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HELPDESK REQUEST

Overview of recent literature on mobilizing private investment in developing countries

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May 2015

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Abbreviations

CDC	CDC Group plc
DEI	Development Equity Investment
DFI	Development Finance Institution
DFID	Department for International Development
GDP	Gross Domestic Product
IFC	International Finance Corporation
ICT	Information Communication Technology
MDC	Multilateral Development Banks.
N/A	Not applicable
ODI	Overseas Development Institute
SME	Small and Medium Enterprise
ToC	Theory of Change
ToR	Terms of Reference

Outline of the Query and Approach

The objective of the helpdesk request is to summarise the evidence on how mobilizing private investment in developing countries contributes to economic development and poverty reduction. Further, this paper explores the potential demonstration effects of investments as well as an assessment of the size of the investment financing gap in developing countries. The output will provide an evidence base to underpin a theory of change (see Figure 1) for DFID's future private sector investment programming. The purpose of the document is to inform the existing private sector development strategy which is a key element of DFID's economic development strategy, particularly to increase private investment into poor countries, regions and sectors, with a focus on high growth sectors to support economic transformation. This will also support and inform any current and future work of the CDC.

Overview of CDC

CDC is DFID's principal mechanism for leveraging private sector investment in poor countries. With a reputation for high quality due diligence, CDC attracts other DFI and commercial capital, and invests in businesses in the more difficult parts of Africa and South Asia with the potential to create jobs and more inclusive growth. Priority sectors for CDC investment include infrastructure, financial institutions, agribusiness, manufacturing, construction and health and education. It is increasingly using a wider suite of financial instruments including direct equity, direct debt and impact investing.

The helpdesk was split into two sections:

1 The first section summarises the evidence on how mobilizing private investment in developing countries can contribute to economic development and poverty reduction, specifically via outcomes such as improved business efficiencies and job creation.
2 The second section considers the demonstration effects of investments as well as an assessment of the size of the investment financing gap in developing countries.

The approach used is as follows:

Step 1: Analysing the Theory of Change (ToC), (see Figure 1): The arrows connecting the inputs, activities, outputs, outcomes and impact were "unpicked" in order to provide a summary of the evidence (supporting and conflicting) for change from one level to another. The most relevant and robust evidence sources were gathered. As this is not intended as a systematic review there was no quantitative assessment on the value of each of the sources, but rather a qualitative assessment of the strength and credibility of the evidence source. In discussion with the DFID team, it was agreed that blogs, opinion pieces and other similar sources will be left out of the scope. There is more focus on academic and grey literature from credible and well-renowned institutions.

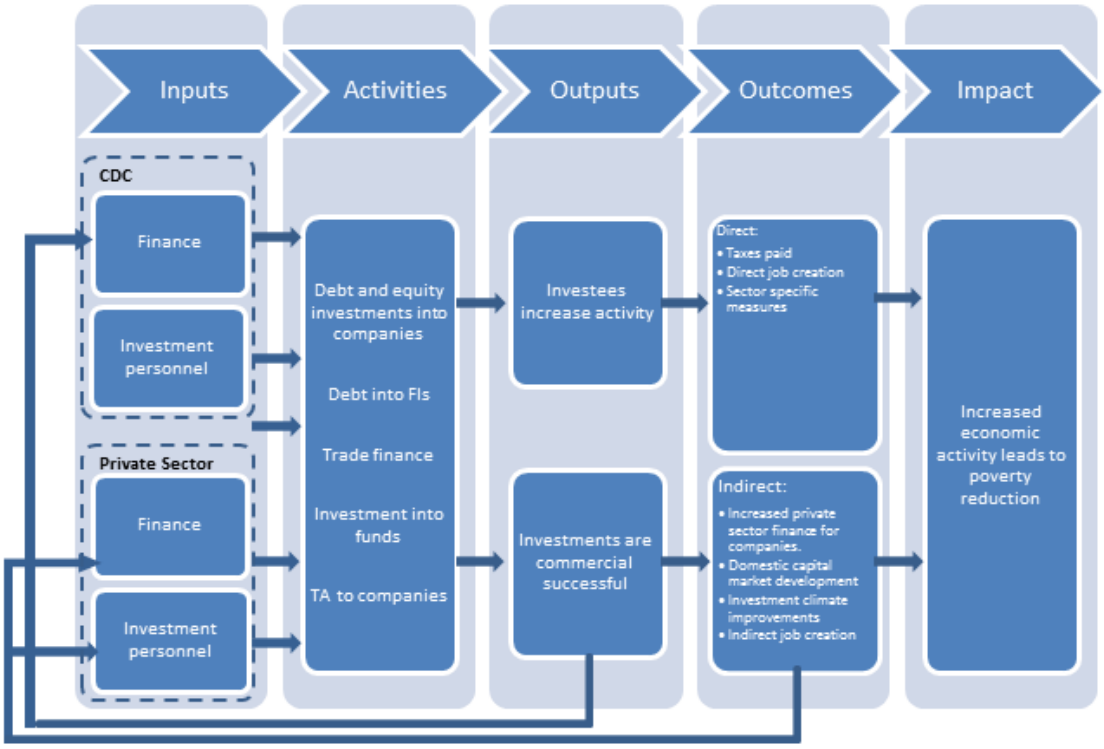
Step 2: Examining the underlying assumptions: The assumptions connecting the arrows were reflected upon in order to provide an overview of different interpretations as to why this change would happen and in what way – with an overview of evidence where available.

Step 3: A gap analysis: An identification of the gaps in the evidence base underpinning the Theory of Change.

Step 4: A review of the demonstration effects: An overview of evidence of demonstration effects of increased private investments into particular geographies or sectors (e.g. crowding-in, number of contracts, etc.). This depth and breadth of the information presented in this section heavily depends on the availability of evidence.

Step 5: A review of the size of the financing gap: A look into the gap between demand and supply for financing in specific geographies and sectors**.** The availability of data and/or case studies on this will influence the extent to which we can provide data or insight into the different financing gaps.

Figure 1: Theory of Change[1]



The geographic focus is on the DFID priority countries: Afghanistan, Bangladesh, Democratic Republic of Congo, Ethiopia, Ghana, India, Kenya, Kyrgyz Republic, Liberia, Malawi, Mozambique, Myanmar, Nepal, Nigeria, Occupied Palestinian Territories, Pakistan, Rwanda, Sierra Leone, Somalia, South Africa, Sudan, Tajikistan, Tanzania, Uganda, Yemen, Zambia and Zimbabwe.

In order to present the information clearly Chapter 2 presents the findings on Step 1, 2, and 3 whilst Chapter 3 presents the findings on Step 3 and 4. Evidence is presented in boxes listing:

- The Link in the ToC focused upon
- Document Title
- Year (publications from the last five years were prioritised)
- Author
- Overview of the publication
- Summary of Evidence
- Geographic Focus
- Sector Focus
- Other Information
- Relevant Instrument
- A link to the source

Where evidence is referenced within the reviewed document, the source is put in as a footnote.

[1] As per Annex A of the ToR The diagram shows a ToC as to how DFID's investment programmes and activities should ultimately result in economic development and poverty reduction. This is a draft and may need to be revised in light of the findings from the PEAKS research.

1 Findings- steps 1, 2, and 3

This section covers Steps 1, 2 and 3, namely analysing the ToC, examining the underlying assumptions, and an analysis of the gaps in literature and evidence.

Our analysis and understanding of the proposed ToC has shaped our approach to finding appropriate and relevant evidence to support the ToC links. The series of activities listed in the ToC, are the specific financing mechanisms or investment models that DFID or the CDC have previously used or wish to use. Therefore, it is our understanding that DFID and the CDC would like to see resulting impact from the use of these financial instruments, on business and economic growth and eventually on poverty reduction. As the ToC is currently designed, it is a little unclear which discrete sets of outputs DFID/CDC would expect or want to see materialize from their investments. We assume that an expected increase in investee activity implies overall business growth, and therefore understand that to mean achieving more discrete outputs such as increase in job opportunities, increase in access to capital or re-financing, increases in revenue or sales, etc.

For the second output, 'investments are commercially successful', we assume this implies that investee companies are commercially successful after having received investment capital from DFID or the CDC. We propose that a 'commercially successful investment' on its own is a metric of success rather than an expected output in a ToC. A commercially successful investment is a comment on the rate of return (which could be social and/or financial), and this is a metric of evaluating whether the activity (or type of investment) met or surpassed its objectives. However, an expected output from that success would be the state of the investee, the effect on employees, access to other opportunities, and potentially corollary effects on the business' immediate market ecosystem.

Potentially, an option for consideration could be to collapse the outputs into one output named 'increased access to capital'. Another option would be to have disaggregated/discrete outputs such as increase in jobs, re-financing, financial turnover and profit. This then results in a series of outcomes that can be specifically defined and linked back to the outputs.

Therefore, for the purpose of providing a survey of the evidence available that supports or refutes the links in the given ToC, we make some assumptions about the specificity of the intended outputs, outcomes and impacts in absence of any specificity. The evidence for the outputs (in the shorter-term), outcomes (in the medium-term) and impacts (in the longer-term), varies in its focus on growth versus development or social change. Development or social change inherently takes longer to manifest, and therefore is generally only seen as an impact. Our approach to this stock-taking exercise is to inform DFID's approach in understanding the relative impact of its investments through various financial instruments. The scoping of evidence will provide a clearer picture on what the potential outputs could shape into.

1.1 Analysing the ToC

Inputs and Activities

We assume that the given inputs and activities outlined within the ToC have been established by the DFID teams, given the strategic priorities and team skills available to deploy the capital. However, it would be important to assess whether the financial instruments of choice are reflective of not only internal capacity to deploy the funding, but that they are also the most effective or relevant instruments for the investee. It is not within the scope of an evidence gathering exercise to conduct this type of assessment, but given our preliminary work on this project we do suggest it is essential to establish strategic frameworks to identify where it is most suitable to invest, and via which instruments.

As a recommendation for a future stream of analysis we propose the design of a conceptual framework for thinking through the criteria and analysis that can help make decisions on which sectors to support, where the resources can be most effective; and how this varies by country context. Most importantly, an investment decision framework would help identify, by sector and by country, which objectives are likely to benefit from development capital investment mechanisms.

Further, in order to establish effective use and optimize impact of the variety of financial instruments available to DFID and the CDC, we propose the design of a conceptual framework for thinking through the types, and identifying which instrument is most productive in which circumstance. Further, the conceptual framework will illustrate how DFID/CDC can decide on options depending on country context, growth or social sector, and the nature of the private sector institution, keeping in line with the decision-framework on programming areas.

Activities to Outputs

Below is an overview of the evidence on the link between the activities and outputs in the ToC. The evidence supports, contradicts and provides contrary perspectives on: how investments (debt, equity, into FIs, and funds) can contribute to increased investee activity and/or commercial success; and how TA to companies leads to investee growth. Our scoping exercise has shown that though there is literature on the effects of trade finance on macro trends, there is very little evidence available specifically on the effects of trade finance on increased investee activity and commercial success. See Annex A for more details.

- Investment fund managers have brought management and marketing expertise and financial skills to those companies in which they invested. Through participation on companies' boards, assistance in recruiting experienced management, and other activities, Fund managers have enhanced productivity, have improved financial controls and corporate governance, and have brought modern business practices to companies in which they invested (Annex A, **Box 1**).
- Private equity involvement in portfolio companies increases the efficiency of innovation efforts. Private equity-backed companies are more focused in their innovation efforts and deploy better management of innovation processes than their peers, on average (Annex A, **Box 2**).
- In addition to the improved productivity that arises from higher levels of innovation, private equity contributes to creating an enabling environment to enhance the levels of productivity in the economy as a whole. It does this by increasing the finance available for capital investments, supporting companies through periods of commercial or financial distress, and by increasing the operating performance of portfolio companies (Annex A, **Box 2**).
- Improvements in productivity either through innovation or other productivity enhancing measures at an individual company level translate directly into increased competitiveness at a macroeconomic level. Moreover, private equity has a direct impact on competitiveness through making funding available for risky but potentially lucrative new business opportunities (Annex A, **Box 2**).
- Exactly three quarters of the 2013 Development Bank of Southern Africa (DBSA) and the South African Venture Capital and Private Equity Association (SAVCA) survey respondents reported that their businesses introduced new products or services following the private equity investment. The new capital is also instrumental in funding the purchase of new technology or machinery (Annex A, **Box 3**).
- Over half (56%) of responding (to the survey mentioned above) investee companies said private equity financing allowed the business to grow faster. The survey showed that the average proportion of total sales growth over the last two years among a sub-sample of investee companies questioned was 49%. The fastest-growing 20 respondents saw their EBITDA (Earnings before interest, taxes, depreciation and amortization) increase by more than 130% over the same period (Annex A, **Box 3**).
- The findings of the survey show that investee companies create employment, with the number of staff employed by respondents both within and outside South Africa growing by around 40% over the two-year period covered (Annex A, **Box 3**).
- Private equity investors in general play an invaluable role in helping their investee companies build more robust, sophisticated structures. According to the survey, no fewer than 70% of responding companies mentioned corporate governance as a key private equity contribution. The financial acumen private equity investors bring to the table is also rated as a major contribution. Almost half of those questioned state that private equity is preferable to other forms of equity funding. The most commonly cited reason for this is the strength and equality of the partnership between investee

and investor, underlining the importance private equity investors place on the correct alignment of interests (Annex A, **Box 3**).

- Private equity investments in microfinance have long-term financial objectives aimed at enabling successful corporate transformation. Committed investors can play an instrumental role in guiding financial institutions through critical periods of growth and transition; in addition to providing much needed financial resources, they can offer in-depth strategic advice, market expertise, and operational direction (Annex A, **Box 4**).
- Private equity investments are critical to advancing financial sector development. Investments in financial institutions serving MSMEs are mainly done in the form of growth or early stage capital via private placements. They differ from the private equity strategies employed in the developed world, where businesses are often streamlined and over-leveraged with the aim of achieving a return on capital over a short period. Private equity investments in these financial institutions, on the other hand, have long-term financial objectives often aimed at improving corporate governance and providing operational support (Annex A, **Box 4**).
- Companies owned by private equity funds use more long-term performance-based managerial compensation and managers have a significantly larger equity interest in the company. Boards of private-equity-backed companies are smaller, meet more frequently, and have a smaller fraction of insider (management) board members than boards of other companies. These board characteristics have generally been shown to be associated with better company performance. Compared to other private companies, private-equity-backed companies are more likely to recruit professional management, replace underperforming management, and introduce performance-based pay that is more strongly tied to long-term performance. Private equity board members are most active in complex and challenging transactions (Annex A, **Box 5**).
- Academic research has shown a positive link between private equity investment and innovation. However, some studies have found diverging evidence on the causal relationship. The overall picture across different methodologies, measurement units and time periods is that private equity enhances company performance. The positive effects on financial performance have not been found to be at the expense of long-term investment and growth. The question of whether private equity firms help create or reduce employment has generated considerable debate. Up-to-date different academic studies have reached diverging conclusions. However, the empirical evidence is consistent with a view that private equity portfolio companies create economic value by operating more efficiently (Annex A, **Box 5**).

Summary

Of all the instruments, private equity has richest evidence base (number of sources and quality). There are robust sources of information on the effects of TA to investees, but it is usually accompanied by equity investments rather than other instruments or direct TA programmes. There is less concrete data and evidence on the effects of debt on investee portfolios. We could not find any recent and robust studies on the effects of trade finance on investee companies, though there are several studies on the effects on macro trends.

Overall, investments into investee portfolios generally result in improved investee activity and performance. It is clear from the evidence that this is much more apparent when there is accompanied TA to the investment, or if it is a private equity stake with influence on strategic and management decisions. The investors brought management and marketing expertise and financial skills to those companies in which they invested. Companies owned by private equity funds use more long-term performance-based managerial compensation and managers have a significantly larger equity interest in the company. Boards of private-equity-backed companies are smaller, meet more frequently, and have a smaller fraction of insider (management) board members than boards of other companies. Private equity investments also play a role in financial sector development. Investments in financial institutions serving MSMEs are mainly done in the form of growth or early stage capital via private placements.

There are several mentions of the positive effects of private investment on competitiveness and innovation, such as how businesses developed more and better product lines, as well as expanding and improving their services.

Outputs to Outcomes

Below is an overview of the evidence on the linkages between the outputs and outcomes in the ToC. Particularly it covers the evidence available on how increased investee activity leads to direct and indirect job creation; how commercially successful investments lead to indirect job creation; and how investments lead to increased revenues.

- DFIs may enhance job opportunities and productivity change through a number of channels, which are: (i) additionality; (ii) demonstration effects; (iii) technical change; and (iv) forward and backward linkages. The evidence emerging from the existing literature shows that DFIs have generated a significant amount of direct, indirect and induced jobs, as well as promoted innovation (and therefore productivity) in several different sectors ranging from health to education, environment, Information Communication Technology (ICT), insurance, and infrastructure. Although there is no consensus in the academic literature, recent DFI studies find that productivity increases may lead to additional employment creation, thus highlighting DFIs' potential to promote high-productivity jobs. Moreover, it appears that DFIs are most likely to generate jobs and benefit the poor through interventions directed at improving access to finance, infrastructure, investment climate and training. However, notwithstanding recent improvements, there are still gaps in the existing methodologies used to assess the economy-wide employment effects and the impact of DFIs' investments on productivity change, which need to be addressed in the future (Annex B, **Box 1**).
- A few DFIs also measure the generated indirect jobs. Note, however, that indirect jobs are very difficult to measure and the reported figures are often underestimated. The DEG's figure (130,000 indirect jobs), for example, considers only indirect jobs generated at the supply end, while jobs created at the purchaser end are neglected. Induced jobs are also very difficult to assess, and very little is known on them. Because of this, it is still very difficult to know the precise impact of DFIs on total employment creation (Annex B, **Box 1**).
- There is evidence that indirect and induced jobs created by DFI-supported firms are significant. A useful table is presented on the relevance of DFIs impacts on employment creation by sector (Annex B, **Box 1**).
- IFC investments in the Programme for Rural Advancement Nationally, including financing working capital requirements and an expansion plan, in Bangladesh resulted in 2,200 indirect jobs compared to 300 direct jobs over a three year period. 80% of these indirect jobs were in rural areas. In terms of the money spent, the IFC assessed that for every US$1 million invested 40 indirect and nearly 6 direct jobs were created (Annex B, **Box 2**). The projected total development effect, from 2006 – 2008, with on average €5 billion per year, was: 422,000 direct jobs provided by European DFI project companies and 81,000 new jobs created throughout the lifetime of the projects, 1.3 million indirect jobs procured through their value chains (relations with suppliers) and sub-borrowers in case of financial sector projects throughout the lifetime of the projects (Annex B, **Box 3**).
- In terms of actual outcomes, DEG found that its portfolio companies in 2008 secured 2,072,000 jobs. Of the jobs secured, 49% were in SMEs. For CDC DEG found that in 2008 676,000 people were employed in the portfolio companies in which CDC is invested and which reported employment data`. 14% of the jobs were generated in Africa, while the consumer goods and services sector accounted for 31% of the jobs (Annex B, **Box 3**).
- The role of investment in determining GDP growth is critical and unambiguous. Higher investment leads to higher GDP growth. And each additional percentage point of GDP growth will generate additional employment. Therefore raising the quantum of investment, will raise the quantum of employment. This increase in the quantity of employment is likely to occur through both a direct impact on employment and via secondary, indirect multiplier effects. The increase in the quantity of employment will also reduce underemployment, and improve wages. Testing this for 48 developing countries, for which such data were available, over three five year periods from 1980

to 2007, shows that in a majority of these country episodes, investment growth, GDP growth, and employment growth were convergent (Annex B, **Box 4**).

- As countries' GDP and levels of investment progress, the additional beneficial impact of further investment on job creation declines with increasing capital and technology intensity of new investment projects. This is confirmed by the ILO analysis on Investment, GDP and Employment, which examines the relationship between investment, GDP and employment for 42 developing countries (Annex B, **Box 4**).
- SIFEM has contributed to the creation of 46,000 jobs (33,400 through investment in funds and 12,400 through investments in facilities) and supported 202,000 jobs. Between 2008 and 2010 the number of jobs at SIFEM portfolio companies grew at a faster rate than in the broader economy in which they operate for 12 out of 16 countries that reported three or more investments. Overall, job growth for this period was 9.7% for the SIFEM portfolio compared to 0.1% as a weighted average for the economies in which SIFEM invests (Annex B, **Box 5**).
- Listed in an expanded section on direct jobs (pp 24), the report states that the number of jobs created includes supporting 588 jobs from direct employment in funds and 4,647 jobs from direct employment in financial institutions. Based on an analysis that scales the number of jobs based on SIFEM's contribution to the total investment (as opposed to the contribution of all investors), three sectors created 73% of the jobs: wholesale and retail sales (27%), financial intermediation (25%), and electricity gas and water supply (21%). Notably, only 3% of SIFEM's capital is in wholesale and retail sales, while 23% is invested in financial intermediation, and 10% is invested in electricity, gas, and water supply. For all sectors, large enterprises with more than 300 employees at the time of investment were the largest drivers of jobs created and supported. In terms of efficiency, 45 jobs were created per $1 million dollars invested (Annex B, **Box 5**).
- The development benefits from investments made by private firms come from: (1) the contributions provided to government revenues; (2) the contributions provided to jobs and incomes; (3) the expansion of access to and quality of infrastructure and social services to serve a broader segment of the population, including many poor and near-poor households; and (4) the innovation and cost competitiveness that private firms can generate (Annex B, **Box 6**).
- The five categories where large private external investment could take place for foreseeable impact are: infrastructure (mostly energy investments); agriculture and food systems; extractive industries; social sector investments (social enterprises in health or education); and the service sector for the real economy (Annex B, **Box 6**).
- Two-thirds of the productive companies that were financed by KFW DEG contribute to broadening the product range and almost three quarters to improving product quality. Twelve investments in the energy sector will contribute to an improved power supply for households and companies. 43% of the productive companies have or will set up nursery schools, schools or health care stations, which is not only to the benefit of the employees, but also of the public. 26% and 13%, respectively, of the financings for productive companies contribute to improved public transport routes and improved water supply and wastewater disposal in the region. It is expected that the productive companies and infrastructure projects financed in 2013 will pay annual taxes totalling EUR 800 (Annex B, **Box 7**).

Summary

The evidence emerging from the existing literature (summarised by Isabella Massa, 2013) shows that DFIs have generated a significant amount of direct, indirect and induced jobs, as well as promoted innovation (and therefore productivity) in several different sectors (with DFIs most likely to generate jobs and benefit the poor through interventions directed at improving access to finance, infrastructure, investment climate and training). Although there is no consensus in the academic literature, recent DFI studies find that productivity increases may lead to additional employment creation, thus highlighting DFIs' potential to promote high-productivity jobs. For example, the IFC (2011) found that European DFIs in its portfolio generated 2,072,000 jobs in 2008 whilst a study on 'the Development Effects of SIFEM's Investment Interventions' between 2003 and 2011 found that SIFEM contributed to the creation of

46,000 jobs (33,400 through investment in funds and 12,400 through investments in facilities) and supported 202,000 jobs from 2003-2011.

The role of investment in determining GDP growth is critical and unambiguous. Testing this for 48 developing countries, for which such data were available, over three five year periods from 1980 to 2007, showed that in a majority of these country episodes, investment growth, GDP growth, and employment growth were convergent leading to the conclusion that investees with increased activity are likely to create more direct jobs and investments that are commercially successful also lead to indirect job creation.

There is evidence that private investments result in expected increased tax revenues for government, and in the provision of more and improved services such as power supply, healthcare, education, public transport, water and sanitation. However, there are not many available studies on the indirect effects of improved investee activity and commercial success of the investment. The five categories that could potentially benefit from positive impact of private investments are: infrastructure (mostly energy investments); agriculture and food systems; extractive industries; social sector investments (social enterprises in health or education); and the service sector for the real economy.

Outcomes to Impact

The following is a summary of the evidence gathered on the linkages between the outcomes and intended impact as outlined in the ToC. Specifically, the evidence focuses on whether investments lead to economic growth and/or poverty alleviation.

- Jobs are the principal way out of poverty for people in developing countries. The associated increase in income allows consumption of basic goods and services above poverty thresholds: as average household incomes rise by 2% per year, poverty rates are reduced between 1.2 and 7%, depending on country circumstances. The top two reasons why 60,000 poor people cited jobs as their best pathway out of poverty were (i) through self-employment, i.e., running their own business, (ii) through income from wages or salaries (Annex C, **Box 1**).
- Jobs that do not meet environmental and social standards might have a lower development or transformational impact or even a negative impact. Vulnerable employment, often in the form of informal employment, is frequently associated with poor productivity, fewer rights and less protection for workers, and has barely decreased worldwide in the last decade—from 52.8 percent to 49.1 percent. Low-paid jobs, informal jobs, and vulnerable jobs do not have the same development impact as well-paid and formal ones (Annex C, **Box 1**).
- While jobs are seen as the main way to escape from poverty, factors such as the access to basic services and the geographical and sectoral patterns of growth affect the degree of inclusiveness and poverty reduction. Working poverty is a reality in many countries, a situation in which the development impact of jobs is again unmet. Informal workers overall are much more likely to be poor than workers in the formal sector of an economy, and economies with larger shares of informal sectors also tend to be poorer (Annex C, **Box 1**). Not all employment growth leads to poverty reduction. There is mixed evidence and it varies according to context. Some studies have found that in order for employment to lead to sustainable poverty reduction, it has to be accompanied by higher earning possibilities, which in turn are associated with higher labour productivity. Finally, further research needs to examine (a) indirect jobs, (b) induced jobs, (c) second-order "growth" effects, and (d) net job creation. If an analysis fails to consider indirect jobs created in suppliers and distributors, it likely will underestimate the poverty-reduction effects (Annex C, **Box 1**).
- Call for a shift away from job creation towards a focus on i) the distribution of employment in terms of targeting and incidence (who gets the jobs which are created) and ii) outcomes, i.e. the impact of employment on poverty and stability at micro-, meso- and macro-levels (Annex C, **Box 2**).
- Economic growth reaches the majority of people through employment income. Job growth needs to keep up with new labour force entrants and this is a challenge. There are rising numbers of people in vulnerable employment. Over the past ten years, Africa's labour force has expanded by 91 million, but only 37 million of the new

entrants were employed in wage-paying jobs. GDP growth is a necessary condition for accelerating job creation. This requires business environment reform (Annex C, **Box 3**).

- An issue when assessing DFIs' impacts on employment creation is evaluating whether jobs created by DFIs' investments benefit the poor. It is not always the case that employment creation contributes to growth and poverty reduction. For example, the creation of highly skilled jobs in poor countries with a low-skilled labour force, may produce minimal development effects. Moreover, the jobs created by DFIs' investments may not benefit poor people because of significant rigidities in labour markets in developing economies. Therefore, DFIs cannot assume that all jobs created through their investments benefit low-income demographics. Additionally, it is worth highlighting that in their assessments, DFIs do not distinguish between short-term and long-term employment, where short-term jobs are for temporary periods, while long-term jobs include permanent, part-time and seasonal jobs. Moreover, they do not look at incomes resulting from employment. There are, however, DFIs that look at employment creation by gender (e.g. IFC), or at empowerment of marginalised groups such as women or the disabled (e.g. IDC SA) (Annex C, **Box 4**).
- Jobs are a key driver of development. Not just growth but also social cohesion, productivity and living standards. Evidence from two decades of research is cited as finding that job- related events are the main escape route out of poverty in developing and developed countries. In a large set of qualitative studies[2] in low-income countries, getting jobs and starting businesses were two of the main reasons people gave to explain their rise out of poverty. Conversely a lack of job opportunities reduces the ability of households to improve their well-being (Annex C, **Box 5**).
- Some jobs have a higher development impact than others (with some jobs resulting in negative spill overs). This means it is necessary to identify the types of jobs with the greatest development payoffs given the country's context. Net job creation figures (highlighting the need to look beyond direct job creation) hide much larger processes of gross job creation and gross job destruction. Economic growth occurs as high-productivity jobs are created and low-productivity jobs disappear. In the short term therefore, innovation can be associated with either increases or decreases in employment but in the medium term growth is rarely jobless (Annex C, **Box 5**).
- A cross-country study found that as well as manufacturing, growth in agriculture and construction services are the most poverty-reducing due to their employment effects (Annex C, **Box 6**).
- The phenomenon of 'jobless growth' haunts much of Africa, characterises much of India's recent experience, and is also present in Latin America. And the ILO estimates that around 40% of workers worldwide are still poor – not earning enough to keep their families above the $2-a-day poverty line (Annex C, **Box 6**).
- Most institutions measure employment creation, both new direct jobs and indirect employment generation through the knock-on effect of the investment that increases demand for suppliers of inputs and sub-contractors. Some seem to report on the total people employed in their portfolio companies rather than the incremental increase in jobs due to their investments. This clearly overstates their contribution. However, the sheer counting of direct and indirect jobs as testament to benefiting the poor can be misleading for several reasons (Annex C, **Box 7**).
- FDI has made significant contribution to growth in many developing countries over the 1980-2010 periods. Using our case study countries as example, the long-term contribution of FDI to GDP is as high as 83.8 percent in Zambia. Senegal (6.4 percent) and Uganda (8.9 percent) are the only two out of eight countries in which FDI's contribution to growth has been less than 10 percent (Annex C, **Box 8**).
- Over the period 2000-2010, FDI has contributed in excess of 20 percent to GDP in the following countries: Brazil (22 percent), Cambodia (43 percent), Ghana (30 percent), United Republic of Tanzania (32 percent), Thailand (34 percent) and

[2] An examination of over 5,000 life stories, 1,500 focus-group discussions, 1,000 discussions to obtain local definitions of poverty and wealth and 9,000 household interviews.

Uganda (22 percent). In the case of Zambia, FDI has made very significant contribution to GDP even at relative low levels compared to other part of the world. Although FDI has made significant contribution to growth in many developing countries, for a good number of them, the development effects are yet to be realized. However, considerable efforts are needed to collect and maintain data and databases on FDI flows in a coherent and consistent manner to enable analysis of its long-term development effects (Annex C, **Box 8**).

- Based on available data from EIB, EBRD, IFC and CDC, there is evidence that these DFIs increased total investment and improved energy efficiency in recipient countries compared with the constructed counterfactual. A one percentage point increase in DFI as a percentage of gross domestic product (GDP) would lead to a 0.8 percentage point change in the investment to GDP ratio. Hence, for 26 countries, DFIs have kept investment to GDP ratios more than 1.5 percentage points higher than would otherwise have been the case (Annex C, **Box 9**).
- DFIs are in general seen as conduits for climate finance, which is likely to improve the overall impact of DFIs on energy efficiency. There is a considerable literature offering examples of how DFIs affect energy efficiency. Results show that IFC and EBRD are leading to greater energy efficiency (Annex C, **Box 9**).

Summary

Direct job creation leads to increased economic activity/ poverty reduction (e.g. ODI 2013). Jobs are widely regarded as a key route out of poverty (IFC 2013) and a core determinant of growth and related poverty reduction. However, not all jobs are created equal. Jobs that do not meet environmental and social standards might have a lower development or transformational impact or even a negative impact (IFC 2013). Vulnerable employment (see McKinsey Global Institute 2012), often in the form of informal employment, is frequently associated with poor productivity, fewer rights and less protection for workers, and has barely decreased worldwide in the last decade—from 52.8 percent to 49.1 percent (ILO 2012). Working poverty is a reality in many countries, a situation in which the development impact of jobs is again unmet.

Secondly, access to jobs created is not equitable. This can create exclusion from those jobs created or, the creation of forms of employment that are potentially exploitative. This in turn means that not all job creation can be classified as poverty reducing. An issue when assessing DFIs' impacts on employment creation is evaluating whether jobs created by DFIs' investments benefit the poor. DFIs cannot assume that all jobs created through their investments benefit low-income demographics. (See Isabella Massa 2013) For example, the creation of highly skilled jobs in poor countries with a low-skilled labour force, may produce minimal development effects (see World Bank 2013). Moreover, the jobs created by DFIs' investments may not benefit poor people because of significant rigidities in labour markets in developing economies. Additionally, it is worth highlighting that in their assessments, DFIs do not distinguish between short-term and long-term employment, where short-term jobs are for temporary periods, while long-term jobs include permanent, part-time and seasonal jobs (see Nathan Associates 2011). Moreover, they do not look at incomes resulting from employment.

Private investments, via multiple financial instruments, generally lead to overall economic growth and longer-term poverty reduction. The evidence has found private equity to stimulate various markets within the economy, where some markets are more geared towards pro-poor growth (e.g. agriculture) than others. FDI has contributed in excess of 20 percent to GDP in Brazil, Cambodia, Ghana, United Republic of Tanzania, Thailand and Uganda. Further, there is evidence that some DFIs have increased total investment and improved energy efficiency in recipient countries.

1.2 Examining the underlying assumptions

The following are sets of assumptions that underpin the ToC. To support the linkages across the ToC, we propose that these assumptions are explored in further detail. It is important to note, that some assumptions about the perceived impact and relevancy of private investments need to be addressed within the ToC diagram in order to acknowledge the potential risks and limitations of investments instruments in achieving development goals.

The assumptions to explore are:

- **Direct and indirect job creation: That businesses will be able to hire staff with the necessary skill set**. Some of the evidence highlighting the need to explore this assumption is listed below.
  - The African Economic Outlook report of 2012[3], which focuses on youth unemployment, highlights the mismatch between the skills demanded by firms and the education acquired by young people.
  - See the WDR Jobs Report (2013) e.g. pp 36.
  - See Filmer, Deon and Louise Fox. 2014[4] pp 102 and 224 re the need for skills for productive employment and the necessity of a skills agenda.
  - See IFC Jobs Study (2013). If education trends don't change then predicted broth will be hindered as there will be a mismatch in the skill available and those demanded (pp17).

- **Direct and indirect job creation: That the jobs created are "good/quality jobs" that result in poverty reduction.** Some of the evidence highlighting the need to explore this assumption is listed below.
  - See the WDR Jobs Report (2013) e.g. Figure 14 pp 20, Overview section, Part 2 What are good jobs for development?
  - See IFC Jobs Study (2013 pp 17). There is a potential trade-off between the number of jobs created and the value added per job. For example, studies by Standard Chartered Bank in Ghana and Indonesia found that sectors that added more jobs, e.g., agriculture and trade, had the lowest value added per worker. At the same time industries that created fewer jobs, e.g., utilities and extractive industries had the highest value added per worker[5].
  - ILO (2014)[6]. Whilst jobs can be created these are can be in employment that is not beneficial to economic growth. According to data from the Ghana Population Census, more than three quarters of the employed remained in vulnerable employment (either self-employment or work by contributing family workers) in 2010 (ILO, 2013e), which points to the lack of economic and labour market transformation in the country. Again, there is similarity with the development of Sub-Saharan Africa as a whole, as the regional vulnerable employment rate decreased by only 2.3 percentage points from 2001 to 2012. All other developing regions show a larger decrease in the vulnerable employment rate, in most cases despite lower rates of economic growth than were experienced in Sub-Saharan Africa (pp 68). Decent job creation slowed almost everywhere in the world, with a significant deceleration in both wage employment and industrial employment growth. In addition, the average unemployment duration increased in many countries (pp 32).
  - See ILO (2012[7]) which, as part of the Decent Work Agenda, has established indicators to monitor and evaluation progress made around four pillars: full and productive employment, rights at work, social protection and the promotion of social dialogue.

[3] African Economic Outlook (2012). Promoting Youth Unemployment. Available at: http://www.oecd.org/inclusive-growth/African%20Economic%20Outlook%202012.pdf

4 Filmer, Deon and Louise Fox. 2014. Youth Employment in Sub-Saharan Africa. Africa Development Series. Washington, DC: World Bank.doi:10.1596/978-1-4648-0107-5. Available at: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/04/04/000442464_20140404115619/Rendered/PDF/840830v20REVIS0ll0Report0ER0English.pdf

[5] Steward Redqeen. 2010a. The Social and Economic Impact of Standard Chartered in Ghana. October. Ghana. And Steward Redqueen. 2010b. The Social and Economic Impact of Standard Chartered in Indonesia. October. Indonesia.

[66] Global Employment Trends 2014: Risk of a jobless recovery? / International Labour Office. Geneva: ILO, 2014. Available at: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_233953.pdf

[7] ILO (2012) Decent work indicators: concepts and definitions: ILO manual/ International Labour Office – First edition – Geneva

- **Direct and indirect job creation: The current ToC implies that direct and indirect jobs are equivalent in outcome and impact potential. There is a need to further explore this, as well as induced jobs and differences in jobs created in the formal and informal sector.** Some of the evidence highlighting the need to explore this assumption is listed below.
  - Donor Committee for Enterprise Development - DCED (2014)[8] section 6.2 pp.16 gives an overview of the necessity of distinguishing between direct, indirect and induced jobs to inform a results measurement system, presents a summary of the complexity of job creation measurement and highlights that private sector development programmes will often have a larger impact on job creation through indirect and induced effects.
  - See IFC Jobs Study (2013 pp 23). When development finance institutions, policymakers, and business leaders are estimating the job-creation effects of their activities, they must look beyond direct jobs generated. They also should consider: (a) indirect jobs, (b) induced jobs, (c) second-order "growth" effects, and (d) net job creation. If an analysis fails to consider indirect jobs created in suppliers and distributors, it likely will underestimate the poverty-reduction effects.
  - The State of Africa (2013)[9] report finds that a formal wage-paying job is the privilege of a tiny minority of East Africa's working population (1.6 per cent of Uganda's youth, 4 per cent of Burundi's, 5 per cent of Tanzania's and 6 per cent of Kenya's working populations are formally employed), that the number of jobs being created is not keeping up with increased number of people looking for jobs and that the jobs that do exist are frequently informal and pay below the poverty line. This highlights the need to focus on informal, non-direct job creation as well as direct, formal job creation.

- **Increased economic activity and poverty reduction: That marginalised, poorer members of the population – such as women and youth – are able to benefit from the intervention.** Some of the evidence highlighting the need to explore this assumption is listed below.
  - See the IFC Jobs Study Chapter 9 (2013) which looks at participation and wage gaps, and constraints to equitable access for women.
  - Nathan Associates (2011 pp 5) found that the DFIs assumed that all job creation has a pro-poor impact and do not report whether the jobs created actually benefit the poor.
  - See OECD (2012 pp 5)10. The paper highlights the denial of economic opportunity to certain groups and the need to foster an enabling environment for equitable access in order to lead to growth.
  - See World Bank (201411) which frames gender as part of the jobs challenge, highlights the cost of inequality and the differing occupations, sectors, industries, and types of firms.
  - See World Bank (2011 pp 23912) which summarises how persistent employment segregation by gender traps women in low-productivity, low-paying jobs.

- **Increased economic activity and poverty reduction: That job loss at the individual level (i.e. job destruction) if offset by gains at the industry/ economy level**. Some of the evidence highlighting the need to explore this assumption – in particular displacement effects - are listed below.

[8] DCED (2014). Measuring Job Creation in Private Sector Development. Working Paper. By Ben Fowler and Erin Markel on behalf of MarketShare Associates for DCED.
[9] The State of East Africa (2013). One People, One Destiny? The Future of Inequality in East Africa. Society for International Development pp 20
[10] Josephine Tucker and Eva Ludi (2012). Empowerment and Equity. OECD Available at: http://www.oecd.org/dac/povertyreduction/50157953.pdf
[11] World Bank (2014) Gender at Work. A Companion to the World Development Report on Jobs. Available at: http://www.worldbank.org/content/dam/Worldbank/document/Gender/GenderAtWork_web.pdf
[12] World Bank (2011). World Development Report 2012: Gender. The World Bank, Washington, DC.

- See the IFC Jobs Study (2013 pp 19). The study found that while with increased productivity, jobs might be lost in some firms, there are likely gains at the industry/economy level. A paper is cited by Nordhaus (2005) who found that for individual companies or industries, higher productivity growth may lead to loss of jobs. But from the perspective of manufacturing as a whole, or of major manufacturing industries, the employment lowering effects are more than offset by employment-creating effects of lower prices and the increased competitiveness of the industry at a global level. It is therefore important to measure jobs at the industry or economy level13.
- Nathan Associates (2011 pp 5) highlight the need to account for job displacement.
- Kerr, A., Wittenberg, M., Arrow, J. (2013)14. Internationally it is concluded that small firms both create and destroy more jobs than large firms, but that net job creation is higher in the largest firms (pp 2). When looking specifically at South Africa the authors find that similar results as regards higher rates of job destruction in smaller firms (pp 16).
- DCED (2014 pp5)15. The paper summarises the challenges of the measurement of job displacement and job substitution whilst noting that when a programme expects that jobs will be lost as a result of its intervention it may wish to assess whether displaced workers are able to obtain other work that is at least comparable to what they lost. The case of the DFID Promoting Pro-Poor Opportunities in Commodity and Service Markets (PrOpCom) programme in Nigeria is given as an example of a programme that looked at job loss.

Whilst not assumptions, there are additional considerations of: the attribution of the jobs created, the costs per job created and the sustainability of the job created.

Further assumptions that underpin the ToC are:

- **Measuring impact of investments:**
  - There is an assumption that achieving social and financial return from the investments can be easily or accurately measured. It would be essential for a ToC to acknowledge the built-in assumptions required to assess whether perceived impact can be attributed to DFID investments16.

- **Attributing demonstration or follow-on effects to specific investments:**
  - In addition to accurately measuring the impact of investments, it is difficult to track the attribution of individual investment portfolios, or work of DFIs, to broader demonstration or crowding-in effects. However, if there are overall market development goals robust contribution analysis can be an effective way to understand the role of the investments being made.
  - Demonstration effects can be negative, and should be accounted for and mitigated.
  - There are other forms of additionality that private investments can create, in addition to crowding-in effects. It would be important for a ToC and future programming to consider other potential follow-on effects17.

[13] Nordhaus, William. (2005). "The Sources of the Productivity Rebound and the Manufacturing Employment Puzzle." NBER Working Paper 11354. May.
[14] Kerr, A., Wittenberg, M., Arrow, J. (2013). Job Creation and Destruction in South Africa. A Southern Africa
Labour and Development Research Unit Working Paper Number 92. Cape Town: SALDRU, University of Cape Town
[15] DCED (2014). Measuring Job Creation in Private Sector Development. Working Paper. By Ben Fowler and Erin Markel on behalf of MarketShare Associates for DCED.
[16] http://www.thegiin.org/binary-data/IMWG_Whitepaper.pdf
[17] http://r4d.dfid.gov.uk/pdf/outputs/systematicreviews/2012-IDS-PIDG-Review.pdf

- **Measuring the trade-offs between social and financial return:**
  - The extent of the trade-offs between the expected financial and social returns can be difficult to measure. There are some underlying assumptions in the ToC on the expected levels of social return for a set level of capital.
  - Further clarity around the expected rates of financial return for the different types of investments would be helpful in measuring the social-financial trade-off. It is also important to assess whether the opportunities for impact will be best served through private investment or other more traditional development financing mechanisms.
  - Impact investments are an example of a private investment instrument that focuses on achieving a double-bottom line. It enables the power of markets to help scale solutions to some of our most urgent problems. It can complement grant financing to crowd-in funding for maximum impact.
  - However, to date, a common definition has not been applied and measures of progress have not followed a consistent approach. As such, there has been a lack of clarity in the broad field of development finance about what impact investing is and what the value could be of developing this market. There are efforts underway currently to align DFIs around a common definition and to establish harmonized metrics for measurement. A common perception is that profitability and social purpose are not aligned, and therefore investment and official aid are often seen as separate and not working together to achieve common outcomes.
  - However, there is less robust and convincing evidence on how to align profitability with social purpose and which of the two should take precedent when (i.e. in which context and under what circumstances).
  - To help grow this market, the International Development Working Group makes four recommendations to governments and business and social sector leaders in G7, G20 and developing countries: 1. Establish a new Impact Finance Facility which will help to cultivate and develop new and innovative companies and business models as well as innovative social sector organisations, building the pipeline of impact investments; 2. Create a Development Impact Bond (DIB) Outcomes Fund to facilitate the rollout of Development Impact Bond pilots; 3. Improve metrics and increase transparency to support activities to advance the impact investing market; and 4. Provide additional resources for "ecosystem-building" to support the broader environment for impact investing18.

- **The delivery of the ToC assumes that the skills, capacity and resources required to select, deploy and manage portfolio investments are available and appropriately assigned.**
  - An internal and external assessment would be useful in determining the level of capacity that currently exists, what are the skills and capacity required given best practices in the market, and what is the skills or capacity gap, if any.

Summary

The primary assumptions for direct and indirect job creation that need to be articulated and explored are as follows:

- That businesses will be able to hire staff with the necessary skill set.
- That the jobs created are "good/quality jobs" that result in poverty reduction.
- That direct and indirect jobs are equivalent outcomes. There is a need to further explore this, as well as induced jobs and differences in jobs created in the formal and informal sector.
- That marginalised, poorer members of the population – such as women and youth – are able to benefit from the intervention.

18 http://www.socialimpactinvestment.org/reports/International%20Development%20WG%20paper%20FINAL.pdf

- That job loss (job destruction) at the individual level (i.e. job destruction) is offset by gains at the industry/ economy level.

The primary assumptions on the value-add of private investments that need to be articulated and explored are as follows:

- That impact of private investments can be tracked and measured.
- That demonstration or follow-on effects can be attributed to specific investments.
- The extent of the trade-off between social and financial returns.
- That the skills and capacity required to make and manage effective investments are available and appropriately assigned.

1.3 Gap analysis

The existing gaps, in the current ToC presentation as well as in the wider body of evidence are as follows.

Direct and indirect job creation

- There is very limited country specific information on the link between DFIs and job creation broken down by DFID priority countries. The results in a summary of evidence that is broad based. It should be note that there is a lack of evidence on employment and poverty reduction in fragile states which make up a high proportion of DFID priority countries.
- There is limited evidence on job creation, substitution, induced jobs and net jobs. This is due to challenges in measurement and the difficulties of looking at wider sector shifts in employment.
- There is limited evidence as to whether job creation arises as a result of DFI investment impact on productivity.
- There is a large gap regarding who job creation benefits. There is a need for a clearer articulation as to who the beneficiaries of the job creation are and how exclusion from employment opportunities can be minimised.
- There is a large gap around the types of job created and the duration of the work.
- There is a need for a better articulation as to whether the jobs created are in the formal or informal sector.

Relevance of type of financial instrument

- There are assumptions around which financial instrument is most suitable for which context, sector or type of investee.
- There is limited evidence and understanding of the value of equity investments in SMEs. There is a recognized financing gap for SMEs[19], however less analysis on the value of equity stakes in small and medium enterprises.
- Given that in developing market contexts SME environments are generally family-owned businesses, there are significant cultural and social implications around the assumptions that equity investments can be effective and/or well received.

Evidence on the impact of different instruments for economic growth and poverty reduction

- The strength of the evidence base for the different investment instruments varies. There seems to be more literature on instruments such as private equity's impact on investees and less on instruments such as trade finance's impact on investees. There is little information on the trends in usage of instruments, and therefore there a lack of understanding on why certain instruments have more data and information available over others.

[19] http://www.keepeek.com/Digital-Asset-Management/oecd/finance-and-investment/the-sme-financing-gap-theory-and-evidence_fmt-v2006-art11-en#page1

- There is limited analysis and evidence on the extent to which different types of instruments can have an impact on poverty reduction and economic growth. A relative comparison would be a useful input into future programming and decision-making about optimizing the use of capital. It would be interesting to identify instruments which could have the most potential for impact by sector (i.e. which instruments can effectively stimulate high job creation sectors).
- There is a scarcity of evidence and research around models of success for DFIs. Performance measurement and annual reports are common, however they do not necessarily analyse the performance of instruments relative to impact and risk (i.e. which model or approaches are successful in which sectors and countries).
- There is less global or macro information on the current trends in financing, specifically on trends and approaches being used by DFIs. Analysis on lessons learned and best practices could be useful for strategic programming using multiple instruments. Further case studies or research of the financial sector's experience with new instruments and pilots is scarce (e.g. Development Impact Bonds (DIBs) are only now being critically assessed, though there are more studies on Social Impact Bonds (SIBs)).

Distinguishing between the expected social and financial returns (performance) across the outputs and outcomes

- A clearer distinction between social outputs versus financial outputs, as well as social outcomes versus financial outcomes would strengthen the ToC, as well as identify the opportunities to strengthen the evidence gaps.
- Social outputs or outcomes require different measurement indicators than financial ones.
- A more nuanced approached to the ToC would frame the expected impact and provide and opportunity to analyse any trade-offs that occur during the investment cycle.
- Distinction between these types of expected returns will also help facilitate a decision-making framework to choosing the type of instrument for the relevant sector or context.

Understanding the extent to which DFI intervention is additional to the counterfactual

- There is inherent risk that DFI investments can dampen or flood a market, or lower the rate of potential returns, damaging incentives for private actors to invest. There are several other risks tied to DFI intervention (crowding-out, subsidizing market rates, not influencing perceived risk, influencing expectations around the social/financial return trade-off, etc.), and therefore there is more evidence needed on the actual additionality of DFI interventions[20].

[20] Alan Roe, et al's paper "A strategy paper for the reform of Kenya's DFIs" (2007) analyses the decline of DFIs, particularly in the Kenyan context and is a primer to understanding the role and value-added of DFIs. Dirk Willem te Velde's "The role of development finance institutions in tackling global challenges" (2011) also explores the additionality of DFIs, particularly during financial crises and post-conflict periods.

2 Findings- steps 4 and 5

This section provides information on steps 4 and 5: a review of the demonstration effects and a review of the size of the financing gap.

2.1 Demonstration effects

The following are studies that looked to highlight the demonstration effects, specifically crowding-effects, of private investment, through different instruments.

Determining the demonstration effects of IFC's Operations: A Study, 2011

- For this study, IFC defined projects with demonstration effects as those that "led other market participants to change their behaviour, without IFC involvement." Changes in behaviour may include: a bank deciding to start lending in a new sector, a new developer financing a project similar to the one implemented with IFC support, another government that replicates a certain reform that worked with an IFC client government, among many others.
- Comparative case studies and review of 38 projects with identified demonstration effects were distilled into 12 lessons that could help IFC and partner institutions generate insights into their extended impact. Preliminary findings indicate that IFC projects are more likely to have demonstration effects when:
  - Clients are first movers
  - A new technology, process or rules of the game are introduced
  - Other players are 'on the brink' of action
  - Clients make money
  - Credible communicators are involved
  - IFC invests in relatively low-risk projects

- http://www.ifc.org/wps/wcm/connect/22b43a004fb4c9caa6c3ee0098cb14b9/IFC_EvaluationReport_DemonstrationEffects.pdf?MOD=AJPERES
- Full report: http://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0CCwQFjAB&url=http%3A%2F%2Fwww.pidg.org%2Fresource-library%2Fother-documents%2Fevaluation-of-the-demonstration-effect-of-ifc2019s-involvement-in-infrastructure-in-africa%2Fat_download%2Ffile&ei=fqV1VNrOM4bmaLmLgOgH&usg=AFQjCNHZVrk9OgSnaF-lPL_5NzQCXFCR9w&sig2=M_bDxmCXU_M__AVqMod_ZA&bvm=bv.80185997,bs.1,d.d2s&cad=rja

Overseas Private Investment Corporation (OPIC) Investment Funds Portfolio Review, 2006

- By supporting early private equity investment in emerging markets, OPIC focused on achieving a positive demonstration effect on other institutional investors, i.e. encouraging other private equity flows into emerging markets. OPIC achieved this demonstration effect via several of its fund managers who have gone on to raise second and third successor funds, and a number of successful portfolio companies. OPIC's support of funds has helped nascent emerging markets private equity industry to develop a track record that will enable a broader range of institutional investors to commit their capital to the sector in the future.
- http://www.opic.gov/sites/default/files/docs/fundsexecutivesummary022107.pdf

The role of development finance institutions in tackling global challenges, 2011.

- The paper runs statistical regressions and demonstrates that "EIB exposure is significantly correlated with the investment ratio, meaning that countries with a greater EIB investment in a given year are more likely to have more investment. The same applies for IFC, but the leverage effect is greater in the case of IFC compared

with EIB. Thus, when EIB as a share of GDP goes from 0% to 1%, the investment to GDP ratio goes up by 0.5 percentage points; the same shift in IFC is responsible for a 1.3 percentage point shift in the investment ratio. The sum IFC and EIB leads to a coefficient of 0.8, implying that a one percentage point increase in DFI as a percentage of GDP would lead to a 0.8 percentage point change in the investment ratio. When we include CDC the coefficient is 0.5."

- http://r4d.dfid.gov.uk/pdf/outputs/misc_ecodev/60810-role-of-dfis-te-velde.pdf

Development Finance Institutions and Infrastructure: A Systematic Review of Evidence for Development Additionality, 2012

- DFIs create financial additionality, particularly in low-income countries (LICs) and in less commercially attractive sectors. In particular, DFIs are able to: (a) supply long-term finance, which is often essential for infrastructure but frequently unavailable in LICs; (b) mitigate project risk, particularly in the early stages, thus leveraging additional finance by improving the attractiveness of deals (again, this is often crucial in LICs); and (c) provide and leverage finance counter-cyclically, either lending when private investors will not, or retaining positions when the private sector would pull out.
- DFIs prioritise the creation of demonstration effects, but these are hard to prove. Despite the priority given to the importance of creating demonstration effects, there is little evidence to support it in practice. In part this is because DFIs have only begun to focus on measurement relatively recently. More fundamentally, perhaps, it reflects the difficulty of proving causality in this area.
- http://r4d.dfid.gov.uk/pdf/outputs/systematicreviews/2012-IDS-PIDG-Review.pdf

2.2 Financing Gap

There is little conclusive and consistent evidence on the details of the financing gap specifically for private investments. Generally information on financing gaps are related to the estimated amount (that also tends to vary by source) needed by industry or sector, with less information on optimizing the ratios of private versus public investment. However, the following are a few high-level evidence points (the quoted numbers are from sources over the 2013-2014 period):

- Estimates for total investment needs in developing countries alone range from $3.3 trillion to $4.5 trillion per year, for basic infrastructure (roads, rail and ports; power stations; water and sanitation), food security (agriculture and rural development), climate change mitigation and adaptation, health, and education. At today's level of investment – public and private – in SDG-related sectors in developing countries, an average annual funding shortfall over 2015-2030 of some $2.5 trillion remains. Public resources cannot meet all SDG-implied financial demands. A stronger role for private sector investment is indispensable.
  - http://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=852&Sitemap_x0020_Taxonomy=UNCTAD%20Home

- According to the World Economic Forum, global spending on basic infrastructure—transport, power, water and communications—currently amounts to $2.7 trillion a year when it ought to be $3.7 trillion. Public money can be only part of the solution. The greater opportunity lies in tapping private capital. Unfortunately, the big global banks which used to lend money to finance infrastructure projects are pulling back, as new "Basel 3" capital rules make such lending less attractive. The potential pot of gold is elsewhere, in the $50 trillion of capital managed by pension funds, sovereign-wealth funds, insurance companies and other institutional investors. Only 0.8% of this is currently allocated to infrastructure.
  - http://www.economist.com/news/leaders/21599358-how-get-more-worlds-savings-pay-new-roads-airports-and-electricity

- The financing gap for formal SMEs (not including those in the informal sector) is estimated to be between $700 billion and $850 billion, or 21 to 26 percent of current

outstanding SME credit, with important regional disparities in regards to the size of this gap. Should DFIs play a stronger role as catalyst investors going beyond the provision of financing? How could DFIs reach more frontier markets and aid in the development of the venture capital or private equity sector in those countries? Should public funders increase their focus on early stage funds and on the low-end part of the SME spectrum?
  - http://www.cgap.org/blog/how-are-public-investors-and-donors-fillingthe-sme-financing-gap

- The sum invested to date is a tiny fraction of the trillions of dollars it will cost to decarbonize the global economy and adapt to the impacts of climate change. For developing nations, this gap is especially worrisome. Rwanda, for instance, estimates it faces a financing gap of approximately US$100m per year over the next 20 years for investments in climate resilience and green economy. Private investments dominate climate finance, accounting for 62% of the total. But most private finance both originates and stays in developed countries where investors are more comfortable with risks. This means developing nations need to target international sources of public finance to fill their funding gaps. Countries are using a range of economic and financial instruments to target different investors and the specific investment needs of climate resilience and a green economy. For instance, Ethiopia and Kenya are using economic instruments such as power purchase agreements and feed-in tariffs that aim to secure and enhance the financial returns from high-risk investments in renewable energy.
  - http://www.makingitmagazine.net/?p=8482

The following table by the Brookings Institute (Kharas & MacArthur, 2014) highlights the sectoral gaps and potential areas that could benefit from investments. It illustrates the complementarity of public and private investment, and focuses on the necessary requirements for private investment to be effective.

Table 1: Opportunities by sector

Investment category	Gap that requires public support	Role for international actors (and potentially private investment)
Infrastructure & decarbonization	Commitments to carbon pricing, more willingness to use guarantees and first-loss instruments, public finance for enhanced credit mechanisms	Larger multilateral mechanisms that support project preparation and provide public non-concessional loans; adequately-funded climate funds to subsidize clean energy; harmonized procedures among DFIs
Agriculture	Investments in roads, ports and storage; credit systems; climate and crop insurance systems	Agricultural research in developing countries; large-scale support for agricultural credit; country-level public-private partnerships; national agricultural transformation agencies
Extractive industries	Sustainability of local social service provision; local development benefits	Establish national sovereign wealth funds and/or prudent budget policies for managing NR wealth
Social sectors	Early stage capital; social impact bonds where appropriate	International mechanisms/portals to scale up social enterprises
Services (e.g. finance, retail, IT)	National development banks; equity provision for SMEs	Stronger regional credit rating systems

3 Conclusion

Section 1 outlines the analysis of the ToC, examines the underlying assumptions of the ToC and expectations on impact from private investment, and analyses the gaps in literature and evidence. An overall analysis of the ToC teases out the linkages between the activities, the outputs, the outcomes and the expected impact. There is more evidence for certain instruments, however the multiple sources of evidence suggests that private investment contributes to:

- improved investee activity and growth;
- business efficiencies and better decision-making;
- innovation;
- increased number of indirect and direct jobs;
- increase in GDP growth;
- increase in tax revenues;
- provision of more and better services;
- increased economic activity and poverty reduction via job creation (though not necessarily always for the poor).

There are several assumptions that are built-into the ToC, which would require further examination for activities to effectively achieve expected outputs, outcomes and impact. We recommend considering the following assumptions;

- Businesses will be able to hire staff with the necessary skill set.
- The jobs created are "good/quality jobs" that result in poverty reduction.
- Whether indirect jobs are equivalent in outcome and impact potential, as well as induced jobs and differences in jobs created in the formal and informal sector.
- Marginalised, poorer members of the population – such as women and youth – are able to benefit from the intervention.
- Job loss at the individual level (i.e job destruction) if offset by gains at the industry/ economy level
- Measuring impact of investments.
- Attributing demonstration or follow-on effects to specific investments.
- Measuring the trade-offs between social and financial return.
- The skills, capacity and resources required to select, deploy and manage portfolio investments are available and appropriately assigned.

We have identified the following gaps in the literature and evidence as the most relevant for DFID's future programming in this area:

- Deeper evidence on direct and indirect job creation
- Relevance of type of financial instrument
- Evidence on the impact of different instruments for economic growth and poverty reduction
- Distinguishing between the expected social and financial returns (performance) across the outputs and outcomes
- Understanding the extent to which DFI intervention is additional to the counterfactual

Section 2 focuses on summarizing the available literature on demonstration effects and potential follow-on effects of private investments, as well as a high-level estimation of the financing gap for private investment for development. There is less concrete evidence on the exact attribution of specific investments in crowding-in other players, however there are examples of how various institutions or portfolios have tracked their contribution to the larger market. Finally, it is unclear what the overall financing gap is specifically for private investments. There is little evidence available that gives disaggregated numbers on the demand for private financing by sector or country.

ANNEX A

Activities to Outputs

Box 1	
Link in the ToC	**Investments contribute to increased investee activity and commercial success** **TA to companies leads to investee growth**
Document Title	Overseas private investment corporation (OPIC) investment funds portfolio review
Year	2006
Author	Cambridge Associates
Overview	A portfolio review of OPIC's investment portfolio from 1991 to 2002 to assess investment performance and development impacts.
Summary of Evidence	OPIC-supported investment fund managers have also brought management and marketing expertise and financial skills to those companies in which they invested. Through participation on companies' boards, assistance in recruiting experienced management, and other activities, OPIC-supported fund managers have enhanced productivity, have improved financial controls and corporate governance, and have brought modern business practices to companies in which they invested.
Geographic Focus	Global
Sector Focus	Multiple
Other Information	Though the review is a little old, lessons learned from OPIC's portfolio review comment on benefits for investees in the portfolio, as well as evidence on demonstration effects (discussed below). It is relevant in terms of OPIC's similarity to the CDC structure. A more recent overview (2014) of OPIC's strategy and lessons learned can be found here: http://www.ssireview.org/blog/entry/creating_a_future_impact_investing_strategy
Relevant Instruments	Multiple
Read more at:	http://www.opic.gov/sites/default/files/docs/fundsexecutivesummary022107.pdf

Box 2	
Link in the ToC	**Investments contribute to increased investee activity** **TA to companies leads to investee growth**
Document Title	Exploring the impact of private equity on economic growth in Europe
Year	2013
Author	Frontier Economics
Overview	A paper prepared by the consulting firm Frontier Economics, for the European Private Equity and Venture Capital Association that evaluates the contribution of private equity to economic growth. The study explores research evidence produced over the last ten years in order to identify links between the private equity industry and economic growth.
Summary of Evidence	Private equity involvement in portfolio companies increases the efficiency of innovation efforts. Private equity-backed companies are more focused in their innovation efforts and deploy better management of innovation processes than their peers, on average. In addition to the improved productivity that arises from higher levels of innovation, private equity contributes to creating an enabling environment to enhance the levels of productivity in the economy as a whole. It does this by increasing the finance available for capital investments, supporting companies through periods of commercial or financial distress, and by increasing the operating performance of portfolio companies. Improvements in productivity either through innovation or other productivity enhancing measures at an individual company level translate directly into increased competitiveness at a macroeconomic level. Moreover, private equity has a direct impact on competitiveness through making funding available for risky but potentially lucrative new business opportunities.
Geographic Focus	Europe
Sector Focus	N/A
Other Information	This paper focuses on the European markets, given the challenging macroeconomic environment and efforts by the EU and national governments to create sustainable growth in Europe.
Relevant Instruments	Private equity
Read more at:	https://www.evca.eu/media/12929/Frontier-Economics-Report.pdf

Box 3	
Link in the ToC	Investments contribute to increased investee activity and commercial success TA to companies leads to investee growth
Document Title	The economic impact of venture capital and private equity in South Africa
Year	2013
Author	South African Venture Capital and Private Equity Association & Development Bank of Southern Africa
Overview	This research, focusing on the economic impact of venture capital and private equity in South Africa, is the second commissioned by the Development Bank of Southern Africa (DBSA) and the South African Venture Capital and Private Equity Association (SAVCA). It aims to extend the work of the survey carried out in 2009 – the first of its type in the region – by questioning investee company managers in order to assess both the perceived and measurable impact private equity backing has had on their businesses.
Summary of Evidence	Exactly three quarters of the survey's respondents reported that their businesses introduced new products or services following the private equity investment. The new capital is also instrumental in funding the purchase of new technology or machinery. Over half (56%) of responding investee companies said private equity financing allowed the business to grow faster. The survey showed that the average proportion of total sales growth over the last two years among a sub-sample of investee companies questioned was 49%. The fastest-growing 20 respondents saw their EBITDA increase by more than 130% over the same period. The findings of the survey show that investee companies create employment, with the number of staff employed by respondents both within and outside South Africa growing by around 40% over the two-year period covered. Private equity investors play an invaluable role in helping their investee companies build more robust, sophisticated structures. According to the survey, no fewer than 70% of responding companies mentioned corporate governance as a key private equity contribution. The financial acumen private equity investors bring to the table is also rated as a major contribution. Almost half of those questioned state that private equity is preferable to other forms of equity funding. The most commonly cited reason for this is the strength and equality of the partnership between investee and investor, underlining the importance private equity investors place on the correct alignment of interests.
Geographic Focus	South Africa
Sector Focus	N/A
Relevant Instruments	Private equity
Other Information	This survey relies on a number of assumptions – most importantly that the contribution of private equity is best measured by analysing the economic performance of the investee companies. It charts the impact of private equity investment on a number of different areas: growth before and after investment; innovation and new product development; job creation; corporate governance structures; and Black Economic Empowerment.
Read more at:	http://www.savca.co.za/wp-content/uploads/2014/04/SAVCA-DBSA-Economic-Impact-Study-2013.pdf

Box 4	
Link in the ToC	**Investments into financial institutions leads to commercial success** **TA to companies leads to investee growth**
Document Title	Private Equity and Financial Sector Development in Emerging Markets
Year	2013
Author	responsAbility
Overview	The purpose of this paper is to frame the microfinance equity investment opportunity and to draw attention to its role in financial sector development within emerging markets. It highlights the unique opportunities that these investments present, providing an overview of the dynamic growth and trends that the sector has experienced in recent years. It aims to demonstrate that investors can, with the aid of specialized investment vehicles, assist financial institutions serving MSMEs during their most critical periods of growth and transition.
Summary of Evidence	Private equity investments in microfinance have long-term financial objectives aimed at enabling successful corporate transformation. Committed investors can play an instrumental role in guiding financial institutions through critical periods of growth and transition; in addition to providing much needed financial resources, they can offer in-depth strategic advice, market expertise, and operational direction. Private equity investments are critical to advancing financial sector development. Private equity investments in financial institutions serving MSMEs are mainly done in the form of growth or early stage capital via private placements. They differ from the private equity strategies employed in the developed world, where businesses are often streamlined and over-leveraged with the aim of achieving a return on capital over a short period. Private equity investments in these financial institutions, on the other hand, have long-term financial objectives often aimed at improving corporate governance and providing operational support.
Geographic Focus	Emerging markets
Sector Focus	Financial
Relevant Instruments	Private equity
Other Information	N/A
Read more at:	http://www.responsability.com/funding/data/docs/en/1643/Research-Insight-2013-Private-Equity-and-Financial-Sector-Development-in-Emerging-Markets.pdf

Box 5	
Link in the ToC	**Investments contribute to increased investee activity and commercial success** **TA to companies leads to investee growth**
Document Title	The Economic and Social Impact of Private Equity in Europe: Summary of Research Findings
Year	2009
Author	Per Stromberg, Institute for Financial Research
Overview	This report presents the main features of the private equity model and summarises the empirical evidence relating to a number of economic and social impact questions: What is the impact of private equity investment on the overall economy? How does private equity ownership differ from other types of ownership? Is there a link between private equity investment and innovation? How is the operating performance of portfolio companies affected? What is the effect of private equity involvement on employment and employees? How does private equity influence human resource management practices? What is the role of private equity during industry and economic downturns or when access to capital is scarce? For consistency, this document contains research evidence from academic sources only excluding studies emanating from the private equity and venture capital industry itself, or studies by various consulting firms or investment banks that may be connected in some way to the industry.
Summary of Evidence	Companies owned by private equity funds use more long-term performance-based managerial compensation and managers have a significantly larger equity interest in the company. Boards of private-equity-backed companies are smaller, meet more frequently, and have a smaller fraction of insider (management) board members than boards of other companies. These are board characteristics that have generally been shown to be associated with better company performance. Compared to other private companies, private-equity-backed companies are more likely to recruit professional management, replace underperforming management, and introduce performance-based pay that is more strongly tied to long-term performance. Private equity board members are most active in complex and challenging transactions. Academic research has shown a positive link between private equity investment and innovation. However, some studies have found diverging evidence on the causal relationship. The overall picture across different methodologies, measurement units and time periods is that private equity enhances company performance. The positive effects on financial performance have not been found to be at the expense of long-term investment and growth. The question of whether private equity firms help create or reduce employment has generated considerable debate. Up-to-date different academic studies have reached diverging conclusions. However, the empirical evidence is consistent with a view that private equity portfolio companies create economic value by operating more efficiently.
Geographic Focus	Europe
Sector Focus	N/A
Relevant Instruments	Private equity
Other Information	N/A
Read more at:	http://www.fvca.fi/files/30/EVCA_DOC_RP_ECONIMPACT_0909.pdf

ANNEX B

Outputs to Outcomes

<table>
<tr><th colspan="2">Box 1</th></tr>
<tr><td>Link in the ToC</td><td>Investees increase activity and this leads to direct job creation
Investments are commercially successful and lead to indirect job creation</td></tr>
<tr><td>Document Title</td><td>A brief review of the role of development finance institutions in promoting jobs and productivity change.</td></tr>
<tr><td>Year</td><td>2013</td></tr>
<tr><td>Author</td><td>Isabella Massa, (Overseas Development Institute - ODI)</td></tr>
<tr><td>Overview</td><td>(pp v). This study examines the linkages between development finance institutions (DFIs), employment, and productivity change.</td></tr>
<tr><td>Summary of Evidence</td><td>The study shows (pp. v) that DFIs may enhance job opportunities and productivity change through a number of channels, which are: (i) additionality; (ii) demonstration effects; (iii) technical change; and (iv) forward and backward linkages. The evidence emerging from the existing literature shows that DFIs have generated a significant amount of direct, indirect and induced jobs, as well as promoted innovation (and therefore productivity) in several different sectors ranging from health to education, environment, Information Communication Technology (ICT), insurance, and infrastructure. Although there is no consensus in the academic literature, recent DFI studies find that productivity increases may lead to additional employment creation, thus highlighting DFIs' potential to promote high-productivity jobs. Moreover, it appears that DFIs are most likely to generate jobs and benefit the poor through interventions directed at improving access to finance, infrastructure, investment climate and training. However, notwithstanding recent improvements, there are still gaps in the existing methodologies used to assess the economy-wide employment effects and the impact of DFIs' investments on productivity change, which need to be addressed in the future.

The report presents figures from a number of DFIs on direct jobs created (pp 3) in client companies through their development impact assessment frameworks (e.g. DEG's GPR, IFC's DOTS or FMO's scoring system). Table 1 illustrates direct jobs created by a selected sample of DFIs in 2011.

Table 1:DFIs Portfolio end 2011 (€ million) Direct jobs created:
<table>
<tr><th>DFIs</th><th>Portfolio end 2011 (€ million)</th><th>Direct jobs created</th></tr>
<tr><td>IFC</td><td>32,803</td><td>2,500,000</td></tr>
<tr><td>CDC</td><td>3,825.7</td><td>976,000</td></tr>
<tr><td>DEG</td><td>5,646.9</td><td>110,000</td></tr>
<tr><td>Proparco</td><td>3,612.7</td><td>89,000</td></tr>
<tr><td>IFU</td><td>504.7</td><td>4,500</td></tr>
</table>
Source: Author's elaborations on different sources.</td></tr>
</table>

The report goes onto talk about indirect jobs (pp 3) writing that: A few DFIs also measure the generated indirect jobs. Note, however, that indirect jobs are very difficult to measure and the reported figures are often underestimated. The DEG's figure (130,000 indirect jobs) mentioned in Box 2, for example, considers only indirect jobs generated at the supply end, while jobs created at the purchaser end are neglected (Dangelmaier 2012)[21]. Induced jobs are also very difficult to assess, and very little is known on them. Because of this, it is still very difficult to know the precise impact of DFIs on total employment creation.

The paper lists three categories of job (pp 3) that can be created (one more than in the current DFID ToC):

1. Direct jobs – these are jobs directly employed by firms supported by DFIs;
2. Indirect jobs – these are jobs created by the suppliers and distributors of DFI-supported firms;
3. Induced jobs – these are jobs resulting from increased consumption by direct and indirect employees of DFI-supported firms.

The need to look at net job creation is then stated as a fourth component.

(pp 4) There is evidence that indirect and induced jobs created by DFI-supported firms are significant. A useful table is presented, and is reproduced below, on the relevance of DFIs impacts on employment creation by sector.

Sector of DFIs' investment	Direct job effects	Indirect job effects	Induced job effects
Manufacturing	*Very important*	*Potentially important*	*Less important*
Tourism	*Medium important*	*Very important*	*Less important*
Infrastructure	*Less important*	*Temporary*	*Very important*
Agriculture	*Very important*	*Less important*	*Less important*

Source: Author's (ODI) elaboration on Jouanjean and te Velde (2013)[22] and Oikawa and Casadevall (2013)[23].

Geographic Focus	Gloal
Sector Focus	Includes health , education, environment, ICT, insurance, and infrastructure
Other Information	Contains information on DFIs' methodologies for assessing employment impacts. See pp. 5.
Relevant Instrument	Looks at DFIs providing loans, guarantees and equity.
Read more at:	http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8324.pdf

[21] Dangelmaier, U. (2012), Private sector as engine for employment and quantitative growth. KFW-Position Paper, July 2012.
[22] Jouanjean, M.-Ag., and D. W. te Velde (2013), The role of development finance institutions in promoting jobs and structural transformation, ODI paper prepared for DFID. London: Overseas Development Institute.
[23] Oikawa, J., and F. Casadevall (2013), Estimating the socioeconomic impact of IFC financing: Macro case studies from Ghana, Jorda, Sri Lanka and Tunisia. Summary of main findings. Available at: http://www1.ifc.org/wps/wcm/connect/aaf748804e351c1c8804a87a9dd66321/IFC_Socioeconomic_Impact_1-11.pdf?MOD=AJPERES

Box 2	
Link in the ToC	**Investees increase activity and this leads to direct job creation** **Investments are commercially successful and lead to indirect job creation**
Document Title	Assessing Private Sector Contributions to Job Creation: IFC Open Source Study
Year	2013
Author	IFC
Overview	Since 2008 IFC made two investments in the Programme for Rural Advancement Nationally including financing working capital requirements and an expansion plan.
Summary of Evidence	300 direct jobs were created over three years. The majority of jobs created were indirect (2,200) over the same period. 80% of these indirect jobs were in rural areas. In terms of the money spent, the IFC assessed that for every US$1 million invested 40 indirect and nearly 6 direct jobs were created.
Geographic Focus	Bangladesh.
Sector Focus	Agro-processing.
Other Information	No evidence on the sustainability of the created jobs.
Relevant Instrument	Investment (debt).
Read more at:	http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/10/24/000442464_20131024144558/Rendered/PDF/820310BRI0Pran0Box379851B00PUBLIC00.pdf

Box 3	
Link in the ToC	Investees increase activity and this leads to direct job creation Investments are commercially successful and lead to indirect job creation
Document Title	International Finance Institutions and Development Through the Private Sector. A joint report of 31 multilateral and bilateral development finance institutions
Year	2011
Author	IFC
Overview	This report provides an introduction to the European DFIs and their work. It also puts them into the context of current international development policy priorities, including the creation of sustainable employment opportunities and the reduction of poverty levels in low income countries.
Summary of Evidence	As per pp 29, on an aggregate level, European DFIs attempt to forecast the development effects their investments will generate. The projected total development effect, from 2006 – 2008, with on average €5 billion per year, was: 422,000 direct jobs provided by European DFI project companies and 81,000 new jobs created throughout the lifetime of the projects, 1.3 million indirect jobs procured through their value chains (relations with suppliers) and sub-borrowers in case of financial sector projects throughout the lifetime of the projects. In terms of actual outcomes, DEG found that (pp 30). Its portfolio companies in 2008 secured 2,072,000 jobs. Of the jobs secured, 49% were in SMEs. For CDC DEG found that in 2008 676,000 people were employed in the portfolio companies in which CDC is invested and which reported employment data`. 14% of the jobs were generated in Africa, while the consumer goods and services sector accounted for 31% of the jobs.
Geographic Focus	Global
Sector Focus	Provides case studies on infrastructure, agribusiness, finance
Other Information	n/a
Relevant Instrument	Gives examples of IFIs providing debt, equity, quasi-equity, guarantees, Islamic finance, local currency loans, and political risk insurance.
Read more at:	http://www.developmentandtheprivatesector.org/report/files/assets/downloads/IFI_and_Development_Trough_the_Private_Sector.pdf

Box 4	
Link in the ToC	Investees increase activity (output) to the outcome direct job creation Investments are commercially successful and lead to indirect job creation
Document Title	"Indicators for measuring and maximizing economic value added and job creation arising from private sector investment in value chains". Report to the high-level development working group.
Year	2011
Author	Inter-Agency working group on the private investment and job creation pillar of the G20 inter-agency working group on the private investment and job creation pillar of the G20 multi-year action plan on development.
Overview	This interim report develops key quantifiable economic and financial indicators for measuring and maximising economic value-added and job creation arising from private sector investment in value chains. The report aims to provide a policy tool that can be put to use by developing-country policymakers and serve as the basis for concrete pilot initiatives by the agencies involved in its preparation.
Summary of Evidence	The paper concludes that private investment, both domestic and foreign, is a major source of growth, employment and development (pp 6). The paper (pp 10) finds that the role of investment in determining GDP growth is critical and unambiguous. Higher investment leads to higher GDP growth. And each additional percentage point of GDP growth will generate additional employment. Therefore raising the quantum of investment, will raise the quantum of employment. This increase in the quantum of employment will be through both a direct impact on employment and via secondary, indirect multiplier effects. The increase in the quantum of employment will also reduce underemployment, and improve wages. Testing this for 48 developing countries, for which such data was available, over three five year periods from 1980 to 2007, shows that in a majority of these country episodes, investment growth, GDP growth, and employment growth were convergent. (pp 11) As countries' GDP and levels of investment progress, the additional beneficial impact of further investment on job creation declines with increasing capital and technology intensity of new investment projects. This is confirmed by the ILO analysis on Investment, GDP and Employment included in Annex II, which examines the relationship between investment, GDP and employment for 42 developing countries. There is a need to map sectoral value chains prior to investment to see whether they lead to job creation and inclusive growth (pp 19).
Geographic Focus	n/a
Sector Focus	Includes manufacturing, agriculture, service sector.
Other Information	Global
Relevant Instrument	Not mentioned
Read more at:	http://unctad.org/sections/dite_dir/docs/diae_g20_indicators_report_en.pdf

Box 5	
Link in the ToC	**Investees increase activity (output) to the outcome direct job creation** **Investments are commercially successful and lead to indirect job creation**
Document Title	Independent Evaluation Development Effects of Swiss Investment Fund for Emerging Markets (SIFEM) Investment Interventions
Year	2013
Author	Commissioned by the Quality and Resources Section, Economic Cooperation and Development Division at the State Secretariat for Economic Affairs.
Overview	This report presents the results of the independent evaluation of 'the Development Effects of SIFEM's Investment Interventions' between 2003 and 2011. In this period, SIFEM made commitments of US$357 million, disbursed US$225 million to private equity funds and other investment vehicles, and achieved an internal rate of return (IRR) of 2.90% and an unrealized gain of US$16.5 million.
Summary of Evidence	It is claimed (pp iii) that SIFEM has contributed to the creation of 46,000 jobs (33,400 through investment in funds and 12,400 through investments in facilities) and supported 202,000 jobs. Between 2008 and 2010 the number of jobs at SIFEM portfolio companies grew at a faster rate than in the broader economy in which they operate for 12 out of 16 countries that reported three or more investments. Overall, job growth for this period was 9.7% for the SIFEM portfolio compared to 0.1% as a weighted average for the economies in which SIFEM invests. Listed in an expanded section on direct jobs (pp 24), the report states that the number of jobs created includes supporting 588 jobs from direct employment in funds and 4,647 jobs from direct employment in financial institutions. Based on an analysis that scales the number of jobs based on SIFEM's contribution to the total investment (as opposed to the contribution of all investors), three sectors created 73% of the jobs: wholesale and retail sales (27%), financial intermediation (25%), and electricity gas and water supply (21%) –. Notably, only 3% of SIFEM's capital is in wholesale and retail sales, while 23% is invested in financial intermediation, and 10% is invested in electricity, gas, and water supply. For all sectors, large enterprises with more than 300 employees at the time of investment were the largest drivers of jobs created and supported. In terms of efficiency, 45 jobs were created per $1 million dollars invested (pp i).
Geographic Focus	SIFEM investments are in middle-income countries (44% in lower-middle-income countries and 47% in upper-middle-income countries)
Sector Focus	Wholesale and retail sales, financial intermediation and electricity gas and water supply
Other Information	n/a
Relevant Instrument	The main focus is on equity
Read more at:	Available at: http://www.oecd.org/derec/switzerland/SWITZERLAND_EvaluationReport_SIFEM.pdf

Box 6	
Link in the ToC	**Investments contribute to increased revenues** **Investments contribute to development impact**
Document Title	Mobilizing Private Investment for Post-2015 Sustainable Development
Year	2014
Author	Homi Kharas and John McArthur
Overview	A briefing note that was prepared for a retreat convened by the Independent Research Forum on a post-2015 sustainable development agenda. It focuses on identifying the opportunities and risks of private investment flows for the post-2015 development agenda. It identifies gaps and priorities for enhanced private investment, lists the top priority sectors for private investment opportunities, including outlining the institutional implications for global actors.
Summary of Evidence	The development benefits from investments made by private firms come from: (1) the contributions provided to government revenues; (2) the contributions provided to jobs and incomes; (3) the expansion of access to and quality of infrastructure and social services to serve a broader segment of the population, including many poor and near-poor households; and (4) the innovation and cost competitiveness that private firms can generate. The five categories where large private external investment could take place for foreseeable impact are: infrastructure (mostly energy investments); agriculture and food systems; extractive industries; social sector investments (social enterprises in health or education); and the service sector for the real economy. The key point is that private capital is not something that be encouraged in the abstract or simply with economy-wide reforms in developing countries. It can be unlocked if there is specific attention to the key obstacles in specific sectors, and if global public finance through ODA and non-concessional instruments is effectively deployed. In some cases, institutional changes at the global level may be needed.
Geographic Focus	Global
Sector Focus	Infrastructure, agriculture, extractive, social, service
Other Information	Potential issues to consider: Is the size of international bilateral and multilateral development finance institutions adequate to meet the task ahead? Do these agencies have adequate instruments to mitigate risk and they are used at an appropriate scale? How can grants and technical assistance be blended with private capital to generate structures that are attractive from development and financial perspectives? Are public-private partnerships, disaggregated by sector, useful ways of identifying the scope and nature of possible blended finance? Should social and environmental externalities, especially for carbon pricing, be factored into project selection in a harmonized way among DFIs? How should the social benefit of reducing carbon emission be priced? Would institutional investors, like pension funds, be willing to enter these markets if financial returns on clean energy projects were sweetened by a carbon-reduction subsidy? What other platforms could spur a better flow of information to encourage private flows to developing countries?
Relevant Instrument	Equity and debt, including in funds
Read more at:	http://www.brookings.edu/research/papers/2014/07/mobilizing-private-investment-post-2015-develoment-kharas-mcarthur?rssid=global&utm_source=feedblitz&utm_medium=FeedBlitzRss&utm_campaign=FeedBlitzRss&utm_content=Mobilizing+Private+Investment+for+Post-2015+Sustainable+Development

Box 7	
Link in the ToC	**Investments contribute to more or better service delivery** **Investments increase tax revenue**
Document Title	Adding value through effective investments
Year	2013
Author	KFW DEG
Overview	Development effects of DEG new business.
Summary of Evidence	Two-thirds of the productive companies that were financed contribute to broadening the product range and almost three quarters to improving product quality. Twelve investments in the energy sector will contribute to an improved power supply for households and companies. The generated power will, for example, supply an estimated4 million people in future. 43% of the productive companies have or will set up nursery schools, schools or health care stations, which is not only to the benefit of the employees, but also of the public. 26% and 13%, respectively, of our financings for productive companies contribute to improved public transport routes and improved water supply and wastewater disposal in the region. It is expected that the productive companies and infrastructure projects financed in 2013 will pay annual taxes totalling EUR 800. Zambia National Commercial Bank Plc (Zanaco) predominantly provides loans to agricultural enterprises and SMEs, thereby helping more than 10,500 smallholders and 13,000 SMEs grow. A well-developed branch network and innovative products such as mobile banking enable Zanaco to facilitate access to financial products even for people in rural areas. The company is thereby making a significant contribution to the country's economic development. DEG provided the bank with a long-term loan to the amount of EUR 18m in order to expand its loan portfolio also for export-oriented companies.
Geographic Focus	Global
Sector Focus	Multiple
Other Information	n/a
Relevant Instrument	Multiple
Read more at:	https://www.deginvest.de/DEG-Documents-in-English/About-DEG/What-is-our-impact/Development-Report_2013_EN.pdf

ANNEX C

Outcomes to Impact

Box 1	
Link in the ToC	**Direct job creation leads to increased economic activity/ poverty reduction**
Document Title	IFC Jobs Study. Assessing Private Sector Contributions to Job Creation and Poverty Reduction. Chapters 1 – 3.
Year	2013
Author	IFC
Overview	The report is the result of an open-source study to assess the direct and indirect effects of private sector activity on job creation. The report examines how and under what conditions the private sector can best contribute to job creation and poverty reduction, drawing on a review of the literature and evaluations; surveys of more than 45,000 businesses in over 100 countries; a website, blog, and essay competition to solicit outside views; macro and micro case studies of IFC clients; and IFC's own operational experience and lessons learned.
Summary of Evidence	The report (pp 4) states that jobs are the principal way out of poverty for people in developing countries. The associated increase in income allows consumption of basic goods and services above poverty thresholds: as average household incomes rise by 2 percent per year, poverty rates are reduced between 1.2 and 7 percent, depending on country circumstances .The top two reasons why 60,000 poor people cited jobs as their best pathway out of poverty were (i) through self-employment, i.e., running their own business, (ii) through income from wages or salaries . The report finds (pp 5) that jobs that do not meet environmental and social standards might have a lower development or transformational impact or even a negative impact. Vulnerable employment, often in the form of informal employment, is frequently associated with poor productivity, fewer rights and less protection for workers, and has barely decreased worldwide in the last decade—from 52.8 percent to 49.1 percent.5 ILO (2012)[24]. In summary, low-paid jobs, informal jobs, and vulnerable jobs do not have the same development impact as well-paid and formal ones. Secondly (pp 5) while jobs are seen as the main way to escape from poverty, factors such as the access to basic services and the geographical and sectoral patterns of growth affect the degree of inclusiveness and poverty reduction. Working poverty is a reality in many countries, a situation in which the development impact of jobs is again unmet. Informal workers overall are much more likely to be poor than workers in the formal sector of an economy, and economies with larger shares of informal sectors also tend to be poorer[25]. Thirdly (pp 19), not all employment growth leads to poverty reduction. There is mixed evidence and it varies according to context. Some studies have found that in order for employment to lead to sustainable poverty reduction, it has to be accompanies by higher earning possibilities, which in turn are associated with higher labour productivity Finally, there needs to be a look at (a) indirect jobs, (b) induced jobs, (c) second-order "growth" effects, and (d) net job creation. If an analysis fails to consider indirect jobs created in suppliers and distributors, it likely will underestimate the poverty-reduction effects (pp 23).

[24] ILO (2012). Global Employment Trends 2012. International Labor Office, Geneva.
[25] Ayyagari, M., T. Beck, and A. Demirguc-Kunt. 2007. "Small and Medium Enterprises Across the Globe." Small Business Economics 29: 415-434.

Geographic Focus	n/a
Sector Focus	n/a
Other Information	The paper comments on the share of employment in small, medium and larger businesses and the importance of targeting all sizes of business with investment given the different segments of the labour force working in each (pp20). A box is included referring Bauchet, Morduch (2011)[26] who state that a balance of investment might be optimal for poverty reduction.
Relevant Instrument	Includes IFC private equity funds. See figure 7.2 pp 79 for a visual presentation of access to finance by various firm sizes.
Read more at:	http://www.businessenvironment.org/dyn/be/docs/250/IFC%20Full%20Jobs%20Study.pdf

[26] Bauchet, J. & Morduch, J. 2011. "Is Micro Too Small? Microcredit vs. SME Finance." NYU Wagner Research Paper No. 2011-15.

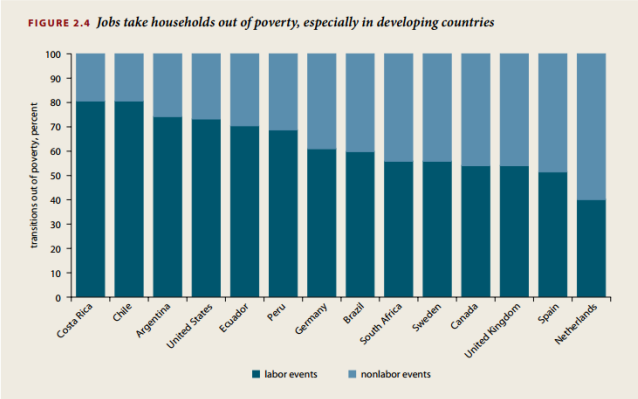
Box 2	
Link in the ToC	Direct job creation leads to increased economic activity/ poverty reduction
Document Title	What is the evidence on the impact of employment creation on stability and poverty reduction in fragile states? A systematic review.
Year	2013
Author	Rebecca Holmes, Anna McCord and Jessica Hagen-Zanker with Gina Bergh and Franzisca Zanker. ODI
Overview	This systematic review identifies and synthesizes the current literature on the evidence of the impacts of employment creation on stability and poverty in fragile states. The review assesses the empirical evidence available, in terms of content and quality, and identifies critical research gaps, proposing priority areas for future research in this area.
Summary of Evidence	The authors find mainstream development literature which identifies employment as a central determinant of the nexus between growth and poverty reduction (e.g. Islam R (2004)[27] The lack of studies on employment and poverty reduction in fragile states. The authors call for a shift away from job creation towards a focus on i) the distribution of employment in terms of targeting and incidence (who gets the jobs which are created) and ii) outcomes, i.e. the impact of employment on poverty and stability at micro-, meso- and macro-levels.
Geographic Focus	Fragile States (including Afghanistan, DRC, Ethiopia, Nigeria, Uganda, Zimbabwe, Yemen Rep, Somalia, Sudan, Kyrgzstan, Bangladesh)
Sector Focus	n/a
Other Information	n/a
Relevant Instrument	No focus on financial instruments
Read more at:	http://r4d.dfid.gov.uk/pdf/outputs/systematicreviews/What_is_the_evidence_on_the_impact_of_employment_creation_on_stability_and_poverty_reduction_in_fragile_states.pdf

[27] Islam (2004). The nexus of economic growth, employment and poverty reduction: an empirical analysis. Issues in Employment and Poverty Discussion Paper, No. 14. Geneva: International Labour Organization, Recovery and Reconstruction Department.

Box 3	
Link in the ToC	**Direct job creation leads to increased economic activity/ poverty reduction**
Document Title	Africa at work: Job creation and inclusive growth
Year	2012
Author	McKinsey Global Institute (David Fine, Arend van Wamelen, Susan Lund, Armando Cabral, Mourad Taoufiki, Norbert Dörr, Acha Leke, Charles Roxburgh, Jörg Schubert and Paul Cook).
Overview	The report presents an overview of Africa's employment landscape. It includes quantitative analysis of available national employment data, a survey or more than 1,300 companies in five African countries, and interviews with businesses and policy makers.
Summary of Evidence	The report (pp2) states that economic growth reaches the majority of people through employment income. Job growth needs to keep up with new labour force entrants (pp2) and this is a challenge. There are rising numbers of people in vulnerable employment. Over the past ten years, Africa's labour force has expanded by 91 million, but only 37 million of the new entrants were employed in wage-paying jobs (pp 3). GDP growth is a necessary condition for accelerating job creation. This requires business environment reform (pp 8).
Geographic Focus	Africa
Sector Focus	Includes agriculture, manufacturing, local service sectors (transportation, communications, retail, banking).
Other Information	n/a
Relevant Instrument	Cursory mention of loans re.in the context of improving access to finance pp. 55
Read more at:	http://www.mckinsey.com/insights/africa/africa_at_work

Box 4	
Link in the ToC	**Direct job creation leads to increased economic activity/ poverty reduction**
Document Title	A brief review of the role of development finance institutions in promoting jobs and productivity change
Year	2013
Author	Isabella Massa, (ODI)
Overview	(pp v). This study examines the linkages between development finance institutions (DFIs), employment, and productivity change.
Summary of Evidence	(pp 5) An issue when assessing DFIs' impacts on employment creation is evaluating whether jobs created by DFIs' investments benefit the poor. As highlighted in detail by Bortes et al. (2011)[28], it is not always the case that employment creation contributes to growth and poverty reduction. For example, the creation of highly skilled jobs in poor countries with a low-skilled labour force, may produce minimal development effects. Moreover, the jobs created by DFIs' investments may not benefit poor people because of significant rigidities in labour markets in developing economies. Therefore, DFIs cannot assume that all jobs created through their investments benefit low-income demographics. Additionally, it is worth highlighting that in their assessments, DFIs do not distinguish between short-term and long-term employment, where short-term jobs are for temporary periods, while long-term jobs include permanent, part-time and seasonal jobs. Moreover, they do not look at incomes resulting from employment. There are, however, DFIs that look at employment creation by gender (e.g. IFC), or at empowerment of marginalised groups such as women or the disabled (e.g. IDC SA)
Geographic Focus	Global.
Sector Focus	Includes health , education, environment, ICT, insurance, and infrastructure
Other Information	n/a
Relevant Instrument	Looks at DFIs providing loans, guarantees and equity.
Read more at:	http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8324.pdf

[28] Bortes, C. Sinha, S. and A. Grettve (2011), How do DFIs measure the development returns to investment in private enterprises? A review of the literature. January 2011. London: Nathan Associates London Ltd.

Box 5	
Link in the ToC	**Direct job creation leads to increased economic activity/ poverty reduction**
Document Title	World Development Report. Jobs.
Year	2013
Author	World Bank.
Overview	The report takes the centrality of jobs in the development process as a starting point and using a cross sectoral and multidisciplinary approach, looks at why some jobs do more for development than others. The Report finds that the jobs with the greatest development payoffs are those that make cities function better, connect the economy to global markets, protect the environment, foster trust and civic engagement, or reduce poverty. Critically, these jobs are not only found in the formal sector; depending on the country context, informal jobs can also be transformational. Building on this framework, the Report tackles some of the most pressing questions policy makers are asking right now. See pp xiii for further detail.
Summary of Evidence	The paper (pp 78) finds that jobs are a key driver of development (pp 75).Not just growth but also social cohesion, productivity and living standards. Evidence from two decades of research is cited as finding that job- related events are the main escape route out of poverty in developing and developed countries. In a large set of qualitative studies in low-income countries, getting jobs and starting businesses were two of the main reasons people gave to explain their rise out of poverty[29]. Conversely a lack of job opportunities reduces the ability of households to improve their well-being[30]. The figure below, from pp 81, highlight the prominence of labour-related events in lifting households out of poverty.  Source: Inchauste 2012 for the World Development Report 2013. Note: Nonlabor events include changes in nonlabor earnings (such as rents or pensions) and demographic changes. A trigger event is defined as the most important event occurring during a poverty reduction spell among a set of mutually exclusive categories of events such as changes in family structure, in sources of income, and in needs of the household.

[29] Narayan, Deepa, Lant Pritchett, and Soumya Kapoor. 2009. Success from the Bottom Up. Vol. 2 of Moving Out of Poverty. New York: Palgrave Macmillan; Washington, DC: World Bank

[30] Baulch, Bob, ed. 2011. Why Poverty Persists: Poverty Dynamics in Asia and Africa. Cheltenham, U.K.: Edward Elgar Publishing.

	The paper presents data on declining shares of the population of developing countries living on less than US$1.25 a day (in purchasing power parity) – with a fall from 52% in 1981 to 22 percent in 2008. This reduction is presented as the result of multiple factors but jobs are said to be the main driving force (pp7). The report finds that some jobs have a higher development impact than others (with some jobs resulting in negative spill overs). This means it is necessary to identify the types of jobs with the greatest development payoffs given the country's context (pp4). Net job creation figures (highlighting the need to look beyond direct job creation) hide much larger processes of gross job creation and gross job destruction (pp 11). Economic growth occurs as high-productivity jobs are created and low-productivity jobs disappear. In the short term therefore, innovation can be associated with either increases or decreases in employment but in the medium term growth is rarely jobless (pp 10).
Geographic focus	Global
Sector Focus	Cross-sectoral
Other Information	n/a
Relevant Instrument	No focus on financial instruments
Read more at:	World Bank. 2012. World Development Report 2013: Jobs. Washington, DC: World Bank. DOI: 10.1596/978-0-8213-9575-2 http://siteresources.worldbank.org/EXTNWDR2013/Resources/8258024-1320950747192/8260293-1322665883147/WDR_2013_Report.pdf

Box 6	
Link in the ToC	Direct job creation leads to increased economic activity/ poverty reduction
Document Title	Jobs, growth and poverty: what do we know, what don't we know, what should we know? Background Note
Year	2011
Author	Claire Melamed, Renate Hartwig and Ursula Grant (ODI)
Overview	This Background Note, based on a review of literature, summarises the current state of thinking around jobs, growth and poverty and highlights five trends that are likely to shape effective policy on growth and employment in the next few years. The literature review looked at research on 24 growth episodes from the 1980s, 1990s and 2000s.
Summary of Evidence	In 18 of the growth episodes poverty had fallen. Where poverty had fallen, in 15 cases there had been a rise in employment in services, in ten a rise in industrial employment, and in six cases a rise in employment in agriculture (six saw rises in employment in two of the three sectors, but there was no case of increased employment in all three sectors simultaneously). Of the six cases where poverty did not fall, two saw a rise in agricultural employment, three a rise in industrial employment, and one a rise in employment in services. (pp 2) A cross-country study found that as well as manufacturing, growth in agriculture and construction services are the most poverty-reducing due to their employment effects (Loayza and Raddatz, 2010)[31].
	However employment to poverty reduction is not automatic (pp 3). (pp 3) The phenomenon of 'jobless growth' haunts much of Africa (Aryeetey and BaahBoateng, 2007)[32], characterises much of India's recent experience (Mehta et al., 2011)[33], and is also present in Latin America (Jemio and del Carmen Choque, 2006)[34]. And the ILO estimates that around 40% of workers worldwide are still poor – not earning enough to keep their families above the $2-a-day poverty line (ILO, 2011)[35]. For growth to reduce poverty through the mechanism of the labour market, two things have to happen. First, the changes that together add up to economic growth and associated shifts in the structure of the economy have to generate an increased demand for labour and/or an increase in the productivity of each worker. These then have to be translated into earnings by the prevailing labour market and political conditions of the particular country. (pp4) it is not clear that the distinction between a formal and an informal sector is always a useful categorisation. The policy agenda in this area should be driven not by a sharp distinction between formal and informal firms, but by an understanding of how firms relate to each other in value chains, and how individuals and firms move between and overlap the formal and informal sectors.

[31] Loayza, N. and Raddatz, C. (2010) 'The composition of growth matters for poverty reduction', *Journal of Development Economics* 93: 137-151.
[32] Aryeetey, E. and Baah-Boateng, W. (2007) *Growth, Investment and Employment in Ghana*. Geneva: ILO.
[33] Mehta, A., Shepherd, A., Bide, S., Shah, A. and Kumar, A. (2011) *India Chronic Poverty Report: Towards solutions and new compacts in a dynamic context*. New Delhi: Indian Institute of Public Administration/CPRC.
[34] Jemio, L. and del Carmen Choque, M. (2006) 'Boliva: EmploymentPoverty Linkages' in Islam (ed.) (2006).
[35] ILO (2011) *Global Employment Trends 2011: The Challenge of a Jobs Recovery*. Geneva: ILO.

	(pp4). The policy agenda in this area should be driven not by a sharp distinction between formal and informal firms, but by an understanding of how firms relate to each other in value chains, and how individuals and firms move between and overlap the formal and informal sectors. In Southeast Asia, young people are five times as likely as adults to be unemployed (ILO, 2011)[36]. In African countries such as Kenya (Zependa, 2007)[37], and in the Middle East (Messkoub, 2008)[38], youth unemployment is much higher than overall unemployment. This represents a huge waste of productive resources. The second big inequality in the labour market is between men and women. (pp 5) While there are few studies on the impact of youth unemployment on growth, the impact of gender inequalities has been more researched. There is a growing consensus that gender inequalities are bad for growth, given the waste of human resources that they represent. This is presumably also true for youth unemployment. One study estimates that the combined employment and education gap between men and women in South Asia could cost the region around 1.6% in its growth rates each year (Klasen and Lamanna, 2008)[39].
Geographic Focus	Global
Sector Focus	Cross-Sectoral
Other Information	n/a
Relevant Instrument	No focus on financial instruments
Read more at:	http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7121.pdf

[36] ILO (2011) *Global Employment Trends 2011: The Challenge of a Jobs Recovery*. Geneva: ILO.
[37] Zependa, E. (2007) *Addressing the Employment-Poverty Nexus in Kenya: Comparing Cash-Transfer and Job-Creation Programmes.* Working Paper No.40 . Brasilia: IPC-UNDP.
[38] Messkoub, M. (2008) *Economic Growth, Employment and Poverty in the Middle East and North Africa*. ISS Working Paper No.460. The Hague: ISS.
[39] Klasen, S. and Lamanna, F. (2008) *The Impact of Gender Inequality in Education and Employment on Economic Growth in Developing Countries: Updates and Extensions*. EUDN-WP 2008-10. Goettingen: University of Goettingen.

Box 7	
Link in the ToC	**Direct job creation leads to increased economic activity/ poverty reduction**
Document Title	How do DFIs measure the development returns to investment in private enterprises? A review of the literature
Year	2011
Author	Cristina Bortes, Sunil Sinha and Anders Grettve (Nathan Associates)
Overview	(pp 9) Nathan EME Ltd was contracted by DFID to prepare a literature review on how the development finance institutions (DFIs) and Multilateral Development Banks (MDBs) define and measure the development impact of their investments in private sector enterprises, especially in poor and fragile countries; and the development outcomes that they have been able to generate for the poor through investing in particular sectors or by the use of different asset classes. The review relied on mapping the approaches and practices of the institutions mainly based on the reports available in the public domain. All information and reports available on the MDBs and DFIs websites, the Evaluation Cooperation Group and the European Development Finance Institutions websites as well as the literature on the role of the financial sector in promoting development impacts, including socially responsible investments were reviewed. In addition, there was a review of the academic literature on the private sector operations of DFIs and MDBs, the process of technology transfer to developing countries and the processes of financial sector development and its impact on business and poverty reduction.
Summary of Evidence	The paper finds that most institutions measure employment creation, both new direct jobs and indirect employment generation through the knock-on effect of the investment that increases demand for suppliers of inputs and sub-contractors. Some seem to report on the total people employed in their portfolio companies rather than the incremental increase in jobs due to their investments. This clearly overstates their contribution (pp 16). However (pp 17), the sheer counting of direct and indirect jobs as testament to benefiting the poor can be misleading for several reasons: 1. The assertion that jobs are good for growth and poverty reduction holds only if those employed are moving from activities with lower productivity to higher ones. The creation of highly skilled jobs in a country short of that skill can have little development impact. 2. It is not necessarily so that the creation of jobs by a single investment adds to the stock of jobs in the country. It is important to examine possible displacement effects which could result in a net reduction in jobs: a few, highly paid jobs might replace a larger number of less paid ones. 3. The jobs created may not benefit the poor. Whilst it may be argued that net job creation will benefit the poor in some way, as it helps to increase demand in the labour market, in practice, rigidities in the labour market are particularly strong in the developing countries so that the poor do not benefit. 4. Even the institutions that focus strongly on the quality of jobs created by the project (e.g. new jobs, how many for women, skilled vs. unskilled, etc.), are more lax in examining the effects of indirect employment. By using full time equivalents of indirect employment, they do not distinguish between short-term and long-term employment or "real" jobs or the incomes resulting from them. As expressed in the World Bank's study "Voices of the Poor" the poor are often rich in jobs; "Very poor often have to work in multiple low-earning jobs (Narayan, 2002). Real unemployment is not an option in the absence of social support systems. The way out of poverty is a "real" job, one that is more productive. Otherwise, one just redistributes misery." (Klein, M. 2010).
Geographic Focus	Global
Sector Focus	Mention of agriculture, infrastructure, the financial sector and manufacturing.
Other Information	n/a

Relevant Instrument	Looks at DFIs and MDBs. Looks at equity, direct loans and indirect investments.
Read more at:	http://www.nathaninc.com/sites/default/files/Development%20returns%20to%20DFIs.pdf

Box 8	
Link in the ToC	**Investments contribute to growth and poverty reduction**
Document Title	Trends and impacts of foreign investment in developing country agriculture. Evidence from case studies.
Year	2012
Author	FAO
Overview	A state of the sector report on foreign direct investments (i.e. private investments) in agriculture.
Summary of Evidence	FDI has made significant contribution to growth in many developing countries over the 1980-2010 periods. Using our case study countries as example (Table 1 and Figure 5), the long-term contribution of FDI to GDP is as high as 83.8 percent in Zambia. Senegal (6.4 percent) and Uganda (8.9 percent) are the only two out of eight countries in which FDI's contribution to growth has been less than 10 percent. Over the period 2000-2010, FDI has contributed in excess of 20 percent to GDP in the following countries: Brazil (22 percent), Cambodia (43 percent), Ghana (30 percent), United Republic of Tanzania (32 percent), Thailand (34 percent) and Uganda (22 percent). In the case of Zambia, FDI has made very significant contribution to GDP even at relative low levels compared to other part of the world. Although FDI has made significant contribution to growth in many developing countries, for a good number of them, the development effects are yet to be realized. However, considerable efforts are needed to collect and maintain data and databases on FDI flows in a coherent and consistent manner to enable analysis of its long-term development effects.
Geographic Focus	Global
Sector Focus	Agriculture
Other Information	Case studies on: Brazil and improving the business climate for FDI Tanzania and the analysis of private investments in the agricultural sector Thailand and foreign investment and agricultural development Uganda and the analysis of private investment in the coffee, flowers and fish sectors Cambodia and local impacts of selected foreign agricultural investments Ghana and private investment flows and business models in agriculture Mali and large-scale agricultural investments and inclusive business models Senegal and assessing the nature, extent and impact of FDI in agriculture Zambia and investment in agricultural land and inclusive business models
Relevant Instrument	Multiple
Read more at:	http://www.brookings.edu/research/papers/2014/07/mobilizing-private-investment-post-2015-develoment-kharas-mcarthur?rssid=global&utm_source=feedblitz&utm_medium=FeedBlitzRss&utm_campaign=FeedBlitzRss&utm_content=Mobilizing+Private+Investment+for+Post-2015+Sustainable+Development

Box 9	
Link in the ToC	Investments contribute to growth and poverty reduction
Document Title	The role of development finance institutions in tackling global challenges
Year	2011
Author	Dirk Willem te Velde (ODI)
Overview	Analysis of how aid and non-aid measures can help in addressing global challenges.
Summary of Evidence	The paper develops a general methodology for estimating the aggregate impact of DFIs on investment (especially during financial crises and in post-conflict periods) and the ability of DFIs to improve energy efficiency. Using regression analyses, based on available data from EIB, EBRD, IFC and CDC, the author finds that DFIs increased total investment and improved energy efficiency in recipient countries compared with the constructed counterfactual. A one percentage point increase in DFI as a percentage of gross domestic product (GDP) would lead to a 0.8 percentage point change in the investment to GDP ratio. Hence, for 26 countries, DFIs have kept investment to GDP ratios more than 1.5 percentage points higher than would otherwise have been the case. DFIs are able to increase investment and, owing to their locational presence, they are likely to be particularly additional in poorer countries. Thus, DFIs could be seen as a useful tool to promote investment and growth in poor countries. DFIs are in general seen as conduits for climate finance, which is likely to improve the overall impact of DFIs on energy efficiency. There is a considerable literature offering examples of how DFIs affect energy efficiency. Results show that IFC and EBRD are leading to greater energy efficiency.
Geographic Focus	Global
Sector Focus	Multiple, notably climate change
Other Information	n/a
Relevant Instrument	Multiple
Read more at:	http://r4d.dfid.gov.uk/pdf/outputs/misc_ecodev/60810-role-of-dfis-te-velde.pdf