

IFC and the Millennium Development Goals

The Millennium Development Goals (MDGs) were adopted in 2000 by 189 developed and developing nations as a framework to guide their development work over the next 15 years. Eight MDGs focus on various dimensions of poverty, ranging from reducing child mortality to promoting environmental sustainability. IFC contributes to the achievement of MDGs through three main channels: first, by supporting client companies whose operations directly address the MDGs with investments and advice; second, indirectly through the broader impacts of their investments; and third, by creating supportive conditions to increase the likelihood of private companies' positive contribution to the MDGs.

IFC invests in projects that address MDGs directly. One such area is income generation, a key driver of the eradication of extreme hunger and poverty (MDG 1). In 2006, IFC-supported general manufacturing projects, for example, generated about 415,000 direct, permanent jobs, and purchased \$25 billion worth of goods and services from local suppliers. Agribusiness projects have sourced their key inputs from 538,000 local farmers and 57,000 micro, small, and medium enterprises. 100,000 jobs were created by extractives projects.

Another area is the containment or reduction of HIV/AIDS, Malaria, and other communicable diseases (MDG 6): *IFC Against AIDS*, an initiative within IFC, helps private companies address and manage HIV/AIDS in the workplace and surrounding communities. In Africa, the initiative's strategic priority region, the 19 IFC-supported companies have provided education, voluntary counseling to over 58,000 direct employees, 450,000 dependents and a total of 619,000 overall in the community.

Example: IFC client Odebrecht, an engineering and construction company operating in Angola, provides comprehensive HIV/AIDS prevention and care services to its 7,000 employees. It also reaches more than 100,000 people in the community with its education programs. Odebrecht makes systematic efforts to address female staff and women in the community, hiring a gynecologist and offering training regarding health, STDs, and HIV/AIDS as part of organized women's discussion groups. This award-winning program has become a model for companies around the world, generating significant health and business benefits.

IFC activities that address MDGs indirectly also contribute to their achievement. IFC's investment in infrastructure is one such example. Transport infrastructure allows for timely distribution of essential goods and expands access to markets as well as health and education services. In a world where 1.1 billion people lack access to clean water and another 2.6 billion to sanitation, modern infrastructure helps generate significant health benefits and improves quality of life. IFC takes a nurturing approach in its support of private-public partnerships. In 2006 alone, our client companies provided water and electricity to 15.3 and 9.5 million customers, respectively.

Example: Manila Water, a private water and waste water concessionaire, has achieved significant improvements in water quality and expanded access to low-income neighborhoods since taking over the government-owned utility, MWSS, in 1997. 500,000 more people have obtained access to clean water and every year, the company reaches an additional 100,000 individuals in low-income neighborhoods. Also, incidences of diarrhea in parts of the firm's distribution network have fallen from 850,000 to below 25,000 per year. The company is also engaged in environmental activities related to the protection of watersheds and reclaiming soil in non-arable areas with sludge from wastewater treatment plants.

IFC is making also a significant contribution to improving health care delivery and health outcomes in emerging markets by supporting pharmaceutical firms that bring out new medicines and develop new diagnostic instruments. These developments are a critical part of a global effort to expand access to high quality and affordable medicines. Locally produced pharmaceuticals and generic drugs can make life-saving medicines more affordable for millions.

Another commitment under the Millennium Development challenge is to achieve full access to universal primary education. IFC's belief in child labor limits as stipulated in our performance standards supports primary school enrollment. Although IFC's engagement in education has been more in the tertiary sector, we are now also helping private schools obtain commercial financing and providing advisory services to improve the quality of education that is offered. In Ghana, IFC has worked with a local bank to enable 6,000 students to enroll in 11 schools. Other banks in Ghana have expressed interest in joining the program, and IFC is replicating the program in Kenya.

Finally, private sector investment contributes to broad economic growth, and ultimately, poverty reduction. Although it is hard to assess IFC's contribution through this channel, it is possible to have a rough estimate. For example, between FY01 and FY 04, IFC has invested \$2.1 billions¹ in 36 out of 54 low-income countries, where average poverty rate was 34%². IFC's financing has been part of a total of \$78 billion financing³⁴ to these countries.

Private investments constitute roughly 12% of GDP in low income countries annually⁵. In recent history, developing countries with 1% point higher average annual private investment as share of GDP had a 0.71% point higher GDP per capita growth rate⁶. Over 10 years, this translates into a per capita GDP which is 7% higher than it would have been otherwise.

Economic growth is necessary to achieve poverty reduction. However, the percentage reduction is difficult to estimate and varies greatly among countries. For poor countries, an estimate shows that there is roughly 1% to 2%⁷ reduction in poverty rate for every one percent increase in the income growth rate.

¹ Original commitment figures.

² Poverty figures refer to % of population living under \$1/day. The figures were available from 14 countries, and from various years ranging from 2001 to 2003.

³ Sum of FDI net inflow and portfolio investment in equity.

⁴ Alternatively, we could use FY04 figure. In which case, it will become \$627m (net), \$727m (gross), in 18 low income countries. Poverty rate 34% (average of 9 countries), total of \$25billion financing.

⁵ Measured by share of fixed gross capital formation (private) over GDP. Average rate was calculated for 45 low income countries for which data was available between 2001 and 2005. Foreign investment accounts for roughly 2-3%, and IFC's investment 0.06%.

⁶ Figures for 42 developing countries, between 1970-98. Over 28 years period, this translates into a per capita GDP which is 22% higher than it otherwise would have been. (Over 10 years, 7%, 20 years, 15%, 30 years, 24%) Source: *Trends in Private Investment in Developing Countries: Statistics for 1970-1998*, Laurence Bouron and Mariusz A Sumlinski. Does not quite fit here, but "I just ran two million regressions" by Sala-i-martin (American economic review vol 87, no, 2) also shows equipment investment and non equipment investment, when used as independent variables for regression on growth, has coefficient of 0.2175, and 0.0562 respectively.

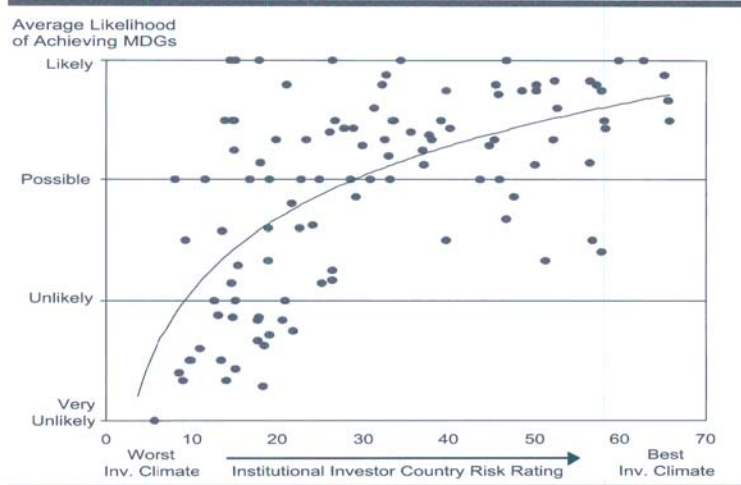
⁷ A. Krray, When is Growth Pro-Poor? Evidence from a Panel of Countries. Pro-Poor Growth in the 1990s: Lessons and Insights from 14 Countries, 2005. 2% from WDR 2000/2001, "Bourguignon, F. (2003). "The Growth

Applying these estimates, IFC's investments would be associated with an average 0.04% growth a year, and 0.04% to 0.07% decline in poverty among these countries. These countries, collectively, have about 780 million people living in poverty⁸, so these estimates imply that 300,000-600,000 people could be lifted out of poverty.

IFC also contributes to create supportive conditions to increase likelihood of private investment's positive contribution to MDGs. IFC's sustainability and performance standards help ensure environmental sustainability (MDG 7). Another example is IFC's advisory work on investment climate. A study by IFC's Independent Evaluation Group has found that countries with better investment climate are better placed to reach the MDGs than other countries⁹.

GRAPH

Figure 1: Countries with better investment climates are more likely to achieve the MDGs



Elasticity of Poverty Reduction; Explaining Heterogeneity Across Countries and Time Periods," in T. Eicher and S. Turnovsky, eds. *Inequality and growth. Theory and Policy Implications*. Cambridge: The MIT Press

⁸ 2.3 billion people live in 54 low income countries. Figure was obtained by multiplying this by average poverty rate of .34.

⁹ IEG Evaluation Brief (2005) *IFC and the Millennium Development Goals*

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