



Corporate Evaluation

Second Independent Evaluation Multilateral Investment Fund



Inter-American Development Bank
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Over the past 20 years the Multilateral Investment Fund (MIF) has transformed itself, responding to changes in the Region and at the Inter-American Development Bank, as well as to its own view of its comparative advantage. The MIF's early focus was on addressing the needs of private and public actors in the context of the economic liberalization and privatization policy reform agenda during the 1990s. However, the mandate approved by Governors in the MIF's 2007 replenishment reflected a decreased concern with reform and focused instead on direct support to micro and small enterprises, and on poverty. The 2010 adoption of a new operational and organizational framework helped to bring MIF closer to lower-income populations and micro and small enterprises.

As a relatively small organization with ambitious goals, the MIF has a strategy for achieving impact that relies on leveraging the funds of partners and on using projects as instruments for experimentation and demonstration, with a view to scaling up successful experiences. Over the years, and during the period covered by this evaluation, the MIF has been successful at strengthening partnerships, leveraging resources, and generating broader impacts through demonstration effects.

For the future, the MIF faces challenges in consolidating its innovation and scaling-up strategy and in identifying an acceptable level of failure. MIF projects often do not achieve expected results, and MIF interventions often are not sustained over time. Although higher failure rates are expected for institutions committed to innovation, the MIF should be more strategic in balancing experimentation and acceptable failure. MIF projects are not systematically structured to generate the knowledge required to promote scaling-up, and the MIF lacks a clear view of the role of knowledge in its business model. In addition, the MIF lacks clear corporate targets against which it can measure success and failure.

The MIF has a mandate to promote growth by addressing the constraints of the private sector, and it has broadly complied with its growth mandate. Most of the MIF's efforts have targeted improvements in the productivity and competitiveness of firms, particularly micro and small enterprises. The results of this engagement have been mixed. The MIF has had some success at affecting local markets and policy environments—for example, through its work with youth and local economic development. However, the achievement of more significant market changes has proven to be a more elusive goal. Although the MIF had impressive early success in helping to generate a microfinance industry, it has not replicated success on this scale in other areas. In this review, the area of work that has had the largest systemic impact has been venture capital.

The MIF also has an objective of poverty reduction, but its mandate contains no guidance on how to achieve this goal, and it has struggled to find a model by which it can address poverty. Only a small proportion of its projects directly reach the poor, so over the years it has sought indirect ways to comply with its mandate. But the MIF has a comparative advantage in affecting low-income (though not necessarily poor) populations: a well-developed network of partners that share a common interest in the promotion of micro and small enterprises, and a focus on marginal and undeveloped markets, economic segments that serve the needs of low-income and poor populations.

Second Independent Evaluation

Multilateral Investment Fund

OFFICE OF EVALUATION AND OVERSIGHT, OVE



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ACRONYMS

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ACRONYMS

BDS	Business Development Services
DEU	Development Effectiveness Unit
DFI	Development finance institution
IFC	International Finance Corporation
ICT	Information and communications technology
IIC	Inter-American Investment Corporation
IDB	Inter-American Development Bank
KSC	Knowledge and Strategic Communications Unit
LAC	Latin America and the Caribbean
LCC	Strategy for Learning, Communication and Catalyzing
LED	Local economic development
MDF	Microfinance development fund
MFI	Microfinance institution
MIF	Multilateral Investment Fund
MSMEs	Micro, small, and medium-sized enterprises
NGO	Nongovernmental organization
OECD	Organization for Economic Co-operation and Development
OECD-DAC	Development Assistance Committee of the OECD
OMJ	Opportunities to the Majority
OVE	Office of Evaluation and Oversight
PPP	Public-private partnership
PMRP	Project Monitoring and Risk Performance
PSR	Project Status Report
QED	Quality of Effectiveness in Development
SCF	Corporate Finance Department
SEP	Social Entrepreneurship Program
SMEs	Small and medium-sized enterprises
TC	Technical cooperation
Tec-In	Technologies for Financial Inclusion

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Industrial integration program to boost productivity in the sector of machining parts in Santiago de los Caballeros in Dominican Republic. MIF operations are well aligned with its mandated purpose of promotion of growth, and the institution has complied with its mandate of targeting small firms.
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Executive Summary

This Final Report to Donors presents the findings of the Second Independent Evaluation of the Multilateral Investment Fund (MIF) conducted by the Office of Evaluation and Oversight (OVE) of the Inter-American Development Bank (IDB). The Agreement establishing the MIF's 2007 replenishment, the MIF II, required that OVE perform this evaluation. The evaluation is being completed just as the MIF has been authorized to seek a new capital replenishment. Thus its findings and recommendations can both inform MIF Management about current challenges and provide input into broader discussions about what type of institution the MIF can be in the future and what its role can be for the economic and social development of the Latin America and Caribbean (LAC) Region.

The MIF was created in 1993 as a small technical cooperation agency to address the needs of private and public actors in the context of the 1990s' economic liberalization and privatization policy reform agenda. During the past 20 years, the MIF has changed substantially. The 1990s policy reform agenda has come and gone, and the MIF has adapted to this shift by abandoning its early lines of work in favor of a more pragmatic approach to work with the needs of micro, small, and medium-sized enterprises (MSMEs) in LAC. It developed programs supporting microfinance, finance for small and medium-sized enterprises (SMEs), value chain, and venture capital, and more recently programs developing basic services for the poor and for disadvantaged youth, and programs promoting regional economic development.

OVE evaluated the performance of the MIF during MIF I and reported to Donors in 2004. Among the main findings was that the MIF had continued to innovate throughout its portfolio. The one sector that stood out in the report was microfinance: the MIF had been particularly relevant in the development of new industry in LAC,

achieving a clear “systemic impact.” Alternative dispute resolution and the development of labor market competencies also stood out as good performers. Areas in which the MIF had performed poorly included most of its efforts to develop capital markets, business development services and environmental projects. According to the report, the MIF’s efforts to develop a venture capital market in LAC were innovative in the Region, but they fell short in terms of both results and sustainability. Likewise, the MIF’s early work with business development services was limited in the absence of complementary interventions to develop markets.

The first evaluation made a series of strategic and operational recommendations to the MIF. The strategic recommendations included that MIF further develop its role as a laboratory of ideas, be more selective in its areas of work, and leverage its impact by relying on networks of partners. The operational recommendations addressed failings in the efficiency with which the institution prepared and executed projects: the MIF was advised to improve its identification of risks and its project preparation and implementation, and to better align the incentives to prepare and execute projects. For the most part, the MIF implemented these recommendations, even if, in some instances, it took several years. The MIF took steps to strengthen its project preparation, monitoring, and evaluation; developed its own in-house capacity to prepare and execute projects; moved to a results-based disbursement system; and invested in an impact evaluation program.

These changes have slowly produced improvements in the efficiency of the MIF portfolio. Overall, the quality of implementation has improved in comparison to the previous evaluation. Most MIF projects reviewed delivered outputs as planned and were able to appropriately address risks as they materialized. Also, OVE’s project-level evaluation shows that preparation times have fallen and there is a very low incidence of cancellations in the portfolio. There have been fewer project delays, but this is due to a better match between planned and executed times, rather than an acceleration in the rate of execution over time.

Just as the organization’s programs and priorities changed over time, so did its mandate. The MIF’s original mandate instructed it to work closely with the IDB Group to help industry regulators and SMEs in the Region to adapt to the reforms that were being introduced. The mandate approved by Governors in the MIF’s 2007 replenishment reflected a decreased focus on reform and a new focus on direct support to micro and small enterprises. The new mandate specified two underlying purposes for the MIF: to promote growth and reduce poverty. It also included a list of 10 functions for the MIF, most of which were related to its instruction to promote growth. The mandate provided no specific guidance as to how the MIF would attempt to reduce poverty.

The MIF has adopted a new framework to help it classify and prioritize among different projects. The Access Framework, adopted in 2010, implemented three main changes: (i) it classified projects according to three “access areas”—Finance, Markets, and Basic

Services; (ii) it organized operational units around the three access areas, so that each MIF staff member was assigned to an access area; and (iii) it formalized the MIF's intention of achieving impacts that would go beyond its direct beneficiaries, placing knowledge and learning at the center of the MIF and linking the MIF's knowledge function to its operations. Under the framework, MIF projects would attempt to address MSMEs' and poor households' lack of access to finance, markets, and basic services.

The Access Framework helped the MIF better align its portfolio with its mandated purposes and functions. Even as the framework reflected changes that were already under way in MIF project selection and priorities, it helped to formalize and better align the MIF's work with its mandated purpose of reducing poverty and addressing the needs of micro and small enterprises. It helped the MIF to refocus its work in financial inclusion on missing and incomplete markets, such as rural markets, and on new financial services such as savings and insurance. It also had a significant impact on the MIF's portfolio in access to markets, as it clearly introduced the intent to work with micro and small producers, linking them with broader markets through "lead firms" and a value chain approach. This new approach in markets also reflected recognition of the limitations that the MIF faced when it attempted to address the needs of small firms by focusing solely on their technical limitations. Lastly, the Access Framework introduced the explicit objective of addressing "basic services" for the poor, which is also well aligned with its purposes and functions.

The Access Framework strengthened experimentation and knowledge at the MIF, but the institution has still not integrated these functions with its stated objectives of scaling up and achieving "systemic impact." The framework recognized the MIF's comparative advantage as an innovative institution, and attempted to build upon that role by strengthening the functions of experimentation and knowledge. To this end, the framework proposed a series of changes, including an increased focus on impact evaluation and a new role for the MIF as an agent of knowledge generation; however, it did not identify how knowledge would enhance the MIF's ability to produce "systemic impacts." The MIF has made progress in adopting more rigorous mechanisms for testing the effectiveness of projects. But the institution lacks clarity about the link between the activities related to knowledge generation and the institution's business model based on demonstration effects and scaling up innovation. And although OVE found that the main source of MIF innovation is at the project level, and in fact resides with the rich network of executors that the MIF finances, there is remarkably little attention to these actors in the ongoing initiatives at the institution. Indeed, the analytical products that are operationally aligned with MIF projects, such as final evaluations, have not been addressed as a potential source of information or knowledge.



The MIF has developed a network of nongovernmental organizations, private sector partners, and public counterparts that share the institution's objective of developing market segments where access to finance, productive assets, and basic services are missing or precarious.

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MIF operations are well aligned with its mandated purpose of promotion of growth, and the institution has complied with its mandate of targeting small firms. MIF intervention models promote firm-level productivity, revenues, or firm competitiveness, and the MIF generally works in areas that address constraints to firm growth. This focus has also increased over time, and new areas of work are better aligned with current development approaches to promoting growth in micro and small enterprises. The MIF has also been successful at targeting micro and small enterprises: it predominantly works with firms with revenues under \$50,000, and this targeting has increased over time. This result is due in large part to the selection of MIF development partners, who are active in developing markets for micro and small enterprises.

The MIF has also complied with mandates related to its ability to innovate, use technology, and share knowledge. The MIF has actively worked to promote the use of technology in access to both finance and markets. In these endeavors it has been more successful at producing tangible results when it has used technology as a complement to measures addressing other constraints firms face. The use of technology in deepening financial inclusion is particularly promising, although to be effective it will require a complementary effort (by the MIF or others) to engage bank regulators. The MIF has also been able to continue to innovate; it has scored very well in this regard, as

projects often introduce products, services, or processes that are new in local markets. Innovation is one of the MIF's main comparative advantages, and the MIF is uniquely able to use a mix of grant, lending, and equity instruments to further this function. The MIF has also been successful in promoting the exchange of information and knowledge through its dissemination activities and its broad network of development partners. However, it is too early to assess the MIF's success in its new commitment as an agent of knowledge generation.

The MIF has not been relevant in promoting regulatory and legal frameworks and has had little success in its efforts to promote regional integration. As the MIF moved away from a direct engagement with public sector actors in a reform agenda, it also became less involved with activities to promote legal or regulatory reform. Although there were some efforts in MIF II, such as with public-private partnerships, generally the MIF has not been relevant in this area. Furthermore, the MIF attempted to address the needs of SMEs in the context of bilateral and multilateral trade agreements, but for the most part these efforts have suffered from legislatures' slowness to ratify the agreements. The MIF has had very little relevance in regional integration efforts outside of trade.

The MIF has experimented with developing elements of a "poverty model," but in the period under review has not found a clear way to respond to its poverty reduction mandate. The MIF's new mandate includes a clear instruction to promote poverty reduction through private sector development. The MIF has taken steps to improve the targeting of its projects, but the evidence shows that MIF projects in execution do not directly reach a high proportion of poor people, although more projects reach low-income beneficiaries. The MIF has experimented over the years with alternate "poverty models" or indirect methods through which it could better comply with its objective of reducing poverty. This is an ongoing issue at the MIF.

However, regardless of the MIF's ability to better articulate pathways by which its projects can indirectly reduce poverty, it has comparative advantages that it can use to enhance its poverty reduction focus. Even if the MIF does not reach a large share of poor people, it does reach poor populations in many projects, and it reaches low-income populations in many more. This places the MIF in contrast to most other IDB Group private sector windows. In addition, the MIF has developed a network of nongovernmental organizations, private sector partners, and public counterparts that share the institution's objective of developing market segments where access to finance, productive assets, and basic services are missing or precarious.

MIF projects are characterized by high experimentation, but also by a high incidence of failure and consequently issues with sustainability. In general, MIF projects have a high rate of innovation and good execution, but they also have a relatively high rate of failure. This has implications for the sustainability of benefits, as failed projects are almost by definition unsustainable in markets. Some degree of failure is to be

expected for an institution that attempts to innovate; high risk and high innovation are associated with high failure, and this is the MIF model. However, moving forward the MIF needs to clearly identify the potential returns it expects from experimentation, and to weigh those returns against the risks it takes with both its investment and grant portfolios. The MIF's current approach to failure in experimentation is ad hoc, as it does not explicitly take into consideration both the rewards and the risks of experimentation and innovation as part of its model for development.

At the thematic level, MIF results have been varied, with some approaches showing more success than others at producing “systemic” impacts. The MIF had early success in producing “systemic impacts,” mainly in its work in developing a new microfinance industry in LAC. Although there are clear examples of MIF impacts in local markets, the MIF has not replicated this early success in other sectors. During the present evaluation period, the MIF has had most success in promoting a venture capital and early-stage equity industry, particularly with its successful partnership with FINEP in Brazil. The MIF focused on market solutions and on avoiding the pitfalls of its earlier approach to venture capital, in which the pursuit of heterogeneous objectives compromised the financial return on MIF investments and led to unsustainable results with limited market impact. The MIF's approach has leveraged an increasing amount of funds, and in general the MIF has been able to produce sustained impacts in venture capital.

The MIF has also had mixed results in achieving impacts that go beyond immediate beneficiaries. In the area of LED the experiences in Argentina and Peru have both been important in developing local economic development models in the provinces in which they were implemented. The MIF has also had some success in scaling up certain parts of its innovation with youth projects. In many instances public actors have adopted specific parts of Entra21 components into their public policies (although a scaling up of the model itself has yet to occur). And in microfinance, the MIF has been relevant in the recent developments in the Region, including making some progress in helping to develop micro-insurance markets. However, in other cases projects have not produced consistent results, such as MIF's attempt to develop clean energy markets for SMEs, its experience with business development services, and its attempt to develop equity markets for SMEs.

In other areas the MIF has introduced new approaches, but the results are too early to be evaluated. The MIF's approach of targeting rural and frontier markets is relatively new and promising, and it certainly addresses constraints that firms and households face, but it is too early to evaluate its impact on markets. Likewise, the MIF's adoption of a “basic services” access area is innovative and ambitious, but here too, the MIF is still developing its strategic approach.



And in Haiti, the MIF faces a challenge in developing a strategy to leverage its impact. Although the MIF responded to the 2010 earthquake, it has operated in Haiti in the same manner as other countries without internalizing the particular challenges and opportunities of working with Haiti. Thus it has not been able to leverage the impact of its portfolio. The MIF is in a privileged position in Haiti to expand its impact by forging strategic alliances. The MIF works closely with innovative development partners, and also has access to the broader international finance community working in Haiti.

The MIF's approach of targeting rural and frontier markets is relatively new and promising, and it certainly addresses constraints that firms and households face, but it is too early to evaluate its impact on markets.

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The MIF is a unique organization with comparative advantages that position it to have continued success in promoting the development of micro and small enterprises in LAC. The MIF is innovative and experimental in nature, and it has developed a network of development practitioners and partners. It has also achieved a high level of autonomy within the IDB Group, which has allowed it to experiment with new approaches to private sector development in LAC. The MIF has forged alliances with private sector organizations and development agencies that have allowed it to increasingly leverage its financial resources over time.

OVE has five recommendations that build on the MIF's comparative advantages, while strengthening the institution.

1. **Implement a corporate results framework, ensuring that it preserves the MIF's flexibility to innovate.** The Access Framework provides guidance on areas in which the MIF will and will not work. However, the MIF lacks corporate-level goals and targets, and the identification of objectives and targets is uneven at the topic level. The MIF should implement a corporate results framework that builds on the strategic guidance provided by the Access Framework, tailoring it to afford ample room for innovation and flexibility at the programmatic level.
2. **Better define the MIF's strategy for targeting low-income beneficiaries and promoting poverty reduction.** The MIF can best address poverty through flexible strategies that target MSMEs and employment and that focus on market segments that reach low-income beneficiaries.
3. **Further specify and clarify the role of the public sector in scaling up innovation.** To attain systemic impact, the MIF must be able to scale up innovation. In most instances up-scalers have been private sector agents, attracted by the commercial success of interventions by the MIF and other development agents. The MIF can also play an important role in engaging public sector agencies in two important ways. First, public sector agents can address regulatory and coordination restrictions that may be limiting the success of projects and their possibility for scaling-up. Second, the public sector itself can serve as an agent to bring innovation to scale through public policy. This can be particularly relevant in scaling up MIF projects in basic services, and youth training. Public engagement and financing will also be particularly important in interventions that reach the poor but may not be financially viable purely through private channels. The MIF should also consider the role of the IDB Group more broadly in the scaling-up effort.
4. **Strengthen the tracking of implementation and results.** The MIF's tracking of project implementation has improved substantially, but improvements are still needed in key areas. The MIF does not have an instrument to systematically track the implementation of loans and equity, although it is working to develop one. The MIF has also struggled to systematically track actual results of projects at the outcome level. To improve the tracking of results, the MIF should:
 - Develop intermediary outcomes or proxies of outcomes that can be measured during implementation and serve as a bridge between implementation and final results.
 - Revisit the instruments available for tracking the implementation and results of financial investments.

- Redesign the final evaluation system so that it can be used to systematically report on the aggregate results of the portfolio, by strengthening data collection and applying preferred methodologies.

5. Better define and strengthen the MIF's role as a knowledge institution. Both the MIF mandate and the Access Framework highlight the role of knowledge in scaling up innovation. The MIF has moved forward in developing a learning agenda, but it does not have a strategy that clearly identifies the role that knowledge and learning should play in its business model. To address these issues, the MIF should develop and adopt a corporate knowledge strategy that clearly links its different activities in promoting knowledge and learning to its corporate objectives. In addition, the MIF should:

- Review the adequacy of its knowledge agenda, with a view to identifying the main knowledge gaps and deciding how the knowledge strategy will promote the MIF's development goals and objectives at the agenda level.
- Strengthen experimentation opportunities at the project level, and link them with the MIF's knowledge goals, tailoring experiments so that they test the validity of models proposed by MIF partners.
- Strengthen the MIF's quality assurance function by implementing a quality control system based on peer reviews.



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MIF II also recognizes the niche that the MIF had carved out for itself as a laboratory for innovation, and strengthens that niche by mandating that the MIF continue to advance “innovative initiatives.”
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1 Introduction

This paper is the final Report to Donors on the Second Independent Evaluation of the Multilateral Investment Fund (MIF), conducted by the Office of Evaluation and Oversight (OVE) of the Inter-American Development Bank (IDB, or Bank). The first independent evaluation, produced by OVE in 2003 as Donors considered the MIF's request for a replenishment, was prepared to report to Donors on the MIF's performance during its first mandate (MIF I), and to provide lessons learned for the MIF itself. In 2007 Donors approved the replenishment for the MIF (MIF II) and, as part of the replenishment agreement, required that a similar evaluation exercise be conducted at the end of that replenishment. This evaluation, which has the same two objectives as the first, was timed so that the final results are available to inform both MIF Donors and MIF Management about the institution's performance during MIF II.

The report is structured in five chapters. This first chapter describes the MIF and its evolution over time, the change in the institution's mandate and focus, and the organizational changes that have taken place, particularly since 2005. Chapter II describes the overall methodology for the evaluation, the evaluative questions, and the evaluative exercises conducted by OVE in 2011-12. Chapter III presents overall findings about the MIF's performance with respect to its two overarching objectives of poverty reduction and growth, and assesses recent changes in the MIF. Chapter IV presents sector-level findings, and Chapter V presents conclusions and recommendations.

A. A BRIEF HISTORY OF THE MIF (1993-2007)

The MIF is the largest provider of technical assistance for private sector development in Latin America and the Caribbean (LAC). The MIF was established in 1993 to define new ways to increase private investment, promote private sector development, and improve the business environment supporting micro and small enterprises. Since its inception it has approved over 1,700 projects, committed over US\$1.9 billion, and mobilized over US\$2.7 billion in LAC.¹ The MIF uses a mixture of tools to achieve its objectives. Its main development tool is small non-reimbursable projects, typically between US\$250,000 and US\$2 million. This tool is complemented by reimbursable lending instruments and equity investments. Most MIF activities are directed toward the private sector.

The MIF was created to accompany the private sector in the process of economic liberalization and privatization that the Region underwent during the 1990s. With the increasing globalization and liberalization markets in LAC (and worldwide), countries became increasingly worried about the adequacy of economic policies (including regulatory frameworks) in the Region, the effect of increased openness on both workers and on small and medium-sized enterprises (SMEs), and the adequacy of labor, capital, and other markets to meet the new realities of a more integrated economy. With this focus, the MIF's original mission was to promote private sector development— particularly for SMEs—and policy and regulatory reforms.²

In line with this dual objective of small business development and policy reform, early MIF operations were prepared under three windows: policy and regulatory reform, training and human resources, and small business development.³ These three facilities were complemented by an equity arm, the Small Enterprise Investment Fund. As a small unit, the MIF was administered by the IDB, and it relied on the IDB's structure and human resources for project origination, development, and implementation. Given the breadth of the original mandate, early MIF projects were thematically scattered and divided between projects associated with objectives of the IDB and the MIF's own projects and initiatives.

The early MIF structure proved to be problematic and led to a number of organizational and changes in focus during MIF I. Early reviews of the MIF identified clear problems with the mechanism by which it developed projects, with the focus of the first cohort of MIF projects,⁴ and with the engagement with IDB. IDB staff who served as “agents” for preparing and executing MIF projects tended to accord them lower priority than operations prepared by IDB itself, leading to delays in preparation and execution. Studies as early as 2001 recommended that the MIF develop in-house capabilities and move away from using IDB as the implementation agent. In addition, MIF processes, which were based on IDB processes, were not adapted to the type of

executing units that were usually involved in MIF projects. Other early critiques of the Fund were a lack of prioritization and focus, and a fragmentation of its portfolio (Box 1.1 summarizes the findings of OVE's first evaluation of the MIF.)

In its first few years, the MIF experimented with what it could and could not do, and developed a more specific niche within a relatively broad mandate. The MIF's original mandate was extremely ambitious. Objectives such as promoting "sound economic policies" proved inconsistent with the MIF's instruments, and the MIF struggled to be relevant in this part of its work.⁵ The MIF's ability to implement "investment reforms" was limited to specific technical contributions in areas that were politically relatively neutral. At the same time, during the early years the MIF was more successful in implementing an agenda with micro, small, and medium-sized enterprises (MSMEs), including work developing the microfinance industry in LAC and experimentation with different interventions to address the technical and organizational constraints that these firms faced. This early work would later develop into the institution's core comparative advantage.

BOX 1.1. SUMMARY OF OVE'S FIRST EVALUATION FINDINGS (1994-2004)

OVE's evaluation report was presented to Governors in 2004. Among the main findings was that the MIF had continued to innovate throughout its portfolio. The one sector that stood out in the report was microfinance: the MIF had been particularly relevant in the development of new industry in LAC, achieving a clear "systemic impact." Alternative dispute resolution and the development of labor market competencies were other lines of work that stood out as good performers. Areas in which the MIF had performed poorly included most of its efforts to develop capital markets, and environmental services projects. According to the report, the MIF's efforts to develop a venture capital market in LAC were innovative in the Region, but they fell short in terms of both results and sustainability. Likewise, the MIF's early work with business development services was limited in the absence of complementary interventions to develop markets.

OVE's first evaluation of the MIF highlighted important challenges for the institution. At the strategic level, challenges included the need to (i) strengthen its role as a "laboratory"; (ii) further prioritize in high-impact "clusters"; (iii) tailor instruments to market needs, clearly separating longer-term "policy/market reform" instruments from shorter-term "market development" instruments; and (iv) leverage its impact by developing "networks" of partners. Operational challenges included the need to (i) strengthen project implementation, including by developing parameter-based project management; (ii) improve risk identification and project selection based on risk and executing unit capabilities; (iii) strengthen monitoring and evaluation; and (iv) invest in an enhanced project deal flow, including transparent mechanisms for project selection.⁶

To address these and other issues, the MIF implemented a number of changes leading up to its capital replenishment in 2007: the introduction of project “clusters” as a way of organizing and prioritizing MIF activities; simplification of approval and disbursement procedures; and decentralization of MIF project preparation for small projects (mini-MIF) and of project execution. The MIF also introduced changes in how it worked, and gradually developed its own bureaucracy and competencies, effectively moving away from its reliance on the IDB Group for operational support. The types of clusters the MIF identified also signaled a strengthened role in providing direct support to MSMEs, and a more limited role in the policy reform agenda.

The MIF implemented most of OVE’s recommendations, with some notable exceptions. Of the strategic recommendations, the MIF did well in developing networks and leveraging its influence through these networks. In terms of both financing and operations, the MIF has been increasingly able to “recruit” partners and leverage funding.⁷ In addition, by introducing “clusters” of projects, the MIF was able to reduce the fragmentation of its portfolio.⁸ The MIF did not directly address the agency issues between the Bank group and the MIF, although it did so indirectly by reducing the areas of joint work; similarly, it did not develop alternative instruments to use for policy reform, but instead moved away from working in those areas. The strategic recommendation that proved most difficult to fully implement was to strengthen the role of the MIF as a “laboratory.”⁹ The MIF also implemented most of the operational recommendations, although in some cases only several years after the recommendations were made. The only major operational recommendation that has not been addressed is the issue of intellectual property rights (see Annex for a more complete discussion of the evaluation recommendations and the MIF’s response.)

B. THE MIF II AND THE ACCESS FRAMEWORK

In 2007, the MIF’s Board of Governors approved the organization’s first replenishment, resulting in the establishment of the “MIF II.” The agreement extends the MIF’s financing until December 31, 2015, with a resource commitment of US\$500 million, and an option to extend the agreement for up to five years. The new mandate establishes the objective of “economic growth and poverty reduction in the region by encouraging increased private investment and advancing private sector development.” The agreement defines two “purposes” for the MIF—growth and poverty reduction—along with 10 “functions”:

- Promote competitiveness
- Promote business environment
- Advance regional integration efforts
- Promote adequate legal and regulatory framework
- Stimulate micro and small enterprises and other entrepreneurial activities
- Encourage the use and application of technology

- Share knowledge, particularly for micro and small enterprises
- Advance the application of innovative initiatives
- Complement the Bank, the IIC, and other multilateral development agencies
- Promote environmentally sound and sustainable economic development, as well as gender equality, in the full range of its operations

The new MIF agreement marked a change from the original MIF mandate and validated changes that the MIF had been implementing over time. The new mandate's objectives marked a shift from the policy and regulatory reform that had been central to MIF I, and centered more on an institution that engages directly with the private sector. Although one of the 10 functions of MIF II is to “promote adequate legal and regulatory reforms,” the list of functions builds on many of the MIF's comparative advantages that OVE had identified in its first evaluation, which have little to do with a reform agenda.¹⁰ For example, MIF II recognizes the MIF's proximity to the institutions working with SMEs, and explicitly identifies SMEs as a target of MIF action. MIF II also recognizes the niche that the MIF had carved out for itself as a laboratory for innovation, and strengthens that niche by mandating that the MIF continue to advance “innovative initiatives.” By instructing that the MIF “complement” the Bank, the Inter-American Investment Corporation (IIC), and other organizations, the MIF II agreement validates the autonomy the MIF had won inside the IDB Group while cautioning against non-productive overlap among Bank units.¹¹ Most of the new guidance included in the MIF II mandate—the move away from reform, the focus on MSMEs, and the emphasis on innovation—were consistent with the MIF's practice.

Although the MIF II replenishment document identifies growth and poverty reduction as the institution's main purposes, it only provides guidance on achieving the growth objective. Most of the functions identified in the MIF II mandate relate to MIF's “purpose” of growth—for example, “promote competitiveness”, or “promote a business environment.” Many of the functions also have a clear focus toward micro and small enterprises, such as the functions “stimulate micro and small enterprises,” and “share knowledge among micro and small enterprises.” The functions do not address explicitly how MIF should attempt to achieve the purpose of poverty reduction.

Three years into MIF II, the MIF adopted a new operational framework that changed how the MIF was organized.¹² In 2010 the MIF introduced the “Access Framework” as the new framework under which it would organize both projects and its operational units. The Access Framework implemented three main changes: (i) classify projects according to three “access areas”—Finance, Markets, and Basic Services; (ii) organize operational units around the three access areas, so that each MIF staff member was assigned to an access area; and (iii) formalize the MIF's intention of achieving impacts that would go beyond its direct beneficiaries, placing knowledge and learning at the center of the MIF and linking the MIF's knowledge function to its operations.



Although the MIF II replenishment document identifies growth and poverty reduction as the institution's main purposes, it only provides guidance on achieving the growth objective. The functions do not address explicitly how MIF should attempt to achieve the purpose of poverty reduction.

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2 Objectives, Evaluative Questions, and Methodology

A. OBJECTIVES

The agreement establishing the MIF II required that OVE prepare a second independent evaluation.¹³ OVE's proposal for a Second Independent Evaluation of the MIF committed to both a Progress Report and a Final Report to Donors.¹⁴ The Progress Report, presented to Donors in March 2012, summarized project-level findings. At that time Donors expressed interest in the expansion of some areas of thematic review to include a more quantitative study on poverty, and in OVE's assessment of the implementation and adequacy of the 2010 Access Framework. This Final Report provides overall findings on the MIF's performance and concludes with a set of recommendations to help the MIF become more relevant and effective.

OVE's approach paper defined the objective of the evaluation as "to assess the MIF's performance in terms of the purposes and functions established in the MIF II agreement." Although the MIF II went into effect in 2007, the evaluation identified the timeframe for the evaluation as 2005-2011. The inclusion of the two years before 2007 was useful to identify projects that were in execution and producing results during the MIF II.

B. EVALUATIVE QUESTIONS

The evaluation is structured around the following three evaluative questions:

- Have MIF interventions been aligned with the priorities of the MIF II mandate?
- Has the MIF been able to experiment and promote innovation and adoption of proven solutions?
- Has the MIF been successful at producing results at the project level and at promoting “systemic impact” in markets in its different areas of work?

These evaluative questions are answered by applying the standard OECD-DAC evaluative criteria, adjusted to include the standard of innovation, as called for by the MIF II mandate. These standards were applied during both the project-level review and the thematic reviews.

- **Relevance:** the degree to which the MIF program addressed the priorities established in its mandate and the degree to which projects identified and addressed significant needs and failures in the development of specific markets in LAC.
- **Effectiveness:** the degree to which the MIF program produced results at the level of the firm, and the degree to which these results were adopted or scaled up at the market level or influenced public policies.
- **Innovation:** the degree to which the MIF program promoted new products, services, or other forms of innovation to address problems or constraints faced by beneficiaries, and the degree to which this innovation was adopted at the market level.
- **Sustainability:** the expected ability to maintain products, services, or other benefit flows when project support ends, as well as the ability to generate a market for MIF solutions.
- **Efficiency:** the degree to which the MIF implemented its program in a timely manner and responded to challenges in execution—and changes in context—without losses in program effectiveness.

C. EVALUATION METHODOLOGY

To evaluate the MIF, OVE relied on five types of inputs: project-level review, executing agencies’ survey, sector evaluations, cross-cutting evaluations, and specific impact evaluations.

- **Project review.** OVE evaluated a sample of 299 MIF projects in the field. This extensive undertaking required conducting desk reviews and site visits, and reviewing additional documentation provided by both the MIF and other sources. These findings are consolidated and reported through the application of the Evaluative Survey Instrument, a project-level assessment instrument developed specifically for the MIF.¹⁵
- **Executing agencies survey.** OVE implemented an electronic survey of executing agencies to (i) help describe the institutional characteristics of the MIF's executing agencies for innovation; (ii) find out how executing agencies had interpreted the MIF mandate, especially in the areas of innovation, assessing results, and creating sustainably funded and scalable programs; and (iii) find out what drew executing agencies to collaborate with the MIF by identifying what they perceived as the "value-added" of working with the MIF. The response rate was 58% (300 surveys).
- **Sector evaluations.** OVE conducted in-depth sector evaluations in the main thematic sectors in which MIF works: (i) Microfinance Funds, (ii) Microfinance and the Access to Finance Framework, (iii) Venture Capital (theoretical paper and an evaluation of the MIF's strengths and weaknesses), (iv) Public-Private Partnerships and Basic Services, (v) Youth Training, and (vi) Access to Markets. The inclusion of the evaluation of the special agenda Haiti reflects the special focus of the MIF and the IDB on Haiti.¹⁶
- **Cross-cutting evaluations.** OVE undertook cross-cutting evaluations on Poverty, Knowledge, and Operational Changes. The Poverty evaluation, in particular, was requested by the MIF and Donors at the midterm review.
- **Impact evaluations.** OVE conducted three impact evaluations and prepared one paper on impact simulations to be applied to access to markets.¹⁷

D. THE MIF'S PORTFOLIO (2005-2011)

The MIF universe of analysis for this evaluation consisted of all operations approved in 2005-2011: 562 operations for roughly US\$811 million. These operations were distributed among technical cooperation (TC), lending, and equity instruments. Table 2.1 summarizes the main types of activities that MIF financed. The models are classified according to the Access Framework typology that the MIF introduced in 2010.¹⁸ In terms of the portfolio, the main areas of MIF work are in access to finance and access to markets. Finance accounted for roughly half of MIF approvals in dollar terms, and 35% of approvals in number of projects. Markets accounted for 40% of approvals by amount, and half of approved projects by number. The two special topics introduced in 2010 (Haiti) and 2012 (Gender) are not listed; they account for 3% and 1% respectively.

Box 2.1. MIF's PORTFOLIO 2005-2011

<i>Area</i>	<i>Main types of intervention models</i>	<i>Instruments</i>
Basic Services	Public-Private Partnerships (PPPs). Develop public services financed through PPPs. Projects mostly worked with public sector agencies involved in structuring PPP deals, and focused on public infrastructure, such as roads.	TC
	Basic Services. Develop or expand the provision of basic services to poor populations. A new area, in which clear models are still developing.	TC
	Environment and Clean Energy. Develop conservation among MSMEs. Included many of the “legacy” environmental services projects.	TC
Finance	Early-Stage Equity. Develop venture capital and early-stage markets, mostly with investments in venture capital funds, and in some cases specific technical assistance to funds, development partners. Also includes development of Angel networks and industry groups.	Equity and TC
	Microfinance. Develop microfinance, mainly through the financing of microfinance funds, direct investments in specific microfinance institutions, and technical assistance to industry groups.	Loans, equity, and TC
	Financial Services. Develop new products and financial services for the poor. Focuses to a large degree on the development of micro-insurance, savings, and payments services. This area also included some of the “legacy” remittance projects.	TC
	SME Finance. Develop markets for financial services for SMEs. Has included models such as factoring, as well as the development of debt and equity markets for medium-sized firms, and risk assessment tools. Relatively small area of work.	Loans and TC

BOX Continues on next page...

BOX 2.1. MIF'S PORTFOLIO 2005-2011

<i>Area</i>	<i>Main types of intervention models</i>	<i>Instruments</i>
Markets and Capabilities	Business Skills (Youth). Develops skills for youth at risk. The models are youth training, labor market intermediation, and placement services.	TC
	Regional Economic Development. Promotes competitiveness and innovation in a region by promoting collective action among firms, industry groups, and public agents involved in the economic development of that region.	TC
	Value Chain. Develops competencies and linkages throughout the value chain, focusing on micro and small enterprises. Focuses on integrating low-income and small producers into the value chain (inclusive businesses) and on developing value chains in agriculture (high-value markets).	TC

The intervention models are divided according to the market segment they attempt to affect. In Access to Finance, Microfinance and Financial Services aim to reach poor and low-income people, and microenterprises. SME Finance and Early-Stage and venture capital target small firms: Early-Stage targets firms with a presumed high growth potential. In Access to Markets, inclusive businesses (under Value Chain) targets micro and small enterprises, usually with a larger anchor firm as a purchaser; and high-value markets targets mostly SMEs. Although most of the areas of work target firms directly, some models identify individuals and households as their primary beneficiaries: in Access to Markets, youth projects benefit youth directly; and in Access to Basic Services, the main beneficiaries are households that lack quality basic services. In both cases the success or failure of the models has direct consequences for individuals and households, but is largely irrelevant for the development of the private sector.



The proportion of the MIF portfolio that was focused on rural markets increased somewhat over time, from an average of 18% in 2005-2006 to an average of 32% in 2010-2011.

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3 Cross-Cutting Findings

This section describes how the MIF has complied with its mandate and discusses other cross-cutting results: the implementation of institutional changes, and in particular the Access Framework and its knowledge agenda; the implementation of the mandate to promote growth through the development of the private sector; and the implementation of the MIF's mission to reach the poor, including issues surrounding the MIF's pursuit of this objective.

A. INSTITUTIONAL CHANGES: THE ACCESS FRAMEWORK AND ITS KNOWLEDGE AGENDA

Just as the MIF's strategic focus changed over time, so did the organization's structure.¹⁹ In the period covered by this evaluation, the most significant institutional change was the implementation of the Access Framework. This section describes the changes leading up to the framework and the specific changes introduced by the framework itself, and concludes with evaluative findings about the results of those changes.

1. Changes before 2010

A major concern of OVE's first evaluation was the efficiency of the implementation of MIF projects. The evaluation found that the most decisive factor in the inefficient use of resources was delays in project execution, which increased administrative expenses, usually at the expense of other budget items associated with the provision of services. The evaluation found problems with the MIF's ex-ante project analysis and diagnostics, risk vetting of executing units, and project evaluability. The evaluation also highlighted problems in the division of labor between project design and execution. MIF projects were often designed and supervised by Bank staff who were unfamiliar either with the MIF's mandate or private sector development, and for whom innovation was not a focus.

In the years leading up to MIF II, the MIF implemented a large set of operational reforms and initiatives. Partly as a result of OVE's evaluation, and partly as a result of the MIF's own broader process of self-assessment and repositioning, the institution put into place a series of initiatives to study the barriers it faced and implement solutions.²⁰ The reforms that were introduced affected most areas of the MIF organization, as well as the entire project cycle (from project origination to evaluation). They also addressed concerns raised by OVE during the first evaluation (Box 3.1 summarizes these reforms).

BOX 3.1. SUMMARY OF MAIN REFORMS INTRODUCED BY THE MIF (2005-2012)

Origination of projects. As the MIF generated its own internal capabilities, it was able to take control of the process of identifying and selecting projects. The most important reforms in this process were the decentralization effort to establish MIF staff in country offices to handle relations with clients and monitor activities more efficiently, and the “delegation of authority” that allowed for mini-MIF approvals to be done locally. This change has allowed the MIF to develop and consolidate networks, taking advantage of MIF specialists' constant contact with relevant actors in the field.

Consolidation of project preparation and execution. Project preparation and implementation have been strengthened by the decentralization of project supervision functions and the introduction of new risk assessment tools—including analysis as part of the Project Status Report-Project Monitoring and Risk Performance (PSR- PMRP) initiative. More recently, the MIF introduced new tools for project preparation such as the Abstract (2012) and Quality for Effectiveness in Development (QED), and the project DNA (2010), which classifies projects according to a risk typology.

Strengthening and streamlining processes. One of the main challenges OVE identified was the need for the MIF to adapt its processes to the TC- and demand-based scheme under which it operates. The MIF introduced reforms to its administrative and procurement processes, including the adoption of results-based disbursements (PMRP initiative), which changed the interaction with executing units to better align incentives and results.

Improvements in monitoring and evaluation. By introducing the PSR (which developed parameters to oversee project implementation on technical grounds), strengthening the Development Effectiveness Unit, and creating the Impact Evaluation Fund, the MIF has improved its monitoring and evaluation structure. In this way it has strengthened its role as a laboratory, simplifying the scale-up of innovations.

These operational changes have produced improvements in the efficiency of the portfolio. Overall, the quality of implementation has improved in comparison to the previous evaluation. Most MIF projects reviewed delivered outputs as planned and were able to appropriately address risks as they materialized. OVE's project-level evaluation shows improvement over time in this evaluative standard. The average time for execution of MIF II projects is similar to that under MIF I, although preparation times and projects' extensions have been reduced. There is also a very low incidence of cancelations in the portfolio. There have been fewer project delays, but this is due more to a better match between planned and executed times than to an accelerated rate of execution.

2. The Access Framework

In 2010 the MIF introduced the Access Framework to rearrange the organization's priorities to focus on a smaller set of areas in which the MIF had a comparative advantage.²¹ The framework proposed a new typology that highlighted the access bottlenecks that firms and households face. Staff involved in project preparation and execution were assigned to one of the three access areas: Finance, Markets, and Basic Services. Under each of these access areas, both staff and projects were further refined into a series of topics, and within each topic into a more specific set of agendas.

By classifying operations according to their underlying objectives, the MIF was better able to link the various interventions with a common purpose. This objective-based approach was lacking in the MIF's prior approach, which was based on clusters. Reviews of the Access Framework in the area of microfinance and markets generally confirm the relevance of the specific priorities in the framework (see Annex C "Agenda Objectives and Relationship to IDB"). Table 3.1 shows the new MIF project structure, according to the Access Framework, for projects before and after the framework. (OVE classified projects approved before the framework according to the framework's priority areas.) Although there are naturally fewer projects outside the framework's categories after its implementation than before, to a large degree the framework also reflected the types of projects that MIF had prioritized over time.

Despite the objective-based approach, the Access Framework still confounds objectives with the instruments used to achieve them. In the area of Access to Finance, the framework moves toward the objective of financial inclusion by identifying financial services for low-income people as topic for future work. However, the framework is still based on specific instruments, such as microfinance. Although microfinance has certainly been one of the clearest examples of a new industry that provides services for low-income populations, it is not clear that it is the only mechanism for expanding finance, or the most viable instrument in certain countries.²²

TABLE 3.1. PROJECTS BEFORE AND AFTER THE ACCESS FRAMEWORK

	2005-2009				2010-2011				Total			
Accesss and Topic	#	%	Amount(\$)	% Total	#	%	Amount(\$)	% Total	#	%	Amount(\$)	%
<i>Basic Services</i>												
Basic Services	16	4%	15,480,615	3%	9	6%	11,638,385	5%	25	4%	27,119,000	3%
Environment and Clean Energy	10	2%	7,097,261	1%	10	7%	19,820,977	9%	20	4%	26,918,238	3%
Others	1	0%	498,800	0%	0	0%	0	0%	1	0%	498,800	0%
Subtotal	27	7%	23,076,676	4%	19	13%	31,459,362	15%	46	8%	54,536,03	
<i>Finance</i>												
Early Stage Equity	28	7%	97,894,956	16%	15	10%	47,217,566	22%	43	8%	145,112,522	18%
Financial Services for Low-Income People	15	4%	29,806,592	5%	10	7%	6,381,068	3%	25	4%	36,187,660	4%
Microfinance	72	17%	143,211,179	24%	20	13%	34,660,150	16%	92	16%	177,871,329	22%
SME Finance	18	4%	18,339,716	3%	7	5%	5,787,700	3%	25	4%	24,127,416	3%
Others	11	3%	9,791,855	2%	0	0%	0	0%	11	2%	9,791,855	1%
Subtotal	144	35%	299,044,298	50%	52	35%	94,046,484	44%	196	35%	393,090,782	48%
<i>Markets and Skills</i>												
Bussines skills	22	5%	34,075,287	6%	4	3%	6,853,963	3%	26	5%	40,929,250	5%
Regional Economic Development	30	7%	41,407,040	7%	9	6%	12,547,880	6%	39	7%	53,954,920	7%
Value Chain	48	12%	60,109,824	10%	23	15%	28,686,768	13%	71	13%	88,796,592	11%
Other	116	28%	119,596,273	20%	29	19%	19,682,486	9%	145	26%	139,278,759	17%
Subtotal	216	52%	255,188,424	43%	65	43%	67,771,097	31%	281	50%	322,959,521	40%
<i>Special Topics</i>												
Haiti	14	3%	7,380,353	1%	11	7%	20,805,637	10%	25	4%	28,185,990	3%
Gender	3	1%	5,691,311	1%	1	1%	321,306	0%	4	1%	6,012,617	1%
Subtotal	17	4%	13,071,664	2%	12	8%	21,126,943	10%	29	5%	34,198,607	4%
<i>Other</i>												
Other	8	2%	5,022,338	1%	2	1%	935,000	0%	10	2%	5,957,338	1%
Subtotal	8	2%	5,022,338	1%	2	1%	935,000	0%	10	2%	5,957,338	1%
	412	100%	595,403,400	100%	150	100%	215,338,886	100%	562	100%	810,742,286	100%

In other areas, the Access Framework incorporates topics and agendas that are not clearly related to the underlying access concept. Although in most cases access topics and agendas are related to the underlying concept of access, the selection of topics shows signs of fragmentation, as new areas of work do not necessarily fit with the framework.²³ For example, under Basic Services, the inclusion of environment and clean energy does not seem to be clearly connected to the provision of quality basic services for poor and low-income people; or at least arguments establishing a connection rely on a very liberal interpretation of what a basic service is. The challenge for the MIF is that the framework serves as a mechanism to prioritize, while also allowing the MIF to pursue its objective of experimenting with novel approaches, which is one of its core competencies.

As in other efforts to structure the MIF's portfolio, the Access Framework reflected changes that the MIF had already begun to implement. The MIF's portfolio has constantly changed. To a large degree the Access Framework reflected strategic decisions by the MIF in the years leading up to 2010. For example, by 2010 the MIF had abandoned many of the projects developed under the concept of clusters. In addition, the composition of clusters had changed, reflecting changes in the Region and in the development community's approaches to development of MSMEs. Business development services are a case in point: the MIF had dropped its early approach of focusing on firm capabilities and technologies,²⁴ and replaced it with more integrated approaches based on value chains and local economic development. Likewise, the MIF had abandoned its early attempts to develop energy efficiency with very small firms, as these models proved uneconomical for that market segment.

In other instances, the introduction of the Access Framework reflected an ongoing change in focus toward incomplete markets or economic/financial inclusion. The Access Framework identified priorities in microfinance such as frontier markets and rural finance. In frontier markets, the change implied abandoning the development of urban microcredit in developed markets and focusing on countries with undeveloped microfinance markets. In developing rural finance, the new topic refocused the MIF on developing one of the areas of lowest coverage of financial services. When OVE first reviewed the portfolio, some of these changes were already under way;²⁵ indeed, beginning in the mid-2000s there was a shift throughout the portfolio to rural financial institutions.²⁶ In general, the proportion of the MIF portfolio that was focused on rural markets increased somewhat over time, from an average of 18% in 2005-2006 to an average of 32% in 2010-2011. In Access to Markets, the shift to economic inclusion started also in early 2007 with the action plan for poverty alleviation through private sector development and the initiative of enterprise solutions to poverty.

The introduction of the framework validated priorities that are better aligned with the MIF II mandate. The MIF II mandate increased the MIF's focus on MSMEs and introduced an explicit poverty mandate—a focus that was not well aligned with many

of the MIF's legacy lines of activity leading up to the mandate in 2007. For example, the MIF's work with public-private partnerships (PPPs) had little to do with small firms, as most of these deals are between large contractors and national and state governments and government development agencies. Traditional PPPs lost space in the Access Framework. Overall, the degree to which MIF projects target MSMEs has been constant, but the particular focus on micro and small enterprises has increased over time. Likewise, the percentage of projects that target poor populations has also increased over time.²⁷ And as regards a rural focus, the percentage of the MIF portfolio with mainly rural beneficiaries has increased markedly.²⁸

The Access Framework also changed the way the MIF would learn from projects. MIF materials presented to Donors in 2010 show a clear intent to change how projects would be used to experiment—for example, through (i) increased focus on producing knowledge at the project level, and using it to feed back into design and strategic decisions; (ii) increased effort to produce rigorous impact evaluations, eventually reaching 25 projects per year; (iii) identification of impact indicators at the project, agenda, and MIF levels; and (iv) a focus on knowledge dissemination and learning.²⁹

The focus on learning could potentially complement the MIF's comparative advantage in innovation. As OVE reported in its midterm report and its background paper on project-level results, the MIF is a very innovative institution. It prepares projects that systematically introduce new products, services, or processes at the firm level. It is also successful at proposing approaches that are often new in a specific market. The MIF's role in innovation has relied on identifying high-quality partners that share its objectives and focus on micro and small enterprises. However, the MIF has had less success in bringing innovations to scale.³⁰ The new approach establishes, in a broad and non-specific way, that knowledge and learning can be used as central tools to achieve the MIF's objective of scaling-up pilot projects, and producing "systemic impact."

The Access Framework's approach implies a change in the MIF's role in generating knowledge, and in its actual capabilities. The MIF has relied on its partners—nongovernmental organizations (NGOs), think tanks, private foundations and organizations, and even government agencies—as the source of innovation and experimentation. However, the Access Framework seems to point to the future role that the MIF could have in producing knowledge directly. This, in turn, implies a shift in institution's capabilities: the MIF has not had an in-house capacity to develop and formally test hypotheses, nor has it stood out systematically as a renowned source of generation of analytic papers or other inputs that attempt to test development hypotheses in a more formal way. Regardless of the MIF's future role as a source of knowledge generation, it is worth mentioning that MIF partners recognize the MIF's role in promoting experimentation and knowledge. Figure 3.1 presents the result of OVE's survey of executing agencies with respect to their perception of the MIF's value-added.³¹

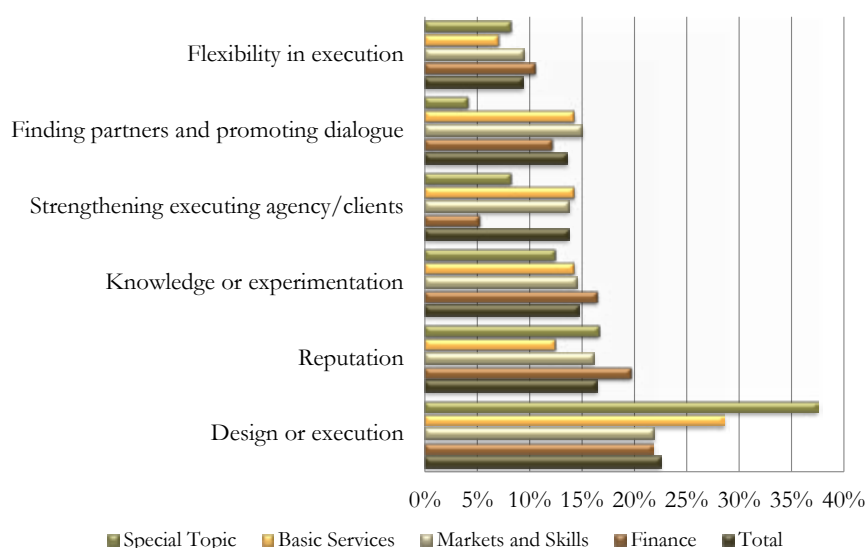


FIGURE 3.1
Executing agency assessment of
main MIF value-added

The MIF moved forward in implementing some of the changes identified in the Access Framework. At the corporate level, the MIF implemented a series of changes related to knowledge management. It strengthened the Development Effectiveness Unit (DEU) as part of its attempt to develop a robust impact evaluation program. It also created the Knowledge and Strategic Communications Unit (KSC), with the mandate to serve as a bridge between knowledge producers and practitioners by facilitating an increase in the creation of knowledge products and creating an easily accessible repository of MIF. At the agenda level, monetary resources were designated to Knowledge Management products and activities through Agenda Accounts, which collected a fee for each project.³² The MIF also produced a “Strategy for Learning, Communication and Catalyzing” (LCC) that outlined stakeholders’ principal needs, knowledge gaps, and potential audiences for knowledge products, and strategies to address those needs. All agendas were required to develop LCC strategies. At the project level, all projects approved after the Access Framework included “knowledge dissemination” components.

The results of these efforts in terms of the MIF’s ability to promote a knowledge agenda are mixed:

- **Although the MIF is working to carry out impact evaluations more systematically, the DEU has not achieved the Access Framework target of evaluating 25 projects a year.** Furthermore, the MIF has had little experience using sophisticated evaluation techniques, which in many cases are necessary to answer questions about project impacts. Of projects reviewed by OVE, some form of impact evaluation was planned, executed, or implemented for only 5%.³³ And like every other multilateral development institution, the MIF is struggling to develop analytical approaches to answer hypotheses that do not lend themselves to impact evaluations. The creation of the KSC appears to have been a net benefit for the MIF; however, staff interviews suggested that the KSC is understaffed for the scope of work envisioned in the Access Framework.

- **The utility of the LCCs varies greatly across agendas, and is tied to the legacy of the agenda within the MIF.**³⁴ Interviews with topic and agenda leaders reveal a wide diversity of opinion about the usefulness of the LCCs to guide the MIF's knowledge efforts. In general, there appears to be no common understanding within the MIF of what the role of knowledge is at the institution, and how it could be used to further corporate objectives.
- **There are also questions about the effectiveness of the Agenda Account to direct funding to high-priority areas.** The monetary value of Agenda Accounts varies greatly.³⁵ Almost all interviewees stated that although the Agenda Accounts are helpful, inadequate funds for knowledge management means they continue to seek outside support to produce at least some of their knowledge products.
- **At the project level, the quality of the analytic information produced is uneven.** While the push has increased the number of knowledge products coming from the projects, these products vary greatly in their quality, in the degree of accuracy and "candidness" of evaluations, and in the quality of the evaluative questions asked and the methodologies used to answer them. Many executing agencies felt they had limited support in identifying potential consultants to undertake these knowledge products.³⁶ In addition, none of the agenda leaders felt that there were sufficient resources for them to execute adequate quality control of knowledge products.

The MIF faces fundamental questions about its role in knowledge generation. The introduction of the Access Framework placed knowledge front and center for the MIF. And the evidence supports the hypothesis that knowledge is fundamental for an institution that is focused on innovation. However, the model proposed in the Access Framework was not specific enough to provide a clear path between knowledge generation and the means to achieve the MIF's objectives. Initiatives such as the innovation lab, which was not implemented, could be a useful resource to test models in the field. But without a clear idea of how market actors can use this information to scale up innovation, it would be difficult to align the MIF's efforts in knowledge management with the needs of its clients. There is also lack of clarity within the MIF regarding the use of the information from impact evaluations. Will it be used to prioritize among interventions? Will it be used to recruit up-scalers in areas with high impact on groups that the MIF targets? And what role would impact evaluation have for private sector up-scalers, and how would this be different from that for public up-scalers? Although OVE found that the main source of MIF innovation is at the project level, and in fact resides with the rich network of executors that MIF finances, there is remarkably little attention to these actors in the ongoing initiatives at the institution. Indeed, the analytical products that are operationally aligned with MIF projects, such as final evaluations, have not been addressed as a potential source of information or knowledge.

B. GROWTH AND PROMOTION OF THE PRIVATE SECTOR MANDATE

The 2007 MIF II mandate contained an explicit instruction to promote economic growth through private sector development, and provided “functions” to guide how this should be done. These functions varied in their degree of specificity and in their nature. For example, functions such as “promote competitiveness” are very broad, while functions such as “encourage the use and application of technology” are very specific. The mandate also included instructions about whom the MIF should work with, and in particular an instruction to “stimulate micro and small enterprises”—de facto recognizing the pattern of beneficiaries that the MIF was already concentrating on before 2007. And although the mandate was less geared toward policy reform, it retained two important instructions related to the relationship between the private sector and the public sector: “promote an adequate legal and regulatory framework,” and “promote an adequate business environment.” Lastly, MIF II instructions retained a focus on trade, by instructing the MIF to “advance regional integration efforts.”

In addition to the mandate functions related to growth, MIF II contained instructions on how the MIF should work. In particular, MIF II instructed the MIF to promote innovation, share knowledge (particularly for SMEs), and complement the work of other Bank Group members, as well as other development partners. The focus on innovation also builds on earlier diagnostics of the MIF, which highlighted this as one of the institution’s comparative advantages, both within and outside the IDB Group. The instruction on knowledge sharing is relatively new and ambiguous. The emphasis on knowledge between firms suggests not so much an overarching instruction on how the MIF should work, as a reflection of the perceived importance of firm associativity as an important ingredient in firm success and growth. The focus on knowledge was emphasized with the development of the Access Framework and was discussed above.

Most MIF projects attempt to address constraints that MSMEs face and are thus related to the overarching instruction of “promoting competitiveness.” MIF intervention models are generally aligned with the objective of affecting firm-level productivity, or affecting a firm’s cost structure or technology, which are fundamental determinants of competitiveness.³⁷ The MIF works in areas that address constraints to firm growth. For example, most projects in Access to Finance address constraints that the specialized literature has consistently related to better performance by firms, a result that tends to be more acute for small firms than medium and large firms.³⁸ The evidence also shows robust relationships between development of the financial sector and firm growth, and highlights the importance of policy and governance variables in affecting the channels by which firms benefit from financing. Similarly, constraints related to firm-level governance and management practices,³⁹ firm associativity, access to qualified labor, access to technology, agglomeration, and spillover effects,⁴⁰ as well as weak links to distribution channels and links to markets are all factors that

are empirically related to poor firm performance, low levels of productivity, and firm failure. The types of projects that the MIF approves in the access areas of both markets and finance are in general aligned with the underlying constraints that firms face.

However, given the limited availability of information on MIF projects at the firm level, it is difficult to estimate the ability of MIF projects to produce gains in productivity, earnings, employment, or growth. As OVE reported earlier, the MIF's collection of hard data on firm performance is weak.⁴¹ Although the MIF has produced some impact evaluations of projects that attempt to affect firm-level competitiveness, the vast majority of projects do not generate systematic information in this respect. Furthermore, the highest deficiencies in data collection and results reporting are concentrated disproportionately in projects that have MSMEs as their beneficiaries.

The MIF has complied with its mandate to target micro and small enterprises. Both the project-level review and the firms questionnaire showed that MIF successfully targets small enterprises. The executing agency survey also recorded data on the number of employees. The findings consistently show that MIF-financed enterprises are clearly concentrated in firms with annual revenues of less than \$50,000 (Figure 3.2)—a small firm by any definition in LAC. The number of beneficiaries in higher revenue categories decreases until the categories approach the US\$1 million level. This finding is consistent with OVE's field review, which found that 59% of MIF projects working with firms were concentrated on single-person or microenterprises, 34% were concentrated on small firms, and only 7% were concentrated on medium-sized or large firms. This focus on micro and small enterprises has increased over time, from 55% of the portfolio in 2005-2008 to 68% in 2009-2011; over the same period, the proportion of medium-sized firms decreased from 8% to 4.5%. Given the central role of MSMEs in growth and development, the MIF's focus on MSMEs is consistent with its mandate to promote growth, especially when paired with its mandate to promote the competitiveness of these firms. The review shows that the MIF is well targeted in micro and small firms, and has developed the majority of its work in support of them. This was seen with respect to MIF activities in support of both Access to Finance and Access to Markets.

The MIF has consistently relied on technological innovation to promote its growth objective; however, results are mixed. Technological advances have a central role in the impact of innovation at the firm level. The MIF has consistently used technological innovation as part of its approach—both to implement new products and to reduce its fixed costs. For example, recent MIF projects attempt to expand rural markets' access to financial products by using new IT and cellular technologies. Some of this innovation was produced as part of the MIF's "Technologies for Financial Inclusion" (Tec-In) initiative jointly implemented with the IDB and the Andean Development Corporation.⁴² In other instances, however, the use of technology has been less successful—particularly in attempts to generate markets for the adoption

of new technologies by micro and small firms. In general, projects that attempted to promote beneficiaries' adoption of technology have fared better when they combined technology with other constraints facing firms, such as a better link with markets.

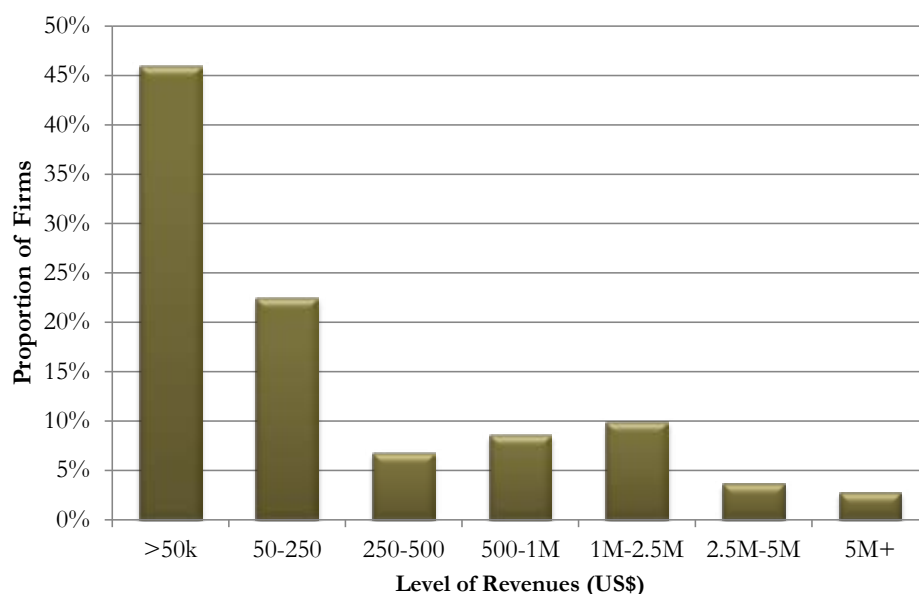


FIGURE 3.2
Distribution of MIF firms
by revenue category, US\$
thousands, 2012

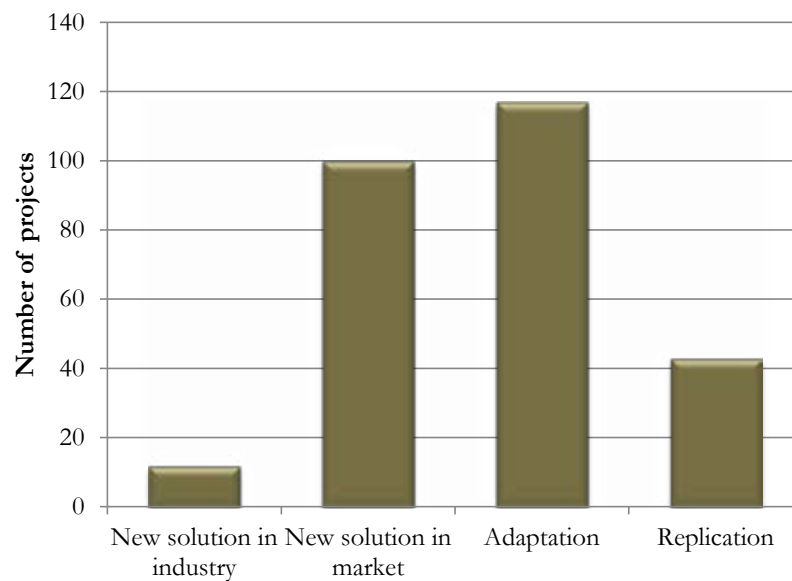
Unlike the mandates associated with competitiveness and the development of MSMEs, the MIF's success in achieving the function of regional integration was limited. Overall, MIF attempted to address that objective by preparing firms for the changing economic environment following regional trade agreements, mostly complying with the non-tariff barriers imposed by free trade agreements. The objective of regional integration grew in importance as regional agreements came into play in LAC. However, the approach was mostly unsuccessful, as the timing of the ratification of agreements did not match the timing of the approval of MIF operations.

The shift away from the reform objectives that characterized MIF I distanced the MIF from its mandated function to promote appropriate legal and regulatory frameworks. Although the MIF continued to maintain some relevance in this area—for example, by promoting an adequate regulatory frameworks for structuring PPPs or by reducing regulatory burdens for SMEs—in general it has not been relevant to the regulatory or legislative reforms that have affected the business environment during MIF II. The MIF abandoned its engagement in labor competencies, capital, and commodity markets reform—in some cases because of low levels of effectiveness, and in others because it lacked appropriate instruments, as OVE's prior evaluation documented.

The MIF has done very well in “advancing the application of innovative initiatives.” The MIF II mandate instructs the MIF to continue its focus on innovation. At the project level, the MIF has introduced new products, services, or processes at the firm level in the majority of its interventions.⁴³ Although the MIF does not often introduce

innovation that is not already present in the industry, it does introduce innovation that is new in the local market, or adapt innovation that is already present in the market to the needs of specific firms (Figure 3.3). In addition, the MIF has had some success at promoting market adoption and scaling up of such innovations (as is discussed in greater depth in Chapter IV). The level of the MIF's success is related to the type of innovation and to the success of the project in producing results.⁴⁴ Indeed, the MIF has had more success scaling up experiences that are new solutions in the market or those that are adaptations of existing products, services, or technologies.

FIGURE 3.3
Type of MIF innovation



The MIF has moved toward its mandate of “sharing knowledge, particularly for micro and small enterprises.” The MIF has promoted knowledge-sharing through communities of practice, industry events, and thematic meetings, the most important of which are the FOROMIC, CSRAmericas, and PPPAmericas.⁴⁵ As was discussed above, the MIF has also set for itself the additional goal of not only sharing knowledge, but generating knowledge, and becoming an institution that uses knowledge to achieve the objectives of its mandate. Although the MIF is far from achieving this expanded interpretation of its knowledge-sharing mandate, it has over the years invested in activities and events that attempt to promote knowledge-sharing and experiences among its executing units and partners.

C. POVERTY REDUCTION MANDATE

One significant change in the MIF II mandate was the inclusion of poverty reduction as one of the MIF's purposes. The mandate does not specifically instruct MIF to limit its operations to the poor, nor does it say how the MIF should go about pursuing this objective. Furthermore, the agreement itself does not contain

a conceptual approach as to how private sector activity can be directed to further a poverty-reduction purpose. This is particularly relevant, since the remaining instructions of MIF II built upon MIF's past experience and accumulated expertise with the private sector, particularly with MSMEs. Unlike parts of the IDB Group that routinely further the objective of poverty reduction in their operations, the MIF has had no such basis on which to develop a specific program. In this section we review how the MIF addressed this purpose through its project selection and targeting.

In response to this new mandate, the MIF gradually developed elements of a "poverty approach." In May 2007, the MIF approved an action plan for "Poverty Alleviation through Private Sector Development."⁴⁶ This plan stated that MIF II would increase its focus on poverty alleviation by targeting assistance in areas where the poor are typically denied productive access: (i) finance, (ii) enterprise solutions, and (iii) the formal economy. It proposed targeting assistance in areas where people in relative poverty⁴⁷ had limited access to productive assets. The plan was brief and vague, but it identified areas in which the MIF would likely reach and affect poor people directly, as through remittances, microfinance, and youth employment. It also proposed using a wide range of poverty measures and performance indicators to improve targeting of interventions and to evaluate the development impact of programs.

Another element of the MIF's early "poverty approach" was based on a variant of the "bottom-of-the-pyramid" approach. This approach, also prepared and presented in 2007, called for an Enterprise Solutions to Poverty program, which would complement the MIF's existing "groups" of projects and would be executed in coordination with the Bank's Opportunities to the Majority (OMJ) initiative. This program aimed to use market-based mechanisms to engage the private sector directly in activities that would increase poor people's income and assets. In particular, the program aimed to (i) recruit major companies that had the potential to reach poor populations as consumers, producers, or distributors, and (ii) support emerging enterprises by developing networks or franchising operations through which low-income producers could be mobilized into profitable businesses. The approach rested on the assumption that there is enough wealth among the poor to sustain businesses that serve these market segments, and that the provision of these services would eventually help lift beneficiaries out of poverty. However, this approach did not affect the MIF's selection of projects in a significant way, and it did not develop into a significant group of MIF projects. In 2007-2009 only four projects were approved under this program.⁴⁸

In 2008, the MIF approved a similar cluster action plan for promoting economic inclusion.⁴⁹ The cluster proposed the inclusion of projects designed to create and improve market opportunities for micro and small enterprises where the low-income population lives and works. It also proposed supporting the development of partnerships with larger enterprises and civil society groups that were interested in working with the low-income population and promoting the inclusion of these

traditionally excluded groups. Finally, the document noted that the MIF is well positioned to leverage its own resources, directly engage the private sector, and leverage the resources of others to create business opportunities and pioneer new forms of inclusive business initiatives, and to help create the knowledge necessary to advance toward initiatives with higher impact and sustainability. The MIF has engaged in inclusive business initiatives, but the results of these interventions are not yet known.

As discussed above, the Access Framework refocused the MIF's work on priorities more aligned with low-income households and firms, and groups in underdeveloped and incomplete markets. The rationale underlying the Access Framework is that MIF objectives can be achieved by identifying and addressing the constraints to access in Finance, Markets and Capabilities, and Basic Services.⁵⁰ The new framework provided increased focus for the MIF to address the access needs of lower-income groups, and to some degree those of smaller and less developed firms in each of the access areas. That said, the new framework did not develop an explicit strategy linking the (better-targeted) lines of work with a poverty-reduction objective.

The MIF has not used firm income, household income, or poverty as an explicit criterion for prioritizing projects at the approval stage, although in 2011 it did introduce some mechanisms that reward pro-poor projects. In 2010 the MIF prepared and updated a series of strategies for each of its agendas, each describing the agenda's individual objectives and discussing the problems being addressed. The agendas reflected the increased focus on exclusion and lack of access to services among lower-income groups, but they still did not identify poverty-targeting mechanisms to select projects. Similarly, MIF processes and procedures did not include a mechanism to measure and prioritize projects based on poverty metrics until the introduction of the QED, which provided high scores *ex ante* for projects that had an explicit identification of poor beneficiaries. This same indirect emphasis on poverty was presented in the form of the project abstract, which would highlight projects with an emphasis on both poor and vulnerable populations.⁵¹

To date the MIF has not been able to report on poverty targeting or poverty results. An important part of being able to determine the degree to which specific solutions are appropriate for the target population is the ability to measure and evaluate characteristics and outcomes at the beneficiary level. Except in microfinance, youth, and inclusive business, where some data collection has been done in a more or less systematic way, MIF projects do not routinely collect data on beneficiary characteristics. Moreover, although the MIF produces an annual publication on the results of the portfolio (the Development Effectiveness Report), this publication has not adopted a systematic method to measure income characteristics of beneficiaries or the results of interventions. Another difficulty that the MIF faces in this regard is its reliance on executing agency information. Data collected from executing agencies clearly show that although these agencies have a very high estimation of the degree of poverty



targeting of projects, the estimates are based for the most part on casual observation.⁵² This poses a challenge for the MIF in terms of its ability to rely on its partners for the collection of primary data.

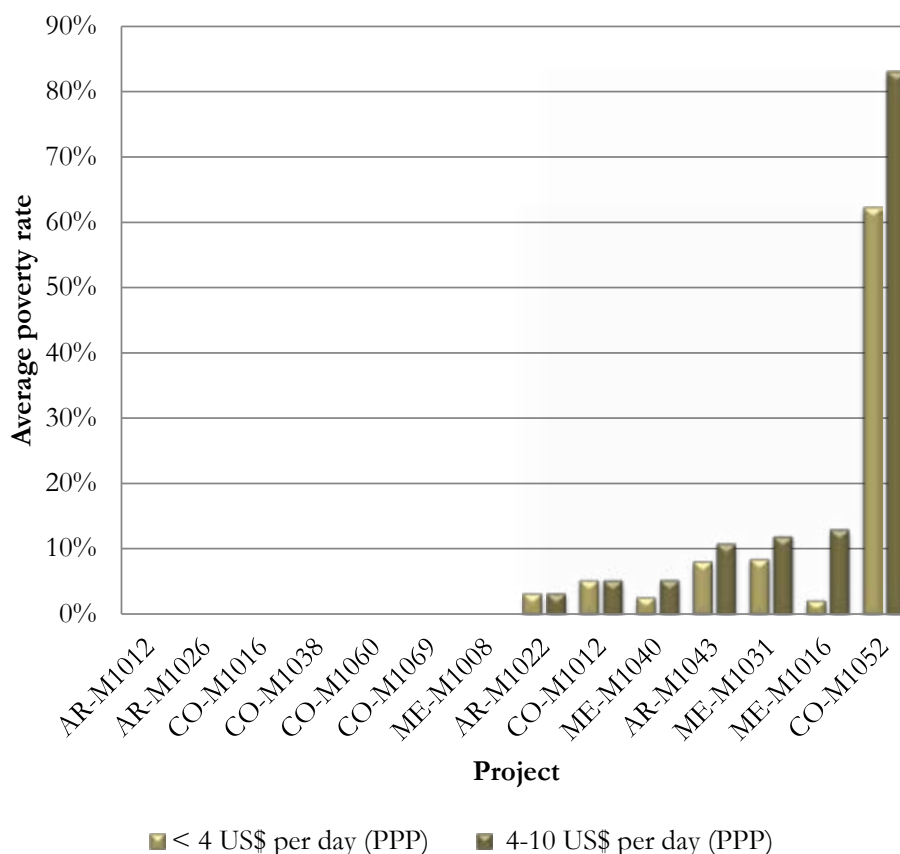
As part of this evaluation, OVE attempted to measure the degree to which the MIF was reaching poor populations. To assess how successful MIF II was in reaching poor or low-income populations during 2005 to 2011, OVE looked at poverty indicators from a specialized survey applied to beneficiary firms and households in selected MIF projects. OVE also attempted to assess the degree to which MIF projects reached the poor in the entire universe of projects reviewed in the field (299), using the existing sources of information.

The results from the universe of projects showed the limited success of most MIF projects in reaching poor populations directly, although it also showed that this number had increased in recent years. OVE's review revealed that only 16% of projects had poor populations as direct beneficiaries, but it is also clear that most of these results are concentrated in recent years, particularly in operations approved after the implementation of the Access Framework. Between 2005 and 2009, only 12% of projects targeted poor or low-income populations as beneficiaries, while for the period 2010-2011 this number went up to 26%. The topics of Youth (85%) (from Access to Markets) and Skills and Financial Services for Low-Income Population (55%) (from Access to Finance) have been the most successful in reaching poor and low-income populations directly.

The MIF approved an action plan for "Poverty Alleviation through Private Sector Development." This plan stated that MIF II would increase its focus on poverty alleviation by targeting assistance in areas where the poor are typically denied productive access.

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FIGURE 3.4
Distribution of incidence of
poverty among beneficiaries,
from household and
establishment surveys



The more robust poverty estimates based on establishment and household surveys of MIF beneficiaries showed that projects were reaching a small proportion of poor people but a significantly higher proportion of low-income groups.⁵³ The average proportion of poor people (those living on US\$4 a day) for the projects reviewed was 14%. Omitting SMEs from the sample, and looking only at households and microenterprises, the proportion increases substantially to 21% (Figure 3.4). On average this proportion was larger in Mexico and Colombia than in Argentina. However, the MIF does better at addressing low-income but not poor populations. When the definition of poverty changed to measure the proportion of beneficiaries who fall below the \$10 dollar a day PPP threshold the proportion increases significantly. This result holds both for the projects in Access to Markets and the projects in Access to Finance.

Establishment level surveys also show that MIF beneficiary firms reported modest net job creation in 2011, of which a relatively small share were employees earning less than the poverty line. Another mechanism by which MIF can impact poverty is through indirect mechanisms, such as by generating employment among the poor. OVE's application of an establishment-level survey shows that MIF beneficiary SMEs reported positive net hiring of on average 1.2 employees per MIF-supported firm during 2011. MIF microenterprises (defined as firms with fewer than 5 employees) reported no change in employment over the year. The same group of MIF beneficiary

SMEs also reported that between 3% and 7% of their employees were paid less than the \$4 poverty line.⁵⁴ MIF beneficiary microenterprises reported 15% of their employees were paid less than poverty line and 43% were paid less than the \$10 a day vulnerability threshold.⁵⁵

Despite the constraints that limited the MIF's success at targeting low-income beneficiaries, it is precisely those groups that require creative solutions. Although this evaluation highlights the challenges of working with incomplete and marginal markets or low-income households and firms, the MIF can add the most value for these groups. The MIF has a comparative advantage working with small firms, and with NGOs that focus on the MIF development objectives. This is also where the MIF has developed skills and capabilities. Indeed, in fully competitive, developed markets the MIF would have little to add. When the MIF has focused action on more developed markets, projects have typically been executed well, but have usually contributed little in terms of adoption of innovation by market actors.

MIF also faces a challenge scaling up projects that mostly work with lower-income populations. OVE's project-level review found that whereas MIF projects focused on poor populations actually execute well, and produce comparable results at the beneficiary level, they do substantially worse in terms of scaling up their innovation. Among projects that attempted to scale up innovation through private sector actors, 36% had some market impact, but among such projects targeted at poor people, only 11% did. This finding suggests a clear trade-off in finding market solutions to innovation targeted at the poor.

The overall conclusion of this section is that the MIF has attempted to comply with its mandate of poverty reduction, but in the period under review it has not defined a clear "poverty model." Although the MIF has experimented with different approaches to poverty, ranging from an early effort to develop a bottom-of-the-pyramid model to a recent effort to improve poverty targeting directly, it has not been able to define a clear way to directly respond to the mandate. MIF projects do not directly reach large proportions of poor people, although they do better at reaching "vulnerable" populations. Also, MIF beneficiaries report generating some employment, and a modest share of this employment growth is among poor populations. The MIF has also experienced difficulties in scaling up operations in low-income market segments. Given these challenges, the MIF continues its efforts to better define its poverty strategy. The evidence shows that the MIF has been more successful at addressing its poverty reduction mandate by (i) focusing on the development of marginal and incomplete markets, which are typically market segments in which low-income populations are main economic actors; (ii) adopting a flexible approach to poverty, and attempting to also reach low-income and vulnerable populations; and (iii) emphasizing both poverty targeting and effectiveness, given that the former without the latter does nothing to promote the MIF's mandate.

Establishment level surveys also show that MIF beneficiary firms reported modest net job creation in 2011, of which a relatively small share were employees earning less than the poverty line.

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Furthermore, there does not seem to be an agreed strategy for poverty reduction that the MIF could easily adopt. The development field has spent a long time assessing and exploring ways to reduce poverty. Although much has been learned, no single strategy has emerged as dominant, as recent literature reviews by both the International Finance Corporation (IFC) and World Bank indicate. Moreover, most of the policy recommendations that relate both to reducing poverty and to generating pro-poor jobs rely on policy choices that have typically been beyond the reach of an institution such as the MIF. In addition, although the private sector is widely recognized as the main mechanism by which wealth is generated, how to influence the “levers” that impact its decision-making has been an elusive goal.

Notwithstanding these constraints, the MIF has a clear comparative advantage in addressing the needs of poor and low-income populations. First, it works with networks of executing agencies that share its interest in developing market segments dominated by low-income actors, and it has grown more successful at reaching low-income, if not poor, beneficiaries. Second, the MIF’s focus on “access” gives it a clear motivation for addressing the constraints that limit the development of low-income actors. And third, the MIF’s focus on innovation and ability to experiment places it in a privileged position to test models that can expand access to low-income groups and to use this experimentation instrument to produce broader poverty-reduction impacts.

These observations notwithstanding, there are areas for improvement in terms of the MIF's strategy for reducing poverty:

- **MIF targeting of beneficiaries should be based on a diagnosis of the constraints facing firms and households.** The nature and severity of constraints tends to increase with lower incomes, but they do so in a manner that is very market-specific. This is fundamental both for a better targeting of poor and low-income populations, and for an increased probability of achieving results.
- **Markets typically segment so that the poor and low-income populations have access to less-efficient and lower-quality services.** The MIF should continue to focus on these groups, and to attempt to address the factors that impede these markets from developing further, particularly recognizing the role that innovation can have in this endeavor.
- **It could be useful for the MIF to adopt a broader poverty approach, building on its comparative advantage and its proven assets.** However, it should avoid adopting models that are inherently untestable and not evaluable, as this would lead to a loss in the institution's ability to hold itself accountable as regards its development mandate.



4 Thematic Findings

This section presents a summary of the project-level review of the MIF and organizes the main findings by access areas. More detailed findings are available in the thematic background papers and in the project-level review paper.⁵⁶

A. SUMMARY OF RESULTS AT THE PROJECT LEVEL

The MIF has continued to be a relevant player in the promotion of private sector development in the Region. The first OVE evaluation gave the MIF high marks on relevance as it addressed important challenges in most of the areas where it had developed a portfolio. The evidence shows that this pattern has continued. In general, the MIF has worked where the private sector faces development constraints and there is space for it to have a role in addressing these constraints. However, the MIF II portfolio is still too dispersed to achieve high levels of relevance in all sectors. The prioritization of projects and the emphasis on systemic impact through the Access Framework introduces more focus and holds the possibility for MIF to enhance its relevance by providing services for lower-income groups and by explicitly targeting incomplete markets. The framework maintains that to maximize its impacts, the MIF must narrow its focus: “Organize a set of activities around a specific systemic objective established upfront.”⁵⁷

Relevance has been higher for some areas of activity than for others. Although the MIF continues to be relevant in microfinance, it has not sustained the relevance of its early engagement, as microfinance markets have developed in many countries and it has become increasingly clear that this is one of many financial instruments that can be used to reach lower-income microenterprises. The MIF has been particularly relevant in the areas of early-stage equity, but moving forward it would benefit from a clear strategy to prioritize its limited resources among more developed and less developed markets. The MIF has built on its early success at developing a network of NGOs and industry groups to promote SME development initiatives and has developed new approaches to enhancing firm productivity and growth for smaller firms.

LED initiatives accompanying government decentralization and, in many countries, reforms in SME intervention policies have proven to be relevant, although the intervention model has not been mainstreamed into government policies. The MIF has lost relevance on labor training and labor reform. It developed a narrow agenda in youth training to address unemployment for vulnerable youth, who face the highest employment and labor insertion challenges. The MIF still needs to stress its complementarity with the public sector in this issue. MIF projects in SME finance have struggled to find a relevant market niche. In Access to Basic Services, the MIF still needs to prove its relevance.⁵⁸

The MIF has maintained a high degree of innovation, both at the project level and at the level of specific industries. The MIF II mandate explicitly recognizes the institution's role in promoting creative solutions. As the MIF is small relative to the needs of the private sector in the Region, promoting innovations is a valid strategy for achieving significant development impacts under budgetary restrictions. The first MIF evaluation found that innovation had been a constant in most of MIF's work; this trend has continued during MIF II.⁵⁹ The areas that stood out as the most innovative were projects that attempted to introduce financial services for low-income populations, early-stage equity projects, value chain projects emphasizing inclusive business models, and youth training programs with systematic emphasis on job insertion and life skills training.

Most MIF projects delivered outputs as planned and were able to appropriately address risks as they materialized,⁶⁰ but they performed poorly at measuring results. Project implementation is important because it plays a central role in achieving results.⁶¹ Project implementation was negatively affected by changes in market conditions, changes in the regulatory framework, or weakness of execution units. International NGOs and sector associations were the best implementers, while the performance of public sector institutions and local NGOs was rated low. Information on results (outcome) was available for only 60% of the projects that disbursed more than half of their resources; thus it is difficult to assess project results overall. For the projects that contained information on results, 40% had high effectiveness ratings. Poor project design and overly complex intervention models hampered project effectiveness. Sometimes project effectiveness depended on assumptions that did not materialize, such as the beneficiary's willingness or capability to adopt new technologies, services, or other products; sufficient market demand for products and services; or the existence of complementary market services required for the intervention to be successful. The effectiveness of projects is similar across access areas.

The project review found a small but significant number of cases in which MIF project innovations were adopted by broader markets or became part of public policy. When the MIF introduced the Access Framework, it formalized a commitment to having impacts beyond immediate project beneficiaries. Of the operations OVE reviewed, 22% were part of a process of market development or policy adoption.

Restricting the computations to projects that obtained high ratings on effectiveness (as project effectiveness augments the likelihood of achieving market impact), the share increases to 47%. This result is important, considering the limited scope of the instruments that the MIF has (technical cooperation, small loans/equity) to affect markets, and considering that systemic impact was not part of the MIF business model until the Access Framework was introduced in 2010. All high-impact projects featured partnerships with a high-quality and innovative development partner.⁶²

The data show that a significant proportion of MIF projects are not sustained or face challenges regarding sustainability.⁶³ Sustainability issues stemming from executing units were most often caused by the prioritization of other activities over MIF projects and by rapid changes in leadership. Sustainability issues stemming from markets were most often created by an inability to develop a large enough consumer base for a product or service to become independently viable. This was particularly true for models that incorporated highly subsidized pricing schemes that became inconsistent with the cost structure of firms at project completion. Access to Finance interventions were in general more sustainable than other access projects. Projects supporting technology for business development, business development services, and some value chain programs had the lowest ratings in sustainability.

B. ACCESS TO FINANCE

Within Access to Finance, the MIF focused on three different categories of activities.

- Activities related to microfinance and other types of financial services for lower-income populations.
- Activities that attempt to develop markets and access to finance for SMEs, including factoring and development of capital markets.
- Projects that attempted to develop early-stage equity markets.

1. Financial services for low-income populations

The area for which the MIF is most known, and in which it has achieved most success, is microfinance. It was the only sector in OVE's first evaluation to receive high ratings in execution and results, innovation, and sustainability. The MIF has been one of the Region's leaders in developing the microfinance business, initially in Bolivia, later in Peru and Ecuador, and most recently in Central American countries. The MIF also invested considerably in developing analytic products and networks in microfinance, the most important of which are the Microscope and the FOROMIC. In this sense, the MIF's relevance during MIF I was high in this area, and its contribution to increased access to finance by lower-income groups was very clear.

Creation of economic opportunities for families who live in rural or underserved areas in El Salvador. As the markets for microfinance in urban areas have become more developed, the MIF has gradually shifted toward strategies to develop access to financial services in rural and underserved areas.

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The MIF continues to be a relevant actor in the promotion of microfinance in the Region, but not on the scale it achieved during MIF I. During the period of review, the microfinance sector continued to increase throughout the Region. Data from MIX Market shows that funding for microfinance institutions (MFIs) in LAC increased significantly from 2005 to 2011, with portfolios growing annually at rates typically above 10%, reaching a total of US\$28 billion in gross loan portfolios. This reflects the global pattern of growth of microfinance. The MIF continued to be an important actor in this market, by providing both financing and technical cooperation to strengthen institutions and develop new products in new markets. However, the MIF has not achieved success on the scale that it did during MIF I, nor has it been able to sustain the high levels of innovation seen in the first OVE evaluation.

As the markets for microfinance in urban areas have become more developed, the MIF has gradually shifted toward strategies to develop access to financial services in rural and underserved areas. The Access Framework prioritizes rural “frontier markets” and low-income groups in its strategic approach—a focus that reflected the MIF’s practice, as it had already begun to develop rural markets and focus more on underserved areas. The proportion of Access to Finance projects that target rural populations increased from 7.74% (US\$3.92 million) in 2005 to 23.83% in 2011 (US\$12.96 million). The case studies in Honduras and Peru in particular point to a deliberate strategy of assisting financial entities with particularly high exposure to rural and agricultural portfolios.⁶⁴

Similarly, as credit markets have become more developed, the MIF has also shifted toward developing non-credit financial services. Credit is only one of a number of financial services that can enhance welfare; others include insurance, savings, pension, mortgage, and payment services. As the market for credit developed, the MIF diversified its projects to include some of these other services, most prominently savings and insurance products. Of the 97 Access to Finance projects OVE reviewed, 20 included the development of new products, typically insurance or savings products. The MIF also emphasized technological innovation as a means of improving access, as was mentioned in Chapter III.⁶⁵ Attempts to develop new products and use new technologies responded to a need in the Region. The literature highlights the importance of insurance to promote productivity and reduce the impact of negative idiosyncratic shocks on producer welfare. The need to develop insurance markets for agricultural activity has been acute in the Region for several decades, and the MIF has attempted to develop these markets to some degree. Nonetheless, MIF efforts in these areas have produced mixed results. To date a number of unforeseen obstacles have limited the sustainability and market impact of these efforts.

The MIF's strategy of developing markets by promoting the formalization of NGO-based and other smaller microfinance institutions into regulated players in the market has encountered significant problems. Although projects have been well executed, the goal of graduating NGO-based MFIs to formal regulated institutions has proved elusive. Of the projects approved since 2005 and reviewed by OVE that included this objective, in only one-third was the MIF able to achieve the goal of formalizing institutions with operating licenses as of end-2012.⁶⁶ The strategy of pursuing formalization has also been much less effective when the MIF worked with industry groups than when it gave direct support to specific MFIs. The lack of knowledge and/or risk appetite by regulators has been a constant, raising the question of whether financial services with higher systemic risk—such as agriculture—can be effectively regulated without stronger planning and support. Another problem has been the lack of interest from MFIs themselves. Regulation involves a significant shift in the cost structure of MFIs,⁶⁷ and in interviews conducted for this evaluation many MFIs indicated that it simply was not a model that would be in their interest to adopt. MIF projects have systematically underestimated this resistance. Diagnostics have not analyzed these costs or the reasons why financial institutions were electing not to pursue “graduation” to regulated institutions or banks.⁶⁸

The MIF has promoted the development of new products, but has had limited success in rolling them out in the market. The MIF has been able to help partners create new products⁶⁹ but has been less successful at obtaining wider market acceptance. The evidence shows that such products as some types of micro-insurance⁷⁰ are more common in the market today,⁷¹ and have had significant growth. OVE's survey of MIF clients also shows a significant proportion of clients offering micro-insurance and savings products. However, once products are developed, they have faced limited market demand. In the case of insurance products, one common problem

has been the absence of distribution channels. The unit cost of insurance decreases with the number of policies, and the MIF's strategy of working with small financial entities, which typically cannot deliver a large number of policies, has made it difficult to capture these returns at scale. For agricultural insurance products, purely private solutions have yet to materialize, as the underlying risk is too high and the pernicious problems of adverse selection and moral hazard have not been dealt with.⁷²

The MIF's efforts to use innovations in technology, particularly in communications and IT, and to develop new products and new methods to reach populations in incomplete or marginal markets have been successful. Of the projects reviewed in the Access to Finance area, 13% contained elements related to the use of new technology. Early evidence shows that they have been well targeted to areas with a low supply of services and that they have been successful at expanding payment services, in most cases expanding the availability of credit and savings services in sparsely populated areas.⁷³ Although it is too early to fully evaluate this line of work, data from the early project-level review show relatively high levels of implementation and successful rollout of products. The main challenge found in field visits was the lack of participation by key public sector agents, such as bank regulators, in rolling out new financial platforms. This is particularly true for the use of cellular technology for banking, as regulators are weary of allowing large parts of deposits to be transacted outside their purview.

Efforts to build on remittances as a means to develop new savings, insurance, or technology products had mixed success. Previously the MIF worked on lowering the transaction costs of remittances and increasing competition in the industry, and had significant systemic impacts.⁷⁴ In an attempt to build on this early work, the MIF developed projects to allow recipients to leverage their remittances into productive investments. However, in most cases reviewed, the focus on remittances was not useful; the hypothesis that remittance inflows would confer a specific advantage that would address underlying credit risk or other constraints inhibiting the development of new products did not pan out. Indeed, in a large proportion of projects, the focus on remittances was dropped as executors found that the new services and products were attractive (or not) to both remittance and non-remittance clients.⁷⁵

Finally, one of the MIF's main strategies to develop financial services in incomplete markets has been through microfinance development funds (MDFs), which have produced tangible results. The MIF has invested in MDFs almost since its creation. OVE's first evaluation found that these funds were important for the development of the microfinance market, and that the MIF was an important early investor in these efforts.⁷⁶ MIF-supported funds have been well executed, have produced tangible results, and have continued to be relevant in the development of the industry, even if they have not been able to maintain the relevance they had in the industry's infancy. The evidence shows that capitalization of MFIs has increased considerably and that MDFs had an important impact on the availability of capital for MFIs.⁷⁷ OVE's review of the MIF's engagement with MDFs also finds no evidence that they are

crowding out private sources of funding, which has been a central preoccupation of development practitioners in this sector.⁷⁸ The review of projects also identifies examples where MIF invested in funds with a particularly creative bent.⁷⁹

The review of MDFs also shows, however, that they are not the appropriate vehicles to develop particularly risky markets. MDFs have become increasingly specialized, professionalized, and competent—better able to manage resources and risk, produce increased rates of return, and collect and report information on their investments. The financial achievements of funds have in turn been able to attract private funding, and thus to leverage their capital. Indeed, the economic downturn of 2008 did not affect the performance of MDFs significantly. As MDFs are increasingly able to access private sources of capital, OVE's review shows that they are responding appropriately to investors' desires by focusing on risk and return. This limits their ability to invest in particularly underdeveloped markets, as this would be contrary to investors' investment motivations. These funds have not been amenable to investing where commercial or regulatory risks are unknown, returns are unproven, or markets are otherwise underdeveloped.

In working with the microfinance industry primarily through TCs and lending/equity in MDFs, the MIF has moved away from direct investment in MFIs and thus has sidestepped the criticism of the role of DFIs in their direct portfolio investments.⁸⁰ The MIF has continued investing in specific MFIs, but in general has been judicious and strategic in its approach.⁸¹ Recent reviews of the portfolios of DFIs were highly critical of agencies such as the IFC and the IIC, but mostly benign with respect to the MIF.

Additional questions raised by the MIF's microfinance strategy concern the ultimate impact of the approach and the potential downside of overindebtedness. Early microfinance strategies overestimated the reach and role of microfinance in development. Claims regarding microfinance's role in poverty reduction, for example, have not been borne out in empirical studies, although the evidence in support of other outcomes has been strong.⁸² Likewise, as microfinance markets began to develop and credit became more saturated—particularly in urban areas—questions regarding the sustainability of indebtedness, which is a systemic risk, as well as the additional preoccupation that this debt would produce limited results for the poor, generated greater awareness among DFIs. The MIF has responded to these concerns by including an agenda on transparency responsible finance. Thus far there is little to evaluate in this agenda, but the few cases reviewed by OVE suggest difficulties in implementation and an excessive focus on regulated entities (understandable, since the projects are run by bank regulators). How serious the problem of over-indebtedness is, and how effectively it can be addressed through both activities with the public sector and the development of credit bureaus, remain important questions.

2. Capital market development and venture capital

Whereas much of the MIF's work was focused on the regulatory side of capital markets during MIF I, MIF II shifted the focus away from an engagement with the public sector and from development of the regulatory and infrastructure ecosystem of capital markets. MIF I contained very ambitious mandates to work with many facets of the development of capital markets, including the regulatory side. This included mandates to work on banking supervision, pension reform, and the development infrastructure for capital markets, including stock exchanges. The MIF II mandate was much less ambitious and did not contain the specific mandates to accompany the Bank's efforts in developing financial sector institutions. In response, the MIF's portfolio in financial reform essentially disappeared in 2003, and was replaced with a more specific interventions with stock exchanges directed toward SMEs.⁸³

The MIF's approach to developing stock exchanges for SMEs has had some success in promoting bond markets, but no significant impact on equity. OVE reviewed three projects that attempted to incorporate smaller firms into stock exchange markets. By all accounts, the most successful project was Colombia Capital. This project exceeded its target in terms of allowing medium- and smaller-sized firms to list bonds.⁸⁴ It also provided TC funds in support of Colombia's efforts to improve the regulatory environment. The other two experiences were much less successful. In Peru only one firm listed debt, despite a very intensive effort to train small businesses about the benefits of raising capital through stock markets. Similarly, in Costa Rica, despite a sustained effort by the executing unit, there have been only three listings, and the project is at risk of being discontinued.⁸⁵ In both these cases, the project underestimated the costs smaller firms face in accessing more sophisticated forms of funding. Firms that decide to list not only incur substantial transaction costs (one-time and annually), but they also must satisfy a number of organizational, accounting, and governance conditions that may be both costly and suboptimal for smaller firms. Thus far, MIF projects have experimented but have not been able to show that this business model is viable for the market segment originally envisaged.

In venture capital, MIF maintained its engagement, improved its financial performance, and began to move toward early-stage equity. Venture capital as an asset class has continued to grow in the Region. The market has increased significantly, and in recent years this has included not only private equity but also true venture capital funds.⁸⁶ The MIF has been one of the pioneers in this area, and since its establishment has been present in the promotion of private equity. OVE's first evaluation found this to be one of the MIF's most innovative areas.⁸⁷

The MIF has worked with venture capital in two ways. First, it is investing in venture capital funds. This has been part of the MIF's strategy since its inception, and since 2005 it has invested US\$120.61 million in 28 funds.⁸⁸ Second, it is establishing and strengthening industry groups and working with PPPs to develop the venture capital



ecosystem. Market actors—fund managers and investors—broadly recognize and highlight the MIF’s value-added in the sector. In particular, fund managers single out the signaling value of the MIF brand to generate interest in other investors. Managers also highlight the MIF’s role in “match-making,” even when the MIF itself will not be engaged, and in promoting best practices among investors, who are sometimes unaccustomed to relying on fund managers to make investment decisions.

The MIF has been able to recover somewhat from the extremely disappointing results of early venture investments, though its returns are still modest. Data on financial returns up to 2011 show that MIF funds’ financial performance has improved, and recent estimates place MIF on par with market comparators.⁸⁹ The MIF faces a challenge in maintaining performance on par with asset class averages, if it is to generate demonstration effects regarding the viability of venture in LAC, and particularly if it attempts to develop new venture capital markets such as Columbia or Peru.

The sophistication and competence of MIF-supported fund managers has also improved significantly. MIF fund managers have gained experience and improved their performance over time. The findings from OVE’s review are quite different from those in 2002, when there were few professional fund managers in the Region. Furthermore, the MIF has helped to develop industry groups, such as the Latin American Venture Capital Association (LAVCA) and the Brazilian Association of Private Equity and Venture Capital (ABVCAP), which have played an important role in sharing knowledge and generating information on the performance of the asset class. These initiatives may also serve as an “up-scaler” of innovative experiences. For example, ABVCAP was part of the strategy of the MIF INOVAR project to transfer the activities of promoting venture capital in Brazil from the state-sponsored executing agency, *Financiera de Estudos e Projetos* (FINEP), to the industry association.

Developing the turistic circuit of North East Peru. In tourism most projects focused on the supply side, and interventions proved to be unsustainable.

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Thus far the MIF has elected to prioritize investments in funds with a potential for economic returns, and has shied away from funds with no clear business model, or with no possibilities of leveraging private funds. Whereas the first OVE evaluation found that venture capital funding had relied to a large degree on contributions of multilaterals and government institutions, more recent funds have been able to do better with mostly private funding. Another central finding is that the degree of leveraging of non-government and non-DFI funds has increased over time, although the degree of leveraging of publicly funded institutions has actually increased more than that of private actors. In any case, the MIF's participation has diminished with respect to other investors, so the degree of leveraging of additional funding has increased substantially over time.

MIF funds appear to be doing better than before at targeting smaller and earlier-stage funds, though there is still room for improvement. A review of data collected by LAVCA on both venture capital and private equity shows that the MIF targets smaller funds, and that this targeting has increased over time. OVE's field reviews of MIF funds also found that in many instances investments targeting firms were true early-stage endeavors. However, this is not always the case. Data on a sample of MIF investments also show a high number of investments that had been in operation for several years and had already developed large and reliable cash flows. Although the data are not comprehensive enough to allow for a longitudinal assessment, it is clear that much of what MIF denotes as venture capital contains a significant share of firms that could also be considered private equity.⁹⁰ The first OVE evaluation arrived at the same conclusion.

The MIF venture capital portfolio has avoided the poor financial results associated with its failed "double-bottom-line approach" during MIF I; however, the business of venture capital has no direct bearing on the MIF's poverty reduction mandate. The prior evaluation of MIF venture capital funds clearly indicated that early attempts to achieve both a social and a financial result were unsuccessful, and cautioned against such an approach. Furthermore, the development of social impact investing has yet to emerge as an asset class, and recent experiences raise important questions about the market sustainability of the approach.⁹¹ The MIF has broadly avoided the negative results associated with this approach during MIF I.⁹² However, MIF venture capital funds finance innovative and sophisticated entrepreneurs, and have no links with the markets in which the poor transact business.⁹³ Furthermore, the businesses that venture capital entrepreneurs develop usually rely on skilled labor and in general have limited business ties with low-income populations (see Box 4.1).

The MIF has not had a specific strategy in the use of technical cooperation as part of its venture capital investment portfolio. The MIF uses TCs to develop venture capital markets, as it did with LAVCA. However, the MIF has not used TC effectively as part of its investments with venture capital funds. The MIF's strategy has been to use TC to start venture capital funds and cover associated costs—that is to offset some of the

BOX 4.1. VENTURE CAPITAL IN LAC

Venture capital efforts in LAC can learn from efforts in other markets. Wherever markets developed—whether in Silicon Valley or Israel—they depended on a combination of public and private contributions sustained over time, with the public role variously characterized by providing financing and supporting the development of the ecosystem with legal/regulatory reform, training, research, and so on. The evidence on development of venture capital shows that it has always depended on a strong public policy push. In the United States, Israel, and New Zealand, among others, large amounts of funding combined with investments in promoting knowledge and information flows and enforcement of appropriate property rights have been central to the development of the industry. This pattern is seen in the most developed venture capital markets in the Region, and the MIF has been a part of this.

- In Brazil, the efforts by FINEP (a publicly funded agency), through the INOVAR program, were fundamental in developing the market. FINEP provided an enormous amount of publicly funded resources to invest in early venture capital funds. It also provided, in partnership with the MIF, a framework for learning and information sharing. These resources were instrumental in developing the capabilities of fund managers and investors, and in disseminating knowledge about best practices in private equity and venture capital markets—particularly in the early stages (Leamon and Lerner, 2012).
- In Chile, too, market development has hinged on the participation of public initiatives, mostly financed by CORFO. In particular, CORFO's broad umbrella program InnovarChile stands out: it invested in start-up, entrepreneurs, research and development, universities, and other entities in the innovation ecosystem (Applegate et al., 2012).

business costs. In other instances the MIF has used TC to advance objectives such as corporate governance and environmental or other social objectives. In these instances there is no evidence that the funds have been effective, and fund managers interviewed tended to view them either indifferently or as a transaction cost.

Monitoring and evaluation of results are also weak in the venture capital area. A number of factors conspire against the evaluability of MIF funds. First, the investment periods are so long that it is not possible to observe performance on the complete cohort of firms within a timeframe shorter than a decade or so. Second, although the MIF has developed an excellent infrastructure to report on the results of TC, a comparable infrastructure for the investment portfolio does not exist.⁹⁴ Third, the confidential nature of the information involved makes evaluation and tracking difficult. As a limited partner of the funds in which it invests resources, the MIF is entitled to information on the performance of the fund and its investments, but

fund managers are inconsistent in the collection of data, and have well-documented patterns of underreporting on results.⁹⁵ Finally, the MIF's lack of a clear strategy with clear targets makes the task even harder. Funds reviewed were not approved with specific financial targets or with performance targets for investments.

The evaluation found that while the MIF's ability to experiment with new and creative approaches in venture capital has worked to its advantage and produced tangible results, the MIF still lacks a clear strategy of what it hopes to accomplish with its venture capital activities in different markets. The MIF has not identified a segmented market approach to guide its investment decisions according to beneficiary countries' level of development and institutional characteristics. The MIF has identified differential needs according to venture capital market segment, but has not identified a specific path forward, with specific objectives and targets to meet in the different market segments. Also, the MIF's portfolio is concentrated in the most developed venture capital markets in the Region.⁹⁶ The report produced as a part of this evaluation identifies a list of conditions that have been present in markets where the "classical" venture capital system developed (Lerner et al., 2012). It also clearly notes that the objective of innovation and growth can be pursued with different approaches—not every country has to follow the same steps. In this context, it would be useful for the MIF to step back and build on its analysis of different venture capital markets to develop a strategy for these markets that identifies what it hopes to accomplish in a defined timeframe. This exercise would both bring increased focus to MIF activities, and help the MIF hold itself accountable for its successes and failures.

C. ACCESS TO MARKETS AND CAPABILITIES

The MIF portfolio in Access to Markets and Capabilities deals with the capabilities of firms, the organization of specific industries, and the policy environment that affects their performance and competitiveness. Under Access to Markets, the promotion of LED and value chains represents half of the portfolio, in which project approvals have been constant over time. Another set of programs promotes business skills and labor training, including youth training. The rest of the portfolio, which has been largely discontinued since the Access Framework was launched, includes three types of interventions: (i) interventions improving business capabilities—business development services and technology for business development; (ii) interventions improving the business environment—reducing regulatory burdens through "one-stop-shop" windows and improving public procurement for SMEs; and (iii) interventions related to thematic clusters such as tourism and regional integration.

1. Local economic development

The LED strategy explicitly links MIF interventions with public sector policies. The cluster Promoting Competitiveness through Productive Territorial Development was approved in 2007 and focused on the local and regional enabling environment

for SME competitiveness. It supported public-private development initiatives in a territory by partnering with groups of SMEs, local and regional governments, and such other relevant institutional actors as regionally based research and development centers. The Access Framework consolidated this line of work into an Agenda for Local Economic Development.

The LED approach was timely and useful as it accompanied a process of fiscal and administrative decentralization and introduced innovative models. Beginning in the early 2000s, LAC countries implemented decentralization initiatives that transferred resources and functions to subnational governments. This enhanced the profile of states and municipalities as they became protagonists in developing and implementing local economic policies, purchasing an increasing quantity of locally produced goods and services. In this context, in specific instances the MIF partnered with other international finance institutions in developing territorial competitiveness and local development policies implemented by selected subnational governments in the Region.⁹⁷ Nonetheless, the relevance of MIF projects was impeded by an incomplete identification of market constraints and limitations in the adaptation of the model of intervention to specific regional/local territories.⁹⁸

Since the portfolio is relatively new, only a few projects have yielded results.⁹⁹ Many of these projects targeted territories that lacked such basic necessary conditions as appropriate public policy incentives, strong institutional capacity, established productive chains with access to markets and finance, and developed social and labor capital. Regardless of diverse degrees of institutional preparedness, LED projects were also overly ambitious in establishing governance structures involving a large number of agents and tasks with limited instruments of technical assistance. It is worth noting that most midterm and final evaluations indicated that projects were approved with durations that were too short, considering the time that local development processes take. They also identified the need to sequence MIF interventions to so that they can adequately respond to long-term development processes.¹⁰⁰

Although the agenda is new, there are some instances of impacts on local competitiveness policy, particularly among projects that did well on effectiveness. These findings are significant, since scaling up successful experiences is very complex in this context because in many countries there are no government funds to promote this type of support. With some exceptions, in LAC there is limited institutional support for programs for territorial competitiveness and business development. Municipalities lead these LED processes, but their financing is limited. The MIF's LED projects in Argentina and Peru were successfully implemented.¹⁰¹ These projects performed well in terms of effectiveness and also had some evidence of market impact. For example, the MIF project in Rafaela-Argentina had not only contributed to an increase in productivity of the territory (agro-industrial and metal-mechanic sectors) but also affected the competitiveness policies for the region and the province of Santa Fe.¹⁰²



The MIF promotes eco-efficient production and low environmental impact among SMEs in Montevideo, Uruguay. The Access Framework validates the approach to Clean and Efficient Energy, focusing on creating a market for individuals and MSMEs, and helping companies meet environmental requirements and promote better use of inputs to increase SME competitiveness.

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2. Inclusive value chains

With the Access Framework, the MIF defined three main strategies in its approach to value chains: (i) linking small firms to high-value agricultural markets by empowering and financing small farmer groups, associations, and SMEs in the agricultural and food sectors so that they can access higher-value markets with their products (agro-business); (ii) linking small producers to value chains by creating better economic opportunities for low-income and vulnerable populations through inclusive business practices in the value chain of larger companies; and (iii) promoting micro-franchising.¹⁰³ Although strategic relevance can be found in each of these areas separately, the commonalities between these areas of work were not further explored.¹⁰⁴ Furthermore, no analysis of critical trade-offs and the potential contribution of each agenda to social inclusion has been carried out.¹⁰⁵

The MIF's new approach to supporting value chains introduces a pro-poor tilt. In recent years, practitioners and researchers have shifted their attention toward understanding the pro-poor consequences of value chain programs and their potential contribution to social inclusion. The evidence shows that value chains can affect poverty-generating employment, income, and well-being for workers in the value chain. However, the gains from participating in a value chain can be unevenly distributed. Certain types of value chains can have a more direct impact on poverty (Altenburg, 2006).¹⁰⁶ Moreover, the literature shows that value chains essentially produce winners and losers among firms and workers—certain types of workers can lose out as value chains upgrade. Therefore, when thinking about the pro-poor effect of value chains, it is critical to properly characterize the beneficiary firms throughout the value chain at design, in an attempt to identify the dynamics of these firms during execution, to measure both winners and losers.

In general, MIF value chain projects are well targeted toward smaller firms and low-income households, partly because of partnerships with development-minded agencies. Taking the portfolio as a whole, agro-business and inclusive business projects

targeted micro and small firms/farms (80%) and poor households (20%). In agro-business, the shift toward high-value markets and establishing partnerships with large private companies has added relevance to more traditional value chain approaches, particularly as they have been able to relate to smaller farmers. The inclusive businesses agenda contains an explicit intent to target low-income producers. This was made possible by partnering with development agents who share a common objective of developing the productivity and income level of small producers—for example, the strategic partnership with SNV, a Dutch development organization.

Value chain projects have been innovative and have potential for demonstration effects. Value chain's approach to developing markets for small producers has stood out as the most innovative in the Access to Markets area. Among other things, in Bolivia the approach has recognized the new role of subnational governments in financing productive development policies; in Paraguay it has developed models in which anchor firms internalize the benefits of improving the quality of small producers, leading to a shared expenditure between anchor firms and small firms for product technical assistance; and in Colombia it has developed “niche” markets that typically have higher value and larger potential for generating wealth for participants in Colombia. In Colombia, OVE's impact evaluation results showed that the project was able to maintain its effectiveness even among lower-income beneficiaries.

In some cases, insufficient market analysis in project design led to limited results; in others, the attempt to work with smaller producers was limited by their capabilities. In inclusive value chains, shortcomings in project design were identified when programs focused on the productive aspect without addressing critical links for the new business arrangements such as financing, marketing, investment recovery timeframe, and scale to make business profitable to beneficiaries. Preliminary results also highlighted the role that research networks and public sector agents play in producing results. Two examples illustrate these weaknesses. First, the MIF lacked an integrated market approach in the inclusive business support to waste pickers/recyclers. Although the MIF has financed innovative programs supporting recyclers and found important international partners such as AVINA and SWISSCONTACT and national partners such as *Ciudad Saludable*, preliminary results showed that while some projects achieve positive impacts on household income, as well as improved business management and organization, strong markets for recycling products have not yet developed. In addition, the MIF's early interventions for waste pickers were not integrated under a common framework as envisioned in the agenda.¹⁰⁷ Second, projects in agro-business had low effectiveness when they promoted quality certifications that were not required by markets and when farms did not have the capabilities and the financing to invest in the technological or infrastructure improvements needed to achieve certification. In fact, projects that promoted the standards certification also struggled to incorporate smaller producers in the value chain. In some instances, projects adapted to this constraint by adjusting targeting to larger producers, thus deviating from the original project intent.¹⁰⁸

Few MIF value chain projects were able to achieve market impact, particularly when the MIF partnered with market-leading actors. This is true for the MIF project with the National Federation of Coffee Growers in Colombia. The project, initially implemented in two of the most important provinces of coffee production (Nariño and Cauca), is being replicated in other regions. Implementation in these regions would improve the competitiveness of the Colombian coffee sector in international markets by providing the Denomination of Origin seal.¹⁰⁹

3. Labor training

The MIF's first mandate clearly called for a sustained engagement in labor market reform and regulation; but in the evaluated period, the MIF's portfolio in labor changed significantly. Between 1994 and 2002, the MIF developed an extensive portfolio that worked with industry and labor groups to strengthen models for worker training and skills certification. These activities represented 20% of the MIF portfolio at the time.¹¹⁰ After 2005, the MIF abandoned the approach of working with labor markets for the private sector, and refocused efforts on training projects, mainly for youth. Its overall activity in the sector also declined significantly, as the proportion of the portfolio shrank to less than 1% as a percentage of the total portfolio, and 4% as a percentage of the Access to Markets portfolio.¹¹¹

The MIF's relevance and success in youth training projects was predicated on its ability to find high-quality regional partners to co-design and execute innovative projects. Two partnerships in particular stand out: (i) Partners of the Americas, which was the main executor of the A ganar project, and (ii) the International Youth Foundation, which was the main executor of the two-phased Entra21 Programs. The youth training strategy replicated an established model used in different countries in LAC by relying on the oversight and executing capabilities of the two partners. The streamlined approach had a positive effect on project execution. Partners of the Americas and the International Youth Foundation were instrumental in reducing the number of delays and execution problems, leading to a portfolio that rated well in terms of implementation (80% satisfactory or higher). Projects introduced innovations in the areas of job insertion and life skills training.

The youth portfolio stands out in systematic data collection and evaluation. It is one of the very few areas in which the MIF has collected systematic data on beneficiaries and developed evidence of effectiveness with impact evaluations. The partnerships produced administrative data of relatively high quality: beneficiaries were tracked before and after the program, allowing for the comparison of project performance across different contexts.¹¹² In addition, the second phase of Entra21 conducted rigorous impact evaluations of four projects. The findings show a pattern consistent with the literature on youth labor training in LAC: a significant impact on women in terms of employment and wages, and some impacts on men, mainly in "quality" of jobs. The parameter estimates of these impacts suggest magnitudes equal to or better than larger-scale programs.

Despite the positive evidence on results, the ability of the programs to affect markets and policies has been limited. The second phase of the Entra21 program was designed with an explicit view toward scaling up. The evidence suggests that in many cases programs affecting *some* aspects of public policies for youth training programs in Argentina, Chile, and Colombia, as well as the education curriculum in Brazil.¹¹³ This is consistent with the project's emphasis on attempting to find potential up-takers at the design phase, mostly in the public sector. Nonetheless, there are still no examples of a full model replication. Transferring private sector training models to state-sponsored training institutes has proved to be a complex process, in which both the International Youth Foundation and the MIF are clearly only beginning to learn. Furthermore, the examples of scaled-up programs do show an increase in coverage but also show indications of a "loss in effectiveness" with respect to pilots, as these youth have considerably smaller rates of labor market insertion post-program. And lastly, one of the main strategies used in youth programs was that there would be enough private sector interest, so that NGO-led training institutes could directly provide skilled labor to certain segments of private industry; this model has yet to be proven viable.

The findings indicate that youth training is useful, but that a number of questions remain to be answered. OVE believes that there is a very relevant learning agenda for the MIF in youth training, particularly in two areas:

- **Innovation.** One of the main innovations in these programs was the focus on "life skills" training to enhance employability and project effectiveness. This hypothesis is still very much untested, even if employers report greatly valuing the life skills.
- **Scaling up.** If the MIF is to test the effectiveness and viability of scaled-up models, it should invest heavily in detecting early willingness to experiment and scale up from national training agencies, education systems, and states and municipalities. In addition, the possible dilution of benefits of youth programs as they are brought to scale needs to be explored; as programs expand they theoretically migrate both to populations with greater needs and to those with less to gain. Finally, the possibility of scaling up projects with the private sector has not been explored. To date the premise has been that, given the externalities involved with training and the particularly vulnerable population that the MIF attempts to target, only a public solution with public subsidies would be viable on a large scale. Considering that private-private model transfers may be relatively more feasible and incentive-compatible for the MIF, this possibility—including the possibility of outsourced programs with public funding—may deserve further exploration. The appropriate scope of solutions that attempt to scale up with particular industry groups should be explored at length.

4. Other MSME development initiatives

During the evaluation period, the MIF also approved and implemented other projects promoting SME development. These lines of activities are based on prior MIF clusters and were not included in the Access Framework.

- a. **Information and communications technologies (ICTs) for SME projects were innovative but were usually implemented in isolation from other business development strategies, reducing their overall effectiveness.**¹¹⁴ Examples of effective ICT projects are the ones that were linked to specific value chains such as the fruit sector in Argentina and that incorporated relevant institutional agencies such as rural extension agencies.¹¹⁵ ICT projects could have been used to facilitate business linkages and effective integration of production chains by providing an infrastructure for efficient logistics production and marketing, and reducing transaction costs to increase the scale of operations in domestic and international markets.
- b. **The MIF has continued to push the regulation agenda for SMEs, including in public procurement, with limited relevance and results.**¹¹⁶ There is a consensus that business regulation affects the degree of competition as it shape the pressure to innovate and increase productivity. In this context, the MIF I evaluation concluded that business regulation interventions were highly relevant as most firms considered a new legal framework to be a necessary condition for MSME development. Since then, most governments have taken over these tasks. Between 2005 and 2011, the MIF continued to support one-stop-shops at the subnational levels, achieving mixed results.¹¹⁷ In public procurement, the MIF I evaluation found overlap between the MIF and the IDB and recommended that MIF intervention assist with the “last mile” of the major reforms and open up access to the benefits for a large number of SMEs, mainly through electronic procurement (e-procurement). Between 2005 and 2011, the MIF approved a regional program (Argentina, Chile, and Peru) for government e-procurement, which made a limited contribution to improving SMEs’ access to government procurement in Argentina and Peru. E-government, which includes e-procurement, continued to be an agenda of the IDB.
- c. **The international trade strategy was approved in parallel to the free trade agreement negotiations in the Region.** Ratification of these agreements took longer than expected and the portfolio lost relevance and effectiveness.¹¹⁸ As was mentioned in Chapter III, these projects were supposed to foster regional integration by preparing companies for commercial liberalization. Most countries in the Region took longer than expected to ratify the trade agreements, and the MIF projects faced a lack of demand, especially from small enterprises, for the services they offered. Implementation was therefore difficult and effectiveness was low.

- d. In tourism most projects focused on the supply side, and interventions proved to be unsustainable.** The few successful projects were the ones in partnership with public institutions. The MIF created the Sustainable Tourism cluster in 2004. The early interventions, focused on developing the supply side of tourism services, were not successful in terms of effectiveness and market impact. The strategy shifted in 2010, evolving to a concept of “destination” and promoting a wider inclusion of MSMEs in the Region’s tourism sector value chain; but results were elusive. The projects faced challenges developing public and private partnerships.¹¹⁹

D. ACCESS TO BASIC SERVICES

In Basic Services, the MIF incorporated both existing lines of work and a new type of intervention that attempted to promote basic services for low-income groups. Basic Services for the Poor and Adaptation to Climate Change are new thematic focuses, and they have been among the largest and most notable shifts in priorities reflected in the new Access Framework.¹²⁰

1. Models for public-private partnerships

Under MIF I, early engagement with PPPs focused on sectors with low financial risks in countries with high degree of institutional development and appetite for reform. The MIF’s early work during the 1990s in Argentina, Brazil, Chile, and Mexico was essentially based on concession models. Concession contracts supply private providers with minimum guaranteed revenues based on ex ante projections of consumer demand and in turn require that specific services (e.g., roads operation, maintenance, and rehabilitation) be provided according to minimum quality parameters.¹²¹

After 2005 the MIF approach to PPPs shifted toward a model that involved private and public agents throughout the entire PPP project cycle, sharing risks to increase efficiency in the delivery of services. In 2005 the MIF developed the PPP cluster, which properly identified the successes and failures of the MIF’s earlier experience.¹²² The objective of the cluster was to increase the development and implementation of a new model of PPP by designing projects in line with policies and priorities in all member countries of the Region. The cluster approach correctly identified the differential level of development throughout the Region, as these differences imply different risks that both public and private sector agents would face in structuring PPP deals for the provision of state services. The approach did not, however, recognize the differences in risks across different types of public utility services.

The MIF’s relevance in the PPP agenda has waned over time because of both changes in the Region and shifts in the institution’s priorities. The MIF was one of the first development institutions to support PPP development in LAC. However, the relevance of MIF activities in PPPs decreased over time, as the Bank’s action to promote PPPs decreased, largely in response to improvements in financing conditions

in the Region. Moreover, in 2010 the MIF adopted an agenda strategy that moved away from traditional PPPs. However, except for the program in El Salvador, project designs were limited to regulatory review and institutional training.

Starting in 2005, the MIF began to expand its PPP projects to the subnational level. However, most operations were approved in the most institutionally developed countries and focused on traditional sectors.¹²³ Subnational PPP projects were approved in Brazil (2005) and Mexico (2007). PPP models at the subnational level were expected to generate competencies for the design of PPPs in traditional sectors to finance public infrastructure; they did not propose innovations to address risks associated with PPPs, except for the institutional risks.¹²⁴ The portfolio mainly focuses on regulatory framework review and technical training. Because the MIF did not work to develop PPPs in nontraditional sectors,¹²⁵ its impact on the sector was limited. According to interviews, the lack of resources to finance preinvestment studies to study the options for new forms of PPP may have limited the MIF's ability to advance in this direction.

In general, the MIF was one of the few resources available to policymakers in the Region at that time. The MIF conducted scheduled training of public sector functionaries and filled information gaps as to what PPPs are and how they could be applied and developed.¹²⁶ Previously, the concept of PPPs was usually underdeveloped and misunderstood, and few development agencies saw the instrument as a vehicle for introducing innovation in the provision of public services. Thus the MIF was an early actor experimenting with PPPs in LAC. OVE identified cases of MIF additionality in the treatment of institutional development and regulatory and institutional risks.¹²⁷

Furthermore, there was value in the MIF's participation in the generation and sharing of knowledge drawn from early experiences with PPPs. The MIF was able to generate spaces for policy dialogue and a systematization of experiences with several different knowledge-sharing initiatives. Particularly noteworthy were the sponsorship of PPP alliances in LAC, and the organization of forums such as PPPAmericas and other regional technical meetings to share experiences. The MIF also had an impact through the development of academic training courses and through Infrascopes, an instrument that assesses and rates countries in the Region according to the maturity of the policy, regulatory, and market environment for the development of infrastructure finance.

OVE's review of the MIF's experience with PPPs detected a number of constraints to more effective engagement.

- Although projects helped promote PPP legislation in some countries, they fell short of expectations in terms of the number of actual PPP agreements designed and implemented through MIF projects. Development objectives were too ambitious for the MIF's instruments and the activities and products designed for each operation.

- By overestimating the risk appetite of the private sector, the early approach did not properly recognize the need not only to secure an appropriate legal/regulatory environment, but also to mitigate the risks faced by private sector providers by securing public sector financing institutions' commitment to participate.
- Projects focused on the development of capabilities within bureaucracies, but did not have a parallel effort to develop private sector capabilities. Thus many PPP projects floundered, as private providers lacked the knowledge and capabilities to effectively comply with agreed targets, especially in nontraditional sectors and institutionally underdeveloped countries.
- Project success is constrained by the poor alignment of incentives by MIF counterparts. Beneficiaries still see PPPs first and foremost as an opportunity to finance public sector infrastructure projects. Given the fiscal constraints facing the Region, and the limitations on formal indebtedness imposed by fiscal responsibility laws, MIF counterparts have often identified PPPs as an opportunity to expand financing. Likewise, when countries have experienced growth spurts and fiscal resources have become more plentiful, country partners lost interest in PPPs. The review found no instances in which PPPs were seen as a vehicle to capitalize on the innovation potential of private sector providers.

2. Basic Services for the Poor

The Basic Services for the Poor agenda aims to identify and promote sustainable financial models involving non-state actors to increase access to services for low-income populations. The agenda is still being designed, and according to OVE interviews with MIF staff working in this area, the focus is on learning more about the state of knowledge and on experimentation. Relatively few projects have been approved under the agenda, so there are few evaluative conclusions to be drawn. The agenda has a strategy document that makes the experimentation objective explicit. It also defines what is meant by basic services, although the definition is broad enough to include street lighting, parks, and other areas that are not usually defined as a basic service in the specialized literature.¹²⁸

In providing basic services for the poor, the commercial, fiduciary, operational, and regulatory risks are higher than under traditional models that are not focused on low-income populations. In this context, the role of the private sector would presumably be to provide innovative ideas about the provision of basic services and to share in the risks with the public sector. This challenge becomes more significant as the target beneficiaries have lower levels of income. The MIF also adopted a strategy of achieving “systemic impact” by partnering with the IDB Group and other public and private actors.

The objective to provide basic services to populations with limited or low-quality access might be consistent with the MIF's mandate to focus on lower-income populations. Projects in the Basic Services agenda, if they are successful at reaching lower-income beneficiaries and addressing the relevant types of basic services, will have the potential to significantly improve beneficiaries' living conditions. However, the agenda does not develop an explicit poverty-reduction strategy, nor does it apply specific criteria for prioritizing projects according to household income or poverty, above what is already available in the MIF's quality-at-entry scoring instrument (QED).

The fundamental limitation of provision of basic services to low-income populations is the need for mechanisms to offset costs to cover commercial risks, particularly at very low levels of income. Given beneficiaries' low incomes and limited ability to pay for basic services, agendas that seek to provide services where they are lacking or of very low quality need to rely on a sustainable source of financing (funding, guarantees, and subsidies) to offset the costs of providing the services.

Given the MIF's experience with PPPs, and the current strategic objectives of the agenda, three different models could be possible lines of action for the MIF.

- Adapt existing solutions to contexts with little or no service provision, a model that would require a "true PPP" strategy, with a defined mechanism to provide financial flows, typically in the form of subsidy schemes.
- Expand the PPP models to nontraditional sectors such as health, education, or water and sanitation, requiring a significant effort to attract capable private sector participants that can experiment with new models, and of course public sector actors that are willing to share in the risk faced by the private actors, and to possibly also provide some form of provision subsidy. The potential strategies will depend on the sector as well as the political, economic and social context of the country/state/municipality where the PPP is developed.
- Attempt to enhance the quality of services for beneficiaries who already enjoy provision of basic services. This approach would require less intense coordination with public actors, and therefore would be more aligned with the capabilities and partnerships the MIF used in the past. However, if this model distanced the MIF from poor populations, it would be less aligned with its mandate.

3. Environment and Clean Energy

The MIF has been working in environment programs for a long time, with limited results. For more than 10 years, the MIF has worked mainly in energy programs through environmental venture capital funds, Social Entrepreneurial Program (SEP) loans, and cleaner production projects. The evaluation of MIF I found that although projects were highly innovative, few innovations were internalized to generate sustainable markets and produce a demonstration effect. Before the Access Framework,

the cleaner production projects focused mostly on the development of energy service companies and economic incentives for energy efficiency and renewable energy programs.¹²⁹ The Access Framework validates the approach to Clean and Efficient Energy, focusing on creating a market for individuals and MSMEs, and helping companies meet environmental requirements and promote better use of inputs to increase SME competitiveness. The new agenda goes beyond the normative and regulatory objective and focuses on improving the ability of MSMEs to produce, distribute, or service these technologies, as well as reducing CO2 emissions, improving quality of life and productivity, and increasing access to energy.¹³⁰

The Clean and Efficient Energy strategy proved difficult to implement in LAC. Projects faced implementation problems because of market constraints and a lack of an appropriate regulatory framework to encourage changing technologies and the use of environmentally sustainable practices in the Region. Furthermore, targeting small enterprises generated additional challenges: they showed no interest in the model, and project demand came exclusively from larger firms. In addition, the absence of adequate regulatory frameworks for SMEs and low incentive for companies to participate in clean energy and energy efficiency programs limited the effectiveness of the portfolio.¹³¹ Finally, programs' sustainability was affected by the absence of cost recovery mechanisms for technical assistance to businesses and the lack of economic and financial incentives. Financial institutions also showed little interest in the projects; in the absence of some form of government support, they were unwilling to accept future (and unproven) cost savings in lieu of collateral in their decisions to finance new conservation technologies.

The MIF's Leveraging Natural Resources agenda attempts to engage MSMEs in business practices that leverage the sustainable use of natural capital, with limited results. Project activities included environmental services and conservation of natural resources, mainly in rural areas. The objectives focused on developing local communities working in the forestry business, through improved product quality and development of local markets, certification, and strengthening trade and finance channels. The strategy faced implementation problems related to the insufficient institutional and operational capacity of participating communities to carry out these programs, the limited demand for products in forestry and biodiversity, and a weak regulatory framework. The only project completed¹³² did not achieve its purpose because of low institutional capacity.

E. HAITI

In the aftermath of the 2010 earthquake, the MIF, like most donors, developed a specific response to Haiti. Because of this agenda's size and importance for the MIF, this section reviews it, recognizing that many of the thematic findings reported above also apply to Haiti. The evaluation centers on two aspects: (i) the MIF's strategy

adjustment, given the particular needs generated or exacerbated by the earthquake; and (ii) the MIF's efforts to position itself to use its comparative advantages in different sectors.¹³³

The MIF was successful in the emergency response to the earthquake, but its approach to promote reconstruction objectives was ineffective. After the disaster, the MIF almost immediately provided an emergency "cash" response through the Haiti Emergency Spending Allocation Request, to effectively maintain the financing and operational continuity of the MIF's firms and executing agencies. Reviews of the program are positive and highlight the MIF's role in preserving business continuity.¹³⁴ The MIF later attempted to support reconstruction efforts, particularly by providing temporary housing solutions and a program to help instruct reconstruction workers. The MIF's attempts to alleviate the housing crisis were timely, but had implementation problems and very limited impact.¹³⁵ The MIF had more success at addressing reconstruction efforts by restructuring a recycling program to serve as a training instrument for reconstruction activities related to youth. However, thus far it has attracted the interest of only one company.¹³⁶

The MIF's portfolio in Haiti did not have a clear strategic focus and did not take into account the specific constraints of the only fragile country in LAC. Haiti is characterized by high levels of poverty, the weakest institutions in the Region, low access to credit for small producers, lack of long-term finance instruments, and a small and fragmented private sector overwhelmingly populated by micro and informal firms. These problems were amplified after the 2010 earthquake. Immediately after the earthquake, MIF responded by increasing the size of its portfolio in Haiti. However, the sector composition of the portfolio is very broad, with 34 active programs distributed in 10 sectors (which correspond to 5 MIF topics). The portfolio has also evolved over time without a clear country strategy, with projects being approved according to individual initiatives rather than a comprehensive strategy. The success of the MIF's approach also depends on the participation of other actors, or other sources of investment.¹³⁷

The MIF's portfolio in Haiti has faced challenges executing, although this execution has been better with high-quality partners. Haiti presents a challenging environment for donors to work in, and in general this is seen in the poor portfolio performance of development partners¹³⁸ and in the MIF, for which disbursement ratings in operations in Haiti have been worse than in the MIF's overall portfolio. In Haiti the MIF faces problems that are usually not seen in other MIF countries: a weak private sector, execution agencies with low capacity for implementation and high dependence on foreign financing, a context of inadequate regulatory and legal framework, incipient industry associations often hamstrung for funds, and the presence of foreign funds that generates incentives for capturing international resources as an organizational survival strategy. The MIF has been successful when it has partnered with the few high-quality development agencies in-country to execute projects.¹³⁹

The MIF has developed a network of partners to help the country address its development constraints. The portfolio review shows that the MIF consistently works with the most innovative and socially-oriented NGOs and industry groups in Haiti. The MIF is also in a unique position, in that it maintains a dialogue with executors at the micro level, and with public sector institutions and the international community, including the IDB. Moreover, the MIF has worked with entities focused on developing opportunities for the poor.

The MIF's main challenge in Haiti is to find a way to use its comparative advantages to achieve impacts that can go beyond the immediate beneficiaries of its limited portfolio. The MIF currently does not have a strategy that would build on its strengths, while recognizing the severe limitations of working in Haiti. Without such a strategy, the MIF does not stand out as a particularly relevant actor in the country, and its contributions do not stand out among those of the vast array of NGOs and development agencies that work in Haiti. Nonetheless, the MIF can have a role that would focus less on promoting experimentation with new business models—with which Haiti is replete—and more on forming partnerships that can integrate successful innovation into the programs and priorities of the development community in Haiti. The MIF also has access to the IDB Group, which may be a resource, particularly if IDB becomes increasingly involved in attempting to relax the policy, governance, and infrastructure constraints that affect MSMEs' growth in the country.



Production of brown sugar candy in the Jiboa valley in El Salvador. Since its founding, the MIF has reinvented itself often, adapting to the demands and needs of the Region and to a fluid perception of what it can and cannot do well.
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5 Conclusions and Recommendations

The objective of this evaluation is to inform MIF Donors and Governors about the performance of the MIF and the degree to which MIF has been able to achieve the purposes and functions specified in its replenishment agreement, the MIF II. This evaluation, a requirement of the MIF II agreement, is being completed just as the MIF has been authorized to seek a new capital replenishment. Thus the findings and recommendations of the evaluation can both inform MIF Management about current challenges and provide input into broader discussions about what type of institution the MIF can be in the future and what its role can be for the economic and social development of the Region.

The MIF's mission, as well as its relationship with its clients, the Bank, and other development partners, has shifted significantly over the last 20 years. The MIF began as a small technical cooperation and investment fund, created in response to the economic shift brought about in the Region by the process of economic liberalization and privatization. Since its founding, the MIF has reinvented itself often, adapting to the demands and needs of the Region and to a fluid perception of what it can and cannot do well. This shift is seen clearly in the evolution of the MIF's projects, as it has moved from an institution focused on policy and regulatory reform to an institution with a closer link with the Region's MSME development partners. The MIF has also been able to consolidate itself institutionally, and today is recognized as one of the main resources for the development of MSMEs in the Region.

The MIF II mandate validated the MIF's transition from a policy reform context to a development agency for MSMEs, while providing the MIF with new instructions regarding what it should achieve and how it should work. The MIF II identified two purposes for the MIF: to promote growth and to reduce poverty. It also identified a



Training on adopting international standards in financial reporting for MSMEs in Honduras. The MIF's framework also highlighted the role of the institution as an agency for innovation and experimentation, and proposed that it develop a role as a "knowledge" institution.

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list of 10 functions, which mostly focused on the MIF's growth mandate and provided no specific guidance regarding poverty. The MIF II mandate highlighted the MIF's role as a resource for MSMEs, explicitly instructing it to develop this sector. It also instructed the MIF to continue to focus on innovation, promote technology to achieve its purposes, and promote knowledge-sharing, among other functions. And despite the focus on MSMEs, the MIF II instructed the MIF to continue pursuing adequate regulatory and legislative frameworks, promote adequate business environments, and continue to work in regional integration efforts.

The MIF's work has been broadly consistent with its mandated purposes and functions. The MIF's activities are mainly directed toward helping MSMEs address the constraints that hinder their development in the Region. The MIF has also attempted to address most of the other functions set out in its mandate: it has promoted the use of technology, knowledge-sharing, and the development of micro and small enterprises, and it has continued to build on one of its core comparative advantages—innovation. The MIF has also fully adopted the *intent* of reducing poverty, and has taken measures to focus on poor and low-income populations.

Nonetheless, the MIF has had limited engagement in the area of promoting an adequate legal and regulatory framework and business environment. Compared to the MIF's earlier attempts at policy reform, during MIF II the institution clearly backed away from an active promotion of regulatory or legal reform, or any significant attempt to affect or reform public policy in the Region. In some instances the MIF did promote very specific changes in policies that were directly related to the operation of the markets it attempted to develop, but these efforts were sporadic and limited. In many respects the move away from the public sector was a response to the MIF's limited past results in pursuit of this objective, and its positive results in the pursuit of more direct support of MSMEs. However, as was seen in venture capital, youth, LED, and other topics, when the MIF has engaged the public sector as a way of promoting the appropriate "rules of the game" and as a potential source of financial and technical support for the development of markets, the possibilities of "systemic impacts" have been greater.

The adoption of a new "Access Framework" in 2010 helped the institution better align itself with its mandate, as it relates both to the needs of MSMEs and to the mandated purpose of poverty reduction, an objective that was new for the MIF. The framework helped the MIF realign its portfolio to focus on missing and incomplete markets and on low-income market segments. It also provided a more objective-centered institution, as the "access focus" provided an attractive rationale for programming. The framework also highlighted the role of the institution as an agency for innovation and experimentation, and proposed that it develop a role as a "knowledge" institution. This is also consistent with the MIF's function of promoting knowledge-sharing in the Region. In addition, the MIF has invested recently in developing a more rigorous evaluation agenda and improving its project oversight, monitoring, and evaluation.

The MIF has had success in promoting its mandate of growth. The MIF has been broadly successful at promoting competitiveness, particularly among micro and small enterprises. The review of the MIF's success in this area, both at the project level and more broadly, shows a generally positive track record. The MIF has also successfully targeted small and microenterprises, particularly those with net revenues below \$50,000. The MIF has seen positive results in its approach to promoting technology, although efforts have been more successful when technology is not seen as an objective, but rather as a tool to develop new products and services (e.g., in microfinance), or to improve productivity or reduce costs.

Throughout the various changes in goals, activities, and structure, the MIF has been able to preserve a focus on innovation. Each assessment of the MIF—whether by OVE or others—has highlighted the MIF's innovative and experimental nature. For innovation, the MIF relies on its partners, who are the originators of the projects that the MIF finances and provide the context in which MIF projects can experiment. Innovation is key to the MIF's value-added and comparative advantage. The ability to use technical cooperation funds to experiment—and fail—is a luxury few development agencies have. The MIF has been able to remain relevant in the Region thanks to this continued focus on innovation. The MIF's mandate recognizes this defining characteristic and explicitly instructs the MIF to continue to support innovative solutions. The MIF has complied with this part of its mandate.

But the MIF has not been effective in directly reaching poor populations and has not defined a clear strategy to implement its poverty reduction mandate in the period under review. The MIF has taken steps to improve the targeting of its projects, but the evidence shows that MIF projects in execution do not reach a high proportion of poor people. The MIF has experimented over the years with alternate “poverty models” or indirect methods through which it could better comply with its objective of reducing poverty. This is an ongoing discussion. However, regardless of the MIF's ability to better articulate pathways by which its projects can indirectly reduce poverty, it has comparative advantages that it could use to better target the poor. Even if the MIF does not reach a large share of poor people, it does reach poor populations in many projects, and reaches low-income populations in many more. In addition, the MIF has developed a network of NGOs, private sector partners, and public counterparts that share the institution's objective of developing incomplete and missing markets, and developing market segments where access to finance, productive assets, and basic services is missing or precarious.

The MIF has made progress in implementing changes to strengthen its role as an agent of knowledge, but consolidating this model remains a challenge for the institution. Both the MIF II mandate and the Access Framework highlight the role of knowledge in promoting the MIF's objectives. The Access Framework, in particular, attempts to link knowledge as part of a project chain from piloting experiences to scaling up successes. The MIF has taken important steps to implement

this enhanced “knowledge model”: more emphasis on strengthening the project side of knowledge generation, with some visible improvements in project evaluability, project monitoring, and early signs of success in its impact evaluation program. The MIF has been able to achieve significant success building on knowledge-sharing instruments, such as the annual FOROMIC meetings. Since the MIF has a strong network of MSME development partners in LAC, initiatives such as these play into the MIF’s ability to bring different development actors together. However, the MIF has not been able to consolidate an institutional approach to knowledge generation. The institution lacks clarity about the role that knowledge will play in promoting innovation, and the role that a more rigorous experimentation structure will play within this knowledge framework. These issues are not resolved in the Access Framework; in fact, the framework does not highlight the role of the MIF’s main comparative advantage, which is the experimentation and innovation being promoted by MIF partners in the field. Integrating these partners into the MIF’s “knowledge model” would seem to be fundamental, if the MIF is to build upon its strengths.

The MIF’s effectiveness in consolidating its knowledge model and attaining its objectives related to developing competitiveness has varied from sector to sector. The MIF had success in the development of early-stage equity in selected countries, building on achievements under MIF I, and it generally addressed many of the failings of its early ventures into this area. The MIF also maintained a focus on promoting lower-income populations’ access to financial services through microfinance, and it has continued to be a relevant actor, although it has been unable to sustain the remarkable rate of success that it had in earlier years. As microcredit markets have consolidated and the viability of the microcredit model has received widespread acceptance with business groups, the MIF’s role has gradually refocused on incomplete and underserved markets, where beneficiaries typically have limited access to financial services. This approach is consistent with the MIF’s mandate, but the fruits of this engagement are not yet apparent. The MIF also responded to the changing dynamic of firm interlinkages by increasingly abandoning business services in favor of the development of a value chain approach. Here, too, the MIF has not been able to demonstrate a systemic impact except in very specific local markets in the context of particularly successful interventions. The MIF’s youth interventions have been able to document positive results at the project level, but they face a substantial relevance challenge in their ability to actually affect labor markets for disadvantaged youth in the Region.

The MIF has had little success in promoting regional integration. While most of the MIF II instructions were directed at the MIF’s relationship with the development of MSMEs, it did have an explicit mandate to promote regional integration. Overall, the MIF attempted to address that objective by preparing firms for the changing economic environment following regional trade agreements. The objective of regional integration was central to MIF I as trade liberalization started to take hold and regional

agreements came into play in LAC. However, as this process had consolidated and mostly played out by the time of MIF II, the mandate lost much of its significance. The one significant exception was the United States-Central America Free Trade Agreement. Here MIF responded to the need by approving operations in the affected countries. That said, the approach was mostly unsuccessful, as the timing of the ratification of agreements did not match the approval of MIF operations.

The prioritization of projects through the Access Framework has helped to enhance the MIF's relevance. The new framework can help the MIF enhance its relevance in providing financial services for lower-income groups; developing financial services such as insurance and savings; reaching incomplete markets, such as rural finance for smallholders; and developing innovative solutions for the provision of basic services through private sector innovation with necessary funding/guarantees—likely from public actors—to cover the commercial risk of working with low-income or poor populations. The framework also maintains that to maximize impacts, the MIF must narrow its focus, and it identifies, as one of the key drivers of MIF success, “Organize a set of activities around a specific systemic objective established upfront.”¹⁴⁰

The MIF addressed many of the operational restrictions that were limiting its efficiency. The MIF implemented new information and monitoring systems and a new project disbursement and risk system, which better links project disbursements to results. It also implemented new processes to review and evaluate executing unit risk. In addition, the MIF has developed in-house capabilities, and has addressed some of the principal agency problems that it faced when it relied on the IDB Group to both originate and execute its projects. The results of these reforms are seen in an overall improvement in project execution performance over time, shortened project preparation processes, and fewer issues with the sustainability of executing units.

In terms of effectiveness and market impact, MIF projects are characterized by high experimentation, but also by a high incidence of failure and consequently issues with sustainability. In general, MIF projects have a high rate of innovation and good execution, but they also have a relatively high rate of failure. This has implications for the sustainability of benefits, as failed projects are almost by definition unsustainable in markets. Some degree of failure is not unexpected for an institution that attempts to innovate. High risk and high innovation are associated with high failure, and this is the MIF model. However, moving forward, the MIF needs to better identify a corporate results framework that explicitly internalizes the risks associated with experimentation, and reflects these risks and benefits in defining targets. The MIF's current approach to failure in experimentation is very much ad hoc, as it does not explicitly internalize the risks of experimentation and innovation as part of its model for development.

A significant share of MIF projects have achieved impacts beyond the immediate project beneficiaries by promoting adoption of innovation by broader markets. This criterion is more ambitious than project-level results, but is in line with the emphasis of the Access Framework. Of reviewed operations, 22% achieved high ratings in this dimension, indicating that they were part of a process of market development. Venture capital projects, in particular, have been able to achieve clear “systemic impacts,” as they have been associated with the development of undeveloped markets, especially in Brazil. On a more modest scale, the evaluation also found evidence of partial adoption of some “systemic” impacts in areas such as youth, as well as specific instances related to LED projects. Given the recent shift away from older, less successful models in Access to Markets and Access to Basic Services, at this point it is likely too early to see significant systemic change in most areas of work.

The MIF is a unique organization with comparative advantages that position it to have continued success in promoting the development of micro and small enterprises in LAC. The MIF is innovative and experimental in nature, and it has developed a network of development practitioners and partners. It has also achieved a high level of autonomy within the IDB Group, which has allowed it to experiment with new approaches to private sector development in LAC. The MIF also forged alliances with private sector organizations and development agencies that have allowed it to increasingly leverage its financial resources over time. OVE has five recommendations that build on the MIF’s comparative advantages while strengthening the institution.

- 1. Implement a corporate results framework, ensuring that it preserves the MIF’s flexibility to innovate.** The Access Framework provides guidance on areas in which the MIF will and will not work. However, the MIF lacks corporate-level goals and targets, and the identification of objectives and targets is uneven at the topic level. The MIF should implement a corporate results framework that builds on the strategic guidance provided by the Access Framework, tailoring it to afford ample room for innovation and flexibility at the programmatic level.
- 2. Better define the MIF’s strategy for targeting low-income beneficiaries and promoting poverty reduction.** The MIF can best address poverty through flexible strategies that target MSMEs and employment and that focus on market segments that reach low-income beneficiaries.
- 3. Further specify and clarify the role of the public sector in scaling up innovation.** To attain systemic impact, the MIF must be able to scale up innovation. In most instances up-scalers have been private sector agents, attracted by the commercial success of interventions by the MIF and other development agents. The MIF can also play an important role in engaging public sector agencies in two important ways. First, public sector agents can address regulatory and coordination restrictions that may be limiting the success of projects and their possibility for scaling-up. Second, the public sector itself can serve as an agent to bring innovation to scale

through public policy. This can be particularly relevant in scaling up MIF projects in basic services, and youth training. Public engagement and financing will also be particularly important in interventions that reach the poor but may not be financially viable purely through private channels. The MIF should also consider the role of the IDB Group more broadly in the scaling-up effort.

4. **Strengthen the tracking of implementation and results.** The MIF's tracking of project implementation has improved substantially, but improvements are still needed in key areas. The MIF does not have an instrument to systematically track the implementation of loans and equity, although it is working to develop one. The MIF has also struggled to systematically track actual results of projects at the outcome level. To improve the tracking of results, the MIF should:

- Develop intermediary outcomes or proxies of outcomes that can be measured during implementation and serve as a bridge between implementation and final results.
- Revisit the instruments available for tracking the implementation and results of financial investments.
- Redesign the final evaluation system so that it can be used to systematically report on the aggregate results of the portfolio, by strengthening data collection and applying preferred methodologies.

5. **Better define and strengthen the MIF's role as a knowledge institution.** Both the MIF mandate and the Access Framework highlight the role of knowledge in scaling up innovation. The MIF has moved forward in developing a learning agenda, but it does not have a strategy that clearly identifies the role that knowledge and learning should play in its business model. To address these issues, the MIF should develop and adopt a corporate knowledge strategy that clearly links its different activities in promoting knowledge and learning to its corporate objectives. In addition, the MIF should:

- Review the adequacy of its knowledge agenda, with a view to identifying the main knowledge gaps and deciding how the knowledge strategy will promote the MIF's development goals and objectives at the agenda level.
- Strengthen experimentation opportunities at the project level, and link them with the MIF's knowledge goals, tailoring experiments so that they test the validity of models proposed by MIF partners.
- Strengthen the MIF's quality assurance function by implementing a quality control system based on peer reviews.

- ¹ The MIF was capitalized through an original commitment of US\$1.2 billion, secured through the agreement establishing the MIF, and later through a commitment of US\$500 million secured through the capital replenishment.
- ² The MIF had five purposes: (i) encourage the development and implementation of investment reforms and facilitate private investment; (ii) encourage implementation of development strategies based on sound economic policies; (iii) stimulate micro-enterprises, small businesses, and other entrepreneurial activities; (iv) provide financing to help members identify and implement policy reforms that will increase investment, bear certain costs associated with investment reforms and an expanding private sector, and broaden participation of smaller entrepreneurs in their economies; and (v) promote environmentally sound and sustainable economic development in the full range of its operations.
- ³ The first (Technical Cooperation) facility was to finance ancillary activities, diagnostics, and projects to develop regulatory frameworks and policy reform related to a country's investment climate and to provide advisory services associated with this process of reform, with particular emphasis on the financial sector. The second (Human Resource) facility was to finance retraining of workers displaced by liberalization and training of workers to meet the needs of an "expanded" private sector, training of administrators or regulators in their new roles, and training of professionals important to the local economy. The third (Small Enterprise Development) facility was to finance the technical and business needs of "micro and smaller" enterprises.
- ⁴ See MIF/GN-61, "An Evaluation of the Functions and Performance of the Multilateral Investment Fund," 2001.
- ⁵ See MIF/GN-61, *op. cit*
- ⁶ See OVE Evaluation Reports (MIF/GN-78-1 to 18).
- ⁷ For example, in 2005 the MIF leveraged US\$0.68 for every dollar in operations. By 2012 this amount had increased to US\$4.42. The median value of leverage, which is less susceptible to outliers and yearly fluctuations, increased from US\$0.54 to US\$0.82 in leveraging.
- ⁸ This should be a periodic activity, since portfolios tend to fragment over time as the institution experiments and responds to clients' changing needs.
- ⁹ As will be discussed in Chapter III, although the MIF continues to be innovative and has taken steps to improve evaluability and project measurement, there is a fundamental lack of clarity on the MIF's strategy for experimentation and learning.
- ¹⁰ In the years leading up to MIF II, the MIF had moved away from some areas of work—for example, development of commodity markets, modernization of financial sector regulators, labor and pension reforms, liberalization of financial systems, support for privatization of public enterprises, reform of the regulatory environment in public services, training for industry groups, and development of worker standards and capabilities. Projects dealing with the training of government and industry actors in the conditions required for commercial liberalization and trade openness were also de-emphasized.

- ¹¹ Private sector windows reflect market segmentation at the borrower level, with the Corporate Finance Department lending to big enterprises, IIC lending to SMEs, and the MIF focusing on the lower end of the distribution, providing technical assistance to small and micro enterprises. However, OVE's background paper on the private sector prepared in November of 2012 (RE-414) identifies thematic overlaps in functions between private sector windows—for example, between the MIF and the Bank's Opportunities to the Majority initiative (OMJ).
- ¹² See *MIF- Proposed Working Program and Administrative Budget for 2010* (MIF/GA-21)
- ¹³ See Article IV, Section 5. MIF/CA-7-1: "Any time after the first anniversary of the MIF II Effective Date, and at least every five years thereafter, the Donors Committee shall request an independent evaluation by the Bank's Office of Evaluation and Oversight, payable with resources of the Fund, to review Fund results in light of the purpose and functions of this MIF II Agreement."
- ¹⁴ See MIF/RE-2-1, *MIF II Evaluation: Proposal for External Evaluation by the Office of Evaluation and Oversight. Approach Paper for a Second Independent Evaluation of the Multilateral Investment Fund*.
- ¹⁵ Details of the Evaluative Survey Instrument, and the selection of the sample, are found in OVE's 2012 Mid-Term Report (MIF/RE-2-2).
- ¹⁶ All background papers are available at www.iadb.org/evaluation.
- ¹⁷ The impact evaluations were conducted in Brazil (Galpão Aplauso), Colombia (UNODC), and Bolivia (Sembrar Sartawi).
- ¹⁸ OVE classified projects approved before 2010 according to the framework typology, so as to be able to compare MIF activities throughout the period with the same lens.
- ¹⁹ Originally a fund with 5 people, which relied entirely on the IDB and others for almost all aspects of its operation, the MIF now has a staff of 115 people, and generally is an autonomous part of the IDB Group.
- ²⁰ Starting in 2003, the MIF proactively began to address the issues identified by OVE by setting up a working group to develop an action plan to address OVE recommendations. The working group's mandate was similar to that of the group that assessed the MIF's performance in 1996 (see MIF/GN-78-6, MIF/CA-4, MIF/GN-78-10 and MIF/GN-78-17).
- ²¹ The need to simplify and reduce the scope of MIF activities has always been a recommendation of MIF evaluations (MIF/GN-41, MIF/GN-78-1). The underlying assumption is that the organization's breadth is limited by the variety of areas in which it programs activities.
- ²² See background paper on microfinance in Honduras and Peru.
- ²³ In other words, topics address the underlying constraints that are limiting a microentrepreneur's or small firm's access to financial services, for instance, in the different agendas under financial services and microfinance. At the same time, it is important to note that an increasing amount of fragmentation is to be expected, as the framework becomes less aligned with MIF priority areas.

- ²⁴ This approach attempted to introduce technology without a view of the market for firm products, and as a result saw limited success and little adoption by market actors.
- ²⁵ For example, there was a decreasing emphasis on the development of conventional urban microfinance in developed markets, such as Bolivia and Peru.
- ²⁶ The same is true for the Access Framework focus on non-credit services, such as micro-insurance and savings. Projects to develop savings and insurance can be seen in the portfolio beginning in the mid -2000s, particularly in more mature microfinance markets.
- ²⁷ The percentage of projects that directly target either poor people or microenterprises increased from 20% in 2005-2006 to 35% in 2010-2011.
- ²⁸ According to OVE's site visits, 32% of projects approved in 2010-11 had mainly rural beneficiaries, compared with only 18% of projects approved in 2005-06.
- ²⁹ See MIF/GN-21-1, "MIF – Proposed Working Program and Administrative Budget for 2010."
- ³⁰ See background paper on project-level results.
- ³¹ Although the two main advantages they cited in working with the MIF are the MIF's technical help in design and execution (23%), and the MIF's reputation (16.4%), in 14.7% of cases they identified the MIF's role in experimenting and knowledge as a main value-added.
- ³² One of the most valuable changes that stemmed from the Access Framework was the designation of resources for knowledge. Before the Access Framework, the lack of resources was cited as a major limitation on knowledge-sharing activities. The creation of Agenda Accounts has meant the provision of dedicated funding for knowledge management.
- ³³ That amounts to just 15 of the 299 projects reviewed by OVE from 2005-2011.
- ³⁴ The agendas linked to former clusters that seem to have already proven their viability to the MIF, have made little use of the LCC. The newly created agendas, however, continue to use their LCCs as a tool to help them position themselves within their sector and within the MIF.
- ³⁵ Most of the agendas that grew out of clusters "inherited" funds when they took over the projects belonging to the cluster. They also "inherited" a ready-made market of clients interested in their services, and so have been able to collect fees for their Agenda Accounts since their implementation at the beginning of 2012. Newer agendas, like Basic Services, are still attempting to identify clients, intervention models, and roles for themselves inside the MIF, and they do not have a stream of funds that could be used to implement the knowledge agenda.
- ³⁶ Interviews with MIF project officers throughout the evaluation were consistent with this finding. Given the vast effort that the MIF devotes to producing primary data on project results, creating a database of qualified evaluators would seem like "low-hanging fruit" in the MIF's endeavor to produce and systematize knowledge.

- ³⁷ There are many treatments of competitiveness in the specialized literature, but the most common are associated with a firm's ability to prosper and grow in a chosen market. This result can be measured by such variables as profitability, firm survival, net revenues, and growth in firm valuation.
- ³⁸ See Ayyagari, Demirguc-Kunt, Maksimovic (2012); Sharma (2007); and Bloom, N., Mahajan, A., McKenzie, D., and Roberts, J. (2010).
- ³⁹ Bloom, Nicholas, and Van Reenen (2007).
- ⁴⁰ See Crespi et al. (2008), and Keller and Yeaple (2009).
- ⁴¹ See OVE's Mid-Term Report, MIF/RE-2-2.
- ⁴² Although most of these Tec-In projects propose existing business solutions, they are typically solutions that are absent in the local markets where they are introduced.
- ⁴³ See background paper on project-level results.
- ⁴⁴ The percentage of projects that were able to produce some demonstration effect was high for projects that produced results (65%) but very low for projects that did not (14%).
- ⁴⁵ FOROMIC (Inter-American Microenterprise Forum) is a leading forum for supporting and financing microenterprises, small and medium-sized companies, and small farmers in LAC. CSRAmericas (Inter-American Conference on Corporate Social Responsibility) is the leading venue for responsible corporate practices in LAC and seeks to foster a sustainable and equitable development in the region. PPPAmericas (Inter-American Conference on Public-Private Partnerships) is a leading conference on public-private partnerships for infrastructure and basic services in LAC.
- ⁴⁶ See MIF/GN-120.
- ⁴⁷ The approach defined relative poverty as annual incomes below \$3,000 in PPP terms.
- ⁴⁸ In 2010, the Enterprise Solutions to Poverty group ceased to exist.
- ⁴⁹ See MIF/GN-135.
- ⁵⁰ The objective of Access to Basic Services is to provide basic services to populations with limited or low-quality access. This objective is consistent with the intent of focusing on lower-income populations, as these projects are likely to address fundamental needs of low-income and poor populations. For Access to Finance, the existing work program was restructured into a series of agendas that included a significant focus on financial inclusion: financial services, the adaptation of technology for financial products geared toward low-income populations, and financial services for rural markets. Finally, Access to Markets introduced an explicit attempt to link small producers with inclusive value chains, local economic development, and training of youth-at-risk. Although the agenda does not include poverty as a litmus test for beneficiary selection, focusing on unemployed youth at risk simultaneously targets youth in lower-income groups.
- ⁵¹ The taxonomy that the MIF adopted follows the World Bank's definition of *poor* as individuals with less than \$4 a day in purchasing power parity, and *vulnerable* as individuals with \$4-10 a day in purchasing power parity.

- ⁵² In other words, from the cross-section of executing agencies surveyed in 2012 it is clear that insufficient information is being generated regarding beneficiary poverty characteristics; see the background paper on executing units.
- ⁵³ Given the logistic complexity of surveying different projects, it was not possible to implement the instrument in such a short time frame (8 months) in more countries. OVE's household and firm survey was conducted in three stages. In stage I, three countries were selected to survey. In Stage II, agendas that OVE assessed as having a very low percentage of poor beneficiaries—SME finance, venture capital, or PPP, for example—were omitted. In stage III the lists of projects were shared with MIF country office specialists. Projects that were recently approved, or for which the specialists indicated particular logistical problems (for example, beneficiaries were fragmented throughout the country, executing agency was uncooperative) were omitted. This resulted in a selection of 26 projects in three countries. Because of operational difficulties (e.g., executing agencies declined to participate, did not cooperate, or did not have information required to reach beneficiaries), 18 projects were surveyed.
- ⁵⁴ The percentage of poor employees who are poor depend on the employee occupation: 3% for sales, 4% for blue collar, white collar, and administrative, and 7% for other employees.
- ⁵⁵ The percentage earning below the vulnerability threshold for SMEs was between 15% and 20%.
- ⁵⁶ The findings presented here are based on the background paper on project-level results, which includes the full sample of projects and expands the findings in the Midterm Report of the Evaluation (MIF/RE -2-2) delivered by OVE to the Donors' Committee in April 2012.
- ⁵⁷ MIF/GN-146, *op. cit.*
- ⁵⁸ Only in PPPs, the MIF contributed to a nascent process of public infrastructure finance at the subnational level.
- ⁵⁹ At the project level, 85% of reviewed projects introduced some type of innovation in their intervention model.
- ⁶⁰ The data show that that 60% of MIF projects addressed implementation challenges appropriately. The weak institutional capacity of some of the executing units is reflected in changes in the operational team or in the limited capacity of some executing agencies to fulfill IDB requirements regarding reports and contracts, generating some delays.
- ⁶¹ For projects with good implementation, 64% also achieved high results; of those with poor implementation, very few (4%) achieved results.
- ⁶² In the Access to Markets and Capabilities area, 62% of effective projects had some sort of market/policy impact. Some types of intervention did better than others in this sense. Youth project innovations were partially adopted by local/national government programs. Some LED programs affected countries' SME development policies. Access to Finance projects had lower scores (22%, conditional on effectiveness). Projects that obtained high ratings in the quality of their innovation were also more likely to have market impact. Projects implemented by international NGOs and by private sector associations also had higher market/policy impact.

- ⁶³ Of the projects with relevant data, OVE considered only 40% to be highly sustainable.
- ⁶⁴ In Peru this strategy was particularly relevant, given that the regulatory liberalization that took place in 2007 allowed financial institutions to compete more intensely for rural customers, promoting a shift in emphasis away from rural portfolios. In Honduras, both climatological events and a poor regulatory framework have made it particularly difficult to develop rural credit markets, despite an acute need.
- ⁶⁵ Many of these were developed as part of the MIF's Tec-In (Technology for Financial Inclusion) initiative, a competitive call for proposals that would use technology to address issues of poor people's access to finance.
- ⁶⁶ In Honduras, for example, the review found no financial entities formalized because of challenges with the regulatory authority and a loss of interest among microfinance entities themselves. This strategy was also unsuccessful in Peru, as the regulator was particularly cautious in providing operating licenses to institutions with risky portfolios, such as FONDESURCO.
- ⁶⁷ They have to comply not only with reserve requirements, but also with minimum standards of accounting, portfolio management, information technology systems, physical security of premises, and insurance, among many others. These regulations impose significant costs, which, for many financial firms, simply are not compensated by the benefits of being able to raise capital through deposits.
- ⁶⁸ It should be noted that even if MFIs formalize, they do not necessarily abandon other forms of financing. Furthermore, the strategy pursued by development finance institutions (DFIs) of providing cheap credit to MFIs has arguably reduced the attractiveness of domestic savings as a source of financing (this point is discussed at greater length below).
- ⁶⁹ For example, the MIF financed the development of the first pension product microfinance clients. The product allows clients to save into an escrow account and to withdraw funds in old age. The MIF has been one of the few development agencies to promote true micro-insurance for agricultural production (for example, in a project with Accion).
- ⁷⁰ The main products available are those that insure against a loss by the financial institution (these are sometimes listed as life insurance, but the really insure only up to the value of the outstanding loan balance). None of the projects reviewed had a health insurance product developed; rather, health insurance paid against health events. This is understandable, since there are few health care providers in the areas where these products are being marketed.
- ⁷¹ See MicroInsurance Center, "The Landscape of Microinsurance in Latin America and the Caribbean."
- ⁷² Although in selected cases the MIF attempted to address these problems (for example, with parametric weather-based insurance products for specific crops in Honduras), the high costs of having the private sector cover the missing public infrastructure required to generate data on weather outcomes at the micro level has been a challenge. The same problem was found in a MIF project in Bolivia with a similar attempt to insure quinoa (with CIDRE). The fixed costs are too high, and are just not viable without a higher participation of the public sector in the provision of infrastructure.

- ⁷³ The strategy also differs from others in its reliance on an open competition of products, through the Tec-In initiative. Despite the Tec-In focus on innovation, projects approved under the initiative tend to be very similar: use of cell phone technology to provide financial services. According to OVE's review of innovation, these projects performed well, but were not inherently more innovative than other MIF mechanisms of generating portfolio.
- ⁷⁴ See MIF/RE-2-2.
- ⁷⁵ With a few notable exceptions, such as the project with CONFAMA in Colombia, the fact that beneficiaries receive remittances turned out to be relatively unimportant in efforts to develop new products and services.
- ⁷⁶ For example, the MIF was an early investor in Profund, a fund established in 1993, which helped to demonstrate the viability of the microfinance model in general and raise even more skepticism about the potential of using market-based instruments to fund MFIs.
- ⁷⁷ See the background paper on microfinance funds that was prepared as part of this report.
- ⁷⁸ MFIs still rely to a great degree on financing from local sources (i.e., loans from commercial banks), which carries no exchange rate risk and which today is provided at competitive interest rates in the more developed markets. There is no quantitative or interview evidence that these funds are substituting for domestic sources. MDFs have also become increasingly market-centered and have increasingly relied on private sources of finance, and not on DFI participation.
- ⁷⁹ For example, in the case of LOCFUND, the MIF invested in a fund that developed a clever mechanism to hedge exchange rate risk. Innovative efforts by OPIC and others to develop a hybrid public-private exchange rate hedging instrument through MFX have been very successful (Microrate, 2011). However, such products are still too expensive for several MFIs. LOCFUND's approach attempts to accomplish the same objective on a smaller scale, and at a lower cost.
- ⁸⁰ Despite the continued growth of microfinance, there are serious reservations about the effectiveness of the models used to finance MFIs. Early evaluations of the roles of DFIs and microfinance funds raised important questions about the ability of these instruments to develop microfinance without displacing the private sector. DFIs in particular have fared poorly in the targeting of their investment in MFIs, leading to findings that there had been a "role reversal" (Microrate 2007, 2011), whereby DFIs were actually investing in the most solid MFIs, leaving the private sector to lend to less developed MFIs. There is evidence to suggest that this continues to be the case. The strategy based on microfinance funds, however, seems to have been better targeted.
- ⁸¹ For example, to develop markets in countries with little microfinance, such as Argentina, the MIF invested in Cordial, an emerging microfinance institution. The operation had high additionality, as the client reported the MIF funding to have been important in set up the microfinance model. In other operations, such as Finca Ecuador, there was little additionality detected.

- ⁸² In general, microfinance has not been very successful at reducing poverty, and has also had little impact on social (health, education) outcomes, although in many cases it has increased the entrepreneur's income and has had significant effects on the empowerment of women. In addition, savings products, particularly commitment savings, have been shown to be effective and to increase. Evidence on the effect of microfinance directed toward housing is also mixed. See the MIF's 2011 review of effectiveness of microfinance in the Region, as well as OVE's literature as reported in Marulanda (2013).
- ⁸³ The work with stock exchanges, incidentally, was the capital markets thematic area that performed best during MIF I, according to OVE's prior evaluation.
- ⁸⁴ The project has not been able to generate significant interest in equity markets. Although Ecopetrol, one of the largest firms in Colombia, did list in the Bogotá stock exchange as part of the project, this was not the market segment originally envisaged, as the project targeted medium and smaller firms.
- ⁸⁵ Note that in the case of Costa Rica the project model was one of creating a junior market for SMEs to list, whereas in the other cases the model was to make the existing stock market more attractive to SMEs.
- ⁸⁶ See background paper on venture capital.
- ⁸⁷ See OVE 2003. Some of the problems identified, however, included (i) the poor financial performance of MIF funds—MIF lost considerable amounts of money in its early ventures; (ii) a high concentration on private equity and not so much on venture; and (iii) the limited ability to generate sustained momentum and market impacts.
- ⁸⁸ Of course, this is a relatively small amount, given the size of the market, so the effectiveness of the MIF will depend not on its ability to place funding, but on its ability to develop the ecosystem more broadly.
- ⁸⁹ Although early evidence suggests that Fund performance has improved and may continue to improve (based on out-of-sample J-curve projections), there remains a real preoccupation with generating returns on MIF investment. Fund returns tend to be particularly strong in new technologies, and not as strong in traditional sectors. It should be noted that MIF funds do not perform significantly worse than comparable benchmarks for this type of asset class and market. The poor performance of early market efforts is a common finding in the development of venture capital (see background paper on venture capital).
- ⁹⁰ See background paper on venture capital (Lerner, 2013).
- ⁹¹ See background paper on venture capital (Lerner, 2013).
- ⁹² This concern seems to be at least partially validated by reviews of MIF funds: of the funds reviewed, the ones with the most significant problems were the two funds that superimposed social objectives (rural, poverty) on market development objectives.
- ⁹³ No venture capital project reviewed reached poor populations directly.
- ⁹⁴ The MIF reports annually on financial performance in an annual supervision report. As of the writing of this report, a new system to collect data on investments is now being rolled out, and general partners are expected to begin using the system in 2013. OVE did not evaluate the new system.

- ⁹⁵ The MIF does produce annual assessments of fund performance, which OVE reviewed. Some are done by the MIF and others by external consultants. However, the information is not standardized, and comparable economic and financial concepts are not used across different investments.
- ⁹⁶ See background paper on venture capital (Lerner, 2013).
- ⁹⁷ It should be noted that the MIF's commitment to business and territorial development in the Region mirrors similar lines of support by a number of other international organizations—especially European bilateral development agencies, United States Agency for International Development, United Nations Industrial Development Organization, and the International Labour Organization—that have become active providers of technical assistance and/or funding in support of joint public-private economic development initiatives at the local and regional levels in LAC.
- ⁹⁸ Weak diagnostics of market constraints and complex intervention models produced implementation problems and delays in execution. For example, the project supporting the economic development of the provinces of Jaén and San Ignacio presented a disarticulated model of intervention based on isolated supports ranging from skills development for the cocoa and coffee chains, promoting entrepreneurship, improvements in local infrastructure, and promoting training activities, but did not make it clear how these activities would relate to each other or how they would affect the provinces' productive sector.
- ⁹⁹ Final evaluations existed for four projects, but they did not report on outcomes such as improvement in productivity, local firms' sales and exports, spillovers, and effectiveness of governance structures.
- ¹⁰⁰ Rafaela in Argentina offers an example of sequenced interventions. In 1996, the first project established the Business Development Center. In 2004, another MIF project financed the development of SMEs in the agricultural and industrial sectors in the province of Santa Fe. In 2006, the MIF approved the LED project "Strengthening Competitiveness of Clusters in Central Region of Santa Fe Province."
- ¹⁰¹ Examples of successful projects are the Cluster Competitiveness in the Central Region of the Province of Santa Fe and the Cluster Promotion Program in Peru.
- ¹⁰² Although attribution is difficult to prove, a discussion of the evolution of the industrial structure in Rafaela comparing 2000 and 2006 showed diversification of economic activities, an increased number of enterprises (15%), and increased employment (22%); see ICEDEL, 2008.
- ¹⁰³ This agenda has not produced a sizable number of projects and is not analyzed in the report.
- ¹⁰⁴ To illustrate, the principles of inclusive business approaches—anchor companies finance part of the technical assistance, and non-exclusiveness arrangements are in place—may be relevant to high-value markets, but they do not seem to have been applied systematically in this area. Conversely, principles of product differentiation and pre-identification of market niches to achieve larger profit/margins have not been applied systematically in the inclusive business agenda.

- ¹⁰⁵ The literature identifies a trade-off between the objectives of increasing standards (decent work, SA8000, environmental and food safety standards) and involving poor producers. Higher standards inevitably imply compliance costs, which raise entry barriers and penalize small-scale production. Moreover, they may render the whole supply chain less competitive as long as other providers manage to avoid compliance. Hence donors need to weigh the short-term and long-term objectives as well as the differing interests of consumers, small producers, employed workers, and persons seeking labor in the informal sector (Altenburg, 2006).
- ¹⁰⁶ This is the case with rural value chains and, in urban informal economies, value chains with a preponderance of SMEs, microenterprises and homeworkers, and clusters in labor-intensive sectors and sectors that employ marginalized and poorer groups of workers, such as minority groups, women, migrants and unskilled workers.
- ¹⁰⁷ Only in 2011 did the MIF approve a regional umbrella program to promote a common approach for greater inclusion of the recyclers in the value chain.
- ¹⁰⁸ This was the case, for example, in Ecuador, where the rather stringent export requirements on the flower sector made it difficult to include the smallest producers, which had been the project's intended audience, and in Peru, in the attempt to introduce innovative systems in the textile and food industries.
- ¹⁰⁹ Out of the nine projects finished, three were adopted beyond the immediate executing unit. For example, the honey industry in Honduras and cocoa in Ecuador had impacts associated with local markets and international markets, respectively. In both cases, MIF projects set standards that were later broadly adopted by the local industry.
- ¹¹⁰ The previous OVE evaluation of engagement in labor markets awarded the MIF high marks for relevance and innovation, but indicated that projects encountered sustainability problems in new certification schemes and training models.
- ¹¹¹ This change in focus was validated and formalized with the approval of the Access Framework and the strategy "Give Youth a Chance: An Agenda for Action" (2012).
- ¹¹² Although the reflexive data are not sufficient to estimate things like treatment effects, they were useful as a monitoring tool and as a tool to evaluate internal and external efficiency.
- ¹¹³ Most public sector programs have incorporated labor insertion components and life skills training.
- ¹¹⁴ The cluster Strengthening SME competitiveness through Information and Communication Technology (ICT) was approved in 2002. The purpose was to improve the competitiveness of SMEs in the Region through the promotion, application, and adoption of ICT tools and innovative ICT solutions for SMEs.
- ¹¹⁵ In Applied ICT for the Environmental Management for SMEs of the Fruit Sector (AR-M1026), the ICT solution has resulted in overall reduced costs for the farms where the tool was applied. The estimated impact, due to increased market share for fresh fruit and the reduced use of pesticides, was an improvement of 1.0-1.5 tons per hectare, and an average of 2.0-3.0 tons export extra per ha.

- ¹¹⁶ Enabling business environment through improvements in regulation for SMEs has been an area of activity of the MIF since 2001, when the MIF approved the cluster Reducing Regulatory Burdens for SME registration. This cluster aimed to increase the participation of small entrepreneurs in the formal economy.
- ¹¹⁷ For example, in the one-stop-shop project with the Municipality of Cuenca in Ecuador (EC-M1019), the lack of support by the municipality, along with weak executing ability, poor communication between different agencies, and the lack of basic data on the registry of establishments, kept the project from achieving almost any of its objectives. In comparison, the projects with the Municipality of Moron in Argentina and in São Caetano, Brazil, were very successful.
- ¹¹⁸ The cluster Facilitation of International Trade and Investment, approved in 2001, aimed to improve economic growth and increase income and productivity in the Region through enterprises' participation in international trade and investment. Identified beneficiaries of the cluster were enterprises that imported or exported goods and services, especially smaller enterprises.
- ¹¹⁹ One of the few examples of successful projects in tourism was the Consolidation of Enotourism in Mendoza, where the executing agency succeeded in linking the program with the government strategy for the promotion and development of the region. The project also rated high on market impact, contributing to the public policies for the region. On the other hand, Promotion of Tourism to the Missions in the Guaraní World focused in developing the supply side, failing to develop the demand side as well as to link the program objectives with a public policy.
- ¹²⁰ The Basic Services "topic" contains two "agendas": Public-Private Partnerships and Basic Services for the Poor. The Environment and Clean Energy "topic" includes three "agendas": Clean and Efficient Energy, Leveraging Natural Capital, and Adaptation to Climate Change.
- ¹²¹ Because this model was consistent with what the Bank was doing more broadly, during this period the MIF also worked in coordination with the IDB.
- ¹²² FOMIN, 2005. *Plan de acción para grupos de proyectos del FOMIN. Apoyo a la competitividad mediante asociaciones público-privadas* (MIF/GN-107), October 2005.
- ¹²³ During the period of analysis, MIF approved 17 operations (US\$12.45 million), 9 of them under the Program to Promote PPP in Mexican States. Projects approved in Brazil, Mexico, and Uruguay represented the bulk of the portfolio.
- ¹²⁴ Only the programs in Colombia and Uruguay attempt to mitigate fiduciary risks in their programs; the project in El Salvador helped El Salvador in its strategy to define a new way of engaging with the private sector in PPPs.
- ¹²⁵ While the agenda promoted using the PPP instrument for public services provision, only the operation in Colombia had a focus on nontraditional sectors in its objectives.
- ¹²⁶ According to project documentation and interviews, training seminars were typically oversubscribed, and MIF projects generated significant interest with policymakers and bureaucrats.

- ¹²⁷ In Mexico, for example, the PPP subnational regulatory framework was not developed in some states. In these cases, the MIF used TC funds to attempt to set up a new regulatory framework. In Brazil, stakeholders recognized the role of the MIF in financing technical assessments of the normative framework, which were then used in discussions with incoming governments on the potential role of PPPs in financing public investment.
- ¹²⁸ The strategy defines the basic services as those that provide basic needs services to the local population: water supply, collection and disposal of wastewater, electricity and gas supply, health services, roads and storm water drains, street lighting, parks, basic education, and preschool services for working women.
- ¹²⁹ Energy service companies would sell technology and process innovation to smaller firms, which would be able to pay for them with the savings generated by lower energy costs. Financial intermediaries would also participate, providing credit for firms to buy the innovation. The clean energy markets projects focused on improving market opportunities for smaller companies to take advantage of opportunities presented by clean energy projects and services in energy efficiency.
- ¹³⁰ The projects approved in 2010 and 2011 work in biogas market development, bioenergy, and carbon credit, as well as in older issues, such as promotion of energy efficiency in MSMEs and renewable energy.
- ¹³¹ The most successful program was implemented by the Chamber of Commerce of Bogotá (CO-M1038). The success was due to the experience of the executing agency in promoting market opportunities for clean energy and energy efficiency, its contacts with the SMEs environment, and the existence of national norms in energy efficiency, with specific regulations and incentives for SMEs.
- ¹³² BR-M1028, Support for Alternative Market Opportunities in Rural Areas in Tocantins.
- ¹³³ For more detail, see the background paper on Haiti.
- ¹³⁴ The Haiti Emergency Spending Allocation Request program invested US\$3 million in grants to 16 executing agencies at a time when financial institutions had shut down and there was very little working capital available. The MIF's internal evaluation, as well as a follow-up by OVE (see MIF/GN-142-4), showed that the funds were important to averting an interruption in business. For projects with financial institutions, this translated into continued funding for microentrepreneurs at a time when funds were needed not only to replenish inventory, but also to finance expenditures associated with the immediate aftermath of the recovery.
- ¹³⁵ The MIF approved two programs for housing reconstruction (*Un Techo para mi País* and *Habitat for Humanity*) and restructured one program approved before the earthquake (*Viva Río*). The approach has not been successful because the locations to which populations were relocated lacked local labor demand, services, and other needs required to sustain these populations. These characteristics had been present in Port-au-Prince, but were absent post-relocation. This generated poor sustainability results, and poor prospects for project beneficiaries in the short run.
- ¹³⁶ The MIF retooled funds from a recycling project executed by Viva Río to focus on training young people for reconstruction.

¹³⁷ For example, in developing tourism, the success of the program depends on activities and investments that have not yet materialized, and the MIF's technical cooperation instruments are insufficient to achieve the program's goals. In providing finance for microenterprises, the MIF's effectiveness also depends on the further development of a proper legal and regulatory framework, as well as the possibility of channeling activities that are complementary to finance, such as training, social, and other activities that in other contexts would typically be provided as part of public policy.

¹³⁸ See OVE (2013).

¹³⁹ For example, in a project that successfully anchored small producers to a value chain with VETERIMED, or when it partnered with LeLevier to develop longer-term financing options for small rural enterprises, a critical need in Haiti.

¹⁴⁰ MIF/GN-146, *op. cit.*

REFERENCES

Background Papers

- Microfinance Case Study of Peru and Honduras
- Knowledge Management at the MIF
- The Survey of MIF Executing Agencies
- Targeting and Reaching the Poor
- Venture Capital Overview and LAC
- The MIF and Early Stage Financing
- The MIF's Project-level Results
- The MIF and Haiti
- The MIF and Basic Service
- The MIF and Public Private Partnerships
- The MIF and Development of Markets
- The MIF and Youth and Employment
- The MIF and Microfinance Funds

Background papers are available at www.iadb.org/evaluation