Development Evaluation of Private Sector Operations
The IEG/ECG’s Approach

Marvin Taylor-Dormond
Director Private Sector Evaluation, World Bank Group

DAC Evaluation Network
Paris, February 9th
Key Topics

PRIVATE SECTOR AND DEVELOPMENT

1. What is Different about Evaluating Private Sector Operations for Development?
2. Select Findings on Performance and Results of Private Sector Operations at IFC
3. Challenges in Evaluation of Private Sector Projects

ISSUES FOR DISCUSSION
Private Sector and Development

- Primary contributor to jobs, growth, innovation
- Often impeded by market and institutional failures
- Private Public interface is critical
- Role of International Development Agencies
1. What is Different in Private Sector Evaluations?

A. The PSD space

1. Interventions through the Public Sector to influence the Private Sector
   - WB Financial and Private Sector Development, IFC’s Investment Climate

2. Direct interventions in partnership with the private sector
   - IFC’s investments and MIGA’s guarantees

3. Blend interventions
   - IFC’s Advisory Services to private companies but with a strong public good component
1. What is Different in Private Sector Evaluations?

B. Evaluation Components for Direct interventions in partnership with the private sector

- Object of Evaluation
- Criteria for Merit
- Standards of Merit
- Performance Assessment
Object of Evaluation

- **Operations subject to market test**
  - Direct Beneficiaries pay for service
  - Some degree of competition
  - Sponsors motivated by profitability

- **Third party effects with no market feedback**
  - Economic distortions
  - Positive and negative externalities
  - Provide rational for public intervention

- **Development Agency’s involvement**
  - Consistent with market principles
  - Focused on third party effects
Criteria for Merit

Dimensions of Development Outcome

- Business Success (Market Test)
- Economic Sustainability (TPE)
- Private Sector Development Effects (TPE)
- Environmental and Social Effects (TPE)

Dimensions of Institutional Performance

- Investment Outcome for IFC (market principles of involvement)
- Role and Contribution - Additionality
Standards of Merit

Dimensions of Development Outcome

- **Business Success** — Market Benchmarks for Rates of Return on Invested Capital
- **Economic Sustainability** — Social Benchmarks for Economic Rates of Return
- **Environmental and Social Effects** — WBG Performance Standards
- **Private Sector Development** — Objectives on competition, industry ownership structure, demonstration effects; comparison with market benchmarks

Dimensions of Institutional Performance

- **Additionality** — Objectives on unique contributions vis-a-vis other market participants
- **Investment Outcome** — Expected Return for IFC vis-a-vis Market Benchmarks
Assessment of Performance

Dimensions of Development Outcome

- **Business Success** — based on actual financial statements and objectives at approval
- **Economic Sustainability** — actual financial statements modified for discrepancies between financial and economic prices and values
- **Environmental and Social Effects** — compliance with norms and achievement of targets on environmental and social performance (pollution, safety norms)
- **Private Sector Development** — qualitative assessment of achievements of objectives on competition, industry ownership structure, demonstration effects

Dimensions of Institutional Performance

- **Additionality** — qualitative assessment of achievement of objectives
- **Investment Outcome** — based on net financial flows to IFC
Measuring Development

Investment Operations

- Project Business Success
- Economic Sustainability
- Environmental & Social
- Private Sector Development

Development Outcome

Advisory Services

- Strategic Relevance
- Output Achievement
- Outcome Achievement
- Impact Achievement
- Efficiency
2. Select Findings on Performance and Results

- Results aggregated at corporate, regional, country and sector level
- Patterns and drivers of success and failures identified
- Thematic and sector evaluations build on project level results
IFC’s Levels of Performance by Criteria of Merit

Success Rates

- Development Outcome: 72%
- Private Sector Development: 79%
- Environmental Effects: 63%
- Economic Sustainability: 77%
- Business Success: 67%
Society’s returns tend to be higher than those for financiers and owners.
AN EXAMPLE: PSD EFFECTS IN EASTERN EUROPE AND IN THE ARAB WORLD

- PSD effects in Middle East and North Africa
  Projects were mainly by way of increasing competition and introducing innovations replicated by other firms.

- PSD effects in Southern Europe and Central Asia
  Projects were mainly by way of enhancing the private ownership of the economy and innovations.

- PSD effects in Central and Eastern Europe
  Projects were mainly by way of increasing competition and boosting private sector ownership.
Level of Performance for IFC Investment Outcome

Success Rates

- **Investment Outcome**: 78%
- **Equity**: 58%
- **Loans**: 92%
IFC’s Work Quality and Additionality

Success Rates

- Work Quality: 79%
- Screening, Appraisal & Structuring: 74%
- Supervision & Administration: 86%
- Role & Contribution: 83%
Development and Investment Outcomes

- 22% of Outcomes are "High-Low or "Low-High"
- 78% of Outcomes are "High-High" or "Low-Low"

- Win-win Outcomes (1)
- Mixed Outcomes (2,3)
- Low-Low Outcomes (4)
IFC’s Work Quality is a strong outcome driver

Material Shortfalls in Work Quality
- “Low-Low” is five times worse

High Work Quality throughout
- “High-High” is three times better
Sector, Thematic and Corporate Evaluations
3. Challenges in Private Sector Evaluation

- Incorporating distributional aspects
- Insufficient data on impacts
- Soft criteria of merit for some dimensions
- From internal to external validity — lessons
- Use and influence of evaluative knowledge
Some Issues for Discussion

- How to deepen understanding of private sector evaluation within the DAC network?
- How to better understand the public-private interface for development?
- How to cross-fertilize with good practices in public and private sector evaluations?
- How to accelerate learning about the role of private sector in development?
Thanks
Development Evaluation of Private Sector Operations
The IEG/ECG’s Approach

Marvin Taylor-Dormond
Director Private Sector Evaluation, World Bank Group

DAC Evaluation Network
Paris, February 9th