IFC International Finance Corporation World Bank Group

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ADVISORY SERVICES IN EASTERN EUROPE AND CENTRAL ASIA

THE Partnership PERSPECTIVE

SPRING 2008

IFC, a member of the World Bank Group, 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 Advisory Services in Eastern Europe and Central Asia works to develop strong, self-sustaining economies that serve all levels of society. Together with our donor partners, we assist private companies and governments to:

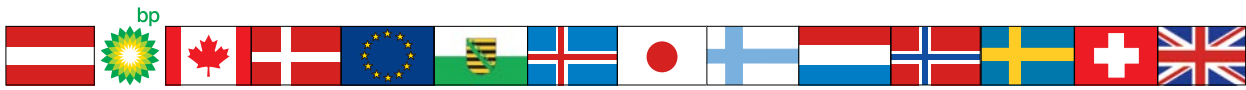
- Attract private direct investment to all areas of the economies,
- Stimulate the growth of small and medium-sized enterprises, and
- Improve the business enabling environment.

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

We thank our donor partners for making our programs possible.

In This Issue

The World Bank Group often works in countries that are viewed as "difficult" from the outside. There is limited access to reliable information about these countries; governments do not have a history of cooperating with international organizations and often very little incentive to do so; what reforms are made are often ignored by the Western media and international community. CONTINUED ON PAGE 4



IEG Launch

Independent evaluation provides IFC with a chance to bring donors to the table

The Independent Evaluation Group (IEG) of the World Bank Group was formed to provide an objective view of the results of the organization. Reporting directly to the Board of Directors and the Committee of Development Effectiveness (CODE), IEG is part of the World Bank Group but independent from its management. As Evaluation Officer Kelly Andrews Johnson says, "We provide a view that is informed about the organization but is not influenced by management or operational staff."

Adds IEG-IFC's Director, Marvin Taylor-Dorman, "I think IEG strengthens objectivity in reporting and analyzing resources, and it also strengthens the accountability of the institution as well as learning."

IEG-IFC recently reviewed 44 projects completed by 2005 that were implemented by IFC Advisory Services in Eastern Europe and Central Asia. The study found that certain aspects of the program model helped it to achieve good results, such as its focus on sectorwide, rather than transaction-specific, projects. Other factors contributed to a good success rate, such as developing replicable "products"; a long-term presence on the ground; and reliance on local expertise. The report also found shortcomings in the model, such as inefficiencies in the funding mechanism, difficulties in retaining high-quality staff, and insufficient adaptation of products to specific country needs.

In mid-February, donor representatives from Austria, BP, Canada, Finland, the Netherlands, Sweden, and Switzerland traveled to Ukraine to attend the presentation of IEG-IFC's evaluation.

The occasion was remarkable for two reasons: it was the first launch of an IEG report in the field, and the first time donor partners were invited to attend and comment on such an evaluation. Donor partners took the opportunity to engage in serious discussion with IEG and IFC's management about IFC Advisory Services.

Interview with IEG

The IEG report finds that "sectorwide initiatives achieved higher development effectiveness and wider impacts than interventions designed to facilitate specific IFC investments." In your own words, what does this mean for IFC when designing advisory services projects?

Kelly: I think it's important to strategically understand where you want to go with your investment and advisory tools, and emphasizing longer-term strategies that really address the development needs of a country.

It's really critical going forward to carve out strategies that really develop the sectors and markets versus being linked to investments and stopping there.

Kelly Andrews Johnson, the report's lead author, and IEG-IFC's director Marvin Taylor-Dorman

What were some of the other takeaways from the evaluation?

Marvin: The report highlights the importance of understanding the local conditions, and adapting the interventions to the strategic needs of the country and client. Global expertise allows for the transfer of knowledge from other parts of the world, but local expertise and staff is crucial for adapting to country conditions and understanding the context.

Kelly: An example of this is through the BEE work in Belarus. The Belarus project had a first-rate lawyer who knew the insides and details of the legal system. There's a lot of credibility that comes with this knowledge, and everyone knows and respects this person. It opens doors.

Marvin: The report also shows how important it is to continue developing a strong monitoring and evaluation system that will allow us to come up with these lessons and recommendations to improve and understand this program. [IFC] Management understands very well the challenges. The creation of a vice president for advisory services shows how important this line of business is for the institution.

Although many felt that IFC could be seen as a model for implementing advisory services work, they echoed IEG's concern for the difficulties in retaining high-quality staff. There was an overwhelming support for funding sector-wide projects, unique among other international financial institutions. Implementation of longer-term projects, a recommendation set forth by IEG, was also one of the things many donors felt could be supported in future.

Managing donor relations is a priority for IFC in ECA, which has received more than $80 million in donor funding since 2001. Inviting donor partners to the IEG launch proved to be an effective way to continue and strengthen the dialogue between donors and IFC.

"This regional meeting is very useful," said Mike Timmermans, from the Netherlands Ministry of Economic Affairs. "The independent evaluation … has provided a number of important topics for consideration. I think all of the donor countries represented here today have a keen interest in these issues, and I would like to thank IFC for organizing a forum that has enabled us to have a frank discussion on these topics as a group."

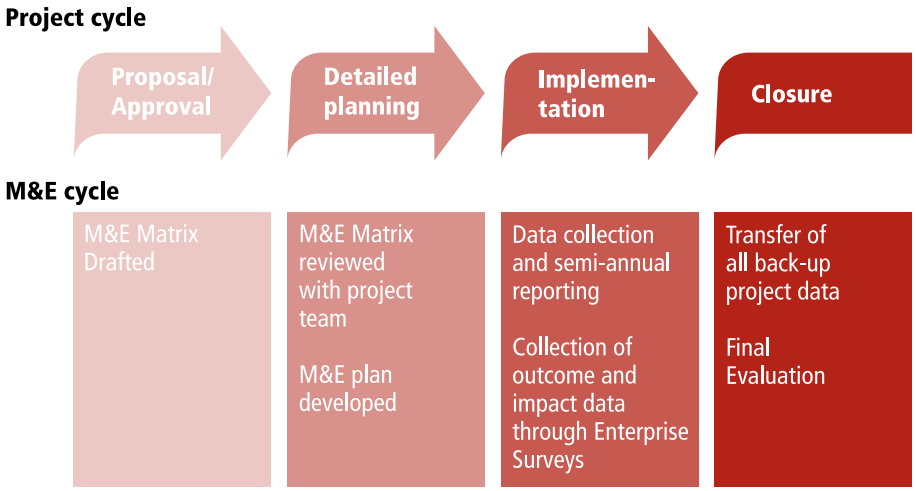
Read the full IEG report at: http://www.ifc.org/ieg/pep-eca

Results measurement

In addition to the Independent Evaluation Group, IFC also has a strong internal function that assesses results, with a unit based in Washington, D.C., and monitoring and evaluation (M&E) specialists in each regional facility. Project monitoring involves tracking data throughout the life of the project cycle, beginning with baselines at the proposal stage, and ending with a final evaluation at project completion.

In the ECA region, Sanwaree Sethi is IFC's monitoring and evaluation (M&E) specialist. Sanwaree works closely with Senior Operations Managers to design M&E matrices and with project teams to ensure that reporting accurately reflects project achievements. "Ideally the M&E frameworks we develop allow us not only to report effectively to donors and IFC management, but also add value for project staff to gauge their results with clients," she says.

Monitoring and evaluation works throughout the project cycle



Did you know . . . IFC works to integrate gender equality into its operations

With women representing 25-35% of registered businesses worldwide, IFC is working globally to support the participation of both men and women in business. Worldwide, the Gender Entrepreneurship Market (GEM) Program aims to mainstream gender issues into IFC's work, while helping to better leverage the untapped potential of entrepreneurs of both sexes in emerging markets. In multiple business areas, the GEM program works to integrate gender into IFC's existing projects: helping women gain access to finance through targeted credit lines, analyzing the business environment for women entrepreneurs, and integrating women into the supply chain of large companies.

In Eastern Europe and Central Asia, we've hired Andrina Lever, a private sector specialist with a strong gender background, to help each of our projects examine their activities through a gender lens. Although Soviet society prided itself on being a leader in gender equality, the collapse of the Soviet Union meant the end of the support systems that families relied on, such as universal healthcare and universal child care. Both men and women now struggle to find suitable employment opportunities. IFC is working to put gender equality back on the agenda. Several projects have already appointed gender champions, and each is working on a focused gender strategy in the coming months. "It's just about getting people to think outside the box," says Lever, who has worked on gender issues for 30 years.

World Bank Group Helps to Bring Reform in Difficult Countries

IFC and **Doing Business** have spurred reform in countries such as Belarus and Uzbekistan

World Bank/IFC joint presentation of *Doing Business-2008* data for Uzbekistan

CONTINUED FROM COVER

Yet in many of these countries, there is a substantial and reasonably independent private sector, and many reform-minded officials in the government ranks. In difficult countries, IFC's private-sector focus and *Doing Business'* global business climate rankings have been instrumental to fostering reform at the national level.

Highlighting changes in Belarus and Uzbekistan

The government of Belarus, for example, has been working closely with the Sida-funded IFC Belarus Business Enabling Environment (BEE) Project to enact reforms in business registration. With the project's help, the government issued two Presidential Decrees that will save the SME sector $9.8 million a year in direct costs and lost profits.

Previously, there were few officials willing to contribute to the *Doing Business* report, and very little incentive for them to fill out the questionnaires – the international press rarely reported positive news about Belarus anyway. However, these key reforms presented a good opportunity for the World Bank Group to recognize the efforts of the government. With the IFC project as constant partners on the ground, highlighting key reforms to the *Doing Business* team, Belarus was rated among the top 10 reformers in business registration in the 2008 report. Conscious of the fact that the report is widely distributed, read and discussed, the Belarusian government has now embarked on a campaign to implement further reforms with the stated goal of being recognized as a *Doing Business* Top Reformer.

"The World Bank Survey proved that the government's steps in the sphere of registration were successful," says Nina Dubovik, Head of the Department for Registration of Legal Entities at the Ministry of Justice. "In the future, we plan to cooperate with IFC on … further streamlining registration in accordance with best international standards."

In Uzbekistan, IFC's SECO-funded Business Enabling Environment Project has also had considerable success working with the government. Starting with its survey of the business environment, the project convinced the government of the need for reform, and helped it to draft and issue 9 Presidential Decrees related to registration, permits, inspections, and tax reporting. Estimated cost savings of these reforms is $39.4 million for the SME sector.

These reforms were highlighted in the 2008 *Doing Business* report, which named Uzbekistan among the top 10 reformers in the area of property registration.

"In my view, the BEE project in Uzbekistan has been extremely successful in building up a productive policy dialogue with the government on regulatory simplification," says Loup Brefort, the World Bank's country manager for Uzbekistan.

"This report clearly indicates our achievements and with this regard, further joint work with the World Bank and IFC is essential to ensure that these reforms are being practically implemented," said Alisher Shayhov, Chairman of Uzbekistan's Chamber of Trade and Industry.

Based on the success of these BEE projects, IFC is launching a new project in Azerbaijan jointly with *Doing Business* and the World Bank Group's Foreign Investment Advisory Service (FIAS). The Azerbaijan Business Enabling Environment Project will utilize the comparative advantages of all parts of the World Bank Group to help improve the permits and registration system in Azerbaijan. Tellingly, the government has agreed to contribute more than $6 million to this effort.

Doing Business Rankings

	BELARUS	UZBEKISTAN
2007 Ranking	123	145
2008 Ranking	110	138
Starting a Business		
2007	154	73
2008	119	54
Registering Property		
2007	96	167
2008	94	119

Seed Money

Expanding access to finance for **Tajikistan's** cotton farmers

Nasirullo Babagulov, the general manager of MMM Farm in southern Tajikistan (pictured in the foreground), must drive over an hour to reach the nearest bank in Kurgan-Tyube. Jointly owned by its 44 members, MMM Farm is unique among other dehkan farms in the region. Not only does it count 34 women among its owners, but MMM is one of the few farms that has remained free from debt to private financiers – commonly referred to as "investors" in the Tajik cotton sector – since its establishment in 2005.

"Investors are the main cause of cotton farmer debts," Babagulov says. Tajikistan's investors are often the sole source of financing available to dehkan farms like MMM, financing inputs such as seeds and fertilizer for high prices, then purchasing the outputs for low prices. Recent studies have estimated cotton debts in Tajikistan to amount to nearly $420 million as a result of this unsustainable system of financing. With roughly 75 percent of the rural population employed in the cotton sector, finding solutions to this problem has been a key concern in Tajikistan.

Fortunately for Babagulov, the closest bank in Kurgan-Tyube is TojiksodirotBank (TSB), Tajikistan's third-largest bank. TSB has partnered with IFC's South Tajikistan Cotton Lending Project to develop a new product for a bank: cotton loans tailored to small- and medium-sized dehkan farms, which would provide alternative sources of financing during the cotton harvest cycle. With limited experience in assessing loans of this type, TSB worked closely with the project, which is funded by the Canadian International Development Agency, to develop credit risk tools for dehkan farms and proper due diligence procedures. The in-depth training allowed TSB's loan officers to assess MMM Farm's request for a loan and approve $16,500 to finance inputs and harvesting costs.

With IFC's assistance, TSB's cotton loan portfolio in Kurgan-Tyube region has grown to nearly $300,000 as of December 2007, with loans to 14 dehkan farms representing over 507 workers (409 of them women).

"The TSB Kurgan-Tyube branch relies heavily on the advisory services provided by IFC for loans to small- and medium-sized cotton farmers in this region," says Khabibullo Khaydarov, branch manager of the TSB branch in Kurgan-Tyube. "We did not have the know-how or the capacity before IFC arrived. The policies and procedures for cotton lending to dekhan farms developed by IFC is essential to a strong, effective cotton portfolio for TSB."

IFC is also working with First MicroFinanceBank and regional governments to help expand these opportunities for small and medium dehkan farms in southern Tajikistan.

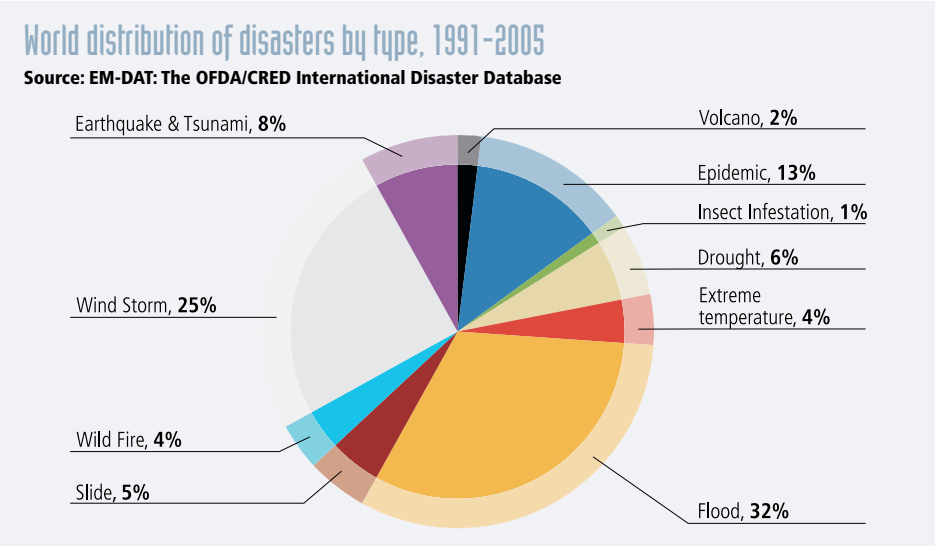
UKRAINE

Weathering the Storm

Lowering the risk for agricultural producers in Ukraine

Agriculture is a fundamentally risky business. Not only must agricultural enterprises deal with the same challenges that face other businesses, such as access to finance and access to markets, but they must also contend with unforeseen disasters like earthquakes, floods, droughts and insect infestations, which can destroy a season of crops – sometimes an entire year's worth of income.

The agricultural insurance market is the most developed in the United States and Canada. In these countries, a myriad of agricultural insurance designs are available to producers, including: multi-peril insurance, single-peril hail insurance, weather and satellite-based index insurance as well as proxy crop and area-yield products. Agricultural insurance has been in place for over 50 years in these countries and a significant technical capacity has been developed in program administration. Similarly, agricultural producers have a good understanding of the benefits of agricultural insurance. In developing countries, however, agricultural insurance is almost nonexistent, due to a poor understanding of risk management in the farm sector, lack of high-quality information, weak technical capacity of insurance companies, and limited or no access to re-insurance. This therefore places the full burden of risk on the producers, lenders, and governments.



In Ukraine, IFC and the Canadian International Development Agency (CIDA) have partnered to launch the Ukraine Agri-Insurance Development Project. The three-year program will work with key regulatory agencies such as the Ministry of Agrarian Policy to develop a strategic plan for agricultural insurance, and with institutional and commercial partners to help develop a viable insurance product in Ukraine. The project will also engage farmers directly through a pilot program and conduct an extensive public awareness campaign on the issue.

This is the first project of its kind for IFC, and will work closely with the three Sida- and Austrian-funded agribusiness supply chain projects in Ukraine to implement the product in practice.

Sandstorms and a freak hailstorm in June 2007 severely damaged crops in the Mykolaiv region of southern Ukraine, destroying nearly an entire season of vegetables for farmers.

RUSSIA & UKRAINE

Sharing Mortgage Expertise Across the Region

The mortgage market in Ukraine has seen tremendous growth in recent years, with the volume of mortgage transactions increasing from $63 million in 2002 to $11.4 billion in 2007 (according to reports by the Ukrainian National Mortgage Association). The mortgage *industry* in Ukraine, however, is currently characterized by a lack of common standards, working in a legislative framework that is still developing and remains untested in some areas of mortgage transactions.

As an institution that provides refinancing facilities for local banks in Ukrainian hryvna, the Ukrainian State Mortgage Institute (SMI) can help to unify and drive the mortgage industry in a common direction. To help the SMI in this role, IFC's Ukraine Mortgage Project organized a discussion in Moscow between three representatives from SMI and their counterparts at the Russian State Agency for Housing Mortgage Lending (AHML).

AHML representatives shared their experience in building a mortgage refinancing business model in Russia, and talked of the successful collaboration with IFC's Russia Primary Mortgage Market Development Project, supported by the Swiss and Dutch governments. The two sides discussed future prospects for primary and secondary mortgage market development in Russia and Ukraine.

"It was very helpful to hear from our Russian colleagues about their experiences," said Sergei Volkov, Deputy Head of SMI. "We hope that the lessons they had learned along the way will help us to achieve similar impact in Ukraine."

Sharing expertise across borders has been a key strength of IFC Advisory Services in Eastern Europe and Central Asia. By managing products sectorally, IFC projects can exchange experiences across countries and regions and more easily learn from past lessons.

The Road to Better Corporate Governance

IFC's projects have helped to **raise the level of corporate governance in Ukraine**

Even as recently as five years ago, the state of corporate governance in Ukraine was drastically different. Although more than 80 percent of all enterprises had been privatized, many were still in the hands of their Soviet-era directors and managers who didn't understand the role of a board or the benefits of transparency. The lack of fundamental structural reforms in Ukraine resulted in low foreign investment (in fact, decreasing from 2000 to 2001), and, in the banking sector, a high rate of bad debt.

In 2002, IFC, SECO and CIDA launched the Ukraine Corporate Development Project (UCDP) to help increase the level of management skills in Ukrainian companies in the areas of corporate governance, financial management, and investment/financing strategies. In 2004, SECO helped to launch the Ukraine Banking Sector Corporate Governance Project (UBCG), targeting corporate governance issues specifically in the banking sector. Both projects worked to improve the legislative framework for corporate governance, and helped to increase public awareness of the need for such reforms.

These have resulted in remarkable changes in the attitude and perception of corporate governance in Ukraine. The UCDP has conducted more than 360 training events for over 2,500 companies throughout Ukraine, and provided nearly 2,800 consultations. As a result, nearly 140 companies throughout Ukraine have adopted better corporate governance practices; in total, clients have attracted over $270 million in additional investment. The project has helped the government draft and adopt 17 pieces of legislation related to corporate governance, including the Ukrainian Corporate Governance Principles, the key document setting the corporate governance agenda in the country. It has developed coursework on corporate governance now used by 32 educational institutions, which is taught to at least 15,000 students annually. And Ukrainian companies have now understood the value of improved corporate governance.

Says Urfan Guliev, CEO of pilot company Asnova, "To a certain extent, the philosophy of the shareholders is changing. We are now much more ready for big projects than we were three or four years ago. Not in terms of finances, but in readiness to take on long-term obligations. From my point of view, the corporate governance work brought added value to this company."

In the financial sector, IFC has also helped to change the way banks think about corporate governance. The UBCG project helped promote beneficial ownership disclosure, and assisted 6 banks in selecting Independent Directors to their boards – a first for Ukraine. It has helped its clients adopt 80 corporate documents, including bylaws and charters. Perhaps most tellingly, one of its pilot banks, TAS-Kommerz was recently purchased by Sweden's Swedbank for a record $735 million, or more than 4 times the book value.

"Yes, we attribute the valuation partly to the corporate governance changes," said Natalia Yastremskaya, a member of TAS' supervisory board. "We are not the only bank on the market, and all the banks are looking for strategic investors. Corporate governance was a differentiating factor."

Despite these improvements, Ukraine still has far to go. But, encouragingly, private companies have shown that better corporate governance is a priority. The UBCG project collected more than $230,000 in fees from its clients, demonstrating that companies now value corporate governance enough to pay for it. Now, it's the job of the market to provide these services.

UncommonSense

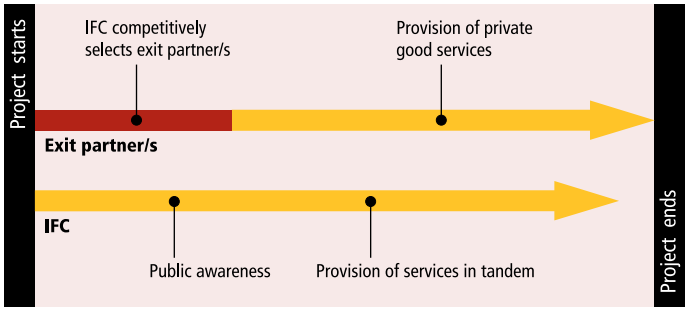
Every advisory services project must end at some point. When that happens, how do we ensure that the progress that has been made continues?

The words "sustainable private sector development" are an integral part of IFC's mission. For advisory services in Eastern Europe and Central Asia, the process begins by working on sectorwide reform that affects change at every level of the private sector. But at some point, all projects need to end, and the challenge for us is making sure that these reforms are, indeed, sustainable. That's where an exit strategy comes in.

Since 2000, IFC has completed more than 50 projects in Eastern Europe and Central Asia. We have experimented with a number of different exit strategies for our projects, and come up with a few key takeaways on exit strategies.

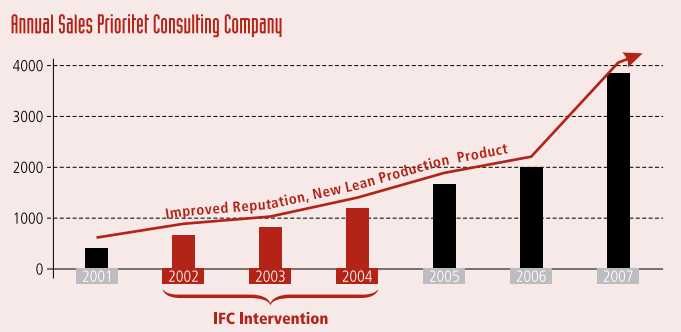
Plan the exit at the proposal phase. An exit is part of a project and needs to be planned within the project proposal just like any other key activity.

Focus on the product, not the exit entity. There are a few ways that projects can leave behind a presence after they exit. Project staff can transition to similar positions in the private sector, continuing the work of the project in those capacities. Projects can hand over their activities to existing partners. Or, the most difficult option, they can spin off and create a new private sector entity.



One of the arguments for creating a brand-new entity is that there are no other organizations offering such services on the market. But that could also be a telltale sign that the market isn't ready yet. Too often, we focus on building the capacity of exit entities, overshadowing the real goal of making sure the market is ready for the product. Charging for services during the course of the advisory project will help to prepare the market for this transition.

Our work with the Prioritet Consulting company in Russia has been a good example of this. The Russia Automotive Component Supplier



Development Project, supported by the US, worked closely with the Prioritet company to train the company in Lean Production, which minimizes waste and inefficiencies in the production process. The project also worked to created general awareness about the benefits of Lean Production within the automotive sector.

As a result, after the project closed in 2004, there was a critical mass of clients willing to pay for the Lean Production product, and Prioritet's business grew tenfold by being able to respond to market demands. The goal of the project – helping Russian automotive companies improve quality and efficiency – is continued through a local consulting company.

Staff "spin-off" exits separately. Exits which foresee spin-off of project activities need to be staffed separately, and differently from a typical IFC advisory project. An entrepreneurial mind-set is key in selection of these staff. Our experience spinning off the *Roundtable* magazine, a regular publication of the Ukraine Corporate Development Project, for example, showed that while many staff members were excellent writers and editors, they did not possess the same combination of marketing and business skills to make the magazine sustainable. The Ukraine SME Toolkit Project, on the other hand, was launched specifically to create a self-sustaining, web-based toolkit for Ukrainian SMEs: VlasnaSprava.info. Launched in 2003, the site was wholly spun off from IFC at the end of 2004. The former IFC project manager currently manages the website, which began charging fees for advertising and services in 2004.

Not every exit strategy is suitable for every situation. However, by focusing on the exit strategy from the beginning of the project, we can better develop appropriate strategies for the end. In this way, we can help to ensure that the changes we are making are sustainable.

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