty about government policy, functioning financial institutions and a good physical infrastructure” (Bank Group 2002b, p. 3).

The World Bank Group institutions have worked toward enhancing market performance and even helped markets form, through their distinct roles and by deploying a range of tools and services. The Articles of Agreement of the International Finance Corporation (IFC) define its mission as furthering “economic development by encouraging the growth of productive private enterprises” and seeking “to stimulate, and to help create conditions conducive to, the flow of private capital, domestic and foreign, into productive investment in member countries.” In the 1980s, IFC created emerging market bonds as an asset class, and in the 1990s, it helped create private markets in the former Soviet Union.
In March 2017, the Bank Group reconfirmed its commitment to crowding-in the private sector in the strategy laid out in “Forward Look– A Vision for the World Bank Group in 2030.” To intensify and systemize its commitment to MFD—to make “Billions-to-Trillions” a reality—the strategy defined private finance mobilization as a core pillar. 6

The “Forward Look” also introduces the “creating markets” concept, which became one of two pillars of IFC’s latest strategy. Accordingly, the World Bank, IFC, and the Multilateral Investment Guarantee Agency (MIGA) are working closely together to enhance the Bank Group’s value chain—linking reform, investment, and mobilization. (Development Committee 2017, 5). Efforts to create markets and mobilize private funds would be operationalized through systematic use of a decision-tree model, the “Cascade.” Subsequently, IFC’s latest strategy, Strategy and Business Outlook FY18–20: Creating Markets and Mobilizing Private Capital also builds on creating markets and mobilization as two main pillars in implementing the Bank Group-wide strategy (IFC 2017). A dedicated International Development Association (IDA) Private Sector Window was established in 2017 to catalyze market creation in structurally weak economies, such as IDA and fragile and conflict-affected situation (FCS) countries.7

The theory of change in figure 1.2. summarizes the instruments deployed by the Bank Group in helping client countries create new markets or make markets work more efficiently. This theory of change was based on IFC’s own creating concept and terminology, amended slightly to avoid redundancies and to reflect the results of a literature review and expert interviews.8

- The World Bank, and to some extent also IFC advisory services, supports governments through its policy advice and upstream support to putting in place the so-called enabling environment, that is, public sector capacity, institutions, policies, and regulatory frameworks.

- In parallel, IFC’s private sector investments and MIGA guarantees support companies “downstream” so they can grow and become sustainable service providers and operators in SDG-relevant areas. Several channels can enable these investments to have market creation effects. For example, if such investments and guarantees have a demonstration effect, subsequent investments follow suit, which deepens private sector participation. Moreover, such investments can help bridge gaps in value chains and better integrate actors along such value chains—ultimately, providing better access to markets. Support to investments can also lead to increased innovation, including managerial and process innovation, and enhanced skills and governance at the firm level, opening up new market segments through new products or service delivery models; innovations, in case duplicated by other market participants, can have demonstration effects.9 IFC
Advisory Services provide firm-level advice on processes and governance issues, which helps firms to grow and potentially tap new markets.

- A functioning financial sector, adequate information and communications technology (ICT) and other physical infrastructure are essential for the process of market creation, as are prudent macroeconomic policies, economic and political stability, rule of law, and government commitment.

Figure 1.2. Theory of Change for Bank Group Support to Creating Markets

Together, these activities contribute to creating markets, expanding their reach, or making markets function better. The primary indicator for market creation is competition. Supplemental features are inclusiveness—services accessible to the poor and other marginalized groups; resilience—ability to withstand shocks; and sustainability—fostering social and environmentally sound practices and continuing to exist and function once the Bank Group withdraws. Ultimately, market creation is expected to improve access to infrastructure, enhance inclusive growth, and create jobs,
thereby contributing to the Bank Group twin goals and the SDGs. Although the theory of change visualizes the results chain in a stylized linear fashion, the evaluation recognizes that the process is often iterative. For example, firm-level innovation can lead to demonstration effects, with subsequent pressure on competition, which in turn can trigger further innovation, and so on.

**Objective, Scope, and Evaluation Questions**

The objective of this evaluation is to distill lessons from the Bank Group’s experience in creating markets to leverage the private sector for sustainable development and growth. Unlike other major evaluations, this one places a strong emphasis on learning, because the Bank Group’s renewed emphasis on creating markets was made an explicit priority only recently.

Given IFC’s recent focus on market creation, this evaluation emphasizes IFC interventions while fully considering the significant role of the World Bank, in particular in creating the needed enabling environment. As most Bank Group activities contribute in some way to better functioning markets, this evaluation does not attempt to comprehensively capture the underlying portfolio of Bank Group interventions. Lack of a defined and discrete portfolio makes it, however, difficult to answer questions of accountability.¹⁰

To allow for a better comparison across cases and yield more robust findings, this evaluation focused on three SDG-relevant sectors. IEG chose the sectors in coordination with the Bank Group because of their high potential for private sector participation: agriculture/agribusiness, financial inclusion, and ICT (Appendix A shows selection criteria).

The evaluation focuses on FY07–17, with emphasis on IFC activities, but comprising all relevant World Bank and MIGA interventions for a complete picture. The assessment looks at relevant Advisory Services and Analytics (ASA), World Bank lending and nonlending, and World Bank and Multilateral Investment Guarantee Agency (MIGA) guarantee projects. It covers issues of sequencing of upstream and downstream work as well as the complementarity of Bank Group tools and instruments and assesses the leveraging synergies across the Bank Group. For details on the method, see appendix A.

The overarching question that IEG seeks to answer in this evaluation is, what lessons can be drawn from previous Bank Group efforts to create markets to leverage the private sector for sustainable development and growth, and in particular how well is the Bank Group equipped to support countries in the future as they create markets to engage the private sector to meet their development needs? The evaluation addresses mainly immediate and intermediate outcomes, as per the theory of change (figure 1.2).
Evidence Base and Methods

The main sources of evidence are 16 case studies, identified in coordination with IFC and the World Bank, based on a methodology “calibrated” using IFC’s own flagship creating markets projects. IFC has featured a variety of projects when explaining the concept and its benefits to the Board of Executive Directors and the public. IEG took these flagship projects as a starting point under the assumption that these illustrate many of the features that creating market projects can, or should, have. Whenever possible, IEG included these flagship projects in its case studies, including Agriculture Ukraine, SolTuna in Solomon Islands, Cambodia Rice in Cambodia, Sustainable Beef in Madagascar, and Zambeef in Zambia. To safeguard IEG’s methodological independence and increase sample spread and size, IEG went beyond these flagship projects by deriving characterizing criteria and using them to calibrate a strategy that was subsequently used to review 1,104 World Bank, IFC Investment and Advisory Services, and MIGA guarantee projects in 61 countries.

IEG’s 16 cases were in countries with at least one IFC investment embedded in a programmatic set of Bank Group interventions, including World Bank policy work and ASA. In all cases where IFC projects were identified for analysis, the World Bank was found to be engaged as well. This allowed for a comprehensive analysis of Bank Group’s overall engagement in the country, including policy or systemic intervention. Cases focused on the three chosen sectors, covering various stages of maturity in the underlying sector: (i) nascent markets; (ii) emerging, but yet immature or underperforming ones; and (iii) consolidating, or more developed, markets. In these cases, IEG studied the various mechanism, effects, and result drivers for creating markets. Appendix C contains details on case selection and nature. All cases were analyzed using a systematic content analysis to derive robust findings by sectors and by country income level, as summarized in appendix B.

In addition, the evaluation approach encompassed elements to deepen, complement, or triangulate results and observations. These included sector deep dives, structured reviews, portfolio review and analysis, data analysis, and interviews. Appendixes A and F contain more details.

Chapter 1

1 These investments are mainly for basic infrastructure (roads, rail, and ports; power stations; water and sanitation), food security (agriculture and rural development), climate change mitigation and adaptation, health, and education.
The potential for increasing private sector participation is greater in some sectors than in others. Infrastructure sectors, such as power and renewable energy (under climate change mitigation), transport and information communications and technology (ICT) are natural candidates for greater private sector participation, under the right conditions and with appropriate safeguards. Other Sustainable Development Goal (SDG) sectors are less likely to generate significantly higher amounts of private sector interest, either because it is difficult to design risk-return models attractive to private investors (for example, climate change adaptation) or because they are at the core of public service responsibilities and highly sensitive to private sector involvement (for example, water, education, or health care). Therefore, public investment remains fundamental and pivotal (United Nations 2015). In addition to the SDG-relevant sectors referred to above, the financial sector is essential in achieving the SDGs and the Bank Group twin goals because of the intermediation it provides between savers and investors, among other functions. Likewise, manufacturing is also essential as a provider of jobs, for example; and so is agriculture because of its additional role in enhancing food security.

The theory of perfect competition is key for definition of the structure of a well-functioning market. Well-functioning markets of the real world are never perfect but can be characterized by the following criteria: (i) ease of entry and exit; (ii) absence of significant monopoly power; (iii) widespread availability of information; (iv) absence of market externalities; and (v) achievement of public interest objectives. The basic institutions of the market economy can be subdivided into five categories: (i) private property; (ii) free markets; (iii) competition; (iv) division and combination of labor; and (v) social cooperation. These are mutually dependent institutions: each implies the other and makes it possible.

Economic theory traditionally focuses on the study of market structure and the efficiency of market equilibrium; when the latter is not efficient, it means that a market failure has occurred—a situation in which the inefficient allocation of goods and services is caused by exogenous systems. Market failures are often associated with such factors as: time-inconsistent preferences, information asymmetries, noncompetitive markets, principal–agent problems, externalities, or public goods. Because most markets do not inherently satisfy all the conditions necessary for a well-functioning market, and are characterized by varying degrees of market imperfection, governments examine the type and significance of the market imperfections, and the need for various kinds of market intervention.

For the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), creating markets was even part of the institutions’ results matrix, embedded in a broad-based concept of development outcomes. Within the prevailing development outcome framework that IFC and MIGA have been using to articulate their development effects, IFC- or MIGA-supported investments tried to contribute to “private sector development” by, for example, testing regulatory frameworks in client countries and potentially improving these, or by increasing competition through replication or innovation.

IFC’s Syndicated Loan Program, the Managed Co-Lending Portfolio Program for infrastructure, and the Asset Management Company (AMC) are the key tools for mobilization.

To mobilize the private sector in countries where the Sustainable Development Goal investment gap is the largest and where barriers have so far prevented the private sector from playing a significant role, that is, in International Development Association (IDA) countries and countries with fragility and conflict-affected situations (FCS), a dedicated mechanism was adapted, the $2.5 billion IDA IFC-MIGA Private Sector Window. The window is intended to de-risk private sector
investments in IDA-only countries, with a focus on IDA FCS. Essentially, the Private Sector Window aims to “de-risk” projects by shifting the risk to publicly backed institutions, such as IDA or donor agencies willing absorb potential losses.

8 IEG acknowledges that this framework may be slightly different from the IFC frameworks as IEG made a few alterations to reduce redundancies and overlaps. IEG also is cognizant of the evolving nature of the IFC framework and that there is no common Bank Group wide creating market terminology.

9 Complementary to this, IFC deploys its mobilization tools (syndication, AMC, Managed Co-Lending Portfolio Programs, leading to diversification, scaling, and leveraging, eventually pulling in more private capital, into areas relevant to the Sustainable Development Goals. Because IEG is in the process of conducting a major evaluation, this evaluation does not focus on mobilization per se.

10 For example, the extent to which the portfolio was successful in addressing market constraints cannot be answered comprehensively; instead, the case approach tries to identify the drivers that contributed to addressing market failures.

11 The evaluation adopted a theory-driven approach to analyze the causal steps identified in the intervention logic. The underlying theory was developed in coordination with Bank Group institutions, based on a review of the available literature on private sector participation, complemented by semi structured interviews with internal and external experts and an analysis of project- and country-level documentation.

12 These terms are intended to identify three stages of development, concept commonly used in the literature. See also later in the report Fig 4.2 and literature there. Different terms are used in different sectors, for example, in agriculture, the 2008 WDR suggests “three world classifications” of agrarian, transforming, and urbanized.
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**Highlights**

- Across the cases studied, IFC’s support to market creation resulted mostly in growing market size or in increased competition. Expectations that such competition would also lead to reduced prices were not fulfilled systematically. Beyond competition-related effects, IFC support also helped markets enhance, to a limited extent, environmental sustainability and resilience.

- Providing inclusive and sustainable market access for the poor and underserved groups remains a challenge. Whether the market creation efforts continue to function once it withdraws its support depends on the quality of the enabling environment and the extent to which commercially oriented approaches were taken. Overall, changes observed in market creation were small in the studied country cases, except for a few transformation engagements in ICT.

- Innovation contributes the most to market creation. In agribusiness, innovation took the form of innovative finance solutions, for example risk sharing facilities or blended finance, required to reach the smaller producers in value chains. In this context, International Finance Corporation Advisory Services were found to play a significant role by elevating the capacity and maturing market actors into potentially viable investee companies. In financial inclusion, innovation—in the form of FinTech investments— is a growing and potentially powerful avenue for “disrupting” service delivery models to reach the poor.

- Demonstration effects require the right conditions. They are often achieved through pioneering investments; these not only require markets that are “ready to move” in the sense of potential competitive entrants but also in the sense of having regulatory and legal frameworks that allow project success to scale.

- Integration effects require a value chain focus. Observed only in agribusiness along specific value chains, these effects require a granular and value chain-focused approach combined with solid technical understanding.

IEG’s assessment of 16 case studies in 9 countries across 3 sectors (financial inclusion, agribusiness, and ICT) provides ample evidence of IFC’s contributions to market creation and enhancement. IEG assessed the outcomes of market creation efforts based on the indicators proposed in the theory of change (figure 1.2).

**Results of Market Creation Efforts**

Market creation manifested itself across IEG’s case studies mostly in increased market access or reach. This attests to an elevated level of inclusion resulting from market creation efforts, one of the four indicators for market creation per IEG’s theory of change (see figure 1.1). Such inclusion mostly involved better access to markets for small and medium enterprises (SMEs).
In addition, market creation appeared in the form of contributions to competition, such as increased numbers of market participants or lower barriers to market entry. Expectations that such competition would also lead to reduced prices were not systematically fulfilled, and reductions in prices or tariffs were not frequently observed (figure 2.1).

Beyond competition-related effects, IFC support also helped markets enhance environmental sustainability and resilience, albeit to a limited extent. Contributions to environmental sustainability were observed in seven instances, mostly related to improved quality and standards in agribusiness. Effects in making markets more resilient against economic shocks were only reported once in the reviewed cases.

The evidence of market creation depends on the sector: Extension of market reach was observed in ICT and financial inclusion cases, whereas an increase in the number of market participants was observed in financial inclusion and agribusiness. Increased competition and price reduction were observed mainly in ICT. Access to markets was reported across all three sectors (figure 2.1). Enhancements in environmental sustainability were observed in agribusiness and effects on resilience in financial inclusion.

**Figure 2.1. Market Creation Indicators**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>ICT</th>
<th>Financial Inclusion</th>
<th>Agribusiness / Agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resilience</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Reduced prices or tariffs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhanced access to markets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increased competition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>More participants / lower entry barriers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental sustainability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extended market reach</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Independent Evaluation Group case studies.*

*Note: Data are from 16 case studies. ICT = information communications and technology.*

In financial inclusion, extended market reach and more market participants were, for example, observable in the cases of Peru, Madagascar, and Paraguay. In Peru, IFC Advisory Services assisted in the transformation of several institutions into deposit-taking ones, increasing the number of banks in the financial system. In Madagascar, IFC supported a new market entrant, the greenfield microfinance institution (MFI) AccessBank Madagascar (ABM), which, through its demonstration effect, increased
market reach. The World Bank, through the Madagascar Financial Services Project, likewise enabled new market entrants through the introduction of a partial portfolio credit guarantee. Similarly, in Paraguay, IFC, through an investment in Bancop, the first cooperative bank in Paraguay, helped establish a new player with a new product palette targeting the unbanked rural population.

In ICT, market creation manifested as extended market reach, increased competition, and reduced prices. For example, in Madagascar, ICT markets expanded coverage and prices dropped. In Kenya, the construction of the East African Submarine Cable System (EASSy), supported by IFC, led to a drop in prices in Kenya, an increase in subscriber numbers, and the expansion of broadband internet coverage. The extra supply of bandwidth placed additional pressure on competition, thus improving the conditions for the final users in terms of capacity, pricing, and services. IFC’s investment in ICT operators in Haiti and the Dominican Republic also contributed to enhanced markets, although the latter investment was not successful from the investor’s perspective.

Interestingly, however, market liberalization in ICT did not necessarily go hand in hand with price reductions, indicating the need to anticipate and monitor evolving market structures to avoid quasi-monopolies. In the Dominican Republic, ICT market creation was associated with increased competition and lower prices. However, in Papua New Guinea, IFC’s investment in the new licensee Digicel in 2008 led to a large rise in mobile access. The state-owned incumbent and a spin-off private company lacked funding to enter the market or compete. As a result, Digicel ended up controlling most of the mobile market and, despite several years of competition, mobile prices actually increased. A Systematic Review of 67 studies confirmed that private operations do not necessarily reduce prices. Thillairajan and others (2012) found that, in telecom, private sector participation improved efficiency but had a negative impact on price. Being aware of such trade-offs is important in selecting the most appropriate intervention.

In agribusiness, contributions to market creation occurred mainly through market access for specific segments and enhanced environmental sustainability. Standards for quality and food safety play a key role, as do innovative financial solutions to reach the smaller producers along agribusiness value chains. Improving quality and standards in agribusiness also affected the environmental sustainability of market participants. Most of these efforts were targeted toward small-scale farmers. For example, in Madagascar, IFC helped a poultry producer to implement best-practice health and safety standards in the first poultry processing facility in the country. In Ukraine, the World Bank and IFC AS delivered a complementary effort in support of the harmonization of the country’s standardization system, legal framework for food safety, and technical regulations, eventually allowing them to conform to European Union requirements. In the Solomon
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Islands, IFC and the Global Agriculture and Food Security Program (GAFSP) developed a blended finance package and advisory services to promote best practices in environmental and social risk management and support sustainable tuna production with National Fisheries Development.

The only evidence of market creation efforts contributing to enhanced resilience was observed in the financial inclusion case of Madagascar. In 2007, IFC assisted in the creation of Madagascar’s Access Bank Madagascar (ABM), a greenfield MFI set to provide access to credit and other financial services to micro, small, and medium enterprises (MSMEs) and rural households. Since its first year of operation, ABM succeeded in mobilizing elevated levels of savings to avoid funding shortages resulting from reliance on outside funding. ABM’s savings mobilization enabled the MFI to forgo borrowings during its first four years of operations. An increase in savings mobilization by ABM made the MFI market more resilient to financial and economic shocks because ABM provided stability and added strength to the market.

Overall, indicators for market creation collected throughout the case studies suggest that changes in financial inclusion were rather small and incremental and confined to a specific commodity in agriculture. For example, in Madagascar, despite relative progress in recent years, access to finance remains a major constraint. According to 2017 Findex data, 9.6 percent of the population have an account at a financial institution, showing some progress from the 5.5 percent level of 2011, but low compared with the Sub-Saharan Africa average of 32.8 percent in 2017.

Similarly, in Paraguay, IFC’s support to the banking sector and the World’s efforts to set the financial inclusion agenda in motion were essential, but stalled owing to the lack of long-term and continuous engagement.

This is not to say that financial inclusion advanced that slowly across the globe. In fact, according to global Findex data, 515 million adults worldwide opened an account at a financial institution or through a mobile money provider between 2014 and 2017. Yet, about 1.7 billion adults remain unbanked (Demirgüç-Kunt et al. 2018). Virtually all these unbanked adults live in the developing world. Fifty-six percent of all unbanked adults are women. Poorer people also account for a disproportionate share of the unbanked.

To advance the financial inclusion agenda, the IFC, MIGA and the World Bank, and public and private sector partners adopted measurable commitments to achieve Universal Financial Access by 2020 (UFA2020) and help promote financial inclusion (see box 2.1).
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Box 2.1. The Universal Financial Access 2020 Initiative

Through the Universal Financial Access 2020 initiative, adopted in 2015, the World Bank Group—the World Bank and IFC—has committed to enabling 1 billion people to gain access to a transaction account through targeted interventions. The UFA2020 initiative focuses on 25 priority countries where almost 70% of all financially excluded people live. Overall, the World Bank is working with more than 100 countries to advance financial access and inclusion. The approach centers on creating a regulatory environment to enable access to transaction accounts; expanding access including for disadvantaged populations, such as women and rural producers. It also aims at improving financial capability, often found a constraint. Driving scale and viability through high-volume government programs, such as social transfers, into transaction accounts is one way; to avoid that such transaction account remain idle, the initiative also looks at ways to move from access to finance to account use.


Market Creation and the Poor

Creating markets in a manner that allows the poor to participate in markets or benefit from such efforts has remained a challenge. Case studies and experience in previous IEG evaluations point to these challenges.

The 2015 IEG financial inclusion evaluation concluded that overall, Bank Group support to financial inclusion focuses on the most lagging countries and hence were of high strategic relevance. However, IFC’s investments struggle to achieve adequate business performance because of low profitability, higher start-up costs, and slower loan growth (IEG 2017c). Results from the case studies conducted for this evaluation confirm this: all supported MFIs found it difficult to expand their services beyond the urban and peri-urban areas into the rural areas where the poor live.7 Investing in MFIs that do reach the poor requires “patient capital,” because companies tend to need long time to reach breakeven. International financial institutions must take a portfolio approach, whereby more profitable investments make up for the reduced earnings in other segments.

All financial inclusion case studies found evidence that market creation efforts expanded services to small and medium enterprises (SMEs); this was also seen in the agribusiness cases where integrating SMEs into value chain was a common theme. In three of the six ICT cases, dedicated efforts were found to be inclusive, but actual benefits from these efforts were not evident. For example, an IFC investment provided a working capital facility to Paraguay’s Agrotec to strengthen links with SMEs, because Agrotec relies on a large network of rural SMEs suppliers, and to benefit the rural poor and small farmers unserved in frontier regions. However, evidence does not show the poor benefiting from the links.
Likewise, in the ICT sector, where the 2011 ICT evaluation by IEG concluded that “projects with the objective to directly promote access for the underserved and the poor had limited success” (IEG 2011, 14). The ICT case studies conducted for this evaluation confirm this finding: some of the (subsidized) efforts to reach the rural poor and expand reach beyond what is at least initially commercially viable, were successful, but turned out difficult in several cases.

In agribusiness supply chains, IFC integrated large-scale farmers and value chain participants more easily than it integrated smallholders. Innovative financing solutions—coupled with a revised approach that leverages IFC Advisory Services (AS) to target capacity constraints along the value chain and elevates market actors into viable investment partners—are needed to reach the smaller producers in agribusiness value chains. A clear understanding of market gaps and constraints to reach the rural poor is critical for effective and targeted intervention.

Evidence of the direct welfare implication of market creation efforts for the poor is lacking. Evidence from previous IEG evaluations, the portfolio reviews, and the 16 case studies points to the need to invest in monitoring and evaluation (M&E) to better understand the effects of market creation on the poor. For IFC, the IEG evaluation of the rural nonfarm economy found, for IFC, that despite IFC’s stated objectives of reaching the poor through its agribusiness portfolio, in most cases there was little in the project design that identified, targeted, or tracked benefits for the poor (IEG 2017c). For the World Bank, IEG’s portfolio review found that 40 percent of World Bank projects with a focus on providing market access for smallholders had M&E shortcomings. Finally, the case study in Paraguay reveals that despite some promising anecdotal evidence from the PRODERS projects on providing market access to smallholders, the mission team was unable to obtain systematic data on project results.

**Sustainability of Market Creation Efforts**

Sustainability refers to the likelihood that market creation effects will continue after IFC support ceases. Based on review of the evidence, several lessons emerged.

The enabling environment plays a significant role in enabling and safeguarding the sustainability of market creation efforts. In cases where regulatory and legal frameworks were weak, scaling up or replicating the initial success of first movers or innovators was impeded; under certain circumstances, weaknesses in the enabling environment even jeopardized the progress already achieved in building markets. This was evident in the case of IFC’s support to SolTuna in the Solomon Islands, where the scalability of the success depends on the government’s ability to resolve land tenure issues. In the Malagasy MFI sector, deficiencies in the central bank’s oversight capacity potentially place the prospects of the industry at risk. Overall, the Bank Group has a good record in
identifying the constraints and shortcoming in the enabling environment that would impede sustainability of market creation efforts.

Engaging the private sector as financier or operator generally brings along an incentive system that weeds out unsustainable investments and concentrates on those that are financially self-sufficient. As long as no subsidies are involved, private investors generally engage only if there is a business case with stable enough cash flow projections. Such built-in incentives have likely enabled the success of market creation in ICT that traditionally operates on a cost-recovery regime with end users willing to pay for services. Beyond private sector participation in ICT, this is corroborated more broadly by the 2015 public-private partnership (PPP) evaluation, which found that 83 percent of IFC-supported PPPs have positive development outcomes based on sound business success and particularly high economic and private sector development effects, even after several years in operations (IEG 2015a). Similarly, in the microfinance industry IFC’s business model relies on financially self-sufficient MFIs. Paired with technical assistance to ensure adequate firm-level governance, as witnessed across IEG’s case studies, this approach has yielded in principle sustainable MFI markets, as long as over indebtedness of borrowers is avoided, which is the case (IEG 2015c).

Working with approaches that do not build on entirely commercial principles but contain a grant or subsidy element requires careful design and overcoming implementation challenges. Across the cases studied, subsidy elements were encountered in the agriculture and ICT sectors (mainly support by the World Bank); whereas IFC’s approach to financial inclusion builds on commercial principles. In the agricultural sector, funding for small-scale farmers is often not provided on commercial terms (in the form of microcredits through MFIs) but in the form of grants or matching grants.10 Such efforts are coupled with technical assistance to help farmers form producers’ associations or similar organization-building efforts, along with extension and business development services. However, the sustainability of markets created through such approaches is susceptible to failure because of problems associated with weak producer associations, difficulties of obtaining finance for fixed capital costs and complementary investments, and inadequate flow of information about business opportunities. The World Bank’s own assessments of matching grant-based efforts to link farmers to markets concluded that requiring cash contributions or bank loans as cofinancing from producers (instead of just in-kind contributions) is likely to increase sustainability, in particular for segments with some access to financial services. In addition, avoiding political interference and safeguarding the technical quality of the selected projects are essential in project design, and so are value chain analyses to clearly understand the market potential of the project (World Bank 2016, World Bank 2017b, World Bank 2017c). In a similar vein, IEG’s assessment of matching grants in the 2014
Innovation and Entrepreneurship attested a certain maker creation potential as such grants helped improve the performance of entrepreneurs and provided incentive for firms to take innovations to market. Yet, the report pointed at implementation problems around eligibility criteria, slow and costly implementation, low uptake, complex processing, reimbursement issues, budgetary procedures, and political interference. In the ICT sector, using subsidies to allow ICT infrastructure to reach rural areas requires careful design to account for high service costs and infrastructure development.\(^{11}\)

Note that the recently introduced IDA Private Sector Window and other blended finance tools anticipate the subsidization of private investments via, for example, first-loss structures. The sustainability of these newly introduced market creation tools is yet to be evaluated.

**The Channels of Market Creation**

The IFC has worked toward market creation through a wide range of channels. These channels include (i) innovation, (ii) demonstration effects, (iii) integration, and (iv) enhanced firm-level skills and governance (see theory of change in figure 1.2). Although the World Bank, IFC, and MIGA are all active “downstream,”\(^ {12}\) providing financial or advisory support to companies and market actors, IEG encountered *mostly* IFC interventions in its case studies.

Overall, the leading channel through which IFC contributed to market creation was innovation (figure 2.2). Excepting integration, which was only observed in agribusiness cases, all channels were observed to varying extents across all three sectors. Most of the innovation and demonstration effects were observed in the agricultural case studies.\(^ {13}\) By contrast, demonstration effects were stronger in financial inclusion.

**Figure 2.2. Market Creation Channels of International Finance Corporation Investments**

![Chart showing market creation channels of International Finance Corporation investments.](image)

*Source: Independent Evaluation Group case studies.*
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**Innovation**

Innovation was the most prominent channel through which IFC has contributed to market creation. Though encountered in all three sectors, it was most prominent in agribusiness, primarily because of the use of innovative finance tools, including blended finance or risk-sharing facilities, as potential solutions for value chain integration efforts. This finding is in line with the Bank Group’s own conclusion on the key role of concessional funding which can help “to bridge gaps and address market barriers that prevent private sector investment in areas such as smallholder and SME inclusion, and access to finance” (World Bank 2018, 34). Box 2.2 summarizes results of applying such innovative financial instruments in agribusiness and agriculture cases covered by this evaluation. Note that the term *innovation* here refers to something (for example, a product, service, finance mechanism, process, or delivery model) that is new in the local context.

Innovative financing solutions are important in agribusiness because they improve reach for the smaller producers in agribusiness value chains. Traditional financing instruments address some of the finance constraints for small holders (for example, through microfinance or matching grants) or the medium to large producers for example, through blended or commercial finance). Yet, the economics of lending to the segment between “micro-sized producers” and medium to large producers, that is, of small agricultural producers who fall between these two extremes, remains untenable for most lenders (CSAF 2018). This segment of underserved producers is described as the “missing middle” in the literature (MIT 2015; CSAF 2018). Figure 2.3, panel a, shows the illustrative gap by type of traditional lender based on lender portfolio analysis (CSAF 2018).
Box 2.2. Innovative Instruments to Expand or Create New Markets in Agribusiness and Agriculture

Blended finance: The Global Agriculture and Food Security Program (GAFSP) and the International Finance Corporation (IFC) co-investments through the Private Sector Window provide affordable funding on less demanding terms to companies partnered with smallholder farmers as part of their overall value chain. Complementing the investments are advice and technical support to businesses and farmers. This joint support helps them not only to improve their productivity but also their ability to meet standards and to access new markets. For example, in the Solomon Islands, IFC and GAFSP developed a blended finance package of $30 million and Advisory Services to promote best practices in environmental and social risk management to support sustainable tuna production with National Fisheries Development. With this support, the company has established a more robust operation, processing almost three times more fish per year than previously, gaining access to the export markets, and providing these markets with the needed quantity and quality of tuna.

Risk-sharing facility: In Ukraine, a risk-sharing facility supports access to finance for farmers to mitigate their risk exposure. The program financed 121 small and medium enterprise farms and 209 purchases in 2015, a significant increase over 54 such farms and 86 purchases in 2012. The program offered farmers a lifeline in a period when credit was unavailable (because of the global financial crisis) with interest rates much lower (4–5 percent) than bank loans (up to 30 percent). This program contributed to the creation of a bigger, more efficient market for financing farmers’ purchase obligations. Following the Bayer Financing Program’s success, IFC implemented risk-sharing facilities with other agribusiness companies and banks in a few countries in Africa.

IFC Advisory Services for farmer organizations. In Zambia, IFC’s Zambia Emergent Farmers’ Program was an innovative financing scheme for agribusiness launched as an IFC Advisory Service in cooperation with the Zambia National Commercial Bank PLC and Rabobank Foundation. The emergent farmers program was strongly based on the concept of value chain development and finance and demonstrated that considerable productivity improvements could be obtained by a combination of financial and nonfinancial support to these farmers.

Source: Independent Evaluation Group case studies.

This explains why IFC would find it difficult to reach this “missing middle” in agribusiness with its traditional micro and commercial financing instruments. At current investment levels, IFC reaches only the larger missing middle agribusinesses in a limited number of cases and often in conjunction with blended financing instruments such as GAFSP. The IFC and GAFSP blended investment in Madagascar’s SMTP Group is one such case; each institution invested $1.5 million of its own accounts (SPI 2015). But such small investments are rare; the median investment size in low-income countries hovers around $10 million; figure 2.3, panel b, shows the distribution of total net commitments in the IFC agribusiness portfolio, illustrating the limited coverage of the missing middle segment. Hence the importance of the innovative finance solutions.
This challenge suggests the need for a revised approach— one that leverages IFC AS to target capacity constraints along the value chain and elevates market actors into viable investment partners. In cases where market actors along a value chain are too small to be served by traditional financing instruments, IFC can leverage its advisory arm to enhance the technical and business capacity of such value chain participants in a manner that IFC investment could not. In other words, IFC AS offers an option to engage with limited risk exposure for IFC and can be cost-effective for those receiving the advice, given IFC’s ability to pool financial resources. For this to deliver results, IFC AS needs to be grounded in a technical understanding of the value chain, target set value chain constraints, and keep specific domestic and export markets in mind. As the value chain develops, market actors along it should become viable for intermediary finance, blended finance, or direct investment by IFC or other lenders.

Engagement by IFC AS in Cambodia rice illustrates such an approach. IFC AS supported the spectrum of market actors along the Cambodia rice value chain, helping farmers increase their access to better seeds, helping rice millers reach international standards in quality and food safety, and helping rice exporters develop a differentiated strategy (high-value, aromatic rice) and strengthen their brand identity internationally. Facilitating the implementation of this advisory approach was the team’s technical understanding of the rice value chain in Cambodia.

Figure 2.3. The Challenge of Reaching Retail Agribusiness: The “Missing Middle”

![Graph showing the challenge of reaching retail agribusiness](image)

**Source:** Adapted from U.S. Agency for International Development and CSAF, (USAID, CSAF Financial Benchmarking Final Learning Report, July 2018) and IEG analysis.

**Note:** IFC IS = International Finance Corporation Investment Services, CSAF = Council on Small-holder Agricultural Finance.
In market creation efforts related to financial inclusion, innovation was less frequently identified as a driving factor. Approaches and techniques that the Bank Group supported across the five financial inclusion–focused case studies relied on rather traditional methods, including agent banking. Across cases, mobile payment systems or mobile banking services emerged but were not part of the Bank Group–supported package, except in the Kyrgyz Republic, where the 2016 IFC AS Digital Financial Services project aims at fostering access and inclusion in the country by means of mobile money.

Finance and technology (FinTech) interventions are important in market creation and represent a growing share of IFC’s portfolio. For IFC, FinTech is an emerging priority as per IFC’s 2017 Digital Finance Services strategy. The emphasis on FinTech is rather recent: 56 percent of FinTech projects were approved after FY16. A preliminary analysis found that FinTech investments currently represent approximately 5 percent of IFC’s financial and insurance sector portfolio (in terms of volume). FinTech is emerging in World Bank operations as well. A keyword search in the World Bank’s operational portal resulted in the identification of 10 current World Bank projects that included a FinTech angle. In 2018, the Bank Group in conjunction with the IMF delivered a blueprint to harness the opportunities in FinTech through the Bali Fintech Agenda which proposes “a framework of high-level issues that countries should consider in their own domestic policy discussions and aims to guide staff from the two institutions in their own work and dialogue with national authorities.” (IMF 2018).

Two thirds of the FinTech operations focus on electronic payment systems as an important backbone of the financial infrastructure. These systems frequently provide the infrastructure to allow for financial payment transactions between businesses and their customers and among online individuals. Two-thirds (66 percent) address payment infrastructure, 36 percent aim at providing electronic systems for the provision of credit or innovative solutions related to credit, including, for example, using big data–based credit assessment methodologies. Savings are not addressed, and micro insurance was present in only one project.

IFC’s focus in FinTech is on equity investments (78 percent of the FinTech portfolio) as the main instrument to help develop a nascent market segment. IFC’s FinTech investments support early and growth-stage FinTech companies around the globe, aiming to support their growth and expansion. These FinTech investments target companies with innovative business models with the potential to change the way financial services are delivered and hence create new markets. Globally, market entry from FinTech startups has the potential to disrupt $4 trillion in revenues and $470 billion of profits at existing financial institutions across the globe. Not surprisingly, FinTech is often referred to as a “disruptive technology” (Shadab 2016).
But such early-stage equity investments typically bear substantial risk that must be wisely managed. Given that these have only recently come into focus, to date only four IFC IS, one IFC AS, and one World Bank lending project have been evaluated. Initial experience suggests that IFC teams balance business projections with the expectations of returns. To grow the FinTech portfolio, IFC needs the right incentives so investment officers work in these nascent markets as such investments require more upfront work in relation to the rather small project volumes.

Evidence that electronic payment systems reach the unbanked or the poor is yet limited. End users and businesses served (usually SMEs) by these electronic systems may be banked or unbanked, but only 38 percent of projects have identified the unbanked or other underserved segments of the population as their target group and have explicit plans to address their constraints or provide services for them. (Impact) evaluation and improved M&E could close this knowledge gap.

The World Bank also works on innovation in financial inclusion. Efforts include support to payment systems, focusing on social protection payments and government-to-person payments, but also encompass electronic know-your-customer pilots. In addition, the World Bank works toward country programs addressing innovative models of delivering financial services in country programs. In a similar vein, several knowledge and research products address innovation in financial inclusion (by the Development Economics Vice Presidency or the global Consultative Group to Assist the Poor [CGAP]).\textsuperscript{20, 21} In addition to CGAP, the World Bank works through partnerships toward digitization of financial services: for example, the Digital Economy for Africa.

These findings once more underline the need for a strong emphasis on innovation in expanding financial services to the underserved. Pursuing a bold FinTech agenda is likely to allow leveraging technology and innovative platforms – the way forward with financial inclusion. Such a strong emphasis on FinTech is in line with the 2015 IEG evaluation \textit{Financial Inclusion – A Foothold on the Ladder toward Prosperity?} which called on the Bank Group to find and replicate innovative delivery models through a sequenced and evidence-based approach to innovation (IEG 2015c).

**Demonstration Effects**

Demonstration effects were the second most prominent channel for market creation. Though it was observed across all cases, it was most visible in the establishment of a new ICT market in East Africa. The EASSy created ICT markets and had a demonstration effect beyond the project with positive externalities for the entire East Africa region. IFC’s support to the West Indian Ocean Cable Company, which resulted in the construction of the EASSy cable, was “catalytic” in the building of other submarine cables in the region.\textsuperscript{22} It even induced further competition for
telecommunication capacity, contributing to the creation of more inclusive markets. The arrival of two more cable companies, SEACOMS and TEAMS, has introduced strong competition between the cable systems, reflected both in pricing and scope of services.23

Demonstration effects were also observed in creating markets case studies for financial inclusion, albeit with less pronounced sector wide impacts. In these cases, the demonstration effects were achieved through pioneering investments. Such pioneering investments often encompass early movers that help “test the waters,” in case of yet new regulatory regimes. For example, in Madagascar, IFC contributed to creating an MFI market by supporting the establishment of two greenfield MFIs as part of IFC’s Africa Microfinance Initiative.24, 25 Access Bank Madagascar (ABM), for example, established a sustainable model of commercial microfinance lending that followed best practices in Madagascar and achieved remarkable levels of mobilization of deposits (i.e. savings). IFC AS was crucial in helping establish ABM and allowing the second investee company, MicroCredit Madagascar, to leverage technology to improve its rural reach. However, the demonstration effects of these investments were less sweeping than those of the above referenced ICT investments. Although financial inclusion progressed incrementally in the country, overall inclusion rates remain low.

Evidence suggests that demonstration effects are higher when the private sector has the right incentives and the “markets are ready to move.” Castalia (2013) concluded that demonstration effects of IFC investments can be pronounced in a market that is ready to move, that is, information or technological barriers have been removed or regulatory barriers addressed, and potential entrants are waiting for a signal or new piece of information. The same study found that demonstration effects are more pronounced when signals of profitability are strong, indicating that private investors are able to make money. This may explain the success in market creation in the ICT sector in East Africa, reinforced by the fact that cost recovery and, hence, commercial operations is generally easier to achieve in ICT than in other infrastructure sectors such as water. By contrast, cost recovery is difficult when trying to provide financial services to the base of the pyramid, which may explain the more limited impact of demonstration effects in creating markets in this sector.

Earlier IEG work provides additional evidence on the channel of demonstration effects for market creation. In infrastructure investment through PPPs, IEG found that World Bank Group–supported PPP transactions often created a market for PPPs through their demonstration effects and, at times, helped shape the regulator environment for PPPs. Demonstration and replication effects of individual PPP projects were often considered as important as the actual transaction (IEG 2015).
Chapter 2
Catalyzing Market Creation

The literature also points to the important role of development finance institutions in setting demonstration effects under certain conditions. Spratt and Ryan-Collins (2013) conclude in their systematic literature review that development finance institutions play a key part in fostering development in beneficiary countries by encouraging subsequent private sector investments with developmental effects by providing an example of success (demonstration effects).

Enhancing Skills and Governance

Improving governance structures, processes, and capacity at the firm level was another channel for market creation, supported mostly by IFC AS. Such support was observed evenly across all three deep dive sectors (figure 2.2). In Peru, for example, IFC contributed to market creation for financial inclusion by concentrating on improving the governance structure of Financiera Confianza, a nondeposit-taking regulated financial institution trying to transform into a deposit-taking financial institution.26

IFC also contributed to market creation in the ICT sector by enhancing the managerial skills of SMEs in Papua New Guinea and advising on optimal governance structures for the EASSy project in Eastern Africa. Through the Papua New Guinea Digicel project, IFC aimed at developing the managerial capacity of SMEs in Digicel’s distribution chain by using IFC’s Business Edge training tools to address performance gaps such as poor selling and customer practices and lack of managerial skills and poor planning. For the EASSy project in Eastern Africa, IFC advised on optimal institutional and governance structures for the implementation, operation, and maintenance of the core national backbone networks. Through this project, IFC successfully connected Kenya (and several other participating countries) with the international ICT network, leveraging substantial private sector participation and financing from several development partners.

The World Bank contributed to market creation by enhancing the skills of small-scale farmers in Peru and Madagascar. In Peru, through the Sierra Rural Development project, the World Bank aimed at improving market access and competitiveness while increasing the production quality and productivity of small rural businesses. At closing, the project successfully achieved its objectives, benefiting about 2,500 more households than expected. Similarly, in Madagascar, the World Bank, through the Rural Development Support Project, focused on building the skills of small-scale farmers and financing of productive investments to help integration of small rural businesses into value chains.27

Integration Effects

Integration, the least frequently identified channel for market creation, was mainly observed in the agribusiness and agriculture sector, where it helped actors along value
chains gain access to markets. The Bank Group deployed a broad spectrum of financing and firm-level interventions to strengthen links along value chains. Such interventions help farmers become organized, so they can increase their scale and ability to become suppliers for other market actors along the value chain. These instruments include (i) financial support through matching grants (World Bank), finance through intermediaries (World Bank and IFC) or direct finance (IFC IS); and (ii) advisory and technical assistance for market actors, including farmers, processors, aggregators, distributors, and service providers.

But evidence from the literature, IEG case studies, and portfolio analysis suggests that it is difficult to achieve positive results through market integration efforts. Projects in IEG case studies that aimed at integrating small-scale producers and SMEs into value chains showed mixed results: successful in Cambodia but limited in scale in Ukraine and the Solomon Islands, and limited in results in Paraguay. For details on results and lessons, see box 2.3.

To realize market integration opportunities, a more granular and value chain–focused view is important. IEG cases provided evidence that the Bank Group has difficulties pinpointing gaps in specific value chains. The identification of market gaps specific to market actors and value chains within countries was less prevalent, resulting in weak targeting of interventions and missed opportunities. This is corroborated by IEG’s portfolio analysis of Bank Group agribusiness projects focused on market access. This analysis found that of the 81 market-focused projects, only 38 articulated well and explained in detail their focus on market access by describing what the market is, what the specific mechanisms to link farmers with their respective markets are, the needed understanding of specific products, and how to market these. To sum up: because agribusiness markets are often narrowly defined along product lines, taking a granular, value chain view is important to ensuring that the right market gaps are tackled in a manner relevant to the market actors and transactions, for example, buyer-seller relationships, along the value chain.
IEG’s earlier work on the rural nonfarm economy likewise underscored the need to target IFC’s value chain interventions well. An examination of upstream and downstream linkages in the IFC value chain investment portfolio revealed that IFC interacts along several points of the chain, and that this integrated approach has been increasing over time with positive rural employment outcomes along the value chains, provided IFC’s support was targeted well (IEG 2017c).
Market access and integration efforts in agribusiness face a policy dilemma. Providing market access and integrating value chains in agribusiness can have unintended side effects on forest management and climate change, for example. Although Bank Group environmental and social safeguards provisions limit negative environmental effects to some extent, supporting the certification of animal-based production still poses challenges beyond what is regulated in the E&S safeguards, raising the question of whether the approach is consistent with achieving the SDGs. For example, recent research highlights the environmental consequences of feeding the world’s population, noting that dietary behavior change that emphasizes a plant-based diet could help mitigate such consequences.

**MIGA—Channels and Drivers in Market Creation**

MIGA plays a vital role in market creation. Earlier IEG evaluations concluded that MIGA guarantee helps effectively increase investor confidence, improve capital raise capacity, and lower financing costs. MIGA’s political risk insurance often allowed investors to enter markets in which certain risks were high, and they would not have entered without MIGA’s presence. For example, according to the IEG public-private partnership (PPP) evaluation, many projects would not have been able to get off the ground without MIGA’s involvement because the principal lender or equity holders requested MIGA coverage for their investments.

Results of a portfolio-based assessment. As MIGA’s guarantee projects were barely covered in the case-based approach of this evaluation, IEG conducted a portfolio-based review (see Appendix G). Evidence from this limited portfolio review suggests that MIGA’s support has contributed to increased competition in markets, introduction of innovative financial products, or enhanced market reach and access. Common channels through which MIGA Guarantees contribute to market creation are: i) market expansion, ii) fostering competition, iii) demonstration effects, iv) innovation of product/services, and v) knowledge and technology transfer.

An important lesson learned is that proactive communication and monitoring increases the chance of achieving satisfactory outcomes and so does a sound assessment of business risks. In addition, the analysis revealed that cooperation and coordination between MIGA, other World Bank Group organization, and other development agencies is positively correlated to satisfactory PSD ratings, hence appears to be the promising way forward to extend markets. Supporting an innovative project in a high-risk environment does not automatically guarantee a positive market creation impact. Business performance of the underlying project is crucial to the sustainability of market creation—an opportunity for MIGA to improve.
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1 The implementation of the partial portfolio credit guarantee helped increase the number of microfinance institutions (MFIs) to 30 (up from 25 in 2009), and the opening of 15 additional branches of two MFIs, OTIV Tana and VIOLAMAHASOA, that became operational in the Betsiboka and Anosy areas.

2 Wholesale backbone transmission markets were generally perceived as a key market bottleneck across cases. In the Dominican Republic, IFC invested in WIND Telecom, an existing but new wireless operator. Although the project was ultimately not successful, it helped the market through a reduction of prices. One challenge was that WIND’s technology, WiMAX, became outdated, which illustrates how in an industry such as telecommunications, fast-moving technology evolution affects the market. In Haiti, investments were directed to privatization, enhancing competition, and reducing prices. IFC loans to a new operator were, however, prepaid a year after disbursement. Yet, the support resulted in the reduction of prices, new mobile money service offerings, and increased service quality by competitors.

3 Even during the 2009 coup d’État that led Madagascar to a prolonged political and economic crisis, Access Bank Madagascar (ABM) was able to lower funding costs and limit interest expenses to less than 6 percent of total liabilities, compared with IFC projections ranging between 11 percent and 13 percent. By 2012, ABM became one of the top MFIs in the country with significant levels of mobilization of deposits and substantial market reach.

4 https://globalfindex.worldbank.org/

5 Most progress was made in mobile banking, where the share of adults having a mobile money account increased from 4.4 percent in 2011 to 12.1 percent in 2017 yet lagging behind the rest of Sub-Saharan Africa where 20.9 percent of adults have a mobile account. Access to formal financial services remains therefore a major challenge. Lack of risk mitigation tools, weak legal and oversight frameworks, and poor financial (and physical) infrastructure contribute to the challenge.

6 Globally, half of unbanked adults come from the poorest 40 percent of households within their economy, the other half from the richest 60 percent.

7 Notably in the financial inclusion case studies for Madagascar, Paraguay, Papua New Guinea, Peru, and the Kyrgyz Republic.

8 Only 30 percent have achieved their objectives of implementing universal access policies or increasing ICT access for the poor or underserved areas.

9 Most of the 16 IEG case studies witnessed the process of creating markets rather than observed established markets in an established equilibrium; hence, this evaluation does not intend to pass a judgment on the sustainability of markets in the long term.

10 Such a grant element may be warranted in case they address specific market failures, for example, demand-side constraints (both nonfinancial and financial) or supply-side constraints (such as lack of information or financial illiteracy) (World Bank 2017b and 2017c).

11 In Madagascar, efforts to extend the geographic reach of broadband networks were largely successful through subsidies for the passive infrastructure (68 towers); the Papua New Guinea case study underlines the challenges associated with such an approach: The IDA project created
the UAS fund to provide output-based capital subsidies, under a public-private partnership approach, but the fund run into difficulties and is not yet operational.

12 For example, the World Bank’s downstream efforts aimed at increasing micro, small, and medium sized enterprise (MSME) access to finance in Madagascar. The World Bank provided a partial portfolio credit guarantee (PPCG) scheme, coupled with technical advisory services and training. The implementation of the PPCG scheme was successful in as much as it led to an increase in the number and volume of credits. The capacity building delivered under the same project resulted in dedicated micro, small, and medium enterprise (MSME) departments within microfinance institutions (MFIs) to provide MSME-tailored services. Moreover, the project’s capacity improvement efforts contributed to six MFIs having now in place an improved management information system. The World Bank downstream effort that aimed at improving the capacity of MFIs for greater outreach and sustainability made significant progress in terms of capacity of MFIs, the modernization of their management information systems, and the extension of services in target regions.

13 Innovation and demonstration also go often hand in hand, one leading to the other.


15 https://disclosures.ifc.org/#/projectDetail/SII/36704


17 For IFC Investment Services the percentage is 42 and IFC Advisory Services 47 percent

18 Keywords used were: Fintech, Financial Tech; Digital Finance. Paired with Industry Sector Level 2: Digital Finance and Payments & FinTech. Secondary sector name: Financial Transaction Processing, E-wallets, virtual banks, Mobile channel service providers, Money transfer, remittances, Online payments, ecommerce payments. Retail Payment Points, Switching, switches. Virtual lending, P2P, crowdfunding. Tertiary sector name: Commercial Banking - Digital Finance [Project only], E-wallets, virtual banks, Mobile channel service providers, Money transfer, remittances, Online payments, ecommerce payments, Retail Payment Points, Switching, switches, Virtual lending, P2P, crowdfunding, Composite Insurance (Life and Non-life) - Digital Finance [Project only]

19 World Bank’s approach to FinTech is rather aligned with systemic changes to a country’s financial infrastructure – that is, payment systems – or through the improvement of the overall ICT network).

20 Lacking a more specific code for innovation or FinTech in World Bank projects, IEG relied on a keyword search in identifying such projects in a preliminary analysis; this search yielded, however, only five dedicated Innovation-related and FinTech projects. Keywords used were: Fintech, Financial Tech, Digital Finance

21 Hosted at the World Bank headquarters, the Consultative Group to Assist the Poor (CGAP) is identified as leading on microfinance, focusing on “sound policies and best practices” with “an increasing emphasis on the regulatory and market development implications of the use of modern technologies (e-banking, phone-banking).“
CGAP activities, intended to find “innovative solutions to address barriers to financial inclusion,” include “high-level advocacy, research and knowledge sharing on client demand, support for product and business model innovation, policy advice, and guidelines and standards for donor effectiveness.” Much of its activity is focused on generating and sharing “open knowledge, open data, and related practical insights of a public good nature,” and “private and public experiments” that demonstrate viable product and business model innovations.”

The Eastern African Submarine Cable System (EASSy) is a submarine fiber-optic cable running 10,000 kilometers along the East coast of Africa, connecting South Africa, Mozambique, Madagascar, Tanzania, Kenya, Somalia, Djibouti, Sudan, Comoros and Mayotte.

The first additional submarine cable, the African Cable System (“SEACOM”), is a private investor initiative with no telecommunications company sponsorship; the second cable, East African Marine System (“TEAMS”), is a single point-to-point connection from Mombasa (Kenya) to an international node in Fujaira (United Arab Emirates), sponsored by the government of Kenya and Emirates Telecommunication Establishment (“Etisalat”). Though not relevant for Madagascar, these two cables still add telecommunication capacity for the region. More relevant for Madagascar is the third cable, “LION/LION2,” which is backed by Mauritius Telecom, Orange Madagascar, and Telkom Kenya and links Madagascar to the global internet via Reunion and Mauritius. LION is connected to SAFE and EASSy, adding capacity and redundancy, the latter being an important feature in connectivity.

IFC’s support to Access Bank Madagascar (ABM) had a positive demonstration effect in microfinance in Madagascar because it has been able to sustain microfinance lending on commercial terms and follow best practices. ABM’s support, along with several other MFI investments, had demonstration effects and contributed to mobilizing savings—a phenomenon observed more broadly across the sector and particularly interesting, given that savings have positive welfare implications for the poor, even more than the provision of credit, according to the literature.

Pioneering investments may also involve innovation, that is, introducing new services, products, process, or delivery models, provided that such innovations find replications. Though these are conceptually possible, IEG cases did not identify such examples.

Because a stronger governance structure and internal organizational structure was needed to meet the higher requirements of a finance company, IFC conducted an evaluation of the organizational structure, assessed corporate governance practices and policies, and trained board and management regarding best practices in corporate governance. The IFC efforts helped strengthen the company’s governance structure, and the merger with Caja Nuestra Gente, a major international microfinance foundation, also helped resolve many governance issues.

The support mix included matching grants for productive investments, technical and business advice, and community development.

For example, a bank that obtains an IFC loan may not disburse this amount to farmers actively engaged in forest degradation.

A study published in *Science* explored a vast dataset covering nearly 40,000 farms and 1,600 processors, packaging types, and retailers across more than 100 countries to assess the impact of foods from farm to fork. It found that “while meat and dairy provide just 18 percent of calories and 37 percent of protein, it uses the vast majority—83 percent—of farmland and produces
60 percent of agriculture’s greenhouse gas emissions.” Similarly, a recent article in Nature found that the “food system [overall] is a major driver of climate change, changes in land use, depletion of freshwater resources, and pollution of aquatic and terrestrial ecosystems” and that the production of animal products was linked to the majority of food-related greenhouse gas emissions (72–78 percent of total agricultural emissions).
3. The Role of the Enabling Environment

Highlights
- The enabling environment for markets is essential. Markets were rarely, if ever, created by investments or firm-level advice alone, as evidenced boldly across most of the 16 case studies conducted, underscoring the relevance of the Cascade Approach where by World Bank would contribute to market creation through upstream reforms.

- When trying to achieve broader market creation effects, deficiencies in the regulatory and legal framework need to be addressed. Countries with limited experience in working with the private sector, such as many low-income or conflict-affected situation countries, are likely to face the greatest challenges.

- Good sector regulations are not enough. Market creation requires a broader view of country constraints, including country governance capacity and physical infrastructure.

- Resolving market constraints remains a challenge. Although the Bank Group designed a good program of action to address potential constraints to market creation in the cases studied, its experience in resolving these constraints is less favorable, attributable to complex project design and wavering government commitment.

- The high-quality work of Bank Group staff in structuring deals and providing advice was a recurring success factor. Likewise, the physical presence of Bank Group staff, their familiarity with local risks, and the quality of engagement mattered. Long-term policy dialogue, paired with flexibility, can help navigate political change. A narrower focus of reform efforts increases the likelihood of success, as does early and broad stakeholder involvement.

- Sector reform takes time—often longer than the World Bank default project time frame—particularly in low-income countries, where market creation efforts are vital. Yet, windows of opportunity exist for the private sector to invest and initiate the process of market creation, particularly with the support of new technologies. But many of these new technologies bring along new regulatory challenges and business risks.

- Systematic Country Diagnostics cover market creation opportunities and constraints in a too uneven manner. The new Country Private Sector Diagnostics provide a much more in-depth and structured assessment; the speed of their delivery, focus on conflict-affected situation countries, and integration into the Country Partnership Framework remain important issues.

The Power of Regulations and Good Governance
Markets were rarely, if ever, created by investments or firm-level advice alone, underscoring once more that IFC’s success depends to a significant extent on the World Bank’s support to country level policy frameworks but also to public investments. All IEG case studies point to the important role of the enabling environment. Deficiencies in the regulatory and legal framework were found to not only slow down the formation of
markets but also to jeopardize progress already achieved in building markets.\(^1\) This was evident in the case of IFC’s support to SolTuna in the Solomon Islands, where the scalability of the success depends on the government resolving land tenure issues. Or in the Malagasy MFI sector where deficiencies in the Central Banks’ oversight capacity potentially place the industry’s prospects at risk.

On a broader basis, deficiencies in the regulatory regime and weak sector policies and institutions were among the most frequently encountered shortcomings in the enabling environment. Across all three sectors, the top factors impeding market formation were related to weak laws, regulations, and policies (33 percent of cases), followed by poor governance, corruption, and transparency issues (30 percent of cases). Regulatory issues were particularly relevant for financial inclusion as well as for the emergence of an ICT market. Lack of adequate financial infrastructure was the second most prominent factor in financial inclusion cases, along with operational challenges of recovering costs when offering financial services to the poor. Sector policies, standards, and institutions mattered the most in market creation efforts in agricultural and agribusiness. Weak physical infrastructure was the second most pressing constraint impeding agricultural market and agribusinesses. The World Bank’s own assessment of market failures in agriculture value chains comes to a very similar conclusion, underscoring the significance of the enabling environment as well as the importance of physical infrastructure (roads, water and energy access) and of providing “public goods that help with market access such as food safety frameworks” (World Bank 2018, p.4 and p.22).

See box 3.1 on results and what drove success. For more details, see the Deep Dive: Agriculture in appendix D.

The need for regulatory reform to create markets is also broadly corroborated by 14 of 23 previous relevant evaluations, in the three deep dive sectors and beyond. The importance of regulations was seen in IEG’s 2015 financial inclusion evaluation, which revealed that for financial intermediaries to thrive, regulations and effective supervision have to be in place at the country level (IEG 2015c). Likewise, the 2011 ICT evaluation concluded that “projects where reforms have been successful have generated positive impact in terms of increased competition and enhanced access” (IEG 2011, 13). Other IEG evaluations underscore the need for regulatory reform as an input to private sector participation across other sectors including SME support, capital markets, infrastructure, agribusiness and forestry, and health, (see appendix G for an overview).
When trying to create markets that reach the poor, private sector investments perform better when combined with regulatory reform. Because of smart regulations paired with targeted subsidization, most of the IFC ICT interventions in IEG’s cases increased access among those at the base of the pyramid. The importance of regulation in reaching the unserved or underserved was highlighted by IEG’s ICT evaluation (IEG 2011), which found that providing access to the poor and underserved in rural areas requires effective policies and regulations—a finding confirmed by a recent systematic review by Thillairajan, Mahalingam, and Deep (2013). This systematic review looked in depth at 67 studies and concluded that private sector participation as a stand-alone attempt to induce reform has not achieved significant improvements in access to, and quality of, infrastructure services. However, when accompanied by appropriate regulatory and competition reform, it can have positive impacts. Regulatory reform is very relevant “for attaining equity objectives,” that is, for providing services in an equitable manner, including services to the poor. Similarly, IEG’s evaluation on financial inclusion concluded that interventions that aim at enhancing quality and food safety only deliver mixed results.

Lessons. The following factors emerged as affecting implementation: (i) delivering a suitable mix of instruments in a complementary manner to drive reform, and (ii) playing a convening role by bringing actors together to identify and develop common agendas and action plans.

Source: Independent Evaluation Group case studies and portfolio review.

Box 3.1. Regulating Quality and Food Safety: Essential to Access Markets

The International Finance Corporation’s support to food safety standards in Ukraine and the Solomon Islands underscores the relevance of food quality and safety interventions. In both countries such standards were a necessary condition for accessing export markets. In Ukraine, World Bank Advisory Services and Analytics and International Finance Corporation Advisory Services delivered a complementary effort in support of the harmonization of the country’s standardization system, legal framework for food safety, and technical regulations, eventually enabling it to conform to European Union requirements and boost exports.

Similarly, in Paraguay, where the outbreak of hoof-and-mouth disease in 2011 led the World Bank to include a component on cattle health and standards in the World Bank PRODERs project. Beyond these two examples, portfolio data and the literature suggest that improving quality and food safety standards in agricultural value chains can be a cumbersome process. Similarly, the IEG analysis of the Bank Group’s portfolio indicates that interventions that aim at enhancing quality and food safety only deliver mixed results.

A recent IEG survey of 3,000 institutional investors to explore investors’ current interests and concerns about emerging and developing countries underscores the importance of...
regulations for the investor community.\textsuperscript{5} For debt finance, the top five constraints include: government capacity (identified by 81 percent of respondents), host country regulations (80 percent), political, credit, and foreign exchange (77 percent) and financial regulations (76 percent; Narayanan 2018).\textsuperscript{6}

Countries with limited experience in working with the private sector, such as many low-income countries or fragility and conflict-affected situations (FCSs) are likely to face the greatest challenges in creating markets due to weaker regulatory frameworks. The relative investment needs of low-income countries are most acute because their investment gap to achieve the SDGs (as a share of gross domestic product) is on average more than three times that of middle-income countries,\textsuperscript{7} amounting to 153 percent of their gross domestic product (GDP), compared with 50 percent and 43 percent of lower-middle-income and upper-middle-income countries, respectively (see figure 3.1, panel a). Yet, regulatory quality is the weakest in low-income countries (see figure 3.1, panel b; Andrieu and Carbajo Martínez 2018). IEG’s earlier evaluation World Bank Group Assistance to Low-Income Fragile and Conflict-Affected States had already pointed out the weak business regulations in low-income countries and FCSs (IEG 2014a).\textsuperscript{8}

Because of weak policies and regulations, private sector investment in SDG-related sectors is relatively low, particularly in low-income countries. Only a fraction of the worldwide invested assets of banks, pension funds, insurers, foundations and endowments, and transnational corporations is in SDG-relevant sectors. Recent IEG evaluations of SDG-relevant sectors reveal the low share of IFC and MIGA involvement and, by implication, the scale of the private investment effort ahead. With a 29 percent IFC and MIGA share, the electricity access portfolio exhibited the highest private sector share, followed by health with 11 percent, urban transport with 8 percent, and finally, water supply and sanitation with 7 percent.\textsuperscript{9} Private participation is even lower in developing countries, particularly the poorest ones. Low-income countries accounted for 6.5 percent of the value and 10.5 percent of the number of PPP projects in all emerging market and developing economies (IMF 2017). These low levels of private sector investment are regrettable, because low-income countries, particularly those in Africa, face growing debt burdens, (IMF 2018).\textsuperscript{10}
Figure 3.1. Regulatory Quality Limits Private Sector Development

a. Investment gap in achieving Sustainable Development Goals and regulatory quality across income levels

<table>
<thead>
<tr>
<th>Average score of regulatory quality</th>
<th>Investment gap as share of the GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>-24%</td>
<td>Upper-middle income 45%</td>
</tr>
<tr>
<td>-54%</td>
<td>Lower-middle income 50%</td>
</tr>
<tr>
<td>-96%</td>
<td>Low income 153%</td>
</tr>
</tbody>
</table>

b. Correlation between investment gap and regulatory quality

Source: Independent Evaluation Group analysis based on data from Global Infrastructure Hub, G-20; World Development Indicators; World Bank: World Wide Governance Indicators.

Note: Description of regulatory quality: Regulatory quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. (Source: file:///C:/UMarket sers/wb373237/Downloads/rq.pdf).

But good sector regulations are not enough: market creation requires an even broader view that includes country governance capacity and physical infrastructure. At a basic level, property rights need to be introduced along with a sound judicial system with contract enforcement and land tenure management. In structurally weak economies or nascent markets, basic contract enforcement was observed to be vital across IEG agribusiness cases because value chains rely on enforcement of contractual obligations. In a similar vein, the lack of a land tenure system was identified in IEG case studies as a recurrent constraint impeding agricultural productivity and consolidation as well as using land as collateral. For example, in Ukraine, the land moratorium prohibits transactions involving agricultural land, impeding agribusiness development. Systematic Reviews by 3iE provide support for these observations. Aboal, Noya, and
Rius (2012) conclude that more effective contract enforcement promotes higher levels of investment. Likewise, a systematic review of 20 studies, largely in low-income and lower-middle-income countries, concluded that land tenure is an important issue and tenure formalization has produced significant gains in agricultural productivity. World Bank’s own assessment “Future of Food–Maximizing Finance for Development in Agricultural Value Chains” echoes these findings as it concludes that “an environment characterized by unclear property rights, constant policy changes and policy reversals, uncertain contract enforcement, and high corruption translates into lower investment and growth” (World Bank 2018, p. 25).

IEG’s case studies, especially in low-income countries, pointed to corruption, governance, and transparency as major constraints for market creation. Although this was true across all three deep dive sectors, the trend was more pronounced in the ICT sector. Weak infrastructure was a constraint in the agricultural sector in low-income and lower-middle-income countries. Box 3.2 illustrates how the lack of transparency hampers market creation.

The IEG investors survey and the literature confirm the case-based finding that market creation needs good governance and transparency. In IEG’s investors survey, 74 percent of respondents indicated rule of law and 77 percent political, foreign exchange market, and credit risks as a key constraint. Similarly, a broad-based systematic review of 90 studies indicates that interventions that strengthen governance and institutions and reduce overall corruption, are needed to complement sector-level focused interventions. Thillairajan and others (2012) confirm, for the infrastructure area, the presence of a strong link between positive project outcomes and good governance. The same systematic review concludes that interventions that focus only on sector-level issues are not sufficient; interventions that strengthen governance and institutions, and reduce overall corruption are equally important to achieve the desired outcomes. Therefore, the authors concluded that development agencies that focus on infrastructure development should also focus on bringing about improvements in broader areas like governance and institutions.
Nascent markets also suffer from a lack of access to physical infrastructure such as transport and energy. Lack of physical infrastructure was the most prominent constraint found across all six of IEG’s agricultural cases (see Deep Dive: Agriculture, in appendix D). Access to transport infrastructure through roads and river transport was a key constraint in Paraguay, where transport infrastructure is generally weak, ranking 124th out of 137 countries in the latest Global Competitiveness Index, the third worst score in Latin America after the República Bolivariana de Venezuela and Haiti. Such weak infrastructure makes it difficult for Paraguay’s crops and livestock to move from rural areas to cities and ports, thus impeding market integration along the supply chain. Similarly, in Madagascar, infrastructure is generally poor, but in rural areas it can be missing altogether, increasing the costs of production, aggregation, and processing along the value chain. Inadequate rural transport infrastructure increases the average cost of goods produced in rural areas and prevents producers from reaching markets and aggregators from reaching producers. The IEG evaluation of the rural nonfarm economy concluded that “rural connectivity has been enhanced in transitioning countries that have strategically used both transport and agriculture finance, but this has

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Box 3.2. The Lack of Transparency Hampers Market Creation

Weak governance, corruption, and lack of transparency are powerful detriments to private sector development and market creation, as illustrated by cases in Ukraine and Madagascar.

**Ukraine.** Corruption and state capture have been entrenched and are a dominant impediment to private sector development and competitiveness in Ukraine. A small number of oligarchs dominate large sectors of the Ukrainian economy, extracting rents and influencing public institutions, including through direct representation in political parties and the parliament. Thus, a highly concentrated and anticompetitive production structure characterizes the country, inhibiting productivity and job creation, while weaknesses in the management of public resources impedes delivery of effective services. In this context, Ukraine needs deregulation, more effective implementation of competition legislation, and improving corporate governance of ineffective state-owned enterprises to create a level playing field for the private sector.

**Madagascar.** According to surveys such as the Doing Business and Enterprise Survey, Madagascar is one of the most difficult countries in the world in which to do business. A partial justice system and uncompetitive market structures in many sectors—more predominantly in financial inclusion and ICT than in agriculture—affect the private sector and the country’s competitiveness. Sectoral growth is also constrained by weak governance and a poor business environment, recurrent political crises, as well as poor access to social, financial, and physical infrastructure. Consequently, low levels of investment are generated in the country. In this context, the persistent prevalence of corruption (especially in the judicial system) and the lack of legal security undermine the enforceability of contractual rights, increase costs, and favor “rent seeking” over value creation.

*Source: Systematic Country Diagnostics Madagascar and Ukraine.*

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Nascent markets also suffer from a lack of access to physical infrastructure such as transport and energy. Lack of physical infrastructure was the most prominent constraint found across all six of IEG’s agricultural cases (see Deep Dive: Agriculture, in appendix D). Access to transport infrastructure through roads and river transport was a key constraint in Paraguay, where transport infrastructure is generally weak, ranking 124th out of 137 countries in the latest Global Competitiveness Index, the third worst score in Latin America after the República Bolivariana de Venezuela and Haiti. Such weak infrastructure makes it difficult for Paraguay’s crops and livestock to move from rural areas to cities and ports, thus impeding market integration along the supply chain. Similarly, in Madagascar, infrastructure is generally poor, but in rural areas it can be missing altogether, increasing the costs of production, aggregation, and processing along the value chain. Inadequate rural transport infrastructure increases the average cost of goods produced in rural areas and prevents producers from reaching markets and aggregators from reaching producers. The IEG evaluation of the rural nonfarm economy concluded that “rural connectivity has been enhanced in transitioning countries that have strategically used both transport and agriculture finance, but this has
not occurred in the agrarian economies [nascent agribusiness markets]” (IEG 2017c, 14). Similarly, World Bank’s own assessment concluded that “the performance of agricultural value chains is also dependent on other sectors such as water, energy, and infrastructure” (World Bank, 2018, p. 4).

These findings from case studies are also reflected in enterprise survey data. According to the International Monetary Fund (IMF), the quality, quantity and accessibility of economic infrastructure in low-income countries lag considerably behind those in advanced and emerging market economies, with the gap particularly large in the power sector (IMF 2017). Firm-level data compiled by the World Bank as part of the Enterprise Surveys confirm the presence of large gaps in access to electricity, water, and transportation infrastructure, and indicate that such gaps are an actual constraint on the real economy.16

IEG’s earlier evaluative work corroborates the need to take a broad-based approach, cognizant of underlying governance issues. IEG’s synthesis report on Bank Group engagement in upper-middle-income countries found that often the World Bank focuses on streamlining administrative procedures without addressing the core underlying governance or policy issues.17 The Bank Group has faced difficulties in helping its higher-income clients alleviate binding constraints in business environments, often because of political economy constraints (World Bank 2017a). This is especially relevant to the IFC experience in upper-middle-income countries, which partly reflects the prevailing IFC business model of implementing its investment climate projects through standalone advisory services. Consequently, in many instances the emphasis was on streamlining administrative procedures but not on addressing the core underlying policy issues. Moreover, political instability remains one of the main factors hampering the effectiveness of investment climate reforms (World Bank 2015). Equally, the 2015 PPP evaluation by IEG confirms the need for transparency with regard to procurement, renegotiations and performance monitoring (IEG 2015a).

In summary, the evidence points to the significance of the “cascade” approach as a tool for implementing the Bank Group’s Maximizing finance for Development (MFD) objectives, with its focus on remedying the obstacles that block private sector solutions and help client countries create markets.

Analytical Work and Policy Dialogue: Key Ingredients in Preparing an Enabling Environment

The preceding section unambiguously identified the broader enabling environment as a key ingredient of market creation. To develop a program of Bank Group interventions that helps client countries establish an adequate enabling environment, the Bank Group
needs to have a firm understanding of what market creation opportunities there are and what constrains market creation in a particular country.

**Identifying Market Creation Opportunities and Constraints**

Central to the World Bank Group’s engagement with a client country and its country programs are the Country Partnership Frameworks (CPFs; previously, Country Assistance Strategy (CASs). CPFs are prepared based on the SCDs, involving intense country-level policy dialogue. SCDs cover the entire country and all relevant economic sectors; they build themselves on—and integrate—other sectorial diagnostics and more targeted assessments. In addition to SCDs, in 2017 the Bank Group launched a private sector-focused assessment tool, the CPSD in the context of rolling out the Bank Group’s MFD agenda. CPSDs are intended to support the SCD process and hence also feed into the CPF development process.

**Systematic Country Diagnostics**

Even though SCDs were not designed with the primary purpose of identifying market creation opportunities, they provide a tool and process to assess constraints and drivers of opportunities for increased private sector engagement in a country. According to the SCD guidance note, such an assessment would consider all relevant factors, such as the country’s stage of development, resource endowment, geographical position, proximity to markets, growth drivers, size and role of state-owned enterprises, and the government’s role in ensuring a level playing field. More specifically, at the sector level, SCDs provide an opportunity to better understand “sector-specific constraints for private sector investments and instruments that foster healthy and commercially sustainable markets” (World Bank Group 2016, 8).

Coverage of the private sector agenda is uneven across SCDs. Only 25 percent of SCDs present a sufficiently detailed analysis of issues relevant to the private sector in order to be useful for a market creation agenda. Of the 89 SCDs prepared, 22 have high-quality coverage of issues relevant to market creation and private sector growth, based on IEG’s analysis against criteria of depth, breadth, and consistency of coverage (figure 3.2). These reports were analyzed in greater detail to identify useful features for preparing an analytical basis for market creation. Box 3.3 presents “good practice” examples of SCDs with exemplary assessment of a country’s private sector development agenda and market creation opportunities.
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Figure 3.2. Private Sector and Market Creation in Systematic Country Diagnostics

Note: All 89 Systematic Country Diagnostics were subject to review by IEG (left side) with the 22 high-quality SCDs subject to an in-depth coding analysis to identify specific relevant features (right side). PSD = private sector development.

Only 11 SCDs (or 12 percent) identify actual opportunities for the private sector to engage and only 8 (or 9 percent) present a clear understanding of the areas where market creation is an option. Most SCDs do not discuss the real comparative advantages a country and most importantly certain specific niche sectors may have, and how the private sector could come in to exploit such opportunities, which in turn, drives growth and welfare improvement.

Although a well-managed public sector also matters to achieve private sector–led growth, only 16 SCDs (or 18 percent) analyze it well. Deficiencies in how the public sector is managed have repercussion effects on how the private sector can operate. Only 16 SCDs present a good analysis of the interplay of public and private sector issues, including issues of regulation, role of state-owned enterprises, governance, corruption and elite capture, and resulting effects on investor confidence. For example, Tunisia’s SCD is explicit about governance challenges, including the role of state monopolies.23

In summary, the above analysis confirms the preliminary findings of a 2017 IEG assessment of the SCDs. The evaluation *An Early-Stage Assessment of the Systematic Country Diagnostic and Country Partnership Framework* concluded that “overall, IFC and MIGA participation was more evident in the SCDs and CPFs than under the previous [Country Assistance Strategy] approach” (IEG 2017b). Yet, private sector analyses in future SCDs need to go beyond a discussion of general policy constraints to include a more business-oriented and granular analysis of a country’s private sector.
In 2017, the Bank Group introduced the CPSD in support of the implementation of the MFD agenda.\textsuperscript{24} The CPSD is intended to identify market creation opportunities “by looking systematically across all the main economic sectors in a given country.” Like SCDs, CPSDs should spur private sector–led growth, but they take more of an “investor perspective in reviewing all economic sectors to identify opportunities for action.”\textsuperscript{25}

So far, CPSDs have been finalized for 2 countries out of 132 Bank Group client countries.\textsuperscript{26} CPSDs have been prepared for Ghana, Kazakhstan, (Rwanda and Nepal). In addition, 21 CPSDs are in the pipeline, scheduled to be completed between September 2018 and January 2019, including 13 IDA countries (56 percent of the pipeline), of which 9 are from Sub Saharan Africa (SSA), and 4 from FCS countries.

Structural features of CPSDs and their in-depth coverage of market creation constraints and opportunities make them a useful tool. Based on a desk review of the two pilot CPSDs, IEG identified four positive features:\textsuperscript{27} The predetermined structure includes a

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**Box 3.3. Good Practice Examples of Systematic Country Diagnostics and Market Creation**

**Kazakhstan.** Regarding the role of the private sector, Kazakhstan is at an important crossroads. Ongoing structural and institutional reforms aim to reduce the role of the state in the economy and facilitate the development of a stronger private sector, particularly in the nonoil sector. In pursuit of this ambition, this SCD excels in elaborating the need for and potential of further integrating the country’s economy into regional and global market as a key opportunity to bolster faster private sector–led growth. The SCD dedicated an entire chapter to outlining the opportunities, potential benefits, and constraints for Kazakhstan to better integrate into regional and global markets. It also elaborates on the impact of previously discussed private sector constraints and the repercussions on integration. This in-depth analysis in the SCD, builds on the Country Private Sector Diagnostics that had been prepared previously for Kazakhstan.

**Madagascar.** Though Madagascar is one of the most difficult countries to do business in, its SCD identifies a range of opportunities for private sector to investment. For example, the SCD delineates market creation opportunities in the textile and garment industries, agribusiness, tourism, fisheries, and extractive industries relying on its analysis of the availability of a relatively literate workforce, improved productivity of the labor force, and improved infrastructure. The SCD also underlines the importance of a revival textile industry to the two industries’ vertical integration, higher value added, and the country’s welfare improvement. Moreover, the SCD is exemplary in analyzing the interplay between private and public sector. The Madagascar SCD serves also as good practice example of presenting a consistent and comprehensive view of the role of the private sector.

macro and cross-sectorial analysis, followed by deep dives in 2–4 sectors where teams expect private sector participation opportunities to materialize in near future. However, this bears the risk that sectors where more comprehensive reforms would be needed get sidelined. Though the breadth of discussion of private sector-issues was found even across the pilot CPSD documents, the depth of the deep dives varies. In-depth coverage is desirable from an analytical point of view, but the question is whether deep coverage is affordable and sustainable with all outstanding CPSDs.

In many respects, CPSDs respond to previous IEG recommendations. For example, the 2015 PPP evaluation called for a more strategic use of PPPs, based on the country-level readiness and infrastructure requirements. Similarly, the 2016 financial inclusion evaluation recommended that the Bank Group should implement a systematic diagnostic tool for financial inclusion to guide its work in countries. Hence, scaling up CPSDs and achieving wider coverage of client countries corresponds to several IEG suggestions to address the private sector development more strategically agenda at the country level.

Timing in delivery of SCDs, focus on FCS, independence in drafting CPSDs, and integration in the CPF process have emerged as important lessons. Instead of the envisaged 6 months, the preparation of the pilot CPSDs took 12–18 months, suggesting that timing and innovating approaches to accelerate the process are essential. Stakeholder consultation is needed to create the necessary buy-in, including by private sector investors, to ensure that the proposed market creation opportunities are also realized. Yet such consultations slow down the process.

The verdict is yet outstanding on the effects that CPSDs will have on the articulation of a private sector agenda in CPFs and Joint Implementation Plans. The 2017 early assessment of SCDs and the CPF process pointed to difficulties in integrating a private sector agenda in CPFs. It concluded that, although the new approach improved coordination and collaboration among Bank Group entities, the discussion of private sector development in the CPFs tends to be driven by the World Bank, not fully integrating the perspectives of all three Bank Group institutions (IEG 2017b).

Other Analytical Tools
Beyond country-level assessment, the Bank Group deploys various analytical tools to identify market creation opportunities or constraints to them. Across the 16 case studies, the most common approaches were private sector development–focused formal analytical work, for example, FSAPs, ICAs, and supply- and demand-side analyses of constraints to financial inclusion. In the agribusiness space, the World Bank’s analytical efforts under the Enabling the Business of Agriculture program were found important contribution across several agribusiness cases (Ukraine, Peru and Cambodia), These
reports measure barriers for businesses operating in agriculture and have, to date, been prepared for 62 economies. The quality of Bank Group engagement with the local government, the depth and quality of the analytics, timeliness and actionability, government commitment, and skills of Bank Group staff, paired with relevant sector experience facilitated the identification of market opportunities and constraints.

Informal interactions with market players and investors during missions, interactions leading up to or contributing to project preparation, followed by policy dialogue, were the other instruments and approaches observed (in descending order of importance). Looking at individual sectors, formal analytical work was the most frequent tool used to identify market constraints in financial inclusion interventions and in the ICT sector; formal analytics was less frequently observed in agriculture and agribusiness.

To identify market constraints in agriculture, IEG cases suggest that a granular and value chain–focused view is important. IEG cases provide evidence that the Bank Group has not been able to pinpoint gaps in specific value chains in a systematic manner. By contrast, the identification of market gaps in case studies specific to market actors and value chains was less prevalent and resulted in weak targeting of interventions and missed opportunities. Because agribusiness markets are often narrowly defined along product lines, taking a granular, value-chain view is important to ensuring that the right market gaps are tackled in a manner relevant to the market actors and transactions—for example buyer-seller relationships—along the value chain.

Once the Bank Group identified factors that constrain market creation, it did a good job in designing a program to address them. In 80 percent of cases and across all sectors, the Bank Group addressed the identified cases well, according to IEG’s case studies. It did so by using a well-considered and concerted approach or through a dedicated component. See box 3.4 for examples.
However, actually resolving the constraints turned out to be a more challenging task. In 80 percent of IEG’s case studies, the Bank Group has faced difficulties or has been unsuccessful in addressing market constraints. Three exceptions are interventions in Kenya and Madagascar in the ICT sector, and in the Kyrgyz Republic in financial inclusion.

This evaluation confirms a range of factors that contributed to establishing an enabling environment for market creation.

- **The quality of project design and a rather narrow scope** were important factors in resolving constraints to market creation. More narrowly focused reform efforts tend to achieve their objectives better (as evidenced in IEG 2015a, 2015b, and 2015c).

- **The quality of the underlying analytical work** was—once more—identified as a success factor in resolving the market constraints. Cases suggest that the better the analytical basis for an intervention, the higher the chances of the upstream reform having success (as evidenced in IEG 2015a, 2015b and 2014b).

- **Government commitment** is key to needed reform efforts. Changes to the policy environment and governance structure of a country are political in nature. In the case of PPPs, creating political commitment, however, is not the same as “lobbying” for PPPs. The latter may result in a fragile commitment based on uninformed or biased political consensus, which increases the risk of PPP failure (IEG 2015b).
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- **Long-term policy dialogue and design flexibility** can help navigate political change. The political landscape can change over the years that a reform process can take; therefore, the Bank Group often faces the challenge of staying engaged and keeping up the policy dialogue (see box 3.5 for an examples) (as evidenced, for examples in IEG 2017).

- **Early and broad stakeholder involvement** was among the top factors across IEG’s case studies that contributed to resolving constraints to market creation. Similarly, a Systematic Review by Thillairajan and colleagues (2012), found that community participation is seen as quite effective in improving project outcomes in market creation in infrastructure. Engagement with civil society and raising public awareness about the pros and cons of private sector involvement are essential to achieving a consensus on the role of each side (as evidenced in IEG 2015a).

**Box 3.5. Creating Markets during Politically Turbulent Times**

**Madagascar.** Despite recurrent political crises in Madagascar, the World Bank’s efforts were relentless and timely, with continued engagement over several project cycles, starting with sector reform in 1999, until 2018. The team proactively restructured the financial sector assistance project several times in response to ongoing circumstances, shifting the project focus to private sector activities such as multilateral financial institutions and micro, small, and medium enterprises, which needed the most support. Keeping the project open rather than closing it during the period of political instability also allowed for immediate re-engagement once stability returned.

**Paraguay.** By contrast, in Paraguay, the World Bank Group was effective in setting the financial inclusion agenda in motion, both through IFC investments and through support to develop the National Financial Inclusion Strategy (NFIS). But plans that would allow the World Bank to continue its support during implementation of the NFIS did not materialize. This left the Central Bank of Paraguay without the needed resources, resulting in wavering commitment by the various stakeholders to support the implementation framework once established for the NFIS, and leading to a policy “vacuum” with only 50 percent of the NFIS milestones achieved.

*Source: Independent Evaluation Group sector deep dives.*

This evaluation also underscores the role that IFC staff’s high-quality work played in creating markets. The quality of due diligence, structuring deals, and providing advice was a recurring success factor across the case studies (box 3.6; see appendix G). For example, per IEG’s PPP evaluation, to turn deals into sustainable projects, it is important to balance private sector revenue expectations and public objectives, optimize risk allocation across parties involved in the deal, and minimize revenue fluctuations (IEG 2015b).
Creating markets efforts also benefited from the physical presence of Bank Group staff, their familiarity with local risks and the quality of engagement. For example, in the Madagascar financial inclusion case, understanding of associated risks and an understanding of the financial sector was considered a success factors and so was staff local presence. The Country Management Unit comprises a resident senior financial sector specialist with a wealth of knowledge about the evolution of the microfinance and SME finance sector, paired with a dedicated senior specialist at headquarters. Conversely, in Paraguay, the initial high-level engagement between the country and the World Bank ebbed out with the country portfolio being managed from local IFC hub offices and Headquarters.

**Box 3.6. IFC’s Role in Structuring Private Sector Investments**

IFC’s role in promoting “open access” in ICT. Addressing a serious market deficiency, IFC promoted open access principles, which eventually introduced more competition into the ICT sector across East Africa. In this context, IFC had detailed discussions with the operators, regional governments, and the New Partnership for Africa’s Development’s e-Africa Commission to argue in favor of a model that promoted low-cost and open access to the cable’s capacity, while maintaining the commercial appeal of the project. This model was a contrast to a consortium approach (“club deal”) that would result in closed access and higher prices among a few dominant telecom operators. IFC’s approach was possible because of its continuous engagement with stakeholders and dialogue, leading to beneficial agreement among parties to implement an effective solution.

*Source: Independent Evaluation Group case studies.*

A reality check: reform efforts take time. The time needed to succeed must be factored into the Bank Group’s design of interventions. Most reform efforts studied lasted more than 10 years. The Systematic Review by Thillairajan and others (2012) confirms the long-term-nature of reform efforts in infrastructure. With its ambition to pursue its creating markets agenda increasingly in IDA and other structurally weak economies, the Bank Group needs to anticipate the longer time frames needed for reforms to succeed, given the often-prevailing regulatory deficiencies (see figure 3.1), paired with political volatility. This has profound implications for the design of Bank Group interventions: longer digestion periods require increased resources and pose challenges to the sequencing of Bank Group joint programs.

Although reform efforts often take longer than anticipated, there are windows of opportunity for the private sector to invest. Case evidence suggests that IFC, for example in Paraguay, used the Global Trade Finance Program to gain re-entry into Paraguay’s banking sector in 2009, after several years of relatively limited presence. From this departure point, IFC assisted the country in strengthening the financial sector
and advancing financial inclusion in a programmatic manner through financing and firm-level advisory work. Similarly, the 2015 PPP evaluation concluded that launching a PPP agenda need not wait for the “perfect regulation” to be in place; the existence of legal basis to allow the private sector to engage and a minimum or process couples with institutional responsibilities is a prerequisite. (Independent Evaluation Group 2015a). The support to finance and technology (FinTech) is a good example of seizing such an opportunity; others can be found in the renewable energy sector or ICT. But seizing these opportunities needs to be carefully managed because they come with both potential benefits and risks. The risks tend to be in three areas, such as choices among several alternative technological trajectories, choices among standards, and the existence of the initial market for the first movers (World Economic Forum 2018; Lee 2013). IFC’s initial experience with FinTech, as pointed out above, underscores the importance of having the right skills to seize such opportunities and manage associated risks.

New technologies bring along new regulatory challenges and risks. As evidenced across all five financial inclusion case studies, the development of mobile money poses regulatory challenges and risks. Mobile network operators are not subject to prudential regulation (by the central bank), yet telecoms regulators cannot regulate mobile network operators simply because they do not have the mandate nor skills to do so. The result is that entrants are subject to lower restrictions than incumbents in these sorts of new markets, creating a dual regulatory treatment, often leading incumbent banks to complain about regulatory arbitrage. The recently adopted “Bali FinTech Agenda” acknowledges these regulatory challenges as part of a Bank Group–IMF joint agenda for FinTech (IMF 2018). Another example of regulatory challenges emerging with the advent of new technology is renewable energy where, for example, the accounting for intermittency in wind energy contracts or feed-in tariff design pose regulatory challenges (Madrigal and Porter 2013).

1 This discussion does not aim to be comprehensive—and cannot be comprehensive, given sector-specific intricacies. It rather acknowledges the risk of creating markets wrongly for a range of reasons. See Estache 2016; WBI 2012; Hammami et al. 2006; Irwin 2007; Sadka 2006; Ter-Minassian 2004. For example, private investments and sector restructuring can lead to “cream skimming,” that is, privatization of those entities that are profitable, leaving the public sector with the difficult cases to deal with (high cost and low revenue). This, in turn, can lead to an increase in the net fiscal costs if cross subsidies from these high-profit centers can no longer finance high-cost or low-revenue segments of a market.

Furthermore, introducing regulatory frameworks, though required for market creation, has political dimensions that need to be considered. Moreover, certain financing arrangements used in the context of market creation, such as public-private partnerships (PPPs), bear risks. PPPs, for example, may have negative effects on public budgets because of contingent liabilities not being
adequately managed. PPPs are reported as having inadequate risk allocation because of a lack of competition during the bidding phase, which points to the importance of setting up well-designed local procurement processes in the context of market creation. Practitioners must manage their expectations as to the anticipated level of private sector engagement in some sectors of the economy which, to date, has lagged behind expectations.

2 Investment in wireless telecommunications operators in Haiti, Madagascar, and Papua New Guinea widened the base of prepaid mobile cellular subscriptions, reaching lower income levels. A tower sharing project in Madagascar expanded mobile coverage hence reaching more people. In Papua New Guinea there was an explicit intervention targeted at rural areas where operators had not invested because of high costs and the perceived lack of profitability. Almost 85 percent of the country’s population live in rural areas. The Rural Communications Project subsidized operators for the installation of mobile base stations across the country with the aim of achieving population coverage of 90 percent of the entire country by 2015.

3 The study focused on the telecom, water and sanitation (WASH), and electricity sectors.

4 The review found that private sector participation benefits urban consumers more than rural consumers and the well-off more than poor consumers. It is often not in the interest of the private sector to provide services to isolated rural areas or highly populated poor urban areas, and if the government does not provide incentives for them to do so, those living in these areas are likely to face worsened access to, and quality of, infrastructure. Without support from government, private sector participation can even have negative impacts on poor and rural populations’ access to infrastructure.

5 This survey was conducted as part of the IEG study on mobilization of private capital.

6 The survey also found that these investors are more likely to increase investments in emerging and developing countries if IFC or the World Bank Group engages in the following activities: improving the legal or regulatory environment, providing research and information on (country, sector, market), supporting or sponsoring local investment opportunities, offering first-loss facilities, improving macro-environment and offering full or partial guarantee products. Investors are also more likely to invest in emerging and frontier markets sponsored by multilateral development banks and international financial institutions if the activities listed above are provided.

7 Estimates of investment needs in developing countries range from $3.3 trillion to $4.5 trillion per year, mainly for basic infrastructure, food security, climate change mitigation and adaptation, health, and education. Given the scarcity of public funding, developing countries face an annual gap of $2.5 trillion. Up to 70 percent of the investment gap could come from the private sector; however, reaching this potential implies doubling private sector participation from its current $0.9 trillion to $1.8 trillion, and will still leave an estimated $0.7 trillion gap per year. (UNCTAD 2017, 2017)

8 Regulatory quality is a proxy for a country’s ability to formulate and implement sound policies that promote private sector development. Data show that regulatory quality decreases with income level and is negatively correlated with the investment gap.

9 The recent uptick in private investments in infrastructure in low-income and middle-income countries could be a sign of recovery. In 2017, private infrastructure investments increased by 37 percent from their 2016 levels, yet this is the second lowest level of investment in the past 10
years and is 15 percent lower than the five-year average. According to the 2017 PPI database, the increase over 2016 levels is attributable to a few megaprojects, such as two high-speed railway projects in China ($6.8 billion) and Indonesia ($6.0 billion).

10 This trend is driven by both the absolute debt levels and by the composition of these debts because “much more of the debt is on commercial terms with higher interest rates, shorter maturities and more unpredictable lender behavior than traditional multilaterals.” As a result, debt burdens have increased by 13 percentage points of gross domestic product (GDP) in the past five years for low-income countries, according to the International Monetary Fund. Of the approximately 40 low-income and lower-middle-income countries in Sub-Saharan Africa, the number of those with debt-to-GDP ratio above 50 percent increased from about 5 in 2012 to more than 15 in 2017.

11 But the evidence base is yet weak, for methodological reasons. First, there is only one study that unambiguously links an intervention or reform to enhance contract enforcement to changes in investment patterns. Second, few of the studies go beyond a generic discussion of direct and indirect effects to actually test the plausible indirect causal channels. Third, most studies do very little or nothing in terms of robustness checks or the strenuous but necessary attempts to rule out alternative explanations for the

12 Yet, this report acknowledges that formalization of land rights is not a panacea. For an in-depth discussion see literature review, for example (AFD 2015)

13 However, such productivity gains may take time to become apparent, the effects may vary substantially across cases, and they may be dependent on other supportive conditions, such as performance of credit, input, and product markets (Lawry and others 2016.) Gains were more pronounced in Latin America and Asia and more limited in Africa.

14 These covered 20 studies in Latin America (Nicaragua [lower-middle-income country [LMIC] and Peru (upper-middle-income country [UMIC])); South Asia (India [LMIC]); East Asia (Cambodia [LMIC], China [UMIC]), and Vietnam [LMIC]); and Africa (Ethiopia [low-income country (LIC)), Madagascar [LIC], Malawi [LIC], Rwanda [LIC])

15 Reports on perceived corruption as per stakeholder interviews and data on perceived corruption. The evaluation did not investigate and assess actual cases of corruption.

16 The percentage of firms in low-income developing countries that identify access to electricity and transportation as a major constraint to their business activity is, respectively, 43 percent and 24 percent. By contrast, the same percentages are 32 percent and 18 percent, respectively, in emerging markets.

17 The literature review commission as part of the 2015 investment climate reform evaluation concluded that some studies point out that a critical mass of reforms might be needed for visible impact on business formation. The increase in entry is associated with a significant drop in time to register, suggesting that more modest improvements (for example, in countries with procedures that are already relatively streamlined) might have a more modest effect. Consistent with this, using cross-country data from the Doing Business report and World Bank Entrepreneurship snapshots, Klapper and Love (2014) found that reductions of less than 40 percent in the cost and time required to start a business did not have a significant impact on new firm creation. Kaplan, Piedra, and Seira (2011) reached a similar conclusion: that bigger programs of reform could have a greater impact (World Bank 2015).
18 In private sector development, such diagnostics include but are not limited to, Advisory Services and Analytics (ASA) work with a private sector development focus, for example, (Rural) Investment Climate Assessments, financial development assessments as part of the Financial Sector Assessment Program, and diagnostic trade integration studies, the Doing Business project, and the World Bank Enterprise Survey.

19 Such as governance structures, competition policy, and hard and soft infrastructure.


21 Systematic Country Diagnostics (SCDs) were not conceptualized a priori as a tool to assess market creation constraints and opportunities, so IEG assessed them according to the quality with which they cover private sector issues, as a proxy for market creation.

SCDs identified as high-quality: Benin Benin—Priorities for Ending Poverty and Boosting Shared Prosperity: Systematic Country Diagnostic; Bosnia and Herzegovina Rebalancing Bosnia and Herzegovina: a systematic country diagnostic

Botswana Botswana—Systematic country diagnostic; Congo, Republic of: Policy Priorities for Ending Extreme Poverty and Boosting Shared Prosperity in a Nondiversified and Fragile Country: Diversification Within and Away from Natural Resources Sectors; Côte d’Ivoire Côte d’Ivoire—From crisis to sustained growth: priorities for ending poverty and boosting shared prosperity—systematic country diagnostic; Ethiopia Ethiopia—Priorities for ending extreme poverty and promoting shared prosperity: systematic country diagnostic; Georgia Georgia—Systematic Country Diagnostic: from reformer to performer; India India—Systematic country diagnostic: realizing the promise of prosperity; Kazakhstan Kazakhstan—Systematic country diagnostic: a new growth model for building a secure middle class; Kosovo Kosovo—Systematic Country Diagnostic; Lesotho Lesotho—Systematic country diagnostic; Madagascar Madagascar—Systematic country diagnostic; Mauritius Mauritius—Systematic Country Diagnostic

Montenegro Montenegro—Achieving Sustainable and Inclusive Growth Amidst High Volatility Project; systematic country diagnostic; Mozambique Mozambique—Systematic country diagnostic; Papua New Guinea Papua New Guinea—systematic country diagnostic; Russia Russian Federation—Systematic country diagnostic: Pathways to inclusive growth; South Africa South Africa—Systematic country diagnostic: an incomplete transition—overcoming the legacy of exclusion in South Africa; Togo Togo—Systematic country diagnostic; Tunisia Tunisia—Systematic country diagnostic; Ukraine Ukraine—Systematic Country Diagnostic: toward sustainable recovery and shared prosperity; Uzbekistan Uzbekistan—Systematic country diagnostic

22 IEG conducted a qualitative analysis based on structured coding of all 90 available Systematic Country Diagnostics (SCDs). Criteria were derived from the SCD guidance note and are therefore a normative assessment against its own standard. IEG assessed all available SCDs against criteria of whether SCDs (i) articulate private sector issues in a clear manner, either in a consistent manner across its various chapters or in a dedicated private sector development section, (ii) how these are linked to the growth agenda of the respective country, (iii) assess underlying constraints and relevant opportunities for the private sector to grow and markets to emerge, and (iv) captured the interplay between public sector issues relevant for private sector-led growth (governance, transparency, taxation, import and export duties, trade facilitation, and so on).
Together with “pervasive restrictions to the number of firms allowed to operate in the market and undue regulatory constraints,” these legal monopolies severely limited competition. Tunisia’s excessive regulations hold back private sector development because of “high management compliance time” and “large estimated losses resulting from administrative interaction,” especially for tax and customs. Small entrepreneurs are the most affected victims of such high bureaucracy costs, which induce small companies to remain informal.

Strictly speaking, Country Private Sector Diagnostics (CPSDs) are not new, even though they have a few new features. Private Sector Assessments in the 1990s and Investment Climate Assessments in the 2000s tried to do many of the same things. Many ICAs took sector deep dives (for example, the value chain work in the Cambodia ICA). FIAS (formerly Foreign Investor Advisory Service) looked at countries from the perspective of foreign investors, for example, in its numerous “Administrative Barriers to Investment” studies (see (Developing the Private Sector, Enrique Rueda-Sabater and Brian Levy, 1992).

There is currently no official guidance note available for Country Private Sector Diagnostics (CPSDs). Evidence is taken from Board reports, Bank Group blogs, and published CPSDs. In this case, source: http://www.worldbank.org/en/about/partners/maximizing-finance-for-development#2

Will be updated to the extent that new Country Private Sector Diagnostics will be released before submission.

Nepal and Rwanda are advanced draft (Cpt 2018).

To identify these deep dive sectors, Country Private Sector Diagnostics use a scoring method. This score assesses the various economics sectors according to two dimensions: (i) desirability in terms of contribution to development objectives and (ii) feasibility, roughly akin to measurements of social returns versus risk-adjusted private returns.

Examples of the use of formal analytics: The World Bank assisted Madagascar in identifying constraints to market creation in financial inclusion through an iterative process based on formal analyses. This process was complemented by policy dialogue and technical assistance as part of upstream support in the context of financial sector lending operations, and was supported by Financial Sector Assessment Programs, ICAs—and an excellent systematic Country Diagnostic in 2015. In information communications and technology, the World Bank’s formal analyses of constraints was important in setting the reform agenda even though the market failure—typically epitomized by high prices and low levels of access—was self-evident to all stakeholders.

Examples of less or informal ways of identifying constraints include: In agriculture and agribusiness, teams took a more informal way of assessing market opportunities, involving discussions with investors and market players. For example, in Paraguay, discussions with market practitioners were the main tool IFC used to prepare the Sustainable Beef project, substituting for the lack of official data (the last census had been carried out almost 20 years before). As part of this market assessment, IFC also carried out a market survey which then highlighted the need for Paraguay beef producers to improve their image regarding sustainability and deforestation in relation to premium export markets.

In the remaining ones, it addresses market gaps only through peripheral actions, including in Peru, Solomon Islands, and Ukraine.
In 22 percent of cases project design was a driver. It was the most often identified as a factor in the agricultural sector (67 percent of cases), followed by financial inclusion (33 percent of cases).

This evaluation found that the quality of analytical work was found to be the top success factor, with 62 percent of all cases.

In addition to the case-based evidence, political commitment was also referred to as a success driver by nine previous IEG evaluations relevant to Maximizing Finance for Development. For example, IEG’s 2015 public-private partnership evaluation found that lack of political commitment was responsible for 50 percent of failed Bank Group assistance to client countries in structuring public-private partnerships.

Overcoming shortcomings in macro-level factors, like governance, corruption, and sector reform, takes time; therefore, any improvements from the interventions are likely to be seen only after many years.
4. Coordination across the World Bank Group and Other Development Partners

**Highlights**

- The World Bank Group deployed a wide range of tools and the approach appeared comprehensive across sectors to create markets. Overall, however, evidence is inconclusive as to whether deliberate sequencing enhanced market creation. A successful business can create a “constituency for reforms” when downstream activities have a demonstration effect that makes policy makers shape the rules of the market—suggesting flexibility in the application of the cascade approach.

- The sequencing of Bank Group interventions can have market creation effects across sectors, for example, between ICT and financial inclusion.

- Donor coordination can help achieve strategy consensus and pooling of resources and can contribute to overall outcomes.

Evaluative evidence from previous IEG work suggests that market creation outcomes are better if the Bank Group leverages its instruments and coordinates its interventions and activities internally and with other development partners. The systematic review of 23 evaluations relevant to creating markets revealed that 18 calls for more synergies and better coordination. The selection of Bank Group instrument should fit country context: the review highlighted the importance of selecting the right Bank Group instrument mix (for example, World Bank development policy operations versus investment project financing, IFC AS versus IFC IS) to achieve the desired result, considering the country’s readiness. The review describes coordination, both internal and with other development partners, as essential for project finance and resource mobilization. The Bank Group was appreciated for its capacity to bring “solution packages” described as the most comprehensive among other multilateral development banks; hence internal coordination to deliver these solutions is also critical (see appendix F for details). The present chapter therefore analyzes these factors in light of market creation efforts in the field.

**Leveraging Synergies Across Bank Group Instruments and Institutions**

In its effort to create markets, the Bank Group deploys a wide range of tools; its approach appeared comprehensive across sectors, and it managed to address many important issues and leverage synergies between institutions in two-thirds of cases. The Bank Group best leverages its instruments in the ICT and financial inclusion cases (box 4.1). Leveraging instruments was encountered least in agriculture: 66 percent of cases in this sector did not use an adequate range of tools. The need to leverage
synergies across Bank Group interventions is consistent with early IEG work. The 2016 IEG evaluation on “transformational” change corroborated the lesson that the best PPP results were achieved when Bank Group used a comprehensive approach to stimulate and sustain systemic change, supported by several interventions (IEG 2015c).

The verdict is, however, still out on whether Bank Group interventions need to be sequenced through a deliberate planning process or whether sequencing can also occur by serendipity. The sequencing of Bank Group interventions was deliberate in 50 percent of the cases and, considering upstream and downstream work, it had a mixed impact in creating markets: in 50 percent (8) of the cases the sequencing was fully or mostly successful, in the other 50 percent (8), it was somewhat or not at all successful.

Often, country and context factors prevail, outweighing Bank Group contributions to the observable changes in outcomes. Most prominently, in Madagascar, the Bank Group deployed a rather comprehensive and intentionally sequenced approach to market creation (across all sectors analyzed), yet political crises and macroeconomic instability

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**Box 4.1. Leveraging Synergies across World Bank Group Instruments to Create Markets**

In its work on financial inclusion in Madagascar, Paraguay, and the Kyrgyz Republic, the World Bank took a comprehensive and programmatic approach, deploying a wide range of complementary instruments: Financial Sector Assessment Programs, a joint effort between the World Bank and the International Monetary Fund, helped not only identify and develop remedies for financial sector weaknesses in general, but for these countries also offered an analysis of financial inclusion aspects. Development policy loans and development policy operations were used to develop National Financial Inclusion Strategies and implement policy measures to address financial inclusion issues. For example, in Madagascar, a development policy operation aimed at moving government payments to electronic channels, whereas in Peru, a development policy loan sought to ensure the use of electronic debit cards as a mechanism for cash transfers to poor women.

Currency swaps were also used to mitigate exchange rate risks. In Paraguay, IFC signed a master swap agreement with the Central Bank of Paraguay in 2011 to provide local currency loans to Paraguayan companies. In the Kyrgyz Republic, IFC provided another swap agreement to Demir Kyrgyz International Bank, offering access to long-term funding in local currency via a foreign currency swap. Thus, the World Bank Group employed a range of investment tools and provided a wide spectrum of advisory work, from institutional strengthening to designing new products, while tackling financial inclusion challenges and leveraging synergies across Bank Group institutions.

have limited overall outcomes. In a similar vein, IEG’s “Lessons from a Multi-Country Case Study Analysis of World Bank Group Support to PPPs” reveals that regional and country-specific factors at times prevailed, making it difficult to identify patterns within or across the identified country cases (Pinglo and Apfalter 2015).

A successful business can create a “constituency for reforms” when downstream activities have a demonstration effect that make policymakers shape the rules of the market. Ideally, the upstream work on financial inclusion should have preceded the downstream investment; however, some interventions were influenced by events in the field and did not sequence their activities. For instance, in Papua New Guinea, the risk-sharing facility project was preceded by government reforms and was done at a time when there was excess liquidity in the market. This generated interest from government and banks in trying to expand financial services to riskier sectors. In Paraguay, financial inclusion markets grew, largely because of the rise of mobile money, a positive development. The rise of mobile money happened within the regulatory framework that World Bank helped to create, but mostly because the two major players had ramped up their businesses even earlier (that is, before 2014), when mobile network operators were unregulated. In Peru, no sequencing was planned either; however, markets were created in part due to the opportunistic nature of the Bank Group individual activities.

Flexible interventions that could react to changing circumstances allowed the seizing of opportunities. Given the challenging regulatory environment in Papua New Guinea and the possibility of policy reversal, IFC took the opportunity to support a new mobile network operator, Digicel, when the government issued a license. Similarly, in Haiti, IFC moved quickly when there was a willingness to allow a new ICT operator and privatization of the state-owned incumbent was sanctioned. These opportunities were more available for private sector support because companies were willing to take the risk notwithstanding an imperfect regulatory environment. In the Dominican Republic, upstream support ended when the government canceled its request for assistance after recalibrating its priorities in the face of tight fiscal constraints. In Madagascar, the Regional Communications Infrastructure Program project was restructured following the political crisis and an innovative infrastructure sharing solution was introduced as an alternative for complementing backbone infrastructure.

These observations have profound implication for implementing the cascade approach. Within the wider context of the Bank Group MFD approach, the “Forward Look” introduced the notion of creating markets and suggests that it be operationalized through the systematic use of a decision-tree model, the cascade, for engaging the private sector in development (figure 4.1).
Although this evaluation shows clearly that upstream reforms are essential to create markets, there is a need for flexibility in sequencing Bank Group interventions. Chapter 3 presented evidence that systemic policy reforms can help market creation efforts to maintain momentum or help to scale up individual interventions so as to have broader market creation effects. Due diligence to ensure that adequate enabling conditions are in place is then needed. Yet, the above examples also illustrate that investments need not wait for perfect conditions, as long as project-related risks are under control. Such a pragmatic and flexible approach should allow innovation or pioneering investments—eventually initiating a market creation process. Innovation, and with it, markets, often emerge in unregulated or lightly regulated environments, as was observed, for example, with the introduction of mobile money.

**Coordination with Other Development Partners**

The likelihood of achieving positive market creation effects was enhanced when the Bank Group coordinated well with other donors. For example, in Madagascar, the Bank Group was considered “first among equals” in the donor community, and hence was able to play a convening and coordinating role. The Bank Group collaborated closely with the IMF in helping the government to develop a comprehensive Financial Sector Strategy. In several countries, other donors were involved in financial inclusion only to a
limited extent. Papua New Guinea stands out as an example where IFC support was well aligned with other donors through the Pacific Financial Inclusion Program, where Australia’s Development of Foreign Affairs and Trade and other Pacific partners work. In this context, the Center for Excellence for Financial Inclusion oversees donor coordination. The Bank Group’s market creation efforts in ICT in East Africa offer the most visible example of donor coordination and leveraging of finance across development finance institutions.1

Coordination and partnerships with development agencies also enhanced strategy consensus and enabled the pooling of financial resources. In 2015, IEG’s evaluation *The Poverty Focus of Country Programs* had already found that effective coordination of development partners can help the World Bank concentrate its resources where it enjoys its greatest strengths (IEG 2015d). The EASSy case, discussed in chapter 2, exemplified a broad collaboration in the ICT sector: Four development banks jointly invested with IFC and the private sector in the submarine cable. In the Dominican Republic, collaboration with the Caribbean Telecommunications Union as part of the Caribbean Regional Communications Infrastructure Program project was intended to harmonize telecommunication laws throughout the region, although the project later faltered because of government fiscal concerns. When creating markets in financial inclusion in Madagascar, the Bank Group and IMF assisted the government in developing a comprehensive Financial Sector Strategy that provided a framework for achieving broad-based access to financial services. The Financial Sector Strategy and the Madagascar Action Plan, prepared by the government of Madagascar, was a useful instrument to enable coordination among other donors. The Madagascar Action Plan also provided a rationale for World Bank involvement: the project was meant to support catalytic interventions to be leveraged by close collaboration with donors active in the financial sector, including the IMF the Agence Française de Développement, the United Nations Capital Development Fund, and the CGAP, among others.

1 Beyond coordination, the leveraging of finance from other development finance institutions (DFIs) formed the basis for success for creating ICT markets in East Africa. In addition to the World Bank, IFC successfully coordinated with a large number of stakeholders across East and Southern African states, not to mention key DFIs.

In the absence of a dominant sponsor, IFC took the de facto project sponsor role in this project and spent nearly three years with four associated advisory services projects. IFC support in setting up the West Indian Ocean Cable Company (WIOCC) as “wholesale” provider of transmission capacity to participating countries was crucial. The company was formed in 2007 by several DFIs, including the European Investment Bank, the African Development Bank, Kreditanstalt fur Wiederaufbau (“KfW”) and IFC, owned by 14 African private and state telecom
operators, mostly market leaders in their respective countries. In total, $94.2 million were invested through a mix of equity and debt provided by these DFIs and the other WIOCC shareholders. IFC’s share in this investment comprised two components: (i) a senior loan of $18.2 million; and, (ii) a supplemental loan of $14.5 million.
5. Conclusion

IEG’s assessment of 16 case studies, in 9 countries across 3 sectors (financial inclusion, agribusiness, and ICT) provides ample evidence of IFC’s contributions to market creation and enhancement. Contributions to market creation were sector specific and manifested mostly in an increased size or reach of markets, mostly for SMEs, attesting to a high level of inclusion. Market creation also contributed to competition. However, expectations that such competition would also lead to reduced prices were not fulfilled systematically. Beyond competition-related effects, Bank Group support helped markets enhance environmental sustainability and resilience, albeit to a very limited extent.

Overall, changes observed in market creation across the cases studied were small. Except for ICT, observed market changes were incremental. Although these were important effects, they raise the question of whether the Bank Group—or IFC as the owner of the creating markets concept—has considered defining a threshold that would allow the differentiation of market creation efforts and better distinguish market creation from the broader private sector development agenda.

Providing market access to the poor and underserved remains a challenge. In both the financial inclusion space as well as ICT, reaching the base of the pyramid outside of the more densely populated areas like urban and peri-urban centers, proved difficult. Likewise, in agribusiness it has been easier for IFC to integrate relatively large farmers and value chain participants in supply chains than to integrate smallholders. Evidence that the poor are actually better off when they have access to markets is rare in general. Future efforts would have to better articulate and measure how market creation benefits the poor, as recommended below by IEG.

Whether the Bank Group’s market creation effects are sustainable, that is, whether they continue once the Bank Group withdraws its support, depends on the quality of the enabling environment and the extent to which commercially oriented approaches were taken.

The most influential driving factors in creating markets were innovation, demonstration effects, integration effects, and enhancing firm-level capacity. In agribusiness, such innovation took the form of innovative finance solutions, which were essential in reaching the smaller producers in value chains because with current investment tools they remain out of reach. Here IFC Advisory was found to have an important role to play in elevating the capacity and maturing market actors along agricultural and agribusiness value chains into potentially viable investee companies. In financial inclusion, evidence points to the importance of a strong emphasis on innovation in expanding financial services to the underserved: identifying and supporting projects.
that develop, pilot, and scale up technology-based business models and FinTech solutions. The second most prominent channel through which markets were created was demonstration effects, but these require the right conditions. They are often achieved through pioneering investments and require markets that are ready to move and have regulatory and legal frameworks conducive to scaling successful projects. Improving governance structures, processes, and capacity at firm level was another important channel for market creation, supported mostly by AS. Finally, integration effects, observed only in agribusiness along specific value chains, require a granular and value chain–focused view combined with a solid technical understanding of the targeted value chains, market actors, and prevailing technologies.

Also, MIGA’s guarantees play a vital role in market creation by contributing to enhanced market access and increased competition. Common channels through which MIGA guarantees contribute to market creation are demonstration effects, innovation and knowledge and technology transfer. An important lesson learned for MIGA is that proactive communication and monitoring increases the chance of achieving satisfactory outcomes and so does a sound assessment of business risks.

The enabling environment is essential for market creation efforts, and good sector regulations are not enough. Country constraints include country governance capacity, transparency, efficient and predictable public administration, and physical infrastructure. Deficiencies in the regulatory and legal framework slowed the formation of markets but also jeopardized already-established markets. Resolving such market constraints is often a difficult and long process and poses a challenge to how the Bank Group structures its country-level engagement programs. Bank Group success factors included the high-quality work of Bank Group staff in structuring deals and providing advice and the physical presence of Bank Group staff, their familiarity with local risks, and the quality of engagement. Long-term policy dialogue and design flexibility can help navigate political change. In this context, early and broad stakeholder involvement matters.

In this regard, countries with limited experience in working with the private sector, such as many low-income or FCS countries are likely to face the greatest challenges in creating markets. Not surprisingly, private sector investment in SDG-related sectors is generally relatively low—and particularly low in low-income countries. These low levels of private sector investments are regrettable, because low-income countries, especially those in Africa, face a growing debt burden. Mobilizing domestic resources for public investments will therefore remain important.

Overall, the evidence points to the significance of the cascade approach as a tool to implement the Bank Group’s MFD objectives, with its focus on remedying the obstacles
that block private sector solutions and help client countries create markets. However, a rigid implementation of the approach should be avoided. Often reform efforts can take very long to succeed; meanwhile, opportunities arise spontaneously in unregulated or lightly regulated environments. IEG cases suggest that a successful business can even create a “constituency for reforms” when downstream activities have a demonstration effect that make policymakers shape the rules of the market – suggesting flexibility in the application of the cascade approach.

To systematically look for and act upon opportunities to create markets, the Bank Group needs to have a better understanding of how to best catalyze market creation by either investing directly or by working on the enabling environment. Such work includes efforts to establish the necessary regulatory and policy frameworks, and promote competition, foster innovation, and build local capacity and skills at the government or firm level. The Bank Group’s traditional ASA work does not provide a comprehensive enough view of country-level opportunities and constraints. And the country-wide SCDs do cover the private sector agenda, but inconsistently. The recently introduced CPSDs provide a much more in-depth and structured assessment of market creation opportunities. An 2017 IEG assessment of the CPFs process pointed out that integrating the private sector agenda adequately into CPFs is still a challenge, which may be owing to their uneven coverage of the private sector development agenda. Going forward, better integrating market creation opportunities into the CPF process will be essential, as recommended by IEG below. As an alternative delivery model, the private sector development focus of SCDs could be sharpened, should resources or time constrain the CPSD delivery.

Where the Bank Group coordinated well with other donors, the results were positive, suggesting the Bank Group should reinforce its practice of coordinating with other development partners. Partnerships with development agencies enhanced strategy consensus and financial resources.

Windows of opportunity open with the application of new technologies but require cutting-edge knowledge and an appetite for risk, coupled with the expertise to manage these risks. Market creation opportunities arise with the advent of a new techno-economic paradigm; for example, with the increased necessity to apply technology-based business models in financial inclusion; other opportunities can be found in the renewable energy sector or ICT. Seizing these opportunities requires the skills to understand the market creation potential and to manage associated risks.

Adequate appetite for risk, paired with a long-term engagement horizon and a portfolio approach to investment returns, are needed for the IFC’s ambition to advance the MFD agenda in IDA countries or other structurally weak economies. Because reform efforts
can take as long as 10 to 15 years the Bank Group needs to anticipate that the “de-
risking” foreseen by the cascade approach will not create markets in the near future in
many of these countries. This has to be taken into consideration in preparing Bank
Group engagement plans (for example, the Joint Implementation Plans) and when
managing expectations with regard to the timing of IFC investments. Engaging initially
with IFC AS in such frontier markets allows for a low-risk entry, paving the way for
subsequent broader and more programmatic engagements of the Bank Group. Yet,
expanding IFC’s efforts into IDA countries will entail smaller deal sizes and taking
higher business risks while at the same time investing more up front in business
development, which will likely lower investment returns for IFC in some segments of its
portfolio. This will have implications for how IFC pursues its so-called portfolio
approach as well as on how it incentivizes its staff, raising the question to what extent its
current business model is able to deal with the needed risk associated with its ambition
to roll out the MFD agenda in IDA and structurally weak economies.

Recommendations

Recommendation 1. Enhance the understanding of market creating opportunities and
associated constraints at the country level and ensure that such knowledge is
adequately reflected in the CPF process to allow for a more strategic deployment of
Bank Group programs and interventions.

Recommendation 2. Enhance access to markets for the underserved groups, including
the poor, and entailing adequate M&E provisions to understand how market creation
affect the poor.

Recommendation 3. Regularly assess the risk-taking capabilities of IFC to carry out its
market creation activities in IDA and other structurally weak economies in a
financially sustainable way.
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Bibliography


Appendix A. Methods

Methodological Approach, Evaluation Design, and Design Matrix

The evaluation design benefited from valuable interactions with stakeholders and subject matter experts and from a careful review of the World Bank Group’s recent strategic documents that reference the cascade model and creating markets concept. During the early phases of the review, the Independent Evaluation Group (IEG) interacted with Bank Group strategy teams and with staff working on public-private partnership areas and on priority sectors, such as infrastructure (energy, transport, and information and communication technology [ICT]), finance, and agribusiness. These interactions, together with a review of relevant literature and the most recently published strategies, informed the evaluation approach by highlighting important concepts and frameworks, and by revealing industry coding, system flags, and keywords that would facilitate the design of the analytical framework and the selection of evaluation methods. The relevant literature and strategies include “Forward Look: A Vision for the World Bank Group in 2030—Progress and Challenges” (World Bank Group 2017) and Creating Markets and Mobilizing Private Capital (IFC 2017).

Reflecting on the multidimensional nature of the evaluation subject, the analysis covered multiple levels across the evaluation’s dimensions of creating markets, namely: (i) public sector capacity, policies, and frameworks; (ii) enhancing skills and governance (firm-level); (iii) demonstration and innovation; and (iv) increasing competition and enhancing integration. It also covers multiple sectors across a three-stage maturity model (figure A.1).

Figure A.1. Stylization of the Evaluation’s Multilevel Analytical Framework


Note: ICT = information and communication technology.

The evaluation adopted a theory-driven approach to analyze the causal steps identified in the intervention logic. The underlying theory of change (figure 1.2 in the main
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report) was developed by reviewing the available literature on private sector participation and was complemented by semi structured interviews with internal and external experts and a review of project- and country-level documentation. This approach allowed the evaluation to open the black box between intervention and outcome to provide information on whether the program succeeded and how and why it did so, to improve future program effectiveness. The evaluation focuses on immediate and intermediate outcomes, which are highlighted in the theory of change in figure 1.2.

A mixed-methods approach underpinned the analytical framework. The key methodological components included sector-focused case studies, literature and document reviews, an analysis of 23 previous IEG reports relevant to creating markets, semi structured interviews, and data analysis, following the sequence outlined in figure A.2. To derive lessons for MIGA for its support to projects with market creation potential, the team had to take a portfolio approach as MIGA was barely represented in the sample of the 16 case studies selected. Therefore, the team reviewed all 31 MIGA guarantees that were evaluated from 2008 to 2017 and were identified as having a market creation portion in the three deep dives sectors.

Figure A.2. Stylization of the Evaluation’s Sequenced Mixed-Methods Approach

Source: Independent Evaluation Group review and interviews with World Bank Group subject matter experts and management.
Note: CPSD = Country Private Sector Diagnostic; IEG = Independent Evaluation Group; SCD = Systematic Country Diagnostic.
**Sector-Focused Case Studies and Sector Deep Dives**

The evaluation team conducted 16 case studies in countries where the Bank Group has delivered a program of support to leverage the private sector in selected sectors. These cases focused on three focal sectors, equally covering various maturity stages of the underlying economy or sector (nascent, immature, and developed). Fourteen cases were supported by field missions; the other two (ICT in Haiti and the Dominican Republic) were conducted from headquarters based on available documentation and market data, complemented by interviews with Bank Group staff and counterparts. Given that cases are defined as a sector within a country, several countries were selected for more than one cases. IEG visited nine countries.

Sectors of particular relevance for the pursuit of the Sustainable Development Goals (SDGs) with the highest potential for private sector participation are power and energy, agriculture (as one of the enablers for food security), telecommunication, transport, and finance, followed by health, water, and education with a somewhat diminished potential for private sector participation (UNCTAD 2014). Cases focused on three of these sectors chosen based on these considerations: (i) achieving a balance across IFC’s focus industries, according to IFC’s Strategy 3.0 (IFC 2017), (ii) providing a strong link to the pursuit to the SDGs, (iii) addressing at least one infrastructure sector to study the regulatory challenges associated with these cases, while covering both, and (iv) cases that lend themselves to the application of the cascade approach, which offers opportunities to study the Bank Group–wide dimension of creating markets, and cases of IFC stand-alone investments. See appendix C for more details on the cases and associated projects.

These cases took a comprehensive approach, that is, it considered the ecosystem needed to develop markets. Each case, therefore, covered the Bank Group’s support to setting up a favorable business environment in general through interventions in the space of competitiveness, investment climate, doing business, trade and foreign direct investment policies, institution building, macro policies, and so on. In addition, each case covered the role of important and relevant input factors, that is, access to finance and access to physical infrastructure, and hence access to markets. In doing so, in addition to systemic factors mentioned previously, the case considered consumer needs, beneficiary effects, other market participants, and other international financial institutions and multilateral development banks. Cases focused on one of three focal sectors, which helped in deriving lessons relevant to market creation in SDG-relevant areas.

Within this sector, the cases looked at the sector-specific interventions to build a conducive enabling environment through, for example, putting in place ICT-relevant
regulatory frameworks. Most important, each case looked at specific transactions (lending, investments, and guarantees) to the extent that they materialized, and evaluated their contribution to market creation.

Within the evaluation’s focus on immediate and intermediate outcomes as defined in the theory of change in figure 1.2 in the main text, the team used various indicators to assess outcomes achievements. For assessing the establishment of the enabling environment, for example, and regulatory or legal frameworks, the team relied on indicators that the respective frameworks (i) have been legally adopted by the respective authorizing environment (for example, by passing a respective law, bill, or regulation), and (ii) are functional; sources of information were reports and expert interviews, typically triangulated by a cross section of concerned stakeholders. For the immediate outcomes of demonstration effects, innovation, integration, and enhancement of firm-level skills and governance structures, the team relied on market data and reports, for example, of subsequent investment following an initial IFC investment. To assess the intermediate outcome of market creation, the team relied on the primary indicator of “competition,” (see ToC in Figure 1.2) using data on indicators for competition such as market entry barriers, actual market entry and exit, price developments, number of market participants, or indication for competition for the market (for example, in public procurement).

Because the primary focus of this evaluation was to distill lessons on what works, the evaluation places a somewhat reduced emphasis on assessing the extent of results achievement. However, the indicators mentioned previously were used to understand to what extent immediate and intermediate outcomes materialized, which is necessary to identify drivers of success or failure.

Cases focused on deriving lessons on what works regarding creating markets, in particular in areas where the Bank Group has been active. Internal and external validity was enhanced by conducting 16 cases across three different sectors and three different maturity levels and comparing across these cases. The selected case was used to generate insights into which sectors would benefit from market creation in a given country and derive lessons on how the various policy areas interlink. Sector-specific results are summarized in appendix D.

Note that the proposed case design did not lend itself to comprehensively assessing the extent to which the Bank Group has missed opportunities in creating markets because this would require a comprehensive capture of all creating-markets activities, which is not possible for reasons noted previously.
A preliminary review of relevant IEG major evaluations (appendix F) and relevant literature was carried out to develop the evaluation questions and the case protocols for comparative analysis. By using carefully constructed case protocols, the evaluation could test findings against the established logic and compare them across sectors, maturity stages, and dimensions of creating markets. Specifically, the Bank Group’s engagement was assessed at three levels:

- **Country**: covering context and overarching enabling environment (for example, macro conditions, quality of institutions and regulations, and depth and quality of financial markets); country priorities; and Bank Group response at a strategic level (for example, Systematic Country Diagnostics [SCDs], Country Partnership Frameworks [CPF$s], and country-level Advisory Services and Analytics).

- **Sector**: covers the history of Bank Group engagement in the sector and closely related enabling conditions (for example, public-private partnership regulations, financial sector regulations, and agri-sector reform).

- **Dimensions of creating markets**: in-depth review of interventions within the country and sector portfolio leading to the dimensions of creating markets to better understand their effectiveness and the factors that facilitated or constrained their implementation.

Case selection was systematic but purposeful. The following selection model ensured that the evaluation adequately balances the trade-offs between depth and breadth of analysis while making sure the cases are selected in a systematic and transparent manner.

- The evaluation classified countries based on their sector’s maturity, using external data.

- The evaluation examined the Bank Group’s portfolio of support in this sector once sectors were classified to identify a short list of countries that met the evaluation’s selection criteria. These criteria included Bank Group support along the intervention logic (either as stand-alone projects or as part of a programmatic approach) with interventions across the dimensions of creating markets.

- Other criteria included the support of Bank Group institutions in putting in place the enabling environment, and the presence of evaluation documentation (Implementation Completion and Results Reports, Expanded Project Supervision Reports, Project Completion Reports, and Project Evaluation Reports).

- The evaluation team also consulted with internal and external experts to identify the countries that offer the richest opportunities for learning.
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The evaluation’s case design and case selection criteria allowed learning from both the common case and the critical case. Each case was intended to contain one country or sector where the Bank Group provided programmatic support in a key sector at a certain maturity stage, and the selection process thus facilitated the drawing of lessons within and across sectors. The potential for horizontal comparative case analysis (across maturity stages) allowed the team to yield more valid and robust lessons.

To facilitate comparison across sectors and maturity stages, the evaluation employed the same data collection methods and protocols in all cases. These methods included: (i) a review of literature on private sector participation in the sector, (ii) a review of literature on the country’s enabling conditions for private sector participation, (iii) a detailed review of Bank Group country strategies, diagnostics, and relevant analytical works, (iv) a detailed desk review of the Bank Group’s portfolio of support across the three levels (enabling conditions, target sector reform, and structuring and finance), and (v) semi-structured interviews with project and nonproject stakeholders (that is, government, multilateral development banks, private sector, nongovernmental organizations and civil society organizations, and academics). In cases in which quality data are available, case authors used these data to analyze relevance or test the program’s effectiveness.

To allow for a comparative case synthesis, all 16 cases were analyzed using a systematic content analysis to derive robust findings that try to answer the evaluation question. This analysis was conducted by sectors, by country income level or maturity level, and across all cases. Appendix B provides the results, which were complemented by a portfolio review and analysis within the case portfolios where necessary to support arguments.

Three sector deep dives were prepared based on these 16 cases to identify common patterns and trends within the individual deep dive sectors: agriculture and business, financial inclusion, and ICT. The by-sector content analysis previously described was used as a basis to detect such patterns across cases. Results and observations were triangulated using systematic reviews (by 3ie) or other peer-reviewed literature and data analysis. For financial inclusion (in particular FinTech) and agriculture, the deep dives encompassed a targeted portfolio review and analysis to answer specific questions of design and effectiveness.

Portfolio Review and Analysis

The evaluation carried out a two-stage review and analysis of projects within the selected cases. The first stage aimed to identify the key characteristics of the portfolio across the two analytical levels (enabling environment and reform, and structuring and finance) to facilitate cross-sector and cross-maturity comparison of the portfolio characteristics. The second stage involved in-depth content analysis of purposefully
selected portfolio subsets (for example, to understand how a specific intervention worked or how a certain factor drives success or failure, and to understand country experiences through clusters of projects and their co-portfolios) using custom protocols and relying on semi-structured interviews and project-level documentation (for example, project appraisal documents, Board Reports, Implementation Completion and Results Reports, Implementation Completion and Results Report Reviews, Expanded Project Supervision Reports, Project Completion Reports, and their evaluation notes). World Bank Advisory Services and Analytics was reviewed in this context on a purposive basis and using a simplified version of the review and analysis protocol within the context of mission-based cases.

The evaluation team also carried out additional targeted reviews and analyses beyond the case scope. These reviews and analyses address, within the financial inclusion deep dive, the FinTech portfolio and, within the agriculture deep dive, the agriculture and agribusiness portfolio with market access objectives. These reviews and analyses involved an in-depth content analysis addressing dimensions of design, mechanisms, effectiveness, and results drivers, using a custom protocol for each sector.

**Literature Reviews**

The evaluation employed a targeted and structured review of relevant (internal and academic) literature on leveraging the private sector for sustainable development and growth across each of the selected sectors. The objective was to understand the characteristics of this support and the role of complementary or sequential interventions that might influence its impact (for example, the role of capital markets or the investment climate). The review generated insights in this regard and is intended to provide the theoretical basis for the evaluation to establish causal links between policies in support of private sector participation in the sector and to formulate the models adopted to validate the causal relationship of the Bank Group portfolio in leveraging the private sector to promote sustainable development and growth.

Most references provided in this evaluation are academic peer-reviewed publications or systematic reviews, or impact evaluations to ensure quality and validity.

**Analysis of Private Sector Development Diagnostics**

To systematically look for and act on opportunities to create markets and subsequently maximize finance for development, the Bank Group needs to have a sound understanding of how to best catalyze market creation by either investing directly or by working on the enabling environment to establish the necessary regulatory and policy frameworks, and promote competition, foster innovation, and build local capacity and
skills at the government or firm level. Doing so requires a sound understanding of sectoral factors and constraints and the underlying economic fundamentals.

IEG’s analysis focused purposively on SCDs and Country Private Sector Diagnostics (CPSDs) as primarily relevant countrywide analytical tools feeding into the CPF process. The evaluation refrained from assessing the entire CPF process because CPFs (and Country Assistance Strategies) rarely exhibit the needed granularity to contribute to the identification of market creation opportunities or specific sectorial constraints.

IEG conducted a qualitative analysis of SCDs and CPSDs based on structured coding of all available 89 SCDs and the four draft CPSDs that were available. Criteria for assessing SCDs were derived from the SCD guidance note, allowing for a normative assessment against its own standard. IEG assessed all available 89 SCDs against criteria of whether the SCDs (i) articulate private-sector issues clearly, either in a consistent manner across the various chapters of an SCD or in a dedicated private sector development section, (ii) how these are linked to the growth agenda of the respective country, (iii) assess underlying constraints and relevant opportunities for the private sector to grow and markets to emerge, and (iv) captured the interplay between public-sector issues relevant for private sector-led growth (governance, transparency, taxation, import and export duties, trade facilitation, and so on).

**Semistructured Interviews**

The evaluation team carried out semi structured interviews throughout the evaluation’s lifecycle. At an early stage, the evaluation carried out these interviews to better understand the underlying theory, get to know the institutional priorities (past, present, and future), and develop a set of preliminary hypotheses. During case studies, the team conducted semi structured interviews to gain deeper understanding of the program’s features, its effectiveness, and lessons on what works, in particular during missions. A wide range of stakeholders was identified for interview as part of the early stage theory-building exercise, but also during field visits, which typically encompass Bank Group staff in the field, government agencies, multilaterals, donors, nongovernmental agencies, civil society, academics, and private sector entities.

**Mining Lessons in IEG Major Evaluations**

The evaluation team carried out a systematic desk review of IEG’s portfolio of major evaluations with a focus on (i) the enabling environment, (ii) financial markets, and (iii) specific sectors. A qualitative meta-analysis, the review identified and classified the factors identified by these evaluations as facilitating or constraining the implementation of their interventions. Appendix F summarizes the results of this exercise.
Review of Databases and Indicators

The evaluation identified and used indicators aligned with the evaluation questions and selected sectors to identify sector priorities and changes over time. Indicators were selected from data warehouses, such as the World Bank World Development Indicators, and datasets such as Infrascope from the Economist Intelligence Unit, Global Competitiveness Index from the World Economic Forum, the World Bank’s Doing Business, Country Policy and Institutional Assessments from the World Bank, ICT data by the International Telecommunication Union, and Findex data on financial inclusion, among others.

Design Limitations

Several factors constrained the evaluation, and these falls broadly into two categories: limitations from conscious choices about scope, and limitations from the availability and quality of existing data and documentation. To manage the trade-off between breadth and depth of analysis, the evaluation approach made the necessary choice of focusing the analysis on three key sectors and of selecting a case-based approach, acknowledging that this approach had limitations with regard to the extrapolation of results. This choice was informed by the literature and by initial-stage stakeholder consultations. Data and documentation constraints included, among others: (i) identification of cases that relied on external data (which may have caveats of its own and may not be complete for the full range of countries) and on Bank Group portfolio coding systems (which are not always accurate), and (ii) strategy- and project-level documentation, which is not always available or consistent.

In addition, though all lending operations in the World Bank are subject to self-evaluation and IEG validation, IFC Investments and IFC Advisory are evaluated on a sample basis (approximately half of the population). Therefore, the size of the evaluated portfolio for these was smaller than that of World Bank lending operations.

As in a country context, the Bank Group is one of several development partners, and it rarely operates in isolation. Because of this and external factors, assessing actual attribution is not feasible. Instead, the evaluation tried to understand the extent of the Bank Group contribution to results achievement. This was accomplished by mapping out sector-specific results chains for each country, determining the key players and their activity levels, strategically chosen stakeholder interviews, and quantitative and qualitative data.

Case Selection Methodology

IEG’s case and portfolio-within-case selection methodology relied on the use of external data and Bank Group portfolio summaries aligned with the evaluation’s multilevel
Appendix A
Methods

analytical framework. As described in the section on case methodology, the selection of the 16 case studies was based on the use of external data; the review of Bank Group strategy, sector, and project-level documentation; and on interactions with internal and external subject matter experts.

External data enabled the evaluation to classify countries into maturity stages according to the multilevel analytical framework. The evaluation used static data (the latest available) to create these categories. In addition, and to the extent that data was available, the evaluation used time series data to visualize how a country and sector’s trajectory has changed over time. Such visualizations gave the team a view of which countries and sectors may provide better opportunity for learning; this may be whether countries have moved upward or downward along the maturity stage or whether they have remained stagnant over time. Figure A.3 provides details of this strategy.

Figure A.3. Data as an Identification Strategy: Selected Indicators

- **Country-level indicators** to benchmark country capacity to leverage the private sector for sustainable development and growth; e.g. EIU Infrascope, WB Governance, WB CPIA, HF Index of Economic Freedom
- **Sector-level indicators** as a proxy for sector development; e.g. private investment in infra (energy), credit to agriculture, domestic credit provided by financial sector, domestic credit to private sector, share of students enrolled in primary or tertiary private institutions.
- **Proxies of institutional capacity** that are generic to the country or specific to the sector will help compare such capacity across countries and time. Sources: WEF, WGI, CPIA, IMF
- **Indicators that measure private sector constraints and sector outcomes.** Sources: Doing Business, UNCTAD, IMF, LPI, Enterprise Surveys, WEF, WIPO, WTO

Source: Independent Evaluation Group review and interviews with World Bank Group subject matter experts and management.

Note: EIU = Economist Intelligence Unit; CPIA = Country Policy and Institutional Assessment; HF = Heritage Foundation; IMF = International Monetary Fund; LPI = Logistics Performance Index; UNCTAD = United Nations Conference on Trade and Development; WB = World Bank; WEF = World Economic Forum; WGI = Worldwide Governance Indicators; WIPO = World Intellectual Property Organization; WTO = World Trade Organization.

The case selection methodology examined the Bank Group’s portfolio within countries to understand better the evolution of the portfolio for the selected sector. To identify the relevant portfolio within the country, IEG used the following steps: (i) retrieve projects using Bank Group systems and their codes (for example, sector, thematic, industry, or product codes), and (ii) manually review these portfolio subsets to systematically categorize projects and develop a unified picture of their features and characteristics.
Cases covered countries with Bank Group–wide engagement, reflecting the nature of the cascade approach. This suggests cases in which at least two of the three Bank Group institutions provided support, or Bank Group support was delivered upstream (to enhance policy or regulatory frameworks) and downstream (in form of investments), regardless of the institution. In addition, the study looked at cases in which the Bank Group provided only upstream or downstream support in case these offer particularly valuable lessons, including cases with IFC stand-alone projects. Figure A.4 visualizes the case selection in a schematic fashion. Appendix C provides the country names, and respective sectors along with the respective anchor projects. For more on the system codes used to identify the portfolios-within-countries, see figure A.4.
Appendix A
Methods

Figure A.4. Case Selection

Target Sectors

Agribusiness
- Upstream support
- Structuring/finance
- Supporting sectors

Financial Inclusion
- Upstream support
- Structuring/finance
- Supporting sectors

ICT
- Upstream support
- Structuring/finance
- Supporting sectors

Maturity level

- Public Sector up-stream support addressing market constrains
- IFC investment, advisory, WB lending and MIGA guarantees in support of ICT projects
- General business regulatory environment
- Other relevant factors, incl. political or geographic
Table A.1. World Bank Group System Codes Used to Identify the Portfolios-within-Countries

<table>
<thead>
<tr>
<th>World Bank Lending and Advisory (Advisory Services and Analytics)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Source</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Sector and theme codes</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Notes</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>International Finance Corporation Investment and Advisory</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Source</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Industries (investment only)</strong></th>
<th>Agribusiness: Agribusiness and Forestry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Finance: Financial markets, Funds, Collective Investment Vehicles, Other CTT Sectors, Payments &amp; FinTech, Venture Investing, Trade Finance</td>
</tr>
<tr>
<td></td>
<td>ICT: Telecommunications and information Technologies</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Multilateral Investment Guarantee Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Source</strong></td>
</tr>
<tr>
<td><strong>Sectors</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

*Source: Independent Evaluation Group review and interviews with World Bank Group subject matter experts and management.*

*Note: MIGA = Multilateral Investment Guarantee Agency.*

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1 Chen 2012. "Purpose of theory-driven evaluation is not only to assess whether an intervention works or does not work, but also how and why it does so." Chen differentiates theory-driven evaluation from black box, which mainly assesses whether an intervention has an impact on outcomes, and from methods-driven evaluation, which uses a research method as a basis for conducting an evaluation.
Appendix B. Cross-Sectorial Content Analysis of 16 IEG Case Studies

Cluster 1: Tailoring Interventions to Countries, Analytics, and Identifying Market Opportunities and Constraints

Question 1: What were the market constraints or opportunities identified?

<table>
<thead>
<tr>
<th>Top Five Market Gaps</th>
<th>Agriculture</th>
<th>Financial Inclusion</th>
<th>ICT</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance, Corruption, &amp; Transparency</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>15</td>
</tr>
<tr>
<td>Weak Laws and Regulation</td>
<td>6</td>
<td>4</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Weak Infrastructure</td>
<td>10</td>
<td></td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>Access to Financial Infra</td>
<td></td>
<td>8</td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Operational Challenges of Going Retail</td>
<td></td>
<td>8</td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>Total Observations (Top 5 Market Gaps)</td>
<td>16</td>
<td>27</td>
<td>8</td>
<td>51</td>
</tr>
<tr>
<td>Total Number of Observations</td>
<td>59</td>
<td>48</td>
<td>22</td>
<td>129</td>
</tr>
</tbody>
</table>

Question 2: How was the market gap identified?

<table>
<thead>
<tr>
<th>Top Five Tools for Market Gap Identification</th>
<th>Agriculture</th>
<th>Financial Inclusion</th>
<th>ICT</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal WB analytics</td>
<td>2</td>
<td>6</td>
<td>4</td>
<td>12</td>
</tr>
<tr>
<td>Policy Dialogue</td>
<td></td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Missions</td>
<td>1</td>
<td>2</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Project preparation (of the anchor project), includin</td>
<td>2</td>
<td>1</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Formal Discussions with Practitioners</td>
<td>2</td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Total Number of Tools (Top Five)</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>24</td>
</tr>
<tr>
<td>Total Number of Observations</td>
<td>8</td>
<td>10</td>
<td>12</td>
<td>30</td>
</tr>
</tbody>
</table>

Question 3: What were the factors that facilitated or constrained the identification of market gaps?

<table>
<thead>
<tr>
<th>Top Five Factors Facilitating or Constraining Market Gap Identification</th>
<th>Agriculture</th>
<th>Financial Inclusion</th>
<th>ICT</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of WBG engagement or analytics</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>Timeliness / actionability</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Government commitment</td>
<td>4</td>
<td>3</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>Skills of WBG staff / relevant sector experience</td>
<td>1</td>
<td>4</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Process of consultations, broad stakeholder involvement</td>
<td>1</td>
<td>4</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Top Five Factors</td>
<td>8</td>
<td>19</td>
<td>13</td>
<td>40</td>
</tr>
<tr>
<td>Total Number of Observations</td>
<td>16</td>
<td>26</td>
<td>25</td>
<td>67</td>
</tr>
</tbody>
</table>

Question 4: To what extent was the Bank Group upstream support able to target the market gaps and market failures?

<table>
<thead>
<tr>
<th>Country</th>
<th>Sector</th>
<th>Score</th>
<th>Score Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>iot</td>
<td>4</td>
<td>yes, fully, by means of a well-considered and concerted approach</td>
</tr>
<tr>
<td>Madagascar</td>
<td>iot</td>
<td>4</td>
<td>yes, fully, by means of a well-considered and concerted approach</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>iot</td>
<td>3</td>
<td>yes, through a dedicated component or activity</td>
</tr>
<tr>
<td>Haiti</td>
<td>iot</td>
<td>3</td>
<td>yes, through a dedicated component or activity</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>iot</td>
<td>3</td>
<td>yes, through a dedicated component or activity</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>finc</td>
<td>4</td>
<td>yes, fully, by means of a well-considered and concerted approach</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>finc</td>
<td>4</td>
<td>yes, fully, by means of a well-considered and concerted approach</td>
</tr>
<tr>
<td>Paraguay</td>
<td>finc</td>
<td>4</td>
<td>yes, fully, by means of a well-considered and concerted approach</td>
</tr>
<tr>
<td>Peru</td>
<td>finc</td>
<td>3</td>
<td>yes, through a dedicated component or activity</td>
</tr>
<tr>
<td>Madagascar</td>
<td>finc</td>
<td>2.5</td>
<td>yes, but borderline through a dedicated component or activity</td>
</tr>
<tr>
<td>Madagascar</td>
<td>agri</td>
<td>4</td>
<td>yes, fully, by means of a well-considered and concerted approach</td>
</tr>
<tr>
<td>Paraguay</td>
<td>agri</td>
<td>2.5</td>
<td>yes, but borderline through a dedicated component or activity</td>
</tr>
<tr>
<td>Peru</td>
<td>agri</td>
<td>2</td>
<td>peripheral indication</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>agri</td>
<td>2</td>
<td>peripheral indication</td>
</tr>
<tr>
<td>Ukraine</td>
<td>agri</td>
<td>2</td>
<td>peripheral indication</td>
</tr>
</tbody>
</table>

Question 5: What factors contributed or impeded the Bank Group upstream support from targeting the market gaps and market failures?

<table>
<thead>
<tr>
<th>Top Three Factors Contributing or Impeding WBG Upstream Support in regards to Target Market Gaps</th>
<th>Agriculture</th>
<th>Financial Inclusion</th>
<th>ICT</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>WB Analytics &amp; expertise</td>
<td>3</td>
<td>6</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>Government Commitment</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Stakeholder Involvement</td>
<td>1</td>
<td>2</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Top Five Factors</td>
<td>4</td>
<td>12</td>
<td>6</td>
<td>22</td>
</tr>
<tr>
<td>Total Number of Observations</td>
<td>10</td>
<td>15</td>
<td>6</td>
<td>31</td>
</tr>
</tbody>
</table>
Appendix B
Cross-Sectorial Content Analysis of 16 Case Studies

Question 6: To what extend was the upstream work successful in resolving market gaps?

<table>
<thead>
<tr>
<th>Country</th>
<th>Sector</th>
<th>Rating</th>
<th>Rating Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>ICT</td>
<td>4</td>
<td>Successful</td>
</tr>
<tr>
<td>Madagascar</td>
<td>ICT</td>
<td>4</td>
<td>Successful</td>
</tr>
<tr>
<td>Haiti</td>
<td>ICT</td>
<td>2</td>
<td>Mostly Unsuccessful</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>ICT</td>
<td>2</td>
<td>Mostly Unsuccessful</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>ICT</td>
<td>1</td>
<td>Unsuccessful</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>Finc</td>
<td>3</td>
<td>Mostly Successful</td>
</tr>
<tr>
<td>Madagascar</td>
<td>Finc</td>
<td>2</td>
<td>Mostly Unsuccessful</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>Finc</td>
<td>2</td>
<td>Mostly Unsuccessful</td>
</tr>
<tr>
<td>Paraguay</td>
<td>Finc</td>
<td>2</td>
<td>Mostly Unsuccessful</td>
</tr>
<tr>
<td>Peru</td>
<td>Finc</td>
<td>2</td>
<td>Mostly Unsuccessful</td>
</tr>
<tr>
<td>Madagascar</td>
<td>Agri</td>
<td>2</td>
<td>Mostly Unsuccessful</td>
</tr>
<tr>
<td>Peru</td>
<td>Agri</td>
<td>2</td>
<td>Mostly Unsuccessful</td>
</tr>
<tr>
<td>Ukraine</td>
<td>Agri</td>
<td>2</td>
<td>Mostly Unsuccessful</td>
</tr>
<tr>
<td>Paraguay</td>
<td>Agri</td>
<td>1.5</td>
<td>Mostly Unsuccessful</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>Agri</td>
<td>1</td>
<td>Unsuccessful</td>
</tr>
</tbody>
</table>

Question 7: What factors facilitated or constrained the upstream success in resolving the market gaps and market failures?

<table>
<thead>
<tr>
<th></th>
<th>Agriculture</th>
<th>Financial Inclusion</th>
<th>ICT</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of Project Design or Implementation</td>
<td>6</td>
<td>3</td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>Government Commitment</td>
<td>2</td>
<td>3</td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Policy Dialogue</td>
<td>3</td>
<td></td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>WB Active Engagement</td>
<td>3</td>
<td></td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>WB Technical Expertise</td>
<td>2</td>
<td></td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Top Five Factors</td>
<td>11</td>
<td>11</td>
<td>4</td>
<td>26</td>
</tr>
<tr>
<td>Total Number of Observations</td>
<td>17</td>
<td>18</td>
<td>6</td>
<td>41</td>
</tr>
</tbody>
</table>
Cluster 3: Finance, Innovation, Demonstration, Competition, and Integration—World Bank Group Downstream Advisory and Investment Work

Question 8: Which channel is likely to have contributed to market creation, access, extension, or enhancing competition?

<table>
<thead>
<tr>
<th>Top Four Channels Contributing to Market Creation, Access, Extension, or Enhancing of Competition</th>
<th>Agriculture</th>
<th>Financial Inclusion</th>
<th>ICT</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation (new products or services, processes, technology)</td>
<td>8</td>
<td>3</td>
<td>5</td>
<td>16</td>
</tr>
<tr>
<td>Demonstration Effect</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Skill Improvement / Better Governance at Firm Level</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Integration</td>
<td>5</td>
<td></td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Top Four Factors</td>
<td>22</td>
<td>11</td>
<td>9</td>
<td>42</td>
</tr>
<tr>
<td>Total Number of Observations</td>
<td>24</td>
<td>12</td>
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Question 9: What is the evidence that markets were created and how?

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Appendix B
Cross-Sectorial Content Analysis of 16 Case Studies

Question 10: What drove market creation?

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Cluster 4: The Delivery Challenge

Question 11: To what extent did the Bank Group response take advantage of the needed Bank Group instruments and tools, allowing to leverage synergies across Bank Group institutions?

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<th>Rating explanation</th>
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Summary of Ratings across Sectors

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Summary of Ratings in Financial Inclusion and ICT sectors

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Appendix B
Cross-Sectorial Content Analysis of
16 Case Studies

Question 14: At what stage of planning was the CM interventions planned and sequenced?

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Question 15: Did coordination with other DPs and MDBs influence results?

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Note: Interventions were labeled “No information” available, mostly in case of desk-based reviews which reflect more the level to which such efforts are captured in project level documents.
Question 16: Are Bank Group processes and incentive systems suitable to allow Bank Group staff to engage in CM-focused activities?

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Incentive Systems Suitable to Engage in CM-Focused Activities

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<th>Fully</th>
<th>Mostly</th>
<th>Somewhat</th>
<th>Not Suitable</th>
<th>No Information</th>
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<td>1</td>
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</tr>
<tr>
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<td>1</td>
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<table>
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<tr>
<td>ICT</td>
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<td>1</td>
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<tr>
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</tr>
<tr>
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Appendix C. Case Selection and Overview

The main source of evidence for this evaluation was 16 case studies in which the Independent Evaluation Group (IEG) studied the various mechanism, effects, and result drivers for creating markets. The evaluation team conducted these case studies in countries where the World Bank Group delivered a program of support to leverage the private sector in one of the selected deep dive sectors (agribusiness and agriculture, financial inclusion, and information and communication technology [ICT]). To this end, it conducted eight field missions and drafted two additional desk-based studies (ICT cases in Haiti and the Dominican Republic).

Creating market case studies were identified in close coordination with the International Finance Corporation (IFC) and the World Bank based on a methodology that was calibrated using the IFC creating markets projects, reviewing more than 1,000 Bank Group projects in 61 countries. At the project onset, IEG, IFC, and the World Bank combined forces to identify projects with proven creating markets effects or projects with the potential to create markets.

However, most of the projects that IFC has been using in its recent creating markets campaign were approved only recently, hence market creation effects cannot be evaluated yet. Of those projects that have been operational for a sufficiently long time (operationally mature), the majority (70 percent) were subject to IEG’s analysis in these cases. These include Agriculture Ukraine, SolTuna in the Solomon Islands or Cambodia Rice in Cambodia, Sustainable Beef in Madagascar, and Zambeef in Zambia.

To safeguard IEG’s methodological independence, IEG went beyond these flagship cases. To this end, IEG derived criteria that characterize creating markets projects, communicated by IFC to the Board. These criteria were used to calibrate a method of review that was used to analyze all potential IFC Investment Services (IFC IS), World Bank, and IFC Advisory Services (IFC AS) in the deep dive sectors: 1,104 IFC IS and AS and World Bank projects were reviewed in 61 countries.

Eventually, IEG’s 16 cases were conducted in countries or economies that have seen at least one IFC investment with the potential to create markets—in most cases, a programmatic set of IFC investments. These cases focused on three focal sectors, equally covering various maturity stages of the underlying economy or sector (nascent, immature, and developed). Given that cases are defined as a sector within a country, several countries were selected for one or more cases. Table C.1 summarizes the key features of these cases, along with the anchor IFC investment or advisory service, and provides case summaries.
### Table C.1. Overview of Creating Market Cases Conducted for This Evaluation

<table>
<thead>
<tr>
<th>Country</th>
<th>IFC Anchor Project</th>
<th>World Bank Group Dimension and Rationale for Selection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solomon Islands</td>
<td>SolTuna</td>
<td>The case focused on the IFC investment in and advisory support to SolTuna, the country’s only tuna processing facility. It also considered the World Bank Group’s contribution to the enabling and upstream environment in the fisheries sector.</td>
</tr>
<tr>
<td>Madagascar</td>
<td>SMTP/BOVIMA</td>
<td>The case focused on the Bank Group’s support to agribusiness with an emphasis on IFC efforts developing first-of-their-kind SME agri-processors, such as IFC’s investment in SMTP and its advisory support to BOVIMA (the country’s first modern feedlot and abattoir with potential subsequent investment). In this vein, the case considered World Bank support to growth poles and its comprehensive set of Advisory Services and Analytics, which included key topics such as political economy, land tenure, and agribusiness value chain analysis.</td>
</tr>
<tr>
<td>Ukraine</td>
<td>Several IFC IS, including Agrofusion, and IFC AS Food Safety Improvement Project</td>
<td>The case focused on the Bank Group’s support to agribusiness with an emphasis on quality and food safety standards, and direct support to agribusiness processors such as Agrofusion (the country’s largest tomato pastes processor). In food safety, the case considered World Bank and IFC AS that supported the harmonization of the country’s standardization system, the legal framework for food safety, and technical regulations with a focus on conforming to European Union requirements to boost exports. In addition, the case considered the World Bank’s extensive analytical work on agricultural development and competitiveness and agricultural land policy.</td>
</tr>
<tr>
<td>Cambodia</td>
<td>IFC AS Cambodia Rice Sector Support</td>
<td>The case focused on the Bank Group’s support to the rice sector with an emphasis on the IFC AS Cambodia Rice Sector Support, which addressed key constraints along the rice value chain. This support aimed to transform the Cambodian rice market by improving the quality of seeds and seed multiplication, strengthening millers and other market actors along the value chain, and facilitating access to export markets. It also considered the Bank Group’s broader support to the sector, including other policy, investments, and advisory support.</td>
</tr>
<tr>
<td>Paraguay</td>
<td>Sustainable Beef, AgroTech, AgroFertil</td>
<td>The case focused on IFC’s support to agribusiness intermediaries and service providers (AgroTech and AgroFertil) and, more recently, the development of an advisory support to improve the sustainability of the beef industry. These service providers addressed key market gaps for medium to large producers and processors, and included access to preharvest finance, commercialization services, and technical expertise for segments previously unserved by local financial institutions and other service providers. The case also focused on the World Bank’s support to low-income, small-scale farmers in poor areas of the country by providing them with matching grants and technical advice to help integrate them with domestic markets.</td>
</tr>
<tr>
<td>Zambia</td>
<td>Zambeef</td>
<td>The case focused on the Bank Group’s support to the livestock development sector, following an IFC investment in Zambeef, an important beef producer.</td>
</tr>
</tbody>
</table>
with supply chain integration potential (with SME farmers and local retailers, respectively) and potential to improve quality and productivity along the supply chain. The country benefited from a Bank Group–wide and sectorial support, including a World Bank Agribusiness and Trade Project. Relevant MIGA guarantees supported several cattle ranching operations, and IFC advisory support focused on improving farmer access to finance.

Peru

Investment and advisory in Viru

The case focused on agribusiness development at a time when the sector was nascent and maturing through IFC investments in and advisory to processors such as Viru. IFC supported an industry that was nascent and has since developed into a mature and globally competitive industry. Interventions include directly financing an agribusiness, fostering backward links with SME farmers, and improving quality standards to improve product export potential. The case also considered related World Bank analytical work and investments in agricultural innovation and irrigation, which are key bottlenecks to the development of agribusiness in Peru. Since these early investments, the sector has become mature, diversified, and globally competitive. However, agribusiness remains a key priority for Peru, and continuing to improve the country's competitiveness in nontraditional agribusiness was noted as a strategic priority.

Information and Communication Technology

<table>
<thead>
<tr>
<th>Country</th>
<th>Investment/Advisory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Madagascar</td>
<td>EASSy, Celtel, and Airtel</td>
</tr>
<tr>
<td>Kenya</td>
<td>EASSy</td>
</tr>
<tr>
<td>Haiti*</td>
<td>Investment in Digicel and Advisory to Teleco</td>
</tr>
<tr>
<td>Dominican Republic*</td>
<td>Investments in WIND Telecom</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>Digicel Papua New Guinea through IS and AS</td>
</tr>
</tbody>
</table>

The case focused on the Bank Group's support to the country's nascent connectivity sector through targeted investment in critical infrastructure (IFC's investment in EASSy cable and advisory supporting regional backhaul integration) and the World Bank's support to regional integration and ICT policy dialogue and within-country network infrastructure. IFC investments in local mobile operators such as Airtel promoted additional competition and service affordability and quality.

The case focused on the Bank Group's support to improve the country's connectivity through targeted investment in critical infrastructure (IFC's investment in the EASSy cable and advisory supporting regional backhaul integration) and the Bank's support to regional integration and ICT policy dialogue and within-country network infrastructure.

The case focused on IFC's investment in mobile providers with the aim of increasing competition and thus helping to lower prices, increase coverage, and improve quality. The case also considered related advisory works with public telecoms, and World Bank Advisory Services and Analytics delivered on telecom regulations (including a focus on rural areas).

The case focused on IFC's investment in WIND telecom, which focused on the construction and expansion of the country's wireless network with an aim to increase competition while expanding and improving the quality of services. The case also considered World Bank lending to improve access to the regional broadband network infrastructure.

The case focused on Bank Group efforts to improve connectivity in one of the world's weakest ICT environments. The case focused on the IFC support to Digicel through investment and advisory to help increase coverage and affordability of services. Advisory was deployed to engage SMEs in the services distribution chain. The case also considered related World Bank investments to expand access to rural areas.
## Financial Inclusion

### Madagascar
- **IFC IS and AS in Access Bank**
  - The case focused on IFC support to greenfield MFIs through its investment and advisory arms. The case also considered related World Bank support, including investments in the microfinance sector (starting as early as 2007) and analytical work specifically focused on the microfinance sector (including an MFI credit bureau).

### Paraguay
- **IFC IS in and AS to a range of financial intermediaries**
  - The case focused on improving access to finance for SME businesses and agribusinesses and emphasized IFC investment in intermediaries, such as El Comercio, Vision Bank, and BBVA. Such investments often targeted the agribusiness sector, given the prevalence of the sector in the Paraguayan economy. The case also considered the World Bank’s support to the country’s financial inclusion agenda through the development and early implementation of the National Financial Inclusion Strategy, and through prior actions in targeted development policy financings.

### Kyrgyz Republic
- **IFC IS in MFIs (for example, FINCA) and their transformation (through AS)**
  - The case focused on the Bank Group’s support to the country’s nascent financial inclusion efforts. IFC investments and advisory in MFIs aimed to extend access to previously unserved populations and increase competition. Advisory Services transformation projects aimed to strengthen and further develop the market. Related World Bank lending was also considered, which addressed regulatory constraints to access to finance.

### Papua New Guinea
- **Papua New Guinea SME risk-sharing facility**
  - The case focused on improving access to finance to the underserved through a risk-sharing facility underwritten by an IFC investment and IDA. The case also considered IFC advice to improve and modernize the country’s financial infrastructure, and support to the development of mobile banking in Papua New Guinea.

### Peru
- **Various IFC IS and AS to the microfinance sector**
  - The case focused on the Bank Group’s support to the MFI sector in Peru, with an emphasis on IFC investment and advisory that supported transformation into deposit taking (for example, Edpyme Confianza). The case also considered World Bank Advisory Services and Analytics that analyzed the causes for low intermediation, and those that focused on increasing access to finance for SMEs through, for example, exploring alternative financing mechanisms such as factoring.

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**Source:** Independent Evaluation Group portfolio review and analysis for case identification.

**Note:** EASSy = Eastern Africa Submarine Cable System; ICT = information and communication technology; IDA = International Development Association; IFC = International Finance Corporation; IFC AS = IFC Advisory Services; IFC IS = IFC Investment Services; MFI = microfinance institution; MIGA = Multilateral Investment Guarantee Agency; RSF = risk-sharing facility; SME = small and medium enterprise.

a. Desk-based study.
Appendix D. Sector Deep Dives

Deep Dive: Creating Markets for Agriculture

Agribusiness plays a unique role in society because of its potential to tackle several key development priorities at once: livelihoods and food security, growth and investment, and environmental sustainability (FAO 2017; World Bank 2008). The private sector plays an important role in helping agribusiness reach its development potential, but investment needs to outpace current financing levels, suggesting a need to better identify and finance investments that can create markets along the value chain (UNCTAD 2014). The Independent Evaluation Group (IEG) conducted six case studies focused on agribusiness and agriculture spanning the various stages of development, based on the 2008 World Development Report three-world classifications of agrarian, transforming, and urbanized.

However, agribusiness development is constrained by country-level and within-country market gaps. Country-level weaknesses include the enabling and upstream policy environment and vertical and horizontal weaknesses within the value chain itself. However, how agribusiness actors experience these challenges varies by country maturity stage and within-country variation—that is, agribusiness actors experience market gaps differently based on their assets, skills, and market access (or value chain link) endowments.

Figure D.1. Spectrum of Bank Group Interventions

Source: Independent Evaluation Group synthesis based on a systematic review of literature.
Note: AS = advisory services; CC = climate change; GAFSP = Global Agriculture and Food Security Program; ICT = information and communication technology; IFC = International Finance Corporation; IPF = investment project financing; MSME = micro, small, and medium enterprise; NRM = natural resources management; PPP = public-private partnership; SME = small and medium enterprise; WB = World Bank.
The World Bank Group has developed a differentiated approach that addresses the enabling environment by country maturity stage and within countries by type of market actor (figure D.1). The Bank Group has three main areas of engagement when supporting a country’s enabling environment for agribusiness and delivers a differentiated approach for market actors depending on their development stage. This approach is aligned with the creating markets theory of change for agribusiness.

**Identification of Market Gaps in Agribusiness**

The Bank Group has been effective at identifying the commonly known enabling environment market gaps at the country level. Across all case studies, the Bank Group identified many of the known enabling market gaps through policy dialogue, diagnostics and analytics, and as part of project preparation and scoping. These known enabling environment gaps include, among others, land tenure concerns, quality infrastructure (roads, power, and water), access to finance, and general government effectiveness (including issues involving political economy and governance). Land tenure and weak transport and connectivity infrastructure, for example, were identified across all cases.

However, IEG cases provided less evidence that the Bank Group has been able to pinpoint gaps in specific value chains. Beyond the known enabling environment market gaps, the identification of market gaps in case studies specific to market actors and value chains within countries was less prevalent and resulted in weak targeting of interventions and missed opportunities. Because agribusiness markets are often defined narrowly along product lines, taking a granular, value chain view is important to ensuring that the right market gaps are tackled in a manner relevant to the market actors and transactions (buyer and seller relationships) along the value chain. Such an approach should also include a complementary picture of the broader enabling environment, such as policies, physical and financial infrastructure, and the interactions between the respective value chains with it.

Successful projects targeted all stages of the value chain in a tailored manner, according to a recent systematic review published by 3ie (IFC 2013). These range from training in good farming practices to training in postharvest techniques, plus providing inputs such as credit and facilitating farmers’ organization to help them obtain better prices from suppliers. By contrast, traditional top-down approaches not tailored to farmers’ needs for training and extension had limited to no success (IFC 2013). Similarly, literature on productive partnerships and alliances that connect market agents through a joint business plan for the sake of creating an uninterrupted value chain found that properly identifying those value chains or products with the highest long-term market potential is very important, and that capacity building needed to be tailored to the specific
functions each producer organization assumes in the vertical alliance established with a buyer (World Bank 2016).

However, across IEG’s case studies, many identification strategies lacked the required specificity on value chains or were not delivered early enough to make a difference in the design and implementation of the investments, particularly to those that supported small-scale producers. For example, in Paraguay, several agribusiness-relevant Advisory Services and Analytics were delivered, but none covered agribusiness value chain challenges in a comprehensive way, and many market gaps were missed. A uniquely positive example, however, is in Madagascar, where the country portfolio addressed the known enabling factor, such as land tenure, and increasingly focused on specific value chains.

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**Box D.1. Madagascar’s Comprehensive Agribusiness and Agriculture Portfolio**

The World Bank Group agriculture portfolio in Madagascar addresses the commonly known agribusiness market gaps and, over time, has increasingly focused on specific value chains. This allowed the Country Management Unit to identify gaps and opportunities to invest (including by IFC in SMTP) and to engage in small-scale market creation by BOVIMA through backward market links for local producers (zebu beef and goat meat).

**Figure BD.1.1. World Bank Group Agriculture Portfolio Over Time**

<table>
<thead>
<tr>
<th>Institution</th>
<th>Project ID</th>
<th>Project description</th>
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</thead>
<tbody>
<tr>
<td>WB IFP</td>
<td>P051522</td>
<td>Rural dev (8, 2009 AF) w/ productive agri investments &amp; extension</td>
</tr>
<tr>
<td>WB IFP</td>
<td>P033069</td>
<td>Rural transport project</td>
</tr>
<tr>
<td>WB IFP</td>
<td>P032066</td>
<td>Transport infrastructure investment</td>
</tr>
<tr>
<td>WB IFP</td>
<td>P032061</td>
<td>IFP (PI1C &amp; 2009 AF) w/ general BEE and focus on agro-pole</td>
</tr>
<tr>
<td>WB IFP</td>
<td>P04086</td>
<td>Irrigation &amp; watershed w/ effort to strengthen commercial agri</td>
</tr>
<tr>
<td>WB IFP</td>
<td>P029240</td>
<td>Power sector improvement and recovery</td>
</tr>
<tr>
<td>WB IFP</td>
<td>P103590</td>
<td>Governance w/ local governance, decentralization, land tenure rights</td>
</tr>
<tr>
<td>WB IFP</td>
<td>P111148</td>
<td>Agriculture sector strategy development</td>
</tr>
<tr>
<td>IFC AS</td>
<td>549525</td>
<td>Madagascar: Informatiy survey and study in growth poles</td>
</tr>
<tr>
<td>WB IFP</td>
<td>P118990</td>
<td>Agri. markets ESW w/ VC on rice, milk and dairy, maize, and vanilla</td>
</tr>
<tr>
<td>WB IFP</td>
<td>P122712</td>
<td>Support to land reform process</td>
</tr>
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<td>WB IFP</td>
<td>P122491</td>
<td>Land Reform perspectives &amp; prospects</td>
</tr>
<tr>
<td>WB AS P</td>
<td>P153228</td>
<td>Agriculture and Rural Development</td>
</tr>
<tr>
<td>WB AS P</td>
<td>P157663</td>
<td>Political Economy Sectoral Analysis for PSD</td>
</tr>
<tr>
<td>WB IFP</td>
<td>P115004</td>
<td>IFP (PI2)</td>
</tr>
<tr>
<td>IFP FMA</td>
<td>P151469</td>
<td>Agriculture Growth &amp; Land Management</td>
</tr>
<tr>
<td>WB AS P</td>
<td>P167607</td>
<td>Smallholder Inclusion in Value Chains (rice and dairy)</td>
</tr>
<tr>
<td>IFC IND</td>
<td>SMTP</td>
<td></td>
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<tr>
<td>IFC IND</td>
<td>36704</td>
<td></td>
</tr>
<tr>
<td>IFC IND</td>
<td>602130</td>
<td>BOVIMA export</td>
</tr>
<tr>
<td>IFC IND/MG</td>
<td>36882/3660</td>
<td>Ravelala (airport improvements)</td>
</tr>
</tbody>
</table>

Source: Independent Evaluation Group case study.

Case studies highlight several factors that facilitated the identification of market gaps. Factors include: (i) having country office staff with good knowledge of the issues and of the most relevant players and their potential influence (good or bad) on addressing market gaps, (ii) building long-term relationships with clients in the field, which was also seen as key to understanding their constraints and finding opportunities (and the timing) where the Bank Group can intervene, (iii) using political or crisis periods to
build a strong analytical base, which can turn a constraint into an opportunity when the crisis period fades, and (iv) managing the political economy and elite influence, which can result in resistance to reform.

Resolving enabling environment market gaps has been slow process and proceeds in steps, and that required balancing multiple country-level priorities at the same time. All case studies found some progress on tackling the enabling environment gaps, although they were not resolved fully in any case. This is partly because of the scale and complexity of the challenge. For example, fixing and maintaining a country’s roads network or assessing and registering land plots into a land registry takes time and requires the participation of multiple agencies and stakeholders that may have competing priorities and demands. Additionally, it requires balancing priorities at the country level while designing interventions with the private sector in mind.

In conclusion, creating markets in agribusiness requires not only that the adequate enabling environment is in place, but also an in-depth understanding of specific value chains and potential gaps across these value chains. Identifying market gaps is time consuming, investing in them is risky, and resolving them requires a proactive and holistic view of the enabling environment and of specific constraints along the value chain. It also requires making sure that public and private sector partners are aligned with and willing to resolving these market gaps.

**Creating the Enabling Environment**

Across all cases, the Bank Group targeted well the constraints in the enabling environment that impeded the creation of agricultural markets or of agribusiness. These constraints were strengthening agribusiness policies and institutions, managing climate risks, and supporting country- and firm-level adoption of improved quality and food safety standards.

The Bank Group’s support on quality and food safety was particularly important in the context of creating markets. Such support was delivered mainly by World Bank investment project financing (IPF) and development policy financing, Advisory Services and Analytics, and IFC Advisory Services and is a prominent component in the Bank Group portfolio. A review of more than 80 agribusiness World Bank IPFs and IFC AS projects found that of those projects with a strong focus on market access, nearly half included support on quality and food safety. Similarly, all of IEG’s agribusiness case studies addressed such interventions, including in Madagascar, Paraguay, the Solomon Islands, Ukraine, and Zambia.

Bank Group support to quality and food safety standards often takes place either at the national or firm level. At the national level, support was often provided to agencies in
charge of determining standards (which often meant aligning them with export markets requirements, like the European Union) and ensuring compliance with such standards. From the perspective of producers, Bank Group support was often targeted at small-scale farmers who are often not aware of standards requirements for buyers along the value chain (who exclude small-scale farmers from their value chains because they would have to spend time and money helping get them up to standard). For IFC Advisory, standards were often one of several components, but their delivery was also focused on improved standards along specific value chains—for example, rice in Bangladesh and Cambodia, coffee in Papua New Guinea and Vietnam, apples in China, and bananas in the Philippines.

The examples of IFC’s support to food safety standards in the Solomon Islands and Ukraine underscore the relevance of such interventions. In both countries, such standards were a necessary condition for accessing export markets. In Ukraine, the World Bank and IFC AS delivered a complementary effort in support of the harmonization of the country’s standardization system, the legal framework for food safety, and technical regulations, eventually allowing them to conform to European Union requirements to boost exports. Similarly, in Paraguay, where the outbreak of hoof-and-mouth disease jeopardized cattle markets in 2011, which led the World Bank to include a component on cattle health and standards in the World Bank PRODERS project.

However, beyond these three case examples, portfolio data and the literature suggest that improving quality and food safety standards in agricultural value chains can be a cumbersome process. Such interventions typically achieved mixed results. A systematic review (by 3ie) of private sector interventions in agribusiness found that success of organic certified (that is, meeting standards) coffee contract farming is contingent on addressing constraints along the whole value chain (IFC 2013). Similarly, an impact evaluation on smallholder productivity in the Ecuadorean Sierra found that achieving high standards without training would be difficult for small-scale farmers (Cavatassi et al. 2010). An early IEG evaluation on agriculture acknowledges IFC’s pioneering role in supporting commodity roundtables and certification, but their slow development suggests that more attention is needed in this area (IEG 2011).14

Similarly, IEG’s analysis of the Bank Group portfolio indicates that interventions that aim at enhancing quality and food safety deliver only mixed results. IEG’s portfolio review of the nine evaluated World Bank IPFs with a strong market access focus and an intervention supporting standards and food safety showed that eight were successful (IEG rating MS+), but these results were still mixed overall. In Rwanda, the Governance and Competitiveness technical assistance (P127105) supported strengthening public and private entities involved in the growth of horticulture production and export. The
project evaluation found that although the target cooperatives were trained in quality measurement and standards, the project did not meet its expected targets (percentage increase in volume of select fruits and vegetables exported by firms and cooperatives with certified market standards). However, these activities helped strengthen the sector’s ability to organize growers and exporters—that is, a slow, stepwise pace of development. By contrast, of the 26 IFC Advisory projects that supported standards and food safety, only 14 were successful (IEG rating MS+).

From the case experience, the following factors emerged as affecting implementation: (i) delivering a suitable mix of instruments in a complementary manner to drive reform,\(^\text{15}\) (ii) playing a convening role by bringing actors together to identify and develop common agendas and action plans,\(^\text{16}\) and (iii) ensuring government commitment to reform to help minimize disruptions to progress, even during crisis periods.\(^\text{17}\)

**Downstream Support for Market Creation along Agricultural Value Chain**

Downstream, the Bank Group deployed a broad spectrum of financing and firm-level interventions. These instruments include (i) financial support through matching grants (World Bank), finance through intermediaries (World Bank and IFC), or direct finance (IFC IS); and (ii) advisory and technical assistance for market actors, including farmers, processors, aggregators, distributors, and service providers. The latter can be delivered through World Bank IPF and IFC AS interventions.

These interventions aim to strengthen links along value chains, that is, integration. Such interventions help farmers become organized so that they can increase their scale and ability to become suppliers for other market actors along the value chain. Such interventions were implemented by IFC through its advisory window for small-scale producers, that is, the Farmer Organization advisory, like in the Zambia Emerging Farmers Project. Other examples were found across cases in Madagascar, Paraguay, and Peru.

Other interventions help establish or strengthen aggregators or processors through finance or advisory services. These actors then connect with farmers downstream (Madagascar [SMPT, for example], Paraguay, Peru, the Solomon Islands, and Ukraine) or to wholesalers or experts upstream and help integrate value chains. However, evidence from the literature, IEG cases, and portfolio analysis suggest that positive results of market integration efforts are difficult to achieve. A systematic review, published by 3ie on contract farming (Ton et al. 2017),\(^\text{18}\) suggests that positive income effects can be found in contract farming arrangements (Ton et al. 2017; IFC 2013). It also acknowledges that for contracting to be successful, it must offer large benefits to outweigh the transaction costs and loss of autonomy. Additionally, it suggests that contract farming may be more appealing to farmers with larger scale who can both
invest more and accept more risk than smaller scale farmers can. A previous IEG evaluation found that successful outcomes in IFC agribusiness projects resulted from effective support to the integrated trader-processor model (IEG 2011). Projects in IEG case studies that aimed at integrating small-scale producers and SMEs into value chains showed mixed results, that is, successful in Cambodia, but limited in scale in the Solomon Islands and Ukraine and limited in results in Paraguay. For details on results and lessons learned from Bank Group interventions in this space, see box D.2.
Box D.2. Market Integration—Results and Lessons from World Bank Group Experience

IFC Advisory Services Cambodia Rice

The FY12 IFC Cambodia rice projects aimed to improve its competitiveness and export potential. Specifically, the project aimed to (i) increase access to improved planting seed with 8,000 rice farmers adopting improved seed into their farming practice; (ii) improve rice milling with 20 rice mills and reprocessors implementing better processes in management and food safety systems, and (iii) promote rice exports with 54 rice exports contracts facilitated, valued at about $8 million.

Overall, the project was successful. Food safety and certification objectives were met and resulted in increasing rice exports. At the sector level, the industry adopted Cambodian rice specifications and standards and a marketing strategy. The institutional capacity has been sustained with the Cambodian Rice Federation acting as the industry association. The project’s impact encompassed a strong exports performance of the supported mills and reprocessors, contributing to significant growth of the Cambodian national rice exports. Because of monitoring and evaluation and attribution constraints, IEG could not validate that 8,000 farmers were introduced to improved seeds and that paddy quality had improved.

IFC Advisory Services focused rightly on export markets. The Cambodian rice sector has benefited from the direct support of other development partners, including the U.S. Agency for International Development, Agence Française de Développement and Société Nationale des Eaux du Cameroun, Choong Ang Vaccine Laboratories Co., Ltd., and the Asian Development Bank. However, the IFC Advisory Services project stood out because of its starting point (the market) and its capacity to remain focused on requirements, demands, preferences, and professionalization of rice exports. IFC Advisory leveraged the mills and experts, permitting the development of solutions focused on export growth. Although the World Bank’s support to the sector was complementary, its focus was on the farmers and not on the market.

IFC Investment Services and Advisory Services SolTuna

In the Solomon Islands, the supported cannery became the market for local small and medium enterprises (SMEs). SolTuna supports diverse SMEs through its purchase of supplies for the cannery, including locally grown poultry eggs, chili, and vegetables for worker cafeterias and as provisions for the National Fisheries Development (NFD) boats. There are also several service providers, such as bus companies, that shuttle employees from their homes and quarters to the plant. NFD’s bycatch is also an important source of fish for the local market. The bycatch is about 10 to 30 metric tons of a 350-metric ton boat. NFD ships offload the bycatch in Noro, and it is purchased by small traders that transport it to Honiara or sell it in nearby markets. Because community support is an important part of their operations, NFD shuns offers from wholesalers to procure the bycatch in bulk in favor of selling to local traders.

IFC Investment Services Agrofusion Ukraine

In Ukraine, IEG rated IFC Investment in Agrofusion (a vertically integrated tomato pastes producer) as overall positive. The Evaluative Note states, the project is a success. It generates good employment, pays adequate wages (they are reported to be 20 percent higher than average in the area), and has increased local supply linkages (1,210 farmers currently supply tomatoes to the Company) including with [micro, small, and medium enterprises] MSMEs
Innovative finance tools, such as blended finance or risk-sharing facilities, can provide solutions for such value chain integration efforts. Box D 2 summarizes the results of cases covered by this evaluation.

Matching grants were commonly used to support the adoption of locally relevant innovations by small-scale market actors, but evidence from case studies questions their effectiveness, efficiency, and sustainability beyond the project lifecycle. The use of matching grants is common in World Bank projects; in a review of 21 agriculture projects with a strong articulation of market access and links, 15 used grants and matching grants to promote innovation as farmers and small-scale producers adopt technologies and improve their processes instead of using the formal financial sector. However, an assessment on matching grants shows that projects that use matching grants often lack proper identification of a market failure, therefore leading to suboptimal objective setting and limited long-term impact, and they may not always be the most cost-effective instrument to help farmers invest in productive activities (World Bank 2018). In Paraguay, the World Bank rural development project (PRODERS) matching grants component faced similar challenges as the literature in targeting and implementation (issues with missing or inadequate receipts and concerns with linking producers to markets). Although the restructuring led to improvements in implementations, and progress reports began to show results, the project’s weak monitoring and evaluation system will likely prevent a proper evaluation of the project’s results at completion.

Innovative financing solutions are important because it is difficult to finance the smaller end of the producer segment in agribusiness value chains. Traditional financing instruments address some of the finance constraints for micro producers (for example, through microfinance or matching grants) or the medium to large producers (for

**World Bank PRODERS**

In Paraguay, efforts were made to integrate family farms with public fairs supported by a World Bank project. However, there is limited evidence that such farmers were integrated into value chains. Rather, the project developed a program of public fairs where family farms could bring their produce to this new market. Although the monitoring and evaluation system is weak, there is some anecdotal evidence that some producers are better off and are learning to react to market forces (for example, by learning about consumer requirements regarding hygiene and packaging), but there are questions about the sustainability of results given that this program is not a market-based mechanism.

example, through blended or commercial finance). However, the economics of lending to the very small agricultural producer segment remains untenable for most lenders (CSAF 2018). The literature calls this segment of unserved producers the “missing middle” (MIT 2015; CSAF 2018). Figure D.2 shows the illustrative gap by type of traditional lender based on lender portfolio analysis (CSAF 2018).
Box D.3. Innovative instruments to integrate value chains

**Blended Finance**

The Global Agriculture and Food Security Program (GAFSP) and IFC co-investments through the Private Sector Window provide affordable funding at less demanding terms to companies that partner with smallholder farmers as part of their overall value chain. Complementing the investments are advice and technical support to businesses and farmers to improve their productivity and ability to meet standards.

In the Solomon Islands, IFC and GAFSP developed a blended finance package of up to $30 million, and advisory services to promote best practices in environmental and social risk management to support sustainable tuna production with National Fisheries Development. With this support, the company has established a more robust operation, processing almost three times the volume of fish per year (from 7,224 metric tons to about 25,000 metric tons of tuna per year). Although volumes of catch have increased, and national fleets catch more tuna, the economic benefits to the Solomon Islands from fishing have remained the same because of a price decline.

**Intermediary Financing Mechanisms**

World Bank and IFC investments that support portfolio-based guarantees and risk sharing improve the reach of traditional financial institutions. This includes the development of insurance products that reduce risk for small- and medium-scale producers and for institutions interested in lending or investing in them. For example, the development of warehouse receipts programs is an innovative mechanism to allow small- and medium-scale producers to obtain short-term financing.

**Risk-Sharing Facility**

In Ukraine, a risk-sharing facility was developed to support access to finance for farmers and mitigate their risk exposure. The program financed 121 small and medium enterprise (SME) farms and 209 purchases in 2015, a large increase over the 54 SME farms and 86 purchases in 2012. The program offered farmers a lifeline in a period when credit was unavailable (because of the crisis), with interest rates much lower (4–5 percent) than bank loans (up to 30 percent). Because of the visibility and wide-scale implementation of the program, the use of promissory notes was marketed successfully to farmers and farm-input distributors throughout Ukraine as a reliable and attractive financing instrument. Following Bayer Financing Program’s success, IFC implemented risk-sharing facilities with other agribusiness companies and banks in a few countries in Africa. Compared with the target of 27,750 farmers reached, the program reached 11,327 farmers because the original target was ambitious.

**IFC Farmer Organization Advisory Services**

In Zambia, IFC’s Zambia Emergent Farmers’ Program was an innovative financing program for agribusiness launched as an IFC advisory in cooperation with the Zambia National Commercial Bank PLC and the Rabobank Foundation. The project was based on the concept of value chain development and finance, and it demonstrated that considerable productivity improvements could be obtained by a combination of financial and nonfinancial support to these farmers.

*Source: Independent Evaluation Group.*
Not surprisingly, with its traditional micro and commercial financing instruments, IFC would find it difficult to reach this missing middle in agribusiness. At current investment levels, IFC reaches only the larger missing middle agribusinesses in a limited number of cases and often in conjunction with blended financing instruments such as the Global Agriculture and Food Security Program. The IFC and the program’s blended investment in Madagascar’s SMTP is one such case; each institution invested $1.5 million of their own accounts (SPI 2015).\textsuperscript{20} However, such investments are rare—the median investment size in low-income countries is about $10 million. Figure D.2 shows the distribution of total net commitments in the IFC agribusiness portfolio, which illustrates the limited coverage of the missing middle segment.

**Figure D.2. The Challenge of Reaching Retail Agribusiness: The Missing Middle**

This suggests that a revised approach is needed, one that leverages IFC Advisory to target capacity constraints along the value chain and elevates market actors into viable investments. In cases in which market actors along a value chain are too small to be served by traditional financing instruments, IFC can leverage its advisory arm to plug their capacity gaps in a way that investments cannot—that is, advisory offers limited risk to IFC and can be cost-effective for those receiving the advice, given its ability to pool financial resources. For the advisory to deliver results, it needs to be grounded in a technical understanding of the value chain, targeted at specific value chain constraints, and with specific domestic and export markets in mind. As the value chain develops,
market actors along the value chain should become viable for intermediary finance, blended finance, or direct investment by IFC or other lenders.

The IFC AS engagement in Cambodia Rice illustrates such an approach. IFC Advisory supported the spectrum of market actors along the Cambodia rice value chain: farmers to increase their access to improve seeds, rice millers to help them reach international standards in quality and food safety, and rice exporters by helping them develop a differentiated strategy (high-value, aromatic rice) and strengthening their brand identity internationally. This support built on previous Bank Group efforts advising the government on developing their rice milling standards on the development of its first rice policy, which called for a significant increase in rice exports. As rice mills improved their quality and grew their operations, they were able to access finance from Malaysian financial institutions and other local formal lenders.

The team’s technical understanding of the rice value chain in Cambodia and its ability to pivot with the realities in the field facilitated the implementation of this Advisory. During project implementation, the team realized it was preferable to focus efforts on improving rice standards over time because the cost of adhering to standards that are too strict would make Cambodian rice less competitive. Similarly, the team identified seed multiplication as a weak link along the value chain, and therefore committed additional resources to help strengthen rice paddy quality. Box 2.2 provides more details on Cambodia Rice.

The government can play a role in innovation depending on its fiscal space and capacity. Mazzucato and Semieniuk (2017) argue that economic theory justifies policy actions when there are concrete market failures. In innovation, however, radical innovations often would have emerged, from “direct and pervasive public financing,” according to their research. In this context, the authors attribute a role in market shaping and creating to the state. This requires public funding and may thus limit such a role to specific circumstances. Note that the literature does not provide findings in the context of developing countries because it was conducted in a context of the United States and European Union, referring to examples such as nano technology, electric cars, and so on (Mazzucato and Semieniuk 2017).

In agribusiness in particular, the use of procurement policy helps create markets for small companies through the public Small Business Innovation Research program (Keller and Block 2012), or through policies that enable, for example, smallholders, access to public procurement windows by supplying public schools or hospitals with produce.
Innovation also relied on leveraging the beneficial effects of improved ICT infrastructure and services. According to a systematic review, ICT-based models showed promise as successful means of providing market information. Farmers benefited through reduced transaction costs and increased prices and profits. IFC needs to continue developing ICT-based products such as the Africa Village Phone Program (IFC 2013). In Paraguay, the improvement in the overall ICT environment resulted in project beneficiaries being able to get market information and receive client orders using mobile phone applications (WhatsApp, for example).

Across IEG’s cases, projects demonstration effects were identified; however, enhancement to the enabling environment was often needed to realize those demonstration effects. For example, IFC’s investment in first-of-their-kind processors (SolTuna in the Solomon Islands and SMTP and BOVIMA in Madagascar) showed potential for demonstration effects. However, realizing this potential requires enhancement of the enabling environment. In the Solomon Islands, for example, the support to SolTuna created a well-regarded demonstration project, but other constraints have limited the emergence of other processing plants in the market. An important achievement of National Fisheries Development and SolTuna is the retention value generated in the country by requiring that some of the catch be processed locally, thus adding value in the sector. SolTuna’s canned goods are now the mostly widely consumed tuna in the Solomon Islands. Several inexpensive varieties are produced (the most popular is chili tuna, which is mildly spicy). SolTuna has had a strong demonstration effect in the country. The Ministry of Fisheries has been looking to open a second plant in Malaita that envisions employing about 3,000 people. However, the private sector appetite is low because of limitations and uncertainties with European Union preferences, the complex land issues that affect every industry in the country, and the poor access to infrastructure. In Madagascar, delivering on the creating markets potential is contingent on the continued investment in a level playing field, in contracts enforcement, and in basic infrastructure, such as roads and electricity, as cases show for the investments in SMTP and advisory in BOVIMA.

Across cases, IEG observed that interventions that targeted smallholders lacked the needed monitoring and evaluation system to verify fund disbursement and usage (in matching grants) or other integration effects (for example, when the delivery was the technical assistance only). This was captured in the IEG evaluation of the Zambia Emerging Farmers Project and observed in the Paraguay PRODERS project.

More broadly, there is a general lack of evidence of the direct welfare implication of market creation on the poor—that is, beyond larger-scale farmers (Ton et al. 2017). The literature notes that targeting geographic areas where the rural poor live is common in projects that involved productive partnership or alliances (World Bank 2016). An IEG
review of evaluated projects shows that more than half of projects that focus on market access also focus on improving the livelihoods of the rural poor. For example, Peru’s ALIADOS project targets six of the country’s 25 regions characterized by higher levels of (extreme) poverty and poor areas that experienced high levels of violence during the civil conflicts of the 1980s and 1990s. However, weaknesses in data collection make it difficult to know whether this targeting at the design stage resulted in welfare benefits for small-scale producers. A review of productive partnership projects notes that “experiences from midterm reviews, Implementation Completion and Results Reports), and ex post economic analyses of projects have shown that data on key indicators, such as production costs and sales incomes before and after the subproject investment, have often not been accurately collected (World Bank 2016). In Paraguay, despite some promising anecdotal evidence, the mission team was unable to obtain systematic data on project results. In Peru, the monitoring and evaluation systems for measuring progress on them seem weak.

Linked to this issue, IEG noted a policy challenge concerning pursuing market creation. Market creation efforts in agriculture and agribusiness can have unintended side effects on forest management and climate change, for example. This calls for a well-balanced approach toward creating such markets and a need to keep all Sustainable Development Goals in mind (box D.4).
Supporting the certification of animal-based production remains an important avenue for the World Bank Group to create markets that promote sustainability. Such interventions help improve producer standards and integrating them into differentiated or premium product markets.

However, the potential consequences of such efforts beg the question about whether the approach is consistent with achieving the Sustainable Development Goals.

Recent research highlights the environmental consequences of feeding the world’s population, noting that dietary behavior change that emphasizes a plant-based diet could help mitigate such consequences. A study published in *Science* explored a vast dataset covering nearly 40,000 farms, and 1,600 processors, packaging types, and retailers across more than 100 countries to assess the impact of foods from farm to fork. It found that “while meat and dairy provide just 18 percent of calories and 37 percent of protein, it uses the vast majority—83 percent—of farmland and produces 60 percent of agriculture’s greenhouse gas emissions.” Similarly, a recent article in *Nature* found that the “food system [overall] is a major driver of climate change, changes in land use, depletion of freshwater resources, and pollution of aquatic and terrestrial ecosystems,” and that the production of animal products was linked to the majority of food-related greenhouse gas emissions (72–78 percent of total agricultural emissions, figure BD.4.1).

**Figure BD.4.1.**

*Source:* Independent Evaluation Group, project documents, and articles in *Science* and *Nature.*

*Note:* Selective presentation of greenhouse gas emissions. For the complete figure, please see the *Nature* article, which contains all environmental pressures studied (that is, cropland use, bluewater use, nitrogen application, and phosphorus application). GHG = greenhouse gas.

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**Deep Dive: Creating Markets for Information and Communication Technology**

**Market Framework for Information and Communication Technology**

The World Bank Group traditionally focuses its support on telecommunications. The ICT sector consists of several industries, including hardware manufacturing, wholesale and retail; telecommunications services; and computer and information services.\(^{21}\)
Although there are links among the different ICT industries (particularly between telecommunications and computer and information services), most World Bank Group interventions—particularly in the case studies considered—have traditionally been in telecommunications.

Telecommunications markets have evolved dramatically around the world over the last four decades. What was once considered a public utility best operated by a monopoly government-owned company has transitioned in many countries to a competitive industry primarily served by private sector operators. However, there are limits to a fully competitive telecommunication market. The main reason is scarce resources, such as spectrum for wireless networks, or constricted elements, such as rights-of-way for laying ducts. The large investments required to build facilities also constrains the number of players, that is, market access is constrained because of the amount of initial investment needed.

Regulations are needed for how to best allocate limited resources, ensure interconnection between different operators, guard against abuses of market power, and develop strategies for deploying infrastructure to uneconomical areas. Most countries have found that a regulator that is independent of political influence (particularly when some operators are state-owned) is critical for ensuring a transparent and competitive telecommunications market. Support for sector reform, including assisting the government with regulatory support, was a Bank Group upstream activity in the country cases along with financial support to operators’ post-privatization.

The physical layers of telecommunication networks influence market conditions. This structure is encapsulated in four layers, or miles: (i) international connections, (ii) national connectivity to move telecommunications traffic within the country, (iii) local connections to end users, and (iv) a so-called invisible mile consisting of essential, intangible elements such as spectrum. Bottlenecks in the interface between the different layers affect the efficiency of the market.

For example, the first and second miles are often costly to build, and in many developing countries, a single player or a few players providing downstream wholesale services to retail operators typically control them. When wholesale companies also operate in retail segments, they may charge higher prices to competitors and pass them on to consumers as higher prices. Another feature of telecommunications networks is continuous evolution. Wireless networks are now beginning their fifth generation, with each succeeding one offering faster speeds and higher capacity. Although there are often industry standards for telecommunications technology, there can be more than one standard, creating investment risks if the choice does not gain market acceptance. Bank Group downstream activities in this area mainly consisted of funding for a regional
submarine cable (the first mile), tower infrastructure sharing (the middle mile), and mobile operators (the last mile), with the invisible mile related to upstream policy advice. Figure D.3 provides an overview on how such networks are built.

**Figure D.3. How Networks Are Built**

Telecommunications markets of the countries considered herein are diverse and have different levels of maturity, competitiveness, and regulatory efficiency, which affects the nature and type of interventions. The Dominican Republic has long had a competitive private sector market and regulator, whereas in Papua New Guinea, the historical operator remains state owned, and competition in the mobile market did not emerge until 2007. In Haiti, a second company entered the mobile market in 2005, and the state-owned operator was privatized in 2010. Kenya and Madagascar have had competitive mobile markets for almost two decades, and they both privatized their state-owned operators in the 2000s. An assessment of ICT laws finds that the Dominican Republic and Kenya are relatively developed whereas Haiti and Madagascar are less developed (no assessment is available for Papua New Guinea).
Lending and assistance projects related to ICT in the countries are shown in the table D.1. They start from the mid-2000s and generally feature a World Bank upstream component and IFC downstream investment. The Eastern Africa Submarine Cable System (EASSy) cable project included both Kenya and Madagascar along with other African countries involved in the project.

Table D.1. Information and Communication Technology Projects Covered in Case Studies

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Project (Number)</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominican Republic</td>
<td>Wind (IFC) (27526)&lt;sup&gt;a&lt;/sup&gt;</td>
<td>$16 million investment (2010)</td>
</tr>
<tr>
<td></td>
<td>CARCIP&lt;sup&gt;b&lt;/sup&gt; (Canceled)</td>
<td></td>
</tr>
<tr>
<td>Haiti</td>
<td>Digicel (IFC) (24919)&lt;sup&gt;c&lt;/sup&gt;</td>
<td>$15 million investment (2006)</td>
</tr>
<tr>
<td></td>
<td>Privatization of Teleco (IFC) (26250)&lt;sup&gt;d&lt;/sup&gt;</td>
<td>$3.2 million assistance (2007–09)</td>
</tr>
<tr>
<td>Kenya</td>
<td>Regional Communications Infrastructure Project (P094103)</td>
<td></td>
</tr>
<tr>
<td>Madagascar</td>
<td>Regional Communications Infrastructure Project (P094103) (Restructured)&lt;sup&gt;e&lt;/sup&gt;</td>
<td>$30 million (2007–15)</td>
</tr>
<tr>
<td></td>
<td>Celtel (IFC) (25514)&lt;sup&gt;f&lt;/sup&gt;</td>
<td>$25 million loan (2007)</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>Rural Communications Project (P107782)&lt;sup&gt;g&lt;/sup&gt;</td>
<td>$15 million loan (2010–18)</td>
</tr>
<tr>
<td></td>
<td>Digicel (IFC) (26295, 28398, 30792)&lt;sup&gt;h&lt;/sup&gt;</td>
<td>$40 million (2008), $80 million (2009), and $27 million (2011) investments</td>
</tr>
<tr>
<td>East Africa</td>
<td>EASSy Cable (IFC) (25340)&lt;sup&gt;i&lt;/sup&gt;</td>
<td></td>
</tr>
</tbody>
</table>

Note: CARCIP = Caribbean Regional Communications Infrastructure Program; EASSy = Eastern Africa Submarine Cable System; IFC = International Finance Corporation.

a. For more information on this project, visit the Inter-American Investment Corporation website at https://www.iic.org/en/projects/dominican-republic/dr3632a-02/wind-telecom-sa.

b. For more information on this project, visit the World Bank Projects and Operations website at http://projects.worldbank.org/P147483?lang=en.

c. For more information on this project, visit the IFC Project Information Portal at https://disclosures.ifc.org/#/projectDetail/SPI/24919.

d. For more information on this project, visit the IFC Project Information Portal at https://disclosures.ifc.org/#/projectDetail/AS/26250.


f. For more information on this project, visit the IFC Project Information Portal at https://disclosures.ifc.org/#/projectDetail/SP/25514.

g. For more information on this project, visit the World Bank Projects and Operations website at http://projects.worldbank.org/P107782/rural-communications-project?lang=en.

h. For more information on these projects, visit the IFC Project Information Portal at https://disclosures.ifc.org/#/projectDetail/SP/26295, https://disclosures.ifc.org/#/projectDetail/SP/28398, and https://disclosures.ifc.org/#/projectDetail/SP/30792.

i. For more information on this project, visit the IFC Project Information Portal at https://disclosures.ifc.org/#/projectDetail/SP/25340.

Tailoring Interventions to Countries and Sectors and Underpinning Analytic

Market failure—typically epitomized by high prices and low levels of access—was self-evident to all stakeholders. Ongoing Bank Group dialogue and assistance over several
years established the basis for a good understanding of the ICT situation. This was supported by formal analyses and technical assistance in the context of lending operations, reinforced by regional ICT strategies, Interim ICT Strategy Notes, and Country Assistance Strategies.

Identification of ICT market issues in institutional country documents varied. Although telecommunication was identified as a serious development bottleneck in a series of Bank Group reports on Haiti, this was not always the case for the other countries. Country Assistance Strategy (CAS) documents between 2005 and 2014 for the Dominican Republic did not identify ICT market failures. This could reflect the relative maturity of the markets where the Dominican Republic had a much more developed telecommunications sector and higher levels of access than Haiti did.

In most cases, the fundamental downstream market failure related to backbone transmission infrastructure and wholesale markets. This is because wholesale prices for backbone connectivity constitute a significant portion of retail prices. The lack of a competitive or open-access wholesale market results in high retail prices, affecting affordability and access. Furthermore, limited backbone capacity affects quality. In all of the cases, issues with the upstream regulatory environment were also mentioned, though the degree of weakness varied. In the Dominican Republic, for example, cases identified a lack of competition in the wholesale market for broadband capacity; in Kenya cases found limited [international] connectivity; in Haiti, the constraint was the public good nature of the country national backbone (along with lack of rural coverage and outdated legal and regulatory frameworks); in Madagascar, the national backbone to expand coverage into areas that would not attract private investment was identified a constraint; such backbone investments are typically long-term with significant sunk costs, high externalities, and public good characteristics. An additional market failure was the fact that the country required access to a reliable, high-capacity wholesale market. Papua New Guinea was an exception where market failure was identified in more general terms as a shortage of ICT services in the country and the even more acute situation in rural areas.

Solutions to the problem of restricted backbone access are challenging. The problem essentially relates to regulatory failure in imposing cost-based, transparent, and open access to critical infrastructure. However, upstream work to improve the regulatory environment has been difficult because of political constraints, often from pressure of incumbent, state-owned enterprises or powerful private sector interests that control backbone infrastructure. EASSy was a success in that it required countries to accept the open-access principles to gain connectivity to the cable. These principles were embedded in upstream interventions carried out in Kenya and Madagascar. However
downstream work, including investment in backbone operators, was not possible if the open-access principles were not accepted.

**Putting in Place Public Sector Capacity, Policies, and Frameworks — Upstream Support**

Efforts were made in all of the countries examined to improve the telecommunications legal and regulatory environment to make markets more competitive and sustainable. Results were mixed, often because of exogenous factors, including fiscal constraints in the Dominican Republic, policy reversals in Papua New Guinea, and a political crisis in Madagascar.

Regional initiatives played a role in some of the upstream work. In the Dominican Republic, the World Bank supported reform of the ICT sector, addressing legal and regulatory reform through the Caribbean Regional Communications Infrastructure Program, a project coordinated with the Caribbean Telecommunications Union. The Regional Communications Infrastructure Program contained initiatives linked to the EASSy fiber-optic submarine cable along the east coast of Africa. The initiatives included preparing the necessary legal and regulatory environment before the landing of the cable in the country. There was coordination between IFC, a major investor in the cable, and the World Bank leading the Regional Communications Infrastructure Program.

In some cases, there was a regional element in support extended to the private sector. Mobile group Digicel had operations in several small-island developing states in the Caribbean. The company’s experience and synergies with the rest of the group played a part in IFC lending for launching operations in Haiti and Papua New Guinea. After the Papua New Guinea transaction, IFC extended loans to Digicel for other operations in the Pacific (Fiji, Tonga, and Vanuatu, in addition to an earlier loan for Samoa). This was key to developing competition in the region. In Madagascar, a loan was extended to the parent company of the local mobile operator (Celtel, later acquired by Zain). The parent had operations throughout Africa and could draw on those experiences and synergies.

**Finance, Innovation, Demonstration, Competition, and Integration—World Bank Group Downstream Work**

Wholesale backbone transmission markets were generally perceived as a key market bottleneck, but there were just two direct Bank Group interventions in this area. In the other countries, though there may have been general dialogue to liberalize wholesale markets (including an open-access framework), investments were directed to private operators and privatization.
In the Dominican Republic, IFC invested in WIND Telecom, an existing but new wireless operator. The project was ultimately unsuccessful, but it helped the market through a reduction of prices. IFC’s investment in 2010 for WIND to expand its network spurred competitors to drop prices, and the price of a fixed broadband subscription declined 72 percent that year (Figure D.4, left). A challenge was that WIND’s technology, WiMAX, became outdated after a few years, losing ground to Long-Term Evolution (LTE) technology, which emerged as the industry standard. WIND, therefore, had to invest in LTE technology to be competitive, but swift implementation was delayed because of funding constraints. This illustrates how fast-moving technology evolution affects the market in an industry such as telecommunications. The Caribbean Regional Communications Infrastructure Program would have harmonized telecommunication regulations and supported construction of a national backbone, but it was canceled because of fiscal constraints.

In Haiti, politics impeded sector reform assistance, and thus outdated regulations were not modernized. Instead, investments were directed to privatization and enhancing competition. IFC loaned $30 million to new operator Digicel, which launched in 2006. A year after disbursement, the company prepaid the loan. Privatization of the incumbent operator transformed it from a drain on government finances to a strong competitor. After both transactions, there was a notable increase in mobile penetration (figure D.4, panel b). The support resulted in the reduction of prices, new mobile money service offerings, and increased service quality by competitors.
In Kenya, the most important Bank Group contribution was the Eastern Africa Submarine Cable System (EASSy), a 10,000-kilometer undersea system deployed in 2010. Moreover, the EASSy negotiations prompted interest in the development of two other submarine cable projects (SEACOM and TEAMS). Financed in part by IFC with upstream work carried out by the World Bank, the cable contributed to a massive increase in Kenya’s international internet bandwidth and reduction in wholesale prices, both surpassing project targets (figure D.5, panel a).

Madagascar, another landing point of the EASSy cable, also benefited with a huge increase in international internet bandwidth and reduction in wholesale prices, and like Kenya, exceeding the project targets (figure D.5, panel b). Originally, the CARIP project had foreseen the liberalization of the wholesale capacity resale market in Madagascar, and the subsequent build out of a national backbone network to be used by all the operators. Because the 2009 political crisis stalled the project until 2011, the project was redesigned in 2012, considering the absence of liberalization of wholesale capacity. This revised approach meant that the benefits of infrastructure sharing would still be realized, even in a nonliberalized environment, therefore still guaranteeing the principles of open access on which the CARCIP program was based. The towers were set up in partnership with the private sector through a public-private partnership. The World Bank’s public investment into the passive infrastructure addresses the market
constraints because the investment benefited the sector as a whole and would not be feasible by any single operator.

**Figure D.5. International Internet Bandwidth in Kenya and Madagascar**

![Graph showing bandwidth and price over time for Kenya and Madagascar.](image)

**Source:** Africa AFCC2/RI-Regional Communications Infrastructure Project: P094103, Implementation Status Results Report: Sequence 20.

**Note:** Gbps = gigabits per second; Mbps = megabits per second. In Papua New Guinea, IFC investment in new licensee Digicel in 2008 led to a large rise in mobile access. The state-owned incumbent lacked funding to enter the market, and the other mobile operator, which was spun off from the incumbent and privatized, did not have the funding to compete. As a result, Digicel ended up controlling most of the mobile market, and despite several years of competition, mobile prices actually increased, in contrast to other Pacific Island nations where the introduction of competition led to dramatic price reductions.26

Interestingly, a systematic review confirmed that private operation does not necessarily reduce prices. Thillairajan et al. (2012) confirmed that in telecom, private sector participation improved efficiency, but had a negative impact on price. Regulation had a positive impact on access, but a negative impact on quality. Being aware of such trade-offs is important to select the most appropriate intervention in achieving a given outcome.

Most of the interventions either explicitly or implicitly addressed increasing access among those at the bottom of the pyramid. Investment in wireless telecommunications operators in Haiti, Madagascar, and Papua New Guinea widened the base of prepaid mobile cellular subscriptions, reaching further down income levels. A tower-sharing project in Madagascar expanded mobile coverage, hence reaching more people. In Papua New Guinea, there was an explicit intervention targeted at rural areas where operators had not invested because of high costs and the perceived lack of profitability. Almost 85 percent of the country’s population lives in rural areas. The Rural
Communications Project subsidized operators for the installation of mobile base stations across the country with the aim of achieving population coverage of 90 percent of the entire country by 2015.27

**Figure D.6. Mobile Cellular in Papua New Guinea**

![Graph showing mobile cellular subscriptions (per 100 people) and mobile cellular basket ($ per month).]

*Source: World Bank and International Telecommunication Union.*

Interventions had different impacts in increasing access. Although there were interventions to improve access to mobile communications in both Haiti and Madagascar, the impact was far greater in Haiti. In 2008, Haiti had a slightly higher mobile penetration rate than Madagascar did, but then penetration grew by 43 percentage points until 2016 compared with just 9 percentage points in Madagascar. By 2016, about three-quarters of Haitian households had a mobile phone compared with just over one-third in Madagascar (figure D.7, panel a). Haiti has a slightly higher per capita income and like Madagascar, there were three mobile operators. However, the rural population in Haiti is smaller than that in Madagascar, and its land area is significantly less than Madagascar’s. Investment to cover a large rural population spread over a large area is high, and Malagasy operators likely perceived such investment as not financially attractive.

The coverage gap concept is useful for understanding access constraints. The efficient market gap is the difference between existing coverage and coverage that is commercially viable but has not yet been served because competition is not fully effective. Sustainable coverage is areas that could be commercially viable except for the initial capital costs. The universal coverage area is the proportion of the population living in areas that lack the potential to recover capital or operating costs. A World Bank
report calculated these gaps for African countries, and it is useful to contrast Kenya and Madagascar.\textsuperscript{28} Although the level of access in Kenya is close to the efficient market, in Madagascar it remains significantly below (figure D.7, panel b). This underscores the importance of addressing upstream bottlenecks inhibiting effective competition.

**Figure D.7. Households with a Mobile Telephone and Coverage Gaps, Kenya and Madagascar**

- a. Percentage of households with a mobile phone
- b. Coverage gaps [%]

Enablement of more competitive private sector telecommunication markets was mixed. Investment was made in new private sector operators in the Dominican Republic, Haiti, and Papua New Guinea, adding to competition and reduction of prices. The incumbent operator in Haiti was strengthened through privatization, making the market more competitive and sustainable. However, WIND in the Dominican Republic withdrew from the market, and Digicel Papua New Guinea then dominated the sector with a 97 percent market share in 2015.\textsuperscript{29} The sector reform agenda, particularly the existence of independent regulators with solid tools for remedying market power abuse, remains incomplete.

Support for mobile operators generated employment. Besides jobs working directly for new operators (about 1,000 people were directly employed by Digicel Haiti as of 2008 compared with the goal stated in the Project Update Memorandum of 550), employment was boosted through the sale of mobile cellular airtime (60,000 street vendors were generating an average of $28 per month from selling prepaid cards). The launch of Digicel in Papua New Guinea created jobs for about 30,000 people selling airtime.

*Source: U.S. Agency for International Development, Demographic and Health Surveys Program.*
Spillover effects into the local economy led to jobs in network deployment (building towers, digging trenches, laying cables, and so on), advertising, and real estate.

There is evidence of positive effects in other areas because of a more dynamic telecommunications sector. Financial inclusion was deepened through the launch of mobile money services. The best example is M-Pesa in Kenya, though there is no evidence that Bank Group ICT work in the country had a direct impact on this. In 2011, a fund established by the U.S. Agency for International Development and the Bill and Melinda Gates Foundation awarded Digicel Haiti a $2.5 million grant to deploy mobile money services in Haiti. More than 500,000 clients signed up within a year of the launch. In Papua New Guinea, though Digicel has a mobile money service, IFC supported the Bank South Pacific with its bank-driven solution. The need to charge mobile devices led to Digicel Papua New Guinea deploying solar-driven charging stations (an IFC advisory service engagement), while in Madagascar, phone charging created opportunities for small businesses.

Interventions targeting digital use by government and fostering innovation, entrepreneurship, and computer literacy were essentially limited to Kenya.

**Deep Dive: Creating Markets for Financial Inclusion**

Financial inclusion refers to the ability of enterprises and households to access reasonably priced and appropriate formal financial services that meet the needs of enterprises and households. Access has multiple dimensions, including geographic access (proximity to a financial service provider) and socioeconomic access (absence of prohibitive fees and documentation requirements). Financial inclusion matters because it is believed to benefit micro and small enterprises in growing, thereby promoting income gains and employment for the poor and the bottom 40 percent, and because it helps poor households to manage daily finances, potentially smoothing unpredictable or irregular income and expenses and providing recourse in times of stress. Regarding the latter, some experts believe microfinance is missing its biggest market, the billions of wage workers who have no interest in (nor time for) self-employment, but whose needs for finance are fundamental to their well-being.” For this market to be reached, it would have to “evolve at mass scale.

Financial markets are characterized by certain market failures and gaps that limit access to financial services by smaller enterprises and lower-income households and individuals. Financial markets are somewhat different from conventional markets for goods and services in that risks may be harder to judge and can have strong systemic externalities. Thus, financial transactions, particularly debt, involve screening the customer to assess risk for the benefit of the lender and, often, to satisfy regulators.
guarding system financial safety and stability. This makes them particularly sensitive to limitations on information on potential customers and introduces a minimum transaction cost to lending that mitigates against small loans.

The low end of financial markets—microenterprises and poor households—is regarded as especially risky and hard to monitor, and the poor may lack history or even identity through traditional sources of information, such as credit bureaus. The enabling environment for financial services is important to financial inclusion, including regulation and supervision of microfinance institutions and broader financial sector supervision and regulation of competition. However, more regulation is not monotonically better for advancing inclusion: for commercially oriented microfinance institutions, stronger regulation tends to be associated with larger loans and less outreach to the poor and women. Further supply-side and demand-side constraints are summarized in box D.5.

Box D.5. Supply-Side and Demand-Side Constraints

Supplying financial services to the poor may not only be riskier, but also costlier in that fixed costs are a higher percentage of small transactions, and rural, poor populations are more dispersed and thus expensive to reach through conventional means. Innovations that lower fixed costs may thus improve financial inclusion. Imperfect competition in financial markets may limit the supply of financial services because banks stick to the easy money of lending to wealthier, larger, and easier-to-reach clients.

Conversely, the literature finds that more competition may yield more outreach to the poor and excluded, at least by commercially oriented actors. Weak regulation may limit consumer information, subject them to unfair practices, or increase their risk in entrusting assets to financial service providers. Therefore, to the extent that poor families and micro and small businesses have a demand for financial services and cannot obtain them at a reasonable cost and convenience, it can be said there are market gaps and failures.

Market failures may also limit or distort demand. Lack of financial literacy may limit the use of offered financial services or lead to use that is not in the best interest of the business or household. Lack of good-quality information and consumer protection may lead the poor to not tap beneficial services available or take on excessive risk, costs, or debt. The poor may also face a host of barriers, including geographic distance from service providers. High costs to access financial services may constrain demand for financial inclusion. Behavioral constraints to demand can arise from diverse sources, ranging from ignorance to tradition to religion.

Source: Independent Evaluation Group.

Microfinance has often been represented as an exercise in market creation, fixing credit market failures through innovative practices such as group lending and installment lending (and more recently, through various mediums of digital finance). The idea was to replace government programs with viable market mechanisms that deliver services
through a range of institutions that integrate social and financial goals. SME support is often cast similarly as a response to market failure, though IEG’s work suggests that this is much more the case in countries with limited financial sector depth and development.

Earlier IEG evaluations have noted the importance of market creation in reaching underserved markets. IEG synthesized the implications of several evaluations for inclusive growth, concluding: To promote inclusive growth, the Bank Group needs to get the diagnostics of inclusion right before designing meaningful interventions that actually level the playing field for all.

The evaluation of support for small and medium enterprises concluded, Given the huge gap between what SMEs are estimated to need and the amount of aid that is provided, the only way to have a significant impact is to intervene in ways that permanently expand the supply of services, such as [by] creating a new market for SME finance. The Bank Group has more impact near the “frontier”—in less developed economies, and with client groups, such as women and people living in rural areas, who are not adequately being served by existing markets. The IEG evaluation found that by building markets or addressing market failures, the World Bank can make an enduring contribution to SME development.”

In its financial inclusion evaluation, IEG found that to reach the poor, especially in rural areas, both new diagnostics and new service delivery models were needed. Diagnostically, IEG found that Approaches to local conditions need to ensure that programs deliberately target and reach the poor. This calls for a more systematic and comprehensive approach to identifying and tackling constraints to financial inclusion, such as barriers to usage and high transactions costs. In terms of approaches, IEG recommends that the Bank Group work systematically at identifying and scaling up innovative delivery models that dramatically lower the costs of services. Given the scale of the challenge and the World Bank’s goal of universal financial access, IEG found that Bank Group support cannot fix the problem through its volume … but rather by establishing the foundation for better functioning markets, creating new MFI [microfinance institution] markets (for example, through greenfield operations), or expanding them. In particular, it found that IFC’s support of new clients and investing in small and pioneering projects took longer to turn profitable but had a tremendous development impact.

**Tailoring Interventions to Countries and Sectors and Underpinning Analytic**

The World Bank’s main tools to identify constraints to financial inclusion and market gaps were instruments of formal analysis. The quality of Bank Group engagement and its analytics, the skills of Bank Group staff, and broad stakeholder involvement were important factors in the identification of constraints and market gaps.
The quality of Systematic Country Diagnostics (SCDs) and Country Partnership Frameworks, and the work feeding into them, proved important in establishing financial inclusion priorities. In Madagascar, the SCD facilitated the identification of market gaps. It provided a comprehensive picture of financial inclusion markets and summarized constraints in a consistent and comprehensive manner. The strength of the SCD was coupled with the staff’s depth of expertise and knowledge of the program, and effective Country Management Unit internal communication and coordination practices. It was informed by a strong program of diagnostic work, including an International Monetary Fund (IMF–Bank Group Financial Sector Assessment Program that identified priorities and recommendations for action, and fed into a World Bank–IMF–supported comprehensive financial sector strategy that provided a framework for government actions to achieve broad-based access to financial services. In Papua New Guinea and Peru, CASs (the predecessors to the Country Partnership Framework) identified gaps and priorities for subsequent intervention (with varying degrees of follow through). By contrast, in Paraguay, the CAS did not address financial inclusion, and government’s commitment to it developed only after the CAS process.

National Financial Inclusion Strategies (NFIS) were found to be instrumental in the case studies where they were observed and were often motivated valuable Bank Group analytical work to inform them. In Peru in 2013, the government began to deepen its commitment to financial inclusion of its low-income population, and it requested the World Bank to provide extensive support in the formulation of its first National Financial Inclusion Plan (ENIF). In this context, the World Bank completed two financial inclusion studies that proved critical for an evidence-based, prioritized, better-resourced, and more comprehensive approach embodied in the ENIF. The World Bank was also deeply involved in launching the ENIF by facilitating multiple workshops, commenting on drafts, and resolving issues among government agencies. Stakeholder involvement was critical in the identification of market gaps, leading to the formulation and launch of the final version of the ENIF implementation plan. Stakeholder engagement encouraged key parties—the Central Bank of Peru, the Ministry of Economics and Finance, and the Superintendent of Banking and Insurance—to work together, with World Bank assistance, to resolve key issues.

In Papua New Guinea, a financial sector review informed the 2015 Papua New Guinea Financial Inclusion and Financial Literacy strategy. The review did a stocktaking of the current state of affairs, reviewed progress, and made recommendations to strengthen capacity to achieve relevant commitments in the Maya Declaration and the national development plan. It also carried out a gap analysis on consumer protection.

In Paraguay, the World Bank provided the foundation of the government’s NFIS in response to a request from the central bank for policy advice and technical assistance. In-
depth data collection and analytical work were undertaken to provide a strong basis for strategy development. This work was complemented with demand-side and supply-side analyses (including the 2013 Paraguay Financial Inclusion Survey), and a legal and regulatory analysis, identifying constraints to financial inclusion in a comprehensive manner. These assessments provided a strong analytical basis for the development of the NFIS. However, the lack of Bank Group country presence and its staff’s lack of knowledge of the country’s financial inclusion agenda constrained its identification of market gaps, and the World Bank did not or could not engage beyond this diagnostic stage.

**Putting in Place Public Sector Capacity, Policies, and Frameworks—Upstream Support**

The Bank Group did a good job of identifying market gaps through analytics, but it generally had greater difficulty in helping to address them. Difficulties related to government commitment and capacity, continuity of Bank Group engagement, and field-level presence and expertise.

In Peru and Paraguay, the World Bank was unable to follow up on its strong diagnostic work with continuous engagement with governments to address identified constraints. In Peru, although the Bank Group helped the government to formulate the ENIF, it could not maintain its engagement. There were frequent turnovers in political leadership—for example, there were five different ministers of economy and finance in a two-year period. This situation triggered changes in key counterpart personnel and recurring changes in the financial inclusion policy priorities and commitment. As a result, there was no formal involvement of the World Bank for several years.

In Paraguay, the World Bank had intended to support implementation of the NFIS with a policy operation with prior actions that targeted financial inclusion–relevant measures, such as free savings accounts and regulations for electronic payments. However, the development policy operation never materialized, the government lacked the resources and skills to advance the financial inclusion agenda, and the central bank emerged as a lonely champion with insufficient capacity and resources to lead implementation. Measured achievement of the NFIS’s milestones was estimated to be only 50 percent.

In Papua New Guinea, there was strong follow up to initial diagnostic work. The 2013 CAS pointed to significant challenges in financial inclusion, such as a need for more robust supervision and regulation adapted to new global industry developments, and better service across the full range of banking customers, especially the large proportion of unbanked Papua New Guinea citizens living in rural areas. Support and technical assistance, including work following from the 2010 Financial Sector Assessment
Program, included IFC support to the Bank of Papua New Guinea has helped to shape the National Payment System Act and Vision and to introduce a new system for interbank clearing and drafting regulations for mobile payment. In Papua New Guinea, the FIRST trust fund is currently supporting the development of prudential standards (with the central bank) and will support the Bank of Papua New Guinea in updating the existing prudential standards and develop new standards in key risk areas.

In the Kyrgyz Republic, the Bank Group took a systematic approach to following up on its diagnostic work, addressing the market at three levels: financial stability, financial inclusion, and financial efficiency. Financial inclusion was addressed by the World Bank, supporting consumer protection, financial literacy, and the Post Office (to offer a range of financial services through its branches for geographic coverage), and by IFC by promoting responsible financing, rural finance through banks and microfinance institutions (MFIs), credit reporting, and secured transactions. The World Bank also engaged programmatically after the 2010 banking sector crisis in a long financial stability development process that in principle strengthened some enabling conditions for financial inclusion.

**Finance, Innovation, Demonstration, Competition, and Integration—World Bank Group Downstream Work**

In multiple cases, Bank Group interventions supported the emergence of new enterprises or new products that, through direct provision and through demonstration, catalyzed market formation and growth. The most common evidence presented for the Bank Group contribution to market creation was the existence of new MFI entrants in the market.

The World Bank’s only substantial downstream engagement in the case studies was in Madagascar, where it financed the Madagascar Financial Services Project, and was found to be responsible for new market entrants based on its partial portfolio credit guarantee (PPCG). The implementation of the PPCG facilitated the increase in the number of MFIs (reaching 30, up from 25 in 2009) and the opening of 15 additional branches of two MFIs—OTIV Tana and Vola Mahasoa—that became operational in the Betsiboka and Anosy areas, respectively.

IFC was much more engaged downstream, often supporting early or first entrants in commercial microfinance, several with clear demonstration effects. In Paraguay, through an investment in Bancop (the first cooperative bank in Paraguay), IFC helped to establish a new player with new products targeting the unbanked rural population. Bancop served 27 cooperative entities and provided financing to small farmers and agro-industrial producers. Regarding new services, in Peru, IFC Advisory assisted several
financial institutions to transition into taking deposits. For example, it helped Mibanco and Financiera Confianza to reach rural and low-income markets. Both are now among the leading MFIs.

In Peru, IFC’s role was both for microfinance and for a new microinsurance market. In 2001, it provided a loan to Banco de la Microempresa (Mibanco), to expand its microlending and extend its average loan tenor. Its initial investment provided an impetus for MFIs to obtain assistance in expanding services at the lower end of the market. IFC continued providing a series of loans to Mibanco, which merged with Financiera Edyficar, an MFI that transformed into a fully commercial institution in 2014 with IFC’s help. With IFC’s technical assistance in 2008, another MFI, Financiera Confianza, pioneered the transition to a deposit-taking institution. One year after the technical assistance, Financiera Confianza opened nearly 25,500 deposit accounts, resulting in $23 million in deposits and vastly exceeding targets and expectations. IFC also helped pioneer specialized insurance companies with an equity investment in Protecta, the first such company in the country. This investment helped expand the availability of insurance services to underserved markets.

In Madagascar in 2007, IFC provided a loan, equity, and technical assistance to AccessBank Madagascar (ABM) to become a commercial microfinance bank that provided access to finance for microenterprises and SMEs and low-income households. Because of ABM’s entry into Madagascar, competition among MFIs and banking institutions increased, and there was a significant increase in the number of loans and deposit accounts in the country. IEG found that ABM had a positive demonstration effect by establishing a sustainable model of commercial microfinance lending that followed best practices. ABM has a banking license, but it also developed as a full-fledged banking institution offering lending, deposits, and innovative, branchless (mobile) services relating to remittances, transfers, and agricultural loans.

In the Kyrgyz Republic, IFC investments helped three MFIs (Bai-Tushum, FINCA, and Kompanion) to become full-fledged deposit-taking institutions, reaching a wider clientele with lower costs. All three now figure among the largest microfinance institutions in the country. FINCA and Kompanion had transitioned to banks in 2014 and 2015, respectively. IFC supported a number of other banks through its investment and advisory services. IFC advisory also focused on stimulating demand for credit through topics such as responsible financing, financial literacy, consumer protection, digital financial services, payment systems, and remittances. Moreover, IFC assisted the systemic bank Demir Kyrgyz International with longer-term capital and local currency financing. IFC offers access to long-term funding in local currency through a foreign currency swap. IFC recently began pursuing mobile money payment platforms and a risk capital fund that supports FinTech.
In Papua New Guinea, IFC provided advisory services to a nascent mobile banking industry soon after a legal and regulatory framework was established. It advised three different banks—BSP, Westpac, and ANZ—each using a different approach and with differing levels of market penetration. Other entrants not supported by IFC soon followed. Although it is hard to attribute the growth of mobile banking to IFC, rural mobile banking has grown from a nonexistent market in 2010 to 224,000 customers in 2018. However, despite this growth, the reach and usage in rural areas is still limited.

Despite progress in Bank Group efforts, there is still a need for more innovative service delivery models, products, and services. The case studies show that despite progress in the area of financial inclusion, the vast majority of targeted populations in most case study countries—rural and urban poor people, and micro and small enterprises—still lack access to financial products and services. Microinsurance is an example. Microinsurance can mitigate the effects of unexpected life events (like illness, accidents, job loss, failed harvest, or death) to which the poor are most vulnerable. However, in Madagascar, the insurance market remains small and does not cater to the local private sector. The microinsurance coverage ratio was about 0.2 percent, a tiny penetration rate. Other than life insurance, products are geared to large corporations. Peru provides another example where there is a growing number of MFIs offering services to microentrepreneurs, but microinsurance penetration in rural areas was miniscule. In Paraguay, poorly designed efforts (without World Bank engagement) to promote mobile money and basic savings accounts for the poor foundered after initial progress. More broadly, even in countries such as Madagascar with fairly comprehensive engagement, there remains an unfinished agenda of both upstream reforms to strengthen the legal, regulatory, and supervisory framework, and the downstream agenda to introduce or expand innovative services to reach the poor and MSMEs.

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1 Agribusiness is a source of livelihoods for most rural people (65 percent of working adults made a living through agriculture) The sector is also linked to food security, in particular as population growth pressures increase food demand by 50 percent compared with 2013 (FAO 2017). Agribusiness is also a source of growth (in 2014, it accounted for one-third of global gross domestic product), investment opportunities for the private sector, and growth in related industries and the nonfarm economy. If well managed, the sector can also minimize its effect on environmental degradation while contributing to environmental goals such as managing watersheds, capturing carbon, and preserving biodiversity. The concepts of agriculture, agribusiness, and agribusiness value chains are interlinked and part of the story of how food is grown, processed, and delivered from farm to fork. Where agriculture has been defined as the science or practice of farming, including the cultivation of soil for growing crops and rearing animals to provide food, wool, and other products, agribusiness has been defined as agriculture conducted on commercial principles and focused on sending agricultural goods to market. Agribusiness supply and value chains, as a concept, aim to capture and describe the complex
interactions between actors and processes needed to deliver agricultural goods to market. Additionally, while supply chains focus on efficiency, value chains focus on both efficiency and incremental value creation, (2) (World Bank 2008) and growth in the sector is more effective in raising incomes among the poorest when compared with other sectors (3) (World Bank 2008; 2018). In addition, the sector can contribute to several Sustainable Development Goals (SDGs): no poverty (SDG 1), no hunger (SDG 2), responsible consumption (SDG 12), protect the planet (SDG 13), life below water (SDG 14), and life on land (SDG 15).

2 By 2030, the current annual investments of nearly $2 billion in agriculture and food security will be lower than the estimated $480 billion required, leaving an investment gap to be addressed by the public and private sectors. Given each sector’s resource constraints and their comparative advantage, public and private sector entities will have to develop clear roles and responsibilities in their investments to support the enabling environment and actors and processes along the value chain (UNCTAD 2014).

3 The three main areas of engagement are strengthening agribusiness policies and institutions, improving the needed infrastructure for agribusiness, and improving access to finance. Depending on the country’s maturity stage, the World Bank Group tailored its support to the enabling environment to tackle key priorities. In an overall agrarian case in Madagascar, the Bank Group emphasized land tenure reform, strengthening the needed infrastructure (especially roads), promoting spatial approaches, and developing the microfinance sector. In a transforming case in Paraguay, emphasis was placed on understanding climactic risks and strengthening the country’s river transport and river ports for medium to large soy producers, and in an urbanized case in Ukraine, the emphasis was on food safety with a goal of exporting to the European Union.

4 The agribusiness creating markets theory of change is nested within the overarching creating markets theory of change and envisions Bank Group public and private investment to improve the enabling environment, upstream advice to improve the policy and institutional setting for agribusiness, and downstream investments to strengthen and lengthen value chains directly. These activities have the potential to generate a demonstration effect (that is, successful investments along the value chain are replicated) and promote innovation (that is, new or improved solutions are developed to tackle challenges along value chains) that overall strengthen and lengthen agribusiness value chains. Thus, these activities and immediate outcomes have the potential to help integrate actors into domestic and export value chains, where each node represents a new (or improved) market for sellers and buyers.

5 Land tenure, for example, was identified across all cases. Zambia has been working on its land policy for almost three decades. A land report identified several good practices relevant to agribusiness, but also weaknesses such as an unreliable land register or cadaster (although the registry is accessible and searchable, less than 50 percent of ownership information in the registry is current and reflects reality in the field), which makes decision making for agribusiness investments difficult. Similarly, weak transport and connectivity infrastructure were identified as a constraint in Madagascar, Paraguay, Peru, Ukraine, and Zambia. In Ukraine, the World Bank’s Agriculture Global Practice carried out Advisory Services and Analytics (ASA) on agricultural trade, transport, and logistics (FY16, P148859). The report found that logistics costs for moving grain from Ukrainian farms to the Black Sea ports are approximately 40 percent higher than the costs for comparable services in France and Germany, and as a result, farmers in Ukraine received lower shares of world market prices that, according to estimates, resulted in foregone revenues ranging from $600 million to $1,600 million each year.
A productive alliance involves three core agents: a group of smallholder producers, one or more buyers, and the public sector. These three agents are connected through a business proposition, or business plan.

In Paraguay, although several agribusiness-relevant ASA were delivered, none covered agribusiness value chain challenges in a comprehensive way, and many market gaps were missed. Throughout the period under review, there was a substantial number of ASA dedicated to enabling environment issues relevant to agribusiness development. Five of the 12 agribusiness-relevant ASA were transport related (for example, studying public-private partnership arrangements for river dredging and transport) while another four ASA covered climate-based agriculture risks; the former is a key constraint for the medium-to-large producers. However, none of the ASA covered agribusiness market gaps comprehensively or address the specific market gaps identified by stakeholders or to value chain development.

This factor was evident in Paraguay where, until recently, there were no private sector staff located in the country office, which appears to have limited the inclusion of private sector issues in the country’s portfolio of analytics and of engagement with private sector actors. The recent hiring of a local IFC Advisory staff member, who was very engaged with the local business community and had his finger on the pulse of what matters in agribusiness and agriculture in Paraguay, is a good sign that the Bank Group may be getting closer to its clients and may become more connected with their issues and bottlenecks.

This factor was evident in Madagascar and perhaps also in Ukraine, where half of the agribusiness-relevant World Bank ASA during the FY07–17 was delivered in the four years since the crisis started (FY14) compared with the same number of ASA delivered over the previous seven years. In both cases, this spike in ASA was reflected across other sectors.

In situations where elites influence is strong, small-scale farmers and processors may face weak political representation and voice in decision-making which leads to agribusiness interventions (that target market gaps specific to their needs) are designed without them in mind. In Madagascar, a key World Bank governance project was rated as facing high risk to DO in because of limited ownership and, while governance was one of the focus areas of the government’s National Development Program, the country faced “strong vested interests which will likely resist reforms.” Similarly, the country’s CLR notes that political pressure hindered the effectiveness of the Rural Development project noting that “no M&E system would have survived the political pressure coming from the top, where the President himself had a personal interest in agriculture policy and frequently made personal policy changes” (World Bank CPF FY17-21, 2016). In Paraguay, the country “scores a 1 in the University of Gothenburg’s Variety of Democracy Project, implying that wealthy people enjoy a dominant hold on political power, people of average income have little say, and poorer people have essentially no influence”.

In Ukraine, even though transport costs for agribusiness were high, most of the transport portfolio focused on road and highway safety improvements. The ASA on agricultural trade, transport, and logistics was delivered only in 2016. It notes that despite overall positive headline achievements, the grain sector in Ukraine continued to suffer from inefficiencies along the supply chain. It concludes by noting the importance of working with a multisector approach to integrate demand and supply of logistics services and the need to improve the policy environment as “equally important” to investing in the provision of infrastructure. It also notes the importance of linking farmers to markets, and that quantifying the potential efficiency gains of improving such
links can help build support for reform. In Paraguay, evidence from the evaluated World Bank Road Maintenance project showed some results. The project was able to deliver improved access to all-weather roads in the three targeted departments by project closure, and the vehicle operating cost—a proxy for the condition and quality of the road network—on the three selected departments on the poorest and most excluded rural communities to the primary paved road network declined but was still somewhat higher than the revised target. The ICRR notes that given the number of excluded rural communities that had access to the primary paved road network in the three departments, it could be concluded that the project made a significant contribution to the project development objective of establishing a sustainable road management strategy through improving access of excluded rural communities. However, questions remain on whether there was a committed basis for funding maintenance activities on the rehabilitated roads. In Madagascar, land tenure issues were covered extensively through a governance technical assistance loan, multiple ASA, and more recently, the Agriculture Growth and Land Management Specific Investment Loan. However, results were slow and stepwise. IEG rated the Governance and Institutional Development Technical Assistance Loan as unsatisfactory overall, but it achieved some results regarding land management. The project recorded more than 500,000 parcels for local taxation, surpassing its target of 8,000, but no land certificates were issued because of the government decision to stop issuing land certificates before the approval of a Municipal Land Development Plan. Two ASA were also delivered during this period: The Support to Land Reform Process Nonlending Technical Assistance, and the Land Reform Perspectives and Prospects Economic and Sector Work. The former was designed to support land reform efforts and to maintain policy dialogue with all stakeholders involved in the land sector with the hope that it would be possible to launch “second stage reforms once a new government in Madagascar is recognized by the international community.” According to the latest back-to-office report (2012), land reform continued to move forward, though slowly given the political turmoil. The mission team focused on developing a pilot approach that would combine land registration and land tax census procedures, providing legal services, and training Communal Land Officers and the design of a Land Management Training Kit. The latter economic and sector work was designed to generate information, analysis, and policy recommendations for the elected government to use in preparing its national land policy reform strategy. A substantial report was produced which summarized initiatives to promote land certification by the World Bank and other development partners.

12 Support to national-level agribusiness institutions was mostly carried out through Bank investment policy financing / development policy financings and ASA and involved developing national-level rural development plans, improving the analytical base through data capture (for example, census) and by strengthening the statistical capacity through improved systems and training. Support to climate risk management was also prevalent and included analytical work focused on identifying the types of risks and proposing mitigating actions, such as developing risk insurance or improving the irrigation and drainage systems in the case droughts and floods.

13 Of these 35 projects, nine are World Bank investment policy financing and 26 are IFC Advisory Services.

14 In Madagascar, the Rural Development and Integrated Growth Poles projects supported the strengthening of agribusiness institutions. The Rural Development project supported the development and approval of the National Rural Development Program. Similarly, the agriculture census was completed and disseminated, the agricultural statistics system became operational, and Regional Agricultural Statistics Units were expanded and strengthened. Under
the Integrated Growth Poles project, an agricultural output database was developed, and a value chain analysis (including feasibility and market studies) was conducted for several commodities in the Anosy region—cassava, maize, pink peppercorn, and lychee and other fruits—to help farmers and potential investors identify agribusiness opportunities along the targeted roads. This led to several expressions of interest by private operators to set up processing plants (notably in lychee) in the region and spurred the launch of new training programs for farmers. Regarding support to climate risk management, in Paraguay, several analytical pieces focused on strengthening the government’s capacity to understand its climate-related agriculture risks, but there was no subsequent lending or technical assistance to address these concerns, despite their descriptions including such calls to action. Between 2014 and 2016, four ASA were delivered on the issue of agriculture risk and volatility and the potential development of agriculture insurance to address these concerns. Although there is limited documentation on what these activities delivered, notes from the operations portal suggest that workshops may have been organized on the idea of developing agriculture insurance. However, such agriculture insurance has yet to be delivered, and Paraguay remains as vulnerable to such risks as it was before.

Delivering a suitable mix of instruments in a complementary manner to drive reform proved fruitful in some cases. For example, similar to the land tenure program in Madagascar that used multiple types of projects to achieve results, in Ukraine, the quality standards and food safety set of projects addressed parts of the problem in a complementary and sequenced manner. However, the IFC JAdvisory team mapped and coordinated all stakeholders relevant to agribusiness development.

In some countries (mainly Latin America and the Caribbean), this might take the form of investing in or supporting value chain platforms, but in others (mainly Africa), it may require developing and investing in working relationships with commodity boards. Examples of such platforms often already exist, so developing these spaces may not require building them from scratch, but rather leveraging the efforts already in the field—that is, partner with and invest in existing convening spaces that help surface the needs of the value chain and can direct multiple sources of investment into resolving market gaps. In Ukraine, extensive policy dialogue with the different stakeholders in the government ensured ownership of the technically complex and politically sensitive reforms. Coordination and complementarity with other development partners (the International Monetary Fund, the European Commission, Japan International Cooperation Agency, the U.K. Department for International Development, and the U.S. Treasury Department) secured leveraging results.

Crisis periods may interrupt dialogue yet ensuring Bank Group and government commitment to reform can help minimize disruptions to progress: in Madagascar and Ukraine, crisis periods interrupted policy dialogue which made continuation of reform difficult. Despite these challenges, the Madagascar program was not fully dropped thanks to the commitment of the Government of Madagascar to rural policy development. Thus, despite the crises, the Rural Development Project reached some important upstream results (for example, developing the National Rural Development Policy Program) according to the ICR, “The successive governments showed a consistent commitment to rural development and to protecting and supporting the project as a major instrument for the implementation of their rural development policy and for improving productive assets of poor rural households.”

The literature suffers from publication and survivor bias; programs with nonsignificant effects are systematically underreported, and all the studies assessed the
effectiveness of the contractual arrangement after they had survived the start-up phase (which may have a very high attrition rate). The included studies are, therefore, only representative of enduring contract farming arrangements.

Matching grants can be effective in addressing several of these constraints both on the demand side (for example, lack of willingness to invest, lack of trust, and so on), and on the supply side (for example, lack of information on farmers, lack of collateral, and so on). However, they fail to address other key constraints, such policy and regulatory constraints, risks, or lack of liquidity. In addition, complementing matching grants with other instruments may allow combining short-term and long-term benefits. Setting up a sustainable partial credit guarantee or reforming the regulation of interest rates may generate profound changes in rural financial markets, but such projects might take time. Conversely, matching grants are a temporary subsidy that can quickly help underserved segments access resources for their projects.

For more information on this project, visit the IFC Project Information Portal at https://disclosures.ifc.org/#/projectDetail/SII/36704.


Source: https://www.wto.org/english/tratop_e/serv_e/telecom_e/tel23_e.htm


For more information see: http://ieg.worldbankgroup.org/sites/default/files/Data/reports/chapters/appf.pdf


Although there was a Universal Access regulation proposed whereby investment in rural areas would be funded by a levy on operators, it had yet to be approved by government as of June 2018.


https://www.sec.gov/Archives/edgar/data/1645826/000119312515236163/d946689df1.htm


In one case study, the Kyrgyz Republic, a 2007 Financial Sector Assessment Program identified market failures, focusing on the regulation, supervision, and development of the nonbanking financial institution sector, and the expansion of access to finance. Among the constraints identified were the limited range and reach of banking and nonbanking financial institution services, the geographic impediments to reaching remote populations in mountainous areas, distortions in credit markets caused by subsidies, and underdevelopment of insurance services. The Financial Sector Assessment Program was followed in 2010 by a World Bank access to financial services policy note that analyzed the legal and regulatory framework for financial access. It recommended a series of reforms, including increasing financial sector competition; improving collateral registration and execution; strengthened accounting practices; improved scoring by and operation of the credit bureau; a series of legal, tax, and regulatory reforms to facilitate new NBFI growth; and the emergence of new financing products, such as leasing and factoring, and consideration of using the Kyrgyz Post as an alternative distribution channel for certain financial products, especially in remote areas. This was followed in 2014 by a World Bank consumer protection and financial literacy diagnostic review focused on the demand side of access to finance.
# Appendix E. Market Creation and Addressing Market Failures

## Addressing market failures, improving how markets work and extending market reach

### Causes for market failures

<table>
<thead>
<tr>
<th>Negative or positive externalities</th>
<th>Information failure or asymmetry</th>
<th>Lack of property rights</th>
<th>Indivisibility/economies of scale</th>
<th>Monoplistic/oligopolistic markets</th>
<th>Missing or incomplete markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public, merit or demerit goods</td>
<td>Wrong pricing decisions</td>
<td>Lack of land or collateral registers</td>
<td>Upfront investment/network effect high</td>
<td>By government policy</td>
<td>Lack of or wrong incentives</td>
</tr>
<tr>
<td>Externalities wrongly reflected in prices</td>
<td>Over/undersupply</td>
<td>Lack of enforcement</td>
<td>High transaction costs/technological barriers</td>
<td>Natural monopoly</td>
<td>Lack of trade or competition</td>
</tr>
<tr>
<td></td>
<td>Adverse selection</td>
<td>Market exclusion/limited reach</td>
<td>Market barriers</td>
<td>Dominance of SOEs</td>
<td>Risk perception about markets</td>
</tr>
<tr>
<td>Policy and tariff reform, reduction of subsidies</td>
<td>Rating agencies</td>
<td>Land and collateral register</td>
<td>Facilitation of market links</td>
<td>Anti-Trust and competition law</td>
<td>Sector reform, trade policy and facilitation</td>
</tr>
<tr>
<td>Pollution management regulation</td>
<td>Credit rating agencies</td>
<td>Transaction law</td>
<td></td>
<td>Institutions to foster competitiveness</td>
<td>Regulatory and policy frameworks for PSP and PPP, tariff reform</td>
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<tr>
<td>Institution building</td>
<td>Sector AAA</td>
<td>Copyright law</td>
<td></td>
<td>Privatization strategy</td>
<td>Enabling laws, policies and strategies</td>
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<tr>
<td>Environmental legacy issue clean-up</td>
<td>Readiness diagnostics (PPP)</td>
<td>Mortgage and foreclosure law</td>
<td></td>
<td>Regulatory reform</td>
<td>Capital market infra / securitization law</td>
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<tr>
<td>Investments/lending in urban transport, waste and water management</td>
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<td>Mobilization of private capital and PPP structuring</td>
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<tr>
<td>Investments/lending education/health</td>
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<td></td>
<td>Financial inclusion, SME support, leasing, capital markets</td>
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</table>

### Market structure/Extent of markets reach

- **Monoplistic/oligopolistic markets**
  - By government policy
  - Natural monopoly
  - Dominance of SOEs
  - Lack of competition

- **Missing or incomplete markets**
  - Lack of or wrong incentives
  - Lack of trade or competition
  - Risk perception about markets

### Enablers: Macro stability, rule of law, conflict resolution, trust


**Note:** The literature uses market failures and reasons for market failures interchangeably; often they are described as interlinked. AAA = analytic and advisory activities; CapEx = Capital Expenditure; PPP = public-private partnership; PRI = political risk insurance; PRG = Partial Risk Guarantee; PSP = private sector participation; SME = small and medium enterprise; SOE = state owned enterprises; TA = technical assistance.
Appendix F. Lessons Mapping

IEG conducted a systematic analysis across 23 Maximizing Finance for Development–relevant evaluations to identify relevant lessons for the creating markets approach. Figure F.1 provides an overview of the 23 evaluation reports. Lessons from this review informed the design of the evaluation’s theory of change and were used to corroborate (or refute) the findings in this report.

Figure F.1. Overview of MFD-Relevant IEG Evaluations

The results of this lesson mining are summarized in the lessons map in figure F.2 that aligns lessons to specific evaluations and is summarized in more detail in the next section.

Lessons on Organization

The World Bank Group (and the broader development finance institution community) can organize itself to deliver interventions focused on the following aspects:

- Use diagnostics to make strategic choices. Assessing the country’s readiness through analytics and diagnostics (for example, private sector development diagnostics) was described as an important component in ensuring that the Bank Group makes informed strategic choices. Such assessments can help the Bank Group identify sectors or circumstances in which engaging the private sector is feasible and determine the role of the Bank Group in this context (including
synergies in program delivery). Diagnostics were also described as important in helping assess whether long-term finance is available to help limit the uncertainty of project finance.

- Selection of Bank Group instruments should fit the country context. The review highlighted the importance of selecting the right Bank Group instrument (for example, Bank development policy operations versus investment policy financing, IFC Advisory Services versus Investment) to achieve the desired result, considering the country’s readiness according to the diagnostic work.

- The focus of engagement should cover inclusiveness and poverty concerns. Engagements that support private sector participation should have a clear intention to provide services in an inclusive and poverty-focused manner, and therefore should take into consideration concerns such as affordability and geographic reach.

- Coordination within the Bank Group and with other development partners should deliver synergies. Coordination, both internal and with other development partners, was described as essential for project finance and resource mobilization. The Bank Group was appreciated for its capacity to bring solution packages that were described as the most comprehensive when compared with other multilateral development banks; hence internal coordination to deliver these solutions is also critical.

- Incentives for Bank Group staff are needed. Despite the Bank Group’s reputation for delivering effective solution packages, the review found that improving the incentives structure for Bank Group staff would be critical to ensure that team leads, and staff engage in time-consuming private sector participation projects, and to ensure Bank Group coordination is achieved over time. Incentives were also described as playing an important role in encouraging smart risk-taking and in pursuing more complex or riskier private sector participation projects and programs.

- Conflict of interest needs to be managed. The review identified conflict of interest as an area that needs to be managed carefully with upstream advice and transaction-level advice and finance.

- Monitoring and evaluation systems are crucial. Ensuring that private sector participation engagements are equipped with smart monitoring and evaluation systems that capture poverty and inclusion aspects, and that last beyond financial or program closure will ensure that feedback loops are maintained, and results are communicated down the line.
Lessons on interventions that support the enabling environment can be summarized as follows:

- Governments with clear objectives and strong leadership: Strong and long-term government commitment to reform is a prerequisite for success in reform efforts. Government champions were found to be essential; by contrast, political uncertainty and power shifts or shift of government priorities lead to delays or nonimplementation of reform efforts or enhanced private sector involvement.

- Competition, market structure, and investment climate: Sector reform and attempts to roll out a private sector participation agenda were slowed in cases where state-owned enterprises (SOEs) were dominant. Thus, privatization of SOEs was often described as a precursor to encouraging the private sector to engage in a sector. Important features of such reform include restructuring, financial soundness, and corporatization of public utilities.

- Institutions and capacity essential to manage public finance and to develop a pipeline of bankable projects: Capacity is crucial to assessing, controlling, budgeting, and disclosing potential deals adequately, including managing contingent liability. Building capacity and enhancing financial and technical skills at the country level is crucial so that country agencies can develop a pipeline of bankable projects in which the private sector can invest, not limited to the public-private partnership (PPP) space, but including supply chain, manufacturing, agribusiness. Such skills include the development of essential preparatory analysis (for example, Value for Money or risk analysis, and so on).

- Transparent procedures and responsibilities, including the public and private sector side: For project preparation, bidding and award were described as required; standardization of transactional documents, procedures, and contracts increased efficiency and often delivered spillover effects.

- Sector reform and legal basis: Sector reform efforts potentially take longer than anticipated, are complex, and often fail because of political pressures and other reasons. However, experience shows that launching a PPP agenda need not wait for the perfect regulation to be in place. The existence of legal basis to allow the private sector to engage and defined process, coupled with institutional responsibilities, is a prerequisite.

- Scope and width of reform efforts: Narrowly focused reform efforts tend to achieve their objectives better, while complex or broad reform efforts tend to fail.
Appendix F
Lessons Mapping

- Early stakeholder involvement: Engagement with the civil society and raising public awareness about the pros and cons of private sector involvement are essential to achieve consensus and ensure buy-in from all sides.

- Integration of private sector participation pipeline into National Infrastructure Plans: Such plans are essential to align public investment priorities and reduce uncertainty about government commitment.

Lessons on delivering interventions (structuring and financing) can be summarized as follows:

- High-quality structuring advice: Such advice was found to be essential to turn deals into sustainable projects, balance private sector revenue expectations and public objectives, optimize risk allocation across parties involved in the deal, and minimizing revenue fluctuations (for example, through sound off-take agreements and political risk insurance).

- Challenge with cost-recovery tariffs: Cost recovery was problematic and therefore suggests that, in cases where tariffs cannot cover costs, a system that covers costs for the private operator be put in place. Cross-subsidization may help improve the reach of operations into areas where users would not be able to afford public-private partnership tariffs (from revenues generated from the more affluent users). However, such systems were delicate, and their success hinges on public and private sector actors adhering to their commitments.

- Assessing fiscal implications: In such assessments (those that deal with contingent liabilities and where government guarantees are needed), it is essential to avoid treating them as “off-balance sheet.”

- Realistic project timeframes and focused project design: Such realism proved to be beneficial for positive outcomes for World Bank investment projects that contained a PPP finance component.

- Sponsor quality: High sponsor quality with technical, operational, and country-specific expertise was described as important.

- Staying engaged beyond financial closure: To ensure the sustainability of outcomes, it is important to stay engaged beyond financial closure to assist with midcourse corrections and renegotiations and to monitor longer-term outcomes. Such engagement would also help assess demonstration effects and broader sector effects (including in the enabling environment because of such investments).
### Figure F.2. Lessons Map

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#### Lessons Map

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<td>Upstream Work of IFSR</td>
<td>2017</td>
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<tr>
<td>Other Categories</td>
<td>2017</td>
</tr>
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</table>

#### Other Categories

- Bankability and App.  
- Support to Electricity Access  
- IFI Lending for Financial Inclusion  
- Debt Management  
- Support to Health Planning  
- Public Private Partnerships  
- The Poverty Focus of Country Programs  
- IFIS Assistance to Low-Income Producers and Conflict-Affected States  
- SMEs  
- Innovation and Private Sector Development  
- Macro Environment Support  
- Information and Communication Technology  
- Managing Forest Resources for Sustainable Development  
- PCA Global Trade Finance Program  
- Assessing PCA Poverty Focus and Results  
- Investment Climate Reform  
- Youth Employment  
- Growth and Productivity in Agriculture and Agribusiness Evaluation Lessons  
- Improving Performance and Outcomes for the Poor in Health, Nutrition, and Population  
- Environmental Sustainability, an Evaluation of the World Bank Support  
- Doing Business  

#### Other Categories

- Gender  
- Poverty  
- Governance  
- Strategy  
- Performance  
- Economy  
- Environment  
- Conflict  
- Data  
- Management  
- Policy  
- Project  
- Program  
- Finance  
- Operations  
- Work  
- Implementation  
- Capacity  
- Project  
- Evaluation  

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Appendix G. MIGA: A Portfolio-Based Assessment

According to mandate, the Multilateral Investment Guarantee Agency (MIGA) promotes cross-border investment in developing countries by providing guarantees (political risk insurance and credit enhancement) to investors and lenders. FY18 MIGA began using the International Development Association (IDA) Private Sector Window as a resource to help draw private investment to the most challenging situations in the world.

To derive lessons for MIGA for its support to projects with market creation potential, the team reviewed multiple Independent Evaluation Group (IEG) evaluation reports, and all 31 MIGA guarantees evaluated from 2008 to 2017 in the three deep dives sectors chosen for this evaluation: agriculture, financial inclusion and information and communication technology (ICT). This portfolio-based approach was necessary because MIGA projects were barely captured in the 16 case studies conducted for this evaluation.

Earlier IEG evaluations concluded that MIGA guarantee helps effectively increase investor confidence, mediate disputes with government, improve capital raise capacity, and lower financing costs. MIGA’s political risk insurance (PRI) often allowed investors to enter markets in which certain risks were high, and they would not have entered without MIGA’s presence.

For example, according to the IEG public-private partnership (PPP) evaluation, many projects would not have been able to get off the ground without MIGA’s involvement because the principal lender or equity holders requested MIGA coverage for their investments. In many cases, MIGA’s guarantee allowed companies to raise multilateral commercial debt, which helped them to effectively lower the cost of finance, especially in cases in which sovereign credit risk made cost of debt prohibitively expensive without some form of insurance. Box G.1 provides examples of how PRI can support market creation.

Earlier IEG work indicated that most MIGA-projects are in middle-income countries or already quite consolidated or developed markets. The 2016 IEG evaluation of financial inclusion (IEG 2016) found that MIGA’s guarantees are quite frequent in middle inclusion countries (based on Bank Group’s Findex data), in particular when looking at guarantee volume: 43 percent of its gross issuances are in middle inclusion countries, even though these countries absorb only 26 percent of the microfinance institution market globally. Regarding number of projects, the emphasis on middle inclusion countries is similar, with 19 percent of MIGA projects in this category of countries, even though it comprises only 8 percent of countries globally. This resonates with the portfolio of evaluation projects, in which 71 percent of projects were located in middle-income countries and 23 percent in low-income countries.
However, in infrastructure supported through PPPs, more MIGA projects reached nascent countries. The 2015 IEG PPP evaluation concluded that for MIGA, the strategic resources allocated focused more on nascent and emerging countries than International Finance Corporation (IFC) did. MIGA originates 13 percent in nascent countries, which is a significant emphasis compared with 9 percent PPP prevalence. Most MIGA projects take place in emerging PPP countries, that is, 56 percent versus 49 percent PPP prevalence. This indicates that MIGA tends to venture out more into untested territory and introduce PPPs to countries with a lesser track record of handling PPPs.

Although the small size of the evaluated sample does not allow for inference for the entire MIGA portfolio, initial evidence from this limited portfolio review suggests that MIGA’s support has contributed to increased competition in markets, introduction of innovative financial products (like leasing products), or enhanced market reach and access. Box G.2 provides examples.
Box G.2. MIGA and Market Creation – Good Practice Examples

**Agriculture.** (9714) The International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) collaborated on the establishment of a wheat grain-milling factory with new state-of-the-art complex in the special economic zone of a low-income country. IFC provided 35 percent debt financing to the company while MIGA provided political risk insurance coverage for the 10 percent shareholders’ equity. The project aspired to support local production, meet domestic demand and become a net exporter while improving food security in the country and region. It aimed to plug value chain gaps by providing an opportunity to link local producers with a viable and sustainable commercial market. In addition, MIGA saw this project as an opportunity to complement World Bank’s agricultural infrastructure improvement effort in the country.

Based on Independent Evaluation Group (IEG) field assessment, the operation had positive impact on competition. Before the company’s establishment, the industry was monopolistic and had only one wheat milling company in the country. Price dropped by 30 to 40 percent since the entry of the client company. Its market share rocketed to 70 percent because of new technology that allowed it to provide a greater variety of products with better quality, despite multiple incentives of the special economic zone were abolished by the government. There has also been demonstration effect — the company’s key competitor was in the process of establishing a wheat flour-mill right next to it.

**Financial Inclusion.** (7439) MIGA’s guarantees of shareholders loans to a Ukrainian leasing company supported the growing demand for leasing products in the country, particularly with respect to small and medium enterprises (SMEs) and the agricultural sector. The enterprise had focused on supporting SMEs before the funding of the first shareholder loan, and the firm had established track records for supporting the agricultural sector by the time of second shareholder loan.

Based on an IEG evaluation, the company played an important role in the development of the leasing market and helped to increase public awareness of leasing products. It sponsored events to generate interest in leasing as a financing option, took an active part in exhibitions and conferences, implemented the processes and leasing standards of its European parent organization, and signed a risk-sharing cooperation agreement that enabled Ukrainian agrarians to purchase machinery on reasonable repayment terms.

**Information and Communication Technology.** (7213) In 2007, MIGA provided a guarantee to an operator that was awarded a telecommunication license by the government of the Central African Republic. The project aimed to improve access to the internet, telecommunication services through the installation, operation, and maintenance of GSM network, and internet services. It also invested in renewable energy sources for operations.

Although the IEG evaluation team could not get any information on the upstream or downstream supply links that could benefit local business, it acknowledges that the project has led to broader coverage, greater competition, and lower costs for all its customers in this frontier country that is evolving post conflict since 2003. Despite being the fourth to enter the market, the company quickly became the biggest operator and increased its market penetration rate sevenfold in three years.

*Source: Independent Evaluation Group analysis of MIGA projects.*
In its analysis of MIGA projects, IEG focused on the private sector development dimension. IEG’s analysis of private sector development (PSD), one for the four dimensions MIGA guarantee project are regularly assessed against, is the closest proxy available to market creation because it aims to capture the effects of the guarantee project on the development of productive private enterprise beyond the project and/or the development of efficient capital markets in the host country. Common indicators for PSD contribution includes: demonstration effects, fostering competition, market expansion, skills development, technology transfer, development of financial institutions and financial/capital markets, corporate governance, etc.

Among the 31 evaluated MIGA guarantees in the three deep dive sectors, 74 percent (23 projects) had scored a satisfactory or excellent PSD ratings. A careful examination of the Project Evaluation Reports and Validation Notes of these 23 projects revealed that some common channels through which MIGA Guarantees contribute to market creation are: i) market expansion (16 out of 23), ii) fostering competition (10 out of 23), iii) demonstration effects (10 out of 23), iv) innovation of product/services (8 out of 23), and v) knowledge and technology transfer (6 out of 23).

With regard to innovation, IEG’s earlier evaluation of Bank Group Support to Innovation and Entrepreneurship found that MIGA’s efforts to promote FDI in developing countries can play a vital role in fostering innovation and entrepreneurship. By providing coverage for political risk insurance, its interventions directly address incentive problems that may cause firms to under-invest in innovative products and processes. The same report found that the projects that introduced new products, processes, or services into markets had successful PSD effects which suggests that MIGA’s support for introducing innovations into markets has much broader effects on the growth of the private sector and development impact through forward and backward linkages, technology and knowledge spillovers to other firms and sectors, and demonstration effects (IEG 2013).

Among the projects that received satisfactory or above PSD ratings, the degree of which the guarantees contribute to market creation differs. Some projects either had yet to contribute materially to PSD or was more focused on stabilizing the banking sector after the financial crisis. There are also projects that contributed more substantially to market creation. For example, as mentioned above, MIGA provided PRI coverage to a Belarusian Bank, which introduced new technology in the country’s banking sector and innovative banking products. It also played a significant role in promoting competition in a banking sector dominated by state-owned banks.
An important lesson learned from reviewing Project Evaluation Reports and Validation Notes is that although proactive communication and monitoring is not a panacea, it increases the chance of achieving satisfactory outcomes. Among the 23 projects that received satisfactory or excellent PSD rating, 78 percent either actively monitored the project or had suggested the importance of such follow up, even with MIGA’s rather small operation compare to other Bank Group organizations. In addition, multiple IEG thematic evaluation reports had pointed out the positive additionality of proper monitoring and associated the failure of delivering such monitoring with unsatisfactory outcomes. All projects with less satisfactory development outcomes among the 23 with satisfactory PSDs ratings mentioned the lack of sufficient monitoring or chance of improvements.

In addition, the analysis revealed that cooperation and coordination between MIGA, other World Bank Group organization, and other development agencies is positively correlated to satisfactory PSD ratings, hence appears to be the promising way forward to extend markets. MIGA’s coverage was complemented by efforts made from other development agencies, and other Bank Group organizations, sometimes both in 48 percent of the projects with satisfactory private sector development outcomes rating. In addition, two third of Bank Group joint projects are complementary, that is, investors had already secured financing and guarantee from commercial sources or other international financial institutions. The importance of coordination has been underlined in earlier IEG evaluations, for example, the FY16 IEG Learning note on Joint World Bank Projects discussed MIGA’s role in the Bujagali and Umeme power project in Uganda.

Other common success denominators include: working with clients who possess deep sectorial and regional expertise and have strong commitments could be critical to project success. 74 percent of the successful projects underlined such importance. Additionally, 52 percent of the evaluations pointed out the benefits of close alignment with host country’s development strategy or policy supports. Finally, 40 percent of the project evaluations suggested a solid business model or business fundamentals had been essential to the successful PSD outcomes.

**Box G.3. MIGA and Satisfactory Development Outcomes – Good Practice Examples**

*Agriculture.* (9714) The Independent Evaluation Group (IEG) evaluation team considered a wheat milling company to be very successful. The Validation Note commends the Multilateral Investment Guarantee’s selectivity of a strategic partner with profound expertise, and the strong commitment made by the client despite the deteriorating environment when the government abolished the special economic zone benefits. The Note also pointed out the
In several projects, the guarantee holders became comfortable with the country’s risk environment after two to three years. As a result, MIGA’s PRI guarantees were canceled when a company became fully operational. However, this should not disincentivize MIGA to make extra efforts to pursue projects in frontier markets because that is where its value-added peaks. Without MIGA support, projects would not materialize in frontier markets. Such markets are where MIGA could act as a catalyst and genuinely facilitate foreign direct investment, and where the project development impact is highest.

The evaluations had also pointed out some opportunities for MIGA to improve its support to the success of market creating projects. Supporting an innovative project in a high-risk environment does not automatically guarantee a positive market creation impact. Business performance of the underlying project is crucial to the sustainability of market creation. Among the 23 projects that received satisfactory PSD ratings, 8 had less than satisfactory business performance and economic sustainability ratings, which negatively affected their market creation potential, hence the overall development outcome ratings. MIGA sometimes fails to assess the business prospects of the projects adequately: about 56 percent of the unsatisfactory projects mentioned unsatisfactory MIGA assessment. For example, it may simply rely on business and financial plans provided to MIGA from consulting firms, or the due diligence performed by other financiers. Though understandable, given MIGA’s rather small size and its nature of business (taking political risks instead of commercial risks), this nonetheless presents an opportunity for MIGA to improve. Using its limited resources toward projects with more viable business model would increase MIGA’s contribution to market creation.
Appendix H. Market Creation Efforts Tailored to Country Maturity Levels

Based on the case findings presented in sections 2 and 3 of this report and on the literature on prevailing market gaps, the framework in figure H.1 presents a country-level maturity concept that could guide market creation efforts.

Figure H.1. Market Creation Efforts Tailored to Country Maturity Level


Note: ICT = information and communication technology; PPP = public-private partnership; PSP = private sector participation; SME = small and medium enterprise; SOE = state owned enterprises.