

2001-2002 REPORT

THE PRIVATE ENTERPRISE PARTNERSHIP



BUILDING
PARTNERSHIPS
FOR SUSTAINABLE
ECONOMIC GROWTH



INTERNATIONAL FINANCE CORPORATION
A Member of the World Bank Group

A close-up photograph of a woman with a warm, slightly smiling expression. She is wearing a vibrant, patterned headscarf with green, red, and gold tones. Her jacket is dark red with a large floral pattern in pink and gold. She is holding a large, fluffy ball of white wool in her hands. The background is a clear, bright blue sky.

IFC's mission is to promote sustainable private sector investment in emerging economies to help reduce poverty and improve people's lives.

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Linking Technical Assistance and Investment for Sustainable Private Sector Growth

For more than 40 years, IFC has built a strong reputation as an investment institution. While investing is certainly central to what we do, our work in providing technical assistance for sustainable private sector development is just as important to achieving IFC's mission in the countries where we work. IFC has witnessed first-hand that integrating investments with advisory work not only ensures that our projects are financially viable, but also that local communities derive much greater benefit from these projects.

Since I arrived at IFC, one of my primary objectives has been to raise the profile of technical assistance within the Corporation and to integrate it more fully with our investment work. Over the last three years, IFC has contributed an increasing amount of its resources to its technical assistance work around the globe. The allocation of a three-year budget of \$12.6 million to establish the Private Enterprise Partnership in the former Soviet Union is a testimony to IFC's commitment to technical assistance in this important part of the world. With these resources, IFC's Partnership is positioned to significantly increase its programming and respond effectively to the emerging needs of our partners – local companies and governments, investors, and our donors.

In my recent trips to the former Soviet Union, I gained a deeper appreciation for the Partnership's work. I am confident that, as you read this report, you too will recognize the critical role the Partnership plays in improving people's lives in the region.

Finally, I would like to take this opportunity to express our gratitude to the donor governments who have supported IFC's technical assistance. Thanks to your support, we have added a meaningful and effective dimension to our development efforts in the former Soviet Union. We look forward to continuing our technical assistance work on your behalf in the future.



Peter Woicke, IFC Executive Vice President (left) and Edward Nassim, Director of IFC's Central and Eastern Europe Department.

Peter Woicke
IFC Executive Vice President

The Partnership Approach

Ten years ago, when IFC first began its work in the former Soviet Union, a private sector did not exist in which IFC could invest. As a result, IFC started with a technical assistance program, advising governments on privatizing small and medium-sized businesses. Today our programs continue to lay the foundation for increased investment, build financial markets, link companies to investors, and promote sound corporate governance practices. To maximize its development impact, IFC has recognized the need for better coordination of efforts with our partners.

In May 2000, IFC's Board of Directors approved the creation of the Private Enterprise Partnership to expand IFC's technical assistance work in the former Soviet Union and to integrate it with IFC's investment programs in the region. I believe "Partnership" captures what we do quite well. Ours is a collaborative effort, working in partnership with donors, private sector investors, local companies, and governments to promote private sector growth in the post-Soviet economies.

IFC's three-year contribution of \$12.6 million covers the Partnership's management costs, new project development, transfer of know-how, and impact assessment of our programs. The Partnership has set up a strong field-based organization. Ninety percent of our 200 program staff, located throughout the region, are local professionals. This structure provides us with in-depth understanding of the countries where we work and allows us to operate in a cost-effective way. The Partnership's unified organization has enabled us to streamline our administrative expenses. We have also established a first-rate financial controls system to manage donor funds most efficiently. Finally, IFC's contribution to the Partnership allows the vast majority of donor funding to go directly to programs. This demonstrates how much we appreciate our donor contributions and our commitment to maximizing their value.

The Partnership is currently managing 24 programs in six countries with an additional \$34 million in funding from our donor partners. Our programs range from advising Russia's large corporations on corporate governance to establishing a small cotton company owned by Tajik farmers.

Despite our many accomplishments, some of which are featured in this report, much work remains. In the next few years, the Partnership will increasingly focus on the frontier countries of Central Asia and the Caucasus, as well as the underserved provincial areas of Russia and Ukraine. For example, this year we launched a business development program in Magadan in Russia's Far East and opened regional offices in Russia's Northwest, in the Urals, and in the Volga region. We look forward to greater cooperation with donors in continuing these projects in the future and working together to make a difference in people's lives in the former Soviet Union.



Edward Nassim
Director of IFC's Central and Eastern Europe Department



Who We Are

The International Finance Corporation

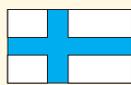
The International Finance Corporation (IFC) is a member of the World Bank Group. IFC shares the mission of the World Bank Group as a whole – to reduce poverty and improve people’s lives. At IFC, we believe that sound economic growth, grounded in the development of entrepreneurship and successful private investment, is key to reducing poverty. To fulfill its mission, IFC provides capital and global advisory expertise to businesses in high-risk, developing countries to improve the long-term economic viability of these nations.

“Sound economic growth, grounded in the development of entrepreneurship and successful private investment, is key to reducing poverty.”

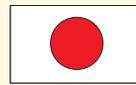
IFC is the world’s largest multilateral investor in emerging markets. Since 1956, IFC has committed more



Canada



Finland



Japan



Netherlands



Norway



Sweden



Switzerland



United Kingdom



United States

than \$31 billion of its own funds and has arranged \$20 billion in syndications for nearly 3,000 companies in 140 developing countries. IFC invests in projects that generate social and economic benefits for people in developing nations, as well as profits for project sponsors. IFC does not invest where there is a better suited private sector financier.

IFC’s Private Enterprise Partnership

IFC’s Private Enterprise Partnership is the technical assistance arm of IFC in the former Soviet Union. The Partnership is funded jointly by donor governments and IFC. Together with our donor partners, we help private companies and governments:

- Attract private direct investment
- Stimulate the growth of small and medium-sized enterprises (SMEs)
- Improve the business-enabling environment

To achieve these objectives, the Partnership implements programs in four distinct, complementary areas:

- Developing financial markets
- Building supply and distribution chains to link companies to major investors
- Improving corporate governance practices and regulations
- Building business support services and improving the regulatory environment for SMEs

We currently work in Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

We thank our donor partners for making these programs possible.

KOSME
AUSTRIA



The Private Enterprise Partnership – IFC’s Response to New Challenges

IFC has been working in the former Soviet Union since 1992. With \$87 million in donor funding through 2000, IFC undertook extensive technical assistance work in the region. Our work included the privatization of over 200,000 retail and trucking companies, collective farms, unfinished construction sites, and medium-sized industrial enterprises. However, simply transferring ownership was not enough. The new companies lacked basic business skills, access to partners and capital, business support services, and functioning financial markets. Drawing on its expertise from around the world, IFC trained new managers in modern business practices and market-based principles, created and mentored consulting companies, and introduced new financial services.

“The creation of the Partnership has made IFC an even stronger partner in technical assistance for private sector development.”

Despite the progress made, many challenges remain. To promote sustainable economic growth, the former Soviet countries need to attract capital and generate new business opportunities. To do that, these economies have to transform their corporate governance practices, improve the business enabling environment, create favorable conditions for SME growth, and develop financial



markets. These new challenges require a new development approach.

In May 2000, IFC created the Private Enterprise Partnership, with three-year funding of \$12.6 million. The Partnership has consolidated IFC’s technical assistance programs across the former Soviet Union under one structure, expanded these activities, and integrated them with IFC’s investment work. Designed as a partnership among donors, private sector investors, local companies and governments, and IFC, the Partnership creates greater synergy in development efforts and enables us to react quickly to emerging challenges.

The Strengths of the Partnership

The creation of the Partnership has made IFC an even stronger partner in technical assistance for private sector development.

“The Partnership’s technical assistance programs pave the way for increased investment in locally owned enterprises.”

Technical Assistance and IFC Investment

IFC’s ability to mobilize private investment creates incentives for local companies to implement change. Technical assistance programs that result in investment have a greater demonstration effect – other companies begin to see the value of change, while investors grow more confident working in the region.

At the same time, the Partnership’s technical assistance programs remove many of the obstacles to growth faced by local companies, and this paves the way for increased investment in locally owned enterprises.

Focus on Comprehensive Programs

The Partnership’s stable and unified management allows us to apply a comprehensive approach to the entire region, while customizing our programs to the needs of each country. The Partnership facilitates cross-fertilization of skills and experiences among its initiatives to transfer the best practices across borders. This approach magnifies the development impact of each donor-funded program, reduces the cost of initiating similar programs, and enables us to launch new programs more quickly.

The Partnership has also introduced impact assessment as a management tool to provide a clear and consistent approach to the planning, monitoring, and evaluation of all of our projects. We conduct baseline studies at the beginning of each project and periodically measure the results of our activities, allowing us to refine our ongoing initiatives and design new programs that draw on lessons learned.

Global Expertise and Local Know-how

The Partnership draws on the World Bank Group’s global development expertise and IFC’s private sector knowledge and combines it with local know-how to bring best practices to the region. Ninety percent of our 200 staff working on the programs are well-trained local professionals. Employing local specialists provides us with in-depth knowledge of the countries where we work and is cost-effective, allowing us to maximize donor funding spent directly on programming activities.

“Ninety percent of our 200 staff working on the programs are well-trained local professionals.”

Extended Reach

The Partnership runs its programs out of eight capital-city and 15 regional offices across the former Soviet Union. The Partnership’s management team is located in Russia and Ukraine. A four-person team within IFC’s headquarters in Washington, DC, ensures closer coordination between the Partnership and the World Bank Group.





Our Philosophy

Comprehensive and Innovative Approaches

Working on the frontiers of economic development requires flexibility and innovative thinking. In developing our programs, we look to learn from past experiences and to offer new ideas and new approaches. We draw on IFC's global expertise in building private sectors in challenging environments. We learn from the experiences of our partners – donors, local companies, private investors, and local governments. We integrate the Partnership's knowledge across projects and countries to strengthen our future programs. And we work together with our partners to devise innovative approaches for sustainable economic growth.

“We look to learn from past experiences and to offer new ideas and new approaches.”

Focus on Sustainability

While IFC and the Partnership have accomplished a great deal in the former Soviet Union over the past decade, real reform takes time. To ensure that our programs have a lasting impact, we design all of them with a focus on sustainability.

Whether we are helping amend Russia's Tax Code, training a Tajik farmer on modern irrigation practices, or building advocacy skills of Belarusian business associations, we take a comprehensive approach to development:



- **Business - Enabling Environment.** We partner with national governments and lawmakers to change policies and legislation to sustain business development and investment over the long term.
- **Individual Enterprises.** We bring knowledge and expertise to local companies to help them become dynamic, competitive, and reliable business partners. We develop financial markets to increase local enterprises' access to financing so that they continue to grow.
- **Local Capacity.** We transfer our expertise to local citizens and organizations, building their skills to sustain reform and private sector growth long after we complete our work.

“To ensure that our programs have a lasting impact, we design all of them with a focus on sustainability.”

Bringing Innovative Approaches to Central Asia

IFC Pioneers New Approaches to Alleviate Poverty of Tajik Cotton Farmers

New to IFC, new to the Partnership, and new to Tajikistan, the Farmer Ownership Model is a groundbreaking project that empowers Tajik farmers to take control of their commercial activities.

With an annual per capita GDP of \$175, Tajikistan is among the world's poorest countries. Historically, Tajikistan's economy and general welfare have been overwhelmingly dependent on the cotton industry. Following the collapse of the Soviet Union and the country's subsequent civil war, most of Tajikistan's agricultural infrastructure deteriorated, leading to a sharp decline in cotton production. With the disintegration of the centralized Soviet economy, Tajik farmers no longer had access to cheap inputs, and the state no longer guaranteed the purchase of their cotton. Farmers became dependent on ginners and other middlemen for financing and often sold their crops at large discounts, which resulted in heavy debts and hindered farms' profitable operations.

With initial funding from Sweden (Sida) and after two years of intensive, on-the-ground research and meetings with farm associations and government authorities, IFC developed a private sector approach to help farmers reduce their debts. Working with IFC's Southern Europe and Central Asia Department and with support from Switzerland (seco), the Partnership launched the Farmer Ownership Model – an innovative project to reduce the acute poverty of cotton farmers in Tajikistan and empower them to take control of their commercial activities and reduce reliance on middlemen. To achieve this goal, the Partnership has established a first-of-its-kind private company completely owned by farmers. The Partnership is also providing technical assistance to farmers to help them improve the yields and quality of cotton and to diversify their crop base. Based on the results, the farmer ownership model might be transferred to other regions of Tajikistan and to other Central Asian countries.



To establish the new company, Sugd Agro Serv (SAS), 365 farmer-shareholders contributed \$2,000 in equity in addition to funding and loans from the State Secretariat for Economic Affairs of Switzerland (seco) (a \$2,000 equity grant and \$248,000 in capital reserves) and IFC (a \$250,000 ten-year loan). This investment provided the working capital to supply the farmer-owners with crop inputs at wholesale prices and with the farm equipment needed to improve cotton yields. SAS will arrange for processing the farmers' crops and provide marketing services to sell the cotton directly on the market. The profit earned by the company will be paid to each shareholder in proportion to the amount of cotton produced.

The Partnership provides technical assistance to SAS to establish and run its service operations. The Partnership's project manager provides on-the-job training and supervision to a Tajik General Director of the company, who is paid by SAS, to ensure the company's sustainable growth.

The Partnership's broader technical assistance to farmers includes setting up demonstration fields to provide hands-on training in modern and environmentally safe cotton production technologies, proper irrigation, fertilization, and the agronomic methods needed to diversify production and introduce new crops. This component of the program draws on the demonstration field training model developed by the Partnership's Ukraine Agribusiness Development Program, funded by Canada (CIDA) and Sweden (Sida). In addition to agricultural training, the Partnership will train Tajik farmers in financial and business management to help them develop commercially viable and sustainable businesses.

Improving the Business - Enabling Environment

Opening the Way for the Growth of Leasing in Russia

IFC played a key role in improving legislation on leasing. These legislative changes have accelerated the growth of the leasing market, which is expected to expand by 70 percent this year, providing Russian enterprises with new access to financing.

In 2001, Russian leasing companies identified inadequate and contradictory laws as a major barrier to growth. The confusing legislation often left the leasing companies powerless when they tried to recover their property. Consider this example. A Siberian leasing company failed to repossess its equipment after a client defaulted on the lease payments, despite the fact that the leasing company's ownership rights were guaranteed by the Civil Code. The lessee applied contradictory provisions of the 1997 Law on Leasing to use the leased equipment as collateral to obtain a bank loan. When the company defaulted on the bank loan as well as the lease contract, the bank arrived first to claim the equipment.

To eliminate problems stemming from inconsistent leasing laws, the Partnership's Leasing Development Group, established with funding from the United Kingdom (BKHF) and currently funded by Canada (CIDA), played a major role in developing and advocating legislative changes in Russia. The Partnership focused public attention on the laws' failure and, acting as an "honest broker," brought together lawmakers, government officials, investors, small businesses, and leasing companies to draft amendments to the Tax Code and the Law on Leasing.

The amendments to the Tax Code's provisions on leasing were passed into law in August 2001 and the amendments to the Law on Leasing in January 2002.



IFC's Partnership is working to improve leasing legislation in Russia, the Caucasus (left), Central Asia, and Ukraine to stimulate the sector's growth and to increase small businesses' access to financing.

"For the first time, these new laws established a level playing field for all leasing companies, set clear terms for taxation of leasing deals, and removed contradictions between various laws and regulations," said Vladimir Tachkin, Chairman of Budget Committee of the Leasing Alliance of Perm (the Russian Urals region). "Now leasing companies can attract capital more easily, grow more quickly, and serve more clients."

As a result of these legislative improvements, large foreign banks, such as Raiffeisen, MMB, ING, Rabobank, and ABN-Amro, have started leasing through their own subsidiaries in Russia. IFC estimates that the size of the leasing market in Russia will increase by 70 percent within the next year, approaching \$2.4 billion by the end of 2002.

Building Sustainable Enterprises

The Partnership Helps Ukrainian Farmers Diversify Production and Obtain Financing

IFC's Partnership works to ensure the sustainable growth of Ukrainian farms by training them in agronomic, financial, and business management practices and advising them on accessing financing. We also work with local banks to help them establish rural credit programs.

A Ukrainian farm, Agri-business2 Ltd., once produced grain at a minimal profit. In 2001, the owner of the farm, Semyon Babyan, participated in IFC's hands-on training sessions on vegetable cultivation and decided to diversify his farm's production to include tomatoes. The Partnership's Ukraine Agribusiness Development Program, funded by Canada (CIDA) and Sweden (Sida), further advised Babyan on introducing modern agronomic and irrigation technologies to start tomato production on a 60-hectare plot. One thing was missing, however, for Babyan to put his plan into action – capital. IFC's program helped the farmer develop a business plan and organize his financial records in the proper format to obtain credit from a local bank. Thanks to this assistance, Babyan received a \$30,000 loan.

“Three years ago, virtually no financial institution loaned to farmers in the region. Today, some of the leading banks are building and expanding their rural credit programs.”

In the first year of growing tomatoes, Agri-business2 Ltd. increased its profits five-fold. Babyan reinvested the profits in the company to expand tomato production to 85 hectares, making Agri-business2 Ltd. one of the largest

tomato producers in southern Ukraine's Kherson region. The farm supplies its tomatoes to a leading ketchup producer, Chumak – a Ukrainian food processor with Swedish investment and management. To keep up with expanding production, Babyan now employs 150 seasonal workers, as opposed to 20 when the farm was producing only grain.



The virtual absence of financing for primary agricultural production is a major constraint to the sustainable growth of Ukrainian farms. Local banks consider the agricultural sector too risky, while farms lack the business planning and financial management skills to work with banks effectively. To improve farmers' understanding of the requirements of local financial institutions, the Partnership organizes roundtables and conferences with local banks. To give the farmers the skills they need to develop business plans and investment proposals, the Partnership trains and advises them in financial and business management and modern agricultural production. The Partnership also works with local banks to improve their understanding of agribusiness practices and to establish effective risk-management strategies for lending to the agricultural sector.

The result has been a significant increase in the number and size of agricultural loans in the Kherson region where we are working. Thanks to the Partnership's Ukraine Agribusiness Development Program, Semyon Babyan is one of 78 Kherson farmers who obtained loans of \$4,000 to \$30,000 from local banks. Three years ago, virtually no financial institution loaned to farmers in the region. Today, some of the leading Ukrainian banks with which we worked are building and expanding their rural credit programs. For example, Ukratsots Bank has an agribusiness lending portfolio of \$8.5 million.

Building Sustainable Local Capacity

Belarus Business Association Helps a Businesswoman Create Jobs, Pay Higher Wages

IFC's Partnership promotes small business growth in Belarus by building support services of local business associations.

A year ago, Lyudmila Kulich of Ivanovo, a town of 20,000 in the Brest region of Belarus, was unemployed and searching for ways to support her family. Today, she runs a successful sewing business that produces 300 to 500 pieces of clothing each month, generating about \$1,000 in revenues. Having started alone, Kulich now employs 10 women and pays them double the town's average salary.

Kulich attributes her success to the advice and support she received from the Brest Region Union of Entrepreneurs. Kulich participated in the Union's training for beginning entrepreneurs in the fall of 2001. As Kulich learned more about the complexities of being an individual entrepreneur in Belarus, she joined the Union to rely on its business support services. "At the Union I received the legal advice and assistance I needed to start my business and find business partners," recalled Kulich. "I also found the support of other members of the Union – people starting out just like me."

The Brest Region Union of Entrepreneurs is one of 18 business associations we work with across Belarus to build their capacity to provide quality information and consulting services to SMEs. The Partnership's SME Development project in Belarus, funded by the United States (USAID), has trained and advised the business associations on a range of modern business support services, from developing business plans to using public relations techniques in product marketing. We have guided the associations in the introduction of their business support services on a sustainable, fee-for-service basis. Since the inception of the project in June 2000, IFC and its partner associations have conducted more than 110



Lilia Kovalchuk (right) is one of the 10 women employed by Lyudmila Kulich (left). For Kovalchuk, disabled from childhood, this is a first job.

seminars throughout Belarus, training more than 3,200 entrepreneurs.

In addition, IFC's Partnership works with Belarus business associations to help them become effective advocates for SMEs – an especially challenging task in a country with an unfriendly business environment. We counsel the associations in organizing advocacy and media campaigns and build their legal expertise.

A Broader View

Since IFC began working with Belarusian business associations, their membership base has increased by 60 percent (from 10,600 to 17,100 members) and their client base has doubled (from 6,950 to 14,000 clients). Increasing membership and service fees ensure the associations' sustainable growth.



CATERPILLAR

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Building Financial Markets

Leasing Becomes a Real Financing Alternative for Start-ups and Small Companies

In 2001, Medialt, a Ekaterinburg-based (Russian Urals) internet provider, saw a dramatic increase in the demand for internet services. This rising demand gave the company an opportunity to grow. To do that Medialt needed \$10,000 in new equipment, an amount too small for local banks to consider. Searching for alternatives, Medialt turned to the Partnership's Urals Leasing Development Project for help.

“The development of financial leasing has spurred the growth of SMEs.”

IFC's project, funded by the United Kingdom (DFID), put Medialt in contact with a local leasing company, which financed the purchase of the new equipment. With new servers and routers, Medialt increased the number of Internet channels from 15 to 22, which allowed the company to serve 120 new clients and introduce new services, like web hosting and worldwide direct access to Medialt servers. As a result of this expansion, Medialt increased its staff by 25 percent.

This is one of many examples of how the development of financial leasing has spurred the growth of SMEs across Russia. While banks remain cautious about working with



The development of the leasing sector enabled small businesses like Medialt to expand and create jobs.

the SME sector, a growing number of leasing companies now serve SMEs. According to IFC's annual surveys of the Russian leasing market, the average size of a leasing deal in 2000 – 2001 was between \$50,000 and \$130,000, suggesting that SMEs make up a major portion of leasing companies' client base.

While functioning financial markets are crucial to business development, the financial sector in the former Soviet Union is still largely underdeveloped, with a weak banking system and a lack of alternative financing mechanisms. Limited access to financing remains a major constraint to the growth of local companies. The Partnership helps to build healthy financial markets and increases financing options available to local businesses, particularly start-ups and SMEs, by developing alternative financial services, such as leasing, and strengthening the banking sector.

Action and Results

Building Infrastructure for the Leasing Sector through Technical Assistance

To build competitive leasing industries across the former Soviet Union, we:

- Analyze the existing legal base for leasing and develop recommendations to amend national policies and legislation in order to create a favorable environment for the sector's growth.
- Advocate for legislative changes by facilitating a dialogue among the private sector, governments, lawmakers, and mass media.
- Develop local technical expertise on leasing by training and advising leasing companies and banks on structuring leasing transactions; the legal, taxation, and accounting aspects of leasing deals; and assessing and managing the risks of leasing operations.
- Expand leasing companies' client base by training SMEs on evaluating different financing options, working with leasing companies, writing business plans and investment proposals, and managing their finances under lease agreements.
- Conduct broad public education campaigns for private enterprises, financial institutions, and government agencies about leasing and its advantages using the national and local mass media and our own specialized publications.
- Identify potential investment opportunities for the private sector and IFC and consult interested investors on the legal and accounting aspects of leasing transactions.

- Monitor the development of the leasing sector through annual market surveys.

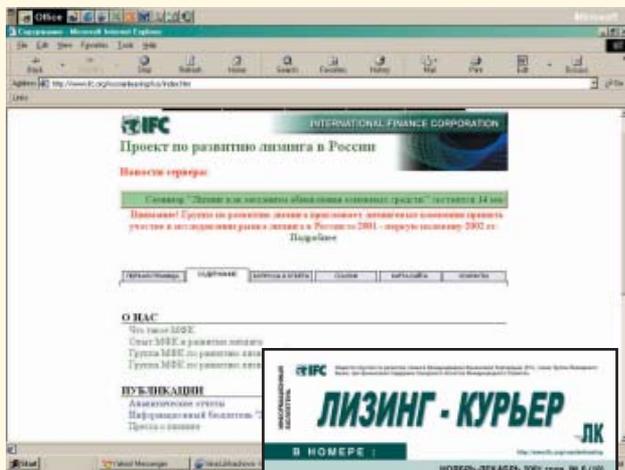
Benefiting Local Economies

In 1997, when we began the Leasing Development Program in Russia, very few people knew what leasing was. Today, the size of the Russian leasing market is approaching \$2.4 billion, six times its size at the time of the 1998 financial crisis. In partnership with Canada (CIDA) and the United Kingdom (BKHF), we have played a major role in the leasing sector's growth in Russia. Key contributions include drafting and advocating passage of the amendments to the Tax Code's provisions on leasing (passed in August 2001) and to the Law on Leasing (passed in January 2002). These amendments bring stability to the leasing legal base by eliminating contradictions and ambiguities in current leasing regulations (also see p. 13).

To further the development of the leasing sector in Russia, IFC has complemented the Partnership's technical assistance work with investment. IFC has invested \$15 million of its own resources and mobilized \$45 million from Western co-investors in three Russian leasing companies.

“In 1997, very few people knew what leasing was. Today, the size of the Russian leasing market is approaching \$2.4 billion.”

To intensify its work in the Russian regions, the Partnership recently launched leasing projects in the Urals region, funded by the United Kingdom (DFID), and in Northwest Russia, funded by Finland.



To reach the wider business community, government officials, and mass media, IFC's Russia Leasing Development Group created the industry's leading periodical, Leasing-Courier, and a web site – both unique sources of practical and analytical information on leasing. Leasing-Courier, a bi-monthly journal, reaches subscribers in 79 of the 89 regions of Russia, and the leasing web site (www.ifc.org/russianleasing) attracts about 10,000 visits each month.

The expertise gained by the Russia Leasing Development Program gave a quick start to the Partnership's Central Asia Leasing Development Project. Launched in October 2001 with funding from Switzerland (seco), the project has already submitted legislative amendments for consideration by the governments and lawmakers in the Kyrgyz Republic, Tajikistan, and Uzbekistan. The Russia Leasing Development Program also supported IFC's offices in Armenia and Georgia in developing leasing legislation. In Georgia, the new leasing legislation passed in May 2002, and in Armenia the legislative amendments are currently in the parliament.

Building Investor Confidence in the Banking Sector

The banking sector in Russia remains weak, stifled by a lack of capital and much needed reform, and IFC is combining investment with customized technical assistance to strengthen the sector. The Partnership works with medium-sized banks to help them reorganize and restructure their operations, improve their procedures and policies, enhance their information management systems, and expand lending to SMEs. Specifically, we:

- Assign an experienced Western banker as a shadow CEO to work closely with the banks' management to develop and implement reorganization and expansion strategies.
- Review the banks' corporate organization and ensure that it is consistent with the banks' current business requirements and is sufficiently flexible to meet new challenges.
- Review the banks' management and internal control processes and ensure that they are commensurate with commercial risk and regulatory requirements.
- Train the banks' staff and management on credit evaluations and risk assessment and management to build the banks' ability to implement their growth strategy and enhance lending practices.

Benefiting Local Economies

IFC's technical assistance program in the banking sector began in September 2000, with a re-engineering program for the Moscow-based Probusinessbank. This effort, funded by the United Kingdom (DFID), complements IFC's \$5 million subordinated loan to Probusinessbank (approved in October 2001) – IFC's first loan to a Russian bank after the 1998 financial

crisis. The program is already yielding results. In 2001, with the increase in lending to the SME sector – a central component of the bank’s growth strategy – Probusinessbank’s assets grew by 27 percent. The bank’s improved performance and increased transparency has boosted investor confidence. In addition to IFC’s loan, Probusinessbank received up to \$15 million in financing from the World Bank through its enterprise development programs and \$3.5 million from the Black Sea Trade and Development Bank.

“IFC is combining investment with customized technical assistance to strengthen the banking sector.”

In spring 2002, with funding from Norway, the Partnership launched two more bank re-engineering programs with Russian NBD Bank in Nizhny Novgorod and Center Invest in Rostov-on-Don alongside IFC’s \$2.5 million and \$2 million loans respectively.



Launching the first production line from a rented old Soviet building, the 10-member staff of Master, then a Moscow-based beverage retailer, has built the company into one of Russia’s leading soft-drink producers. Today, the company employs hundreds, managing offices in eight of Russia’s regions, and producing a wide range of soft drinks and juices. IFC has been a part of Master’s growth. Master is one of eight companies that received loans from Moscow-based Probusinessbank using IFC’s \$5 million subordinated loan. The Partnership works with the bank to enhance its SME lending practices.

IFC's Partnership Helps Build the Leasing Market in Southern Russia to Finance Business Growth

The Partnership stimulates leasing growth across Russia by transferring leasing know-how and training local SMEs on using this financial instrument. The result is — more enterprises have access to financing for new equipment to grow and create jobs.

In 1998, Anton Vylomov, a young banker in Krasnodar, a city in southern Russia, developed an interest in leasing. Vylomov eventually learned of IFC Leasing Development Group's web site, providing comprehensive information on leasing. Drawing on IFC's materials, Vylomov began promoting the concept of leasing to his banking colleagues, local government authorities, and potential clients in Krasnodar. As a result of Vylomov's efforts, in 1999, local government authorities decided to stimulate the development of leasing in the Krasnodar region and invited IFC to organize a series of training programs.

Since then, IFC's Leasing Development Group, founded with support from the United Kingdom (BKHF) and currently funded by Canada (CIDA), has been working in Krasnodar training local leasing companies to improve their lending practices and assess and manage risks. With the additional knowledge gained at IFC's seminars, Vylomov and his colleagues established three leasing companies - Municipal Investment Company (MIC), Kubaninvest, and Inko-AMD.

To expand and strengthen the client base of the Krasnodar leasing companies, IFC's Partnership has also been working with local SMEs, training them on the basics of leasing, how to apply for a lease, and how to manage finances under lease agreements. The Partnership held its first seminar for potential lessees in May 2001, and by September 2001 this training was yielding results. "The number of applications increased 30 percent compared to the same period the previous year," explained Andrei Gaibadulin, General Director of the MIC. "But more



Astarta and Co., a furniture producer in Krasnodar, is one of the companies that was able to lease modern equipment from MIC after attending IFC's leasing seminar for SMEs. Thanks to the new edge-polishing machine, Astarta and Co. improved the quality and quantity of its furniture and diversified its production, increasing turnover by 40 percent and creating 17 new jobs.

important is the improvement in the quality of applications. Potential lessees are now more prepared, they ask fewer questions, and when they do have questions, they are about specifics, not the basics," Gaibadulin said.

The increase in the quantity and quality of applications resulted in 28 new leasing deals, worth about \$400,000, that the Krasnodar leasing companies closed with participants in IFC's trainings. Since 2000, when the Krasnodar leasing companies started working closely with the Partnership's Leasing Development Group, their joint leasing portfolio has grown more than ten-fold.

A Broader View

The Partnership's Russia Leasing Development Group has trained leasing professionals, potential lessees, and government officials across 35 of the 89 regions of Russia. The team provided additional consultations to over 1,400 companies on legal, taxation, and accounting aspects of leasing operations in Russia.



Building Supply and Distribution Chains

With IFC's Help, Russian Dairy Farmers Find Investors and New Partners

In 1997, when Dutch dairy company Campina Melkunie B.V. considered expanding production to Russia, it faced a major obstacle – the lack of a reliable supply of good quality milk. Resolving this issue was essential to Campina's commitment to invest in a new dairy processing plant near Moscow.

Campina's plans presented the struggling Russian dairy farms near Moscow with a great opportunity, but only if they could overcome old style production methods. To help Russian farms capitalize on this opportunity, IFC worked with 18 of them to introduce modern technical and management know-how to boost the quality and quantity of their milk. This technical assistance program was funded by the Dutch Government and Campina itself.

Today, Campina is operating two production lines at full capacity at a newly constructed \$50 million dairy plant, which IFC helped finance with a EUR 9.4 million loan. This new factory created dozens of new jobs. Russian farmers received long-term supply contracts with Campina and other dairy processors. Thanks to these contracts, the farms became credit-worthy and were able to attract \$2.1 million of investment in modern milking and refrigeration equipment, doubling their production, boosting the quality of milk they produced, and increasing revenue by 60 percent. The competition among foreign and domestic dairy processors for the supply of high quality milk resulted in higher milk prices, doubling the farmers' earnings.

As this example demonstrates, direct investment can have a powerful impact on post-Soviet economies. It is an important source of capital and it brings with it new technologies, new management techniques, and greater access to markets. While the former Soviet Union is an attractive market for investors, the lack of reliable local partners poses a major obstacle to investment. And while local companies need investment, they lack modern management and production know-how and access to modern technologies to partner with outside investors.

Action and Results

Forging Business Ties Through Technical Assistance

To promote increased investment in post-Soviet markets and bring the benefits of direct investment to local communities, IFC's Private Enterprise Partnership builds local companies into competitive and responsible business partners and links them into the supply and distribution chains of major investors. Specifically, we:

- Identify existing or potential large investors and examine their needs.
- Survey local companies to identify those best positioned to become reliable business partners to outside investors.
- Conduct thorough reviews of the business and management practices of selected local companies to diagnose their weaknesses and the principal constraints to their growth.
- Introduce modern technologies and management know-how to boost quality and increase production to meet investors' needs.
- Broker long-term contracts between investors and local suppliers.

- Train local companies in financial management, business planning, and investment proposal writing to help them access financing and link them to financial institutions.
- Develop financing mechanisms and establish financial intermediaries to fund new production technologies and working capital for local suppliers and distributors.
- Work with local government authorities to remove constraints to business development and investment.

Benefiting Local Economies

Currently, IFC's Partnership is working with suppliers in the agribusiness, mining, forestry, furniture manufacturing, and automotive sectors in Russia, Ukraine, and Central Asia.

In the forestry sector, we are working with nine wood harvesting companies in Northwest Russia to introduce sustainable and environmentally sound production practices, help them develop business plans and investment proposals, and match them with European investors. As a result of this work, funded by the Finnish government and investors, two of the participating companies have signed investment agreements with large investors, and others have established direct partnerships with the leading forest industry companies in Finland and Sweden. Currently, the Partnership works with several foreign investors to establish wood processing facilities in Northwest Russia.

Still in its first year, the Partnership's Ukraine Agribusiness Development Program, funded by Canada (CIDA) and Sweden (Sida), has set up demonstration fields and provided hands-on training to 800 family farms in growing new crops and employing modern agricultural production technologies. The program links these farms to the supply chains of food processors in

southern Ukraine. To help Ukrainian farmers access financing, we advise them on developing business plans and organizing their financial records to meet local banks' requirements (also see p. 14).

In 2002, IFC's Partnership started three new projects in Russia to expand the benefits of IFC's investments. In Magadan (Russian Far East), we are working with SMEs to help them become suppliers to the mining industry, starting with Julietta Mine in Magadan – a joint \$45 million investment by Canadian Bema Gold Corporation, IFC, and Standard Bank London & Bayerische Hypo-Und Vereinsbank. The project is funded by Canada (CIDA) and Bema Gold.

Eight time zones west of Magadan, IFC approved a \$100 million loan to support the development of Ford's assembly plant outside of St. Petersburg. The Partnership is working with Russian makers of auto components to build them into competitive and reliable suppliers to Ford's assembly plant and to other automakers. This program is funded by the United States Trade and Development Agency.

With support from Norway, the Partnership is working with Russian furniture manufacturers, suppliers to IKEA, to introduce the modern technologies needed to meet IKEA's strict environmental standards of production to ensure that these companies remain within IKEA's global supplier network. We also work with IKEA's suppliers to help them develop new products using waste wood, to diversify their revenue and find new partners.

In Tajikistan, with support from Switzerland (seco), we are pioneering innovative approaches to improve cotton production and empower poverty-stricken cotton farmers to take control of their commercial activity and diversify production (also see p. 12).

Sergievscoe Dairy Farm: From a Struggling Kolhoz to a Competitive Partner to Campina

The Partnership helps Russian farms meet international standards and partner with foreign and domestic processors to secure future growth and increase access to financing.

Created in the days of Soviet agricultural collectivization, Sergievscoe farm, 100 km southeast of Moscow, is now a successful market-oriented enterprise. The farm is an exclusive supplier to Campina, a Dutch dairy processor, delivering milk daily to Campina's yogurt plant outside of Moscow, and is one of the strongest agricultural enterprises in Russia.

Thanks in part to IFC's technical assistance program, funded by the Dutch Government, Sergievscoe has been supplying Campina with milk since 1998. But because of outdated technology and production practices, Sergievscoe could not consistently produce milk at the quality levels acceptable to European processors. Thus, the farm could neither get an adequate price nor count on steady demand for its product. The farm's management realized that it had to improve the quality of the produced milk in order to become competitive.

IFC's analysis revealed problems on two levels, poor production practices and inefficient equipment. IFC, with the assistance of Dutch agricultural specialists, trained the



Sergievscoe's business growth allowed it to improve work conditions for its farmers and double their salaries. Sergievscoe's salaries are 20 percent higher than the average for the agricultural sector in the Moscow region and three times higher than the national average for the sector.

farmers on better production and sanitary practices. IFC's Partnership then worked with Sergievscoe managers to develop an investment program so that they could replace the farm's outdated equipment.

Faced with virtually no agricultural finance in Russia and the farm's lack of its own capital, IFC, together with Campina, developed an innovative financing model. Campina purchased the new equipment from Swedish, Dutch, and Italian manufacturers and rented it to Sergievscoe. The price of the equipment and rent payments were calculated in milk so that the farm could pay Campina back with its product. In total, Campina directly invested about \$300,000 in Sergievscoe.

The results were impressive. In just two years, the average milk yield per cow increased by 38 percent. Today, Sergievscoe is producing more and better milk and earning higher prices for its product, boosting its revenues by 64 percent.

With these positive changes, Sergievscoe has grown from a struggling business to a credit-worthy enterprise. In 2000, the Dutch Agribusiness Company, Cebeco, leased a German-made forage harvester worth \$240,000 to Sergievscoe, using the same payment model developed by IFC. And just recently, two Russian banks – Rosselkhozbank and Sberbank – have agreed to finance the farm to help it implement its five-year growth strategy, developed with the Partnership's help.

A Broader View

In addition to Sergievscoe, IFC's Partnership is working with other dairy farms, suppliers to Campina, to help them gain access to financing. Over the last two years, IFC structured \$2.1 million worth of capital investment projects in these farms (\$1.4 million from Campina and \$700,000 from equipment suppliers). These investments have laid the foundation for the creation of the Agro-industrial Finance Company (AFC) – a financial intermediary that will finance Russian suppliers to major agro-processors. The company is expected to be established and initially financed by IFC, Rabobank, and the Netherlands Development Finance Company.

Improving Corporate Governance

Transparent Practices Revive a Business on the Brink of Bankruptcy

Trucking enterprise #2005, based in Kharkiv in Eastern Ukraine, was privatized in 1997. The manager of the company ignored basic corporate governance requirements. Not a single shareholders' meeting was held in the first two years. The enterprise's management was under investigation for stealing from the enterprise. By 1999, employees had not been paid for months, and the enterprise was on the verge of bankruptcy.

It was at this point that Alexander Khruchyov, the enterprise's chief engineer, came to IFC's Corporate Governance Project in Ukraine (funded by Canada, Japan, the Netherlands, and the United Kingdom). He needed help organizing a first shareholders' meeting and drafting the company's corporate documents. At the meeting, despite fierce opposition from the management, Khruchyov presented his program for revitalizing the enterprise, and nominated himself to the company's board. The shareholders elected Khruchyov by an overwhelming majority and adopted the new charter and by-laws.

In early 2000, Khruchyov began to turn things around. In consultation with IFC, Khruchyov set up new management boards, introduced new services, and restructured the company, selling idle assets and setting up a subsidiary enterprise. As a result, in 2001 the enterprise resumed paying salaries, almost completely eliminated its wage arrears, and grew its business.

This example underscores the practical value of exercising good corporate governance. Good corporate governance

helps enterprises strengthen their operations and reduce tensions between workers and management. As the post-Soviet companies and economies seek broad public support for further market reforms, strive to revitalize production, and work to build investor confidence, the institutionalization and enforcement of sound corporate governance is an essential part of these efforts.

“Good corporate governance helps enterprises strengthen their operations and reduce tensions between workers and management.”

Action and Results

Building Transparent and Well-Managed Businesses, Building Investor Confidence

To improve the overall investment climate in post-Soviet economies, the Partnership works to strengthen corporate governance at both the company and national levels.

At the company level, we work directly with managers, directors, and shareholders to introduce internationally accepted corporate governance practices and to ensure compliance with local legislation. Specifically, we:

- Train and advise companies on a range of corporate governance issues, such as defining corporate structure, issuing shares, and holding shareholders' meetings.
- Consult with businesses on company-specific corporate governance concerns.

- Select companies that are most committed to adopting sound corporate governance as pilot enterprises and work with them side-by-side to revise their corporate documents, restructure their corporate organization, organize shareholders' meetings, and hold orientation sessions for the board of directors.
- Develop model charters and by-laws for adoption by local companies seeking to improve the quality of their corporate documents.
- Work with the World Bank and private sector partners to develop corporate governance manuals – how-to guides to practicing sound corporate governance – and distribute them to corporations and government agencies.
- Facilitate links with potential investors.



Natalia Kosheleva, deputy project manager of the Partnership's Russia Corporate Governance Program, discusses issues relating to the role of corporate secretaries at a conference in Moscow.

“The Partnership works to strengthen corporate governance at both the company and national levels.”

At the national level, we:

- Conduct thorough legal analyses of existing corporate governance regulations.
- Cooperate with the World Bank and OECD in developing specific policy recommendations (e.g., Corporate Governance White Paper) and advise national governments on improving corporate governance regulations.
- Facilitate an open, continuous discussion among policy makers, local companies, and investors on corporate governance reforms through a series of roundtables and other events sponsored by the Private Sector Advisory Group of the OECD/World Bank Global Corporate Governance Forum.
- Develop and introduce corporate governance courses to universities and train professors to ensure that future managers and lawyers understand the importance of good corporate governance and have the skills to practice it.
- Conduct public education campaigns on the importance of good corporate governance and protection of shareholders' rights through our own specialized publications and through the national and regional mass media.



"Krasny Oktyabr" (Red October), Russia's most famous chocolate factory, is one of the companies working with IFC's Partnership to improve its corporate governance in order to build investor confidence and gain access to capital.

Benefiting Local Economies

Currently, the Partnership is implementing Corporate Governance Programs in Russia (funded by the Netherlands and Switzerland) and a Corporate Development Program in Ukraine (funded by Canada and Switzerland). In the Fall of 2001, the Partnership completed the Corporate Governance Project in Armenia, funded by the Netherlands, and the Corporate Governance Project in Ukraine, funded by Canada, Japan, the Netherlands, and the United Kingdom.

In Armenia, the Partnership trained over 80 percent of the country's active joint stock companies and provided individual consultations to over 50 companies. Some of these companies were selected to participate in the IFC-U.S. Trade and Development Agency-sponsored Armenia Investment Conference, which took place last year in New York City.

In early 2002, the Partnership opened two new offices in the Russian cities of Samara and St. Petersburg. They

started their work by training about 200 local companies. The Partnership's Russia Corporate Governance Program will open two additional regional offices in the next year.

To improve corporate governance regulations, we worked with the Armenian government and lawmakers to draft and pass the Law on Joint Stock Companies and the Law on Limited Liability Companies. We advised Russia's Federal Commission on the Securities Market on developing the code of corporate conduct, released in April 2002. In Ukraine, the Partnership has contributed to six pieces of legislation regulating a number of corporate matters from issuing securities to holding general shareholders' meetings.

In Ukraine, the Partnership trained more than 300 professors and introduced corporate governance topics into the curriculums of 23 universities across the country, schools that now teach 3,500 students a year about corporate governance. We also designed and introduced corporate governance courses at the Law School of Yerevan State University in Armenia.



The Partnership's bi-monthly newsletters on corporate governance issues have reached thousands of business managers, lawmakers, academics, and media outlets across Armenia and Ukraine. We also train national and regional journalists on the concepts of corporate governance, generating wide coverage and educating the public about their rights as shareholders and the work of modern corporations.

From Military to Civil Production to Building Partnerships with Western Investors

The Partnership works with companies in Ukraine to develop and enact sound corporate governance policies. In turn, the credibility and transparency these companies demonstrate help to attract foreign investment.

Avtomatyka, located in Ivano-Frankivsk in Western Ukraine, was founded in 1977 to produce military equipment. After the company was privatized in 1997, it began looking for a new niche in the market economy. Today, the company produces prefabricated wooden cottages, polyurethane foam, and metal machinery parts, selling its products both domestically and in Western Europe. In 2000, Avtomatyka ranked among the top three enterprises in the Ivano-Frankivsk region, paying its 154 employees some of the highest salaries in the region – almost twice the average. Recently, the company received over \$2 million from French, Swiss, and Polish investors for new equipment to set up two joint ventures.

The company attributes its success to working with IFC's Corporate Governance Project, funded by Canada (CIDA), Japan, the Netherlands, and the United Kingdom. In 1999 the company asked IFC for help in setting up a well functioning and transparent management structure. Over the next 18 months, the project worked with Avtomatyka to develop and implement a set of recommendations on introducing sound corporate governance practices and to revise its charter and by-laws.

To streamline the decision-making process, the company adopted a more effective governance model – a three-member supervisory board and a CEO instead of a management board. To resolve the tension between minority shareholders-employees and majority shareholders, a minority shareholder representative was elected to the supervisory board. The new charter and by-laws clarified the roles and responsibilities of the various governing bodies of the enterprise. As a result, the

company's operations have become more transparent and efficient.

"The positive effect of the changes was felt almost immediately," said Serhij Druzhuk, General Director of Avtomatyka. "It became much easier to make and carry out important decisions dealing with the company's future development. At the same time these changes helped us build investor confidence in our company and attract over \$2 million of foreign direct investment."



A Broader View

Avtomatyka is one of the 67 pilot enterprises IFC's Ukraine Corporate Governance Project consulted. Most of these enterprises reported significant benefits following improvements in their corporate governance. Almost 50 percent of the pilot enterprises found greater success in initiating negotiations with investors, attracting investment, finding partners, and obtaining financing.

In addition to customized company-level consultations, the project has trained about 13 percent of Ukraine's active corporations and provided over 5,000 consultations to companies and government officials. Over 90 percent of companies in the regions where we worked now have provisions in their corporate documents that regulate basic corporate governance issues, and over 70 percent have specific provisions protecting minority shareholder rights.

The Partnership continues its Ukraine Corporate Governance Program with a new Corporate Development Project, which started in the spring 2002. The project, funded by Canada (CIDA) and Switzerland (seco), addresses a broader set of issues that hinder Ukrainian companies seeking outside investment. In addition to corporate governance advice, the project trains and consults select enterprises on financial and asset management and investor strategies to help them become viable businesses capable of attracting outside investment.





Improving Support Services and Business Environment for SMEs

IFC-Backed Consulting Company Helps a Ukrainian Entrepreneur Start a Business and Create Jobs

With the collapse of the Soviet economy, factories, shops, and restaurants closed across Ukraine, and so, finally, did movie theaters. Alexander Panasyuk, a local entrepreneur with a passion for film, wanted to bring movies back to his native Chernigiv, a town of 300,000 located 140 km northwest of Kyiv. Few investors shared his enthusiasm, for in a town where average monthly salaries were 350 grivnyas (\$70), most doubted that people would pay \$2 to \$3 to see a Hollywood blockbuster at a Western-style cinema.

The Chernigiv Consulting Center (also see p. 48), established and mentored by IFC with funding from the United States (USAID), helped Panasyuk turn his idea into a successful enterprise. The consulting center conducted a market survey to measure whether Chernigiv residents would go to movies, how often they would go, what kinds of movies they would want to see, and how much they would be willing to pay. The results of the survey encouraged Panasyuk and provided solid evidence of the project's financial viability. With the survey, Panasyuk was able to receive a \$300,000 loan. He opened his modern movie theater in May 2001, premiering with a major American feature. The movie theater improved the social life of the town and created 18 new jobs for Chernigiv residents.

SMEs in the countries of the former Soviet Union have emerged as the fastest growing segment of the economy and one of the largest sources of employment. Yet the number of SMEs in the region remains low compared to other countries. The potential growth of the sector has been constrained by a lack of financing, management skills, and business and commercial information, as well as by excessive government regulation and interference.

Action and Results

To build an environment that is conducive to the growth of SMEs, the Partnership develops local business support services and works directly with national governments to improve policies and legislation affecting the SME sector.

Building SME Business Support Services

The Partnership works with and, when needed, establishes consulting companies and business associations to introduce the best business practices and develop local business skills currently lacking in the region. We build them into commercially viable professional consultants and business associations. Specifically, we:

- Train and advise them on providing modern information and business support services to SMEs, including business planning, management practices, market research and marketing, partner search, and the use of new information technologies.
- Advise them on managing the consulting services on a sustainable commercial basis and developing strategies to attract new clients and members.
- Build them into strong advocates for SMEs by developing their legal expertise and training them on advocacy techniques to organize public affairs campaigns to reform the regulatory environment for SMEs.

Benefiting Local Economies

To help improve SMEs' access to professional business support services in Uzbekistan, the Partnership organized a pilot training program for Uzbek consultants, funded by Switzerland (seco). In September 2001, a group of seven Uzbek consultants participated in a three week in-class and hands-on internship within the Ukraine Consulting Network, established by IFC (also see p. 48). The consultants improved their technical skills in market

research and marketing, financial analysis, and modern business plan writing. Uzbek consultants also learned from their Ukrainian colleagues how to manage a consulting business more effectively, build and maintain client relationships, create more effective client proposals and contracts, and promote their services through public relations campaigns. A second group of Uzbek consultants will participate in a similar program in mid 2002. Based on the results of these study tours, the program may be replicated in other Central Asian countries.

To improve SMEs' access to financing and business support services in Ukraine, the Partnership, with support from Norway and in cooperation with the World Bank Group's SME Department, began developing a pilot Internet portal. The portal will link SMEs to banks, leasing companies, and investment firms and offer on-line applications for credit. To help SMEs improve the quality of their applications, the portal will offer interactive learning tools for enterprises to conduct basic financial self-assessments and online resources to strengthen their management and financial skills. Additionally, the portal will link SMEs to local business service providers, such as consulting firms and management training companies.

Improving the Regulatory Environment for SMEs

To improve the business-enabling environment for SMEs, we:

- Survey the SME sector to identify the main trends in its development and to identify the main administrative and regulatory obstacles to SME growth.
- Draw on the findings of the surveys and our company-level work to develop recommendations to amend national business policies and legislation.
- Advocate policy and legislative reform by conducting public education and advocacy

campaigns and by facilitating a dialogue among small businesses, government officials, lawmakers, and mass media.

- Work with the World Bank to develop business policy recommendations the governments need to resolve as a precondition to receiving loans.

Benefiting Local Economies

IFC's annual surveys of SMEs in Ukraine, funded by Norway, have proven to be a successful tool in influencing SME policies. The Ukrainian government has adopted IFC-recommended amendments to 26 pieces of legislation affecting local business, particularly in the areas of registration and licensing procedures and state inspections of private business. The number of government inspections of SMEs has decreased from an average of 76 per year to 14, and the number of business activities requiring licensing has been reduced from more than 100 to 64. Drawing on its experience in Ukraine, in March 2002, the Partnership launched an SME survey in Uzbekistan, funded by Switzerland (seco).



To draw attention to the administrative barriers to SME development in Ukraine, the Partnership's Business Development Project held annual caricature contests with support from the country's leading business publications. In addition to the wide publicity of the issue in the national media, the winning caricatures were published as a twelve-month calendar and sent to the Ukrainian government officials.

Belarusian Advocates Ensure Local Businesses Have a Voice

Belarus has one of the most challenging business development climates in Central and Eastern Europe. IFC's Partnership works with local business associations to help them become effective advocates for SMEs in this difficult setting.

In the town of Gomel in southeastern Belarus, local government bodies established a sales tax of 100 euros per month for individual entrepreneurs selling fur hats. This sum amounted to about 78 percent of the average monthly income of these entrepreneurs. For most of the fur hat traders in Gomel, this tax threatened their businesses.

With IFC's advice and legal expertise, the Council of Market Entrepreneurs began a campaign to reduce this tax, sending letters to officials at all levels of government – from the city and regional administrations all the way to the Belarusian Ministry of Trade. To gain extensive coverage of this issue in regional and national media outlets, the Council also organized a vigorous media campaign, with IFC's support.



The Council of Market Entrepreneurs is one of the 18 business associations IFC works with across Belarus to create strong advocates for SMEs. In addition to providing advice on organizing advocacy campaigns, the Partnership's Business Development project, funded by the United States (USAID), works with these associations to build their legal expertise and credibility in the business community. IFC's project helped its business association partners establish a hotline to provide on-the-spot legal advice to entrepreneurs. In its first year of operation, more than 8,000 entrepreneurs called the hot line for legal consultations.

In all six regions of Belarus, the project worked with the business associations and local media organizations to set up press clubs where representatives of the government, the private sector, and the media meet regularly to discuss business development issues. Each month, these press club meetings and other project activities generate about 60 articles, 20 radio and 14 television broadcasts drawing public attention to existing constraints to business development (also see p. 15).

“The Council of Market Entrepreneurs is one of the 18 business associations IFC works with across Belarus to create strong advocates for SMEs.”

As a result, the Ministry of Trade lowered the tax on hats to 35 euros per month or about 27 percent of the average monthly income of a hat trader. And this victory helped the Council of Market Entrepreneurs to attract 200 new members.



The World Bank Group President James Wolfensohn (left) and the Finnish Prime Minister Paavo Lipponen signed documents in Helsinki in March 2001, officially launching Finland's funding for the Private Enterprise Partnership's programs.

Building Partnerships with Donors for Sustainable Private Sector Growth

The Partnership is currently implementing 24 projects in six countries. These programs are funded by donor contributions totaling \$34 million. The following graphics provide detailed information about the level of donor funding by donor country, by recipient country, and by program area. The Partnership receives the vast majority of its donor funding directly from bilateral donor agencies. We receive about 11 percent of our funding through our partner structure — IFC's Technical Assistance Trust Funds Department. In addition, the Partnership receives cash and in-kind contributions from other government institutions and private sector companies.

Donor and IFC Funding

IFC has contributed \$12.6 million from July 1, 2000 through the end of June 2003. In mid-2002 the Partnership will seek additional IFC funding for future operations. IFC's contribution covers the overall management of the Partnership, permitting us to spend the vast majority of our donor funding (95 percent) directly on the technical assistance initiatives. In addition to funding, IFC contributes the time and expertise of IFC investment, technical, and other staff.

Long-Term Donor Agreements

Prior to the creation of the Partnership, IFC received donor funding for discrete, free-standing technical assistance initiatives. With the establishment of the Partnership, donors have been able to enter into multi-year funding framework agreements. Multi-year agreements between the donors and the Partnership are

structured according to regional or country focus and programming activities.

To date, a number of such long-term agreements have been signed:

- A 5-year general agreement for technical assistance in Eurasia with the Canadian International Development Agency (CIDA), covering Russia over 5 years and Ukraine over 3 years, with total funding of CAD 8.8 million.
- A 3-year agreement for projects in Russia, Ukraine, and Central Asia with the State Secretariat for Economic Affairs of Switzerland (seco) totaling \$7.1 million.
- An open-ended agreement with the Government of the Netherlands for Russia and Ukraine with an initial contribution of NLG 5 million through Senter and a subsequent contribution of EUR 5.3 million through the Ministry of Economic Affairs.
- A 3-year agreement for Ukraine with the Swedish International Development Cooperation Agency (Sida) totaling \$1.6 million.
- A 3-year agreement with the Ministry of Foreign Affairs of Finland for Russia totaling \$980,000.

Multi-year framework agreements have a number of advantages for donors and the Partnership:

Cost effectiveness

- Extended funding cycles facilitate better program planning and budgeting, and allow the Partnership to retain qualified staff longer to capitalize on accumulated experience and on-the-job training.
- Funding similar initiatives across several countries reduces the costs associated with developing and launching these initiatives.

Continuity and Flexibility in Programming

- The Partnership's experience demonstrates that long-term engagement in technical assistance is essential for achieving results and long lasting changes. Multi-year funding agreements provide the framework to develop a set of initiatives that complement and build on each other's successes. This approach allows donors to build continuity of their programs to maximize the long-term returns on the resources donated. At the same time, multi-year agreements allow donors the flexibility to adjust the programs based on evolving needs of the recipient countries and based on interim assessment of the programs' results.

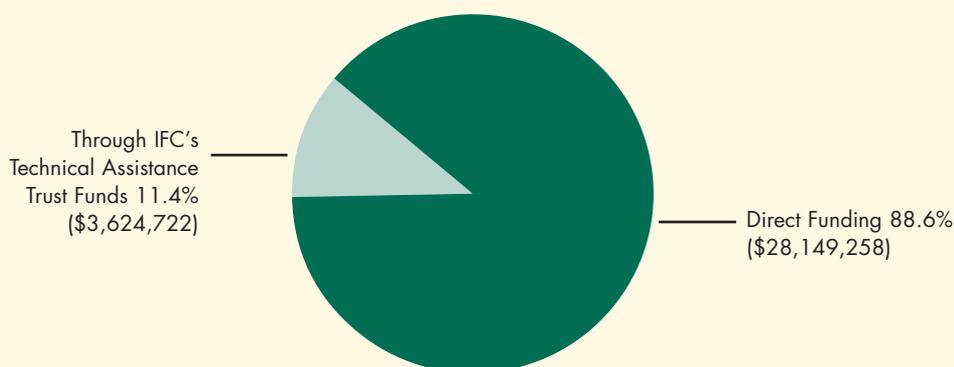
Reporting to Donors

The Partnership is flexible in accepting the requirements of each donor in terms of programming oversight and reporting on finances and project impact. The Partnership has established a first-rate financial controls system to manage IFC's and donor funding in the most cost-effective and transparent way. On the programming side, the Partnership's contribution includes significant work on impact evaluation of technical assistance. This work streamlines data collection and allows the Partnership to improve its reporting to donors and their communities on the progress made, the extent of the development impact of donor contributions, and private sector opportunities arising from the reforms in the former Soviet countries.

Donor Contributions to the Partnership July 1, 2000 – May 31, 2002

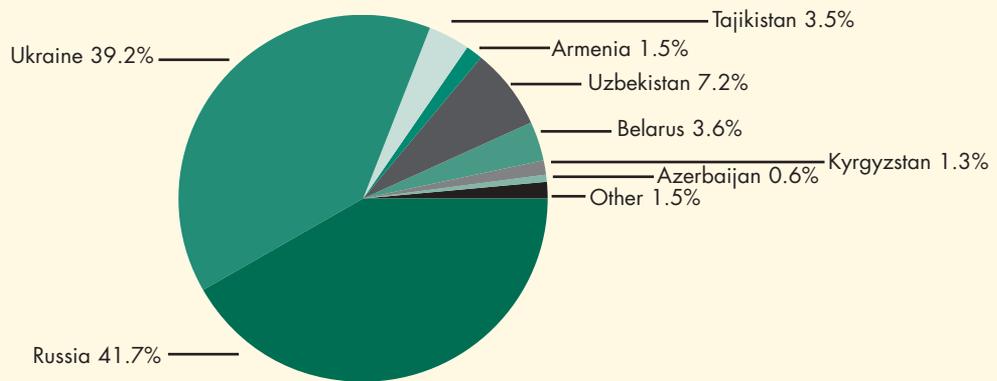
By Donor	FY01	FY02 (YTD)	Total:
Canada (CIDA)	\$3,192,938	\$5,799,908	\$8,992,846
Netherlands (Senter and MEA)	2,955,672	4,850,030	7,805,702
Switzerland (seco)		7,100,000	7,100,000
USA (USAID and USTDA)	2,423,348	934,000	3,357,348
Sweden (Sida)	1,634,284	232,550	1,866,834
UK (BKHF and DFID)	1,072,175		1,072,175
Finland	800,000		800,000
Japan	102,175		102,175
Norway	20,000	484,600	504,600
Other	172,300		172,300
TOTAL:	\$12,200,592	\$19,573,388	\$31,773,980

Total Donor Contributions by Channel



By Recipient Country	FY01	FY02 (YTD)	Total:
Russia	\$5,173,500	\$8,071,118	\$13,244,618
Ukraine	5,825,060	6,637,270	12,462,330
Uzbekistan		2,276,000	2,276,000
Belarus	856,504	300,000	1,156,504
Tajikistan		1,100,000	1,100,000
Armenia	345,528	125,000	470,528
Kyrgyzstan		400,000	400,000
Azerbaijan		200,000	200,000
Other		464,000	464,000
TOTAL:	\$12,200,592	\$19,573,388	\$31,773,980

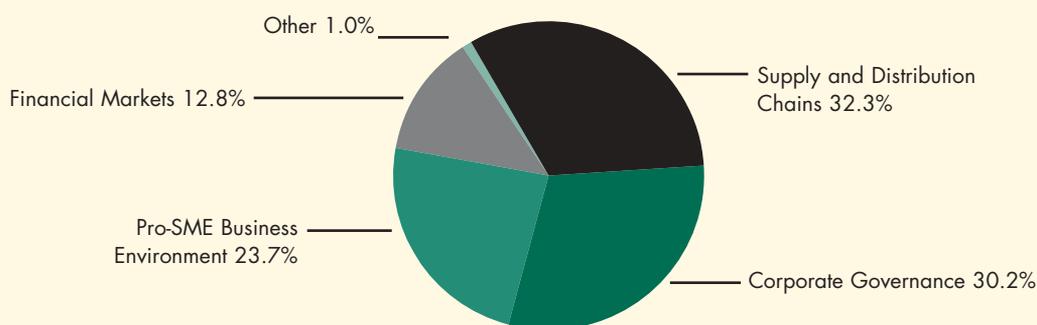
Total Donor Contributions by Recipient Country



Fiscal year ends June 30.

By Program Area	FY01	FY02 (YTD)	Total:
Supply and Distribution Chains	\$4,759,089	\$5,529,427	\$10,288,516
Corporate Governance	2,468,854	7,112,757	9,581,611
Pro-SME Business Environment	2,443,348	5,079,203	7,522,551
Financial Markets	2,529,300	1,524,000	4,053,300
Other		328,000	328,000
TOTAL:	\$12,200,592	\$19,573,388	\$31,773,980

Total Donor Contributions by Program Area



Other Contributions

In addition to contributions from bilateral donor agencies, the Partnership has received over \$2 million in cash and in-kind contributions from other government institutions and private sector companies. The participation of private companies strengthens our programs through the technical expertise they provide and demonstrates their long-term commitment to working in the region, creating incentives for local enterprises to implement change.

We thank our donor partners for their contributions.

Donor (by country of origin)	Project	Value of Contribution (July 1, 2000 – May 31, 2002)
Canada		
Provincial Government of Alberta, Canada	Ukraine Agribusiness Program	\$303,200
Bema Gold Corporation (mining company)	Business Development in Russia's Far East	\$120,000
DokaGene (Canadian-Russian agricultural joint venture)	Russia Dairy-Potato Project	\$35,000
Canadian Bureau for International Education	Ukraine Agribusiness Program	\$24,000
Canadian Executive Services Overseas	Ukraine Agribusiness Program	\$14,000
Saskatchewan Volunteers	Ukraine Agribusiness Program	\$10,500
Ministry of Agriculture of Canada	Ukraine Agribusiness Program	\$8,400
Alberta Treasury Branch (bank)	Ukraine Agribusiness Program	\$5,600
Finland		
Thomesto Oy (part of Mets'liitto Group) (timber trading company)	NW Russia Forest Investment Project	\$500,000
Finpro (Finnish Foreign Trade Association)	NW Russia Leasing Development Project	\$180,000
Ministry of Agriculture and Forestry of Finland	NW Russia Forest Investment Project	\$100,000
The Netherlands		
Campina (dairy processor)	Russia Agribusiness Program	\$75,000
Russia		
11 Dairy Farms, recipients of technical assistance	Russia Agribusiness Program	\$1,500
Sweden		
Seed Company (agribusiness firm)	Ukraine Agribusiness Program	\$16,800
Foreningssprabanken (bank)	Ukraine Agribusiness Program	\$5,600
Lansforsakrangar (insurance company)	Ukraine Agribusiness Program	\$5,600
Other		\$742,000
TOTAL:		\$2,147,200

Appendices

Current Projects (as of May 31, 2002)

Belarus

Belarus SME Development Project

Funded by the United States Agency for International Development (USAID)

To improve the business environment for SMEs in Belarus, the project works with 18 local business associations to build their information and consulting services for SMEs and their advocacy skills to promote an enabling business environment.

Central Asia

Central Asia Leasing Development Project

Funded by the State Secretariat for Economic Affairs of Switzerland (seco)

The Partnership draws on its leasing development program in Russia to build competitive leasing industries in the Kyrgyz Republic, Tajikistan, and Uzbekistan in order to increase financing options available to local businesses. The project trains leasing companies, banks, and potential leasing clients on the fundamentals of leasing operations and on conducting financial and risk analysis when making investment decisions. In addition, the project works with national governments to improve the legal framework for leasing operations.

Tajikistan

Farmer Ownership Model

Funded by the State Secretariat for Economic Affairs of Switzerland (seco)

The goal of the project is to reduce poverty among cotton farmers in Tajikistan by improving their production and strengthening their direct links to the market. To achieve this goal the Partnership — in cooperation with IFC's Southern Europe and Central Asia Department and with financing from IFC, seco, and the farmers — has established a private company completely owned by Tajik cotton farmers. The company will supply its member farmers with crop inputs and provide marketing services. The Partnership is providing technical assistance to the company on its daily operations and training farmers on modern production practices to improve yields and quality of cotton and to diversify their crop base.

Uzbekistan

SME Survey

Funded by the State Secretariat for Economic Affairs of Switzerland (seco)

To identify key impediments to business development at both the company and country level, the Partnership is conducting a comprehensive national study of the SME sector in Uzbekistan. The Partnership will draw on the results of the survey to work with the government to improve regulatory, administrative, and economic policies affecting the SME sector. This survey is based on the methodology developed in Ukraine, where the annual SME survey has proven to be an effective instrument in improving the regulatory and administrative environment for SMEs.

SME Consultants' Training

Funded by the State Secretariat for Economic Affairs of Switzerland (seco)

To improve SMEs' access to professional business support services in Uzbekistan, the Partnership organizes training programs for Uzbek consultants to improve their consulting skills and expand their range of services on a sustainable commercial basis. These training programs include hands-on internships within the Ukraine Consulting Network — 11 sustainable companies established and mentored by IFC throughout Ukraine.

Russia

Agribusiness Development Program

Funded by the Agency of the Dutch Ministry of Economic Affairs (Senter)

To lay the groundwork for foreign direct investment in Russia's agribusiness sector, the Partnership builds Russian agribusinesses and matches them with outside investors. For the last three years, this project has been providing technical assistance to local dairy farms to improve the quality and reliability of their milk supply to food processors investing locally. These improvements made possible a \$50 million IFC/Campina (Dutch dairy processor) investment in a new yogurt factory south of Moscow. The Partnership, in cooperation with other food processors, is expanding this type of technical assistance to other Russian farms.

Dmitrov Potato and Dairy Production Project

Funded by the Canadian International Development Agency (CIDA) through IFC's Technical Assistance Trust Funds Program

The project works with Russian farms to increase the production and quality levels of their milk and potatoes through modern technologies and proper crop rotation

methods. The project is implemented in partnership with a Canadian-Russian joint venture that produces and will supply the farms with high-grade virus-free seed potatoes. This partnership with the joint venture will enable Russian farms to improve production and become suppliers to major food processors.

Corporate Governance Program

Funded by the Agency of the Dutch Ministry of Economic Affairs (Senter) and the State Secretariat for Economic Affairs of Switzerland (seco)

To improve the investment climate in Russia, the Partnership trains and advises companies in four Russian regions, starting in St. Petersburg and Samara, on introducing sound corporate governance practices to improve their corporate structure and increase their investment potential. On a national level, the Partnership advises Russian lawmakers and the Federal Securities Commission on strengthening and enforcing corporate laws and regulations. The Partnership also introduces corporate governance courses into the curriculum of Russian universities to build future managers' skills to practice good corporate governance. This project draws on the experience and expertise of IFC's corporate governance work in Armenia and Ukraine.

Leasing Development Program

The goal of the program is to stimulate the growth of the leasing sector in Russia in order to increase financing options available to small and medium enterprises. The Partnership works with national and regional government officials to improve leasing legislation. The Partnership helps to stimulate the growth of the local market for leasing by providing training, consultation, and specialized information on leasing to local leasing companies and commercial banks. To help SMEs make informed investment decisions, the program also provides training on how to evaluate financing options, work with leasing companies, write business plans, and manage leasing finance. The Partnership also identifies investment opportunities in leasing companies for the private sector and IFC.

Russia Leasing Development Group

Funded by the Canadian International Development Agency (CIDA)

The Leasing Development Group is the Partnership's central team, which works to improve the national legislation on leasing, conducts training programs across Russia, and provides guidance and expertise to the Partnership's other leasing projects in Russia and other countries in the region.

Urals Leasing Development Project

Funded by the United Kingdom Department for Foreign International Development (DFID) through IFC's Technical Assistance Trust Funds Program

The Partnership opened a regional office in Ekaterinburg to intensify its leasing development work in the industrial and financial centers of the Urals region – Ekaterinburg and the Sverdlovsk Oblast, Chelyabinsk, and Perm.

Northwest Russia Leasing Project

Funded by the Government of Finland

The Partnership opened a regional office in St. Petersburg to intensify its leasing development work in the Northwest Russia. The project will also build links between Russian leasing companies and Finnish exporters.

Medium-sized Bank Reengineering Program

To strengthen the banking sector in Russia, IFC combines investment with customized technical assistance programs. The Partnership works with medium-sized banks to help them restructure their organization and operations, improve their procedures and policies, enhance their information management systems, and expand lending to SMEs. Currently, the Partnership is implementing the following projects in the banking sector:

Probusinessbank Re-engineering Program

Funded by the United Kingdom Department for Foreign International Development (DFID) through IFC's Technical Assistance Trust Funds Program

This program complements IFC's \$5 million subordinated loan to Moscow-based Probusinessbank and aims to strengthen the bank's management and operations, improve its SME lending practices, and build its capacity to carry out the bank's growth strategy.

NBD Bank Re-engineering Program

Funded by the Government of Norway through IFC's Technical Assistance Trust Funds Program

This program complements IFC's \$2.5 million loan to NBD, a Nizhni Novgorod-based bank, and aims to improve the bank's internal audit function and the use of management information systems.

Center-Invest Re-engineering Program

Funded by the Government of Norway through IFC's Technical Assistance Trust Funds Program

This program complements IFC's \$2 million loan to Center-Invest, a bank in Rostov-on-Don, and aims

to strengthen the bank's management and operations, particularly in such areas as corporate organization, internal audit, and asset liability management practices.

Northwest Russia Forest Investment Project

Funded by the Government of Finland

To lay the groundwork for investment in the forestry sector in Russia, the Partnership works with selected Finnish and Russian companies to develop and implement investment projects in logging and wood processing operations. The project strengthens Russian companies by introducing sustainable forest management practices and improving their operations. To inform potential investors about emerging opportunities, the project monitors the development of the forestry sector and private companies. This project works in close cooperation with the World Bank's forest sector programs.

Project for Sustainable Wood Harvesting in the Leningrad Oblast

Funded by the Swedish International Development Cooperation Agency (Sida) through IFC's Technical Assistance Trust Funds Program

To promote sustainable and environmentally sound wood harvesting in Northwest Russia and to lay the groundwork for increased investment in the forestry sector, this project works with selected logging companies in the Leningrad oblast to help them improve their business practices and adopt sustainable forestry methods. By upgrading their operations, increasing their production capacity, and attaining high standards of quality, the companies will become more viable suppliers to wood-processing firms in the region.

Project for Development of the Furniture Manufacturing Sector

Funded by the Government of Norway and by IFC through IFC's Technical Assistance Trust Funds Program

To introduce environmentally efficient production technologies into Russia's furniture manufacturing sector and to lay the groundwork for increased investment in the sector, IFC is partnering with IKEA, a Swedish home furnishings retailer, to upgrade the management practices and production technologies of Russian furniture makers. In the project's pilot phase, the Partnership is working with selected Russian IKEA suppliers to demonstrate the profitability of investing in energy-efficient technologies and to help them develop and market new products manufactured from waste-wood. Together with IKEA, the Partnership is developing a financing mechanism to fund IKEA's suppliers and other furniture makers.

Development of Automotive Component Suppliers Project

Funded by the United States Trade and Development Agency through IFC's Technical Assistance Trust Funds Program

The Partnership is working with selected Russian manufacturers of automotive components to improve their manufacturing processes, product quality, and management practices to help these companies become suppliers to foreign auto producers. The project is also assisting foreign component producers to establish production in Russia. The initial phase of this project complements an approved IFC \$100 million loan to a Ford Motor Company's assembly plant outside of St. Petersburg.

Business Development in Russia's Far East

Funded by the Canadian International Development Agency (CIDA)

To promote business development in Russia's Far East, the Partnership is working with SMEs to help them become suppliers to the mining industry, starting with the Bema Gold/IFC investment in Julietta mine in Magadan. The program also works with the private sector and government officials to improve the business-enabling environment in the Magadan region.

Private Sector Higher Education Investment Opportunities Study

Funded by the Swedish International Development Cooperation Agency (Sida) through IFC's Technical Assistance Trust Funds Program

To promote increased investment in the private education sector, the Partnership is conducting a survey to profile educational institutions for potential IFC and private investment. The survey will also identify specific areas in which technical assistance can significantly contribute to the development of the sector.

Ukraine

Corporate Development Project

Funded by the Canadian International Development Agency (CIDA) and the State Secretariat for Economic Affairs of Switzerland (seco)

Building on its Corporate Governance Project in Ukraine, the Partnership expands its advice to local companies to address a broader set of issues that hinder Ukrainian companies seeking outside investment. In addition to corporate governance, the Partnership advises companies on financial management, asset management, and investor strategies to help them become viable businesses able to attract outside investment. This project

continues to work with government officials on legislative reform and with educational institutions to improve post-secondary programs on corporate governance.

Agribusiness Development Program

Funded by the Canadian International Development Agency (CIDA) and the Swedish International Development Cooperation Agency (Sida)

To support the viability and growth of local farms and mobilize investment in Ukraine's agricultural sector, the Partnership works with local farms to improve the quality and reliability of the local supply of agricultural produce and links them to domestic and foreign food processors. To increase farms' access to financing, the Partnership works with local financial institutions to help them develop rural credit and insurance programs. The program also works with the national government to improve legislation affecting the agricultural sector.

SME-Finance ToolKit

Funded by the Government of Norway and by IFC through IFC's Technical Assistance Trust Funds Program

In cooperation with the World Bank Group's SME Department, the Partnership is developing a pilot Internet portal that will provide new resources to help Ukrainian SMEs become creditworthy businesses and gain access to financing. The portal will offer online interactive learning tools for enterprises to improve their management and finance skills and will link SMEs to local business service providers, such as consulting firms and management training companies, and to financial service providers, such as banks, leasing companies, and investment firms.

SME Survey and Sectoral Analysis

Funded by the Government of Norway through IFC's Technical Assistance Trust Funds Program

To monitor the progress and gauge trends in the SME sector's development and identify the main obstacles, IFC has conducted annual surveys of the state of SMEs in Ukraine since 1996. The Partnership draws on the results of the surveys to work with the national government to help remove legal and administrative constraints to SME development. The Partnership is extending the methodology of the SME survey to analyze other sectors that have high growth potential. The survey of other sectors includes both an overview of the regulatory environment and a complete value chain analysis.

Planned Projects (as of May 31, 2002)

Belarus

Business Association Development Project

This project will further strengthen the capacity of local business associations to provide advice and consultation to their member businesses and improve their advocacy skills to promote reform of national policies and legislation affecting SME development. The project will link the associations with similar organizations operating in countries with more liberalized economies.

Farmers' Business Association Capacity Building Project

This project will build the capacity of Belarusian farmers' business associations to provide farmers and other rural SMEs with business support services and to improve the business-enabling environment.

Belarus Rural Enterprise and Agribusiness Development (BREAD) Project

This project aims to create business opportunities for the rural population affected by the disintegration of the state and collective farm system in Belarus by fostering the growth of small private businesses in rural areas. The project will train and advise the rural population on business skills and help them access financing.

Caucasus

Armenia

Armenia Technical Assistance Facility (ATAF)

To complement IFC investments in the Armenian financial sector, the ATAF will assist local SMEs to overcome obstacles to their business development and to become creditworthy clients of the Armenian SME Capital Risk Fund or other investors. The ATAF will also continue IFC's work to strengthen the leasing sector. The facility will work with the World Bank and the Armenian government to improve the regulatory, administrative, and economic policies affecting the SME sector.

Azerbaijan

Supply Chain Development Project

This project will assist local companies to strengthen their management and operations to enable them to become suppliers of goods and services to the oil and gas industry in Azerbaijan.

Leasing Development Program

The Partnership will draw on its leasing development program in other countries to build favorable conditions for the growth of the leasing industry in Azerbaijan. The project will begin by working with policymakers to improve the legal framework for leasing and strengthening the operations of the only leasing company in the country. The project will stimulate the growth of new leasing companies by training local banks on conducting leasing operations. The project will also educate potential leasing clients on leasing, its advantages, and its application.

Corporate Governance Project

The Partnership will build on its corporate governance experience in the region by offering training and information to Azerbaijani companies on sound corporate governance practices and compliance with local legislation. To improve the country's overall investment climate and the business-enabling environment, the program will work with policymakers to improve implementation of corporate governance regulation.

Georgia

Leasing Development Program

The Partnership will draw on its leasing development program in other countries to build favorable conditions for the growth of the leasing industry in Georgia. The project will train leasing companies, banks, and potential leasing clients. The Partnership will build on its cooperation with the policymakers, established during the work on the recently adopted leasing legislation, to continue to improve the sector's legal base.

Corporate Governance Program

The Partnership will build on its corporate governance experience in the region and offer training and information to Georgian companies on sound corporate governance practices and compliance with local legislation. The project will also work with universities to introduce relevant curriculum to law and business programs.

SME Survey

To identify key impediments to business development at both the company and country level, the Partnership will conduct a comprehensive national study of the SME sector in Georgia. The Partnership will draw on the results of the survey to work with local businesses and policymakers to reduce impediments to the sector's growth. This survey will be based on the methodology developed in Ukraine, where the annual SME survey has proven to be an effective instrument in improving the regulatory and administrative environment for SMEs.

Central Asia

Improving Microfinance Legislation

The project will build on IFC's previous work to develop draft legislation on Microfinance organizations in the Kyrgyz Republic. The project will work with local stakeholders and policymakers to advocate passage of the new law and develop similar legislation for Tajikistan and Uzbekistan. The project will also build the capacity of the central banks in each of the three countries to monitor Microfinance organizations in accordance with the new legislation.

Kazakhstan

Leasing Development Project

This project will be an extension of the Partnership's current Central Asia Leasing Development Project to include Kazakhstan.

Corporate Governance Development

The Partnership will build on its corporate governance experience in the region to provide training and information to Kazakh companies on sound corporate governance practices and compliance with local legislation. To improve the country's overall investment climate and the business-enabling environment, the program will work with policymakers to improve implementation of corporate governance regulation.

Tajikistan

Extension of the Farmer Ownership Model

This project will extend the Partnership's current Farmer Ownership Model Project to include other regions of Tajikistan and other segments of the agricultural sector.

Uzbekistan

Dairy Sector Supply Chain Development

This project will build Uzbek dairy farmers into reliable suppliers to dairy processors in Uzbekistan. The project will assist the farms to increase the quality and volume of produced milk through modern technologies in feed production, land and water use, herd management, and will help them access financing.

Moldova

Corporate Governance Development

Building on the Partnership's corporate governance experience in other countries, this project will train and advise companies on sound corporate governance practices, advise policymakers on improving corporate

regulations, and introduce corporate governance curriculum to local universities.

Mongolia

Leasing Development Project

The Partnership will draw on its leasing development expertise in other countries and build favorable conditions for the growth of the leasing industry in Mongolia in order to increase financing options available to local businesses. The project will work with policymakers to develop the legal framework for financial leasing in the country. The project will also train leasing companies, banks, and potential leasing clients on leasing operations.

Corporate Governance Program

The Partnership will build on its corporate governance work in other countries and train and advise Mongolian companies on sound corporate governance practices and compliance with local legislation. To improve the country's overall investment climate and the business-enabling environment, the program will work with the national government to improve and strengthen enforcement of corporate regulation.

Russia

Agro-industrial Finance Company

This project will support the creation of a financial intermediary – the Agro-industrial Finance Company (AFC) – that will finance suppliers to major food and agribusiness companies in Russia. AFC is expected to be financed jointly by IFC, Rabobank, and the Netherlands Development Finance Company. The project will include technical assistance to the new Company as well as to its clients.

Extension of Automotive Component Suppliers Project

The Partnership will extend its Automotive Component Suppliers Project to include additional Russian auto component suppliers. The project will work with Russian suppliers to improve their management and the quality of production

Corporate Governance Development – Regional Extension

This project is an extension of the current Corporate Governance Program in Russia. With additional donor funding the project will extend its work to other regions of Russia, such as Nizhny Novgorod.

Development of Russian Furniture Suppliers – TREE Facility

This project will facilitate the establishment of a financial intermediary – the Technology, Resource and Energy Efficiency Facility (TREE Facility) – to finance investments to upgrade Russian furniture manufacturers' production technologies. The project will work with the clients of the TREE Facility to help them introduce new production technologies, improve energy efficiency, and develop and market new products.

Developing Private Energy Efficiency Investments

To promote private investment in energy efficiency projects, the Partnership will assist potential investors to identify and structure energy efficient projects and will create a financial intermediary to finance the purchase of energy efficient technologies.

Leasing Development – Regional Extension

To stimulate the development of SMEs across Russia, this project will expand the Partnership's leasing development program to regions where SMEs' access to financing remains limited.

Support to Women Entrepreneurs in Northwest Russia

This project will assist an existing self-sustaining Business Incubator to expand its operations across the Northwest region of Russia. The project will also strengthen the leasing operations and financial management systems of a local microleasing company, affiliated with the Business Incubator. Both the incubator and microleasing company serve primarily woman-owned and managed businesses.

Information and Communications Technologies (ICT) Development in Russia

This project will assist Russian ICT companies to improve their competitiveness in global markets and will promote investment in the sector. The project will provide business support services for participating companies and will match Russian companies with foreign partners. The project may also evaluate the effectiveness of establishing business incubators in the technology sector.

Ukraine

Leasing Development Project

This project will continue to advocate for the passage of the Law on Leasing, drafted with significant IFC's participation and currently in the Ukrainian parliament. The project will train, consult, and provide specialized information on leasing know-how to local leasing companies and their clients, commercial banks, and government officials.

Completed Projects

Armenia

Corporate Governance Project (1999 – 2001)

Funded by the Agency of the Dutch Ministry of Economic Affairs (Senter) through IFC's Technical Assistance Trust Funds Program

To improve the corporate governance practices of Armenian companies, the project trained and advised over 80 percent of the country's active joint stock companies and individually consulted over 50 enterprises on internationally accepted corporate governance practices and compliance with local legislation. To improve the country's overall investment climate, the project worked with the national government to draft and pass amendments to the Law on Joint Stock Companies and the Law on Limited Liability Companies. The project also developed a corporate governance course for the School of Law at Yerevan State University. To educate the public about their rights as shareholders and the work of modern corporations, the project trained journalists across the country on the concepts of corporate governance and organized public education campaigns through its own specialized publications.

Ukraine

Corporate Governance Project (1997 – 2002)

Funded by the Canadian International Development Agency (CIDA) and, through IFC's Technical Assistance Trust Funds Program, by the British Know-How Fund (BKHF), the Agency of the Dutch Ministry of Economic Affairs (Senter), and the Government of Japan

To improve the investment climate in Ukraine, the project worked directly with newly-privatized medium and large enterprises training about 13 percent of Ukraine's active corporations, providing over 5,000 consultations, and advising 67 pilot enterprises on sound corporate governance practices.

To improve corporate governance regulations, the project contributed to six pieces of legislation regulating a number of corporate matters from issuing securities to holding a general shareholders' meeting.

To ensure that future managers in Ukraine are aware of the importance of good governance and have the skills to practice it, the project trained more than 300 professors and introduced corporate governance topics into curricular of 23 universities, which now teach 3,500 students a year about corporate governance.

Business Development Project (1994 – 2001)

Funded by the British Know-How Fund (BKHF) and United States Agency for International Development (USAID)

The Ukraine Business Development Project created 11 self-sustaining consulting centers throughout Ukraine. These centers, united into the Ukraine Consulting Network (UCN), advise local SMEs on the full spectrum of modern business consulting services, including business planning, management practices, marketing, partner search, and the use of new information technologies. Under IFC's guidance these centers served over 15,500 companies on a fee-for-service basis and helped their clients mobilize \$16 million in financing for equipment, working capital, or to fund construction projects. After the Partnership completed the project in May 2001, ten of these business centers continue to operate on a sustainable basis consulting and training about 3,000 companies each year.

UCN, with IFC's support and in coordination with the World Bank and the IMF, has helped to introduce 26 pieces of legislation that have lowered the number of government inspections of SMEs from an average of 76 to 14 per year, reduced the number of business activities requiring licensing from more than 100 to 64, and drastically simplified business registration procedures. The project also analyzed Ukraine's legal base for leasing and took the lead in drafting a new Law on Leasing, which recently passed in a second reading (out of three) in the Parliament.

Unfinished Construction Site Divestiture Project (1999 – 2001)

Funded by the United States Agency for International Development (USAID)

Drawing on the experience of the USAID-IFC Small Scale Privatization Project in Ukraine (1993-1999), IFC extended its auction-based model to privatizing unfinished construction sites and turning them into new businesses. Today, more than 12,000 unfinished construction sites have been privatized across Ukraine. These newly created businesses, mostly SMEs, employ 62,600 people, including 21,312 women; pay a total of about \$33 million in wages annually; and contributed about \$25 million to local budgets in 2000.

To solidify the legal framework and institutionalize the process of privatizing unfinished construction sites, the project advocated for the Law on Specific Features of Unfinished Construction Site Privatization passed in September 2000. IFC completed the project in May 2001 after it transferred the privatization know-how to local state property funds.

IFC transferred the know-how of privatizing unfinished construction sites to Armenia, Belarus, Georgia, Vietnam, and the Kyrgyz Republic.

Acronyms

BKHF – British Know-How Fund

CIDA – Canadian International Development Agency

DFID – Department for Foreign International Development, the United Kingdom

IFC – International Finance Corporation

IMF – International Monetary Fund

MEA – Ministry of Economic Affairs (The Netherlands)

seco – State Secretariat for Economic Affairs of Switzerland

Senter – Agency of the Dutch Ministry of Economic Affairs

Sida – Swedish International Development Cooperation Agency

SME – small and medium-sized enterprise

TATF – IFC's Technical Assistance Trust Funds Program

USAID – United States Agency for International Development

USTDA – United States Trade and Development Agency

WBG – World Bank Group

Photo credits

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