A Message from the President

Dear EES Members,

I have great pleasure introducing this special issue of “Connections”. It is entirely dedicated to Private Sector Evaluation (PSE). Under the leadership of Fredrik Korfker, our Thematic Working Group (TWG) on PSE has been very active as this distinguished collection of articles demonstrates.

Evaluation in the private sector domain has grown steadily over the past two decades. It has acquired a distinctive culture of its own. A burgeoning civil society, increasing reliance on financial intermediaries, an exponential rise in initiatives supporting micro, small and medium enterprises and rising expectations with respect to corporate social responsibilities, good governance and public accountability have fuelled a growing demand for innovative evaluative practice.

Remarkable advances have been made in developing good practice PSE standards. New performance measurement systems have emerged. The quality of social and environmental impact assessments has improved. Fresh evaluation challenges focused on regulatory systems, risk management and sustainability are now arising in the banking and financial world.

As a result the PSE field has become more diversified. Accordingly our Thematic Working Group has been wisely divided into subgroups focusing on such different facets as Private/Public Partnership, Corporate Self Evaluation and Evaluation of Financial Intermediaries. This diversity is reflected in the special issue.

I am convinced that PSE will play a major part in the evaluation scene in a world of constrained fiscal resources. Better evaluation of the risks associated with complex financial instruments and activities managed for quick returns has become imperative. New ways of promoting innovation and long term investments will have to be tested and evaluated. Public concerns regarding equity and sustainability will have to be heeded. Independent assessments of regulatory regimes will also be required.

Thus PSE will figure prominently in our next biennial conference (1–3 October 2014 – Dublin, Ireland) given its theme “Evaluation for an Equitable Society. Independence, Participation, Partnership”.

A large number of panels, paper presentations and posters will address the challenges and opportunities that evaluation is facing in order to promote democratic values and social inclusion and contribute to economic, social and environmental sustainability.
We are expecting inspiring messages from our keynote speakers, Michael Scriven, Marco Segone, and a joint speech by Jennifer Green and Helen Simmons. We also will be honoured by the Irish Minister for Public Expenditure and Reform, Brendan Howlin TD who has accepted to deliver the opening address.

I look forward to welcoming you in the charming city of Dublin. The Society needs your participation, your ideas and your fulsome engagement in debates about the future of our discipline in Europe and beyond.

EDITORIAL
Fredrik Korfker

Monitoring and evaluation in the private sector has evolved over the past two decades. In particular, international development finance institutions have developed good practice standards for the evaluation of private sector interventions and there is growing interest and focus among private corporations and the wider public about the measurement of non-financial results of private sector activity. This special issue reflects lessons of experience in this distinctive and increasingly important evaluation domain.

In the first article Jack Glen provides an overview of private sector monitoring and evaluation trends. Impact investors, which in 2012 committed $8 billion globally, require performance measurement. Independent certification providers seek to verify outputs and outcomes including indirect and secondary effects. Corporate reporting on economic, environmental and social responsibility is on the rise. In the financial sector the Equator Principles pioneered by the International Finance Corporation provide environmental and social standards adopted by 79 major financial institutions.

In the second article Mohamed Manai offers a critical assessment of the rating systems used by multilateral development banks (MDBs) in the private sector and probes their validity in terms of financial performance, economic sustainability, and social sustainability in line with the good practice standards (GPS) of the Evaluation Cooperation Group (ECG). In particular he highlights the challenge of comparability of ratings across MDBs. He concludes that much needs to be done, also in cooperation with social scientists, to give true meaning to performance indicators across the institutions.

The third article, the article that I jointly authored with Marvin Taylor-Dormond, describes the differences between public sector and private sector evaluation. We describe the distinctive culture of private sector development financing and the obstacles that must be overcome to achieve organizational learning.

The fourth article by Vinod Thomas explores how the private sector can contribute to inclusive growth in the Asian region and how to expand the Asian Development Bank’s development impact through better screening of project proposals from private sponsors and improved monitoring and evaluation arrangements.

In the fifth article Anders Grettve and Stoyan Tenev highlight the importance of more inclusive financial services and broader access to financial institutions. They argue that sharper targeting of funds is important even if some displacement takes place and question why financial inclusion characterizes a small share of MDBs’ FI portfolios. They favor thematic and portfolio-based evaluations to induce attention to a wider strategic perspective.

In the sixth article Khaled Hussein Samir and Elsa De Morais Sarmento argue that in Africa contributions to employment and the wider economy through SMEs has not been well supported by the enabling policy environment leading to a weak uptake. In addition to policy reform greater strategic selectivity in the design of interventions and better use of evaluation findings are also needed.

The seventh article Mehmet Uzunkaya addresses the issues involved in evaluating public-private partnerships (PPPs), which have become common in the provision of public investments in developed and developing countries. The article argues that the complexities of PPPs, in particular their long-term contractual nature make them vulnerable to a multiplicity of risks that need to be shared and managed judiciously. In turn this calls for careful evaluation of the risks and rewards involved in diverse partnership designs.

Romeo Santos, in the eight article deals in a playful way with the distinction between corporate self-evaluation (CSE) and corporate social responsibility (CSR), a much-debated subject within and outside the private sector. He asks whether CSR is an “aesthetic mask” or “expensive PR-driven window dressing”. In this and other aspects of private sector activity the widespread drive for corporate accountability to shareholders and the wider public makes it imperative to exert rigorous verification of corporate compliance with agreed standards of good corporate behavior. Thus sound monitoring and evaluation in the private sector is “part and parcel of orderly house-keeping”.

1 All the articles included in this Special Issue were authored by members of the Thematic Working Group (TWG) on Private Sector Evaluation which is made up of four Sub-groups (1: Evaluation of Financial Intermediaries, including SMEs; 2: Evaluation of Public Private Partnerships (PPPS); 3: Dynamics of private sector evaluation, versus public sector evaluation; 4: Self-evaluation within the private sector).
Private sector investment activities have been driven historically by profit motives, but that has changed as pressure has increased to publicly report on the environmental and social impacts of its operations. This note summarizes the state of non-financial reporting by the private sector. It segments the universe into three distinct groups: impact investors, corporate investors and financial institutions. Each group has responded to this issue in a different manner.

Impact Investors

Impact investors are fund managers with a twin focus on financial return and development impact. The universe of impact investors is young, but growing; a recent survey reports that impact investors committed $8 billion globally in 2012. The capital providers involved are interested in more than financial returns and expect reporting of development impact results.

The impact investment community has moved to standardize reporting of non-financial results. A notable outcome is the establishment of the Impact Reporting and Investment Standards (IRIS), which is a set of metrics covering multiple dimensions. Although voluntary, IRIS has been widely adopted owing to the advantages that standardization provides.

IRIS provides a summary of investment outputs and outcomes, but does not actually measure impact. Approaches to impact measurement vary widely. Many impact investors accept IRIS metrics as sufficient indicators of impact. Others dive deeper, producing impact reports, including case studies of a subset of investments, typically calculating economic rates of return. Analysis beyond IRIS has largely been funded by donors.

Some impact investors undergo independent certification of their development activities. There are two independent ratings providers: B Lab and CARS.

B Lab assesses stakeholder impact through a self-assessment survey. The survey includes the company mission, governance, transparency, employment, suppliers, clients, community service, board composition, environmental metrics, business model, social metrics and services to underserved communities. Beyond self-assessment, the investor can submit to verification of the results by B Lab and receive a Global Impact Investor Rating System (GIIRS) rating.

Before impact investing became established among fund managers, there were development finance institutions (CDFI) in the US financing community development on a commercial basis. An independent rating organization was established and developed a rating framework for CDFIs: CDFI Assessment and Rating System (CARS). It contains two main components: impact performance and financial strength. The impact performance rating assesses the extent to which the CDFI has an alignment of strategy and operations; that there is effective use of resources; and that there is tracking of outputs, outcomes or impacts. The financial strength component assesses the CDFI from a financial perspective.

Corporate Reporting

Corporate non-financial reporting is growing in importance and extends beyond developed country multinationals. Based on the concept of sustainability, non-financial reporting has its roots in the public response to environmental issues. To embrace sustainability, individual organizations need to consider the impact of their activities, including: economic, environmental and social.

A leader in the field of sustainability reporting is the Global Reporting Initiative (GRI). GRI released its first version of reporting guidelines in 2000 and in 2002 was inaugurated as a partner of the United Nations Environmental Program. The guidelines contain three categories: economic, environmental and social. While the environmental category is obvious, the other two categories deserve explanation.

Under the economic category, reporting companies are expected to examine four aspects of their activities: economic performance, market presence (employment footprint), indirect economic impacts and procurement practices.

The social dimension to GRI reporting is extensive, with sub-categories regarding labor practices, human rights, society and product responsibility.

Reporting under the GRI guidelines has increased dramatically over the years, starting with 11 organizations reporting in 1999 to a total of 3,640 registered reports in 2012. A World Business Council for Sustainable Development (WBCSD) 2013 review found that almost 75 percent of the reports in their sample followed GRI reporting guidelines. Reporters have a choice on the level of disclosure that they provide and independent external assurance of the quality of the information is possible and is reflected in the rating assigned to the report by GRI.

There are alternatives to GRI in the corporate reporting space. The Integrated International Reporting Council (IIRC) published a framework for integrated reporting in late 2013 that incorporates non-financial information along lines similar to GRI.

Similarly, the Initiative for Global Development (IGD), a non-profit that focuses on business growth and investment in Africa, has developed a set of four frameworks for measuring impact covering agribusiness, financial services, information and communications technology and consumer goods.

Other tools are available for non-financial reporting, but most have had only limited usage owing to their data and skill requirements. Input-output modelling, for example, is based on economic theory and is beyond the reach of most businesses.
In addition to standards and frameworks, there is also a rising set of service providers for companies interested in development impact. Among those is Vera Solutions, which provides database software useful for monitoring appropriate metrics and GII RS (mentioned earlier), which undertakes assessments and provides impact ratings. A step further is B Corps certification, under which companies are assessed to meet rigorous standards of social and environmental performance, accountability and transparency. In a recent count there were 910 certified B Corps in 29 countries.

**Equator Principles**

Banks play an important role in financing investment and became the target of environmental groups in the past for the role they played in what were seen as environmentally destructive projects. In response to pressure from these groups, the Equator Principles (EP) were adopted by a set of important international banks over a decade ago, based on environmental and social guidelines developed by IFC. Currently there are 79 EP Financial Institutions (EPFI) that have adopted these principles.

EPFI agree to follow IFC standards when involved in project finance, project finance advisory services, project-related corporate loans and bridge loans. Importantly, for financing covered by the principles, loan covenants are expected to oblige the borrower to conform to the principles as well. Monitoring, evaluation and reporting on compliance are expected and engagement with stakeholders and the establishment of a grievance mechanism are part of the principles.

**Conclusions**

Corporations, financial institutions and impact investors have each responded to the demand for accountability by developing voluntary reporting systems that reveal to varying degrees the environmental, social and development impact of their operations. Through the Equator Principles, the banking community has gone the furthest in terms of adopting a formal system of accountability, but one which has only a limited amount to say in terms of development impact. Given the extreme variation in its type of activities, the corporate sector has responded with a very informal approach, with formats available to suit every need. In between is the impact investor community, which has developed a standardized system of metrics, which is widely embraced, but which some have complemented with more in-depth analysis.

What each of these approaches has in common is a willingness of the private sector to adopt and pay for monitoring and evaluation of non-financial results. Interest on the part of investors and society in general appears to be increasing and, for that reason, it is likely that this movement will continue.

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**BENCHMARKING OF OUTCOMES IN THE EVALUATION OF PRIVATE SECTOR DEVELOPMENT INTERVENTIONS**

**Mohamed H. Manaï**

The rapid increase in resources deployed to the private sector by International Financial Institutions (IFIs) within the past three years calls for parallel efforts to improve accountability and to enhance institutional capability to track and report on development results. Specifically their Central Independent Evaluation Units should review and report the extent to which (i) the IFI applies coherent and consistent benchmarks to gauge project performance at relevant stages of the development intervention cycle; and (ii) whether Management’s reporting of results includes project outcome and “additionality” ratings consistent with the MDBs’ Evaluation Cooperation Group Good Practice Standards.

This implies independent assessments of the evaluability of the IFIs’ operations - i.e. the extent to which the value generated or expected from a project are verifiable in a reliable and credible fashion. In practical terms, this necessitates the identification of relevant indicators at the approval stage as well as adequate arrangements for collecting the data required for monitoring during project execution. To date, the Independent Evaluation Unit of the African Development Bank (OPEV) has validated the outcome performance and “additionality” of over thirty operations in support of private sector development. A Synthesis Report aggregated the findings of Expanded Supervision Reports independently verified by OPEV, with a view to determining the effectiveness of the Bank’s contribution to economic growth and poverty reduction by supporting the development of the private sector through non-sovereign guaranteed operations.

The rating of Outcomes reflects summary qualitative performance judgments based on a synthesis of the following ratings:

- The project / company’s financial performance (i.e., the project’s contribution to the company’s financial results, or the company’s financial results where the project is indistinguishable from the company). The project / company’s economic sustainability (i.e., the project and/or project company’s contribution to growth in the economy)
- The project / company’s contribution to the IFI’s mandate objectives, be they to stimulate development of the private sector, development of efficient financial / capital markets, or transition to a market economy
- The project / company’s environmental and social performance

The use of consistent benchmarks to assess the outcomes of private sector interventions is challenging. Different types of operations and financing instruments require different merit measures as highlighted in the ECG Good Practice Standard. The methods used to rate financial markets operations involving sub-projects differ from those applied to other financial market operations let alone non-financial market private sector operations. Success rates cannot be meaningfully
compared across different types of projects. Accordingly, MDBs’ success rates cannot be meaningfully benchmarked through simple aggregation of traditional ratings if only because the share of financial market operations varies across than MDBs.

In principle, financial performance comparability could be secured if reliable rates of return on the capital used by different types of capital expenditure or financial markets projects were estimated on a consistent basis and related to the cost of capital in the country concerned. This kind of assessment is unfortunately rarely carried out.

More often than not the main criterion for rating the business success dimension involves an assessment of the project capacity to repay debts and yield an acceptable return for shareholders. From this perspective, there is strong evidence of a tight relationship between front-end work quality and business success: projects which receive a negative business success rating also tend to attract negative screening and appraisal ratings. A frequent lesson of MDBs’ private sector development experience is the desirability of “working with good sponsors”. The correlation between business success and the quality of the Bank’s front-end work is strong. The correlation is significant since the Bank’s work quality is evaluated independently of the project’s outcome (including business success).

The evaluation department, in its 2010 Synthesis Report took into consideration reasons why actual project performance differed from expectations at appraisal and whether this difference could have been predicted and/or mitigated during at screening, preparation or appraisal stages. The conclusion is that quality front-end work contributes to success but that it is not sufficient to guarantee positive outcomes. No matter how proficient is the Bank’s front-end work some risks cannot be fully managed. External factors (e.g., adverse macroeconomic developments or investment climate shifts) are critical variables for the generation of ultimate project outcomes.

Projects which enjoy satisfactory economic sustainability ratings also tend to produce satisfactory or highly satisfactory business success ratings. Conversely projects receiving unsatisfactory economic sustainability rating are prone to receive unsatisfactory or highly unsatisfactory business success ratings. Successful/profitable companies create jobs, pay taxes and provide a positive demonstration effect on private sector development. Indeed, business and financial success of the project/company goes hand in hand with economic and social development. Learning from outliers (successful as well as unsuccessful interventions) underlies the value added from private sector evaluations.

Thus, evaluation evidence points to a significant correlation between business success and private sector development. This is meaningful when taking into consideration the strong demonstration effects that profitable/successful companies set in their respective sectors/countries. Such interventions induce forward and backward linkages that benefit suppliers and companies that offer complementary services, for example in the tourism sector as demonstrated by successful hotel projects.

To be sure quantifying the distinctive development outcomes of the Bank’s interventions is challenging given constraints regarding data availability. In supervision reports business performance is normally assessed by comparing financial or economic projections at appraisal with achievements at “early maturity”. This method is useful in determining the robustness of Bank projections during appraisal but it does not capture the project’s full social and economic impact or its sustainability. Business success assessments should take account of the operating context as well as company specific benchmarks as per the Evaluation Cooperation Group guidelines. Industry/sector comparisons should also be used. Social return estimates should be produced when feasible. In principle, employment creation estimates should take account of the “creative destruction” of jobs in a competitive economy. Demonstration effects should also be factored in. More generally indirect and secondary effects (costs as well as benefits) should be estimated. In particular multiplier effects through tax generation, new trading opportunities etc. should be considered. Finally environmental impacts should be systematically evaluated beyond the satisfaction of minimum standards imposed by safeguard policies.

In conclusion, much remains to be done to apply consistent outcome indicators and benchmarks in the assessment of results and performance of private sector operations financed by MDBs. They require tailor made surveys and sophisticated analyses that are not currently carried out. The need for evaluators to team up with social scientists in order to learn from experience seems compelling.

A cost effective approach to carrying out such evaluative and analytical work would involve comparative assessments across project portfolios through collaborative work among MDBs. This would tap economies of scale and it would allow comparisons across projects through the systematic use of consistent methodologies. Such work would help lay the ground work for the development and dissemination of guidance notes defining evaluative concepts and clarifying the use of outcome indicators and benchmarks so as to promote rigor and objectivity in ex ante and ex post evaluations of private sector development interventions.

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1 With reference to job creation estimates, verification of whether the newly created jobs offer incremental benefits to employees over their previous circumstances is important.
2 Independent Evaluation of IFC’s Development Results, 2007
3 Successful companies have a strong demonstration effect by proving that investments in their particular sector are profitable and inadvertently invite new entrants to the sector/industry, and thus enhance investments in the sector. However, failed projects can also have positive PSD impacts if company liquidations occur in an orderly and equitable way through a well-functioning legal system.
**DYNAMICS OF PRIVATE SECTOR EVALUATION VERSUS EVALUATION OF PUBLIC SECTOR DEVELOPMENT INTERVENTIONS**

Fredrik Korfker and Marvin Taylor-Dormond

**Introduction**

Multilateral development banks (MDBs) undertake interventions in developing countries through both the private and public sectors. MDBs’ support to the public sector is still dominant, although private sector interventions have shown a steep growth over recent years. While public sector operations are often initiated by the MDBs in cooperation with national or local governments, private sector interventions involve corporate sponsors who own and control their project initiatives. MDB’s private sector interventions involve primarily investments in equity as well as loans and guarantees. MDBs also render advisory services that are often co-financed through grant funding from donor trust funds. Both investment operations and advisory services for private sector development are evaluated based on good practice standards (GPS) that were developed by the Evaluation Cooperation Group (ECG), a working group of MDBs’ evaluation heads of the MDBs collaborate. Recently ECG has undertaken to better align private and public sector project evaluation standards.

**Distinction between private and public sector operations**

Several characteristics are distinctive of private sector operations. First, they are subject to market principles, meaning that direct beneficiaries have to pay for the services they provide, that they face competition and that sponsors are primarily motivated by profitability. Second, they entail third party effects, which can be positive or negative and may not receive market feedback (externalities). Third, the mitigation of negative externalities, the amplification of positive externalities and the correction of market failures justify the use of tax-payers money to intervene in this space.

Private sector operations involve corporate finance arrangements for the private sector, be it for manufacturing or services, but they can also involve project finance, for instance, for infrastructure projects with large private sponsors and finance consortia. MDBs also support financial intermediaries such as commercial banks, equity funds and other financial institutions. The relationship with private sector clients can be short or long-term, whereas in the public sector operations are long-term. When MDBs interact with private sector clients they employ an entrepreneurial approach and engage in due diligence to ensure that returns are adequate returns and that risks are properly mitigated. Assessing the rate of return, the market conditions, the client and the broader economic contribution of projects ascertains the impact and sustainability of operations. This market-based approach differs from MDBs’ public sector goal based evaluation standards. It is justified by the fact that in the case of private sector financing MDBs assume a multiplicity of financial and reputational risks.

Management and staff implicated in private sector activities in MDBs are primarily selected based on their private sector experience and training. On the other hand, MDB professional staff responsible for public sector projects is mostly recruited with a development background and public sector experience. Hence their approach, language, culture and clients are different. Finally whereas MDBs cooperate with government in the choice of public sector projects, project sponsors drive private sector projects and define their targets.

**Implications for evaluation**

The Evaluation Cooperation Group (ECG) has produced good practice frameworks which recognize the distinctions highlighted above: (i) it privileges the estimation financial parameters and returns; (ii) it ensures that the projects contribute to the national economy (economic analysis ); (iii) it gives priority to environmental and social effects of investments and to compliance with safeguard policies; and (iv) it highlights the transitional, development or structural purposes of such investments. These four dimensions underlie the overall performance rating expected from an ex-post evaluation. Finally, the framework gives special attention to the additionality principle that justifies MDBs’ involvement.

Many studies carried out by EBRD have shown that quality at entry of projects is crucial. When projects go wrong, it is often because due diligence had failed to identify project weaknesses at the approval stage. Financial performance and quality of management are crucial to project success. Good governance and transparency are also key factors contributing to good performance. Therefore, a keen focus of the evaluation function on these issues is crucial to promote organizational learning. Evaluation practices should address business success. Hence the skill mix of evaluators should match the skill mix of operational staff.

In IFC, applying the above framework shows that development impact goes beyond financial results — two thirds of IFC’s projects succeed developmentally while half succeed both financially and developmentally. While 13% of projects achieve high development outcomes despite a low business success profitability is good for development — 51% of projects generate high financial returns as well as high development outcomes.

This said doing well does not necessarily mean doing good — a significant 16% of projects with high financial returns have a weak environmental and social record. But a larger proportion of IFC’s projects do good even when they are not doing so well financially — 28% have low financial returns but good environmental and social effects. Finally, IFC’s investment returns and development results are aligned — 77% of projects achieve high-high or low-low development outcomes and investment returns for IFC.
The culture surrounding evaluation of private sector activities

For a private sector evaluation system to work effectively, evaluation staff must embrace the private sector business culture of the specialized institutions. At times, management argues that evaluation staff should concentrate on pure development and transition impact issues and leave finance- and business-related issues to the operational staff and credit specialists of the institution. But these issues are integral to sound assessment of private sector interventions and evaluation is about assessing the overall value, merit, and worth of operations.

For instance, in the EBRD where transition impact dominates, independent, in-depth assessments of business ethics is often needed. The majority of the projects that were evaluated since the start of the EBRD in 1991 scored Satisfactory or higher but about 13% of the projects were categorized as Unsuccessful projects and 29% as Partly Successful. This justifies a particular emphasis on accountability and learning from failed as well as successful projects. For pure learning purposes an evaluation system can help by focusing on outliers. However, assessing controversial projects that have gone wrong inevitably raises tensions between evaluators and management. Yet exposing lack of transparency and dubious sponsors is in the public interest and helps to strengthen internal controls and promote accountability.

Concluding remarks

Differences between private and public sector operations call for distinctive evaluation approaches and skill mixes. In private sector evaluation, private sector experience is crucial and speaking the language of the private sector is a must. This article has highlighted the importance of the financial, economic and environmental and social performance of companies, as well as their contribution to the mission of the institution to assess a project’s success. The centrality of assessing the additionality of the institution providing support to private sector development was also underscored. In evaluation the choice of approach should respect the nature of the evaluand. Hence the marked differences between private and public operations require different evaluation approaches, skills and practices. This explains why MDBs have chosen to issue separate MDBs good practice standards for public and private sector evaluation.

INCLUSIVE GROWTH AND THE PRIVATE SECTOR

Vinod Thomas

The rapid economic growth of developing Asia over recent decades lifted millions out of poverty. However, some 750 million people still live below an extreme poverty line. Access to education and economic opportunities is highly unequal. Over the past two decades inequality has increased notably in countries making up 80% of developing Asia’s population, including in China, India and Indonesia. Even with the strong record on poverty reduction, economic growth in the region cannot be considered inclusive.

Because of its deleterious effect on people’s welfare, lack of inclusion can hurt social stability. What is more, rising inequality could undercut the pace and sustainability of growth itself. For these reasons, governments and their development partners have made inclusive growth a central part of their agenda. Some may think that this agenda is confined to public sector operations. But once we recognize that the private sector provides nine out of ten jobs in developing Asia, it is hard to conceive that inclusive growth can be promoted without the private sector too delivering on the agenda.

Asian Development Bank’s (ADB) private sector operations totaled $10.7 billion from 2000 to 2012. Half of these went to energy investments, while a third went to the financial sector, mostly to support the needs of micro, small, and medium enterprises. A recent evaluation of their performance and impact in 27 developing countries shows the challenges for private sector operations in pursuing inclusive growth with contribution in this respect remaining modest.1 At the same time, there were positive examples that could be replicated or scaled up.

ADB’s private sector operations in infrastructure investments were generally profitable, contributed to economic growth, and helped catalyze additional private investments. These infrastructure investments also facilitated access to services which allowed the poor to participate in the growth process. Energy investments in a region, where 800 million people have no access to electricity, helped narrow supply-demand gaps. Improving mobile phone services in rural areas have also been proven to be good investment areas for profit and tangible development impact. The ADB-supported Nam Thun 2 power project in the Lao People’s Democratic Republic, which uses related Government revenues to finance health, education, and poverty reduction programs, demonstrates an innovative strategy towards inclusion.

However, contributions towards more inclusion need to go much further. Investments in electricity distribution, and water and

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sanitation can affect the lives and livelihoods of the lower income strata. Working in these areas can make a big difference to inclusion, but that in turn calls for actions to address regulatory and policy constraints.

ADB’s private sector transactions in the financial sector also had its share of constraints and successes. Only 40% of financial sector transactions made satisfactory contributions to economic development and growth. Most financial sector transactions involved support to financial institutions or investments in private equity funds to improve financing of small- and medium-sized enterprises (SMEs) with the ultimate objective of generating employment. Transactions worth over $1 billion intended to assist the financing needs of SMEs ended up financing medium-sized companies or non-poor groups with small businesses. It is unclear how many jobs were actually created as a result, as particularly indirect employment effects were not adequately tracked or optimized through relevant investment strategies. The few financed microfinance transactions were generally effective in increasing the poor’s access to finance. With adequate targeting and transmission channels, women and rural communities were reached.

Contributions to inclusive growth can be indirect, even if impacts are harder to measure and attribute. Some of the energy investments improving access to electricity are a case in point. Perhaps more directly, improving access to rural mobile phone services in areas with low penetration rates has been a promising for private sector investments with potential for inclusion and profit. Indeed one of the findings of the study is that in the relatively small sample of projects that did pursue inclusion, the development goal did not come at the expense of financial profitability.

For a relatively direct pathway to more non-income inclusion, ADB has been trying to reenter sectors such as health and education, although this has proved difficult.

The challenge is how to expand the private sector operations’ impact on inclusive growth. One part of the approach needs to be choosing sectors and projects that have the highest potential to include the lower income strata. Another part is for project designs to incorporate adequate delivery channels and transmission mechanisms as well as systematic targeting where efficient to improve their ability to be more inclusive. Yet another aspect is the role of monitoring and evaluation to build in measures of inclusion to make the aims clear and then to assess how far they have been achieved.

One other limitation to pursuing inclusion has been that ADB itself tended to play a limited role in the design of the transactions it was supporting. This may be understandable given the nature of the business model for private sector financing. One way to overcome this is to identify areas where the objectives of private sponsors overlap with ADB’s development agendas and seek inclusive project proposals from private sponsors. This will require an increased focus on support for inclusive business models through the provision of seed capital and technical assistance. Another option for institutions such as ADB would be to enhance inclusion impacts of planned private sector transactions through support for relevant complementary public sector investments (e.g., rural electrification programs extending the benefits of private power generation and transmission projects) or project components (e.g., the development of subsidy schemes or special outreach activities to facilitate access by the poor to private infrastructure services).

It is fair to ask whether private sector investments can make a meaningful contribution to what is now a central goal of ADB and the wider development community. My sense is yes, given the considerable potential and the evidence, even if limited, that development effectiveness and profitability can go together. The challenge will be to strengthen the direct links wherever possible, while recognizing that private sector investments can also generate indirect inclusion effects.
Support to financial intermediaries (FIs) accounts for a large and growing share of the operations of Multilateral Development Banks’ (MDBs’) private sector development portfolios. This article identifies common patterns with respect to the strategic purposes, rationale, and effectiveness of MDBs’ support to FIs and draws some implications for the evaluation of these operations. These comprise the provision of investment funding and advisory services to banks, non-bank financial institutions and private equity funds in developing economies.

**Strategic focus and rationale of MDB’s support to financial intermediaries**

MDBs pursue two main objectives through their support to FIs: (i) more inclusive financial services: improved access to financial services by individual and firms; and (ii) better targeted financial services: increased funding for activities geared to the public interest such as climate change, education, and innovation. Both objectives imply “additionality” towards high priority uses. The first objective focuses primarily on the supply side of the financial services sector with privileged attention to under-served households and firms. The second addresses simultaneously the supply and demand sides of the financial services market. It stimulates effective demand for public goods funding in neglected development domains as well meet the incremental demand through supply side actions.

The emphasis on more inclusive and purposeful financial services is strong but relatively recent among the MDBs. Strategic and policy statements often underline enhanced credit and services to SMEs, micro-entrepreneurs and backward regions in ways that foster such thematic priorities as gender equality and help poverty alleviation and reduction. Targeted funding of specific public goods and services often justifies investments via FIs by tapping their efficient “retail” channeling capacities, including reach and ability to screen sub-borrowers and sub-projects based on their superior local knowledge. In the case of financial inclusion extending the reach of FIs is the objective.

**Rationale for MDB support and implications for operations**

The rationale for expanding provision of funds to certain types of activities is based on the premise that their social benefits exceed their private benefits. Equally the financial inclusion objective implies the correction of a market failure. Clarity about the obstacles that inhibit channeling of funds towards priority borrowers and uses (excessive risk aversion, cumbersome lending practices, etc.) is crucial, and should be reflected explicitly in the stated rationale for the intervention and in its design.

Targeting is crucial to ensure that funds will go where they are supposed to go. While the notion of “fungibility” is often used to downplay the importance of targeting empirical research findings suggest that appropriate targeting matters even if some displacement takes place.

Sustainability of funding is more important for financial inclusion than for targeting. The improved access objective is not achieved if the intervention provides only a temporary supply of funds in ways that do not ensure sustainability beyond the intervention. Excessive supply of funds to categories of heretofore-neglected firms and households may induce over-indebtedness as illustrated by recent experience with several microfinance initiatives. Such risks illustrate the importance of periodically verifying the assumptions that underlie financial inclusion interventions.

Sustainability often implies a combination of funding with other instruments such as technical assistance and capacity building advice, introduction of new products, or improved risk management practices so that reach is achieved and sustained. In some instances inclusion may be sought not through wholesaling of funds but by equity investments to establish new financial institutions such as leasing companies. Correctly diagnosed problems need to be addressed with the right instruments. For instance risk sharing instruments are called for in highly risky situations.

**Observed patterns in MDBs activities**

One striking observation when comparing strategic MDBs’ intentions with actual FIs portfolio composition is the inverse relationship between strategic emphasis on inclusion on the one hand, and volume of FI operations focused on targeting on the other. By and large a relatively small share of MDBs’ FI portfolio addresses financial inclusion.

A related observation is that most of the wholesaling goes through large and established FIs rather than second tier FIs. This is compatible with the objective of reorienting lending given the bigger “bang for the buck” associated with channeling MDBs’ assistance through large and established FIs endowed with substantial reach and higher capacities.

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1 Interventions that promote enhanced financial literacy in the microfinance sector address the demand side but they are part of initiatives that already emphasize inclusion and sustainability.

Targeting often falls short of expectations. While MDBs specify the targeted groups, the mechanism for ensuring that benefits flow to targeted uses are often not clearly specified and/or embedded in legal agreements. As a result, benefits in the form of longer maturities or lower interest rates often do not reach intended beneficiaries or fail to achieve the “additionality” objective by channeling funds to beneficiaries that would have received funding anyhow.

**Implications for evaluation**

MDBs do not always clearly articulate the rationale for their interventions whether in the causes of financial inclusion or targeting particular thematic priorities or sectors. As a result, instruments are not always aligned with the MDBs’ stated overall strategic objectives. This hinders the “evaluability” of MDBs’ FI operations and complicates ex post evaluation.

Evaluation of MDBs support to FIs needs to be based on robust theories of change that go from constraints, market failures and other underlying reasons for MDBs’ interventions to instruments, outcomes and intended impacts. They need to pay attention to mechanisms of influence, “additionality” and sustainability. Insufficient attention has been given to the systemic impact of targeted interventions through demonstration effects and competitive pressures. While institutional development aims are core elements in FI-strategies of leading MDBs with sizeable non-sovereign operations the evaluation standards for project evaluations do not normally specify judicious indicators that track actual contribution to IFI/MDB mandate objectives. In particular they fail to capture beyond-project impacts of FI transactions.

**Conclusions**

Our review, while far from complete, identified areas where the MDBs could take action to improve the “evaluability” of their FI operations and enhance their overall effectiveness. Those include (i) clear theories of change rooted in underlying reasons for interventions, and accordant clear strategic justifications and objectives; (ii) greater focus on sustainable financial intermediation by FIs to target groups and sectors beyond the life-span of the MDB facility; (iii) systematic attention to the relationship between targeting and its dynamic effects on financial market development.

The current trend in MDBs to move from assessments of individual transactions to thematic and portfolio-based evaluations should induce greater evaluative attention to wider strategic perspectives as well as a sharper focus on medium and long term impacts of MDBs’ interventions. Since MDBs aim to affect the business orientation and behavior of intermediaries as opposed to the passive channeling of MDB funds, evaluations should move to a higher plane than the sub-project and sub-portfolio and concentrate attention on the overall dynamics of the FI-client interface towards overarching strategic objectives.

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**EVALUATION OF SME ASSISTANCE IN AFRICA: CHALLENGES AND IMPLICATIONS FOR PRACTICE**

Khaled Samir Hussein¹ and Elsa De Morais Sarmento²

Once regarded as peripheral in the economy, public policies in support of SME have now been promoted as strategic for economic development. In many countries, this has led to a substantial growth in the range of assistance programmes for SME and entrepreneurship, as well as the development of evaluation techniques (e.g. Storey, 2000) to assess the effectiveness of those programmes. In Africa, considerations for SME’s substantial contribution to employment and the wider economy, has led to the adoption of specific public policies by several African countries, with various packages of SME assistance managed by a multitude of development agencies.

SME assistance programmes present however numerous challenges for governments in Africa. In some cases, programmes fail because of poor conception, weak uptake or just because of the sheer number of initiatives, which become too complex to administer. Notwithstanding the fact that knowledge of SMEs and the role it plays in the economy has grown substantially in the last decade, this body of knowledge has not yet fully informed the process of policy making, which remains ad-hoc and subjective.

One possible solution could well be found in the utilization of evaluation findings. Evaluation can and should play a decisive role in supporting evidence-based policy making through improvement of the conception, design, implementation, and outcomes of

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future programmes targeting SMEs in Africa. However, for evaluation to fully fulfil its role in informing policymaking, a number of distinct challenges need to be addressed.

Firstly, the term “SME” typically encompasses a broad spectrum of definitions across programs, agencies, and regions. SME definitions and thresholds should be considered carefully in the initial steps of an evaluation, particularly when it spans interventions in different countries, and when comparability is sought. In Africa, there is a multiplicity of SME definitions and thresholds, which differ in terms of firm size (measured either by the number of employees, sales, turnover or assets or both), or by financing needs (e.g. loan size).

Secondly, evaluating SME programmes is challenging due to their complexity and their multidimensionality. The task often entails tackling with multiple layers of intervention activities, especially for complex programs, which act on SMEs through both direct and indirect measures (e.g. business environment), given that these interventions can utilize multiple approaches (e.g. access to finance, training, research and development, tax and credit, technical and managerial assistance, improving the enabling environment and framework conditions, etc.). Structured mapping of policies working in favour of SMEs is also lacking so that interactions are not systematically probed (e.g. how entrepreneurship, trade, investment reinforce or counteract the effects of SME policy). Nor are context specific factors and their impact on outcomes well understood. Consequently, there is no agreed approach or logic model to assure consistency in evaluation of SME programmes.

Thirdly, there is often lack of sufficient evidence to reach informed and reliable conclusions when evaluating SME Programmes (Storey, 2008). The African experience reveals there is still a substantial lack of information (especially firm level micro-data), alongside with information systems, to conveniently collect and store data on firm formation and development. Beyond portfolio reviews for the case of evaluations conducted by international financial institutions (IFIs), the quantitative section of most evaluations usually relies on enterprise survey and investment climate indicator databases (mostly from the World Bank Enterprise survey data and Doing Business indicators). These databases are in high demand and low supply in Africa, while tailor made surveys are perceived to be prohibitively expensive to implement in the absence of collaborative programmes among country authorities and development assistance agencies operating in sub-Saharan Africa.

Fourthly, when considering methods for evaluating long-term impact of SME programmes, the difficulties in establishing causality cannot be underestimated. Causality does not work the same way in different contexts. Due to the variety of economic structures in Africa, the result of efforts targeting key development objectives (e.g. job creation and firm growth) can be very diverse due to vast differences in policy frameworks, economic infrastructure, and socio-economic status and fragility variables. Major bottlenecks in gathering consistent time-series firm level micro-data must be overcome. For instance, in 2010, IFC considered sufficient data was not yet available to assess the impact of the recent financial crisis on SMEs access to finance (IFC, 2010).

Notwithstanding the fact that evaluation of the effectiveness of SME assistance programmes has earned particular attention from various IFIs in recent years, undertaking SME evaluation is still very challenging, particularly in Africa. For evaluation to inform evidence-based policymaking, strong reflection needs to focus on overcoming the obstacles described above.

Making clear distinctions between systemic and targeted assistance as well as utilization of tailor made tools that deal with multiple layers of intervention activities, especially for complex programs would be a good start. In parallel, the process of developing common and comparable approaches for evaluating SME programs ought to be pursued and encouraged. There is also an urgent need to align the framework for SME evaluations with that of entrepreneurship policies and programmes.

In Africa, all these measures need to be put forward to strengthen the support for evaluation of SME programmes, to enable those concerned with the quality and impact of support provision to be better equipped to carry out evaluations and to deepen the understanding of intervention impacts. The potential for policy learning in this domain remains huge.

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Public-private partnerships (PPPs) have become common in the provision of public investments in both developed and developing countries. Increasing demand for better infrastructure on the one hand and constraints on government budgets on the other have boosted the use of this method. However, whether PPPs create “value for money” remains a focus of intense debate among academicians and practitioners.

In a PPP, public and private actors combine their respective strengths, comparative advantages and interests so as to realize a public-interest venture on the basis of a long-term contract that shares the risks in such a way that each party assumes the risks which it is best equipped to handle.

Interpretations of PPPs differ among countries and international institutions. For instance, while some organizations and countries consider privatizations as PPPs, others do not. But all definitions recognize the long-term contractual nature of PPPs between public and private agents in pursuit of a public mission. PPPs in the European Union, for example, refer to “forms of cooperation between public authorities and the world of business which aim to ensure the funding, construction, renovation, management or maintenance of an infrastructure or the provision of a service”.

This said PPP arrangements span a wide array of sectors and methods. Traditionally, they are applicable to sectors such as energy, transport, water and sewage, where the return to capital investments is obtained during the operation period through user charges or – in some way or other – through government purchasing. Recently, PPPs have also emerged in the construction of public buildings (schools, hospitals, prisons, etc.), the provision of equipment and the delivery of environmental services (water/waste treatment, waste management). In addition to their sector diversity, PPP methods span a wide spectrum, ranging from service contracts to build-own-operate contracts. In this range, private party involvement and responsibilities vary considerably depending on the contract terms, making contractual details crucially important.

Properly designed and implemented PPPs offer advantages over conventional procurement with three main motivations: investment in infrastructure, greater efficiency in resource use and commercial value generation from public sector assets. PPPs promise acceleration of infrastructure provision, faster implementation, reduced whole life costs, better risk allocation, better incentives to perform, improved quality of service, additional revenue generation and enhanced public management.

At all stages of the project cycle, PPPs display sophisticated procedures and complex interactions among stakeholders. This reflects the need to reconcile differing objectives and incentives. While the public sector is mainly interested in generating net socio-economic benefits at micro and macro levels, the private parties are driven by the profit motive. These complexities along with the long term contractual nature of PPPs make them vulnerable to a multiplicity of risks, especially for large projects. These need to be managed properly and strategically so as to realize all the benefits offered by the method.

Given the complexities inherent in PPP arrangements and risks involved, PPPs are prone to sub-optimal resource use or even failures, if they are not properly managed. Additionally, the delicate balance between public and private interests as well as among costs, benefits and risks call for careful evaluation of PPPs, ex-ante and ex-post, at both project and program levels. It seems, however, that evaluation of PPP projects and programs has not been given the desired level of attention, particularly in the least-developed world and in emerging market countries.

To contribute closing this gap, a Thematic Working Sub-Group on Evaluation of Public-Private Partnerships was established within the European Evaluation Society (EES) as a part of the Private Sector Thematic Working Group (TWG) initiative launched during the 10th EES Biennial Conference in Helsinki (October 1–5, 2012).

The sub-group started its activities by taking stock of its members and areas of specialization. In this respect, the sub-group brought together members from a variety of organizations with diverse backgrounds on evaluation and PPPs. After the sub-group formation, an annual work programme was drafted upon the contributions of the members and was finalized in August 2013.

The work programme sets forth as the ultimate output of sub-group activities a discus-
The sub-group is currently collecting evaluation studies from around the world to form the sample. As a general principle, evaluation studies from various levels and classes are being searched, namely,

- from developed, developing and least-developed countries
- green fields and brown fields interventions
- medium-large projects as well as those in which the special purpose vehicle (SPV) can be considered as a small-medium enterprise (if available)
- “success stories” – as well as problematic and failed projects

So far, evaluation studies covering projects from a variety of countries and regions have been identified, including Europe, South Africa, Latin America, Asia and North Africa. Among them are particularly informative studies conducted by the European Commission and the European Investment Bank. Studies from South Africa and from Denmark’s PPP experience in development cooperation are equally interesting.

The collection process is still in progress and EES members are welcome to share any additional ex-post evaluation studies. Resources on ensuring the sustainability of the partnership between public and private sector and on the secrets of sustainable PPPs are especially welcome.

In the meantime, the review process has started to extract lessons towards achieving successful PPPs. Potentially critical issues include ensuring sustainability of the partnership between public and private sector, managing risks, the importance of open competition, good legal frameworks and fair labour contracts.

Methodological issues will also be considered. If the reviewing exercise of ex-post evaluation documents indicates potential areas for improvements, the discussion paper will extend its scope to propose an evaluation framework for PPPs.

The discussion paper produced by the PPP Thematic Working Sub-Group expected at the end of its first year of activity will identify key issues to be considered towards successful PPPs and the members of the group will have an opportunity to share their findings with the evaluation community at the 11th Biennial Conference in Dublin.

**GETTING A GRIP ON PRIVATE SECTOR’S CSE AND CSR**

**Romeo Santos**

This article is about evaluation in two distinct but interconnected areas: corporate self evaluation (CSE) and corporate social responsibility (CSR). These are tricky topics. Some decision makers believe that “evaluation is bad for development”. Others view CSR as “just window dressing and bad for business”. But controversy is grist for the mill. How is this to be done? What are the processes or systems embedded in CSE in the corporate behavior.

In mainstream evaluation practice, program and policy evaluation dominates. Far less frequent are evaluations that concentrate on corporate processes and their outcomes. There are exceptions of course but they tend to concentrate on the effects of public sector interventions, e.g. the evaluation of the Paris Declaration, WHO’s evaluation of HIV/AIDS program in Africa and Asia, etc.

Consumers are key evaluation agents for the private sector through market mechanisms (Heider, 2013). True enough, consumer loyalty to products and services can be measured through the new information technologies and the social media [e.g., Facebook, Coca Cola, Microsoft, Toyota]. Equally, voters evaluate politicians through the ballot box. But do these mechanisms generate valid estimates of merit, worth and value from a public interest perspective?

Who then is evaluating the private sector and how is this to be done? What are the processes or systems embedded in CSE in the corpo-
rate world! Are there defined methodologies and processes around which CSE is built? How do CSR and profitability issues bear on CSE? These are the critical questions that our TWG sub-group intends to examine.

**CSR: an aesthetic mask?**

A lively debate about the merits of CSR is raging. Some practitioners look at CSR as an expensive, PR-driven window-dressing that masks true corporate motives while others recognize its “impact on company’s value and profitability” as it makes “a socially responsible business more appealing to consumers and top employee talents” (Whaley, 2013). Recently, critics decry the rise of “philanthrocapitalism,” an aspect of CSR, as an “irrational exuberance – characteristic of market thinking” (Jenkins, 2011). But supporters aver that it is a “powerful force shaping our world” that “touches on big issues” of “accountability and responsibilities of the rich” (Bishop and Green, 2011).

Whichever side gets ahead in this controversy isn’t the main take of the TWG sub-group. Our prime concern is the learning opportunity available from the study of CSR-related evaluations. Most large corporations sponsor CSR programs. Since its advent in the 1960’s, CSR has become integrated into companies’ business operations through environmental sustainability, corporate philanthropy, and ethical labor practices, among many agendas. A 2013 review of corporate citizenship has revealed that 97% of surveyed companies had dedicated budgets for CSR compared to 81% in 2010 (Boston College, 2009). Prominent foundations, such as Bill & Melinda Gates, Master Card, Rockefeller, and Kelloggs, have long been tireless M&E champions.

**Since when is house-keeping a bad idea?**

‘No one gets into business for charity; a corporate body is always profit-bound.’ This is not arguable, yet it underscores only one side of a dichotomy that characterizes the corporate world as it straddles the basic imperative of capitalistic entrepreneurship with the demands of social altruism. CSR aims to give a human touch to business driven by the profit motive with a view to attract and sustain patronage from a consumer base that values the public interest. However, from the vantage point of evaluation there is more to assessing the merit, worth and value of private sector operations than CSR initiatives. CSR overlaps with CSE. They must be studied altogether to get a grip on how well the private sector evaluates itself.

Whether it is about annual Governing Body self evaluation (Stybel and Peabody, 2005), performance assessment embedded within the corporate management system or the corporate score cards and metrics that gauge customer satisfaction, sales data, market environment, business process, productivity, value chains, etc. a myriad of issues are being addressed through CSE. They should be evaluated.

Paying attention to divergent views can illuminate this process, sharpen critical thinking, widen outlooks and enhance one’s strategic knowledge base. Let the debate continue. It is part and parcel of orderly house-keeping.

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