

The Challenges of Measuring Impact

IFC's mission is to promote sustainable private sector development by supporting private investment in developing countries with the ultimate objective of reducing poverty and improving people's lives. The private sector is a key driver of economic growth, and as the Commission on Growth¹ has confirmed, economic growth depends on efficient markets, a good investment climate and foreign direct investment – all of which IFC works towards and aims to achieve through its principal activities, investments and advisory services.

As a public institution, monitoring development results and evaluating the impact of its activities is critical to assessing whether IFC is achieving its mission, to improving and refining its projects and business strategy as well as for the purpose of accountability. Since 2005, IFC has a development outcome tracking system (DOTS), building on an already existing evaluation framework, which helps monitor development results for the entire active investment portfolio and advisory services projects. DOTS offers contemporaneous, comprehensive and continuous outcome tracking through the project cycle but does not provide for in-depth evaluation and attribution of development impacts to our clients or IFC's engagement.

Many development institutions aim to link their activities through a monitoring and evaluation framework to final results, and apply a hierarchy of approaches to their projects, starting with input/output measures and reach to before/after comparisons to with/without scenarios and eventually final impacts. IFC has both a monitoring system (DOTS), allowing the tracking of reach and before/after comparisons, and an evaluation framework for analyzing outcomes with attribution to project activity (with/without assessments).

More recently, IFC has started to apply impact evaluation methodologies in the realm of private sector activities – for good reason. Alongside greater demand from external stakeholders for private sector companies and international institutions that support private sector development to demonstrate the poverty reducing effects of their investments, IFC's shareholders have also asked for greater evidence that the institution is delivering against its ultimate mission: reducing poverty and improving lives. The ability to build on evidence through rigorous evaluations is important in three main respects: first, determining impact and its drivers helps institutional learning and deepens knowledge as it can be used to extrapolate likely impacts across the wider portfolio; second, knowing the underlying causes of positive (or negative) change helps to calibrate operations by feeding back lessons to improve project design and implementation; third, critical feedback helps solidify a results-based culture and demonstrates accountability to stakeholders, including the poor whose lives IFC is aiming to improve.

Experimental designs are often considered the most sophisticated and pure among existing impact evaluation methodologies, as attribution of a particular impact to a specific activity is directly established: in an experimental design, both the group to be 'treated' and 'not treated' are randomly selected, with the latter assigned to a control group for the

¹ An independent Commission on Growth and Development was launched in April 2006 with the support of the World Bank, the Swedish, Dutch and UK Governments and the William and Flora Hewlett Foundation. The Commission composed of twenty leading practitioners from government, academia and business, and chaired by Nobel Prize Winner Michael Spence released its final report *'The Growth Report: Strategies for Sustained Growth and Inclusive Development'* in 2008. It looks at how developing countries can achieve fast sustained and equitable growth.

purpose of comparison. The control group acts as the counterfactual – namely, the scenario of what would have occurred without the treatment – and thereby helps to establish the causality between impact and treatment. In the evaluation hierarchy the next level of methodological robustness is achieved by quasi-experimental designs, where the control group is constructed so as to match the treatment group as closely as possible.

Experimental and quasi-experimental designs have typically been used in the natural sciences and in policy areas such as health and education. But in recent years, driven by a growing interest in assessing the developmental effects of private sector activity, bilateral donors, multilateral organizations and private sector companies have become increasingly active and creative about trying to measure their developmental footprint.

Various multinational corporations have undertaken efforts to better understand their impact on the communities and countries in which they operate. While impact evaluations with experimental and even quasi-experimental designs are often heralded as the most informative, they are often also very difficult to implement in the real world. Companies like Unilever, Heineken, Anglo American, Vodafone and organizations like the World Business Council for Sustainable Development (WBCSD) or the International Council on Mining and Metals (ICMM) have taken various approaches to assessing socio-economic effects and contributions to development, using input-output models and economic multipliers, stakeholder analysis, supply chain assessments etc.

These assessments, generally bolstered by active stakeholder engagement, are very useful as they generate information on the companies' sphere of influence (positive and negative) and likely contributions to the host countries. In the majority of cases, they provide a series of performance indicators and a snapshot of community effects that aids in management and process decisions to minimize harm and maximize benefit. These assessments, however, are not equivalent to impact evaluations in the scientific sense – no causal relationships are established, no attribution claimed; instead a significant amount of data is gathered to approximate the likely company-driven impact on a community, region or country.

While IFC is among the first to apply rigorous evaluation methodologies in the realm of private sector development, particularly of its advisory services operations, there are numerous challenges to carrying out impact evaluations for *investment* projects.

It can be difficult to establish a counterfactual

Establishing a counterfactual through randomizing an intervention can be ethically problematic. It may prove simply untenable, for example, to administer a life-saving drug on a random basis, potentially endangering the life of those who are relegated to the control (non-treatment) group. Equally, it may simply be politically unfeasible for a government to implement a welfare program, for example, to which access is randomly given. Also, implementation can be extremely complex, as can be the ongoing monitoring and subsequent evaluation.

Ethical or political concerns aside, it would be hard (impossible) for the IFC to implement a randomized approach to its investment decisions in order to accurately attribute impacts to its activity or involvement. Also, IFC supports investors in their activities - and investors both select investments that, above anything else, are deemed most likely to succeed financially and try to continuously refine their approach. Either of these tendencies violates the tenets of standard designs, applied randomly or not.

Outside of experimental designs, other methods can be used but quasi-experimental designs also have their sets of challenges, including data intensity, selection bias, ability to identify/ generate a comparison group that shares in essence all relevant characteristics with the treatment group, and (unobservable) contamination. Consequently, the interpretation of results often requires statistical expertise and experience, which may not always be available, particularly in developing country contexts, or very costly.

Whose impact is it anyways?

If it is challenging to establish a causal relationship between a company's activities and poverty reduction in a community, region or country how can IFC know that part of the (intended or unintended) impacts were due to the institution's involvement? IFC, like other publicly funded development institutions operates under the guiding principle of having to demonstrate its 'added-value' and rather than competing with the private sector, complement it where market failures exist. As a result, IFC a priori aims to support projects where no alternative funding was available –thereby supporting the development of markets and the opportunity to escape poverty – or where the project is enhanced through IFC's expertise in the areas of corporate governance, environmental

and social standards, industry and global knowledge. For each project IFC assesses whether it has added value by examining its added value across these sets of criteria and examines whether the institution has contributed to achieving overall development impact. While there are several ways to assess the institution's 'additionality' in a project, quantification is difficult.

It will also be difficult to estimate the proportion of impact that IFC's involvement has generated for another reason: IFC has a limit to the financial support it

can provide to private companies: in most cases, IFC is a partner among many providing financing, and the corporation typically only finances at most 25% of an investment. As IFC's overall financial contribution must be limited (to avoid crowding out other potential, private financiers and stifling market forces), so is the 'claimable' impact on poverty reduction – yet, the project may not proceed at all without IFC's involvement.

Also, as IFC has increasingly moved from project to corporate finance, it has become more challenging to clearly delineate IFC's immediate contribution/impact on the ground, as the level of analysis may have to shift from a concrete, delineated project to evaluating the company overall or deciding on particular aspect of the operation that, by some criteria, is deemed most relevant.

The time it takes for impacts to materialize

Impacts, intended or unintended, can take a while before they materialize. It may be years before results emerge, such as increased incomes leading to better maternal health statistics, increased school enrollment or other indicators of improved living conditions.

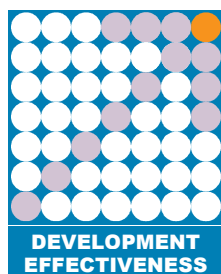
By the time these impacts become tangible, IFC may no longer be involved and a reporting relationship will no longer be in place. More importantly, however, other factors may have intermittently been introduced, making it more difficult to establish any cause-effect relationship between IFC and materialized poverty reduction. In addition, while IFC's clients can be reasonably expected to track their direct contributions, such as employment generation or payments to government on an annual basis, it is outside of the remit of a company to track impacts for years to come, especially given other influences and actors, like government or other companies.

The cost question

Carrying out meaningful impact evaluations with robust and reliable results are costly and time-intensive. Given the average cost, it would be impossible to obtain an accurate assessment of the poverty reducing assessment of all of IFC-supported operations. The cost factor thus encourages discipline in choosing appropriate case studies both on the advisory and investment side.

What IFC is doing

Despite the challenges to assessing the poverty impact of IFC-supported operations, a roster of pilot studies has already been concluded on the advisory services side. And on the investment side, we plan to also carry out several impact evaluations, with one study being already launched in Colombia.



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