This issue of the knowledge note series, Evaluative Lessons: Strengthening the Private Sector for Development Results, highlights lessons from major studies completed by the Independent Evaluation Group (IEG) during the past year that offered lessons from the experiences of the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA). In particular, it shares lessons from the following evaluations: World Bank Group Response to the Global Economic Crisis: Phase II, Understanding Poverty and Ensuring Growth: Assessment of IFC's Poverty Focus; Looking into Results and Performance of the World Bank Group in 2011; and Leveraging Information and Communication Technologies for Development.

Responding to the Global Economic Crisis: Lessons and the Way Forward
The global economic crisis of 2008–09 originated in the financial sectors of advanced economies, led to a sharp reduction of growth worldwide, and increased the ranks of the poor. The World Bank Group responded to the crisis with an unprecedented expansion of support that included the majority of countries suffering high levels of stress.

Phase II of IEG’s evaluation of the World Bank Group’s Response to Economic Crisis reiterates many findings of the Phase I evaluation, such as IFC’s maintenance of broadly constant levels of investment and setting up of creative crisis-response initiatives. The Phase II evaluation finds that IFC somewhat overestimated potential adverse effects of the crisis on the quality of its portfolio, and thus it did not increase its investments in the aftermath of the crisis.

An important part of IFC’s crisis response took the form of global initiatives, most of which were newly established, to deal with the crisis. Among the most successful were the existing Global Trade Finance Program (GTFP), which rapidly increased the volume of guarantees to international banks to cover trade finance risks, and the newly established Global Trade Liquidity Program, which pulled together $4 billion as of early 2010 to fund trade finance in individual banks. However, some of the new initiatives, such as the Microfinance Enhancement Fund and the Bank Recapitalization Fund, took time to establish and sometimes were difficult to implement rapidly.

MIGA’s strategy in responding to the crisis was embodied in its Financial Sector Initiative, which was set out in 2009. This initiative was part of an internationally coordinated Joint IFI Action Plan agreed to by several international organizations to support the banking sectors of the countries in the Europe and Central Asia Region and their lending to the real economy, including to small- and medium-size enterprises. IEG’s evaluation confirms that MIGA’s crisis support was economically sustainable and that it helped banks in Europe and Central Asia to recapitalize and exhibit positive growth in bank lending. MIGA’s financial capacity would have allowed a higher volume of guarantees.
Continuing global uncertainties and slow recovery from the current crisis show the need to improve future crisis preparedness. Going forward, the World Bank Group would benefit from a roadmap that includes a systemic analysis of stress factors and a decision-making process that blends country-level responses within a global strategy and focuses on effectively applying scarce resources. IFC could review its stress test methodology to optimize its investment strategy to effectively respond to crises and formalize its existing crisis response arrangements rather than prioritizing the establishment of new structures during a crisis. This would help the institution to reactivate successful tools and programs during future financial crises. At the same time, MIGA could emphasize its business development function to help diversify its portfolio. To read more about lessons and recommendations download IEG’s Phase II Evaluation of the World Bank Group Response to the Global Economic Crisis: Phase II.

Understanding Private Sector Contributions to Reducing Poverty and Ensuring Growth: Assessment of IFC’s Poverty Focus

The private sector is crucial for economic growth, poverty reduction, and achievement of the Millennium Development Goals. Its interventions contribute to employment creation and other entrepreneurial opportunities that benefit poor people. In many middle- and low-income countries the private sector is dominant, particularly in the medium and small enterprise sector, comprising up to 72 percent of nonfarm employment in some cases. Considering this, IEG evaluated IFC’s focus on poverty, including support for private sector development that contributes not only to growth but also to patterns of growth that enhance opportunities for the poor.

The growing interest of the private sector in development offers an opportunity for IFC to enhance its poverty focus in keeping with its strategic priorities. IEG’s evaluation finds that IFC’s strategic priorities in frontier markets and in sectors such as infrastructure, agribusiness, health and education, and financial markets are consistent with support to an inclusive growth pattern. Although the priority IFC has given to frontier markets has led to increased IFC investments in developing countries, these investments need to be allocated in a greater number of developing countries. It is also important to accurately target the poor to better understand their needs and to maximize poverty impact. For this purpose, IEG assessed the relevance of IFC’s definition of “frontier regions” in middle-income countries by overlaying poverty maps with maps of IFC’s frontier regions in Brazil and Indonesia. Poverty maps show that the largest concentration of poor people, measured by the absolute number of poor people in a given geographic area, is not in locations with the highest poverty rates. In Brazil, for example, the bulk of the poor reside in the southeast and in major cities, whereas the northeast lowlands, coastal areas, and the northwest register the highest poverty rates.

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

Although IFC targets sectors based on sound development rationales, its investments need to increase in these sectors beyond financial markets. For instance, IFC’s investments in financial markets nearly doubled, from $4.6 billion in fiscal year (FY) 2008 to
$6.9 billion in FY10, accounting for 87 percent of total investments in target sectors in International Development Association (IDA) countries. However, investment in infrastructure, agribusiness, and health and education have changed little over time. In some cases investment shares in nonfinancial market sectors declined, as was the case in infrastructure and agribusiness. Between fiscal years 2000 and 2010, the share of infrastructure investments in total IFC commitments declined from 20 to 12 percent, and in agribusiness from 7 to 3 percent.

IFC also needs to continue to strengthen its partnership and communication with the World Bank to enhance its poverty focus. For this purpose, the evaluation recommends taking a more strategic approach to addressing poverty, including more engagement with relevant networks of the Bank Group and partner organizations, to deepen understanding and develop innovative approaches to poverty reduction.

To learn more about the lessons learned and findings of the evaluation, download IEG’s study on Understanding Poverty and Ensuring Growth: Assessment of IFC’s Poverty Focus.

### Understanding the Effects of IFC’s Projects

#### Water Concession: Making Services Affordable for the Poor

A water concession used several innovations to make water services affordable for the poor. The water concession company launched a program in 1998 that used local and community-based mechanisms for planning and implementation. This program emphasized the role of the poor as active decision makers with clear responsibilities for choosing the connection scheme and collection arrangements for their communities. An output-based aid-financing facility provided a subsidy on connection costs that helped reduce the initial cost of connections for poor households.

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

#### Farm Forestry Project in South Asia

The farm forestry project in South Asia was intended to facilitate the provision of eucalyptus trees to small farmers, with loans for the purchase of the trees where needed. Income obtained from the sale of the pulpwod to local pulp mills was to augment the meager earnings of these farmers. IEG’s evaluation found that the project was more suited to better-off farmers than to the poor. Although the farm forestry project taped into a desire on the part of farmers for increased incomes, it failed to properly diagnose how intended beneficiaries could profit from investment in eucalyptus trees. Many of the farmers were unable to pay their debts on time, and thus the project had the unintended result of increasing indebtedness. A further misreading of the beneficiary farmer population was that it was not understood that farmers wanted and needed training and extension on a regular basis to help them get the yield they needed on their tree crop. Many had no previous experience growing eucalyptus trees. They were disappointed at the lack of follow-up visits on the part of the company.

*Source: Understanding Poverty and Ensuring Growth: Assessment of IFC’s Poverty Focus study.*
Leveraging Information and Communication Technologies for Development

Information and communication technologies (ICT) can be leveraged for development, but harnessing this potential depends on an enabling environment for their production, diffusion, and use. Over the past decade, developing countries have seen rapid but uneven growth in ICT access and use. Progress has been noteworthy in mobile telephony, where the gap between developing and developed countries is narrowing rapidly. The unprecedented speed of this evolution has been enabled by changes in technologies and markets, supported by reforms to promote competition, and driven by private sector investment.

IEG's evaluation of the World Bank Group's activities in ICT found that the institution's most notable contributions have been through support to sector reforms and to private investments for mobile telephony in difficult environments and in the poorest countries. During FY03–10, the Bank Group provided $4.2 billion in financial support to the ICT sector, of which $2.9 billion was to the poorest countries, including those in Africa, where it remained the largest multilateral financier in telecommunications. IEG found that countries with Bank Group support for policy reform or to catalyze private investment have increased competition and access to ICT faster than countries without such support, pointing to an important contribution by the World Bank Group.

In other priority areas, including ICT components in projects in other sectors, the Bank Group's contributions have been limited. Efforts to increase access beyond what was commercially viable at the time (for instance, through universal service funds) have been largely unsuccessful. Support to such programs was largely superseded by the rollout of phone services by the private sector, in some cases supported by World Bank sector reforms. Access for the poor has been more effectively supported through general, non-targeted interventions and reforms focused on the enabling environment and direct support to private investments.

Going forward, the World Bank Group needs to continue the shift toward the support of broadband and Internet access by helping client countries update regulatory frameworks and preserve competition and to promote the stability and predictability of the regulatory environment. To address remaining gaps in access to ICTs, the Bank Group also needs to support public-private partnerships to accelerate the rollout of regional and national backbone infrastructure and identify more effective approaches to promote access to the underserved.

Additionally, the Bank Group should strengthen its internal capacity to support ICT applications and ICT components in other sectors. Internally, it needs to build greater ICT expertise and awareness about the potential applications of ICT across the World Bank Group, including more consistently capturing ICT aspects in country and sector strategies. To strengthen its capacity, the Bank Group needs to build incentives mechanisms for collaboration, coordination, and joint approaches for innovation among Bank Group units, reflecting the thematic nature of ICT. The Bank Group's role should evolve to connect its clients with ICT expertise available from the public and private players outside the Bank Group.

To learn more, please download the Capturing Technology for Development: An Evaluation of World Bank Group Activities in Information and Communication Technologies study.
Looking into Results and Performance of the World Bank Group in 2011

To help reduce poverty in developing countries, the World Bank Group supports four core development goals at the global and country levels: expanding economic opportunities, enhancing human development, mitigating socioeconomic and environmental risks, and improving governance and public sector effectiveness. In FY12, IEG assessed the Bank Group’s results and performance in achieving these goals in the context of the financial and economic crisis that reverberated across the world. IEG looked into progress made by developing countries toward achieving the development goals, the Bank Group’s effectiveness in supporting this progress, and the performance of each institution in managing factors within its control.

The assessment found that the proportion of IFC-supported projects with successful development outcomes improved from 63 percent of those evaluated in 2005–07 to 73 percent of those evaluated in 2008–10. Within Regions, a high proportion of successful outcome ratings were seen in Latin America and the Caribbean (81 percent satisfactory) and the Middle East and North Africa (80 percent satisfactory). Among IFC’s advisory service projects evaluated in 2008–10, 64 percent had satisfactory development effectiveness ratings. It is early to observe trends in IFC advisory service project outcomes, however, given the relatively recent establishment of systematic evaluation of these projects.

The assessment also found that substantial progress was made by developing countries in reducing the rate of measured income poverty in the early 2000s, accompanied by strong economic growth and improvements in key health and education indicators. Taken together, about 85 percent of World Bank Group financial instruments were aimed at the core goal of enhancing economic opportunities. All IFC activities finance or support private investment or private sector development in developing countries. In FY08–10, IFC committed $31 billion in loans, equity investments, and guarantees. IFC also spent $417 million in advisory services supporting access to finance, the investment climate, public-private partnerships, and sustainable business.

Notwithstanding progress made over the last decade, reducing poverty further has proved to be challenging. Growth has not always translated into greater economic opportunities and benefits for the poor. The Bank Group

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<th>World Bank Group Activities Aimed at Expanding Economic Opportunities</th>
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had mixed results in the human development sectors, including education and health. IFC’s experience illustrated continuing challenges in supporting the private education sector. IFC started systematic engagement in the education sector in 2001. In 2008–10, IFC made 17 investments in education for a total of $233 million, four times what it invested in the sector in 2005–07. Its engagement was primarily in tertiary and professional education. Of nine projects that were evaluated in 2005–10, four were successful. Factors associated with poor project outcomes included the high-risk, startup nature of the ventures and weaknesses in IFC work quality, such as overestimation of revenues and sponsor capacity and inadequate risk mitigation measures.

The recent financial crisis affected results in other areas, including the financial sector. There was an increase in lending and investments in the financial sector across the World Bank Group. New IFC investments in the financial sector more than doubled, from $8 billion in FY05–07 to $17 billion in FY08–10, and represented 53 percent of total IFC investments in FY08–10. The volume was driven by IFC’s rapidly expanding GTFP program, which grew sevenfold, from $1 billion in FY05–07 to $7 billion in FY08–10. The development outcome ratings of IFC financial sector projects were successful in 68 percent of sample projects, although project outcomes in Europe and Central Asia were lower due to the effects of the crisis. The financial crisis also negatively affected the development outcomes of IFC’s investment funds.

To learn more, download the Results and Performance of the World Bank Group 2011 study.

**Upcoming Evaluations**

IEG will assess IFC’s trade finance activities since 2005, looking at their relevance, efficacy, and efficiency, and providing an independent overall assessment of their development effectiveness. The report will also seek to draw lessons from experience and make recommendations to help enhance the achievement of IFC’s development mission. The expected delivery date of the report is FY13.

In FY13, IEG will also produce The Results and Performance of the World Bank Group (RAP) report, which is the annual account of what recent IEG evaluations reveal about the effectiveness of the World Bank Group in addressing current and emerging development challenges. RAP 2012 will describe the progress in and challenges facing World Bank Group efforts to achieve development results and will point to the areas that require further enhancement, as guided by evaluative evidence. The report will contribute to ongoing and future discussion within the World Bank Group and in the international community about the directions the Bank Group can usefully take to fulfill its poverty-reduction mission more effectively.

IEG will also conduct an evaluation of World Bank Group Programs Supporting Innovation and Entrepreneurship to assess how well the Bank Group is fostering innovation and entrepreneurship, which are intended to promote productivity gains, enhance competitiveness, and, in turn, contribute to reducing poverty. The evaluation will be publicly available in FY13.
To see the lessons and findings from the previous IEG studies, download Issue 1 of the note on *Strengthening the Private Sector for Development Results*.

For more information please visit IEG’s website at [ieg.worldbankgroup.org](http://ieg.worldbankgroup.org)

*Photos courtesy of Carla Lizette, IEGCC; Michael Higgins, IEGPE; and Jouni Eenikainen, IEGPE*