WHAT WORKS

IEG Independent Evaluation Group | WORLD BANK GROUP
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# “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

PRÉCIS

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# Market Creation in the World Bank Group

The international development community acknowledges that the Sustainable Development Goals (SDGs) will not be achieved without greater participation from the private sector. Engaging the private sector as a financier, operator, service provider, or innovator in the pursuit of the SDGs requires efficiently functioning and competitive markets.

While creating markets has been part of the World Bank Group's development agenda for more than 15 years, the new corporate strategy from the International Finance Corporation (IFC), called IFC 3.0, brings renewed focus to creating markets and mobilizing private capital. The strategy increases support to countries where private capital flows are the least adequate to address major development gaps, including those linked to the SDGs.

Recent evaluations by the Independent Evaluation Group (IEG) have identified many lessons relevant to market creation efforts. The rationale for this evaluation is to share those lessons as IFC 3.0 begins implementation and to add to them with findings from 16 case studies selected from across sectors and countries at different stages of development.

**The evaluation shed light on several key aspects of the IFC's creating markets agenda :**

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

Estimates for investment needs in developing countries alone range from

**$3.3 TRILLION TO $4.5 TRILLION PER YEAR**

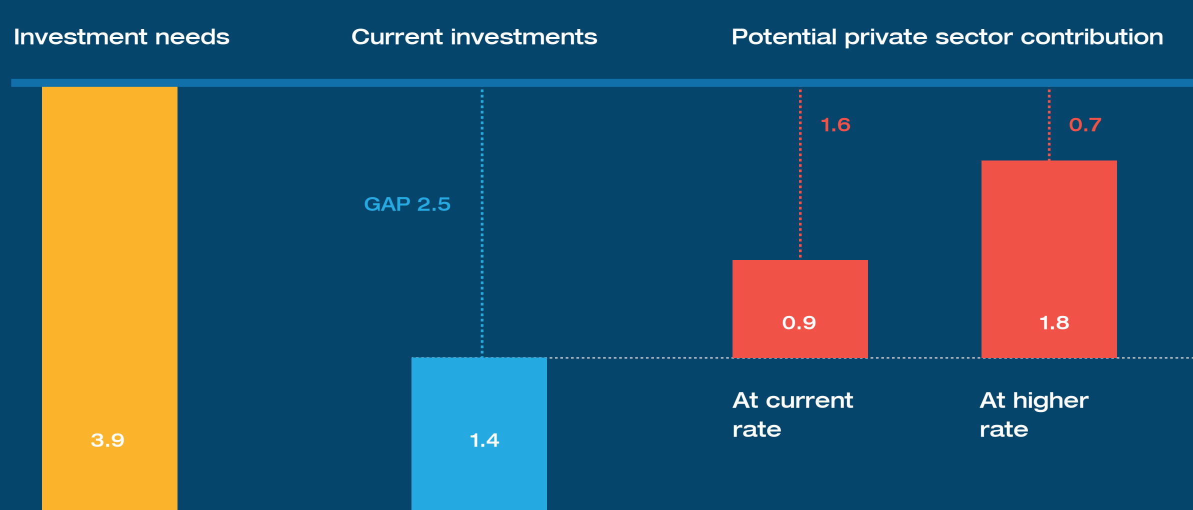
**ANNUAL INVESTMENT GAP $2.5 TRILLION** BASED ON CURRENT INVESTMENTS OF $1.4 TRILLION

**UP TO 70%**

OF THE INVESTMENT GAP COULD COME FROM THE PRIVATE SECTOR, ACCORDING TO INTERNATIONAL ESTIMATES.

BY PROVIDING FUNDING OF UP TO **$1.8 TRILLION ANNUALLY** DOUBLE THE CURRENT RATE

**The potential contribution of the private sector may not be sufficient to fill the annual investment gap**
$ trillion per year






# Support to Creating Markets

In the IFC context, market creation seldom refers to the creation of actual new markets. IFC's efforts usually helped underperforming markets function better, increased market competition, expanded existing markets, or provided access to unserved or underserved groups—the latter being the greatest challenge. Beyond competition-related effects, IFC's support also helped markets enhance environmental sustainability and resilience, albeit to a limited extent.

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.

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.

The World Bank and, to some extent, IFC advisory services **support governments through policy advice and upstream assistance in creating an enabling environment,** that is, public sector capacity, institutions, policies, and regulatory frameworks.

In parallel, IFC's private sector investments and the Multilateral Investment Guarantee Agency's guarantees **support companies downstream so they can grow and become sustainable service providers and operators** in SDG-relevant areas.

# Theory of Change for Bank Group Support to Creating Markets

WORLD BANK GROUP UPSTREAM SUPPORT

World Bank Lending and Non-Lending

World Bank, Advisory Services and Analytics

Public-Private Infrastructure Advisory Facility, Global Infrastructure Facility

IFC Advisory Services

*Coordination*
*Risk management*

WORLD BANK GROUP DOWNSTREAM SUPPORT

IFC investments

World Bank lending and guarantees

IFC Advisory Services and Public-Private Partnership Transaction Advisory Dept

Syndication, Asset Management Company, Managed Co-Lending Portfolio Program

MIGA political risk insurance

Concessional resources and blended finance

*Coordination*

OTHER Multilateral development banks

## ACTIVITIES

### Government and public sector

POLICY ADVICE, ANALYTICAL WORK, AND UPSTREAM SUPPORT

Enhancing the enabling environment for a market-based economy

### Local and foreign investors

Private sector investments

Firm-level advisory services

Supporting public lending and guarantees

## OUTPUTS

STRATEGIES, POLICIES, REGULATIONS, AND ANALYTICAL FRAMEWORKS

Enhancing public sector capacity, policies and frameworks that enable market creation

INVESTMENTS AND ADVISORY SERVICES

Companies as financiers or operators in SDG-relevant sectors

MOBILIZATION

Financial leverage mobilization and credit enhancement

Lowered risks and increased returns

## OUTCOMES

*Immediate*

ENABLING ENVIRONMENT FOR MARKET CREATION

Improved public sector capacity and institutions

Policies and regulations

Investment climate

CHANNELS OF MARKET CREATION

Innovation

Demonstration

Integration

Enhanced skills and governance

*Intermediate*

MARKETS CREATED, EXPANDED, OR FUNCTIONING BETTER

PRIMARY INDICATOR

Competition for and in the market:

- ✓ Entry barriers
- ✓ Number of participants
- ✓ Prices and tariffs

SUPPLEMENTAL INDICATORS

**INCLUSIVENESS**

- ✓ Supporting access and opportunities for the poor and marginalized

**RESILIENCE**

- ✓ Withstand economic and physical shocks

**SUSTAINABILITY**

- ✓ Environmental and social sustainability
- ✓ Continued progress after Bank Group support ceases

*Final*

CONTRIBUTION TO BANK GROUP TWIN GOALS AND SDGs

Improved access to infrastructure in a sustainable and inclusive manner

Conserved fiscal space

Public funds available for other development priorities

Enhanced innovation

Jobs created

Inclusive growth

**ENABLING SECTORS:** PRUDENT FINANCIAL SECTOR POLICIES AND FUNCTIONING FINANCIAL INFRASTRUCTURE AND INSTITUTIONS, ICT, AND OTHER PHYSICAL INFRASTRUCTURE

**PRUDENT MACROECONOMIC POLICIES AND STABILITY, RULE OF LAW, AND GOVERNMENT COMMITMENT**

# Creating and Sustaining Markets

IEG reviewed market creation in three sectors:

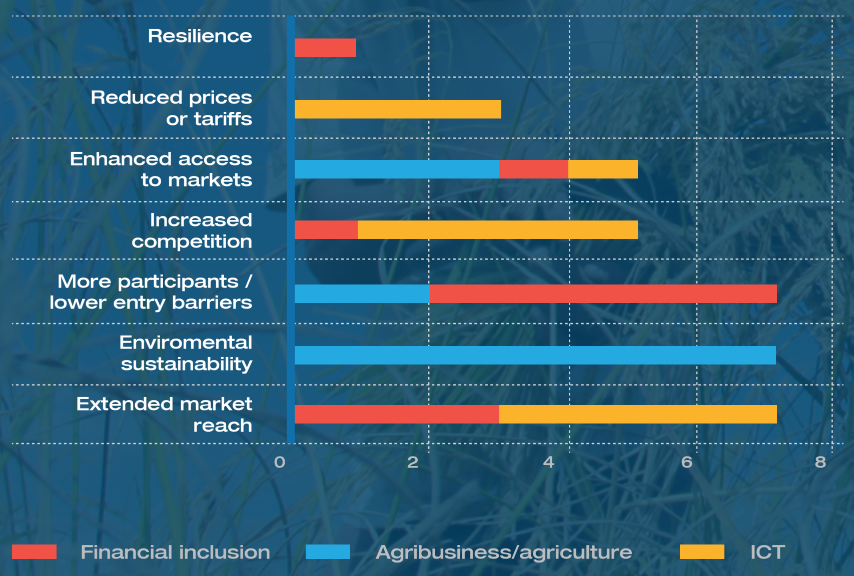
FINANCIAL INCLUSION

AGRIBUSINESS

ICT

Market creation appeared in the three assessed sectors mostly as increased market access or reach, especially for small and medium enterprises. It also appeared in the form of contributions to competition, such as increased numbers of market participants or lower barriers to entry. The expectations that such competition would also lead to reduced prices was not fulfilled, and reductions in prices or tariffs were not often observed.

**Market Creation Indicators**




To address barriers to market creation and find opportunities to create markets, the Bank Group requires a firm understanding of the sectors and areas they are involved in. A recent IEG assessment of the Country Partnership Framework process found that reflecting a country's private sector agenda remains a challenge. Current tools for country-level assessments, such as the Systematic Country Diagnostics, cover the private sector agenda too unevenly. The Bank Group's traditional Advisory Services and Analytics do not provide the needed assessment of market opportunities and market constraints at the country level. However, the promising new Country Private Sector Diagnostics tool provides a more in-depth and structured assessment of market creating opportunities.

Sustainability is the likelihood that market creation effects will continue after IFC support ceases. The enabling environment plays a significant role in enabling and safeguarding sustainability. Weak regulatory and legal frameworks hampered the scaling up or replicating of the initial success of first movers or innovators; in fact, such weaknesses even jeopardized progress already made in building markets.

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. If no subsidies are involved, private investors generally engage only if there is a business case with stable enough cash flow projections. Working with approaches that do not build on entirely commercial principles but contain a grant or subsidy element requires careful design and the ability to overcome implementation challenges.

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.

# Channels of Market Creation

### Innovation

IFC made its strongest contributions to creating markets through fostering innovation.

| *Action* | *Results* |
|---|---|
| New products, processes, standards, or financing instruments<br>FinTech investments | Enhanced market competition and trade competitiveness<br>Disruption of the traditional financial intermediation industry provides more efficient and effective financial services delivery models that can reach the poor |

### Demonstration Effects

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.

| *Action* | *Results* |
|---|---|
| Supporting a new firm entering the market to compete<br>Supporting an incumbent launching a pioneering product or service in an established market | Imitation of the pioneer product or service through the launch of competing products or services |

### Enhancing Skills and Governance

Enhancing skills and governance at the firm level increases competitive advantage in the market place and is thus an essential ingredient in creating markets.

| *Action* | *Results* |
|---|---|
| Investments paired with advisory support to improve the governance structure of an investee<br>Enhancing managerial skills in small and medium enterprises | Competitive advantage |

### Integration Effects

Integration, the least-frequently identified channel for market creation, is also the most difficult through which to achieve positive results.

| *Action* | *Results* |
|---|---|
| Integrating small-scale producers and small and medium enterprises into larger value chains | Links among and inclusion of underserved communities<br>Better integration into Global Value Chains (GVCs) |

# Market creation and 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.

Evidence of the direct welfare implication of market creation efforts for the poor is lacking. The Bank Group needs to invest in and improve monitoring and evaluation resources to understand the effects of market creation on the poor.



# The enabling environment for markets is essential.

Markets were rarely, if ever, created by investments or firm-level advice alone, underscoring the relevance of the Cascade Approach whereby the World Bank contributes to market creation through upstream reforms.

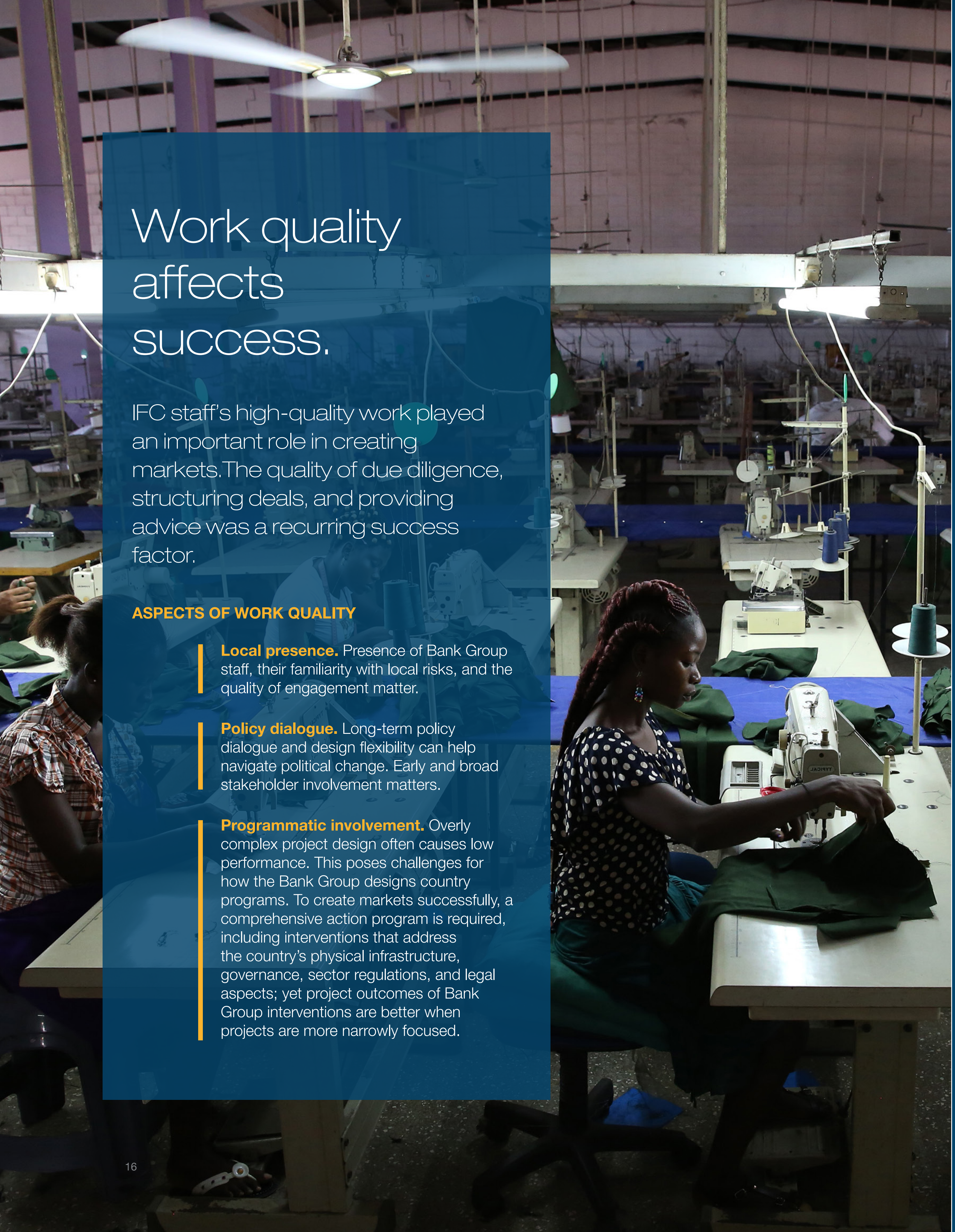
**ASPECTS OF THE ENABLING ENVIRONMENT**

**Regulation quality.** Deficiencies in the regulatory and legal framework slow 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.

**Countrywide 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 face the greatest challenges in creating markets given their growing debt burden and limited domestic resource mobilization.



# Work quality affects success.

IFC staff's high-quality work played an important role in creating markets. The quality of due diligence, structuring deals, and providing advice was a recurring success factor.

**ASPECTS OF WORK QUALITY**

- **Local presence.** Presence of Bank Group staff, their familiarity with local risks, and the quality of engagement matter.
- **Policy dialogue.** Long-term policy dialogue and design flexibility can help navigate political change. Early and broad stakeholder involvement matters.
- **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.



# IFC needs adequate risk appetite in IDA and FCS countries.

Advancing the creating markets agenda into IDA and FCS countries will require IFC to have an adequate risk appetite. Market creation opportunities develop with the application of modern technologies, and seizing those openings requires cutting-edge knowledge, nimbleness, and appetite for risk, combined with the expertise to manage those risks.

**ASPECTS OF WORKING WITH RISKS**

- **Managing expectations.** Because reform efforts can take 10–15 years—much longer than the standard World Bank project cycle of 5–7 years—it is unlikely that sector reform efforts will create markets quickly. Bank Group engagement plans need to manage expectations and risks for anticipated IFC investments.
- **Flexibility.** Market creation opportunities can arise spontaneously, even in unregulated or poorly regulated environments. Evidence suggests that the Cascade Approach to sequencing market creation reforms and investments should therefore be flexible.
- **Portfolio approach.** Expanding the Bank Group's efforts into IDA and FCS countries is likely to entail, for IFC investments, smaller deal sizes and taking higher business and macro risks while simultaneously allocating more business development resources upfront. This is likely to produce lower investment returns for IFC in some segments of its portfolio, which has implications for IFC's overall business model, for how IFC pursues its so-called portfolio approach, and for how the Bank Group incentivizes its staff.



# 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 Country Partnership Framework process to allow for a more strategic deployment of Bank Group programs and interventions.

**RECOMMENDATION 2**

Enhance access to markets for underserved groups, including the poor, entailing adequate Monitoring and Evaluation 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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