



# THE Partnership PERSPECTIVE

FALL/WINTER 2006

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

### Who We Are

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

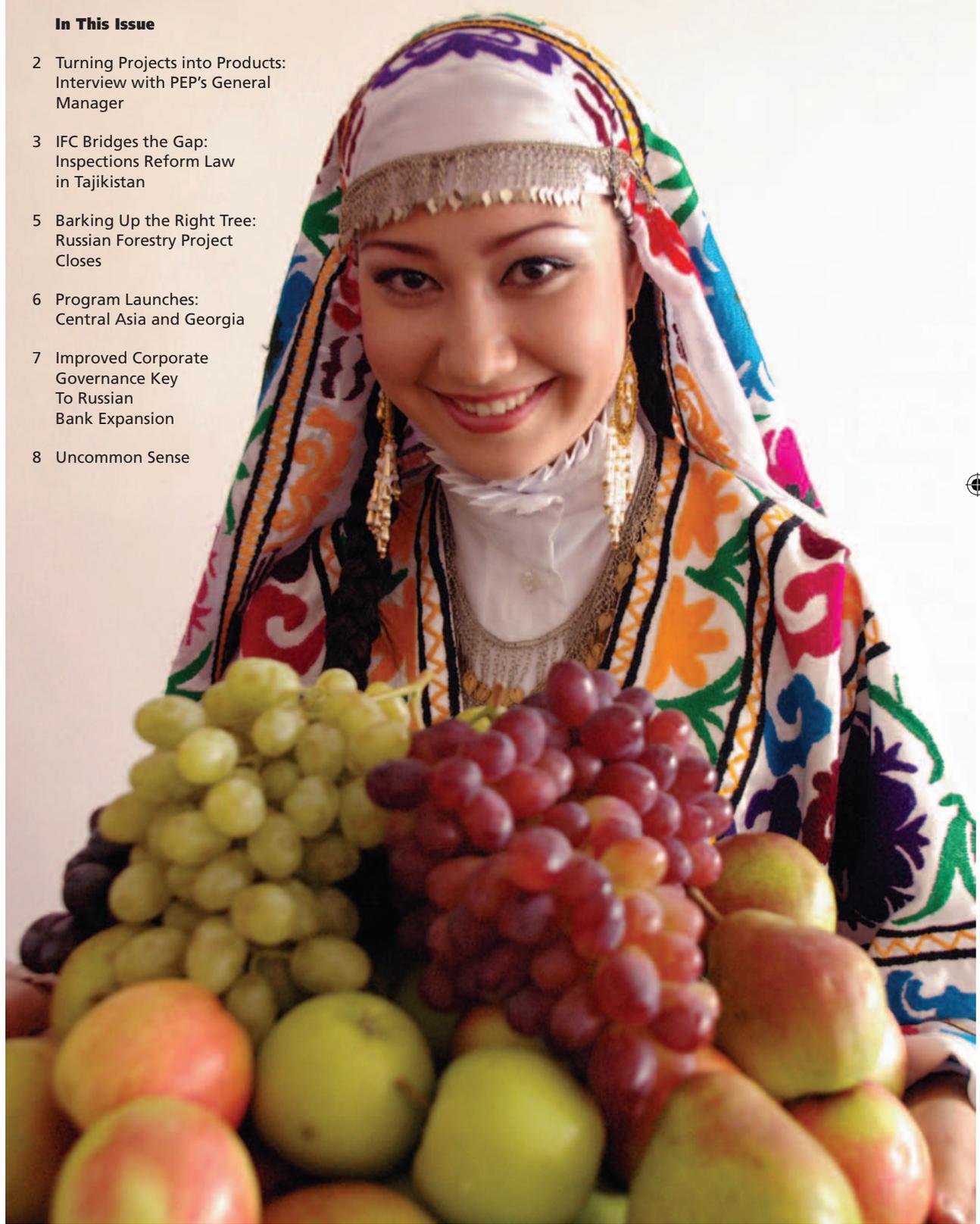
- Attract private direct investment to all areas of the economies,
- Stimulate the growth of small and medium-sized enterprises, and
- Improve the business enabling environment.

Countries we serve:  
Azerbaijan  
Belarus  
Georgia  
Kazakhstan  
Kyrgyz Republic  
Russia  
Tajikistan  
Ukraine  
Uzbekistan

We thank our donor partners for making our programs possible.

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# Turning Projects into Products



**Looking ahead**  
with PEP's  
new General  
Manager.

**Tania Lozansky** has been with IFC's Private Enterprise Partnership (PEP) since its launch in 2000. As a Senior Operations Manager for the Business Enabling Environment and Energy Efficiency business lines, she developed, launched and oversaw a number of projects from streamlining the inspections process for small businesses in Central Asia to promoting sustainable energy finance in Russia. Prior to joining IFC, she worked as a management consultant at the Boston Consulting Group, focusing on its European clients. A native of Russia, she emigrated to the US at the age of 11 and holds a BA from Brown University and an MBA from Stanford's Graduate School of Business. She was appointed PEP General Manager in September 2006.

We sit down to discuss some of her thoughts about the organization and her vision going forward.

### The main strengths of PEP

PEP continues to be on the cutting edge of innovation in developing technical assistance programs that have a positive and measurable impact on private sector development in our region. Among our main strengths is our ability to continue rein-

venting ourselves in response to opportunities in the marketplace in a flexible and cost effective manner. PEP's funding model allows us to leverage IFC's ongoing contribution to a core management team with the capacity to launch targeted initiatives to address specific market issues with support from our partners. Our partners appreciate this model as it allows them to better align their strategic interests with IFC comparative advantages.

The other key strength of PEP is that we now have a history of real development impact in the region. Since PEP started in 2000, we have accomplished much that we are proud of: Our programs have directly enabled over \$1 billion in new investment in our countries from both foreign and local sources. We have contributed to the creation of almost 150 new companies and over 30,000 new jobs. And we've successfully amended or passed 159 new legislative acts in the region streamlining the business enabling environment.

PEP programs are successful because of our focus on implementation. This is achieved through having largely local project teams who work together with our project counterparts to address a specific issue.

### Building on PEP's history of accomplishments

Continuing to be successful involves moving away from engaging in one-off initiatives and instead focusing on developing effective technical assistance products and product lines that leverage the unique features of IFC as an international financial institution. Once we have done something two or three times, achieved results, learned lessons and adjusted

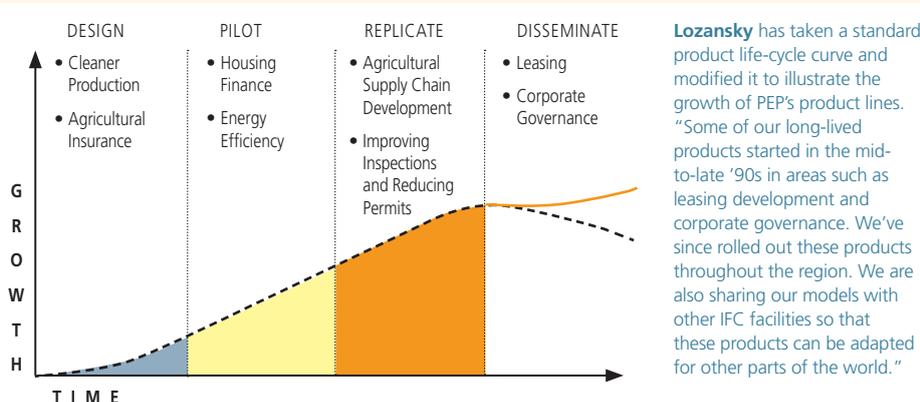
the delivery model to maximize development impact, we can be fairly certain that a real "product" has been developed.

Housing finance is a good example of one of PEP's new technical assistance products, as the industry is still in a nascent stage of development in our region. It is also well aligned with our strengths as an international financial institution. Even in a country like Russia, there are regulatory and institutional barriers that prevent this financial instrument from taking off. PEP's Russia Primary Mortgage Market Development Program, with funding from the Swiss State Secretariat for Economic Affairs (SECO), the Dutch Agency for International Business and Cooperation (EVP) and IFC has adopted a comprehensive and participatory approach to addressing some of the key barriers. PEP is now in the process of designing and rolling out similar housing finance programs in Central Asia, Ukraine and the Caucasus. In each of the countries, once the regulatory and institutional barriers are addressed, IFC investment professionals can offer housing finance credit lines to local financial institutions.

As we roll out the more mature products, our challenge is to continue designing and testing new ideas that will both have a meaningful impact on private sector development in our region and become new products for IFC. Some of the new initiatives we are currently developing are in the area of cleaner production and insurance. Promoting cleaner production is an opportunity to address a major issue in the region due to the Soviet legacy of environmental neglect. We are also soon launching an agricultural insurance reform program in Ukraine and will work with key regulatory, institutional and commercial partners to provide much needed reforms in this sector.

### Measuring impact and sharing lessons

The basis for every project we undertake is meaningful and measurable development impact. PEP considers monitoring and evaluation an essential component of our work, and for the past four years we have had in place a good system that has enabled





us to track and attribute results across all our projects. We will continue to improve this. To me this also comes back to why a product focus is so essential to technical assistance. If you've tried a menu of tools in various circumstances, you can be more certain about what your target results should be in the given environment.

We will also pay more attention to knowledge management. PEP has just created a new position of Knowledge Management Officer, whose responsibility is to drive the process of continuous learning across our organization as well as spearhead select analytical efforts.

### PEP's relationship with its donor partners

Since September I have already had a chance to meet many of our donor partners and discuss our plans for the next 2-3 years. It is encouraging to see many new opportunities for us to continue working together towards common strategic objectives in this region. In the coming months, I look forward to meeting all our partners who share a strategic focus on the development of the private sector in Eastern Europe and Central Asia. ■

### PEP RESULTS MEASURED ACCORDING TO MISSION (July 2000 – June 2006)

#### Increasing Investment

Investment/financing enabled \$ 1,014 mln  
New businesses created 147

#### Strengthening Private Sector

Clients reached with training/consultations 18,948  
Clients reporting improvements in operations 2,246  
New jobs created 30,925

#### Improving Business Enabling Environment

Legislative acts drafted/amendments proposed 316  
Legislative acts adopted 159



## IFC Bridges the Gap

**Tajikistan's** new inspections law was drafted with the help of small business owners and inspection agencies.

### Inspections at a Glance

	Average number of inspections per business per year	Total days spent on inspections per year per inspected firm	Share of inspected firms openly admitting unofficial payments
Belarus	15	24	7%
<b>Tajikistan</b>	<b>13</b>	<b>7</b>	<b>54%</b>
Ukraine	9	13	21%
Uzbekistan	1	3	22%
Georgia	1	8	4%

All data IFC SME surveys, 2006 except Ukraine, 2005.

Malika Kalandarova is a small-business owner in Dushanbe. Since opening up her mini-market in the Tajik capital a year ago, she has experienced numerous inspections from various authorities. Almost all inspections ended with unofficial payments, for, as she says herself: "It was easier for me just to pay, because of my own lack of legal knowledge... None of the inspectors provided me with information about the inspection procedure or my rights."

In Tajikistan, Malika Kalandarova's story is not unusual. Entrepreneurs averaged over a dozen inspections in 2005, costing them around 7 business days and an estimated \$154 (or 9% of annual profits) in fines and unofficial payments. Sectoral laws gave sweeping rights and powers to inspecting bodies, who often conducted inspections of the same business multiple times a year. The lack of a unified inspection law meant that each inspection (for fire, sanitary-epidemiologic, etc.) could have different rules. Entrepreneurs, therefore, had no idea what to expect from an inspection, or even which authorities were allowed to conduct them. "In

practice, it was impossible to fulfill most of the requirements,” said Muslima, the owner of a small hairdressing salon in Dushanbe.

To reform the inspection practice, IFC’s Tajikistan SME Policy Project, funded by the Swiss Secretariat for Economic Affairs (SECO), took a participatory approach from the start. The project team organized a series of round table discussions among entrepreneurs, business associations, inspecting agencies, government officials and donors, giving a platform for all stakeholders to voice their views about the inspection process. The dialogue resulted in widespread agreement on the need for reform, and defined the key areas to be addressed.

The project team combined this bottom-up approach with a top-down one, helping the World Bank include inspections reform conditionality in its loan to the Tajik government.

The result? A new law on inspections. This participatory approach takes longer in the beginning, “but we minimized the opposition later in the process,” says IFC’s Florentin Blanc.

The new inspection law limits the frequency

## IFC Signs MOU with the Government of Tajikistan

On November 14, Prime Minister of Tajikistan, Akil Akilov, signed a Memorandum of Understanding with IFC aimed at improving the regulatory environment for Tajikistan’s SMEs. “With the signing of this memorandum we confirm our government’s commitment to working with IFC to support the growth of small and medium enterprises in Tajikistan,” said Prime Minister Akilov.

“Continued improvements in private sector development in Tajikistan are a top priority for the government of Switzerland,” according to Irene Leibundgut, program manager for SECO. “The signing of this memorandum will improve the regulatory environment for Tajikistan’s SMEs...I am very impressed by the Tajik government’s commitment to this objective.”



IFC’s Antoine Courcelle Labrousse (left) with Prime Minister Akil Akilov (right).



and duration of inspections based on the risk a firm’s activities pose to public health, safety, and the environment. It establishes an official list of inspecting bodies and requires inspectorates to create and abide by checklists, which will be distributed to the public through the official sources. The Inspections Registration Book (IRB) is another powerful tool to keep the inspections under control by the entrepreneurs themselves. It will allow entrepreneurs to comply with requirements and prevent violations by providing advance notice of inspections and a clear record of inspection activities.

In July 2006, the Inspections Law and proposed amendments to the Tax Code were adopted by Parliament and signed into force by the President.

### Sample of Working Group Participants

#### Government agencies

- Executive Office of the President, Economic Reforms Department
- General Prosecutor Office
- State Sanitary-Epidemiological Inspection
- Medicine and Equipment Production Department, Ministry of Health
- Agency of Standardization, Metrology, Certification and Trade Inspection

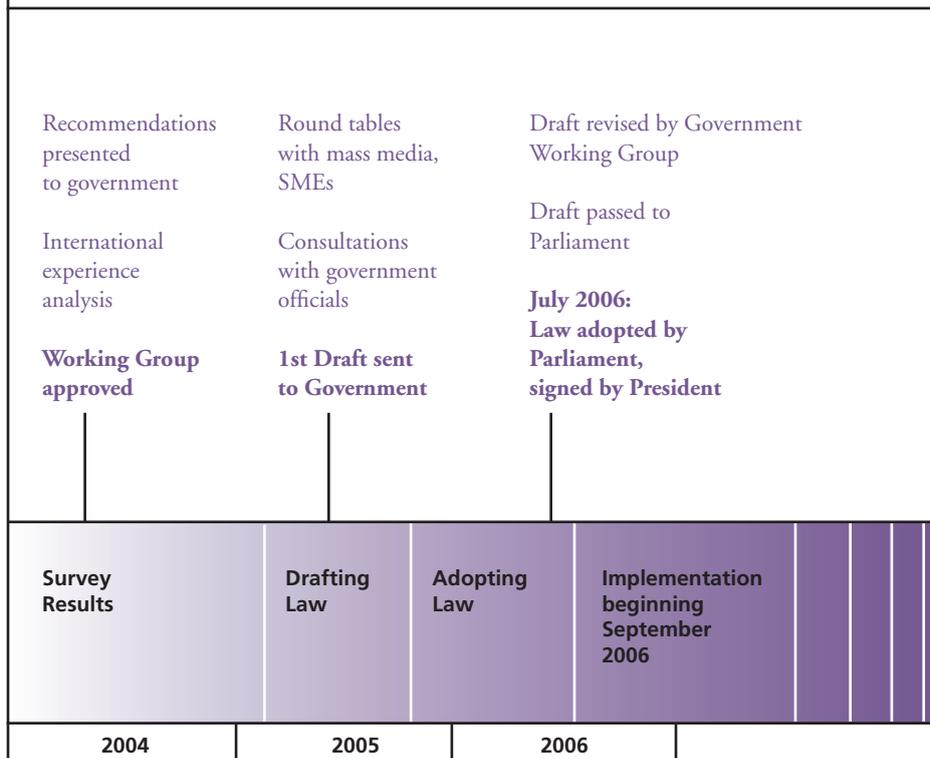
#### Organizations representing SME interests

- National SME Association of Tajikistan
- Centre for Entrepreneurship Support and Development of the City of Dushanbe

#### Mass media

- News Agency *Hovar*
- *Businessman* newspaper
- BBC

### Inspections Law: From Idea To Implementation





## Barking up the Right Tree

**IFC's Northwest Russia Forestry** project comes to a close after 5½ years.

The challenge for IFC's Tajikistan SME Policy Project now is to address the new law's implementation. "The approval of the law is necessarily only the first step of the change process," says project manager Andrea Dall'Olio. "It is crucial now to make sure to implement it into key inspectorates' working practices." IFC is coordinating a working group to address the key issues, and launched an information campaign to raise awareness of officials, entrepreneurs and media on key provision of the law. The project has already succeeded in signing a Memorandum of Understanding with the Tajik government, outlining a strategy for collaboration between the government and IFC to 1) improve legislation that regulates SME activities, 2) engage state agencies in the development of best practices and training modules for state employees, and 3) provide ongoing information to entrepreneurs and the general public about legislative changes that impact business activities of SMEs.

Malika Kalandarova responded to the announcement of the law enthusiastically. "The unofficial payments which unfortunately became standard practice will disappear from my financial plan." 🇷🇺



UPM-Kymmene's \$62 million investment in the Pestovo Sawmill has strengthened development of the forestry sector in Northwest Russia.

After five and a half years and \$380 million in investments in Northwest Russia, IFC's NW Russia Forest Investment Project has come to a close.

The region of Northwest Russia, with a forest area of 80 million hectares, has an abundant supply of raw wood and provides a natural source of material for Finland's forestry sector. However, the region was also underutilized, with yearly harvests nowhere near their potentials. Unfamiliar with the post-Soviet climate, the major Finnish forestry companies had been hesitant to invest in the region, and thus sought out the help of IFC.

The project, initially funded by Finland's Ministries for Foreign Affairs and Trade and Industry, hoped to support Finnish partners investing in the forestry sector of NW Russia. By match-making relationships between investors and Russian companies, and providing on-site support and advice, the project aimed to generate more than \$50 million dollars in investment.

At the project's close, it has driven more than \$220 million in investment, with an additional \$160 million planned until 2010. The success of the project can be seen in the commitment that its Finnish partners have shown: at its last phase, the NW Russia Forest Investment Project was funded entirely by the forestry companies.

With the conclusion of IFC's project, investors will have a solid basis for furthering relationships in the region. Metsa-Botnia has committed to the construction of a \$60-\$70 million sawmill, while Koskitiukka Oy has begun plans for a birch processing mill estimated at \$45 million. "It is apparent that IFC has provided the catalyst for development that was needed," says Ian Luyt, IFC's Senior Operations Manager in charge of the Agribusiness and Forestry Products technical assistance. 🇫🇮

### Highlights of the New Law

- Limits frequency and duration of inspections
- Limits grounds for 'unplanned' inspections to officially proclaimed emergencies or specific technical issues for tax
- Requires inspectorates to plan their inspections based on risk, prepare annual plans and checklists of inspections and send advance notice of inspections to entrepreneurs
- Gives entrepreneurs the right to refuse access to documentation irrelevant to the topic of the inspection
- Establishes an official list of inspecting bodies
- Forbids inspectors to issue sanctions themselves
- Gives entrepreneurs the right to refuse an inspection if any of the conditions are not met

### Finnish Partners

Koskitiukka Oy  
 Oy Metsa-Botnia Ab  
 Stora Enso Oyj  
 Stromsdal Oyj  
 Thomesto Oy/Metsälitto Cooperative  
 UPM-Kymmene Oyj

### Project Facts

Launched: 2001  
 Extended through 4 stages  
 Initial targeted investment: \$50 million  
 Actual investment: \$220 million  
 Planned investments: \$160 million

“We are glad that {now} Kazakhstan has access to worldwide experience in corporate governance. With Kazakhstan’s pending admittance to the WTO and transfer to the international business development standards, investment climate and stock market advancement largely depend upon the level of corporate governance in the operations of local companies.”

**SERIK AHANOV,**

Head of the Association of  
Financiers of Kazakhstan

“Given Kazakhstan’s rapidly growing economy and the expanding need for additional sources of financing by local companies, an expansion of IFC’s corporate governance program to Kazakhstan is a logical step for IFC, to fulfill its development role. We feel that the time is right for this project in Kazakhstan and we are confident that it will have a positive impact for Kazakhstan’s investment climate.”

**MOTRIA ONYSCHUK-MOROZOV,**

Senior Operations Manager



GEORGIA

## Improving Corporate Governance Practices in Georgia

Building on the successful completion of its first phase, the IFC Georgia Corporate Governance Project launched the second phase of its work.

The goal of this three-year project is to improve the corporate governance practices of Georgian companies and banks, helping them operate more effectively and facilitating easier access to capital.

IFC already has two years of experience working on corporate governance in Georgia under the auspices of the Georgia Business Development Project. From 2003-2005 IFC’s corporate governance team assisted over 400 joint stock companies in improving their corporate governance practices, and developed rules and financial reporting forms that were adopted by the National Securities Commission.

Despite these improvements, results of the *Doing Business 2007* survey (joint IFC-WB research) showed that investor protection legislation in Georgia needs further improvement.

The project plans to work closely with companies and the government to improve investor protection legislation and help companies implement best international corporate governance practices; work with the government to improve the legislative framework regulating corporate governance in Georgia; and increase general public awareness of corporate governance issues. The Georgia Corporate Governance Project is funded by the Canadian International Development Agency (CIDA). 

# IFC Expands its Corporate Governance Program to Central Asia

**Kazakhstan** is often seen as the leading reformer in Central Asia, with a booming economy that attracts large amounts of foreign direct investment. However, this disguises the fact that significant barriers to a healthy investment climate still remain. The vast majority of this investment has been in the oil and gas sector, resulting in under-investment elsewhere. Consequently, a key government priority is to diversify the economy and reduce dependence on extractive sectors.



However, lack of adequate corporate governance in Kazakhstan and other Central Asian countries is a serious stumbling block to the region’s economic growth. Investment capital is greatly needed, yet investors are concerned about the high level of corruption and lack of transparency in financial and ownership information.

To strengthen corporate governance practices of Central Asian joint stock companies and attract investment, IFC has initiated a three-year Central Asia Corporate Governance Project. In October 2006, the project was launched in Kazakhstan and will be extended into Tajikistan and Kyrgyzstan.

Through seminars, consultations and workshops the project will work directly with joint stock companies to improve their corporate governance practices. It will also provide tailored technical assistance to a limited number of companies and banks.

The project will consult the government on addressing inconsistencies and weaknesses in the local legislation, train and advise educational institutions on developing corporate governance-related curriculum, and work with general public to raise awareness about corporate governance issues.

The project builds upon IFC’s extensive experience in implementing corporate governance advisory projects in Azerbaijan, Georgia, Russia and Ukraine.



## Improved Corporate Governance Key to Russian Bank Expansion

**LOCKO-Bank** sought out IFC's expertise to improve its corporate governance and gain better access to finance.



Vice Chair of the LOCKO-Bank Board, Andrei Kulikov, meets with bank colleagues.

LOCKO-Bank is a privately owned, commercial medium-sized Russian bank founded in Moscow in 1994. In 2003, the bank began to focus on lending to small and medium businesses, launching a "Business Credit" program and opening a Moscow branch dedicated to SME lending. But in order to grow and expand its services, LOCKO-Bank needed to attract investors. The bank's management realized that implementing sound corporate governance practices were necessary to achieve this goal. LOCKO-Bank sought out the expertise of IFC's Russia Banking Sector Corporate Governance Project ([www.ifc.org/rbcg](http://www.ifc.org/rbcg)), and began to work with the project on improving transparency and internal control.

Since December 2004, IFC has worked with Russian banks to improve their corporate governance standards in line with international best practices. IFC's project experts focused on the LOCKO-Bank's Charter, various by-laws (e.g. the Executive Board) and its annual report. While the bank met standard legislative requirements, some of its documents required further improvement in order to meet international standards. IFC gave the bank recommendations on how to improve its public disclosure policy, solidify the position of its Board of Directors and clarify procedures for shareholders' meetings. LOCKO-Bank followed these closely and, after a thorough due diligence process, met IFC's own criteria for investment: the Corporation awarded the bank an \$11 million loan in April 2006 and opened up a \$5 million guaranteed credit line to finance the bank's international foreign trade operations.

Since working with IFC's technical assistance team, LOCKO-Bank has attracted additional outside investors and expanded its network of branches throughout Russia from 3 to 9. The bank plans to open 5 more branches in 2007. LOCKO-Bank has been able to develop its own SME lending programs, giving more small and medium-sized businesses access to longer-term loans and wider credit services.

The successful initial co-operation between LOCKO-Bank and IFC has developed into a more profound relationship: IFC became a shareholder in LOCKO-Bank in 2006. Mikhail Pavlov, Deputy Chairman of LOCKO-Bank, attributes the improvement of the bank's corporate governance standards to its participation in IFC's technical assistance project. "As the result of our collaboration with IFC," he says, "the level of corporate governance has increased substantially...bank managers are currently continuing corporate governance improvement work set forth by the IFC project."

## LOCKO-Bank Provides Loan to a Family Business

Alexander Gavrilyuk and his wife Tatiana are co-founders of a company in Moscow that operates three designer apparel and children's wear stores. The Gavrilyuks' relationship with LOCKO-Bank began in October 2004, when the couple took out their first loan to help purchase office equipment.

During the past two years, the couple has expanded their business through additional loans with LOCKO-Bank, increasing profits fivefold. Plans are currently underway to open a fourth store. The bank's favorable interest rates and high level of customer service have made borrowing an attractive option for business owners like the Gavrilyuks.

"We never had enough resources for developing our business," Tatiana says. "The bank's credits allowed us to run it more effectively."

### A Broader View

LOCKO-Bank is of one of 21 credit organizations the Russia Banking Sector Corporate Governance Project has worked closely with. The Project has created role models like LOCKO-Bank for other Russian banks, encouraging them to expand their private sector lending activities and focus on improving corporate governance systems and practices.

Since summer 2004, the project has assisted Russian banks in improving their corporate governance practices by:

- conducting 22 specialized seminars for 914 bankers and providing 86 individual consultations for 21 banks;
- recommending revisions of 189 internal documents (e.g. Charter, by-laws);
- participating in drafting and commenting on the Central Bank of Russia's corporate governance regulations;
- advising the Ministry of Economic Development and Trade on new legislation on Related Party transactions, Squeeze-Out Law, and Registrars.

The Russia Banking Sector Corporate Governance Project is funded by the Swiss State Secretariat for Economic Affairs (SECO).



**Introducing**...a new regular feature that will focus on innovative approaches to advisory services developed at IFC's Private Enterprise Partnership.

## Uncommon Sense

**Ten or 15 years ago**, IFC delivered advisory services through specialist consultants. Experts in a particular field would fly in to a country to advise governments on attracting investment or to advise select companies on increasing operational efficiency. This approach had the benefit of attracting top-notch experts to provide advice that local stakeholders would otherwise have been unable to afford or attract. But over the years, IFC has developed another way of providing advisory services.

IFC's Private Enterprise Partnership staffs projects chiefly with local professionals, who are based in-country, full time. Over time, we have discovered many advantages to staffing up technical assistance locally. Local staffing equips projects with expert country knowledge, an understanding of the local audience, the ability to react quickly to changing conditions and leads to greater sustainability. While specialists still provide expertise on an as-needed basis, the focus is placed on implementing a project through staff based on the ground.

First, local professionals understand the language. This means that not only do they communicate with counterparts in a particular language, but they also know how to structure the message, positioning information to make it

accessible and acceptable to a local audience. Comprehension leads to an increased likelihood of implementation of recommendations.

Second, local professionals can tailor best practices to country context. This makes for recommendations that are a good match with client needs and country practices. Local staff also know who to contact in order to get attention. All of this leads to advice that stakeholders perceive to be realistic and feasible, and are therefore more likely to take seriously.

Third, local professionals are available for comment. Based in-country, all the time, local teams can swiftly react to changing circumstances, and provide expertise when required by the client. This level of responsiveness is simply not possible with fly-in fly-out consultants.

Building a long-term presence in a country, by creating a local implementation team, has another important consequence: sustainable change. Projects with a constant field presence shift the focus of an intervention, away from the process of providing advice and onto hands-on support in implementation. Fly-in consultants can still tell you what to change. Locally-based project teams are there to provide daily assistance in changing it. ■



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