

# Impact Assessments in Finance and Private Sector Development

## The myth that rigorous evaluations of finance and private sector projects are not feasible is dispelled by new research

Each year, the World Bank and national governments implement policies and projects designed to promote private sector and financial development. Yet there is almost no convincing evidence about which policies work, which don't, why, and how they can be improved.

Rigorous impact evaluations, which compare the outcomes of a program or policy against an explicit counterfactual of what would have happened without the program or policy, are one of the most important tools that can be used along with appropriate economic theory for understanding "what works." Despite this, impact evaluations have been extremely rare. This is now particularly apparent in the area of finance and private sector development, where the recent financial crisis has prompted renewed attention to understanding what works in terms of improving access to finance among consumers and firms, and promoting growth in the private sector.

- *Why are impact assessments so rare?*

There is a perception that most development policies and projects in the financial and private sectors do not lend themselves to formal evaluations as easily as policies and projects in other areas do. For example, changes in laws or regulations may occur at an economy-wide level, or a large loan may only be given to one or two banks or firms.

Both bankers and government officials tend to measure success of projects by the number of loans given out, the number of businesses trained, or the number of business procedures reduced. The incentives necessary to undertake the harder task of measuring whether such projects impact firm productivity or lower poverty levels have been insufficient or missing.

- *When are evaluations possible, and are they worth it?* A handful of recent im-

impact studies together with a new paper by David McKenzie seek to dispel the myth that rigorous evaluations of finance and private sector projects are not possible.

In many cases randomized experiments are possible, which offers many opportunities for evaluation as such experiments ensure that the only reason why some firms, consumers, or other units are subject to a policy or program while others are not is pure chance. This facilitates communication of results to policymakers. Recent examples include randomized provision of grants to small business owners, crop insurance to poor farmers, business training to entrepreneurs and credit to marginal borrowers. These experiments have generated many important results, including several that challenge the central precepts of microfinance.

Even when randomization is not possible (or is theoretically possible but is not undertaken), modern evaluation methods will often still allow for formal evaluation. Regulations may be implemented in some regions and not others, or may be applied only to firms of a certain industry or size. Generally available programs or policies may have low uptake that can be raised through targeted interventions. Exploiting these ideas, recent evaluations have examined the success of business registration reform in Mexico, bankruptcy reform in Colombia, and the introduction of a credit bureau in Guatemala.

- *What are the lessons for future impact evaluations?* Evaluation is feasible and useful for a wide range of projects and policies. Senior government officials and World Bank staff need to make it a priority in project development, so that evaluation not only assesses whether a project worked, but also helps ensure that it can work even better in the future.

Most existing evaluations have been limited to consumers, micro-enterprises and poor borrowers, and there is a dire need for evaluation of policies directed at banks and small and medium enterprises.

Evaluation designs need to take into account the low uptake of many finance and private sector policies. Not all households or firms will want or need a loan, attend training sessions, register formally or purchase insurance. Low uptake presents challenges for both identification and interpretation of program impacts, which can be overcome if the issue is recognized at the outset.

Incipient efforts in rigorous evaluation have yielded high payoffs in terms of knowledge generation and improvements in policy design. Given the World Bank's focus on promoting growth in the private sector in the aftermath of the financial crisis, it is now more important than ever to know what works and why. The Bank's new Research and Impact Note Series seeks to convince operational staff, NGOs and governments of both the feasibility and desirability of doing so.

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David McKenzie. Forthcoming. "Impact Assessments in Finance and Private Sector Development." World Bank Research Observer. Also available as Policy Research Working Paper 4944. World Bank, Washington, DC.