

## Leasing Advisory Services Programs

As part of efforts to encourage small and medium enterprises (SMEs) in emerging economies, IFC supports development of leasing sectors, in the process significantly expanding access to finance for small businesses that often lack collateral for bank loans for equipment, machinery, and other assets. In the past 30 years, IFC has committed more than \$850 million to 177 leasing projects, establishing the first leasing companies in 25 of the countries in which it has worked.

IFC advisory services (AS) on leasing has been vital to this effort by establishing appropriate legislation and awareness on leasing operations, among other benefits. IFC currently funds more than \$7 million in leasing-related AS, primarily in frontier countries. An independent review of both mature and new leasing AS projects shows that mature projects have had a very positive approach with significant results; however, increased flexibility in IFC interventions at different stages of market development would better leverage IFC's strengths in more recent and future leasing AS projects.

At IFC's request, the independent firm, DAI Consulting, undertook in-depth reviews of three of IFC's mature leasing AS projects (in Russia, Uzbekistan, and Serbia), as well as summary reviews of four new such projects (in Bolivia, Jordan, Mongolia, and Tanzania). The review helped clarify how IFC's basic approach has been adapted to different market environments and how best practice has been transmitted to new leasing AS projects. Findings of the review rested on thorough documentation review and telephone interviews on all the projects, as well as site visits to the three mature projects.

Although differences exist in implementation strategies of the projects reviewed, at the center of IFC's approach has been a common structure—legislative reform, public education, training/institution building,

and support for investment in the leasing sector—as developed under the original Russia leasing project. Even though later projects evolved in different ways, emphasizing different areas, they were nonetheless heavily influenced by this four-component structure. IFC's basic approach to AS on leasing, therefore, provides a consistent starting point for new projects and is “supply driven”: IFC's product has been replicated—sometimes adjusted to local conditions, but largely unchanged—in a number of different markets.

This issue of the Monitor summarizes findings and lessons from a review of three of IFC's mature leasing AS projects and how that experience has influenced IFC's approach to the new projects reviewed. Also discussed are the means IFC has used to convey best practice to new projects and to monitor and evaluate all leasing projects. The review identified a number of lessons that form the basis for specific recommendations.

### LESSONS LEARNED FROM LEASING AS PROJECTS

The three mature projects reviewed include the Russia Leasing Development Project, Central Asia Leasing Project (CALP), and the Southeast Europe Enterprise Development (SEED) project, particularly in Serbia. The three mature projects differed sufficiently in budget, scope, and market conditions to offer interesting lessons on how IFC might consider modifying its ap-



Monitor shares key findings from in-depth reviews of IFC programs and projects conducted by external evaluators. The reviews address the relevance, efficiency, effectiveness and sustainability of these programs. For more information about the evaluation of IFC programs visit <http://www.ifc.org/results>.

proach to new leasing AS projects elsewhere. The approach and structures of the Russia and CALP projects were similar: both were multiyear projects funded by a donor, had discrete budgets and clear project lifecycles, directly hired staff for implementation, reported to a regional department, and were closely linked with IFC's investment activities and overall regional strategy. The Serbia project, in contrast, had a much smaller budget and scope, was funded by multiple donors and covered a wide range of activities to build the SME sector, of which leasing was just one. IFC's central SME Department, that broadly supports advisory services, directly managed the SEED project, which meant that AS and investment activities were organizationally separate. In addition, programming for the leasing AS project was influenced by the belief that the SEED project was nearing the end of its program life.

Because the new leasing AS projects were still in the early stages, the review concentrated on how IFC has changed its approach to these projects, particularly regarding issues raised in the mature projects reviewed. Lessons learned from both mature and new leasing AS projects can be organized under a number of common themes that reflect both strengths and weaknesses of the overall IFC approach:

**Standard product-driven approach to AS.** In all projects reviewed, IFC has considered leasing to be the best way to address the question of access to finance in the market and believes that legislative reform should be part of any leasing project, rather than adopting a strategic approach to access to finance and determining an appropriate course of action more broadly. As the starting point for all new leasing AS projects, this standard product-driven approach has certainly lent consistency among projects. New projects, however, are being adapted in minor ways to reflect differences in specific markets, for example, in Tanzania, or to change sequencing of interventions. Some new projects also routinely undertake needs assessments and use the results in project design, although the aims, scope, and use of these assessments vary greatly.

- IFC's leasing toolkit could be usefully expanded to tailor its approach more explicitly to needs that are identified in each market at the outset through careful needs assessments, including both AS and investment requirements. Assessments should be handled

more consistently and ideally involve a commercial leasing expert, preferably an IFC investment officer, to capture a complete view of AS and potential investment needs in a market.

**Programming flexibility.** IFC staff have remarkable flexibility in adapting programming to realities on the ground, but upfront articulation of market development needs, strategic goals, program outcomes, and anticipated impacts is still necessary.

- More focus on identifying key objectives at the outset and imposing tighter discipline in determining actual impacts compared with original project goals might assist both project management and evaluation.

**Advocacy.** IFC enjoys strong support and working relationships at high levels of government that are critical to the adoption of a leasing legislative agenda.

- Although a constituency for such advocacy has usually been created, sufficiently credible institutions must also exist to carry this work forward when IFC support ends.

**Local staff.** Use of local staff gave projects credibility and local contacts, lending continuity and helping access resources to get things done. Newer projects have been more likely to combine permanent local staff with short-term experts. Staff with commercial experience in leasing have been increasingly integrated into AS programs, which has greatly enhanced IFC's ability to work effectively in the leasing sector. Evidence exists that leasing companies in Russia and Serbia might value higher level training and consulting services across a broader range of subjects.

- Projects might benefit from more targeted involvement by leasing experts with strong commercial experience. It would be worthwhile to make a group of short-term experts more widely available and track their performance, so all projects have access to a strong array of key skills in the short term.

**Legislative change.** Legislative change may or may not be necessary for development of a leasing sector. Leasing sectors have developed in many markets where legislation was contradictory or discriminatory against leasing (Croatia, Hungary, Czech Republic, and Latvia). Some

new projects based on or led by legislative change have faced difficulties. This may have resulted from political realities in those countries, but it also could be that transitional economies (the three mature projects reviewed) have been more receptive to legislative change than countries with a longer history of market economies, making legislative change a larger hurdle than in the mature projects reviewed.

- It is important, first, to assess if legislative change is necessary and then, if needed, determine what actions are appropriate for a particular market. These assessments should fully consider the concerns of the commercial leasing sector. IFC should also consider a more general approach to leasing legislation that includes operational as well as financial leasing, if it can be done at relatively low marginal cost.

**Leasing associations as exit strategies.** IFC has actively considered exit strategies at early stages in program implementation, but mainly focused on creating or working with an existing industry association. This has had mixed results in the projects reviewed. Serbia got the closest to a functioning association, possibly because the leasing industry has relatively evenly matched players with no large state-owned players; many leasing companies are foreign owned and more likely to be familiar with and support industry associations. The organization of the Association of Leasing Companies in Serbia (ALCS) may also have contributed to its success; for example, the presidency rotates among members, and member dues finance separate premises and a dedicated staff member, lending them autonomy.

**Management structure.** The different management reporting lines and accountability structures in place for Russia and Uzbekistan on the one hand and Serbia on the other affected the program designs and approaches adopted in each country. Compared with Russia and Uzbekistan, the Serbian project had no formal ties at the regional level, including with IFC regional staff, so no one at headquarters had overall management responsibility for AS results, resulting in inconsistencies in project design, approval, and tracking. More recent AS projects have benefited from improved management oversight, for instance, more consistency in program approval through the advisory services project document system. All AS implementing facilities now have reporting relationships with regional offices, and IFC

has invested time in improving development of consistent M&E frameworks.

- Leasing AS projects could improve their results by having a leasing “champion” for the Corporation and an overall manager at headquarters.

**Interaction between AS and investment activities.** Cooperation between IFC AS projects and investment activities appeared to depend largely on personal relationships among the respective staff.

- More effective institutional mechanisms to encourage interaction might help both AS and investment staff to concentrate on what each does best, thereby enhancing IFC’s overall product offering.

## CONVEYANCE OF GOOD PRACTICES

IFC put in place a number of mechanisms for transmitting good practice between mature and new leasing AS projects and to improve on the original leasing model developed in Russia. These mechanisms included a leasing manual, web site, occasional meetings of AS staff among projects, short-term consulting inputs, and transfer of staff to other regions. Lessons learned from these efforts follow:

**Leasing manual.** IFC leasing AS staff created a leasing manual in 2004 to give project staff in new markets a starting point in designing projects. The manual reinforces the four-component approach, rather than encouraging more flexible approaches based on market need. It is also relatively prescriptive, focused on transitional markets, and cumbersome to update. Staff of new projects, however, thought the benefits of the leasing manual outweighed its limitations.

- Although uniformly considered a valuable reference that ensures IFC speaks with a “single voice” on leasing, the manual can only go so far in assisting new projects, as it cannot address individual markets.

**Leasing web site.** The IFC leasing web site, managed and maintained by Washington IFC staff, appears to be a good initial resource for field staff and contact point at the start of a project, but depends on busy field staff taking the time to submit information in an accessible

format, resulting in rather limited content. Staff on new projects did not rely heavily on the web site.

- The leasing web site could become a stronger, real-time complement to the leasing manual, reflecting best practice on field projects as they evolve.

**Meetings, consultations, and staff transfer.** IFC also supports (a) occasional meetings of AS staff to share experience and best practice, (b) short-term consulting input in design of projects or addressing specific issues, and (c) transfer of leasing AS staff from one region to another. Staff for new projects considered the occasional meetings for financial sector AS staff and short-term assignments among projects to be valuable in shaping new projects.

- The value of these opportunities to transmit good practice as well as provide professional opportunities for growth and promote retention should not be underestimated.

#### **M&E FRAMEWORK REVIEW**

The various IFC facilities use three main M&E documents that evolved from the first Russian leasing AS projects and then were adapted for other projects. They include a logic model, impact table similar to a log frame, and indicators matrix. Some attempts have been made to merge indicators from diverse projects into a common system. M&E frameworks are now being conducted in early stages of all projects, although the approach taken varies widely across projects with resulting inconsistency.

Although the logic model, an impact table (or log-frame), and a corresponding indicator matrix being used by IFC facilities are now more actively utilized in leasing AS projects, there is still a need to:

- Establish greater consistency across projects in use of these models
- Establish and more clearly identify expected outputs, outcomes, and impacts at project start
- Make relevant qualitative and quantitative indicators more verifiable

- Incorporate central oversight on M&E frameworks
- Develop closer linkage between the project's overall goal and expected impact.

A system that consistently records expected outputs, outcomes, and impacts at project start and central guidelines that clearly state which of the three documents above are required might be helpful.

#### **OVERALL RECOMMENDATIONS**

According to the review, IFC should continue its excellent leasing AS in new markets, but adopt a more flexible model, reflecting the needs of individual markets and expanded capabilities at IFC:

- Broaden the range of AS interventions to match market needs
- Assess if IFC should intervene in a market at all and then determine appropriate interventions for that market.
- Augment local staff with experienced commercial leasing consultants, supported by a “champion” for leasing activities at the corporate level.
- Integrate AS and investment more by encouraging cooperation among staff, based on relative strengths.
- Carefully consider exit strategies, especially early on. Ensure that any industry association under consideration as the exit vehicle are suitable, industry needs in forefront. Invest in institution building.
- Encourage provision of high value-added services where justified and, if possible, charge for them.
- Institutionalize innovative approaches, particularly through a regularly updated medium, such as the IFC leasing website.
- Impose greater discipline on public education activities, especially those needing adjustment by the stage of development leasing market.

**For more information:**

<http://www.ifc.org/ifcext/gfm.nsf/Content/Leasing>