Approach Paper

Evaluation of IFC’s Poverty Reduction Focus and Results
Independent Evaluation Group – IFC

INTRODUCTION

1. IFC supports private sector development through investment and advisory services to create the opportunity for people to escape poverty and improve their lives. IFC investment and advisory services operations aim to mobilize financing and knowledge to stimulate private investment in growth and improve the environment for businesses to thrive, create jobs, and develop innovations.

2. IFC’s vision and purpose puts poverty alleviation at the core of the institution’s mandate. Although poverty reduction is often articulated in strategy documents, operational policies, and lending and non-lending operations there has not been a comprehensive assessment of whether IFC is achieving its stated objectives on helping people escape poverty. This evaluation assesses the relevance and effectiveness of the poverty focus in IFC strategies, operational policies, investment operations, and advisory services. Based on this assessment, it intends to identify the lessons to be learned to help shape the poverty focus in future strategic decisions and operations. This effort will focus on IFC’s frontier markets, covering activities that directly target the poor as well as others that do not have explicit poverty reduction objectives but can provide and/or expand opportunities for people to escape poverty.

IFC AND POVERTY REDUCTION

A. Private Sector Development and Poverty

3. Development efforts to reduce poverty and achieve the Millennium Development Goals (MDGs) in developing countries recognize that a strong and vibrant private sector is critical for sustained economic growth that creates productive jobs and enhances service delivery. Worldwide, the private sector can help reduce poverty because it is a central engine of economic growth, driver of innovation, and source of tax revenues for public expenditure. While improved opportunities supported by strong policies and institutions can help the poor, there are significant challenges to effectively reduce poverty through private sector development.1

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1 OECD (2006), Promoting Pro-Poor Growth: Private Sector Development
B. **IFC’s Approach to Poverty Reduction**

4. IFC’s approach to addressing poverty has been evolving since its creation. Its founding charter clearly stated that the purpose of IFC was to promote economic development, principally through the promotion of private enterprises. Since its inception, the institution has grappled with the basic challenge of combining successful business operation with development impact.\(^2\) During the 1990’s IFC’s operations did not target specific groups of countries or regions.\(^3\) However, the 2000 strategic directions recognized the shifting focus of the Corporation’s investment and advisory activities towards frontier markets (countries, sectors, and market segments) where its development impact can be maximized. This perspective on development impact was again reflected in the 2004 corporate strategic priorities which included strengthening the focus on frontier markets and sectors such as agribusiness and SME that were directly targeted to reach the poor. IFC started measuring development results from its investments in 1996 with the establishment of an evaluation unit and supplemented it through the Development Outcome Tracking System (DOTS) in 2006. A business model was identified in 2007 to increase the development impact of its activities through i) more focus on systemic interventions, including working more closely with other members of the World Bank Group; (ii) innovation to reach underserved segments in its markets; and (iii) greater client orientation to better meet the needs in developing countries. This business model, articulated again in the 2009 IFC Road Map, underpins the institution’s approach for scaling up development impact across its strategic priorities during FY09-11.

5. IFC’s current approach to reducing poverty rests on three main pillars:

   (i) Support to investment projects that are profitable and contribute to a country’s economic growth and improved living standards. Economic growth helps reduce poverty and improves lives.

   (ii) Focus on frontier markets – Strengthening focus on IDA countries, poorer regions of non-IDA countries as well as on sectors such as agribusiness and small and medium enterprises (SME) that can play a critical role in poverty reduction. In addition to frontier markets, IFC is focusing its investment operations on targeted sectors that have significant potential for reducing poverty such as infrastructure, financial markets, health and education. IFC’s advisory services activities also increasingly focus on frontier markets and sectors targeted for their potential impact on reducing poverty.

   (iii) Special initiatives to address the needs of the poorest in challenging markets, including several bottom of the pyramid initiatives and other innovations such as the Performance Based Grants Initiative.


A. **Evaluation Issue, Approaches, and Questions**

6. Two key issues set the context for the evaluation. First, the substantial increase in IFC's investment activities and advisory services over the past 10 years focus the attention on IFC's additionality and development impact. Second, in recent years there is increased articulation of poverty outcomes in IFC's development objectives and strategies. Yet, there is scarce empirical evidence to validate how well IFC operations actually focus on reducing poverty through activities that directly target the poor and those that aim to do so via private sector development and growth. Consequently, it is not clear how IFC understands of poverty is translated into operational policies, mechanisms, and instruments that reduce poverty as intended in its mandate.

7. A theory based model, illustrated by the conceptual framework in Figure 1, is used to guide the assessment of the poverty focus and results of IFC's operations. This framework provides an analytical basis for examining the causal chain from IFC operations to poverty outcomes as well as framing the evaluation questions. The evaluation approach for addressing a multi-dimensional concept such as poverty combines elements from several sources. First, an objective based evaluation approach will be used to compare achievements on poverty focus in IFC operations against stated objectives described in institutional strategies, operational policies, and project documents. Second, an evaluation synthesis based on on-going and recent project evaluations and project completion reports, will be used to examine how poverty issues are addresses along the project cycle. This will be supplemented by review of project appraisal, supervision reports, and project level systems for reporting on poverty outcomes. Third, qualitative field studies, including focus group discussions and key informant interviews will be used to elicit in-depth information and analysis on specific issues from IFC clients, stakeholders, and intended project beneficiaries.

8. The **overarching question** that this evaluation examines is: Are IFC operations relevant and effective in creating sustainable pathways for people to escape poverty and improve their lives? Relating to this overarching question are the following sub questions:

   I. Relevance and strategic alignment of IFC operations.

      i. Does IFC have a targeted and well articulated approach on poverty?

         a. To what extent do IFC's strategies, additionality and performance standard policies, incorporate a clear focus on poverty?

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1 IEG (2007), Independent Evaluation of IFC's Development Results 2007: Lessons and Implications from 10 Years of Experience
2 IEG (2009), Independent Evaluation of IFC's Development Results 2009: Knowledge for Private Sector Development
3 The issues explored in the field studies will be based largely on findings from literature and document reviews, evaluation synthesis, and staff interviews.
b. To what extent do the design of IFC investments and advisory services address poverty?
c. To what extent do IFC investments and advisory services activities target areas where the poor live?

ii. Is IFC’s poverty focus strategically aligned?
   a. To what extent, do IFC country assistance strategies incorporate a private sector led poverty reduction perspective?
   b. Is IFC’s approach to poverty reduction consistent with the broader WB private sector development strategy?
   c. Is IFC organizationally aligned to deliver on the poverty reduction aspects of its strategy?

II. Effectiveness of IFC’s poverty focus.

i. How effective have IFC’s operations been in helping the poor?
   a. To what extent do investment projects achieve the poverty outcomes as intended in anticipated project development impacts?
   b. To what extent do advisory services activities achieve poverty outcomes as stated in the objectives of its business lines?
   c. To what extent are IFC bottom of the pyramid and other special initiatives reaching the poor as intended in its strategies and business models?
   d. To what extent do IFC investments and advisory services activities create opportunities, build capabilities, and enhance the security of the poor?
   e. To what extent do IFC operations focus on women as intended in its gender policy?

B. Methodology

9. Evaluating the relevance and effectiveness of IFC’s poverty focus requires a consistent standard for assessing performance.\(^7\) In this thematic evaluation, performance is assessed against criteria for relevance and effectiveness, ensuring consistency in the application of standards for judging impact.\(^8\) Given that all of the evaluation questions are descriptive or normative, the study adopts a non-experimental design. The evaluation approach involves a combination of qualitative and quantitative methods to complement, validate, and triangulate the results from different perspectives. The following methodologies will be used to examine the evaluation questions:

- Literature review
- Document review
- Content analysis
- Portfolio review
- Evaluation synthesis

\(^7\) This is different from an impact evaluation that attributes impact to and requires a counter-factual or control group against which performance is assessed.

\(^8\) See IEG-World Bank (2007), Sourcebook for Evaluating Global and Regional Partnership Programs: Indicative Principles and Standards.
- Semi-structured interviews
- Poverty maps
- Country case studies
- Qualitative fieldwork, including focus group discussions and key informant surveys

The application of these methodologies are elaborated below and summarized in the evaluation design matrix (Table 2). The study team will also engage in methodological discussion with appropriate IFC departments throughout the design and implementation of the study.

10. For the purposes of this evaluation, poverty focus is defined as
- strategies and projects that have objectives that explicitly target the poor
- strategies and projects that have clear mechanisms for targeting to directly improve incomes and access to services used by the poor
- strategies and projects that have mechanisms to improve access to assets, reduce household vulnerability, and encourage inclusive participation
- activities that disproportionately affect the poor
- projects that do not have explicit poverty objectives but are located in regions where poor people are concentrated or provide access to services used by the poor
- projects that create jobs and entrepreneurial opportunities for the poor and marginalized groups

This definition is broad but it provides a systematic and robust approach for addressing the poverty focus in a wide range IFC’s operations. Data for the evaluation will come from IFC strategies, operational policies, and project documents, Board documents, World Bank databases, staff, clients, stakeholder, and beneficiary surveys, and case studies.

11. The evaluation will be in three parts. First, a comprehensive review of the content of poverty alleviation in IFC’s strategies and operational policies and the organizational alignment to deliver pro-poor impacts, second, a broad overview of the mechanisms and instruments through which IFC’s activities reach the poor and their effectiveness in reducing poverty; and third, looking ahead by drawing implications and lessons from these experiences to enhance IFC’s mandate of poverty reduction through the private sector.

12. For the first part, the evaluation will rely on (i) review of literature on private sector development and poverty reduction. This systematic review of the literature will cover theoretical and empirical literature, including research and evaluative findings from the World Bank Group and multi-lateral development agencies; (ii) Review of private sector development and poverty reduction issues in IFC and WBG strategies and policy documents. Content analysis will be used to identify the intentions, focus, and articulation of strategies and approaches for creating or expanding opportunities for poor people. ; (iii) a desk review will be conducted on a random sample of country assistant strategies and poverty reduction strategies to capture the range of experiences through which IFC supports the private sector development to deliver poverty outcomes at the broader macro-policy dimension (iv) results from quasi-structured interviews with IFC representatives, sector and regional directors and
(v) survey of a random sample of IFC investment and advisory services staff. Interviews with IFC management and staff will be used to assess their perspectives of the opportunities, issues, and challenges in implementing a private sector poverty focused mission.

13. For the second part, the evaluation will rely mainly on (i) description and analysis of a random sample of IFC investment and advisory services portfolio to assess regional and sector expenditure patterns, trends over time, and assess their alignment with changing poverty perspectives at IFC (ii) evaluation synthesis will be used to draw insights on the effectiveness of IFC’s poverty focus from the findings of completed project evaluation. The data for this analysis will come from investment operation approvals on or after 2000 and Expanded Project Supervision Reports (XPSRs) produced on or after 2005. These will permit analysis of trends in IFC’s poverty focus in investment operations before and after the 2004 corporate strategic priorities. The evaluation will also draw on Project Completion Reports (PCRs) that have been completed for Advisory Services. The assessment of development impact will initially focus on investment and development outcome ratings for investment operations and development effectiveness ratings for advisory services. The results from the evaluation synthesis will be supplemented by interviews task managers, investment and advisory service staff, review of economic and sector work and project documents to get more detailed insights of how poverty reduction perspectives and opportunities for poor people are incorporated, monitored, and measured across the investment and advisory services operational project cycle.

14. The document review and data analysis from project portfolio and secondary sources will inform the design of subsequent research methods and tools. Additional methodologies that will be used to assess the relevance and effectiveness of IFC’s operations on poverty reduction include poverty maps, interviews, case studies, and qualitative fieldwork. Detailed poverty maps, where available, will be used to look closely at the spatial location of IFC supported activities to help assess their likely poverty reduction effects. Mapping the spatial distribution of poor people and IFC’s investment portfolio can also be used for selecting case study sites in IDA countries and poorer regions of non-IDA countries. Case studies mainly based on document reviews, semi-structured interviews and qualitative field studies will be used to elicit in-depth information and analysis of the relevance and effectiveness of IFC poverty focus. Where possible some case studies will examine the extent to which bottom of the pyramid and performance based grants initiatives are achieving poverty outcomes as intended. Semi-structured interviews will be conducted with a random sample of IFC clients to assess their understanding of how their projects contribute to reducing poverty and raising living standards. These interviews will be complemented with key informant interviews with key stakeholders such as government officials and NGO’s to obtain their perspectives on IFC supported projects. Field studies will utilize qualitative methods, including focus groups and key informants to get in depth insights on whom IFC project activities are reaching and beneficiaries assessment of their well-being before and after the IFC supported project. Field study sites will be guided by statistical sampling procedures even though the findings will not be representative for beneficiaries of communities that IFC supported projects intend to reach.
15. The study team will engage with relevant IFC departments in making decisions on criteria and selection of case study countries and sectors. Initial consideration for selection of countries for the case studies include: (i) volume of IFC commitments (ii) global distribution of poor people (iii) regional coverage—to include a reasonable balance among IDA countries and frontier regions in non-IDA countries (iv) sectoral representation—to ensure balance between activities targeted at the poor (e.g., agribusiness, SME) and those that do not have explicit poverty goals (e.g., investment climate, access to finance, infrastructure) but are likely to have significant poverty reduction impacts. The selection of the case studies will also consider findings from recent and ongoing IEG’s evaluations that focus on particular aspects of IFC’s impact on poverty such as evaluations on health, micro, small and medium enterprises, agriculture, Chad-Cameroon project, experience with performance standards, and Peru country evaluation among others.

16. The third section will use the evidence from review from the research and evaluation findings, corporate and project documents, interviews and field studies to draw implications and explore future directions for IFC’s poverty reduction agenda.

C. Dissemination plan

17. The findings from the study will be disseminated to a broad audience according to IFC’s disclosure policy. The team will use available tools such as seminars, brown bag lunch, video conferencing, and face to face meetings with staff, including those in the field. Additional meetings will be organized with internal working groups and management to discuss the findings and recommendations. The report will also be disseminated through the IEG website and relevant external media.

OUTPUTS AND TIMING

18. The following timeline for the IEDR is proposed:
   - Revision of approach paper by October 23, 2009
   - Submission of draft approach paper to management
   - November, December 2009 – desk based research and analysis
   - Present main findings from desk study by end January 2010
   - February, March, 2010 - surveys and field study
   - April – May 2010 analysis and report writing
   - Internal IEG draft by June 2010
   - Dissemination activities from July to September 2010
   - Submission to CODE by October 2010

RESOURCES

19. The task manager for the report is Ade Freeman with a core team comprising Izlem Yenice, Unur Demberel, Naoko Koyama, and Hiroyuki Hatashima. The team will be supported by additional analysts and consultants as required. The evaluation will draw extensively from the Expanded Project Supervision Report and Project Completion Report desk validations conducted by the Micro-Evaluation team. Peter
Lanjouw will serve as internal peer review and Guy Pfeffermann will be the external peer reviewer.
Figure 1: IFC Operations and Poverty

STRATEGIC PRIORITIES

INVESTMENT OPERATIONS

Sustainable private Investment
Improved business environment
Reach the underserved

ADVISORY SERVICES

Increased employment and growth opportunities
Improved delivery of services
Enhanced capabilities
Reduced vulnerability

Poverty Reduction
Improved living standards
# An Evaluation of IFC’s Poverty Focus and Results – Design Matrix

<table>
<thead>
<tr>
<th>Evaluation criteria</th>
<th>Evaluation question</th>
<th>Evaluation sub-questions</th>
<th>Methodology and analytical tools</th>
<th>Data sources</th>
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<tbody>
<tr>
<td>Relevance</td>
<td>Does IFC have a targeted and well articulated approach on poverty?</td>
<td>To what extent do IFC (frontier) sector strategies, additionality, and performance standard policies incorporate a clear focus on poverty?</td>
<td>Document review; content analysis;</td>
<td>IFC strategies; operational policies; board documents;</td>
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<td>To what extent do the design of IFC investments and advisory services address poverty?</td>
<td>Analysis of investment and AS portfolio; literature review; evaluation synthesis; staff surveys; economic and sector work</td>
<td>Investment and AS portfolio; project documents; XPSRs; PCRs; staff interviews; academic and grey literature</td>
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<td>To what extent do IFC investments and advisory services activities target areas where the poor live?</td>
<td>Analysis of investment and AS portfolio; economic and sector work; poverty maps; literature review</td>
<td>Investment and AS project portfolios; project documents; XPSRs; PCRs; academic and grey literature</td>
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<td>Strategic alignment</td>
<td>Is IFC’s poverty focus strategically aligned?</td>
<td>To what extent, do IFC country assistance strategies incorporate a private sector led poverty reduction perspective?</td>
<td>Review CASCRs; literature review; staff interviews; consultation with IFC clients; key informant interviews with government staff</td>
<td>CASCRs; PRSPs; CAE; task manager interviews; client interviews; key informant interviews; academic and grey literature</td>
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<td>Is IFC’s approach to poverty reduction consistent with the broader WBG private sector development strategy?</td>
<td>Document review; content analysis; interviews with selected IFC and WB managers.</td>
<td>WBG PSD strategy; IFC strategies; Board reports; IFC and WB manager interviews</td>
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<td>Is IFC organizationally aligned to deliver on the poverty reduction aspects of its strategy?</td>
<td>Document reviews; interviews with selected IFC managers.</td>
<td>IFC documents; Board documents; manager interviews.</td>
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<td>Effectiveness</td>
<td>How effective have IFC's</td>
<td>To what extent do investment projects achieve the poverty outcomes as</td>
<td>Country case studies; IFC staff interviews;</td>
<td>Field studies; project documents; DOTS; operational</td>
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<td>operations been in helping the poor?</td>
<td>intended in anticipated project development impacts?</td>
<td>focus group discussions with intended target beneficiaries; key informant interviews</td>
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<td>To what extent are IFC bottom of the pyramid and other special initiatives reaching the poor as intended in its strategies and business models?</td>
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<td>To what extent do IFC investments and advisory services activities create opportunities, build capabilities, and enhance the security of the poor?</td>
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