

Partnership

PERSPECTIVE

WINTER 2004 – 2005



G E O R G I A

Strengthening the Leasing Business in Georgia

IFC helps a leasing company obtain financing and expand markets

The leasing sector in Georgia has great potential. The country's first survey of the sector, conducted by IFC, estimated a potential market for leasing between US\$15.3 million and US\$22.6 million. To help Georgian leasing companies take advantage of emerging business opportunities, the survey provided detailed information on potential clients organized by sector, company size and equipment needed.

Georgian Leasing Company (GLC) saw great potential for expanding its operations across a number of sectors. However, the company found it difficult to obtain the financing it needed to meet client demand. GLC turned to IFC for help to improve its operations and attract additional investment.

GLC, which mainly serves small and medium enterprises (SMEs), was the first leasing company to be

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U K R A I N E

IFC's Partnership and the European Commission to Start Cooperation in Ukraine

The European Commission has signed its first agreement with IFC's Private Enterprise Partnership. The Commission will provide funding for the continuation of the Ukraine SME Policy Project, which works to improve the business enabling environment for SMEs in Ukraine, with a current focus on streamlining the system of permit issuance for business start-up.

The results of IFC's latest surveys of the SME sector in Ukraine, conducted with support from the Government of Norway, show that Ukrainian entrepreneurs consider the process of obtaining business permits as one of the key regulatory barriers to business development. Experts estimate that there are over 1,200 types of permits issued in Ukraine. While the current legislation offers no legal definition of permits, it allows regulatory agencies and local administrations to introduce new permits and alter requirements with minimal oversight or central control. The procedures for issuing business permits remain non-standardized and fees are often set arbitrarily at the discretion of issuing officials. At the same time entrepreneurs have limited access to information on the process of issuing permits.

To address these issues, the project is working with the Ukraine State Committee for Regulatory Policy to adopt a Law on Permits, drafted by the project in cooperation with the Committee. The Law would set a uni-

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The International Finance Corporation (IFC) is a member of the World Bank Group. IFC works to reduce poverty and improve people's lives in emerging economies by enabling and promoting sustainable private sector investment at the frontiers of economic development. IFC itself is the world's largest multilateral investor in emerging markets.

Who We Are

IFC's Private Enterprise Partnership works to develop strong, self-sustaining economies in the former Soviet Union that serve all levels of society. Together with our donor partners, we assist private companies and governments to:

- Attract private direct investment to all areas of the economies,
- Stimulate the growth of small and medium-sized enterprises, and
- Improve the business enabling environment.

Countries we serve: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Russia, Tajikistan, Ukraine, and Uzbekistan.

We thank our donor partners for making our programs possible.



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A Donor Perspective: Canadian International Development Agency



Françoise Ducros, Director-General, Russia, Ukraine and Nuclear Programs Division, Canadian International Development Agency (CIDA)

"IFC projects have made a real contribution to building capacity in the recipient countries, and are leaving behind real, useable skills."

Canada started to support IFC technical assistance projects back in the 90s, and until now remains one of IFC's largest donor and a stable partner for IFC in the CIS countries. How do you evaluate your experience on working with IFC to achieve your objectives?

Our experience in working with IFC has been very positive. We have found IFC to be a most professional and competent partner that has consistently met or exceeded its objectives in the projects that we have funded in Russia and Ukraine. We have been especially appreciative of the way that IFC tries, wherever possible, to use local expertise, rather than bringing in expatriates, to implement their projects as this helps to build and strengthen local capacity, which is very important to CIDA.

What are CIDA's private sector and economic development strategies in Russia and Ukraine?

CIDA doesn't have private sector or economic strategies per se for Russia and Ukraine. Instead, the programming strategies for both of these countries focus principally on governance. By strengthening the institutions and means of governance in both of these countries, we are helping to build the enabling environment that will help the private sectors in both of these countries to grow and flourish as, for example, small- and medium-sized enterprises are encouraged, and as the conditions for foreign and domestic investment are created.

A few years ago, CIDA funded IFC's project on farm privatization and reorganization in Ukraine. Currently, you support IFC's Ukraine Agribusiness Development Project, which promotes the viability and growth of local farms and seeks to mobilize investment in the country's agriculture. In your opinion, what are the advantages of such continuity in programming for a donor?

This type of continuity in programming is very valuable for the donor, for the implementing agency,

and for the recipients, I think. It's valuable for the donor as we are able to build a strong working relationship with, and trust in the implementing agency (in this case, IFC). For the implementing agency, I think that continuity in the donor also allows for that strong working relationship and trust to be built, but it also provides the implementing agency with a level of consistency as they know what to expect in terms of reporting requirements from the donor, and how the donor's systems of approvals operate. For the recipients, consistency in a donor helps them to gain a greater in-depth knowledge of how a particular sector, in this case agriculture, works in the donor's country of origin, and helps them to adapt what they see and learn in the donor country to their own country's context.

Besides agribusiness programs in Ukraine, you also supported an agribusiness project in Russia, business development programs in Russia and Georgia, leasing development in Russia and Georgia, and corporate development programs in Georgia and Ukraine. How do you evaluate these projects?

I'm only responsible for CIDA's programming in Russia and Ukraine, but I think that everyone in the Central and Eastern Europe Branch here at CIDA who has come into contact with IFC's Private Enterprise Partnership has been very impressed with the professional and logical approach which IFC applies to its programming. I think that IFC projects have made a real contribution to building capacity in the recipient countries, and that they are leaving behind real, useable skills for the people who receive assistance from IFC's projects.

Do you foresee significant changes of your strategy in countries such as Ukraine given the recent political developments?

In the case of Ukraine, we don't foresee significant changes in our strategy there. I think that given that the focus of our strategy is on governance, the recent political developments and the election of a reform-oriented President in Ukraine mean that the focus on governance is more appropriate than ever. We've always worked with the government of Ukraine to an extent to help bring about reforms, and the new environment there should provide us with even more opportunity to assist them in advancing their reform agenda.

Do you plan further cooperation with IFC's Partnership?

CIDA is in constant contact with IFC's Private Enterprise Partnership. We have a very close working relationship, and we talk about new project ideas regularly. We're in the advanced stages of discussion on a mortgage project for Russia which we hope will be approved in the not too distant future.



The European Commission

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fied framework for issuing business permits by standardizing application requirements, fees and terms of validity for permits, as well as setting time limits for state agencies to process applications. In addition, the project is providing hands-on assistance to regulatory agencies in improving their internal procedures for issuing permits. The Ukraine SME Policy Project also conducts a nation-wide public education campaign on regulatory issues for entrepreneurs.

IFC's Partnership has been conducting surveys of the Ukrainian SME sector since 1996. The Partnership widely publicizes the findings of the surveys and relies on them in its work with government officials and legislators to help remove legal and administrative constraints to SME development. Over the past five years, IFC's survey recommendations have contributed the adoption or amendment of 13 pieces of legislation regulating Ukraine's SME sector.



IFC Welcomes Iceland as a New Partner in Russia

Iceland and IFC's Private Enterprise Partnership signed their first agreement on November 15, 2004. Under the agreement Iceland will fund a Survey of the Fish Industry in Russia.

The economic potential of Russia's fish industry is large. However, relatively little is understood about the complete extent of the fish industry in Russia and its current and future dynamics. Drawing on Iceland's expertise as a world leader in the fish industry, IFC hopes to provide a comprehensive overview of the sector in Russia and help identify potential business and investment opportunities.

H.E. Mr. Benedikt Jonsson, the Ambassador of Iceland to the Russian Federation, commented, "Iceland has had a longstanding cooperation with Russia, and formerly the Soviet Union, in fisheries and the fish industry. The recent major changes in Russia's economy have attracted much interest among Icelandic business operators in these fields in particular who have long sensed the great potential therein. However, the complex nature

and little knowledge of the current and future potential of the Russian fish industry remains somewhat a stumbling block for an increased active participation of Icelandic business operators in this field. Therefore, it is most welcome



H.E. Mr. Benedikt Jonsson (left), the Ambassador of Iceland to the Russian Federation, and Edward Nassim (right), Director for Central and Eastern Europe Division, International Finance Corporation, at the signing ceremony in Moscow.

and encouraging that the agreement between the Government of Iceland and the International Finance Corporation is now realized to undertake a Survey of the Fishing Industry in Russia."



Denmark Joins IFC-World Bank Program to Catalyze Investments into Energy Efficiency Projects in Russia

In December 2004, Denmark and IFC's Private Enterprise Partnership signed their first agreement. Under the agreement Denmark, in partnership with Finland, IFC and the World Bank's Global Environmental Facility (GEF), will co-finance the Russia Sustainable Energy Finance Program. The program works to establish a sustainable market capacity to develop and finance commercial investments in efficient use of energy.

The demand for energy efficient technologies in Russia is strong. However, there is little capital available to adopt them. IFC's review of the energy efficiency (EE) market in Russia revealed that despite the large demand, banks are not actively financing energy efficiency projects. The Russian financial sector lacks access to long term capital,

often required for EE investments. EE financing is also new for financial institutions and is perceived as risky and complex. At the same time the potential clients of EE financing have limited experience in preparing project proposals that would meet banks' requirements.

To stimulate investment in EE, IFC and GEF will provide select Russian banks with credit lines and partial credit portfolio guarantees for EE projects. IFC's Partnership will provide technical assistance to build energy efficiency finance expertise in the financial sector and among local clients. To improve understanding of energy efficiency market opportunities, the Partnership will disseminate information on model deals and potential opportunities.

IFC to Help Russian Banks Address Corporate Governance Challenge

According to the survey of 52 Russian banks IFC conducted, the banks identified corporate governance as a key area for further improvements. Russian banks came to realize that good corporate governance helps them attract strategic investors, raise funds in capital markets, increase operational efficiency, minimize credit losses, and protect minority and other stakeholders' rights, which will eventually build investor and depositors confidence and trust.

To help Russian banks strengthen their corporate governance, IFC's Pri-

vate Enterprise Partnership launched the Russia Banking Sector Corporate Governance Project. The project will advise Russian banks on improving their own corporate governance practices and help them introduce corporate governance issues in their credit assessment practices. The project is funded by the State Secretariat for Economic Affairs of Switzerland (seco).

The project trains and advises Russian banks on those corporate governance issues they identified as important to their operations such as

the working practices of the Supervisory Board and the Management Board, disclosure and transparency policies and practices, and internal control systems. Selected banks may participate in a comprehensive corporate governance improvement program that includes a diagnostic of current practices, tailored recommendations and implementation support.

Furthermore, the project fosters the ongoing reform in the banking sector by facilitating the dialogue between legislative authorities, government agencies, and the private sector.



IFC to Support the Development of the SME Sector in Tajikistan through Inspections Reform

IFC's Partnership launched a two-year technical assistance initiative to improve the business enabling environment in Tajikistan by facilitating reform of the business inspections regime. The Tajikistan SME Policy Project is supported by the Swiss State Secretariat for Economic Affairs (seco).

Repeated, and not always properly regulated business inspections, as well as low legal awareness among entrepreneurs are serious constraints to the growth of small and medium businesses in Tajikistan. These are the findings of the SME sector survey conducted by IFC in Tajikistan in 2003 with support from seco. Drawing on the key findings of the survey, the Partnership developed and presented to the government recommendations on improving the business enabling environment in the country.

At the request of the government of Tajikistan, the Partnership will now cooperate with the State Agency for Antimonopoly Policy and Support to Entrepreneurship on reforming the business inspections practices. The project will:

- Work with the government on improvement of the legal framework regulating inspections in order to reduce overlapping inspections and to clarify rights and obligations of inspectors and entrepreneurs;
- Work with inspecting agencies on reforming their internal procedures, in order to help them use



their resources more effectively and to ensure implementation of legal reforms;

- Inform entrepreneurs across the country of their rights and responsibilities during inspections of their business;

- Conduct another survey of the regulatory environment for SMEs to monitor the progress of reforms.



IFC Continues its Work to Improve the Business Enabling Environment in Belarus

Today, in Belarus there are only three SMEs per 1,000 residents, half the level of Russia and Ukraine and a third the level of Uzbekistan. According to a survey conducted by IFC in March 2004, 90 percent of Belarusian entre-

preneurs believe that their troubles lie in contradictory and frequently changing laws regulating business entry and operation. Entrepreneurs find it difficult to keep up with all the legal changes due to a limited access to le-

gal and other business related information.

To improve the business enabling environment and to improve Belarusian SMEs' access to information and busi-



ness support services IFC's Partnership launched a two-year technical assistance project in Belarus, funded by the Swedish International Development Agency (Sida).

The Belarus Business Enabling Environment Project will conduct annual surveys of regulatory and administrative framework for business, which will help identify impediments to SME

development. Drawing on the findings of the surveys the Partnership will develop specific recommendations and work with the government on improving the business environment for SMEs.

To improve SME's access to information, the project will develop an Internet portal—the Belarus SME Toolkit, which will provide entrepre-

neurs with legal, business, and finance related information to help them comply with unstable regulations. It will also advise on improving SME's business efficiency as well as assist them in getting access to financing. The portal will be modeled on a toolkit IFC launched in Ukraine in 2003 (www.VlasnaSprava.info) that currently reaches about 800 small businesses each day.



IFC Conducts Georgia's First Survey of Corporate Governance

After the fall of the Soviet Union, Georgia privatized over 1,800 state-owned enterprises. Almost overnight, these businesses were nominally transformed into modern corporations and were challenged with novel concepts of share-holder rights, supervisory boards and annual reports. With few experienced managers, little understanding of the recent corporate law and virtually no guidance, these new corporations struggled to survive as best they could. Small surprise that they continued to conduct business as they had in Soviet times—relying on secrecy and personal relationships and usually for insiders' gain.

In an effort to better understand the corporate practices of Georgian companies, IFC's Georgia Business Development Project conducted the country's first detailed survey of corporate governance practices. The survey, entitled *Corporate Governance in Georgia: Survey Results 2004*, was released in December 2004. Funded by the Canadian International Development Agency (CIDA), the survey polled 152 companies in various regions across Georgia.

The survey paints a picture of widespread deficiencies in basic corporate governance practices. Only 6% of companies have an independent member on their supervisory board. Only 8% have a by-law that addresses any corporate governance issues. Almost 40% of companies don't even know

they have to file an annual report with the National Securities Commission (NSC). External auditors are often selected by management rather than shareholders. Supervisory boards are more often than not unpaid and often improperly include members of management.

The importance of the survey to Georgia is two fold. First, it serves as a benchmark, against which to measure future improvements. Second, the survey equips the Georgian government with information to make immediate policy decisions. Although both the NSC and the Georgian Stock Exchange are committed to improving corporate governance in Georgia, both suffer from a lack of financing and staff. In determining where to allocate their scant resources, the agencies have so far had to rely on anecdotal reports and public perceptions. As Michael Djibouti, Chairman of the NSC, explained, "the results of the survey are crucially important for the future work of the Commission and will serve as a cornerstone of our tactics."

Meanwhile, the IFC project in Georgia has used the survey's findings to

focus its efforts. The Project continues its series of seminars and consultations to educate Georgian businesses about corporate governance. In addition, the Project has developed (together with the NSC) forms to simplify financial disclosure



and has finished drafting model corporate documents that companies can easily adopt and which reflect good corporate governance practices. In a promising development, Bank Republic (one of the Project's client companies) recently announced significant reforms to strengthen the role of its supervisory board. As more companies follow Bank Republic's example in strengthening their corporate governance practices, they will improve their operations, build investor confidence, and hopefully attract much needed financing.

Building Partnerships for Sustainable Economic Growth: Our Programming Strategy

In the Spring 2004 issue of the Partnership Perspective we described IFC's Partnership business model from the organizational viewpoint—the structure of the Partnership's funding and the structure of its central and project management. This article reviews another essential component of the Partnership's business model—our programming strategy.

The Partnership's unified management supported by stable funding from IFC allows it to take a comprehensive and strategic approach to programming. The mission of IFC's Private Enterprise Partnership is aligned with IFC's mission of advancing growth, reducing poverty, and improving people's lives in developing countries. IFC achieves its mission through sustainable investments in private companies in emerging economies. The Partnership amplifies the development impact of IFC's investments by delivering broad technical assistance projects that promote the economic development of surrounding communities, support small enterprises, transfer business know-how and sustainable practices across sectors, and seek to improve the overall business climate. The Partnership's overall objectives are to:

- Promote private sector investment
- Support the creation and growth of small and medium-sized enterprises
- Improve the business enabling environment

These objectives drive the Partnership's programming strategy. Our programs are designed to meet at least one, and usually two or all three of these objectives. We measure the results of our programs on how well these objectives are met.

Beyond meeting the Partnership's overall objectives, our programming strategy is defined by the following key considerations:

- Client country need and potential development impact

- IFC core competence
- Enabling investment
- Donor support

Country Need and Potential Development Impact

All of the Partnership's staff is based in the field. The vast majority of our staff are local professionals. We draw on our local presence and knowledge to identify areas that most significantly hinder our client countries' economic development. We design programs that help our client countries address gaps in the development of specific sectors and that bring about high development impact.

IFC Core Competence

Based on our assessment of the client countries' needs, we then look for areas in which IFC has competitive advantages. Closely integrated with IFC's investment work, we bring IFC's private sector knowledge and global expertise of sustainable investments in emerging markets. As an investor, IFC understands and knows how to address the key obstacles the markets and companies face in developing and attracting capital. For example, IFC's expertise of investing in leasing companies around the world helped the Partnership develop technical assistance programs that fostered the market conditions for the growth of the leasing sectors in Russia, Ukraine, Central Asia and the Caucuses. IFC's position of the leading investor in Russia's housing finance sector is guiding the design of the Partnership's new technical assistance program to create a favorable legislative and market framework for the sector's sustained growth.

Through 12 years of implementing technical assistance programs in the former Soviet Union and by using local professionals, IFC has in-depth knowledge of the countries we work in and has gained credibility with local governments, companies and other stakeholders. The political capital we acquired and our perceived role of a

neutral broker allow us to enable systemic changes in the business environment. We draw on these strengths to develop unique value-added technical assistance programs, often in sectors where no other donor-funded organizations operate.

We believe that one of the most valuable contributions we can make is to facilitate the transfer of knowledge and successful practices in delivering technical assistance to other countries and sectors. The Partnership designs and pilots technical assistance initiatives which can be replicated in the future. Sector-based, rather than geographic, organization of the Partnership's management allows us to build in-depth expertise in certain product areas, learn the lessons during project implementation and perfect each project model for replication in other countries. This approach to programming has enabled the Partnership to reduce the cost of initiating similar programs, to launch new programs more quickly, and to leverage donor contributions more effectively and magnify their impact.

Enabling Investment

The Partnership draws on IFC's investment expertise to design programs that pave the way for increased investment in locally owned enterprises. IFC's ability to mobilize private investment creates incentives for local companies to implement change. Furthermore, technical assistance programs that result in investment have a greater demonstration effect as other local companies begin to see the value of change while investors grow more confident working in the region.

In designing our programs we work closely with IFC investment staff. Good examples of such collaboration include our programs on promoting good corporate governance practices and helping local small businesses compete for contracts with large natural resource and manufacturing

companies. Overall, the Partnership's programs to date have facilitated \$714 million, including \$108 million from IFC, in direct investment. In addition the Partnership carried out small business and community development programs around investment projects totaling \$345 million, including \$36 million by IFC.

Donor Support

Last but not least, we develop our programs in close collaboration with our donor partners. Thus, our programming strategy reflects donor government project priorities and funding availability. The Partnership's programs provide an effective and cost efficient vehicle to donors to deliver funding to targeted sectors and regions.

Our centrally managed financial controls system allows us to monitor how each donor dollar is spent, while our impact assessment provides quantitative and qualitative feedback on our programs. This allows us not only to monitor how effectively the donor funding is spent, but also guides the use of donor resources most efficiently for new programs.

From Pilot Projects to Technical Assistance Products

One of the key aspects of IFC's Partnership programming strategy is take on projects that have the potential to be replicated across countries and sectors. We develop innovative programs, test and improve the implementation model during the pilot stage, build staff expertise, and replicate the programs, essentially building them into technical assistance products. This approach helps us deliver maximum return on donor contributions. Each new project within a technical assistance product line takes less time to be launched, is less resource intensive, and produces predictable results.

For example, the Partnership drew on its leasing development program in Russia to launch similar initiatives in Central Asia in 2001, in Azerbaijan and Georgia in 2003, and in Ukraine and Mongolia in 2004. In the first three years of replicating its leasing program, the Partnership has contributed to improving leasing legislations in Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. Over 1600 people participated and benefited from over 70 professional trainings on how to run a leasing business. The improved leasing legislation and advisory efforts of the projects facilitated \$72 million of investments, including \$9 million by IFC in the leasing sectors of these countries.

The Partnership replicated its Ukraine Corporate Governance initiative in Russia and most recently in Azerbaijan and Georgia, providing over 10,000 consultations and 200 seminars on corporate governance to over 4,000 companies and banks and introduced corporate governance topics to the curricula of over 75 universities. We advised governments on over 50 pieces of legislation or regulations affecting corporate governance on topics ranging from issuing additional shares to information disclosure and reporting. The Partnership also transferred its corporate governance experience to other sectors. This year it is starting a corporate governance project for the banking sector in Russia and Ukraine.

The Partnership worked with a dozen Russian dairy farms to enable them become suppliers to a Dutch dairy, Campina. This work laid the foundation for similar projects with Ukrainian farmers supplying tomatoes and fruits to major food processors.

Having started in Ukraine, the Partnership now carries out regular surveys of the business enabling environment for SMEs in Belarus, Georgia, Tajikistan, and Uzbekistan. We draw on survey findings to provide governments and other stakeholders with practical recommendations to streamline select administrative procedures, such as inspections of businesses and issuance of permits for business activity. For example, in Uzbekistan, the authorities took account of 18 IFC recommendations to implement reforms in registration, licensing, taxation, foreign trade, and issuance of business permits. In Ukraine, in-line with our recommendations, the government adopted 13 pieces of legislation affecting SMEs on such issues as business start-up, inspections, taxation, leasing, and state support to small business.

G E O R G I A

Leasing in Georgia

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established in Georgia. It was founded in 2001 with the support of Tbiluniversal Bank. Although the bank enjoyed a good reputation and a stable position on the market, it could not afford to finance a capital increase in the leasing company.

IFC's Georgia's Business Development Project helped GLC develop a business plan to attract other investors. IFC's leasing team consulted and trained GLC in lease accounting and legal issues that enabled the company to improve its internal operations and financial performance. IFC also facilitated communication between GLC and the U.S. Overseas Private Investment Corporation (OPIC), which was considering investments in Georgia's leasing sector at that time. Based on GLC's strong business plan and im-

proved operations, OPIC provided a US \$1 million loan to the company.

"This new investment enables us to meet market demand. In a short period of time we have already made two more transactions in new sectors," GLC CEO Georgi Putkaradze said. "Thanks to IFC, we entered a new market—the printing business. We didn't know it had such a great potential and we are able to satisfy current demand there."

The project's leasing team is currently drafting changes to the Law on the "Promotion of Financial Leasing Activities" to further encourage the growth of the country's leasing sector. The development of leasing will increase access to financing for local enterprises for capital investments to fuel Georgia's economic development.

The Partnership's Georgia Business Development Project is funded by the Canadian International Development Agency (CIDA).

Leasing Helps a Small Business Compete and Grow

The Rezoni Printing House in Georgia is small but well-regarded. However, faced with rapidly improving technology, it was starting to lose competitiveness and clients because of outdated equipment. As a small company, it lacked collateral to obtain a bank loan to buy equipment.

That's when Rezoni started considering leasing equipment. "When I approached GLC, I knew very little about leasing. I thought it would be extremely difficult to lease something," Revaz Razmadze, Director of the printing house, recalled. "GLC exceeded our expectations. We obtained a beneficial price and terms of delivery. GLC not only selected the right equipment but negotiated several additional parameters for the same price," Mr. Razmadze said. Since using the new equipment, Rezoni's number of customers has quadrupled and its income has doubled.



IFC Helps Magadan SMEs Enter Mining Supply Chains

To extend the benefits of multimillion mining investments in Russia's remote far northeast to local communities, IFC's Partnership works with small and medium-sized companies to link them to mining supply chains

Andrey Maltsev is the director of Dragmet-S nab Ltd., which supplies steel products and provides transportation services to the mining industry of the Magadan region.



Founded in 2002, the company today is a leading steel supplier in the regional market.

Maltsev attributes much of his company's success to the advice and support he received from the Partnership's Russian Far-East Business Development Project. The project is funded by the Canadian International Development Agency (CIDA).

Maltsev's relationship with IFC dates to 2003, when he attended an IFC seminar for local companies that had potential to become suppliers to the mines. The workshop provided local suppliers with a unique opportunity for face-to-face discussions with the mining companies, which currently rely on suppliers from outside the Magadan region. Seventeen repre-

sentatives of local small businesses participated in the event, along with purchasing managers of several large gold mines in the Magadan region, which are majority-owned by foreign

companies. At that seminar, Andrey Maltsev met with the Bema Purchasing Group, which supplies Julietta mine, a joint investment of IFC and the Bema Gold Corporation. Andrei's company subsequently concluded a long-term contract with Bema

for steel supply. After concluding the supply contract with Bema and setting up an inventory of structural steel, as IFC had advised, the com-



Andrey Maltsev (right) is one of the 60 entrepreneurs in the Magadan region working with IFC on ways to overcome basic barriers to conducting business efficiently.

pany's sales to the mining companies increased by 50 percent.

IFC is now assisting Dragmet-S nab in assessing the market viability of setting up a warehouse and one-stop shopping facility to meet the demand



of Magadan mining companies for spare parts and consumables. If successful, this facility would allow the mining companies to source more equipment, supplies, and materials locally instead of flying or shipping them from other parts of Russia or abroad. This would significantly reduce transportation costs, which are extremely high because the region is so remote and depends completely on air and sea for trade.

A Broader View

Since IFC's Partnership started working in Magadan in April 2002, 23 local companies have received previously unavailable market information for 603 product lines within the mining supply chain. Seven SMEs in the mining supply chain have been chosen for in-depth tailored assistance, and three of them with IFC's support have concluded mining supply chain contracts, totaling \$230,000 per year.

The Partnership Perspective is a publication of the IFC's Private Enterprise Partnership.

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