‘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
## Abbreviations

<table>
<thead>
<tr>
<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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<tr>
<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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<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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<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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<td>MFI</td>
<td>microfinance institution</td>
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<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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<tr>
<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 Martinez, 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.

The team gratefully acknowledges the advice and guidance of peer reviewers Anne Marie Chidzero (Chief Investment Officer of the Financial Sector Development programme Africa and Board member of the Africa Enterprise Challenge Fund and the Advisory Board of Women’s Banking); Antonio Estache (Professor of Economics at Université Libre de Bruxelles, Belgium); and Mattia Romani (Managing Director for Economics, Policy, and Governance at the European Bank for Reconstruction and Development).
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 SolTuna (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 suggests 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.