IEG IFC
INDEPENDENT EVALUATION GROUP

IFC in Ukraine: 1993 – 2006

An Independent Country Impact Review

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Photo: Women grade tomatoes at an IFC-supported juice project in Ukraine.

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Abbreviations

CAS	Country assistance strategy
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
FDI	Foreign direct investment
FY	Fiscal year
GDP	Gross domestic product
IBRD	International Bank for Reconstruction and Development
IEG	Independent Evaluation Group
IFC	International Finance Corporation
PEP	Private Enterprise Partnership
PEP-ECA	Private Enterprise Partnership–Europe and Central Asia
SME	Small and medium enterprise

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Foreword

This Country Impact Review evaluates the results and analyzes the performance drivers of IFC's investment and advisory operations in Ukraine from fiscal year (FY) 1993 to FY 2006, *i.e.*, since Ukraine became a member of IFC. In doing so, it seeks to inform IFC's component in the Ukraine Country Assistance Strategy and make recommendations aiming to further improve operational results going forward. The review is concurrent with the IEG-WB Country Assistance Evaluation covering operations undertaken by the IBRD during fiscal years 1999 to 2006.

In the past fourteen years Ukraine has emerged as an independent state and has undergone a dramatic transition from a centralized planned economy to a nation with a thriving private sector. Yet given the length and depth of Ukraine's recession in the 1990s and the tenuous political commitment to reforms, the country remained relatively unattractive to private investors for much of the period under review.

In response, IFC's strategy focused initially on advisory operations to establish Ukraine's private sector, alleviate investment climate constraints, and foster investment opportunities that would also attract private sponsors. Thus in the study period, IFC mobilized US$55 million in donor funding for 45 advisory operations in Ukraine. IFC's advisory-centric strategy was appropriate given country conditions, but the expected increase in IFC's investment activity did not materialize until recently. However, parallel to the notable improvements in Ukraine's business climate over the past few years (partly attributable to the impact of IFC advisory operations), IFC's involvement in Ukraine has expanded rapidly in recent years. At present, Ukraine is IFC's ninth largest investment portfolio with a total outstanding balance of more than US$600 million.

Regarding advisory operations, this evaluation concludes that IFC was able to achieve satisfactory or better results in 68 percent of the projects implemented, particularly for larger and longer advisory assignments. Evaluated investment projects performed slightly better than those in the rest of ECA region and the average for IFC, although the relatively small number of these projects does not allow a more detailed analysis at this stage. Meanwhile, an analysis of the risk profiles of recent investment commitments yields encouraging indications of their likely future performance.

Going forward, the report recommends that given the improved business climate conditions prevailing in Ukraine, IFC should focus its strategies on medium-term (3-5 year horizon) priorities and follow a more systematic approach to identifying investment opportunities. Moreover, with respect to the momentous task of addressing remaining privatization challenges among larger companies and in the area of infrastructure, the study calls for increased coordination between IFC and IBRD. Finally, the report recommends that based on its extensive experience in advisory operations in Ukraine, IFC should consider replicating the design of successful large advisory projects, promote greater donor co-ordination and cohesion in IFC's areas of engagement, and exploit synergies between programmatic advisory and investment operations.

Vinod Thomas
Director-General, Evaluation

Executive Summary

1. This country impact review covers IFC's assistance to Ukraine in fiscal year (FY) 1993–2006. During that time, the International Finance Corporation's (IFC's) Ukraine strategy was largely shaped and constrained by the country's challenging business climate. Given the length and depth of Ukraine's recession in the 1990s and inconsistent political momentum for reform, the country remained relatively unattractive to private investors for much of the period. To improve the business environment, IFC engaged in an extensive program of advisory operations as the first component and continuing mainstay of its involvement. As Ukraine's urgent transition priorities were being addressed, the focus of IFC's advisory operations shifted from privatization to a host of tasks designed to improve the enabling environment.

2. In the 14 years of its engagement in Ukraine, IFC mobilized $55 million in donor funding for 45 advisory operations.[1] Ukraine accounted for 36 percent of total advisory funding for the Private Enterprise Partnership for Eastern Europe and Central Asia (PEP-ECA) in FY 1993–2005; this was second only to the Russian Federation with 42 percent. By leveraging donor-funding for advisory operations, IFC gained an early foothold in Ukraine and maintained visibility throughout the period.

3. IFC's strategic focus on advisory operations was appropriate given the country conditions. At the same time, significant efforts were also made to promote IFC investment in FY 1994–97; however, the increase in investment activity that was expected to follow IFC's advisory efforts did not materialize until conditions had sufficiently improved in FY 2004–05. Recent investment climate improvements call for a more targeted and long-term strategy, especially for investment operations.

4. Ratings for IFC advisory operations and IFC investment operations in Ukraine are better than aggregate evaluated advisory and investment operation ratings in other ECA countries and, for investment operations, better than the aggregate for the rest of IFC. For advisory operations, IFC achieved strong and sustainable results in the majority of the projects implemented. This is especially true for larger and longer advisory assignments using the comprehensive framework eventually adopted by the PEP facility, although firm-level projects had mixed results. Evaluated investment projects performed slightly better than those in the rest of the ECA region as well as than other IFC projects, although the findings are not statistically significant. Meanwhile, an analysis of the risk profiles of recent investment commitments yields encouraging indications of likely future performance for these projects.

Background

5. Ukraine's transition was complicated by a lack of political consensus and entrenched opposition to reform. Although Ukrainian authorities reiterated their support for market liberalization and private enterprise throughout the period, their actual commitment to reform, privatization, and transparency wavered. Compared with the rest of ECA, particularly Central and Eastern European countries, Ukraine was slow to start its privatization and reach a significant proportion of private sector ownership, largely due to political pressures. For the same reasons, privatization of large-scale enterprises and most utilities is not yet complete. Legal and regulatory deficiencies and other issues related to regulatory enforcement, such as the high cost of doing business and perceived high degree of corruption, further contributed to an overall unfavorable investor perception of Ukraine.

6. Inconsistent commitment to instituting the legal and regulatory underpinnings of economic reform and the delayed privatization process were among the main reasons why Ukraine lagged behind its ECA and Commonwealth of Independent States (CIS) peers in terms of the length and extent of the economic recession in the mid-1990s.[2] Most CIS countries experienced a contraction of gross domestic product (GDP) at the time, but Ukraine was particularly affected, both in the degree of contraction—its 1999 GDP was 42 percent below its 1993 level in constant dollar terms, which was the biggest drop in ECA—and in the low extent of recovery. At present, Ukraine is the only ECA country besides Moldova whose 2005 GDP is below its 1993 level in constant dollar terms: down 11 percent compared with a regional average, excluding Ukraine, of up 70 percent and a CIS average, excluding Ukraine, of up 50 percent. The business environment deficiencies and associated negative perceptions, coupled with economic contraction, translated into very low foreign direct investment (FDI) inflows throughout 1993–2004. Ukraine's average 1993–2004 FDI/GDP ratio stood at 1.5 percent, compared with an ECA average, excluding Ukraine, of 4.0 percent, whereas its average annual 1993–2004 FDI per capita equaled $14, compared with an ECA annual average, excluding Ukraine, of $126.

IFC Strategy

7. IFC's Ukraine strategy set out to focus on advisory operations intended to (a) establish Ukraine's private sector within a transition from a centralized planned economy dominated by public enterprises, (b) alleviate business climate constraints through legal and regulatory reform, and (c) foster investment opportunities. Large-scale privatization projects were initially to help accomplish this by creating a critical mass of small and medium enterprises (SMEs) that could serve as the engine of private sector growth and become attractive investment targets for private sponsors (defined by IFC as local investors). Meanwhile, it was expected that IFC would follow its advisory work with investment operations as opportunities arose, a recurring expectation that proved unrealistic throughout much of the period. Although the latter expectation regarding investment activity was optimistic, IFC's overall Ukraine strategy was appropriate given country conditions.

8. In the past few years, Ukraine's business climate has undergone notable improvements, including greater macroeconomic stability and a more cohesive legal and regulatory framework. The effect of structural and regulatory reforms, starting from 1998, became evident after 2000 with the resumption of GDP growth, which has since been sustained. Some of the improvements are at least partly attributable to the impact of IFC advisory operations. For example, the SME Survey and Policy Development Project facilitated simplified taxation for SMEs and registration reform; whereas International Bank for Reconstruction and Development (IBRD) operations enabled others (notably, sound macroeconomic policies). In addition to business climate improvement, positive international perception of the 2004–05 "Orange Revolution" was an important driver behind the increase from $1.7 billion to an estimated $7.8 billion in FDI inflows in 2005, compared with 2004.

9. Despite Ukraine's continuing political uncertainty, more proactive strategies for both investment and advisory operations would be advantageous. IFC's early strategies were somewhat reflexive, because the difficult conditions made upcoming developments and investment opportunities hard to anticipate. Going forward, a longer-term and more targeted approach than before may be required to identify investment opportunities systematically in areas of high impact, country competitive advantage, and unmet demand.

The Scale of IFC Operations

10. Contrary to early strategy expectations and as discussed in subsequent country assistance strategies (CASs), IFC investment commitment volumes were negligible in FY 1994–98. These volumes only increased significantly starting in FY 2004, closely following the improvement in Ukraine's business climate and in parallel with the decrease in intensity of advisory operations. In part, this was

determined by IFC's initially cautious approach to investment operations, due to the difficulty of finding reputable private sector sponsors. The constraints were countered later by IFC's increased promotion efforts and by political developments in 2004–05. At the same time, IFC contributed to the increase in private sector business opportunities by helping improve the investment climate through its advisory assignments.

11. Due to the rapid growth of recent commitments, Ukraine currently accounts for 5 percent ($571 million) of IFC's total ECA commitments for FY 1994–2006 and, as of the end of FY 2006, Ukraine comprised IFC's ninth largest country portfolio worldwide. On balance, even though IFC's involvement in the country throughout the period could have been more substantial, the Corporation was operating in an environment that was crowded with suppliers. The scale of its investment and advisory operations, significant relative to IFC's activity in the region, was relatively small, compared with the activities of the European Bank for Reconstruction and Development (EBRD) and various other donors in Ukraine.

Performance of Evaluated Operations

12. The results of Ukraine advisory operations are strong under all performance indicators; thus, overall development effectiveness received a rating of satisfactory or better in 68 percent of projects, and overall IFC work quality a rating of satisfactory or better in 76 percent of projects. The sound performance of PEP and pre-PEP programmatic projects drove aggregate results, despite the poorer performance of smaller assignments related to individual investment transactions. In particular, PEP and programmatic pre-PEP advisory projects in Ukraine outperformed evaluated peers in other ECA countries; 79 percent of such projects received ratings of satisfactory or better for development effectiveness, compared with 59 percent for evaluated PEP operations in the rest of ECA. In dollar terms, however, the weaker strategic relevance, impact, and efficiency of a single large project lowered these results. The outcomes and impacts of most programmatic privatization assignments, such as small-scale and mass privatization, are significant on a country-wide scale. At the same time, smaller assignments were only viable when they addressed a specific need and/or request of an otherwise committed and proactive client, and the majority failed to generate sustainable outcomes and impacts: only 43 percent of advisory operations related to specific transactions received ratings of satisfactory or better for development effectiveness.

13. The main success factors for evaluated advisory operations were project strategic relevance and timeliness, a comprehensive multidirectional project framework coupled with large funding volumes and longer duration, and adherence to a multigenerational project approach. Conversely, among the main performance limitations are lack of government/client commitment, strategic fit, and donor cohesion and coordination. For recent projects, staff recruitment and retention have emerged as recurring hurdles in project design.

14. Development and investment outcome success rates for evaluated Ukraine operations are better than, but broadly similar to, those for the rest of ECA and IFC. Because only a small number of operations in Ukraine have attained operating maturity, which enables full evaluation, extensive analysis of evaluation ratings within the Ukraine portfolio is impossible and findings from comparisons with the rest of ECA and IFC are not statistically significant. That said, the aggregate development and investment outcome success rates of the evaluated Ukraine operations indicate performance trends in line with the performance of evaluated projects in the rest of the ECA region and the rest of IFC approved in FY 1994–2001. The relatively poorer performance of financial markets projects is partly due to timing and instrument mix, but leaves room for improvement in executing IFC's investment project appraisal and structuring work and maximizing IFC's special contribution in that sector. Although the majority of projects in IFC's Ukraine portfolio have not reached operating maturity, risk profile analysis yields a positive indication of likely future performance.

IFC-IBRD Cooperation

15. IFC coordinated a number of activities in Ukraine (predominantly advisory) with IBRD, but the extent of the cooperation was relatively limited. Going forward, stronger cooperation between the two institutions is advisable for addressing Ukraine's remaining privatization challenges. A continued need exists for investments in Ukrainian infrastructure and municipal utilities, both still dominated by public-sector enterprises, where joint IBRD-IFC work may deliver the best results. Progress in the sector can be made through IBRD and IFC coordination between IBRD and IFC to ensure the support of privatization at the policy level (while avoiding conflict of interest) to be followed by post-privatization IFC investments with sponsors committed to good governance. Other possibilities may include the promotion of public-private partnerships and finance of municipal utility projects in Ukraine using loans and/or partial credit guarantees. The joint IBRD-IFC Subnational Finance Department may be of valuable assistance in the latter effort, pending endorsement of IFC local currency financing mechanisms by the National Bank of Ukraine.

Recommendations

16. Based on study findings, the Independent Evaluation Group (IEG) recommends that IFC do the following:

- Focus its strategies on medium-term (a three- to five-year horizon) priorities and follow a more systematic approach to identifying investment opportunities.
- Coordinate with IBRD to ensure that both institutions work sequentially and/or in parallel (as circumstances may require) to address remaining privatization challenges among larger companies, as well as in infrastructure and municipal utilities.
- Replicate the strong design of its successful large advisory projects, promote greater donor coordination and cohesion in its areas of engagement, and exploit synergy models between programmatic advisory and investment operations.

Основні положення

1. Цей аналіз факторів впливу на економіку країни охоплює питання надання допомоги Україні МФК у межах звітного періоду 1993–2006 років. Протягом цього часу стратегія МФК в Україні значною мірою формувалася і обумовлювалася складним кліматом економічної діяльності в країни. З огляду на ширину і глибину економічного спаду України у 1990-х роках і нестійку політичну волю до здійснення реформ, країна залишалася відносно непривабливою для приватних інвесторів протягом більшої частини цього періоду. Щоб покращити стан ділового середовища , МФК запровадила розширену програму з консультативної діяльності як перший компонент та основу для своєї подальшої діяльності. Оскільки предметом розгляду були термінові питання щодо перехідних процесів в економіці, основна увага консультативної діяльності МФК змістилася від приватизаційних процесів у бік основних завдань, спрямованих на створення сприятливих умов.

2. За 14 років свого перебування в Україні, МФК мобілізувала донорські кошти на суму 55 мільйонів доларів США з метою фінансування 45 проектів з консультативної діяльності.[1] Протягом звітного періоду (ЗП) 1993–2005 років Україні було надано 36 відсотків від загального фінансування на консультативні послуги в рамках програми „Партнерство з розвитку приватного сектору" для країн Східної Європи та Центральної Азії (ПРПС-ЄЦА); цей показник був на другому місці після Російської Федерації, показник якої становив 42 відсотка. Шляхом залучення донорських коштів для фінансування консультативної діяльності МФК завоювала стійке положення в Україні та підтримувала свою присутність увесь проміжок часу.

3. З огляду на умови в країні, стратегія консультативної діяльності МФК була відповідною. Водночас докладалися значні зусилля для просування інвестицій МФК у ЗП 1994–97 років; проте очікування щодо підвищення інвестиційної діяльності після надання консультативних послуг МФК не були матеріалізовані, поки ситуація значно не покращилася у ЗП 2004–2005 років. Останні покращення інвестиційного клімату передбачають створення більш цілеспрямованої та довготривалої стратегії, особливо в сфері інвестиційної діяльності.

4. Показники консультативної діяльності МФК і її інвестиційної діяльності в Україні є кращими, ніж сумарні показники інвестиційної та консультативної діяльності в інших країнах Європи та Центральної Азії, а сумарні показники інвестиційної діяльності є кращими, ніж сумарні показники іншої діяльності МФК. Стосовно видів консультативної діяльності, МФК досягла добрих та стійких результатів у більшості завершених проектів. Особливо це є справедливим стосовно консультативних істотних за обсягом та довготривалих завдань із застосуванням всебічної структури, що була у подальшому прийнята механізмом фінансування ПРПС, хоча проекти на корпоративному рівні мали змішані результати. Показники виконання інвестиційних проектів, що оцінювалися, були дещо кращими, ніж ті, що стосувалися проектів в інших країнах ЄЦА, а також, ніж показники виконання інших проектів МФК, хоча отримані результати не є статистично значимими. В той же час, аналіз структур ризиків нещодавніх інвестиційних зобов'язань дає оптимістичні сигнали щодо можливої реалізації таких проектів у майбутньому.

Передумови

5. Перехідний процес в Україні був ускладнений відсутністю політичного консенсусу і значним супротивом реформуванню. Хоча представники влади заявляли про свою підтримку лібералізації ринку і приватного сектору протягом усього періоду, їх фактичні дії щодо питань реформи, приватизації й прозорості процесу були нерішучими. У порівнянні з рештою країн Європи та Центральної Азії, зокрема країнами Центральної та Східної Європи, Україна повільно розпочинала процеси приватизації, отже значна частка у приватизаційному процесі припала на приватний сектор, в основному завдяки політичному тиску. З тих самих причин процес приватизації великих підприємств і більшості комунальних підприємств ще не завершився. Недоліки у законодавстві і регулятивних документах, а також інші фактори, пов'язані з регулятивним контролем, а саме висока вартість ведення підприємницької діяльності і відчутний високий рівень корупції, лише сприяли загальному негативному сприйняттю України інвесторами.

6. Непослідовне виконання зобов'язань щодо закладення юридичних та регулятивних підвалин економічної реформи і запізнілий початок процесу приватизації були одними з основних причин відставання України у цих процесах від рівних за розвитком країн Європи та Центральної Азії, а також інших країн СНД, за тривалістю та рівнем економічного спаду.[2] Більшість країн СНД відчували зменшення валового внутрішнього продукту (ВВП) у той час, але Україна була найбільш піддана такому впливу, як за ступенем спаду — її ВВП у 1999 становив на 42 відсотки менше рівня ВВП у 1993 року у постійному еквіваленті долара США, який впав до найнижчого рівня в країнах Європи та Центральної Азії, так і за низьким ступенем відновлення. Сьогодні Україна є єдиною країною в Європі та Центральній Азії, крім Молдови, ВВП якої у 2005 році був нижчим за рівень ВВП у 1993 році у постійному еквіваленті долара США: на 11 відсотків менше у порівнянні з більш, ніж 70% ВВП в середньому по регіону, крім України, та більш, ніж 50% ВВП в середньому по СНД, крім України. Недоліки ділового середовища і відповідне негативне сприйняття у сукупності із зменшенням рівня економічної діяльності призвели до надзвичайно низького рівня притоку прямих іноземних інвестиційних (ПІІ) протягом 1993–2004 років. У 1993–2004 роках середній показник співвідношення ПІІ/ВВП в Україні становив 1,5% проти 4,0% в середньому по країнах Європи та Центральної Азії, крім України, а середньорічний показник ПІІ на душу населення дорівнював 14 доларів США проти 126 доларів США в середньому по країнах Європи та Центральної Азії (ЄЦА), крім України.

Стратегія МФК

7. Стратегія МФК в Україні спрямована на консультативну діяльність з метою (а) створення в Україні приватного сектору з переходом від централізованої планової економіки з домінуючою присутністю державних підприємств, (б) пом'якшення факторів, що є причиною скутості ділового клімату, через законодавчу та регулятивну реформу, і (с) сприяння розвитку інвестиційних можливостей. На початковій стадії великі приватизаційні проекти мали на меті допомогти завершити такі процеси шляхом створення критичної маси малих та середніх підприємств (МСП), які могли б спонукати зростання приватного сектору і стати привабливими для вкладання інвестицій приватними спонсорами (визначені МФК, як місцеві інвестори). Між тим очікувалося, що МФК буде провадити свою консультативну діяльність разом із інвестиційною діяльністю, коли з'являться можливості, але такі очікування залишалися нереальними протягом тривалого періоду. Хоча такі очікування щодо

інвестиційної діяльності носили оптимістичний характер, загальна стратегія МФК в Україні була відповідною, з огляду на умови в країні.

8. За останні декілька років у кліматі ділової активності України сталися відчутні покращення, що виразилося, в т.ч., у посиленій стабілізації макроекономічних показників і гармонійному розвитку правової та регулятивної бази. Ефект структурних і регуляторних реформ, що бере свій початок у 1998 році, став очевидним після 2000 року з відновленням зростання ВВП, який набув рис послідовності. Певні покращення, що мали місце, відбулися частково завдяки консультативній діяльності МФК. Наприклад, проект з дослідження МСП та політики розвитку таких підприємств прискорив запровадження спрощеної процедури оподаткування МСП і реформу у системі реєстрації; в той час як діяльність МБРР дала поштовх іншим реформам (зокрема, у сфері покращення макроекономічних показників). На додаток до прогресу щодо покращення ділового клімату, позитивне міжнародне ставлення до подій "Помаранчевої революції" 2004-2005 років стало важливим фактором у збільшенні надходжень ПІ з 1,7 мільярдів доларів США до 7,8 мільярдів доларів США у 2005 році у порівнянні з 2004 роком.

9. Не зважаючи на постійну політичну нестабільність в Україні, більш прогнозовані стратегії як інвестиційної, так і консультативної діяльності були б корисними для держави. Перші стратегії МФК були дещо рефлексивними, тому що тяжкі умови впливали на їхній розвиток у майбутньому, а інвестиційні можливості складно передбачити. У перспективі, більш довготривалий та більш цілеспрямований підхід може бути потрібним для систематичного визначення інвестиційних можливостей у сферах, що перебувають під сильним впливом факторів, конкурентноздатності країни та незадоволених потреб.

Обсяг видів діяльності МФК

10. На відміну від попередніх стратегічних очікувань, обсяги інвестиційних планів МФК були незначними у ЗП 1994-1998 років, що обговорювалося у наступних стратегіях допомоги країні (СДК). Значне зростання цих обсягів почалося тільки у ЗП 2004 року – одразу після покращення ділового клімату України та паралельно із зниженням інтенсивності консультативної діяльності. Частково це було зумовлено початковим обережним підходом МФК до інвестиційних видів діяльності із-за складнощів у процесі пошуку спонсорів для приватного сектору, що мали б хорошу репутацію. Стримуючі фактори були подолані пізніше посиленими рекламно-пропагандистськими зусиллями МФК та політичними подіями 2004–2005 років. У той самий час МФК посприяло росту ділової активності у приватному секторі, допомагаючи покращити інвестиційний клімат через свої консультативні заходи.

11. Завдяки швидкому зростанню відповідних зобов'язань у недавній час, на Україну сьогодні припадає 5 відсотків (571 млн. доларів США) усіх проектів МФК для країн ЄЦА за ЗП 1994–2006 років і, на кінець ЗП 2006 року, Україна посідає дев'яте місце серед країн світу за розміром частки у портфоліо МФК. В остаточному підсумку, хоча діяльність МФК в Україні протягом усього періоду могла б суттєвішою, середовище, в якому МФК вела свою діяльність, було насичене постачальниками. Обсяг своєї інвестиційної і консультативної діяльності, що значною мірою відповідав діяльності МФК у регіоні, був відносно малим у порівнянні з обсягами діяльності ЄБРР та інших організацій-донорів в Україні.

Показники видів діяльності, що оцінювались

12. Результати консультативної діяльності в Україні є стійкими за усіма показниками видів діяльності; так, загальна ефективність розвитку отримала задовільний або кращий рейтинг у 68% проектів, а загальний рейтинг якості роботи МФК є задовільним або кращим у 76% проектів. Добрі показники проектів ПРПС, а також системних консультативних проектів, що мали місце перед запровадженням ПРПС, вплинули на сумарні результати, незважаючи на слабші показники менших за обсягами проектів, що стосуються трансакцій індивідуального інвестування. Зокрема, проекти ПРПС та системні консультативні проекти, що мали місце перед запровадженням ПРПС, перевершили показники своїх аналогів, що оцінювалися, в інших країнах ЄЦА; 79% таких проектів отримали задовільний або кращий рейтинг ефективності розвитку, у порівнянні з 59% проектів ПРПС, що оцінювались, в решті країн ЄЦА. У доларовому еквіваленті, все ж, низький рівень стратегічної актуальності, вплив на економіку, та ефективність одного великого проекту зменшили ці результати. Результати і вплив більшості системних приватизаційних проектів у таких ділянках, як мала і масова приватизація, є значними у масштабах усієї країни. Водночас, менші за обсягом проекти були значимими тільки тоді, коли вони звертались до специфічних потреб і/або вимог іншого зацікавленого й активного клієнта, і більшість з них так і не змогла стати стійким фактором впливу і сформувати стійкі результати: тільки 43 відсотки консультативних видів діяльності, що стосувалися специфічних трансакцій, отримали задовільні або кращі показники ефективності розвитку.

13. Основними факторами успішності видів консультативної діяльності, що оцінювалися, були відповідність стратегії проекту і своєчасність, ґрунтовна різнонаправлена структура проекту у поєднанні з великими обсягами фінансування і довшою тривалістю, а також відповідність підходу до багатоцільового проекту. І навпаки, серед факторів, що обмежують діяльності є недостатнє проявлення волі з боку Уряду/клієнтів, брак стратегічної відповідності, а також недостатнє погодження і координація джерел фінансування. Що стосується недавніх проектів, питання набору та утримання персоналу постійно виникають як перепони у проектному рішенні.

14. Рейтинги розвитку і успішних результатів інвестицій діяльності в Україні, що оцінювалася, були кращими, але в основному були подібні до тих, що мала решта країн ЄЦА і МФК. Оскільки лише невелика кількість видів діяльності в Україні досягає функціональної зрілості, що дає змогу для здійснення повноцінного оцінювання, глибокий аналіз рейтингів оцінювання в портфоліо України є неможливим, а отримані дані на основі порівняння з рештою країн ЄЦА і МФК не є значимими з точки зору статистики. До того ж, сумарні рейтинги розвитку й успішних результатів інвестиційної діяльності в Україні, що оцінювалася, вказують на тенденції змін у відповідності до показників проектів, що оцінювалися, в решті країн ЄЦА і МФК, які були затверджені у ЗП 1994–2001 років. Відносно слабші показники проектів фінансового ринку мають місце частково через плутанину в розрахунках часу й засобів, але ще залишається можливість для покращення аналізу виконання інвестиційних проектів МФК і структуризації роботи, а також максимізації особливого внеску МФК у такий сектор. Хоча більшість проектів українського портфоліо МФК не досягла функціональної зрілості, аналіз структури ризиків вказує на те, що такі проекти можуть бути впроваджені у майбутньому.

Співпраця між МФК і МБРР

15. МФК координувала певну кількість видів діяльності в Україні (переважно це були консультативні проекти) з МБРР, але рівень такої співпраці був відносно обмеженим. У перспективі бажано, щоб співпраця між двома інституціями була тіснішою стосовно питань, пов'язаних з вирішенням приватизаційних завдань, що залишилися в Україні. Існує постійна потреба в інвестиціях в інфраструктуру та комунальне господарство України, де все ще домінують державні підприємства. Співпраця МБРР і МФК в даному секторі може дати найкращі результати. Досягнення успіху у цьому секторі можливе через координацію зусиль МБРР і МФК для забезпечення підтримки процесу приватизації на політичному рівні (уникаючи конфлікту інтересів) з внесенням інвестицій МФК у післяприватизаційний період разом із спонсорами, які прагнуть належного рівня керівництва. Інші можливості можуть включати просування проектів ПРПС та фінансування комунальних підприємств в Україні, використовуючи позики і/або часткові кредитні гарантії. Спільний наднаціональний фінансовий департамент МБРР і МФК може надавати цінну допомогу в здійсненні таких зусиль в очікуванні надання Національним Банком України дозволу на застосування МФК механізмів фінансування проектів у місцевій валюті.

Рекомендації

16. На основі даних дослідження, НГО рекомендує МФК здійснити наступні кроки:

- Зосередити свої стратегії на середньотермінові (на термін від 3-х до 5-ти років) першочергові завдання та здійснювати більш системний підхід до визначення інвестиційних можливостей.
- Координувати свої дії з МБРР для забезпечення послідовної і/або паралельної роботи обох інституцій (у відповідності до обставин) для вирішення приватизаційних питань, які ще залишилися та стосуються великих компаній, а також інфраструктури і комунальних підприємств.
- Поширювати вдале рішення своїх великих консультативних проектів, сприяти координації та єдності великих джерел фінансування у своїх сферах діяльності, а також застосовувати моделі, які б поєднували в собі системні види консультативної

IFC Management Response to IEG-IFC

IFC in Ukraine: 1993–2006
An Independent Country Impact Review

(September 7, 2007)

I. Introduction

1. IFC appreciates IEG-IFC's ***Ukraine Country Impact Review (FY 1993–2006)***. The report presents a valuable and independent review of IFC activities starting from FY 1993 when Ukraine was in the early stages of transition to market economy and had just become an IFC shareholder. It provides timely and useful information for the preparation of a new country partnership strategy for Ukraine this year.

2. We welcome the report's independent finding that IFC activities achieved above-average overall development impact and investment outcome in Ukraine. We also note that the report found IFC's strategy in Ukraine to be appropriate and relevant to country conditions during the FY 1993–2006 review period. This period was particularly challenging, given that the country went through a protracted economic decline in the 1990s as the transition to a market economy proved complicated and structural reforms were slow in getting traction. Recognizing the difficult investment climate and to foster private sector opportunities, IFC focused on advisory work aimed largely at supporting privatization activities, strengthening small and medium enterprises (SMEs), and improving the business and regulatory environment. Amid these conditions, IFC undertook cautious efforts to develop its investment operations, but was constrained by limited opportunities. In hindsight, this sequencing of advisory and investment operations has worked out very well, as private sector opportunities increased and IFC's investment operations grew rapidly in recent years.

3. We are pleased to note that the report found that the results of IFC's advisory operations in Ukraine have been strong on all performance indicators, including development effectiveness and overall work quality. The report also found that success drivers include project strategic relevance, timeliness, and structure/framework. Programmatic activities, in particular, have had strong outcomes overall. The majority of projects from the early 1990s fall into this category and have led to significant impact on the ground as well as a series of follow-up operations that have built on this success and expertise.

4. We appreciate that the report found that evaluated mature IFC investment operations are performing relatively well in terms of investment and development outcomes. The report's analysis of projects that have not reached operating maturity suggests that these projects are poised to have good outcomes as well. IFC's focus on advisory services ahead of investment operations appears to have paid off, given the overall positive outcomes of our investment operations.

5. We recognize that there are opportunities to enhance our development impact further in Ukraine and this report is valuable in informing our strategy going forward. In addition, we agree with the overall direction of the report's recommendations.

II. Responses to Specific Recommendations

6. Recommendation 1: IFC should develop and follow a more systematic medium-term (three- to five-year horizon) country approach to identifying investment opportunities in areas of high impact, country competitive advantage, and unmet demand in order to channel IFC investments into projects with the greatest potential development impact and demonstration effect.

***Management Response*:**

7. We agree with the need to refine IFC's approach in identifying investment opportunities in Ukraine. As our operations in Ukraine grow and mature, we find ourselves better positioned to recognize and take advantage of emerging opportunities early on and to carve out a meaningful niche for ourselves in the market. Increases in resources and staff dedicated to Ukraine have allowed us to conduct in-depth research and mapping of specific sectors to pinpoint areas of unmet demand and potential competitiveness that are likely to generate the highest development outcomes, particularly demonstration effects.

8. IFC will continue to follow a systematic medium-term strategy for its operations in Ukraine. In the past, IFC has taken a long-term approach in Ukraine to ramp up its investment operations following successful implementation of a reform agenda, which included a mass privatization program. Because the reforms took longer to execute and the number of investment opportunities acceptable to IFC remained scarce, IFC continued to focus on advisory services to address some of the issues that made Ukraine unattractive to private investments.

9. IFC's engagement continues to be guided by the four-year country assistance strategies, prepared jointly with other World Bank Group institutions. In addition, IFC undertakes annual strategy and budget discussions to allow the country teams to alter and fine-tune their plans in the context of changing country conditions and internal institutional dynamics. These country-level discussions feed into IFC's strategic directions papers, which cover three-year periods.

10. Recommendation 2: IFC should seek to work in sequence and/or in parallel with IBRD to address remaining privatization priorities, especially large enterprises and infrastructure, with IBRD policy work and IFC post-privatization funding, and use existing joint mechanisms, such as the Sub-National Finance Department to promote public-private partnerships and provide funding to municipal utilities projects.

Management Response:

11. We agree with this recommendation to improve collaboration with IBRD in Ukraine. In recent years, our joint work has evolved from a somewhat limited engagement to meaningful strategic cooperation in a number of areas. For example, IFC's business enabling environment and corporate governance operations are closely linked with IBRD's Development Policy Loans (DPLs) and private sector development programs. In May of this year, it was agreed that the project manager of IFC's business enabling environment project in Ukraine will dedicate 20 percent of his time to IBRD, working on a broad range of IFC/IBRD coordination matters within his focus area. Apart from this, the country representatives of both institutions maintain regular contact, keeping the teams apprised of relevant developments. The ongoing work of the Ukraine Country Partnership Strategy has to date been a strong example of attempting to tackle the country's developmental challenges through a

coherent and systematic approach that takes advantage of the respective strengths and areas of expertise of each World Bank Group institution.

12. IFC is keen to pursue joint opportunities in Ukraine through the joint World Bank/IFC Sub-National Department, including investments in public-private partnerships and support for a range of municipal services. The newly available Partial Credit Guarantees from IFC in Ukraine opened the door for exploring some of these scenarios. Once IFC develops the necessary mechanisms to provide a broader range of local currency financing, the prospects for cooperation in this area will expand even further.

13. As for private participation in infrastructure, this sector remains a priority for IFC in Ukraine. Provided that future privatizations are carried out in a transparent fashion in line with international practices and that reliable clients emerge as a result, we would be glad to extend our assistance both through investment lending and advisory services, if needed. This is an area where IFC will appreciate IBRD's policy advisory work in advance of privatization.

14. Recommendation 3 a: IFC should focus on strategic relevance of its advisory operations and replicate the demand-driven, multigenerational, and multidimensional design of its successful larger operations, using the latter to refine benchmarks for measuring performance of ongoing projects.

Management Response:

15. IFC's advisory operations in Ukraine are carried out by the Private Enterprise Partnership–Europe and Central Asia (PEP-ECA), IFC's business advisory program in the countries of the former Soviet Union. PEP-ECA has recently decided to focus its advisory work in Ukraine on the following three proven areas of expertise that address key business constraints for the private sector:

- Continuation and expansion of business enabling environment work
- Continuation of corporate governance work, with a broad focus on the banking sector and on the more sophisticated topics, such as internal audit/internal control
- Significant expansion of access to finance work, currently conducted through leasing and housing finance, with plans to branch out into sustainability finance, rural finance, and agricultural insurance (based on lessons learned through agribusiness linkage programs).

16. IFC is using its experience with the successful demand-driven, multigenerational, and multidimensional larger operations in Ukraine to develop follow-up advisory projects that build on our achievements and focus on the next logical area of intervention. All of the above areas will be targeted through multidimensional approaches that include work with private sector players, as well as policy makers. The first two areas, in particular, are areas where IFC has had a long, multigenerational engagement in Ukraine.

17. Going forward, most investment-linked advisory work will center on the programmatic platforms outlined above by combining sector-level work with company-specific advisory services. The former will ensure maximum impact that goes beyond just one client, while the latter will be enhanced through the recently introduced pricing guidelines, which help secure client commitment to implementation.

18. Recommendation 3 b: IFC needs to proactively develop and maintain regular contact with donors in its areas of engagement to help establish information exchange mechanisms, align priorities, improve distribution of labor, and avoid inconsistencies, as well as initiate tactical interaction at the outset of its multidonor operations to minimize discrepancies in approach and maximize cohesion and alignment of tactics among donors.

Management Response:

19. Each project manager for advisory projects monitors the work carried out by other donors in Ukraine in his or her area. While the volume of funding channeled through IFC's advisory services is relatively modest in comparison with overall donor-funded operations in Ukraine, IFC has a visible niche in the area of private sector development. Within this area, significant efforts are dedicated to coordinate our work with other implementing agencies.

20. Project managers also actively engage with other donor-funded projects to collaborate on various events. For example, the Ukraine Corporate Development Project worked with the USAID-funded Consortium for Enhancement of Ukrainian Management Education to deliver a week-long course on corporate governance to university professors, while the Ukraine Leasing Development Project collaborated with USAID to establish the "Certified Leasing Professional" Program.

21. It should be noted that a new donor coordination initiative has recently been organized in Ukraine by the Ministry of Economy's Directorate for Coordination of International Technical Assistance, aiming to ensure maximum collaboration with minimum overlap in key areas. A donor conference was held earlier this year and various working groups (organized by topic) have met over the course of the year. The thematic working group meetings include various donor representatives who are active in that topic as well as government ministries involved in it. IFC has participated in a number of these meetings and has the responsibility as Lead Donor for the working group on "Enterprise Support."

22. PEP-ECA, in an effort to facilitate its fund raising, but also to ensure that our activities remain consistent with the work of other implementing agencies, has assigned the role of donor relationship manager to each of its senior operations managers. The intention is to create a "one stop" PEP-ECA point person for the donor, representing all PEP-ECA business lines and coordinating proposal preparation and any other issues. PEP-ECA donor relationship managers are regularly updated on all local interactions with the donor agencies and are copied on the donor reports. Regular meetings are held with local donor representatives where they discuss not only funding for PEP-ECA projects, but also learn about other donor initiatives in Ukraine.

23. Recommendation 3 c: IFC should expand the proven model of creating partnerships between linkages projects seeking to develop agricultural suppliers and agribusiness investments, as well as aim to undertake financial markets projects that would provide local currency financing and/or guarantees to banks extending credit to such agricultural suppliers, in order to exploit synergies between investment and programmatic advisory operations.

Management Response:

24. IFC is currently working on an agrifinance study that should give more insight into possibilities of improving access to finance for the agricultural sector. Results are expected by January 2008. In addition, we are currently looking for opportunities to replicate our highly successful linkages pro-

jects in Ukraine's agribusiness sector. For example, we are implementing an Agricultural Insurance Development Project with the aim of establishing a sustainable crop insurance program in Ukraine, which improves farmers' chances to get funds for agricultural input investments. The project provides opportunities for linking financial markets with agricultural suppliers.

25. The idea of financial markets projects that would provide local currency financing and/or guarantees to banks extending credit to such agricultural suppliers is appealing due to its potential for a very strong development impact for a potentially competitive, but highly vulnerable, part of Ukraine's economy. So far, this type of work has not materialized due to (a) the small number of financial institutions that qualify for IFC investments, (b) the reluctance of the Ukrainian banks to re-engage with agricultural producers after failed attempts in the 1990s that resulted in widespread defaults, and (c) until recently, the limited menu of IFC financing options that better match the needs of the sector, such as local currency financing. Despite these challenges, we will continue to monitor the situation closely.

Chairperson's Summary: Committee on Development Effectiveness

IFC in Ukraine: 1993–2006
An Independent Country Impact Review

(Meeting of October 29, 2007)

1. On October 29, 2007, the Informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) considered the Ukraine Country Assistance Evaluation (CAE)[1] prepared by the Independent Evaluation Group–World Bank (IEG-WB) and the Ukraine Country Impact Review (CIR) prepared by the Independent Evaluation Group–IFC (IEG-IFC), together with the IFC Draft Management Response.

2. **Summary of the Ukraine CIR.** IEG-IFC found that IFC's advisory-centric strategy was appropriate. IFC advisory operations in Ukraine outperformed evaluated IFC advisory operations in Europe and Central Asia (ECA) countries. IFC investment operations in Ukraine performed better than evaluated investment operations in the rest of the ECA Region and the average for IFC. IFC coordinated a number of advisory activities with the International Bank for Reconstruction and Development (IBRD), but the extent of the cooperation was relatively limited. IEG-IFC recommended that IFC: (a) focus its strategies on medium-term (three-to-five-year) horizon priorities and follow a more systematic approach to identifying investment opportunities, (b) coordinate with IBRD to ensure that both institutions work sequentially and/or in parallel to address remaining privatization challenges among larger companies, and (c) replicate the strong design of its successful large advisory projects, promote greater donor coordination and cohesion in its areas of engagement, and exploit synergy models between programmatic advisory and investment operations.

3. **Draft Management Response (CIR).** IFC Management thanked IEG for its findings and recommendations and mentioned that they would be taken into account in the preparation of the new country partnership strategy (CPS). The World Bank representatives pointed out that the new CPS would reflect a spirit of partnership with Ukraine and that IEG's specific recommendations on sectors and forms of intervention would be considered in this way. IFC's engagement continues to be guided by the four-year CPSs prepared jointly with other World Bank Group institutions. IFC is keen to pursue joint opportunities through the joint World Bank/IFC Sub-National Department, including investments in public-private partnerships and support for a range of municipal services. The infrastructure sector remains a priority for IFC in Ukraine, where IFC will appreciate IBRD's policy advisory work in advance of privatization. IFC uses its experience with successful demand-driven, multigenerational, and multidimensional larger operations to develop follow-up advisory projects that focus on the next logical area of intervention. Donor coordination is established and maintained at the project level. In addition, IFC is the lead donor of the Enterprise Support Working Group, created as part of a new donor coordination initiative by the Ministry of Economy of Ukraine.

4. The representative of the constituency that includes Ukraine overall supported the CAE and CIR results. At the same time, she felt that the IEG-IFC report could have benefited from its discussion with the Ukrainian authorities. IEG-IFC noted that it is general practice not to discuss the CIR with the government, because the private sector is the IFC's client. At the same time, the report will be presented in early-2008 in Kiev and discussed with government and other stakeholders.

5. **Main conclusions and next steps.** The subcommittee broadly agreed with the findings and recommendations of the CAE and CIR. Members stressed the importance of consulting with authorities on IEG reports. In this regard, they felt that the World Bank should assist the country in addressing its national priorities and development needs. The importance of disseminating lessons learned from the Ukraine case in the context of the Bank's experiences with transition economies and engagement with IBRD countries was also cited. The subcommittee discussion focused on issues related to the role of project implementation unit (PIUs), approaches to development policy lending, continued involvement in the health and education sectors, private sector development, and economic and sector work. Some members commented on the need to strengthen synergies within the World Bank Group and increase collaboration with other partners, particularly the European Bank for Reconstruction and Development. Questions were raised on how management was planning to integrate IEG findings and recommendations into the upcoming CPS.

The following points were raised:

6. **Country context and Bank/IFC program.** Members emphasized the importance of the permanent dialogue with the Ukrainian stakeholders and encouraged further World Bank Group involvement in building the institutional capacity of the public and private sectors. They suggested that the Bank adapt its support to Ukraine's political environment and evolving priorities and stressed the need for effective presence in the country. In this context, members sought more information about resources and staff skill mix to ensure sustained, effective policy dialogue with the government and private sector. There were questions on how the Bank and IFC further see the reform process in Ukraine, the associated risks for future CPSs, and the strategy to mitigate the risks. Speakers supported the focus of IFC Advisory Services on addressing the key business constraints for the private sector and noted that the business climate in Ukraine needs further improvement.

7. **Health and education sectors.** Many members expressed their concerns about worsened indicators in the health and education sectors and sought more information on the reasons. They would like to see more precise recommendations on how to improve the Bank's future work in these areas. In this regard, a member asked about the reasons for poor performance of the control project for the tuberculosis/human immunodeficiency virus/acquired immunodeficiency syndrome epidemic. *Management explained that the major problem behind moderately unsatisfactory Bank involvement in the health and education sectors was uneven government ownership of the reform agenda.*

8. **World Bank Group synergies and cooperation with other partners.** Most speakers reiterated the need for better World Bank Group synergies, particularly the importance of closer cooperation between IBRD and IFC in providing advisory services and making investments. They also urged better collaboration between the World Bank Group and European Bank for Reconstruction and Development (EBRD) to avoid duplication of efforts. Management briefed members on steps to increase collaboration with IFC, as well as with European Union institutions (European Council, EBRD, and European Investment Bank), which had recently become the largest external providers of development finance to Ukraine.

9. **Project implementation units.** Several members encouraged avoiding PIUs and noted that management response to this issue was passive. *Management clarified that staff received mixed signals on this agenda and have struggled to balance concerns about corruption with established perceptions that PIUs provide fiduciary comfort.*

10. **Lessons and recommendations.** Several speakers felt that the IEG report language could have been more specific in terms of recommendations and lessons learned. They also sought more detailed assessment of the general appropriateness of the Bank's strategy for Ukraine. A member asked a question about the reasons for slow reform implementation.

11. **Middle-income country agenda.** Several members noted that problems identified by IEG in the CAE and CIR, for example, over-optimism, lack of selectivity, and the World Bank Group supply-driven agenda, were common for other middle-income countries, particularly in the ECA region. In this regard, they asked about ways for cross-fertilization between IEG evaluations for Ukraine and the middle-income country evaluation recently completed by IEG. IEG-WB noted that the latter report benefited from CAE findings and included a box on the contribution of Bank analytical work to the country's integration into the world economy. Management explained that underestimation of the depth and duration of the transition recession in the countries of the Commonwealth of Independent States was related to the Bank in common; however, the Bank adapted quickly and paid more attention to poverty issues using poverty assessments as one of the key AAA tools. The Bank also took into account the political economy issues in the project design.

Jiayi Zou, Chairperson, CODE

1. Introduction

1.1 This country impact review evaluates the results and analyzes the performance drivers of the International Finance Corporation's (IFC's) investment and advisory operations in Ukraine undertaken in pursuit of previous country strategies. In doing so, the study seeks to inform IFC's Ukraine strategy and make recommendations intended to improve operation results further.

Study Objectives and Scope

1.2 More specifically, the study addresses the following questions:

- What was IFC's strategy for operating in Ukraine, which factors determined this strategy, and was it appropriate given country conditions?
- How was the strategy pursued and what circumstances particularly influenced its implementation?
- What were the performance ratings and outcomes of IFC's investment and advisory operations related to pursuit of the strategy, and what lessons and recommendations from past and ongoing operations can inform IFC's future strategy in Ukraine?

1.3 ***This review covers the entire period of IFC's engagement since Ukraine became a member of IFC.*** The review is concurrent with the Independent Evaluation Group (IEG)–World Bank country assistance evaluation for fiscal year (FY) 1999–2006 (forthcoming). World Bank operations conducted in FY 1994–98 were evaluated in an earlier document (World Bank 2000b); however, no prior evaluation was conducted on IFC operations in Ukraine, therefore, the study period for this country impact review is FY 1993–2006, covering all IFC investment and advisory operations undertaken since Ukraine's accession to IFC in 1993 (beginning in FY 1993 for advisory operations and FY 1994 for investment operations). Where appropriate, the analysis is separated into subsets for FY 1993–98 and FY 1999–2006 to parallel the timeline of analysis in the country assistance evaluation.

1.4 ***The core study population consists of investment and advisory operations that have at least reached early operating maturity.*** The study reviews investment and advisory projects evaluated in FY 1999–2006 and approved in FY 1993–2004. To enable evaluative judgments, the IFC investment operations needed to have reached early operating maturity (defined as at least 18 months of operating results at evaluation). The concept of early maturity also applies to advisory operations, because an accurate outcome and impact assessment is possible only with completion of an advisory operation or conclusion of work on one or more distinct identifiable phases that can be evaluated on a stand alone basis. Based on these criteria, the core study population was determined to consist of 11 investment operations[1] and 35 advisory operations.[2] Recent investment and advisory operations that had not reached early maturity by the end of calendar year 2006 are analyzed in the context of this review by quantitative and qualitative means other than evaluation ratings to reflect emerging findings.

Study Methodology, Sources, and Limitations

1.5 The study uses standard IEG-IFC evaluation guidelines as a basis for rating investment and advisory operations and compares their ratings with those of relevant peer groups. For evaluating investment operations, this review follows IEG-IFC methodology, as defined in the respective IEG-IFC instruction manuals for preparing expanded project supervision reports (also known as XPSRs) for financial markets and nonfinancial markets projects (appendix A summarizes the relevant methodology). For evaluating advisory operations, the review uses IEG-IFC's guidelines for advisory services project evaluation reports, which cover the evaluation methodology for IFC advisory operations (see appendix B). The evaluated results for Ukraine operations are compared with those for relevant peer groups (random samples of investment projects in the Europe and Central Asia (ECA) region,[3] as well as in the rest of IFC, evaluated within the XPSR cycle, and Private Enterprise Partnership (PEP)–ECA advisory operations evaluated in Independent Evaluation of IFC Advisory Services, Private Enterprise Partnership: Eastern Europe and Central Asia (IFC 2007a), hereafter referred to as the PEP-ECA study.[4] Relevant quantitative analysis, such as risk intensity analysis for investment operations (appendix E describes the relevant methodology) supplement the evaluations, enabling inferences regarding performance of recent (operationally immature) operations.

1.6 ***The study uses a variety of information sources to supplement analysis.*** In addition to operation evaluations and related analysis performed specifically for this study, the review uses internal and external sources to establish the context of IFC's operations in Ukraine and derive findings. This includes information and data from internal IFC documents, such as project documentation and reports, strategy documents, internal policy documents, and discussions with IFC investment and advisory staff, as well as completed and ongoing IEG–World Bank and IEG-IFC studies. The most notable of these are (a) the Ukraine Country Assistance Evaluation (World Bank 2000b) and a draft of the next IEG–World Bank Ukraine Country Assistance Evaluation (b) the PEP-ECA study (IFC 2007a), including underlying project evaluations, and (c) the IEG evaluation of World Bank–IFC collaboration in middle-income countries (World Bank 2007). IEG also used information related to a 2002 OEG[5] evaluation of IFC operations in the Russian Federation. Furthermore, the team has reviewed project and strategy information and evaluation results disclosed by other donors (multilateral and bilateral) and EBRD, both public and made available on request, as well as World Bank Group and external databases pertaining to Ukraine's economic development and business climate. The study team also visited Ukraine in June 2006 and conducted interviews with IFC investment and advisory country office staff, World Bank staff (including the IEG–World Bank country assistance evaluation team), IFC investment and advisory clients (both current and past), and representatives of other donors (multilateral and bilateral) and EBRD (appendix F lists interviewees).

1.7 ***Although every effort was made to ensure completeness of information, certain limitations on study coverage remain.*** Before establishment of PEP-ECA, advisory operation records were not systematically collated and stored within IFC, except for the purposes of donor reporting. As a result, information pertaining to a number of early advisory assignments predating creation of PEP-ECA was collected for this study on a best-efforts basis and evaluative judgments were made based on the data available. It is possible that, had more complete reporting been available, these judgments might have warranted revision.

Report Organization

1.8 ***The rest of this report is organized into four chapters.*** Chapter 2 outlines the context that determined Ukraine's main private sector development needs and influenced IFC's strategy in Ukraine, the content of IFC's strategy, and its relevance to country priorities. Chapter 3 assesses IFC's pursuit of its strategy and discusses the dollar volume of IFC's advisory and investment operations in the context of donor and other financier activities. Chapter 4 analyzes the success rates of IFC's advisory and investment projects, discusses success drivers, and summarizes the outcomes and impacts of IFC operations. Chapter 5 presents recommendations concerning IFC's future strategy, advisory, and investment operations

2. IFC's Strategy in Ukraine: Its Context, Content, and Relevance

Ukraine's challenging business climate to a large extent shaped and constrained IFC's Ukraine strategy. Given the length and depth of Ukraine's recession in the 1990s and the inconsistent political momentum for reform, Ukraine remained relatively unattractive to private investors for much of the period under review. It was thus both as a consequence of the dearth of investment opportunities and as a prerequisite for improving Ukraine's business environment that IFC engaged in an extensive program of advisory operations as the first component and continuing mainstay of its involvement in Ukraine. (IFC was expected to follow its advisory efforts with investment operations as conditions permitted, yet until recently, successive CASs documented difficulties in finding suitable opportunities.) In hindsight, the strategy was appropriate, but recent investment climate improvements call for a more proactive and targeted strategy.

Ukraine's difficult and lengthy transition impaired the business environment, resulted in a deeper recession, and hindered foreign direct investment.

2.1 Ukraine's transition was complicated by lack of political consensus and entrenched opposition to reform, resulting in persistent business environment deficiencies. Although Ukraine's independence in 1991 was greeted with a high degree of optimism, the challenge of forging its statehood and creating an independent political and economic infrastructure took a heavy toll. Unlike other Central and Eastern European countries, Ukraine at the time of independence had no established borders, currency system, or national institutions; addressing these issues was no less a priority than the transition challenges of privatizing public sector assets and creating a market economy. Although Ukrainian authorities reiterated their support of market liberalization and private enterprise throughout the period, their actual commitment to reform, privatization, and transparency wavered, often as a result of dissent between the government and parliamentary opposition, exacerbated by the continuing public appeal of communist ideology until the late 1990s. Key economic legislation was frequently passed, either with significant delays (in some cases, years) or with restrictive modifications; stalled indefinitely within the Parliament; or in effect put on hold. The following legal and regulatory deficiencies thus existed:

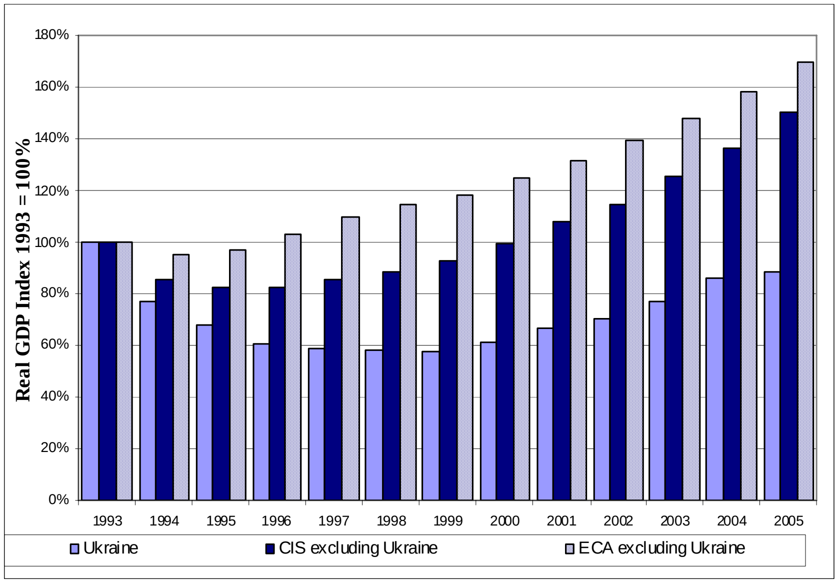
- Privatization legislation that was passed in 1992 suffered a setback from a moratorium imposed in 1994.
- It took 10 years (1991–2001) to adopt a progressive version of the land code.[1]
- The civil and commercial codes are still in need of reconciliation.
- The quality of bankruptcy and corporate governance legislation has been low (EBRD 2006).
- The current tax regime, although improved, contains provisions detrimental to development of leasing operations.
- The moratorium on the sale of agricultural land, widely believed to be one of the main constraints to agricultural credit, has been extended by another year until January 2008 (by no means guaranteeing that this was a final extension).

2.2 These legal and regulatory deficiencies and other issues related to regulatory enforcement, such as the high cost of doing business [2] and perceived high degree of corruption; [3] have contributed to an overall unfavorable investor perception of Ukraine as evidenced by a low Institutional Investor Country Credit Risk Rating until 2004 (see figure 3.2 in the next chapter).[4]

2.3 ***Privatization in Ukraine started later, took longer than in neighboring countries, and is not yet complete.*** Unlike its challenging political transition, the path of Ukraine's economic transition was similar to that in countries in the ECA region that had progressed from a centralized planned economy with predominantly public-sector ownership to a market economy with predominantly private ownership. Still, compared with the rest of ECA, particularly Central and Eastern European countries, Ukraine was slow to start its privatization and slow to reach a significant proportion of private sector ownership, largely due to political pressures. Most ECA countries had by 1994 made moderate to substantial progress in privatization (with a few exceptions such as Azerbaijan, Georgia, and Turkmenistan) (de Melo, Denizer, and Gelb 1996). Ukraine, however, was barely beginning the process: fewer than 10 percent of either the country's small enterprises or its medium and large enterprises had been privatized by the end of that year.[5] Although small-scale privatization gathered momentum in the second half of 1995, the mass privatization process continued below target until a change of pace in 1997–98 enabled substantial completion of both small-scale and mass privatization by 1999 (see World Bank 2000b: paragraph 3.13, and EIU 1999: 19). Meanwhile, the privatization of large-scale enterprises is still far from complete: according to IEG-World Bank figures, in 2006 the state government still had majority ownership of about 4,650 enterprises. Most utilities—electricity generation and distribution (with a few exceptions), gas, water, and fixed line telephone—are still in the public sector,[6] and the commercial orientation of Ukrainian state-owned enterprises is weak.[7]

2.4 The above political and privatization issues contributed to the particularly long and profound economic recession Ukraine endured throughout the 1990s. Inconsistent commitment to instituting the legal and regulatory underpinnings of economic reform and the delayed privatization process were among the main reasons why Ukraine lagged behind its ECA and CIS peers in terms of the length and extent of the economic recession in the mid-1990s[8] (see figure 2.1). Most CIS countries experienced a contraction of gross domestic product (GDP) at the time. Ukraine, however, was particularly affected in terms of both the degree of contraction (1999 GDP was 42 percent below the 1993 level in constant dollar terms, the biggest drop in ECA) and low extent of recovery (Ukraine is the only ECA country besides Moldova whose 2005 GDP is below the 1993 level in constant dollar terms, down 11 percent compared with a regional average, excluding Ukraine, of up 70 percent and a CIS average of up 50 percent).[9] Ukraine was also slow to rebound from the GDP contraction; growth resumed only in 2000 (2001 in nominal terms). To date, Ukraine has ranked low in ECA in terms of GDP per capita. (The only countries exhibiting lower figures, both as a period average and by the end of 2005, are CIS states that experienced civil war, ethnic strife, or highly restrictive policies in the years following independence: the three Caucasus states,[10] the four Central Asian states except Kazakhstan[11] and Moldova).[12]

Figure 2.1: Ukraine's Recession Was More Precipitous Compared with Other ECA and CIS Countries in 1993–2005



Source: World Bank World Development Indicators and Global Development Finance databases.

2.5 ***These influences have also constrained foreign direct investment (FDI) for most of the period under review.*** The business environment deficiencies and associated negative perceptions, coupled with economic contraction, translated into very low FDI inflows throughout 1993–2004. This made Ukraine—whose 1993–2004 FDI/GDP ratio averaged 1.5 percent—the sixth lowest FDI recipient in ECA in terms of the ratio of FDI to GDP after Belarus, Russian Federation, Turkey (the latter two countries have a particularly low FDI/GDP ratio due to large GDP volume), Turkmenistan, and Uzbekistan, compared with an ECA average, excluding Ukraine, of 4.0 percent. In terms of FDI inflows per capita, Ukraine—whose annual 1993–2004 FDI per capita averaged $14—ranks even lower, as the fifth lowest in ECA after Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan, compared with an ECA annual average, excluding Ukraine, of $126.

IFC's strategy concentrated on building a relatively new private sector and addressing business environment deficiencies.

2.6 Ukraine's pressing private sector development needs in the 1990s were to create a private sector and improve the investment climate. IFC's strategic response consisted of a concentrated initial thrust in advisory operations. Given the above circumstances, IFC's Ukraine strategy set out to focus on advisory operations intended to develop Ukraine's private sector, alleviate business climate constraints, and foster investment opportunities. This was to be accomplished initially by helping create a critical mass of privatized enterprises that could serve as the engine of private sector growth and become attractive investment targets for private sponsors. Consequently, IFC's initial efforts concentrated on privatization advisory assignments and post privatization support. Subsequent documents—the 2000 and 2003 CASs jointly prepared by IBRD and IFC (World Bank 2000a and 2003) as well as progress reports—continued to call for extending IFC's technical assistance activities and engagement in policy dialogue to improve the regulatory framework and protection of property rights as a precondition for increased investment activity. The results matrices of the 2000 and 2003 CASs also reflected these strategic priorities, although IFC's activities were addressed in more general terms than IBRD's. Box 2.1 summarizes IBRD strategies and operations during FY 1999–2006 evaluated in its country assistance evaluation.

Box 2.1: Summary of IBRD Strategies and Operations during FY 1999–2006

Between FY 1999 and FY 2006, IBRD strategy focused on (a) economic growth and integration into the world economy, (b) restructuring the public sector and achieving improved transparency and accountability, and (c) poverty reduction, comprehensive human development, and reduction of regional imbalances. IBRD's program included initiatives to strengthen the capacity of civil society to demand greater accountability and transparency of government at all levels.

IBRD approved $2.3 billion in loans, less than one-half of the lending levels that it had proposed to extend, mainly due to slower than expected progress on reforms and program implementation. Although investment lending, with poor performance and high costs in preparation and dropped projects, was one of the main weaknesses of the IBRD program in this period, adjustment lending did better and high-quality analytic work was one of the main strengths. IBRD's analytical work was widely appreciated and helped improve understanding of the requirements for a market economy.

In terms of the major objectives of IBRD assistance, GDP growth averaged 6 percent a year between 1999 and 2006; progress was made in building a culture of payments and fiscal discipline, deepening the financial sector, and improving the legal and regulatory framework. The financial viability of the energy sector improved, and Ukraine moved towards meeting World Trade Organization criteria for accession. There was little progress on environmental issues, however, which remain a major risk to development. On governance and public sector reform, results are mixed. Municipal service delivery improved in cities with an active pilot IBRD project, but little progress was made in reforming public administration and improving the efficiency of the public sector. Even though the numerous pitfalls in the use of indicators on trends in governance, corruption, and rule of law are well known, it is nonetheless worth noting the mixed results of these indicators. IBRD supported tax reform and introduction of modern budget institutions and practices. Public procurement initially improved, but recent backtracking puts progress in this area at risk. In the third major area—poverty reduction and human development—poverty incidence declined in line with growth in per capita GDP and social assistance programs were simplified. Reforms in the pension system, however, were undercut by large increases in 2004 and 2005, doubling the cost of pensions. In education, primary school enrollments have risen, but those in secondary school declined. Health outcome indicators show mixed results: child and infant mortality were reduced and life expectancy has declined slightly, but the tuberculosis and AIDS epidemics have worsened. IBRD's flagship operation in health was suspended after four years with only 2 percent of the funds disbursed. Failure to establish a land registry limited gains in land registration, and no progress was made in reducing regional disparities.

The overall outcome of IBRD's assistance program is rated as moderately satisfactory. The institutional development impact of Bank assistance is rated as modest. Risks are regarded as significant. Further improvement in the business environment and more trade diversification are needed. In the public sector, fiscal sustainability of the pension system and problems with public procurement pose major risks. Public spending is high, having increased steadily since 1999, and is crowding out private investment; Ukraine's commercial orientation means that needed public investments are delayed, particularly in infrastructure.

Recommendations: IBRD strategy should strive for greater selectivity, centered on public financial management, private sector development, energy, and social protection, with a focus on governance and institutional development. In economic and sector work, a focus on private sector development and infrastructure would be desirable. In lending, the design of investment projects needs simplification to match implementation capacity. Regarding development policy lending, a shift to more narrowly focused, single-tranche operations would provide for deeper policy and institutional reforms.

Source: IEG-World Bank

2.7 Meanwhile, IFC was expected to follow its advisory work with investment operations as opportunities arose, a recurring expectation that proved unrealistic throughout much of the 1990s. In FY 1993–98, Ukraine's private sector was at its inception and investment opportunities were limited as a result. At the same time, IFC expected its activities to increase rapidly once mass privatization efforts injected enterprise assets into the market. This expectation obviously proved too optimistic, due largely to the delayed pace of privatization (although the delay in turn led IFC's advisory operations to focus on helping Ukraine complete the mass privatization program). The 2000 CAS remarked, "IFC has faced great difficulty in attracting strong foreign industrial partners to Ukraine and has therefore focused its investments on the financial sector" (World Bank 2000a: paragraph 54). Nonetheless, it was expected that IFC would "aggressively pursue investment operations, which are more likely to come into existence as the business environment continues to improve" (World Bank 2000a: paragraph 62). Although the 2003 CAS noted IFC's increased business development efforts in response to improvements in economic management and legislation, it was still only during FY 2004–05 that IFC was at last able to scale up its investment operations.

Recent business climate improvements imply a longer-term, more targeted IFC approach than before.

2.8 Although the early expectations regarding investment activity were optimistic, IFC's overall Ukraine strategy was appropriate given country conditions. A review of CAS documents, a previously summarized analysis of Ukraine's economic environment, and an analysis of IFC's promotional efforts in Ukraine and EBRD's activities (discussed in chapter 3) reveals that, although IFC may have initially been overly optimistic on the timing of the expected increase in investment activity, its strategic emphasis on advisory operations throughout the period constituted a necessary and prudent response to country conditions. In this respect, IFC's strategy has been similar to that pursued in the Russian Federation throughout the 1990s, when IFC devoted the bulk of its early efforts to advisory operations, rather than investments in response to the Russian Federation's needs and investment climate constraints. The relevance and appropriateness of an advisory-centered strategy under the constraints of Ukraine's difficult business environment was also validated in the 2000 Ukraine country assistance evaluation (World Bank 2000b), reinforced by the generally poor ratings for IBRD's investment and adjustment operations during the period assessed in this evaluation.[13]

2.9 ***Recent improvements in Ukraine's business climate are partially attributable to World Bank Group operations.*** In the past few years, Ukraine's business climate has undergone tangible improvements with greater macroeconomic stability and a more cohesive legal and regulatory framework. The effect of structural and regulatory reforms, starting in 1998, became evident in 2000 onward with resumption of GDP growth, which has been sustained to date. Some of the improvements are at least partly attributable to the impact of IFC advisory operations (for example, the SME survey and policy development project facilitated registration reform and simplified taxation for SMEs), whereas IBRD operations enabled other improvements (notably, sound macroeconomic policies). In recognition of its progress, Ukraine has recently transitioned from the high- to medium-risk Institutional Investor Country Credit Risk Rating bracket and entered the ranks of middle-income countries.[14] In addition to business climate improvement itself, the positive international perception of the 2004–05 "Orange Revolution" was an important driver behind the increase in FDI inflows from $1.7 billion to $7.8 billion in 2005, compared with 2004.

2.10 Despite the continuing political uncertainty, more proactive and better targeted strategies regarding both investment and advisory operations in Ukraine would be advantageous. At present, the prolonged political tensions threaten to delay needed legal and regulatory reforms or trigger policy reversals further and may dampen investor interest in Ukraine; however, although further progress in the immediate future is questionable, the main economic and regulatory gains of the past few years are unlikely to erode significantly and, once the situation stabilizes, remaining enabling environment deficiencies and privatization priorities in utilities, power, and large state-controlled enterprises will need to be addressed. Although IFC's early strategies in Ukraine were somewhat reflexive in nature, because the difficult conditions made upcoming developments and investment opportunities hard to anticipate, a longer-term and more targeted approach than before may be required to select IFC investments in areas of greatest potential development impact and demonstration effect (such as post privatization transactions and public-private partnerships in infrastructure), while avoiding undue competition with other international financial institutions (such as EBRD and the European Investment Bank).[15] A similar shift of time horizon may be called for in IFC Advisory Services to reinforce the long-term approach to improving the business climate.

3. IFC's Pursuit of Its Strategy in Ukraine

Although IFC's outlook throughout the period was mostly short term, IFC's immediate priorities in the area of advisory work were accurately reflected in Ukraine's country assistance strategies alongside ongoing operations and were duly followed up. As Ukraine's urgent transition priorities were being addressed, the focus of IFC's advisory operations shifted from privatization to a host of enabling environment tasks. Meanwhile, despite significant promotional efforts in FY 1994–97, the expected increase in IFC's investment activity could not materialize until FY 2004–05 when country conditions had sufficiently improved. On balance, even though IFC's involvement in Ukraine could have been more substantial, IFC was operating in a relatively crowded environment of suppliers: the scale of its investment and advisory operations, significant in relation to IFC's activity in the region, was relatively small compared with the activities of EBRD and various donors in Ukraine.

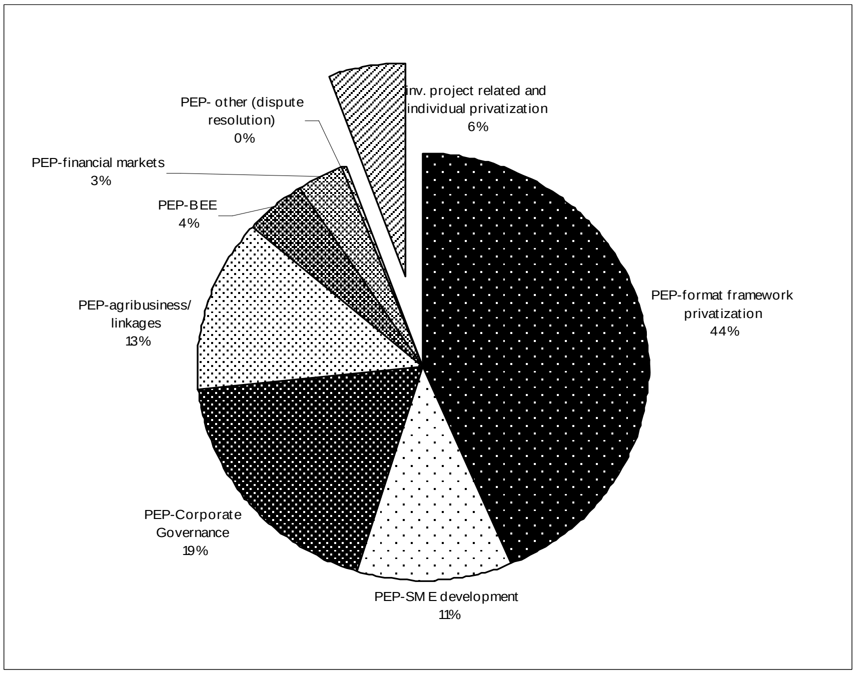
In line with strategy, IFC has had a substantial advisory services presence in Ukraine, but channeled a small portion of total official development assistance funding to the country.

3.1 In pursuit of its advisory-centric strategy in Ukraine, IFC mobilized a significant volume of donor funding, in which the proportion of advisory to investment funding was higher, compared with the rest of PEP-ECA countries. In the 14 years of its engagement in Ukraine, IFC mobilized a total of $54.6 million of donor funding for 45 advisory operations. Ukraine accounted for 36 percent of total PEP-ECA advisory funding in FY 1993–2005,[1] second only to the Russian Federation with 42 percent. By leveraging donor funding for advisory operations, IFC gained an early foothold in Ukraine and maintained visibility throughout the study period.[2]

3.2 ***Most of IFC's initial efforts centered on programmatic privatization advisory projects.*** Country strategy documents, especially the 2000 CAS (World Bank 2000a), had a relatively short-term view of IFC advisory priorities and emphasized ongoing activities; however, the CASs accurately documented these activities, and IFC advisory operations followed up in the field on the immediate priorities identified therein. Among these operations, comprehensive privatization advisory assignments (such as the small-scale privatization, mass privatization, and land privatization projects) accounted for 44 percent or almost half of total advisory funding in FY 1993–20063 (see figure 3.1) and accounted for most of IFC efforts in the early years (1993–99).

3.3 As Ukraine's privatization agenda was gradually completed, the focus of IFC's advisory operations shifted to other business environment aspects to address emerging priorities. IFC thus proceeded to address other priorities that pertained to fostering the nascent SME sector (initially in parallel with privatization assignments), assisting newly privatized enterprises in improving corporate governance, promoting linkages between agricultural suppliers (mostly SMEs) and larger agribusiness enterprises, improving the business enabling environment, and deepening financial markets. These areas were undertaken more or less in that order, but have since been addressed largely in parallel (including a number of ongoing projects); this has enabled IFC to create momentum through synergies (such as sharing information and experience among projects) and economies of scale (such as sharing specialist staff and office space). In recognition of Ukraine's agricultural potential,[4] a significant portion of advisory operations (37 percent by value and 38 percent by number, including privatization, individual privatization advisory, and investment-related operations) was related to that sector, representing the only sector concentration of advisory projects.

Figure 3.1: Privatization Assignments Comprised the Bulk of IFC's Advisory Operations FY 1993–2006 (percent of dollar volume)



Source: IFC data.

3.4 Notwithstanding the relative size and importance of Ukraine operations for IFC, the Corporation was a relatively small player as an implementing agency. Ukraine's difficult transition drew an active response from the global development community; most major bilateral and multilateral agencies established a presence from the outset of Ukraine's independence and maintained significant volumes of funding; this is not surprising, given the country's strategic importance and considerable needs (box 3.1 summarizes donor activities). Insufficient demand (lack of political commitment to the reform agenda), not insufficient supply, hindered investment climate improvement, because Ukraine was relatively well supplied with donor funding. For most donors, Ukraine was the second largest destination of funding in the CIS after the Russian Federation; thus, in 1993–2005 Ukraine accounted for 26 percent of total European Union–Technical Assistance for the CIS donor funding and for 17 percent of U.S. Agency for International Development funding (both excluding regional facilities).[5] In this context, IFC may be seen as a small player, that is, as an implementing agency, rather than a donor. IFC was one of dozens of such agencies alongside private sector providers (mostly consulting firms) carrying out donor-funded advisory operations and in this capacity accounted for only 1 percent of the dollar volume of donor-funded advisory operations in Ukraine in 1993–2004. Yet donor interviews and a review of relevant publications both confirm that in the overall context of official development assistance available in Ukraine, IFC's advisory work filled a relevant and visible niche[6] in the areas of privatization and private sector development (most notably, SME/business enabling environment and agribusiness/linkages, as well as corporate governance).

Box 3.1: Overview of Official Development Assistance and Strategic Priorities in Ukraine

Total flows of official development assistance funds to Ukraine amounted to $4.8 billion in 1993–2004. The greatest share of funding has come from the United States ($2 billion, primarily through the U.S. Agency for International Development), Germany ($0.8 billion), and European Union ($0.7 billion). Other bilateral donors active in Ukraine have included Canada, United Kingdom, France, Switzerland, Sweden, and Netherlands.

Although individual donor priorities have varied, especially in terms of short- and medium-term goals, the overarching goals of donor assistance have been consistent among agencies and a considerable degree of strategic and tactical overlap has existed:

- United States assistance has been targeted to enhancing regional security and nonproliferation; strengthening democratic governance, rule of law, and civil society (including legal reform); supporting market-based economic reform, particularly in agricultural and financial sectors; fostering SME development; and addressing urgent humanitarian needs in the areas of human immunodeficiency virus/acquired immune deficiency syndrome (HIV/AIDS), maternal and infant health, treatment of tuberculosis, and prevention of human trafficking.
- The European Union–Technical Assistance for the CIS program has supported legal and administrative reform, civil society development, SME development, housing and municipal services, energy sector reform, health, and social security.
- The United Kingdom has provided assistance in governance, democracy building, economic integration, social protection, rural community, and SME development.
- Canada's assistance has focused on strengthening governance and civil society, public administration and public service reform, rule of law, and a private sector enabling environment.
- Sweden's assistance has focused on natural resource management, public administration, infrastructure and urban development, and democracy building.
- Germany has financed predominantly economic and social research and education and supported strengthening of democracy, rule of law, and market economy reform.
- The Netherlands has supported health care, environment, and human rights initiatives, among others.
- Switzerland has targeted the bulk of its assistance at financing rehabilitation of basic infrastructure in priority sectors (health, energy, wastewater, and nuclear safety).
- Japan has concentrated its funding on nuclear safety.

Views on the extent of donor coordination vary among agencies: although the U.S. Agency for International Development stated in its 2002 strategy for 2003–07 that "donor coordination in Ukraine is excellent," other donors, such as the Canadian International Development Agency and Department for International Development in the United Kingdom, have assessed coordination as limited and called for greater alignment of donor tactical and strategic approaches and improved information flow.

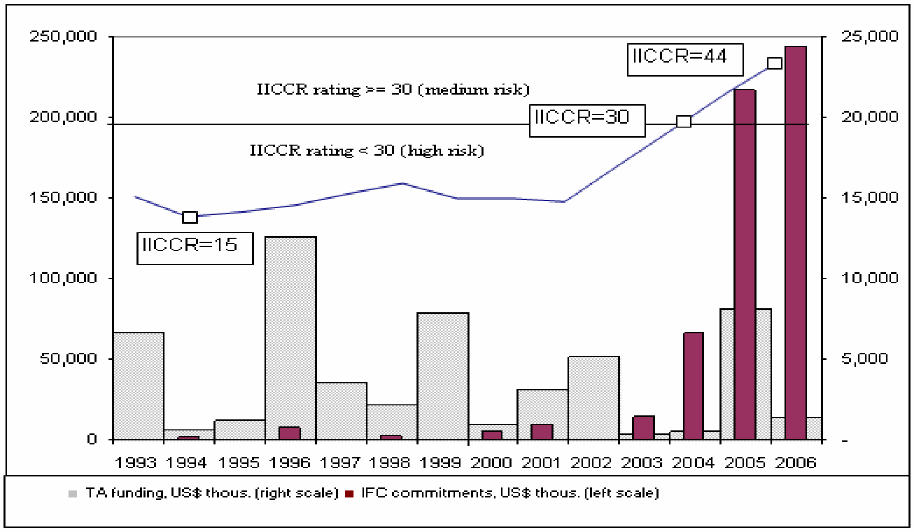
Sources: CIDA (2001 and 2005); EBRD (2005a); EBRD (2005b); Weston, Blouin, and de Silva; USAID 2005 Ukraine annual report and Ukraine country strategic plans for 1999–2002 and 2003–07; among others.

3.5 IFC coordinated a number of its advisory activities with the World Bank, but the overall extent of cooperation has been relatively limited.[7] Both the 2000 and 2003 CASs were jointly prepared by IBRD and IFC, and both express appreciation for past collaborative efforts between the two institutions and the importance of continued coordination.[8] A review carried out in preparation for the ongoing study of IFC–World Bank collaboration in middle-income countries (World Bank 2007), however, found that the overall extent of cooperation both at the strategic and working levels has been short of potential, despite a number of successful instances of cooperation. Most notable among the latter are ongoing Doing Business reviews and reports, the draft Report on the Observance of Corporate Governance Standards and Codes, benchmarking of IBRD loan conditionalities using IFC's SME survey, and to a lesser extent, joint work on mortgage, leasing, and credit bureau legislation. Moreover, project evaluations within the PEP-ECA study reveal that lack of cooperation has affected the impacts of IFC advisory operations (see chapter 4). Judging from these experiences, it is important in future collaborative efforts that staff from both institutions ensure that they are jointly involved in project design from the outset and equally aware of expected project timing and scope, and explicitly agree on expected deliverables and any related bench-marks and associated loan conditionalities. Going forward, there will be a continuing need to align the strategies and tactics of the two institutions in Ukraine,[9] especially in addressing the remaining privatization challenges; these are likely to require discussions with the government and IBRD policy work and may entail creation of public-private partnerships and call for post privatization IFC investment projects emphasizing demonstration effects with sponsors committed to good governance.

Realizing higher volumes of investments have until recently been problematic, not least because of the leading presence of EBRD.

3.6 ***The expectations of increased investment volumes did not materialize until FY 2004–06.*** Contrary to early strategy expectations and as discussed in subsequent CASs, IFC commitment volumes were negligible in FY 1994–98 and only increased significantly starting in FY 2004 (figure 3.2 and appendix C address IFC's committed investments in Ukraine). This development paralleled the decrease in intensity of advisory operations and closely followed the improvement in Ukraine's business climate (as proxied in figure 3.2 by evolution of the Institutional Investor Country Credit Risk Rating). This dynamic is a function of IFC's initially cautious approach to investment operations coupled with the difficulty of finding reputable private sector sponsors, countered later by IFC's increased promotion efforts (see paragraph 3.8) and by political developments in 2004–05. It should be noted, however, that IFC itself contributed to the increase in private sector business opportunities by helping improve the investment climate through its advisory assignments. Due to the rapid growth of recent commitments, Ukraine currently accounts for $571 million or 5 percent of total ECA commitments (excluding country portions of regional facilities) in FY 1994–2006 and made up IFC's ninth largest country portfolio worldwide at the end of FY 2006. Portfolio growth is even more significant as a percentage of GDP in that IFC's calendar year 2005 commitments amounted to 0.3 percent of Ukraine's 2005 GDP,[10] compared with an annual average of 0.02 percent of GDP for IFC commitments in Ukraine in calendar years 1994–2004 and an annual average of 0.06 percent of GDP for IFC commitments for ECA excluding Ukraine in calendar years 1994–2005.

Figure 3.2: Trends in IFC Advisory and Investment Commitments and Risk Ratings for Ukraine, 1993–2006



Source: Data from IFC and International Investor Magazine. (http://old.institutionalinvestor.com/default.asp?page=10).
Note: IICCR refers to Institutional Investor Country Credit Risk, for which a country score below 30 is considered high risk and a score of 30 or higher is considered medium risk.

3.7 ***IFC's modest initial investment volumes belie promotional efforts in the 1990s.*** Even though IFC did not generate significant investment volumes in Ukraine throughout the 1990s, it was not for lack of trying. Average annual promotion and prospecting costs were in fact 20 percent higher in absolute terms in FY 1994–98 than in FY 1999–2006, and total FY 1994–98 promotion costs amounted to 13 percent of both FY 1994–98 and FY 1994–99 investment commitments (there were none in FY 1999). Meanwhile, numerous opportunities were investigated, but dropped even before Board approval, largely because of reputational and governance concerns: of 22 such dropped Ukraine projects recorded in IFC's databases to date (compared with 28 actually committed), 17 relate to FY 1994–2003, including eight investigated in FY 1994–98.[11] The difficulty of finding bankable opportunities in Ukraine is underscored by the absence of syndicated loans in IFC's portfolio before FY 2006, which signals lack of interest of potential deal cosponsors. In addition, the poor results and very high droppage rate of early advisory assignments related to potential investment transactions, which were used by IFC at the time to reinforce business development efforts (discussed in chapter 4), further testify to limited opportunities at the time.

3.8 ***The recent increase in investment activity was brought about by very intensive promotion relative to neighboring countries.*** A comprehensive comparison of administrative costs between Ukraine and neighboring countries before FY 2001 was not possible due to the migration of relevant IFC data among databases in FY 2001 and is approximate due to inherent limitations of data entry; however, a comparison between Ukraine promotion costs and those in the rest of IFC's Central and Eastern Europe Region[12] in FY 2001–06 shows that Ukraine accounted for 50 percent of the region's promotion and prospecting costs in this period and that IFC's FY 2001–06 promotion and prospecting costs in Ukraine exceeded those in the Russian Federation by half. Relative to total costs associated with investment operations (promotion/prospecting, processing, and supervision), FY 2001–06 Ukraine promotion and prospecting costs made up 25 percent of total investment-related costs, compared with only 4 percent in the Russian Federation and 7 percent in Central and Eastern Europe.[13]

3.9 IFC's early investments were in financial markets, but more recent transactions have also included projects in the real sector and agribusiness.[14] As mentioned in the 2000 CAS (World Bank 2000a: paragraph 2.7), IFC's early tactic, given the lack of quality cosponsors, was to focus on financial markets investments with foreign cosponsors (including both private sector institutions and multilaterals/donors). Only in FY 2004 did IFC start diversifying the sector profile of its commitments; at present, however, the portfolio is well diversified. Financial markets investments still constitute the largest share of aggregate FY 1994–2006 commitments (36 percent if portions of two regional financial markets facilities allocated to Ukraine, totaling $125 million, are added to country-specific commitments). General manufacturing aggregate commitment volumes (29 percent), however, are close, followed by agribusiness (23 percent). (Compared with the rest of ECA, Ukraine has a much higher proportion of agribusiness investments. See endnote 4 for comments). IFC has no extractive industry projects in Ukraine (understandable, considering that its resources are mainly agricultural) and only one recent health sector project; although the latter is among IFC's corporate strategic priorities, the tradition of public provision of these services in the CIS makes this a low priority for IFC in Ukraine.

3.10 A need continues to exist for investments in infrastructure and municipal utilities, for which sequential IBRD-IFC work may deliver the best results. As discussed in paragraphs 2.3 and 3.5, Ukraine's infrastructure sector is still dominated by public-sector enterprises and the need for increased private participation in the sector remains strong. IFC recently made two investments in power distribution. Continued progress in the sector, however, requires coordination between IBRD and IFC (while avoiding conflict of interest) for a concerted joint effort to ensure support of privatization at the policy level, which would be followed by post privatization IFC investments in companies committed to good governance intending to maximize demonstration effect. Other venues may include promotion of public-private partnerships and financing municipal utility projects using loans and/or partial credit guarantees; the joint IBRD-IFC Subnational Finance Department may be of valuable assistance in this effort, although further progress is currently hindered by IFC's inability to provide local currency financing in Ukraine. (IFC and the National Bank of Ukraine are discussing devising proper mechanisms to launch local currency financing in the country).

3.11 IFC shared the market with EBRD, whose regional focus and broader transition mandate has translated into higher volumes of business in Ukraine.[15] EBRD's regional focus has meant that it could dedicate more resources to Ukraine. On average, IFC's worldwide annual commitments in FY 1994–2005 have amounted to about 90 percent of EBRD's annual commitments[16] in the ECA region alone. Furthermore, EBRD's mandate to facilitate transition has implied a broader approach to project selection than IFC's specific emphasis on development impact. As a result of these factors, although Ukraine's share in EBRD's total private sector commitments in 1993–2006 is only slightly higher than its share in IFC's ECA regional commitments (7 percent compared with 5 percent), the actual volume of EBRD private sector commitments for the period is much higher: 3.5 times greater than IFC's (see figure 3.3 for a year-by-year comparison).[17] Yet, although both IFC and EBRD focused investment activities on agribusiness and financial markets, a degree of complementarity exists on the whole between the operations of the two institutions: EBRD's activities have been geared toward significant investment volumes and investment-related advisory work, whereas IFC's engagement throughout most of the period has concentrated on large-scale programmatic advisory operations.[18] The 2003 CAS effectively endorsed this, stating that "EBRD will take the lead in mobilizing still reluctant FDI, much needed for the sustainable economic growth" (World Bank 2003).

3.12 EBRD's competitive advantage is reinforced by its use of technical cooperation projects as an element of subsidy greater than that represented by IFC's project-related advisory operations.

EBRD's 1993–2005 technical cooperation commitments in Ukraine total about $70 million, compared with IFC's $55 million (see figure 3.4 for a year-by-year comparison). Yet a fundamental distinction exists between IFC's and EBRD's use of donor funding: EBRD's commitments consist exclusively[19] of engagements related to specific investment projects[20] (predominantly in the financial markets sector, 57 percent by dollar volume and 30 percent by number), whereas IFC's project-related assignments have only equaled a small portion (3 percent by dollar volume) of its overall advisory operations in FY 1993–2006; programmatic assignments have made up the bulk. Although the ratio of EBRD's project-related technical cooperation funding to the volume of EBRD investments translates to about a 3.7 percent subsidy of investment operations, in IFC's case, the ratio of project-related advisory assignments to IFC investment commitments points to a subsidy equivalent of only 0.3 percent. Meanwhile, current pricing policies for IFC Advisory Services (adopted in November 2006 and effective January 2007) [21] altogether preclude IFC from subsidizing client-specific advisory engagements.

Figure 3.3: Comparison of EBRD's Private Sector Annual Signed Volumes with IFC's Commitments, 1993–2005

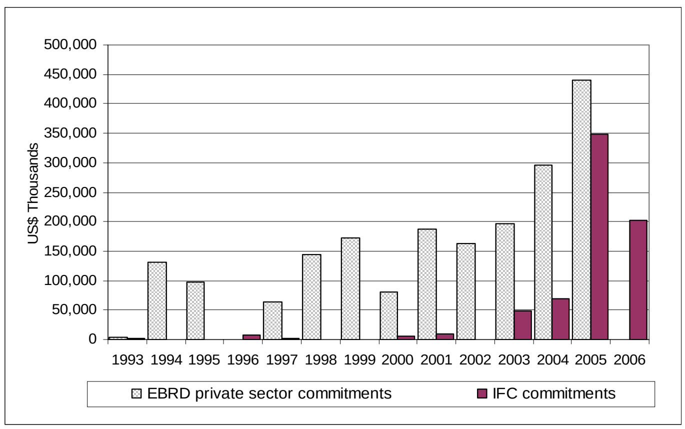
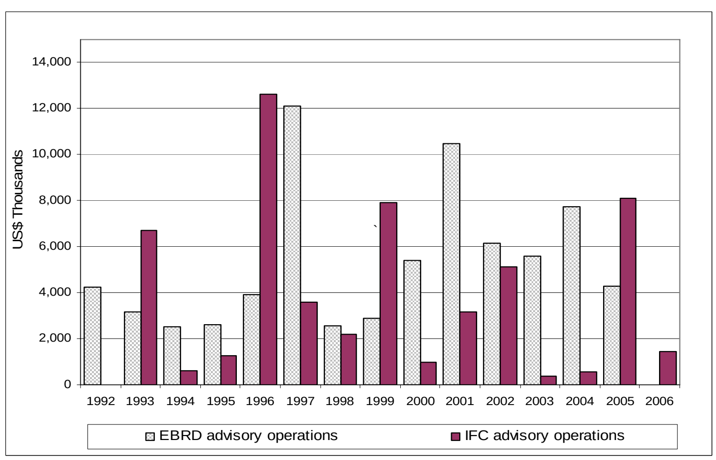


Figure 3. 4: Comparison of Volume of EBRD's and IFC's Advisory Services, 1992–2005



Source for figures 3.3 and 3.4: IFC and EBRD data.

Note to figures 3.3 and 3.4: EBRD 2006 private sector signed commitment data and technical cooperation approval data are not available. Total (public and private sector) EBRD signed commitments for 2006 have equaled €797 million, or about $1 billion. Given the historical proportion of EBRD Ukraine public sector commitments of 30 percent of total commitments, it can be estimated that EBRD 2006 private sector commitments are likely to have reached €560 million, or about $700 million.

3.13 Notwithstanding differences in mandate, IFC could adapt EBRD's systematic and proactive approach to investment promotion and processing. Leaving aside the strategic implications of EBRD's regional focus, transition mandate, and role of its technical cooperation funds as subsidies, EBRD's greater success in sourcing business opportunities on an operational tactical level also comes from a more proactive and systematic approach to sourcing investments. According to EBRD regional staff, its transaction specialists have consistently carried out intensive marketing and promotion efforts throughout Ukraine for much of the period under review, traveling regionally and actively seeking out investment opportunities. In part, the substantial presence of investment staff in the region helped this process. IFC had only two investment staff in the country office in FY 1992–97 and three in FY 1998–2005, although the number of advisory staff was much greater at an average of 102 in FY 2000–06. EBRD staff estimate, however, that between 10 and 15 bankers (EBRD investment specialists) operated in Ukraine throughout the same period. Even with the growth of IFC's country office investment staff from three in FY 2005 to five in FY 2006–07, IFC's Ukraine-based investment staff numbers are still below those of EBRD, which had 21 bankers in Ukraine as of mid-2006.[22] (In terms of average annual commitments per field-based investment staff member, however, IFC's roughly $15 million per person was higher than EBRD's roughly $10 million per person).[23] Nevertheless, although IFC's recent promotional efforts have been more active than initial ones, there is room for improvement in carrying out systematic promotion in country competitive advantage, unmet demand, and the strongest potential development impact.

4. The Ratings, Success Drivers, and Outcomes of IFC Operations in Ukraine

IFC was generally able to leverage its own resources and donor funding for advisory operations successfully and was able to achieve sustainable results in the majority of the projects implemented.[1] This is especially true for larger and longer advisory assignments using the comprehensive framework eventually adopted by the PEP facility; at the same time, smaller assignments were only viable to the extent that they addressed a specific need and/or request of an otherwise committed and proactive client, and the majority failed to generate sustainable outcomes and impacts. Evaluated investment project ratings are marginally better than those for the rest of the ECA region and the rest of IFC, although the small numbers preclude statistically significant findings. Meanwhile, an analysis of the risk profiles of recent commitments yields encouraging indications of likely future performance for these projects.

IFC's advisory operations had mostly satisfactory performance ratings, with better results from larger and longer operations.

4.1 ***IFC's advisory operations in Ukraine fall into two distinct groups, which vary greatly in terms of project objectives and characteristics.*** On the one hand, the 20 pre-PEP and PEP programmatic projects used a comprehensive framework encompassing different levels and types of engagement—from policy dialogue at the central government level to demonstration projects at the individual company level—and incorporating substantial elements of public education and dissemination. These projects tended to address overarching countrywide developmental priorities (privatization, business enabling environment, SME and agribusiness development, and corporate governance) and were characterized by significant funding allocations ($2.6 million per operation on average) and long duration (average of 39 months each). On the other hand, 10 privatization assignments targeted individual enterprises and 13 advisory assignments related to potential or actual investment transactions (feasibility studies and consulting services). Both of these latter project types were implemented on a much smaller scale with an average size of $131,000 (5 percent of the size of the larger ones) and lasted an average of 18 months.[2]

4.2 ***Early large-scale privatization advisory projects showed largely satisfactory performance.*** Early privatization assignments addressed a preeminent country priority and were undertaken on a large scale that was unprecedented in Ukraine and similar to the scale of IFC's early operations in the Russian Federation. These involved sequential establishment of four to five hubs throughout the country that continued operating in parallel, coupled with a central policy unit in Kyiv. The hubs encompassed a wide range of activities from policy advice to the central and regional governments to developing the methodology for privatization auctions and assistance in methodology implementation and auction proceedings; in the case of land privatization, activities also included selection of pilot clients that were intended to generate demonstration effects, complemented by extensive information and public education campaigns. These projects early on established the multigenerational, "evolutionary" principle of IFC's advisory engagement in Ukraine, in which subsequent projects build on the momentum generated by their predecessors. Through these operations, IFC built a solid reputation and brand recognition in Ukraine. Three of the four projects had satisfactory or better aggregate and individual indicator ratings.

4.3 ***Lack of government commitment to reform and lack of donor coordination and strategic cohesion, however, affected the performance of an IFC-supported land privatization project.*** More specifically, key legislative prerequisites for the project had not been put in place in a timely manner and conflicting viewpoints within government on land privatization (a problem persisting to this day) resulted in the eventual development of two largely incompatible and competing approaches by IFC and implementing agencies by the U.S. Agency for International Development. As a result, the countrywide impact of the initiative was limited.

4.4 ***The creation of PEP-ECA institutionalized the comprehensive framework design of earlier projects.*** Within the framework of PEP-ECA, the most significant accomplishments of earlier operations in terms of project design and implementation experience were preserved and institutionalized. The most notable characteristic was perhaps the preservation and further development of the multigenerational framework of IFC engagement (see figure 4.1). The creation of "project families" addressing a common issue or sector or arising from a common pilot initiative allowed for continuing design improvements and contributed to creating a critical mass of sustainable accomplishments; seven of nine projects were rated satisfactory or better in terms of development effectiveness.

4.5 ***Still, lack of donor coordination was a recurring issue.*** Lack of donor coordination affected the implementation of at least two PEP projects. In the former case, different approaches endorsed by two donors at different phases of the project conflicted with one another, and unintentional competition with projects carried out by other donors arose. In the latter case, besides the emergence of a competing project, funding problems arose as a result of donor administrative issues. Even more important, certain projects suffered from a lack of coordination and tactical alignment between IFC and World Bank teams; this lack of communication and coordination affected impacts, resulting in inappropriate application of IFC data by World Bank staff for Program Adjustment Loan I conditionalities.

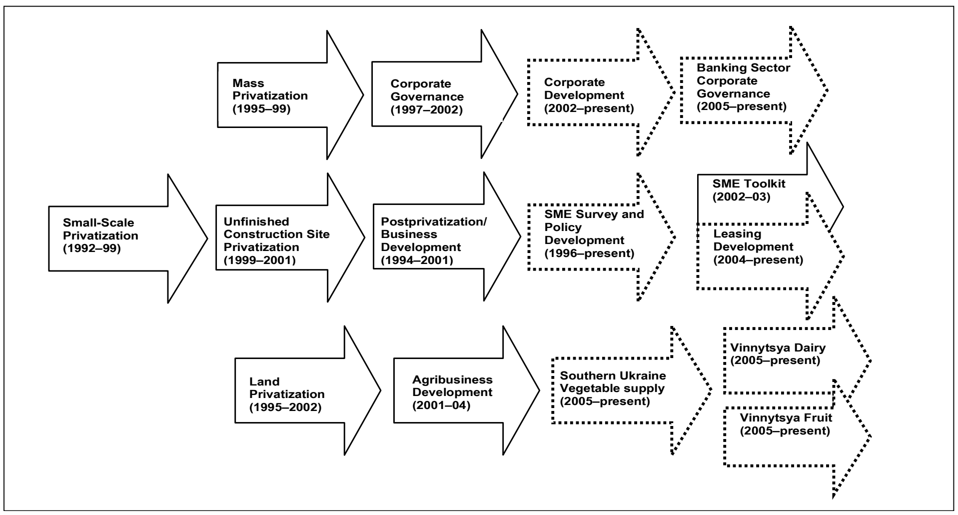
4.6 ***Emerging findings and lessons from ongoing projects are in line with those from mature operations.*** Ongoing PEP projects (those with dotted arrows in figure 4.1) continue the principle of multigenerational project families and use the same framework approach. Most of these (except corporate development and SME policy development) are at too early a stage to evaluate, because a substantial portion of outputs and most outcomes and impacts are still forthcoming; nonetheless, these projects appear to have performance characteristics and drivers similar to the mature projects. The summary of performance drivers and lessons from advisory operations later in this chapter incorporates emerging lessons from a review of documentation for these projects and interviews with project teams and stakeholders (clients, partners, and donors).

4.7 ***Meanwhile, early privatization projects aimed at individual companies yielded mixed results.*** Considering the timeframe of these assignments and the state of Ukraine's business environment at the time, it was premature and tactically questionable to engage in advisory assignments with individual larger companies fraught with vested interests before the overall privatization process had gained sufficient momentum. The attendant difficulties resulted in the high effective droppage rate for these projects; only half of those initiated proceeded to partial or full implementation. It is thus surprising and a testimonial to the high IFC work quality in relevant projects that two of the assignments that followed through with implementation have achieved sustainable impacts.

4.8 ***The performance of smaller projects with a narrower focus associated with investment operations was also worse in aggregate than that of larger assignments, although re-***

cent projects show improvement. Advisory assignments related to investment transactions demonstrate the worst performance as a group.[3] Nearly half the projects (five of 12) were dropped, and three more were aborted during implementation due to insufficient sponsor commitment to and/or client interest in the projects. In one case, the client and consultant altered the scope of a project without consulting IFC and the project was subsequently rendered irrelevant by the client's change of ownership. In contrast, recent projects within this group show marked improvement in performance as they address specific technical needs of strong and committed IFC investees and logically lend themselves to consultant engagements.

Figure 4.1: IFC's Long-Term Advisory Engagements Using the PEP Framework Have Progressively Built on the Results of Preceding Ones



Note: Dotted lines refer to ongoing PEP projects.

4.9 ***Nevertheless, the overall results of advisory operations are strong, driven by the performance of larger projects***. In aggregate, Ukraine advisory operations had strong results under all performance indicators, performing better than comparable ones evaluated in the PEP-ECA study. Table 4.1 and appendix D detail the ratings of evaluated advisory operations, which are driven by the sound performance of PEP and pre-PEP programmatic projects (sound project preparation appears to be the principal outcome driver).[4] This was true despite the poorer performance of transaction-related assignments under most indicators, most notably overall developmental effectiveness due to lower strategic relevance, outcomes, and efficiency and poorer work quality due to low IFC role and contribution, supervision, and implementation and partner work quality.[5] The only aspect exhibiting relatively poorer aggregate performance is the attrition of outcome and impact success rates compared with outputs: success rates are highest for outputs, lower for outcomes, and lower yet for impacts. This appears to have been caused in several cases by lack of client commitment and lack of donor cohesion and coordination, but is also a common feature in advisory operations, as evidenced by findings from the PEP-ECA study (2007a) (also likely related to the lag between outputs and impacts), in which projects in countries other than Ukraine exhibit an even sharper decline (see table 4.1). PEP and pre-PEP projects in Ukraine outperformed peers in other ECA countries evaluated for the PEP-ECA study, both as a subgroup of the seven projects evaluated for that study and as the overall group of 13 operations examined in this review; however, in dollar terms these results were somewhat lowered by the weaker performance of an IFC-supported land privatization project in terms of strategic relevance, impact, and efficiency.

4.10 ***Success rates are lower if ratings are assigned for all projects for which funds were allocated.*** PEP and pre-PEP projects suffered no attrition between initiation (request for donor funding and allocation of such funding by the donor) and implementation. This was not so for smaller assignments (those other than PEP and pre-PEP), because 50 percent of individual privatization assignments and 42 percent of transaction-related advisory assignments were dropped either at the outset or during implementation.[6] To the extent that funding was mobilized and staff resources engaged in the preparation and/or partial implementation of such projects, these may be considered failed projects forming part of the evaluated population. If such dropped and aborted projects are taken into account, the overall success rates appear substantially lower despite the strong performance of PEP and pre-PEP projects (see table 4.2), although the difference is negligible in terms of success rates by funding volume (which, for this reason, are not reported separately here).

Table 4.1: Strong Results for Pre-PEP and PEP Operations Drove Satisfactory Aggregate Performance Ratings of Advisory Operations in Ukraine

	Percentage of successful projects by number				Percentage of successful projects by dollar volume[a]			
	Of 25 CIR [b] projects completed	Of 13 CIR PEP and pre-PEP projects	Of 7 PEP-ECA study Ukraine projects	Of 27 PEP-ECA study projects, excluding Ukraine	Of $44 million for all CIR projects completed	Of $42 million for CIR PEP and pre-PEP projects	Of $15 million for PEP-ECA study Ukraine projects	Of $24 million for PEP-ECA study projects, excluding Ukraine
Development effectiveness	*68*	*79*	*71*	*59*	*71*	*72*	*95*	*69*
Strategic relevance	80	86	86	74	73	73	98	80
Output	84	93	86	81	99	99	98	75
Outcome	75	93	86	67	98	99	98	77
Impact	50	50	57	44	49	48	51	51
Efficiency	64	71	71	63	51	50	57	68
IFC work quality	*76*	*86*	*86*	*67*	*73*	*73*	*98*	*60*
Role and contribution	68	79	71	63	71	72	95	72
Project preparation	84	86	86	37	73	73	98	30
Project supervision	76	93	86	81	98	99	97	70
Project implementation	83	100	100	81	99	100	100	90
Consultant work quality	88	100	100	79	98	100	100	82
Partner work quality	*63*	*78*	*75*	*68*	*66*	*67*	*96*	*57*

Source: IFC data.
Notes: a. The purpose of weighing project ratings by dollar volume approved is to estimate what proportion of donor money was spent on relatively successful operations and thus complement the aggregate ratings by number of projects with a measure showing the efficiency or inefficiency of funds allocation among operations. In the case of Ukraine, the measure appears to show generally efficient expenditure of funds, as larger projects have tended to perform better.
b. CIR refers to country impact review.

Table 4.2: Taking Low Implementation Rates for Smaller Projects into Account Lowers Proportion of Completed Successful Projects

	Percent of successful projects by number						
	For all projects:		For PEP and pre-PEP projects(all were completed)	For individual privatization advisory projects:		For transaction-related projects:	
	Completed	Started		Completed	Started	Completed	Started
Development effectiveness	*68*	*49*	*79*	*75*	*30*	*43*	*25*
Strategic relevance	80	63	86	100	50	57	42
Output	84	63	93	75	30	71	50
Outcome	75	53	93	75	30	33	18
Impact	50	27	50	50	20	[a]	[a]
Efficiency	64	49	71	75	40	43	25
IFC work quality	*76*	*54*	*86*	*75*	*30*	*57*	*33*
Role and contribution	*68*	*49*	*79*	*75*	*30*	*43*	*25*
Project preparation	84	63	86	75	30	86	58
Project supervision	76	54	93	75	30	43	25
Project implementation	83	59	100	75	30	50	27
Consultant work quality	88	57	100	75	30	86	58
Partner work quality	*63*	*48*	*78*	*NA*	*NA*	*38*	*25*

Source: IFC data.
Note: a. Could not be determined.

4.11 ***In summary, the main success factors for evaluated advisory operations include project strategic relevance and timeliness, a comprehensive multidirectional project framework coupled with large funding volumes and longer duration, and adherence to a multigenerational project approach.*** These factors together explain the majority of performance differences between the more and less successful projects within the population and, where present, account for encouraging indications of successful performance of ongoing projects.

4.12 ***Lack of government/client commitment, strategic fit, and donor cohesion and coordination are among the main performance limitations; for recent projects, staff recruitment and retention have emerged as recurring hurdles in project design.*** Mature projects, whether programmatic or stand-alone, that fell short of expectations were primarily affected by supply-driven design[7] linked to lack of commitment by clients, whether government or private, and either lack of coordination between donors and implementing agencies undertaking similar or competing projects in the same area or lack of alignment of donor goals and tactics within a single operation funded by multiple donors. Although ongoing projects generally demonstrate sound fit with country priorities and satisfactory coordination with other donor activities in Ukraine, an emerging concern centers on project staffing. Of the eight ongoing projects, five are currently behind schedule in implementation (one significantly so). For all of these and two other projects to which initial delays have been overcome, delays and difficulties in recruiting qualified staff have been the principal reason for the lagging timeline. For the two projects reporting underperformance, retaining qualified staff and high turnover appear to have been the principal culprits in performance shortcomings. These issues have also been identified among the reasons for poorer project performance in the PEP-ECA study.

IFC played a strong role in and contributed to sustainable outcomes and impacts of most of its programmatic advisory projects and some of its smaller advisory projects.

4.13 ***The outcomes and impacts of most programmatic privatization assignments are significant on a countrywide scale.*** IFC's large-scale involvement in Ukraine's privatization has enabled the creation of a critical mass of small and medium privatized enterprises and the effective use of unfinished construction sites. The small-scale privatization program helped privatize 53,000 businesses (about 90 percent of those available in Ukraine), creating 700,000 new jobs; 30 percent of these were privatized with direct IFC assistance. The related unfinished construction site divestiture project enabled the privatization of 13,328 sites (92 percent of the initially set target), including 2,367 in IFC-assisted cities, resulting in creation of 62,000 new jobs and $25 million in local tax contributions. The mass privatization program enabled privatization of 2,530 medium enterprises (32 percent of the total available), including about half privatized with direct IFC assistance (on or greater than the target in the five regions where IFC was directly involved). The land privatization project, whose results were relatively more modest on a nationwide scale, nevertheless enabled privatization of 90 collective farms into 100 limited liability companies, more than 50 agricultural cooperatives, and several partnerships and joint-stock companies, as well as creation of 750 family farms; the process involved nearly 60,000 farm members and redistribution of about 250,000 hectares of agricultural land (1 percent of Ukraine's total). Subsequent surveys of the beneficiaries of IFC programmatic privatization advisory operations, including privatized enterprises and privatized unfinished construction sites, showed that privatized enterprises functioned more efficiently and productively, having increased sales and made additional productive investments, whereas almost half of the unfinished construction sites were completed within a year and most received additional in-vestment within the same timeframe.[8]

4.14 ***Programmatic PEP projects showed largely positive outcomes; despite a degree of attrition, impacts were mostly broad and sustainable.*** PEP assignments were able to build on the achievements of the preceding privatization projects and address needs identified during and immediately following privatization. The agribusiness development project thus made use of the best features of its precursor, the land privatization project, and completed the task of lobbying for the new land code, resulting in adoption of this watershed document in October 2001. The project also assisted in formulation and adoption of a number of other relevant laws, helped strengthen the position of its pilot region as a fruit and vegetable producer, increased the supply of finance to local farmers through successful creation of a credit union and encouraging commercial bank lending, and introduced progressive agronomic and marketing practices to local farmers, enabling them to expand distribution channels. Other projects, such as the business development, corporate governance, corporate development, and SME survey, contributed to legislative changes that in turn led to the improvement of nationwide governance standards and deregulation in SME policy areas, which resulted in a decreased cost of doing business for Ukrainian SMEs. Although some of these showed attrition between outcomes and impacts, surveys of project clients nonetheless attributed positive impacts to IFC involvement in corporate governance (including increased ability to attract finance and generation of demonstration effects) and SME policy (including decreased cost of doing business and increased transition of SMEs into the official economy).[9]

4.15 ***For individual privatization advisory and project-related assignments, sustainable out-comes and impacts materialized for a small proportion of operations.*** Although the majority of these projects failed to generate tangible outcomes and sustainable impacts, a few of them succeeded. Three privatization advisory assignments thus resulted in the successful continued commercial operations of the enterprises concerned, two of which were subsequently successfully able to attract international investors. Likewise, three recent advisory assignments with IFC real-sector clients enhanced the development impact of the respective investments by enabling clients to upgrade management information systems and improve environmental, health, and safety management by introducing Hazardous Analysis and Critical Control Point (HAACP) certification and training staff in its application.[10]

4.16 ***Strong and sustainable outcomes and impacts are driven by IFC's contribution and value added.*** Besides sponsor commitment and strong demand, the success of most of the above assignments was made possible by IFC's special contribution in project preparation and implementation. IFC's value added in advisory operations stems from its comparative advantage as a neutral and credible advocate for reform and, as part of the World Bank Group, its extensive practical experience in Ukraine and the region (including knowledge of both local conditions and private sector realities, and established donor relation-ships), as well as its successful combination of international experts and knowledgeable country-based staff. Although IFC was only one of a large number of implementing agencies, compared with others, it had the greatest extent of programmatic involvement in reforming Ukraine's business environment (most other agencies were private sector consultancies retained by donors for individual assignments or project phases) and was able to generate greater momentum and synergies from its long-term, large-scale involvement.

Performance of advisory projects could nonetheless be improved by applying lessons from completed and ongoing operations.

4.17 Lessons learned from design and implementation of advisory operations include the following:

- ***Adhering to the principle of strategic relevance and demand-driven design ensures sustainable projects.*** Supply-driven projects that have little client buy-in are highly unlikely to succeed (this was particularly evident in the case of failed project-related assignments). Similarly, projects attempting to address an issue that is not aligned with country conditions and strategic priorities, whether because the engagement is premature or no longer critical, have a higher risk of not delivering sustainable impacts. This lesson applies both to operations with a core policy advice component, for which ensuring government commitment is indispensable for implementation, and to those geared mostly toward company-level clients (for example, in linkage projects, a committed strategic partner/buyer is crucial for developing the supply chain).
- ***A multigenerational and multidimensional approach works best, possibly with an added option of phased donor commitment.*** The success of larger and longer projects (such as most privatization projects and programmatic PEP projects) stems from their ability to maintain momentum and generate a critical mass of sustainable behavioral and policy changes. By the same rationale, project families addressing an issue in a sequential and evolutionary manner (such as the agribusiness project family) are even more likely to contribute to such developments. Similarly, a comprehensive synthesis of project components incorporating policy advice, work with selected pilot clients to generate demonstration effects, and

public awareness and dissemination campaigns helps ensure lasting and far-reaching results. For some projects, such as agribusiness linkages with a long technological cycle (such as crop rotation), alignment of the duration of the advisory project with the cycle length is optimal for maximizing knowledge transfer and sustainability; although such prolonged commitment may present issues for funding donors, these projects can be structured as phased engagements (2 plus 2 years or 2 plus 3 years) with disbursement of funding for subsequent phases conditional on satisfactory performance of preceding ones.

- ***Project performance depends on donor coordination and cohesion.*** In an environment relatively well supplied by donor funding, lack of coordination among donors can lead to unproductive competition among implementing agencies and the implementation of conflicting and incompatible project designs, resulting in reduced impacts. Essential to project performance are (a) strategic coordination among donors (sharing and discussion of strategy drafts and documents to ensure alignment of priori-ties and distribution of labor to maximize leverage), (b) tactical interaction at the outset of major assignments to minimize discrepancies in approach and unproductive competition and duplication, and (c) cohesion and alignment of tactics and outcome expectations among donors in multidonor operations. Although it may not be appropriate for IFC to take the lead in such efforts in general, it can strive to act as communication facilitator and catalyst in its areas of expertise.
- ***Projects benefit from tailoring the balance of extensive, compared with intensive, engagement by project stage, while maintaining operational flexibility.*** Past and recent experience shows that projects need to attain the broadest outreach at the start to generate momentum and attract a wide pool of potential pilot clients and, again, near completion to disseminate lessons from experience and maximize the adoption of good practices. At the middle stage, once pilot companies have been selected, outreach can be de-emphasized as intensive work takes priority. At the same time, project design needs to be flexible to accommodate changing country modalities and enable adjustments to avoid unproductive deployment of resources; thus, when political developments preclude interaction with senior-level government officials, building solid relationships with mid-level and regional officials can ensure project viability.
- ***Opportunities for synergy exist between programmatic advisory operations and investment activities, especially between linkage projects and financial markets investments.*** Although "one-shot" assignments paired with investment transactions are only justifiable in the presence of a strong and committed client, a more strategic alignment of investment and advisory operations may help enhance the performance of both types of activities. One such area may be a partnership between linkage projects seeking to develop agricultural suppliers and financial markets projects that may be able to provide local currency financing (for both working capital and investments) and/or guarantees to banks extending credit to such suppliers (possibly also complemented by advisory assistance to banks in enhancing credit appraisal methodologies for agribusiness clients).
- ***Project managers need to set realistic rollout and recruitment timelines and improve staff policies.*** A review of ongoing operations shows that difficulties in initial staffing and associated delays in project rollout are pervasive and probably inevitable and must be taken into account in project design and planning, which requires an initial period of about six months for a concentrated effort on completing team staffing (see paragraph 4.12). Both project activity schedules and funding flows need to reflect this reality.
- ***Advisory teams need to incorporate viable exit strategies into project design.*** A related, but broader, aspect of project design is a strategic approach to project completion that considers potential employment opportunities for project staff and viable repositories for

accumulated know-how. This helps to both alleviate pressure on project staff and provide them with possible external employment after the project. No less important, it helps ensure the sustainability of project outcomes and impacts.

4.18 ***A high degree of convergence exists between lessons concerning advisory operations in Ukraine and those from transition countries in general from various sources.*** The performance drivers and lessons presented above reflect IFC's experience as an implementing agency for advisory operations in Ukraine, but are not unique to either IFC as an agent or Ukraine as a country. These have been invoked both in evaluation studies undertaken by other donors in Ukraine and other transition countries (see box 4.1) and in the PEP-ECA study, thus validating their importance and providing insights into likely success drivers for advisory operations in current frontier countries whose present-day development agendas may be similar to Ukraine's past experience.

Box 4.1: Lessons from Donor Operations in Ukraine and in Transition Countries Relevant to Ukraine's Experience

The following summarizes lessons derived by donors (Canadian International Development Agency, and Department for International Development in the United Kingdom) from operations in Ukraine as well as by EBRD as an implementing agency for donor-funded operations in transition countries. Many of these lessons and findings parallel those derived by IFC as an implementing agency for donor-funded operations in Ukraine.

- A participatory, recipient-based, demand-driven model of technical assistance is more effective than a donor-based, supply-driven model. Vital to the success of advisory operations are the beneficiary's commitment to the intended objectives throughout the advisory engagement process, the beneficiary's active involvement during project preparation and implementation, and close cooperation among the implementing agency, beneficiary, and relevant public authorities.
- Flexibility to respond rapidly to ongoing input from partners and beneficiaries is critical in an environment like Ukraine's. The more a program of technical cooperation works in politically charged areas, the greater the need for adaptability in strategy and flexibility in resource deployment. Incorporating flexible modalities into project design enables the adjustment of projects to newly emerging situations, thereby increasing their relevance. Making a pool of funds (for example, a call-down facility) available to use as and when appropriate for a broad category of tasks can be a valuable instrument to ensure such flexibility. Mechanisms need to be in place to adjust and amend projects from time to time (or provision should be made for adjustment and amendment of projects midstream), so that activities that lagged behind can be dropped and more promising activities either expanded or included. Including a provision for amendment would require corresponding changes in contractual arrangements between donors and implementing agencies.
- Multigeneration programming can be a valuable tool for long-term institutional development. Advisory operations relating to the restructuring of a sector may need to contain follow-up elements later on to ensure continuation on the right path in complex and time-consuming reform processes.
- Capacity development requires a multidimensional approach, working in a coordinated fashion to change ingrained attitudes and habits, organizational culture, pattern of institutional relationships, and larger socio-political environment.

Box 4.1 contd. on pg. 28

Box 4.1 contd.

- In countries that are able to attract assistance from various sources, often for the same sectors and parallel or overlapping in time, coordination of resulting strategy advice is imperative. Impacts can be multiplied and resources used to their best advantage if synergy, cooperation, and coordination among projects funded by various donors are encouraged. Coordination meetings at a high level among donors and international financial institutions to formulate policies are vital to increase the overall efficiency and harmonization of activities among members of the international donor community.
- Program coherence, effectiveness, and internal synergy are increased through the use of institutionalized mechanisms for dialogue and consultation between donors and implementing agencies that goes going beyond simple sharing of experiences and concerns.
- Consideration should be given to requiring advisory beneficiaries to repay funds received if financial performance is significantly better than expected when operations are approved. For example, a condition of advisory operations can be that the beneficiary will repay advisory funds if its profits exceed a specified level within a specified period following the advisory engagement.
- When sector reforms require difficult policy changes, policy dialogue should be steady and carried out in close cooperation among international and bilateral institutions. This should be done within a formal framework in which the government and private sector can participate. Full ownership of the consultation process by the government, nongovernmental organizations, and local business community is essential for success of the policy dialogue. The importance of local "champions" to the cause of reform cannot be overemphasized. Yet progress in reform is hostage to the fate of these champions in an evolving political and institutional environment.
- Before designing projects, previous experience of related projects or other relevant donor-funded activities should be critically analyzed.
- Measures should be taken to improve and streamline performance monitoring and reporting. the statement of objectives should include clear targets and milestones, rather than a general expression of requirements. Detailed reporting requirements should be clearly set out in terms of reference. When similarly profiled assignments are undertaken with different institutions across the region, an effort should be made to standardize as much as possible the form and content of reporting by the consultant(s) to enhance comparability.

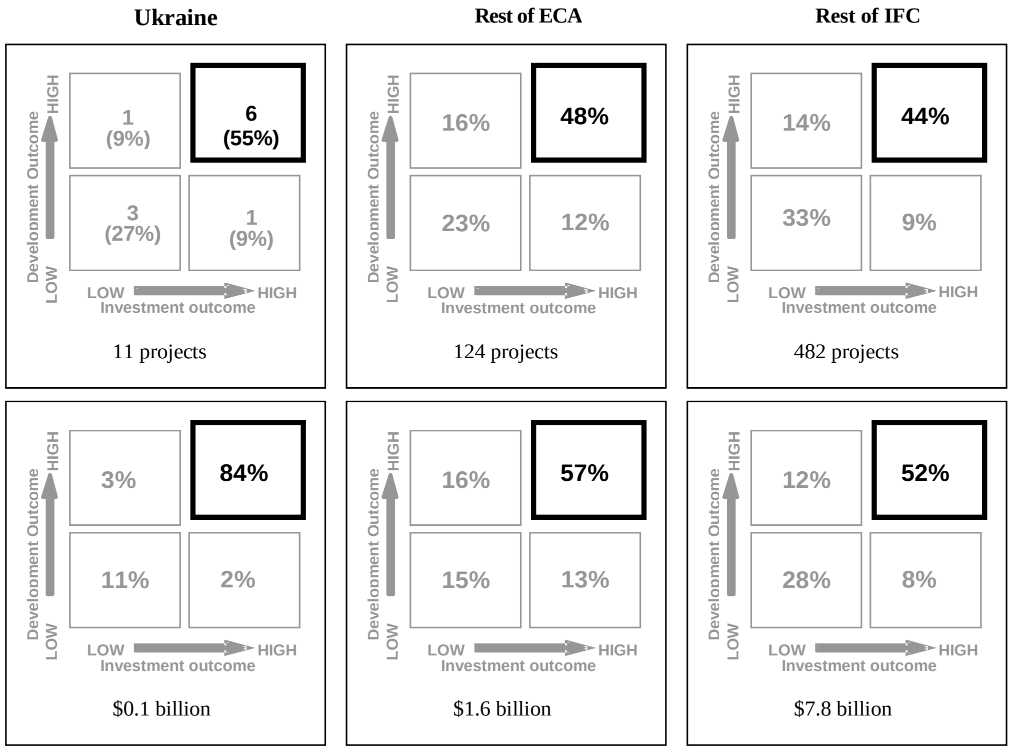
Sources: EBRD 2005a, CIDA (2001 and 2005), and Westin, Blouin, and de Silva (2004).

To the extent they are evaluable, IFC investment operations perform relatively well.

4.19 ***Development and investment outcome success rates for evaluated Ukraine operations are better than, but broadly similar to, those for the rest of ECA and IFC.*** The small number of operations in Ukraine (11 projects) that have attained operating maturity, thereby enabling full evaluation, precludes extensive analysis of evaluation ratings within the Ukraine portfolio and statistically significant findings from comparisons with the rest of ECA and of IFC projects. That said, the aggregate development and investment outcome success rates of the evaluated Ukraine operations indicate performance trends in line with the performance of evaluated projects in the rest of ECA and the rest of IFC[11] approved in FY 1994–2001.[12] Although the aggregate development outcome and aggregate investment outcome success rates, if viewed separately within each dimension, are very similar to the success rates for the rest of the ECA region and only marginally better than the rest of IFC, the proportion of projects with combined "high-high" outcome ratings (i.e., both development and investment outcomes are rated satisfactory or better) is greater for Ukraine projects (figure 4.2 provides details on the ratings of evaluated investment operations).

4.20 ***As in IFC-wide evaluated projects, larger ones yielded better results. When Ukraine's operations are weighted by dollar volume instead of project number, a notable difference exists in aggregate success rates: a greater share of "high-high" outcome ratings and a smaller share of "low-low" outcome ratings*** (see figure 4.2). This is also true for evaluated results for the rest of ECA and IFC, although the difference is less pronounced. In Ukraine's case, the divergence is related to the difference in size between financial markets investments, which tended to be smaller (average size of $5.4 million, compared with $15 million for evaluated real sector projects) and performed worse than real sector projects (see paragraph 4.23).

Figure 4.2: Rating Comparison for Evaluated Projects in Ukraine, ECA, and the Rest of IFC (number and dollar volume)



Source: IEG-IFC.
Note: Due to rounding, box totals may not add to 100 percent

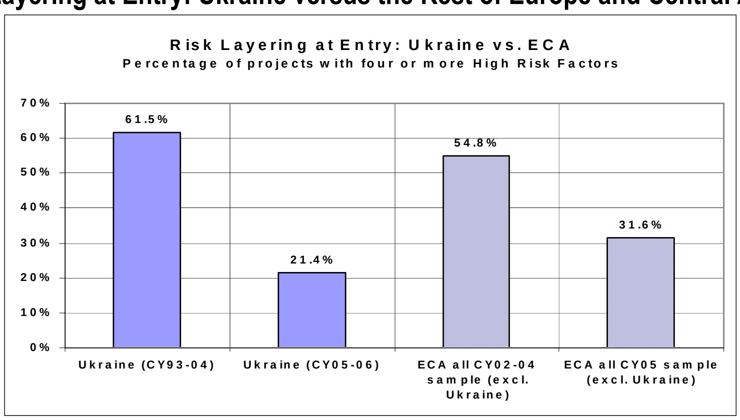
4.21 Comparing relative performance of Ukraine projects within IFC's ECA portfolio and within EBRD's portfolio points to similar conclusions. The evaluated ratings for EBRD operations in Ukraine consist of ratings for projects evaluated by operational staff (expanded monitoring report [XMR] ratings) and ratings for projects evaluated by EBRD's Evaluation Department (operation performance evaluation review [OPER]). Regardless of the intricacies of the evaluation frameworks used by EBRD and IFC, a relative analysis of Ukraine project performance, compared with the rest of the ECA region (equivalent to EBRD's region of operations), within each institution's evaluated project population shows that, similar to IFC's Ukraine projects, EBRD's Ukraine projects outperform the rest of the region.

4.22 ***Comparing older (FY 1994–98) and more recent (FY 1999–2004) mature investments shows material improvement in success rates.*** Within the overall evaluated results, a material difference exists between the performance of older and more recent investments. This is not surprising considering that earlier projects were likely to be affected to a greater extent by the difficult business climate. Meanwhile, improving country conditions enabled IFC to pursue robust projects with solid sponsors that demonstrate superior performance.

4.23 The poorer performance of financial markets projects is partly due to timing and instrument mix, but leaves room for improvement in executing IFC's front-end work and maximizing IFC's role and contribution in that sector. Mature project ratings also show a difference in performance between real sector projects and financial markets projects. Although the poorer results of financial markets projects appear to be driven by lower work quality, they are similar to the aggregate ratings for FY 1994–2001 financial markets operations in the rest of IFC, despite higher work quality for the latter group,[13] and may reflect global and regional trends in financial markets during the late 1990s (the lower investment results in particular appear to be largely a function of instrument mix, that is, all early financial markets investments had an equity component that underperformed). Notwithstanding the above, of the five main drivers of project performance identified in IEG-IFC evaluation findings—strategic choices (including country and sector choice), change in investment climate, project risk intensity, quality of the sponsor, and work quality (IFC 2007b)—the latter two are within IFC's control to the extent that they relate to risk factors identifiable at project appraisal and to IFC's work quality in itself. Considering that IFC's Ukraine financial markets projects, both older ones (which exclusively make up the FY 1994–98 approvals subgroup) and some of the more recent ones, show relatively low work quality at screening, appraisal, and structuring stages, as well as low aggregate ratings for IFC's role and contribution; room for improvement remains in following best practices in IFC's front-end work and maximizing IFC's role and contribution in financial markets in Ukraine.

4.24 Although the majority of projects in IFC's Ukraine portfolio have not reached operating maturity, risk profile analysis yields a positive indication of likely future performance. It was not possible to evaluate the performance of 16 projects approved in calendar years 2005–06, because these have not yet reached early operating maturity. An analysis, however, of the risk profiles of calendar years 2005–06 approvals, compared with both earlier Ukraine projects and a population of IFC-wide and ECA calendar year 2002–05 approvals, excluding Ukraine, for which an IEG-IFC risk profiling exercise was completed, reveals that recent projects show considerably better risk management. High-risk factors consist of country risk (beyond IFC's control in the context of an isolated discussion of Ukraine operations [14]) and sector risk, which is due to the high proportion of agribusiness projects in the Ukraine portfolio, but represents a judiciously taken risk, given the importance and potential of Ukraine's agriculture sector in the economy. (Figure 4.3 and appendix E describe risk profiling methodology and comparative break-down by risk factor.)

Figure 4.3: Risk Layering at Entry: Ukraine versus the Rest of Europe and Central Asia



Source: IEG-IFC.
Note: CY means calendar year.

4.25 Ukraine projects have been riskier than the rest of ECA and IFC projects in terms of country risk, IFC review intensity (related to project size and thus impossible to apply on a discretionary basis), and sector selection (see above); however, they have consistently exhibited less risk layering in terms of project type (with a predominance of expanded, compared with new projects), sponsor strength, and financial structuring and have recently considerably improved in terms of market risk. It thus appears that, of the risk factors within its control, IFC took justified risks in terms of sector distribution, but mitigated the sponsor, project type, and financial structure risks by prudent in-country selection and sound structuring. In addition, the risk profile of Ukraine projects, compared with both earlier ones and the rest of ECA and IFC projects, may further improve in terms of the share of repeat, compared with nonrepeat, projects. The reason is that IFC is already cultivating repeat business with strong local clients, having committed repeat investments in calendar years 2004–07 for all sponsors with whom it had successful prior projects. Given the statistical relationship between project risk intensity and evaluated ratings in IFC,[15] the improved risk profile of recent IFC projects in Ukraine, coupled with satisfactory aggregate evaluated ratings so far, provides an encouraging indication of likely future performance. It should be noted, however, that Ukraine's business environment still presents regulatory, enforcement, financial sector, and macro-economic risks, as discussed in the forthcoming Ukraine country assistance evaluation.

4.26 ***Assessing Ukraine's aggregate financial performance may be premature, yet emerging indications are moderately encouraging.*** It may be premature to assess the net profit contribution of IFC's Ukraine operations due to the predominantly very young portfolio, which poses difficulty in assessing both loan and equity performance.

IFC adds value in investment operations centered on supporting emerging strong local players in the real sector.

4.27 Although weaker IFC contributions affected the outcomes of several financial markets projects, strong IFC role and contribution reinforced the positive development outcomes of its real sector projects. IFC's special contribution was less apparent in its early financial markets projects. Although these were pioneering projects at the time and IFC had a discernible role at the outset, its ongoing contribution was often marginal and its lack of leverage with other shareholders had in a number of cases a detrimental effect on project outcomes (although more recent financial markets projects show improvement). Meanwhile, in its recent involvement in real sector projects, IFC's role was more pronounced, not only as a provider of long-term finance, but also as a "stamp of approval," giving greater visibility and international exposure to emerging strong players who have the maximum potential for generating broad demonstration effects (and in the case of the three companies financed, evidence indeed exists of their best-practice influence on competition). In these cases, IFC enhanced its role by identifying additional business or technical client needs and judiciously structuring targeted advisory assignments (as mentioned in paragraph 4.15.)

4.28 Lessons from IFC's investment operations in Ukraine include the importance of managing client relationships, recognizing competitive advantages (including strategic sectors), supporting emerging industry leaders committed to good governance, and judiciously using advisory operations to address specific client needs, rather than compensate for fundamental project or sponsor weaknesses. IFC was able to develop good relations with emerging strong local players in the food and retail trade sectors by selecting responsible local and regional sponsors and managers committed to upholding good governance standards. In addition to the sponsor and management strengths, in choosing to work with these companies, IFC recognized Ukraine's competitive advantage in the food and agribusiness sector and the retail chain's strong competitive position in satisfying unmet demand for good-quality, moderately priced home improvement supplies, respectively.

5. Recommendations

In summary, IFC's strategies in Ukraine responded to the difficult country environment during most of the study period and sought to address investment climate deficiencies through an extensive program of advisory operations. It was only in the past two years that IFC was able to increase its investment volumes. Both advisory and investment projects had satisfactory aggregate performance ratings and yielded largely positive outcomes. These can be further improved by perfecting the design of advisory operations, lengthening the strategic horizon to respond to changing country conditions, and working sequentially with IBRD to address remaining privatization challenges.

***5.1 Investment strategy*: IFC must focus its strategies on medium-term (three- to five-year horizon) priorities and follow a more systematic approach to identifying investment opportunities.**

Background

IFC's early approach in Ukraine had a relatively short-term focus on IFC priorities, with an emphasis on CASs in describing ongoing activities, because Ukraine remained unattractive to private investors and business opportunities were hard to anticipate. The recent expansion of IFC's Ukraine portfolio enabled by business climate improvements, however, calls for a more forward-looking and targeted approach to future investment operations (see paragraphs 2.9 and 3.13).

Recommendation 1

IFC should develop and follow a more systematic medium-term (three- to five-year horizon) country approach to identifying investment opportunities in areas of high impact, country competitive advantage, and unmet demand to channel IFC investments into projects with the greatest potential development impact and demonstration effect.

***5.2 IFC-IBRD cooperation*: IFC and IBRD need to work sequentially and/or in parallel to address remaining privatization challenges among larger companies, as well as in infrastructure and municipal utilities.**

Background

Both the 2000 and 2003 CASs stress the importance of cooperation between IFC and IBRD, yet recent reviews found that the overall extent of actual cooperation both at the strategic and working level has been short of potential. Meanwhile, although the privatization of small and medium industrial enterprises is complete, that of large enterprises is still on the agenda. In infrastructure, most utilities (electricity, gas, water, and fixed line telephone) remain under state control. Although IFC has made two investments in power distribution companies, potential exists for sequential and/or parallel IFC-IBRD involvement, in which IBRD would promote policy reform and privatization, possibly jointly with IFC, and IFC would undertake postprivatization and public-private partnership projects with sponsors committed to good governance (see paragraphs 2.3, 3.5, 3.10, and 4.5).

Recommendation 2

IFC should seek to work in sequence and/or in parallel with IBRD to address remaining privatization priorities, especially large enterprises and infrastructure, with IBRD policy work and IFC post-privatization funding and use existing joint mechanisms, such as the Subnational Finance Department, to promote public-private partnerships and provide funding to municipal utilities projects.

***5.3 Advisory operations*: IFC needs to replicate the strong design of its successful large advisory projects, promote greater donor coordination and cohesion in its areas of engagement, and exploit synergy models between programmatic advisory and investment operations.**

Background

Although satisfactory overall, the performance of advisory projects can be further improved and existing strong results further ensured by building on lessons from past and ongoing experience showing the following:

- Supply-driven projects that have little client buy-in are highly unlikely to succeed. Similarly, projects attempting to address an issue that is not aligned with country conditions and strategic priorities, whether because the engagement is premature or no longer critical, have a higher risk of not delivering sustainable impacts. This applies both to operations with a core policy advice component, for which ensuring government commitment is indispensable to implementation, and to those geared mostly toward company-level clients.

- The success of larger and longer projects stems from their ability to maintain momentum and generate a critical mass of sustainable behavioral and policy changes; by the same rationale, project families addressing an issue in a sequential and evolutionary manner are even more likely to contribute to such developments. Similarly, a comprehensive synthesis of project components incorporating policy advice, work with selected pilot clients to generate demonstration effects, and public awareness and dissemination campaigns helps ensure lasting and far-reaching results.

- In an environment relatively well supplied by donor funding, lack of coordination among donors can lead to unproductive competition among implementing agencies and implementation of conflicting and incompatible project designs, which can negate impacts.

- The outcomes of smaller projects with a narrower focus associated with investment operations are worse in aggregate than those of larger assignments.

Recommendation 3

a. IFC should focus on the strategic relevance of its advisory operations and replicate the demand-driven, multigenerational, and multidimensional design of its successful larger operations, using the latter to refine benchmarks for measuring performance of ongoing projects.

b. IFC needs to be proactive by developing and maintaining regular contact with donors in its areas of engagement to help establish information exchange mechanisms, align priorities, improve distribution of labor, and avoid inconsistencies. IFC also needs to initiate tactical interaction at the outset of its multi-donor operations to minimize discrepancies in approach and maximize cohesion and alignment of tactics among donors.

c. IFC should expand the proven model of creating partnerships among linkages projects, seeking to develop agricultural suppliers and agribusiness investments, as well as aim to undertake financial markets projects that would provide local currency financing and/or guarantees to banks extending credit to such agricultural suppliers to exploit synergies between investment and programmatic advisory operations

Appendixes

Appendix A: IEG-IFC Methodology for Evaluating IFC Investment Operations

I. Overview

IFC introduced the current evaluation system in 1996. The system uses expanded project supervision reports (known as XPSRs) as its main format for evaluating investment operations. Investments with at least 18 months of project operating results ("mature" investments) are randomly selected each year by IEG-IFC for evaluation in XPSRs from among investments approved by the Board five years earlier. Projects are rated by investment staff based on guidelines developed by IEG-IFC and then independently validated by IEG-IFC.

In the XPSR framework, IFC's investments are evaluated on three performance dimensions based on eight or nine underlying performance indicators:

- **Development outcome**. Four indicators measuring project results "on the ground" for the owners and financiers, the economy and community, the environment, and the private sector;
- **IFC's investment outcome** (loan and/or equity). One or two indicators measuring project contribution to IFC's bottom-line profitability
- **IFC's work quality** and additionality. Three indicators measuring at project appraisal, during supervision, and IFC's role at project origination and its contribution throughout project life.

The outcomes and underlying indicators are rated on the following scales:

- The project's development outcome is rated on a six-point scale from *highly unsuccessful* to *highly successful*. In the aggregate comparative charts and related text, the bottom three ratings (*mostly unsuccessful* and worse) are together described as "low" outcomes; the top three (*mostly successful* and better) are described as "high" outcomes.
- The other two performance dimensions (IFC's investment outcome and IFC's work quality) and all of their underlying indicators are rated on a four-point scale: *unsatisfactory*, *partly unsatisfactory*, *satisfactory*, and *excellent*. In the aggregate comparative charts and related text, *unsatisfactory* and *partly unsatisfactory* ratings together described as "low" ratings and *satisfactory* and *excellent* ratings as "high" ratings.

IEG-IFC independently reviews each rating in every expanded project supervision report, revising some upward and some downward to (a) reflect new information as of IEG-IFC's review date, (b) if needed, align ratings with any subsequent changes to the evaluative standards, and (c) ensure that the rating standards are applied consistently throughout IFC. IEG-IFC's ratings are the final ones that are entered into a ratings database and are used for reporting and analysis. The resulting difference between the number of ratings revised upward and number of ratings revised downward has been a net downgrade of about 5 percent in recent years. Overall, the differences between IEG-IFC's independent ratings and the expanded project supervision report teams' self-evaluation ratings are not large; they are also very similar to OED's project audit success "disconnect rate" relative to World Bank self-evaluation project completion reports.

II. Development Outcome

Four indicators measure distinct aspects of each project's fulfillment of IFC's Article 1 purpose and contribution to its mission. The development outcome rating is a bottom-line synthesis assessment of the quality of the project's results on the ground, relative to what would have occurred without the project. The rating is not a mechanical average of the four indicators. Instead, it is determined case by case, considering the relative importance of each indicator in the specific operation, where the performance falls within each rating band (e.g., whether a *satisfactory* rating is a "low" one bordering on *partly unsatisfactory*, or a "high" one bordering on *excellent*), and what performance would have been necessary for the project to merit the next higher or lower development outcome rating. Some of the development outcome indicators are evaluated differently for nonfinancial markets and financial markets operations.

NONFINANCIAL MARKETS OPERATIONS

Project business success. *Excellent:* project's real after-tax financial internal rate of return (FRR) exceeds the company's real after-tax weighted average cost of capital sufficiently to provide at least a 700 basis points spread to its equity investors over its lenders' nominal yield; *satisfactory*: FRR equals at least the company's weighted average cost of capital inclusive of a 350 bp spread to its equity investors over its lenders' nominal yield; *partly unsatisfactory*: FRR equals at least the company's nominal return to its lenders (with at least a zero spread to its equity investors); *unsatisfactory*: FRR is lower than the company's nominal return to its lenders.

Economic sustainability. This indicator is based on the project's net quantifiable social benefits and costs, as measured in the real economic rate of return (ERR, which like the FRR uses earnings before interest, taxes, depreciation, and amortization. Incomplete documentation often makes the demarcation between officially and *de facto* dropped projects difficult. as a starting point, but is calculated before taxes and adjusted for quantifiable benefits, such as value of training to employees; and quantifiable costs to society, such as price protection by customs duties). The project is rated *excellent* if the ERR $\geq$ 20 per-cent; *satisfactory* if the ERR $\geq$ 10 percent; *partly unsatisfactory* if the ERR $\geq$ 5 percent; and *unsatisfactory* if the ERR < 5 percent. In addition, the indicator identifies who benefits (or loses) from a particular project based on the net present value of benefits to people other than the project's owners and financiers—typically taxpayers/government, consumers, workers, suppliers, competitors, and the local community. It also takes into account the project's contribution, where applicable, to international development goals. Taxes generated by a project would be counted as an economic benefit, but the evaluation does not address whether additional tax revenue is likely to further the country's development.

Environmental effects. "Environment" includes the physical environment and social, cultural, and health and safety (ESHS) impacts, which are considered if they featured in project performance or public perceptions of the operation. Performance is evaluated relative to (a) current Bank Group policies and guidelines and local standards that would apply if the project were appraised today, (b) the Bank Group policies and guidelines and local standards that prevailed at approval, and (c) requirements in the Investment Agreement and its attachments. Ratings are *excellent* (the project meets the higher of IFC's current or at-approval requirements and has materially improved the company's overall environmental performance or that of other local companies), *satisfactory* (the project is in material compliance with IFC's at-approval requirements and has been over the life of the project), *partly unsatisfactory* (the project is not now, or has not been, in material compliance with IFC's at-approval requirements, but deficiencies are being or have been addressed through ongoing and/or planned actions), or *unsatisfactory* (the project is not in material compliance with IFC's at-approval requirements, and mitigation prospects are uncertain or unlikely). The rating is a cumulative assessment over the lifetime of the project, and may differ, therefore, from IFC's "Environmental and Social Risk Ratings," which focus on the current status and cover compliance as well as risk factors. In addition, a project may have materially improved environmental effects, but still be less than *satisfactory*, because of continued noncompliance. The rating also focuses on a project's compliance, which may be different from its sustainability.

Impact on private sector development. Performance is rated as *excellent*, *satisfactory*, *partly unsatisfactory*, or *unsatisfactory* based on the development of the project company as a sustainable private enterprise and on effects reaching beyond the project company. These effects include (a) upstream and downstream linkages to local private businesses, (b) new technology, development of management skills, and employee training, and enhanced private ownership, (c) stronger local entrepreneurship, (d) greater competition and competitiveness and broad demonstration effects in the local economy, (e) follow-on investments by other investors, (f) domestic capital market development (e.g., pioneering listing on stock exchange or significant broadening of listed value, first-of-a-kind financing instrument, and introduction of international accounting standards or enhanced disclosure standards), (g) development of infrastructure available to other private users, or (h) the project company's reputation and business practices as a positive corporate role model and quality investment asset. The indicator also assesses whether project-related technical assistance or the project's activities and services have helped create conditions conducive to the flow of private capital into productive investment. This might include changes in the specific laws and regulations or an improvement in their administration and enforcement.

FINANCIAL MARKETS OPERATIONS

Project business success. Project business success covers the performance of the project and IFC-financed subprojects (e.g., loans extended by a bank to its borrowers using IFC credit line funds or invested in an investment fund in which IFC has a stake) and their contribution to the company's profitability, financial condition, and development, including the related objectives established at approval, such as establishing a new product line to diversify revenue and markets. Ratings are *excellent* (project substantially raised the company's profitability), *satisfactory* (project had a neutral to positive impact on the company's profitability), *partly unsatisfactory* (project returns were sufficient to cover the cost of debt, but did not provide adequate returns to shareholders), or *unsatisfactory* (project returns insufficient to cover the cost of debt).

Economic sustainability. Rated are based on whether (a) subprojects financed with IFC funds are economically viable (i.e., whether they would be able to successfully in a free market in the absence of any distortions, such as subsidies, for example, as reflected in subproject economic rate of returns or in the financial portfolio performance, combined with the absence of portfolio concentrations in industries protected by taxation or customs barriers), (b) the project has led to the introduction of economic viability criteria in the company's investment or lending decisions, and (c) the project has led to benefits to the economy. Note that in most cases quantitative information on the economic viability of subprojects is not available. The judgment therefore relies on assessing the financial portfolio performance, combined with an assessment of to what extent the intermediary invests in or lends to protected industries. In addition, the indicator takes into account the project's impact on the living standards of the project company's and subproject companies' local employees, as well as those of its customers, competitors, and suppliers; the indicator also takes into account direct and indirect taxes, and gender, child labor and regional development impacts (as relevant and material).

Impact on private sector development. Projects and subprojects are rated on economic and financial profitability and growth prospects, pioneering attributes, transfer of skills or technology, resource allocation efficiency, impact on competition, demonstration effects, linkages, catalytic effects on other companies, and financial markets development. The indicator also assesses whether project-related technical assistance or the project's activities and services have helped create conditions conducive to the flow of private capital into productive investment. This might include changes in the specific laws and regulations or an improvement in their administration and enforcement.

Environmental effects. This indicator considers both the environmental and social performance of projects financed by the intermediary and the efficacy of its environmental management system. The rating of *excellent* indicates the company engages in practices and sets standards beyond those required for the project type. For example, it requires all projects it finances (not only IFC-financed subprojects) to meet IFC's at-approval requirements and monitors and enforces compliance through visits and reporting. The rating of *satisfactory* indicates that the company meets requirements for the project type. For example, the company requires only the IFC-financed subprojects to comply with IFC at-approval requirements and monitors and enforces compliance through visits and reporting; or the project has no impact potential. The rating of *partly unsatisfactory* indicates that (a) the company requires subprojects to comply with IFC at-approval requirements, but does little or nothing to follow up on compliance, (b) the company does not require subprojects to comply with IFC at-approval requirements, but is taking action to implement appropriate procedures, or (c) IFC did not require subproject reviews, but there is no evidence of material negative environmental impacts. The rating of *unsatisfactory* indicates that the company does not require its subprojects to comply with IFC at-approval requirements and action to implement procedures is doubtful; or, IFC imposed no at-approval requirements, and a significant portion of the subproject portfolio is likely to be causing materially negative environmental impacts. See also the notes for real sector projects.

III. IFC Investment's Profitability

Where IFC had both a loan and an equity investment, the rating is a synthesis of the separate ratings of the two investments. The ratings address the gross contribution of the investments, that is, without taking into account transaction costs, IFC's cost of capital, or investment size. In addition, the gross contribution equity ratings use IFC's loan pricing as underlying benchmarks and, therefore, implicitly rely on the assumption that overall weighted average pricing adequately compensates for project risk relative to IFC's corporate profitability objectives at approval.

Loans. The rating of *excellent* indicates the loan is fully performing and, through a "sweetener" (for example, income participation) expected to earn significantly more than the "without sweetener" paid-as-scheduled case. The rating of *satisfactory* indicates that (a) the loan is expected to be paid as scheduled or (b) the loan is prepaid and IFC has received at least 65 percent of the interest (net of prepayment penalties received) expected over the original life of the loan or (c) the loan has been rescheduled and is expected to be paid as rescheduled with no loss of originally expected income or (d) regarding the IFC guarantee, all fees are expected to be received, and the guarantee is not called or is called but is expected to be fully repaid in accordance with the terms of the guarantee agreement or (e) IFC swap or other risk-management facility: IFC has not suffered any loss due to nonperformance of the swap counterparty. The rating of *partly unsatisfactory* indicates that (a) the loan is prepaid and IFC has received less than 65 percent of the originally expected interest income (net of prepayment penalties received) or (b) the loan has been rescheduled or the guarantee is called and, in either case, IFC expects to receive sufficient interest income to recover all of its funding cost, but less than the full margin originally expected. The rating of *unsatisfactory* indicates that (a) the loan is in nonaccrual status, (b) IFC has established specific loss reserves, (c) the loan has been rescheduled, but IFC does not expect to recover at least 100 percent of its loan funding cost, (d) the loan has been or is expected to be wholly or partially converted to equity in restructuring of a "problem" project, or (e) IFC has experienced a loss on its guarantee or risk-management facility.

IV. IFC's Work Quality

IFC's overall work quality, based on three indicators, is rated on a four-point scale: *excellent, satisfactory, partly unsatisfactory*, and *unsatisfactory*. This synthesis rating reflects a judgment of the overall quality of IFC's due diligence and value added at each stage of the operation to a country's development and to IFC's profitability. The overall work quality rating can be no lower than that of the worst of the three indicators and no higher than that of the best indicator, and it is related to them according to the relative importance of each (recognizing that IFC's ability to influence an operation is greatest between screening and disbursement) and the considerations that would favor assigning the next higher or the next lower rating. IFC's work quality is judged against established good-practice standards, such as those embodied in IFC Credit Notes, other guidance, and policy. As far as possible, work quality is evaluated independently from the project's outcome to avoid bias in the ratings, although in practice actual project results can influence work quality ratings. For example, projects performing poorly can expose or exaggerate weaknesses in IFC's structuring or supervision, which in the absence of material negative variances might have gone undetected, or been given less weight. Conversely, a project that is performing very well may be doing so despite initial IFC weaknesses that might under different circumstances have been readily exposed. Considering the inherently high risk faced by IFC's operations in their first five years and IFC's status as an offshore minority financier with limited leverage after disbursement, the frequency with which successful outcomes overcome IFC work quality shortfalls is believed to be very low.

Screening, appraisal, and structuring. With hindsight, how well did IFC perform in appraising and structuring the operation? Were there material variances from the appraisal assumptions about the market, the sponsors, the enabling environment, and company performance prospects (including environmental) that with good due diligence should have been anticipated at screening and appraisal? Were material risks identified, and did IFC mitigate them appropriately within good-practice project finance disciplines and prescribed IFC policies and procedures?

Supervision and administration. How well did IFC address company reporting, supervise the project, detect emerging problems, and respond quickly with effective interventions?

Role and contribution. In investing in the company and supervising the project, to what extent did IFC adhere to its corporate, country, and sector strategies and business principle (participating on the same terms as private-sector commercial investors), play a catalytic role, and make a special contribution that could not have been provided by other financiers? Was IFC timely and efficient, and was the client satisfied with IFC's service quality?

V. Mini–Expanded Project Supervision Reports in IEG-IFC Special Studies

Whenever IEG-IFC undertakes a special study covering IFC's investment operations in a sector, a country, or a group of countries, it normally supplements the expanded project supervision report (XPSR) system data on projects in the study population with IEG-IFC's own evaluation of most, if not all, of the other projects in the study population that were not evaluated under the XPSR system. These IEG-IFC evaluations are called "mini-XPSRs," because they use a simplified version of the ratings framework of the XPSR system described above. The main simplifications are: (a) the mini-XPSRs are done by IEG-IFC staff or consultants to IEG-IFC, instead of investment department portfolio staff, (b) the performance or outcome indicators (i.e., development outcome and its subindicators, investment outcome and its subindicators, and IFC work quality and its subindicators) are sometimes rated on a binary scale of successful or unsuccessful, (c) the *satisfactory* financial internal rate of return benchmark is established at 10 percent for all projects, rather than individualized through each projects' own weighted average cost of capital. More broadly, the "sustainable going concern" concept indicating the long-term viability of the project company is used to establish the ratings for business success, and (d) the environmental ratings may be partly based on IEG-IFC staff/consultant site visits, or only on desk reviews of existing information within IFC.

Appendix B: IEG-IFC Methodology for Evaluating IFC Advisory Operations

Advisory projects are rated on six dimensions: (1) strategic relevance, (2) output achievement, (3) outcome achievement, (4) impact achievement, (5) efficiency, (6) IFC role and contribution, and (7) IFC work quality. They may also contain ratings for (8) consultant and (9) partner work quality if applicable. Ratings on the first five dimensions are synthesized into an overall rating of development effectiveness.

Development Effectiveness

This development effectiveness rating is based on a synthesis of ratings of project strategic relevance, results (outputs, outcomes, and impacts), and efficiency at project completion. Desired results for IFC advisory projects are specified in at-approval documents in the form of objectives with monitorable output, outcome, and impact indicators and specified targets for the indicators. These are monitored during the life of the project through project supervision reports, and then are compared at project completion to achieved results in a project completion report. All advisory projects are eligible for a development effectiveness synthesis rating. In some cases, projects may not be rated on all five dimensions, but a synthesis judgment should still be made. The development effectiveness rating may change over time as medium-term outcomes and long-term impacts may not be apparent at project completion; therefore, it is important to indicate the status of the outcome and impact ratings assigned. Ratings should be assigned at project completion, taking into account the reasonableness of expecting outcome and impact attainment at completion.

(1) Strategic Relevance

Strategic relevance measures in retrospect the importance of the advisory project to achieving country strategic objectives, its appropriateness at initiation and completion, given conditions at the time, and whether the advisory operation was the appropriate instrument for the work.

Principal indicators of an advisory project's relevance are its focus on the investment climate and/or its centrality to a designated country assistance strategy (CAS) and high-priority issue in the IFC country strategy; relevance to the direct client as indicated, for example, by cost recovery through client fees; and potential for high impact. A paid partial client fee provides an indication that the service has relevance to the intended recipient.

- Should the work have been undertaken at all?
    - Did it make sense given the conditions, needs, or problems that it was intended to address?
    - How well aligned was the work to the CAS and to the IFC advisory country strategy or sector- or program-specific strategy? Are the project's objectives consistent with the current development priorities for the region and country, IFC and World Bank regional and country strategic objectives for Advisory Services?

  - What was the client interest/receptivity (e.g., willingness to pay a fee)?
  - How appropriate was the work given the economic, political situation, or donor cycle at the time the work was initiated?

- Was the advisory operation the appropriate instrument for the work? Was the use of a subsidy appropriate? What was the extent of planned and actual cost recovery?
- Was the project intended to have broad impact at the regional or national level?

Evaluation standard: Excellent indicates that assistance addressed major priority issues, aimed appropriately at national-level impact, was highly appropriate for conditions, achieved appropriate cost recovery. *Satisfactory* indicates that assistance addressed major priority issues to a large extent, had potential substantial impact on the direct recipient and/or local community, was appropriate for conditions at initiation and completion, achieved majority of appropriate cost recovery. *Partly unsatisfactory* indicates that assistance overlooked some priority issues; at initiation, was appropriate, but conditions changed that could not have been anticipated; achieved substantially less than appropriate cost recovery. *Unsatisfactory* indicates that assistance addresses low-priority issues, was not appropriate given conditions at initiation, had no cost recovery, although cost recovery was appropriate.

(2) Output achievement: Were the products, capital goods, and services delivered?

Outputs are the products, capital goods, and services that result from a development intervention. They are the immediate deliverables of the technical assistance intervention.

Evaluation standard: Excellent indicates that more than the expected outputs were achieved with at least satisfactory quality or that all major outputs were achieved with excellent quality. *Satisfactory* indicates that all major outputs were achieved with satisfactory quality. *Partly unsatisfactory* indicates either that at least one major output was not achieved or that there was at least one major output of less than satisfactory quality. *Unsatisfactory* indicates that few or none of the major outputs were achieved or several major outputs of were less than satisfactory quality.

(3) Outcome achievement: Were the intended short- and medium-term effects of the intervention achieved?

Outcomes are the positive and negative, intended or unintended, short-term and medium-term effects of the advisory project. Client action taken because of the advisory project is one common type of outcome measure. It reflects client acceptance of recommendations.

At project completion, most outcomes should be discernible, but it may be too early to expect achievement of others.

Evaluation standard: Excellent indicates that all or almost all of the major outcomes were achieved, one or more of suggested improvements were made and/or the project serves as a model for positive environmental and social effects, client attributes changes in behavior and performance to the advisory project. *Satisfactory* indicates that most of the major outcomes were achieved, ESHS areas for improvement have been communicated to the client with some improvements ongoing or made, clients indicate the advisory project contributed to major changes in behavior and performance. *Partly unsatisfactory* indicates that some, but fewer than half, of the major outcomes were achieved; the client acknowledges advisory project contribution, but attributes relatively minor influence; ESHS recommendations were made to client, but with little or no client response. *Unsatisfactory* indicates that few or none of the major outcomes were achieved; no screening of ESHS issues took place, although that was appropriate; clients attribute little or no behavior or performance change to the advisory project, or advisory project had perverse effects. Not yet achieved indicates that no major outcomes have yet been achieved, but at least partial outcome achievement is expected.

(4) Impact achievement: Were the intended long-term effects of the intervention achieved?

An issue that must be addressed in determining impact achievement, as with outcome achievement, is what would have likely happened in the absence of the advisory project (the counterfactual). Assessing impacts requires netting out the extraneous factors that affect results, such as specific events, related actions of others, or long-term trends in industries, regions, or countries. At project completion, although one or more impacts should be evaluable, it may be too soon to expect others to be achieved. In such cases, this should be indicated; a rating of the dimension should be made, based on imparts achieved to date; and follow-up evaluation may be recommended.

Evaluation standard: Excellent indicates that exceptional benefits were achieved beyond the direct recipient(s) or clients at the national, regional, or global levels; impact extends nationally or internationally as best practice. *Satisfactory* indicates that all intended impacts on the direct recipients or direct clients were achieved, or most direct impacts were achieved and some impact was achieved beyond the direct recipient(s). *Partly unsatisfactory* indicates that intended impacts were partially achieved; intended impacts were mostly achieved, but with some negative impact. *Unsatisfactory* indicates that intended impacts were not achieved; negative impacts. Not yet achieved indicates that no impacts have yet been achieved, but at least partial outcome achievement is expected.

(5) Efficiency: Were the costs reasonable in relation to the potential results?

A project may reap benefits in relation to its costs, but it may have been highly efficient or inefficient in its use of available funds or other resources. Similarly, there might or might not have been more efficient ways of achieving the same objectives. This dimension takes into account the following issues:

- How reasonable were the costs in relation to the potential results?
- How economically (funds, expertise, time) were resources used?
- Were there alternative ways to achieve the objectives that might have been less costly?

Evaluation standard: *Excellent* indicates that assistance has had a high positive cost-benefit ratio, resources used to provide assistance were expended highly economically, assistance was far less costly than the alternative(s). *Satisfactory* indicates that assistance has a positive cost-benefit ratio, resources used to provide assistance were expended economically, resources used were reasonable in relation to alternatives. *Partly unsatisfactory* indicates that assistance has had a negative cost-benefit ratio, resources used to provide assistance could sometimes have been expended more economically, more reasonable alternatives were available that could have been used. *Unsatisfactory* indicates that assistance has had a highly negative cost-benefit ratio, resources used to provide assistance could generally have been expended more economically, much more reasonable alternatives were available that could have been used.

Development Effectiveness Rating

This rating is a synthesis. Each of the five indicators should be considered. The development effectiveness rating is a bottom-line assessment of the project's overall results in the field, given expectations.

Evaluation standard: *Excellent* indicates a project with overwhelming positive development results, with virtually no flaws, and the type of project IFC should use publicly to illustrate the contribution of IFC advisory project. *Satisfactory* indicates a project that has strong positive aspects that more than compensate for any shortfalls and generally meets expectations. *Partly unsatisfactory* indicates a project that has some strong positive aspects, but does not compensate adequately for shortfalls and has generally failed to meet expectations. *Unsatisfactory* indicates a project with negative aspects that clearly outweigh positive aspects and has failed to meet expectations.

(6) IFC Additionality

Principal indicators that should be considered involve the rationale for IFC's support and IFC's involvement in the project (at approval and ongoing).

- Would alternate funding for the advisory project have been likely?
- Would the company have found alternative financing (e.g., if a business development services project)?
- Could other providers have filled the gap, and how likely is it that they might have?
- Did IFC maximize opportunities to add value?
- Did IFC add gender, poverty reduction, environmental, or other similar focus that increased the developmental focus?
- Was IFC particularly catalytic or innovative in its advisory project?

Evaluation standard: *Excellent* indicates that IFC was essential and made major contributions resulting in a particularly catalytic, innovative, or developmental project. *Satisfactory* indicates that IFC's role and contribution were in line with its operating principles, that is, IFC had additionality; *Partly unsatisfactory* indicates that IFC's role or contribution fell short in a material area. *Unsatisfactory* indicates that IFC's role was not plausibly additional and IFC's expected contribution was not delivered.

(7) IFC's Work Quality

This dimension is a synthesis rating of IFC's performance on the advisory project. The advisory project outcomes should not unduly affect the IFC work quality ratings.

(a) Project Preparation

This rating should reflect evaluation of the extent to which IFC has professionally executed its front-end work in relation to the advisory project.

- To what extent were project objectives identified and indicators laid out that are specific, measurable, attributable, realistic, and time bound? Were baseline data collected, and were appropriate systems for ongoing monitoring put in place?
- To what extent were project risks identified and mitigated appropriately?
- Was coordination with other partners and stakeholders appropriate and sufficient? This includes coordination with investment officers, World Bank staff, and others in the World Bank Group, as well as external parties. Particularly important here may be the extent to which there was adequate coordination with those involved in similar projects, either internal or external to IFC.
- Were appropriate knowledge sources tapped?
- How well were the terms of reference specified? Were clearly defined objectives set for the advisory project with specified dates and monitorable success indicators?
- Were ESHS, gender, poverty and social development aspects taken into account appropriately?
- Appropriate cost recovery targets.
- Adequate attention to sustainability.

Evaluation standard: *Excellent* indicates that IFC's front-end work could serve as a best-practice example. *Satisfactory* indicates that IFC's front-end work was of generally acceptable performance. *Partly unsatisfactory* indicates a material shortfall in front-end work. *Unsatisfactory* indicates material shortfalls in front-end work.

(b) Project Supervision

Principal indicators that should be considered are:

- Candor, timeliness, and quality of performance monitoring.
- Extent to which required reports to donors were on time and of acceptable quality.
- Extent to which IFC staff monitored well; identified problems early and resolved them quickly and appropriately.
- Maintenance of relations with clients and other stakeholders and adequacy of coordination with stakeholders. This includes continuing coordination with investment officers, World Bank staff, and others internal to the World Bank Group, as well as those external to it.
- Timeliness of product delivery and product quality.
- Role in ensuring transition arrangements in staff turnover.
- Supervision of ESHS aspects, when applicable.

- Use of peer reviewers, as appropriate.
- Quality of monitoring and evaluation.
- Achievement of cost-recovery targets.
- Adequate attention to sustainability.

Evaluation standard: *Excellent* indicates that IFC's supervision could serve as a best-practice example; *Satisfactory* indicates that IFC's supervision was of generally acceptable performance. *Partly unsatisfactory* indicates a material shortfall in IFC's supervision. *Unsatisfactory* indicates that material shortfalls in IFC's supervision.

(c) Project Implementation

If IFC staff had direct responsibility for implementing one or more project components, this rating should be completed. Otherwise, "nonapplicable" should be checked. Principal indicators that should be considered are the following:

- Extent to which IFC component implementation was of adequate quality
- Extent to which IFC staff took advantage of opportunities and surpassed expectations
- Timely resolution of implementation issues
- Timeliness of services and product delivery
- Extent of client engagement and follow-up.

Evaluation standard: *Excellent* indicates that IFC's implementation could serve as a best-practice example. *Satisfactory* indicates that IFC's implementation was of generally acceptable performance. *Partly unsatisfactory* indicates that a material shortfall in IFC's implementation. *Unsatisfactory* indicates that material shortfalls in IFC's implementation.

IFC's Work Quality Rating

Based on the ratings of the two or three indicators: (a) project preparation, (b) project supervision, and (c) project implementation (if applicable).

Evaluation standard: *Excellent* indicates that IFC's performance was exemplary. *Satisfactory* indicates that IFC's performance was materially up to a high professional standard. *Partly unsatisfactory* indicates a material shortfall in at least one area. *Unsatisfactory* indicates shortfalls in several areas or an egregious shortfall in one area that led (or could have led) to a less than satisfactory advisory project outcome or impact.

(8) Consultant(s) Work Quality

This rating reflects evaluation of the extent to which the consultant(s) professionally executed their responsibilities in relation to the advisory project. Principal indicators are:

- Extent to which the consultant(s) had the right skills for the work to be done
- Extent to which the consultant(s) were responsive to the terms of reference
- Relations of the consultant(s) with clients and other stakeholders and adequacy of coordination with stakeholders
- Technical quality
- Appropriateness of the recommendations
- Readability and clarity of the written report.
- Timeliness of product delivery
- Transfer of knowledge to local counterparts.

Evaluation standard: Excellent indicates that the consultant(s)' work quality could serve as a best-practice example for others. *Satisfactory* indicates that the consultant(s)' work quality was of generally acceptable performance. *Partly unsatisfactory* indicates a material shortfall in the consultant(s)' work quality. *Unsatisfactory* indicates material shortfalls in the consultant(s)' work quality.

(9) Partners' Work Quality

There are often others, in addition to IFC staff and consultants, whose work quality is critical to the success of the advisory project. These partners may be other donor organizations, nongovernmental organizations, clients (as in a project to build business associations), government ministry or other officials, even though they may not be the direct beneficiaries of services. In these instances, measures can be taken of the extent of the partners' interest in and ownership of the project and the extent to which the partners' expected contribution was forthcoming.

Evaluation standard: Excellent indicates that the partner(s) demonstrated strong ownership of the project; contribution substantially exceeded expectations and/or was essential for the project. *Satisfactory* indicates that the partner(s) demonstrated commitment during project implementation; contribution was fully in line with expectations. *Partly unsatisfactory* indicates that the partner(s) demonstrated moderate interest in the project; there was a substantial shortfall in partner(s)' contribution. *Unsatisfactory* indicates that the partner(s) demonstrated low interest in the project throughout its life; expected contribution was not forthcoming.

Appendix C: List of IFC Investment Operations in Ukraine

TABLE C1: IFC COMMITMENTS IN UKRAINE, FY 1994–2006

Project Name	Approval (FY)	Commitmt (FY)	Status	Grn/Exist[a]	Sector code	Sector name	Project size ($000s)	IFC commitmt ($000s)
Ukraine VC Fund	1994	1994	Closed	G	P-BA	Private equity/venture capital fund: country	11,500	2,000
Ukraine VC Fund II	1996	1997	Active	E	P-BA	Private equity/venture capital fund: country	1,500	1,500
HVB Bank Ukraine	1998	1998	Closed	G	O-AA	Commercial banking: general	16,500	2,279
FUIB	1996	1998	Closed	E	O-AA	Commercial banking: general	53,333	6,500
MBU	2000	2001	Active	G	O-AC	Comm. banking: microfinance & small business	14,387	5,166
Okean Shipyard	2001	2002	Dropped	E	M-CA	Ship building and repairing	40,700	10,000
HVB Guarantee Fa.	2003	2003	Active	G	O-AE	Commercial banking: risk management facility	15,000	15,000
HVB Ukraine RI	2004	2004	Closed	E	O-AA	Commercial banking: general	500	525
MBU RI	2004	2004	Closed	E	O-AC	Commercial banking: microfinance & small business	8,000	1,024
Mironovsky	2004	2004	Active	E	A-BB	Poultry farming	119,000	30,000
First Lease	2004	2004	Active	E	O-LB	Leasing services	2,000	2,000
Nova Liniya	2004	2004	Active	G	Q-BA	Retail (including supermarkets, grocery stores etc.)	14,000	5,000
ProCredit Ukraine	2004	2004	Active	G	O-AC	Commercial banking: microfinance & small business	8,500	8,500
Sandora	2004	2004	Active	E	F-BA	Soft drink	74,818	20,000
RZB Ukraine	2004	2005	Active	G	O-AA	Commercial banking: general	30,000	0
Aval	2005	2005	Active	G	O-AA	Commercial banking: general	35,000	35,000
Mironovsky II	2005	2005	Active	E	A-BB	Poultry farming	260,500	80,000
AES Kyiv Oblenegro	2005	2005	Active	E	C-AG	Distribution	120,000	30,000
AES Rivne Energo	2005	2005	Active	G	C-AG	Distribution	29,400	15,000
EVU II	2005	2005	Active	G	P-BA	Private equity/venture cap fund: country	50,000	7,500
Aval II	2005	2005	Active	E	O-AA	Commercial banking: general	50,000	50,000
Galnaftogaz	2006	2006	Active	E	G-AC	Other petroleum and coal products	185,000	25,000
Sofia Kiev Hyatt	2006	2006	Active	G	U-AA	City and business hotel	77,780	16,500
Rise	2006	2006	Active	G	A-AJ	Other	34,000	10,000

Project Name	Approval (FY)	Commitmt (FY)	Status	Grn/Exist[a]	Sector code	Sector name	Project size ($000s)	IFC commitmt ($000s)
Nova Liniya II	2006	2006	Active	E	Q-BA	Retail (including supermarkets, grocery stores, etc.)	37,400	10,000
Biocon Group	2006	2006	Active	E	G-FA	Pharmaceuticals and medicine	7,223	3,500
Asnova	2006	2006	Active	E	Q-AA	Wholesale (including grocery and farm products)	18,400	8,000
Zeus Ceramica	2006	2006	Active	G	H-BB	Glazed ceramic tiles	33,000	9,000
Velyka Kyshenya	2006	2006	Active	E	Q-BA	Retail (including supermarkets, grocery stores, etc.)	197,000	45,000
ISD	2006	2006	Active	E	I-AB	Integrated steel works	1,102,000	100,000

Source: IFC.

Note: Shaded projects are not or not yet eligible for evaluation. The table excludes regional financial markets facilities with portions allocated to Ukraine.

a. Greenfield/Existing.

Appendix D: Evaluation Ratings for IFC Advisory Operations in Ukraine

TABLE D1: EVALUATION RATINGS FOR IFC ADVISORY OPERATIONS IN UKRAINE

	Development Effectiveness	Strategic Relevance	Output	Outcome	Impact	Efficiency	**IFC Work Quality**	IFC Role and Contribution	Project Preparation	Project Supervision	Project Implement ation	Consultant Work Quality	**Partner Work Quality**
1	**E**	E	E	E	E	S	**E**	E	S	E	E	n/a	**S**
2	**S**	E	E	E	S	S	**S**	E	S	S	E	n/a	**S**
3	**PU**	PU	S	S	PU	PU	**PU**	PU	PU	S	S	n/a	**PU**
4	**S**	S	S	S	PU	PU	**S**	S	S	S	S	n/a	**n/a**
5	**S**	E	S	S	S	S	**S**	S	S	S	S	n/a	**n/a**
6	**S**	S	S	S	PU	PU	**S**	S	S	S	S	n/a	**n/a**
7	**S**	S	S	S	PU	PU	**S**	S	S	S	S	n/a	**S**
8	**E**	E	E	E	S	E	**E**	E	E	S	E	n/a	**n/a**
9	**PU**	S	S	S	TS/U	S	**S**	PU	S	PU	S	S	**U**
10	**PU**	PU	PU	PU	PU	S	**PU**	PU	PU	S	S	S	**n/a**
11	**E**	E	E	E	S	E	**S**	S	E	S	E	S	**E**
12	**S**	S	S	S	S	S	**S**	S	S	s	S	n/a	**S**
13	**S**	S	S	s	n/a	S	**S**	S	S	s	E	S	**S**
14	**S**	S	S	S	n/a	S	**S**	S	S	S	PU	S	**n/a**
15	**U**	PU	PU	U	U	PU	**PU**	PU	PU	PU	PU	PU	**n/a**
16	**E**	E	E	S	S	E	**S**	S	S	S	S	S	**n/a**
17	**PU**	S	PU	U	n/a	S	**PU**	PU	PU	PU	U	PU	**n/a**
18	**S**	S	S	S	S	S	**S**	S	S	S	S	S	**n/a**
19	**S**	S	E	S	n/a	S	**S**	S	S	S	S	S	**n/a**
20	**PU**	S	S	PU	n/a	PU	**PU**	PU	S	PU	PU	S	**PU**
21	**PU**	PU	S	PU	n/a	PU	**S**	PU	S	S	S	S	**PU**
22	**PU**	PU	PU	PU	n/a	PU	**PU**	PU	S	PU	PU	S	**PU**
23	**S**	S	S	S	n/a	S	**S**	S	S	S	S	S	**S**
24	**S**	S	S	S	n/a	S	**S**	S	S	S	S	S	**S**
25	**S**	S	S	n/a	n/a	E	**S**	S	S	S	S	S	**S**

Source: IFC.

Note: E = Excellent; S = Satisfactory; PU = Partly Unsatisfactory; U = Unsatisfactory; TS = too soon to tell; and n/a = not applicable.

Appendix E: IEG-IFC Risk Profiling Methodology for Investment Operations and Summary of Risk Profiling Results for Ukraine and ECA Projects

I. IEG-IFC profiled the comparative high-risk intensity of Ukraine projects and those in ECA and IFC countries, excluding Ukraine.

Within *Independent Evaluation of IFC's Development Results* (IFC 2007b), IEG-IFC conducted a risk profiling exercise for 278 projects approved in FY 2002–05 (excluding Ukraine projects). In the present study, the risk profiles of these projects were compared with the profiles of the 26 Ukraine FY 1993–2006 approvals as a group; in addition, the profiles of FY 2002–04 approvals were compared with those of Ukraine FY 1993–2004 approvals and the profiles of FY 2005 approvals were compared with Ukraine FY 2005–06 approvals to assess directional trends.

II. The eight risk factors used in profiling the samples

With the study samples established, IEG-IFC profiled each project in both samples from information available or discernible at its investment approval stage. The significance of some of these factors in differentiating outcome quality (development and investment, aggregate equity returns) has been established from existing IEG-IFC studies.

The risk factors and high-risk criteria applied in the sample profiling are described below. The first four factors required no analysis or judgment to profile by high-risk attribute, whereas the last four required varying degrees of analysis and judgment. It should be noted that IEG-IFC developed this framework, in consultation with staff from other departments, solely for the purpose of comparing the risk profile of the recent commitments with the sample of more mature projects whose associated outcome ratings were known. The framework is deliberately simple to facilitate this comparison, recognizing that the objective is for IEG-IFC to make an objective and independent assessment of the likely outcome quality of recent approvals compared with the profiles of projects evaluated within annual expanded project supervision report programs. For appraisal of emerging risk prospects of IFC investments, IFC has been using a credit risk rating system since 1999 that is based on continuous (as opposed to binary) scales of risk applying weightings according to the experience and judgment of Credit Review staff and portfolio managers.

1. IFC Review Intensity

Proxy: IFC investment amount using current IFC project review Tier I benchmark of $5 million for loan, $2 million for equity.

High-risk criterion: IFC investment lower than $5 million for loan, $2 million for equity (per current Tier I limit) that were not reviewed by Credit Review.

- Total IFC exposure for its own account of no more than $5 million on the transaction, and
- IFC equity exposure of no more than $2 million, and
- Total IFC exposure on the transaction, combined with existing IFC exposure to the client, would not raise the project to the next Tier (i.e., from Tier I to II or Tier II to III), and
- Not environmental Category A, and
- No special issues.

2. Project Type

High-risk criterion:

- Greenfield projects (as opposed to expansion projects)

3. Country Business Climate

Proxy: Wall Street Journal/Heritage Foundation Index of Economic Freedom, overall synthesis ratings. (See http://www.heritage.org/research/features/index/ for the composition of this index and related country ratings.)

High-risk criteria:

- Countries with Heritage overall ratings > 3.0

4. Sector

High-risk criterion: projects in the following sectors:

- Plastics & rubber (end-products)
- Accommodation & tourism (hotels)
- Textile, apparel & leather
- Health care
- Agriculture & forestry
- Lease/rental services.

5. Sponsor quality

Four sub-indicators (listed in the table below) are used for determining risk category:

- High risk criteria: either (a) the sponsor is rated high risk in at least one sub-indicator and medium risk or high risk in at least one other sub-indicator; or (b) if sponsor's prior performance in an IFC project, or general business reputation, suggests performance unreliability.
- Low risk: the sponsor is not rated high risk in any sub-indicator and is rated medium risk in not more than one sub-indicator.
- Medium risk: all other cases.

Table E1 presents sponsor quality subindicators and associated risk levels.

TABLE E1: SPONSOR QUALITY SUBINDICATORS AND ASSOCIATED RISK LEVELS

Sponsor risk indicator[a]	High risk	Medium risk	Low risk
1. Specific experience in project's business line (production and market)	Less than 5 years	All other cases (not high or low risk)	10 or more years
2. Commitment to the project and strategic importance of project to sponsor	Less than 25 percent equity stake or project of low strategic value to sponsor	All other cases (not high or low risk)	At least 51 percent equity stake or project of high strategic value to sponsor
3. Financial capacity relative to obligations or commitments to support the project	Source of equity or internal cash generation (existing operations) or net worth less than two times financial obligations to support the project	All other cases (not high or low risk)	Source of equity or internal cash generation (existing operations) or net worth more than four times financial obligations to support the project
4. Business reputation and commitment to good governance and environmental, health, and safety sustainability; prior performance in IFC projects[b]	Opposite of low risk, or predominant absence of the listed low risk factors	All other cases (not high or low risk)	Good performance in prior IFC projects (if any). Long and/or several business ties with multinationals; long membership and responsible roles in business associations; directorships in other, especially listed, companies; absence of material legal problems. For sponsors of existing companies: good record of compliance with government regulations; good accounting and management information systems; reputable external auditors; etc.

a. The main sources of data for these ratings are the appraisal documents only in the case of mature projects (i.e., projects with XPSRs). Sponsor ratings in the case of new approved from FY 2002–03 may use additional data as indicated in the next footnote.

b. Some important data sources for rating sponsors, particularly business reputation, not available in the appraisal documents but reasonably obtainable during any project appraisal are: at least three good references, preferably from IFC clients, local banks, international creditors, or World Bank Group staff; and ratings from local credit agencies (if available). Sponsors who may be involved with illegal activities are extremely high risk and are rated over-all as high risk automatically under this rating system. IFC does not knowingly deal with such sponsors because of reputation risks to IFC, although IFC could have unwittingly supported such sponsors in the past.

6. Project's/company's market

High-risk criteria: if any one of the following conditions holds:

- Competing state-owned enterprises have significant presence/role in the project's market (more than 20 percent SOE market share), or
- No clear evidence of project having an inherent competitive advantage, measured by:
- Optimistic price assumptions, by comparing price or margin assumption used in base case scenario versus historical price or margin, without sufficient justification of changes, or
- Excessive reliance of cash generation, measured by (a) cash generation as percent of project cost and (a) cash in project as percent of discretionary cash flow.

Financial intermediary projects: FI's total assets or returns on total assets (both previous three-year average) rank the financial intermediary below the country's top three in the project's sector.

7. Debt service burden

(Proxy for financial risk of default for projects with an IFC loan is IFC loan terms & conditions)

High-risk criteria:

For *real sector projects*: if (shaded projects are not or not yet eligible for evaluation) either one of the following two conditions hold:

(i) The aggregate IFC loan principal amount due for repayment during the first 24 months of the repayment period is one third or more of the disbursed IFC loan principal

(ii) The project (versus loan) grace period (defined as the time between the appraisal estimated start of project production and when the first principal repayment is due under the loan agreement) is 18 months or less for greenfield projects and 12 months or less for expansion/rehabilitation projects.

For *financial intermediary* projects:

(i) For banks, capital adequacy ratio (CAR, defined as Basel I total risk-adjusted capital) at appraisal is less than 10 percent, based upon most recent year's audited accounts.

(ii) For leasing, insurance and other financial sub-sectors, the same concept: if the financial intermediary's CAR is less than 125 percent of the international norm for the industry, the project is high risk.

(iii) In all other financial markets sub-sectors, (i)–(ii) above if there is an IFC loan.

8. Repeat projects/investments

High-risk criteria:

- There is no previous IFC investment with the same project company that has reached at least early operating maturity and is performing as scheduled (loan) or has an expected equity internal rate of return of at least 10 percent.

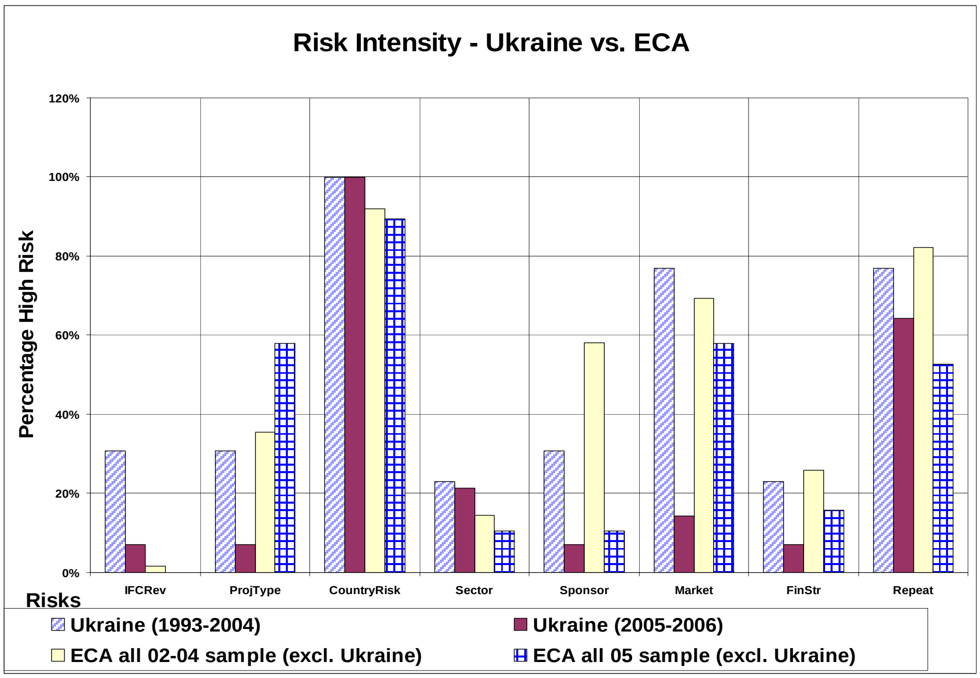
III. Process and Execution

IEG-IFC profiled risk factors for each project by reviewing appraisal documents. These included, among others, Board reports, decision memos, appraisal/investment reports, engineering/technical experts' reports, draft term sheets, decision meeting minutes, and project data sheet documents. Also, documents loaded in the iDesk were used, along with Corporate Portfolio Management's intranet database of Board documents. Static information (such as project's approval tier, project type, sector, repeat investment) was obtained from the corporate portfolio database.

IV. Chart: Comparative Risk Intensity of Ukraine Projects and Those in ECA Countries excluding Ukraine Broken down by Risk Factor

The chart compares the risk profiles of Ukraine projects and those in the rest of ECA broken down by risk factor, which is discussed in paragraphs 4.24–4.25 of the country impact review. Although a comparison was also made between the risk profiles of Ukraine projects and those in the rest of IFC, only one comparator set (rest of ECA) is shown here as the risk profiles of projects in the rest of ECA and the rest of IFC are similar.

Figure E1: Risk Intensity: Ukraine Compared with the Rest of Europe and Central Asia



Source: IEG-IFC.

Appendix F: List of Interviewees Contacted During IEG-IFC Mission to Ukraine

Yuri Mikhailovich Alboschiy, Head of Land Parceling, State Land Committee, Kyiv

Ismail Arslan, Senior Evaluation Officer, Country Evaluation and Regional Relations, IEG–World Bank

Eugene Baranov, Junior Partner, Private Equity, Dragon Capital (Kyiv)

Tatiana Bogatyreva, Senior Investment Officer, Portfolio Central and Eastern Europe, IFC (Moscow)

Dmytro Bondar, Operations Analyst and Business Developer: Ukraine Corporate Development Project

Oleh Bosyy, Operations Analyst, Trust Funds–Ukraine, IFC (Vinnytsya)

Laurence Carter, Director, Small and Medium Enterprises, IFC (by e-mail)

Bohdan Chomiak, Chief of Agricultural Division, Office of Economic Growth, U.S. Agency for International Development (Kyiv)

Victor Dima, former IFC staff

Nina Dmytrash, Operations Analyst, Trust Funds–Ukraine, IFC (Vinnytsya)

Remi Duflot, First Secretary, Head of Operations Section III, European Union–Technical Assistance for the CIS (Kyiv)

Marina Fedorova, Program Assistant, Private Enterprise Partnership, IFC (Moscow)

Stephanie Freymann, Manager, Sector Group II, IFC (by e-mail)

Anatoliy Alekseevich Goloschapov, Head of Kharkiv State Property Fund (by phone)

Vladimir Vasilievich Goncharuk, Owner, Yagodnoye fruit growing company

Yana Gorbatenko, Operations Officer, Trust Funds–Russia IFC (Moscow)

Darrin Hartzler, Senior Program Officer, Investor and Corporate Practice, IFC (by e-mail)

Jason Hollman, First Secretary, Canadian International Development Agency, Canadian Embassy (Kyiv)

Robert B. Horner, Senior Environmental Specialist, Investment Support Group, Environment and Social Develop-ment Department, IFC (by e-mail)

Roman Ivanenko, General Director, EuroLeasing

Ebbe Carl Vigen Johnson, Operations Officer, Trust Funds–Ukraine, IFC (Kyiv)

Nikolay Nikiforovich Kalyuzhny, Head of Donetsk Regional Land Management Unit

Elena Khoteeva, Finance Director, CJSC (Closed Joint Stock Company) Nova Liniya

Nadezhda Klypa, Deputy Head of Crimea State Property Fund (Simferopol)

Alexey Kononets, Impact Research Analyst, Ukraine Leasing Development Project, IFC (Kyiv)

Tetyana Korinna, Communications Assistant, Trust Funds–Ukraine, IFC (Vinnytsya)

Olha Kosenko, Communications Assistant, Trust Funds–Ukraine, IFC (Mykolaiv)

Oto Krajcir, Commercial Director, CJSC Nova Liniya

Elena Mikhailovna Kulich, Plant Director, Sandora

David William Lawrence, Senior Operations Officer, Program for Eastern Indonesia SME Assistance, IFC (by phone)

Valentina Legka, Executive Director, Ukrainian Federation of Professional Accountants and Auditors

Amanda Leness, former IFC staff (by phone)

Alexander Nikolaevich Likhoy, Head of Vinnytsya Fruit Growers' Association

Tania Lozansky, General Manager, PEP-ECA, Private Enterprise Partnership, IFC (Moscow)

Thomas Lubeck, Senior Investment Officer, Operations and Portfolio, IFC (Kyiv)

Ian Luyt, Senior Operations Manager, Eastern Europe and Central Asia, IFC (Moscow)

Anatoliy Maksymyuk, Finance Specialist, Southern Ukraine Vegetable Project, IFC (Mykolaiv)

Evgenia Malikova, Project Management Specialist, Private Enterprise Development, U.S. Agency for International Development (Kyiv)

Anatoliy Matsievskiy, Agronomist, Melnik Farm (Mykoliav)

Heather Matson, Assistant Operations Manager, Central and Eastern Europe, IFC (Kyiv)

Kateryna Maynzyuk, Economic Advisor, Department for International Development–Ukraine (United Kingdom)

Joseph McClean, Investment Officer, Operations Division, IFC (by e-mail)

Ernst Mehrengs, Project Manager, Trust Funds–Ukraine, (Kyiv)

Elena Merkulova, Legal Advisor, Southern Ukraine Vegetable Project, IFC (Mykolaiv)

Bastian Mohrmann, Principal Investment Officer, Small and Medium Enterprise Department Linkage, IFC (by phone)

Olga Mrinska, Deputy Programme Manager, Department for International Development–Ukraine (United Kingdom)

Ueli Muller, Ukraine Country Director, Secretariat for Economic Affairs (Switzerland)

Irina Nasadyuk, Legal Advisor, Technical Assistance, Trust Funds–Ukraine, (Vinnytsya)

Edward Nassim, Regional Vice President, IFC (former Director, Central and Eastern Europe)

Olexander Iosifovich Paskhaver, President, Center for Economic Development (Kyiv)

Mykhaylo Pavlychenko, Business Development Specialist, Vinnytsya Dairy Project, IFC (Vinnytsya)

Viktor Perjan, Production Manager, Loostdorf Ltd.

Igor Petrovich Petrash, Deputy Director (Supplies), Loostdorf Ltd.

Lyudmila Podakova, Communications Assistant, Trust Funds–Ukraine, (Mykolaiv)

Volodymyr Polischuk, Head of the Regional Department, State Property Fund of Ukraine (Zhytomyr)

Vladimir Polovenko, Operations Analyst, Trust Funds–Ukraine, (Mykolaiv)

Olena Poperechna, Program Assistant, Trust Funds–Ukraine, (Vinnytsya)

Andrei Popov, dairy farm owner, Pysarivka

Fjodor Rybalko, Associate Operations Officer, Trust Funds–Ukraine, (Mykolaiv)

Kristina Salomonsson, Swedish International Development Agency–Ukraine (by phone)

Volodymyr Seniuk, Senior Project Officer, Canadian International Development Agency, Canadian Embassy (Kyiv)

Natalia Sergeeva, Advisor, Dragon Capital: CJSC Nova Liniya

Sanwaree Sethi, Operations Analyst, Private Enterprise Partnership, IFC (Moscow)

Gennadi Shemshuchenko, former IFC staff (Kyiv)

Larisa Shidlovska, Communications Consultant, IFC (Kyiv)

Vadim Solovyov, Principal Investment Officer, Agribusiness Department, IFC (by phone and e-mail)

Olexander Stativka, Deputy Project Manager, Vinnytsya Fruit Project, IFC (Vinnytsya)

Sergey Sypko, General Director, Sandora

Morgan Tinnberg, Project Manager, Vinnytsya Dairy Project, IFC (Vinnytsya)

Sergiy Tryputen, Deputy Project Manager, Ukraine Corporate Development Project, IFC (Kyiv)

Vadim Tsap, Partner and Co-owner of Melnik Farm (Mykolaiv)

Anton Usov, Communications Advisor, European Bank for Reconstruction and Development (Kyiv)

Oksana Varodi, Projects Development Officer, Agribusiness Department, IFC Private Enterprise Partnership–Ukraine (Kyiv)

Yuri Mikolaiovich Vasin, Director, Nadra Service leasing company

Alona Voloshina, Ukraine Country Manager, Central and Eastern Europe, IFC (Kyiv)

Anatoliy Ivanovich Vovk, Deputy Head, Ukraine Land Union

Natalia Yalovskaya, Associate Investment Officer, Operations and Portfolio, IFC (Kyiv)

Vladimir Yehorenko, Plant Director, Sandora

Appendix G: Definitions of Evaluation Terms

INVESTMENT OPERATIONS:	
Company:	The entity implementing the project and, generally, IFC's investment counterpart; for financial markets operations, it refers to the financial intermediary (or fund manager) as distinct from its portfolio of IFC-financed subproject companies.
Investment:	IFC's financial product(s) in the evaluated operation: loan, guarantee, equity, underwriting commitment, and so on.
Operation:	IFC's objectives, activities, and results in making and administering its investment.
Project:	The company objectives, capital investments, funding program, and related business activities partially financed by IFC's investment selected for evaluation.

Example: Through this *operation*, IFC provided $55 million for the *company*'s $100 million cement manufacturing expansion *project* in the form of a $20 million A loan, a $30 million B loan from commercial banks, and a $5 million equity *investment*.

Sponsors:	Local investors.
Financial markets projects:	All projects in which the company is a financial intermediary or financial service company, including agency lines and private equity investment funds.
Non-financial market projects:	All other projects; sometimes referred to as "real sector" projects.
NON-INVESTMENT OPERATIONS	Advisory Services, which could include technical assistance components.
Outcomes:	Outcomes refer to implementation of recommendations or advice.
Impacts:	Impacts refer to the changes that occurred following the implementation of recommendations.

Example: A technical assistance operation recommended that the country amend the leasing law to incorporate best practice in similar markets in the region. The *outcome* was that the country amended the leasing law in accordance with the recommendation. The *impact* was that the leasing industry became attractive to potential sponsors, as evidenced by new companies that were established following the amendment of the leasing law.

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Endnotes

Executive Summary

[1] Unless otherwise noted, all dollar amounts in this document are U.S. dollars.

[2] The CIS includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russian Fed-eration, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

Основні положення

[1] Якщо не зазначено інакше, усі доларові величини у цьому документі подано у доларах США..

[2] До складу країн СНД входять Вірменія, Азербайджан, Білорусь, Грузія, Казахстан, Киргизька Республіка, Молдова, Російська Федерація, Таджикистан, Туркменістан, Україна і Узбекистан.

Chairman's Summary: Committee on Development Effectiveness

[1] The Ukraine Country Evaluation (CAE) note was prepared by IEG-WB and will be available at www.ieg.worldbank.org after it is disclosed.

Chapter 1

[1] The CIS includes Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russian Fed-eration, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan.

[2] IFC undertook a total of 45 advisory operations in FY 1993–2004, including 37 operations that have at least reached early maturity; however, the evaluated sample excludes two Foreign Investment Advisory Service assignments undertaken in FY 1994 and FY 1998 respectively, because despite best efforts to locate project information within FIAS, none was available.

[3] ECA includes Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Former Yugoslav Republic of Macedonia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Moldova, Montenegro (until 2006 part of Serbia and Montenegro), Poland, Russian Federation, Serbia, Slovakia, Slovenia, Tajikistan, Turkey, Turkmenistan, Ukraine, and Uzbekistan.

[4] PEP-ECA's regional mandate includes the 12 CIS countries, but not those in Central or Southern Europe; however, because Central Europe lacked a comprehensive program of advisory operations and Southern Europe was serviced by the Southeast Europe Enterprise Development (SEED) facility, which used a business concept largely different from PEP-ECA's, comparative analysis of advisory operations in Ukraine with those in the ECA region beyond PEP-ECA would not yield meaningful conclusions.

[5] Before 2006, Operations Evaluation Group (OEG) was the designation for the present IEG-IFC. Similarly, Operations Evaluation Department (OED) was the previous designation for the present IEG–World Bank.

Chapter 2

[1] See also Bondar and Lilje (2002).

[2] According to the World Bank's Doing Business: Creating Jobs (2006), Ukraine ranks 128th of a total of 175 countries and fifth lowest among ECA countries rated (other than Belarus, Croatia, Tajikistan, and Uzbekistan).

[3] As evidenced by 1998–2004 data from the Transparency International Corruption Perception Index (available at: http://www.transparency.org/policy_research/surveys_indices/cpi). For example, in

2004 Ukraine was rated 122nd of 145 countries, although it should be noted that its 2005 ranking improved to 107th of 158.

[4] For the Institutional Investor Country Credit Risk Rating, a country score below 30 is considered high risk and a score of 30 or higher is considered medium risk.

[5] See EIU 1996–97, pp. 14–15, and the Public Enterprise Reform and Privatization Database, World Bank.

[6] Furthermore, according to IBRD Development Data Platform data, the 2004 ratio of private sector participation in infrastructure to GDP in Ukraine was similar to that in Russia, but lower than in most CIS countries, except Uzbekistan and Tajikistan.

[7] The draft Ukraine Country Assistance Evaluation by IEG–World Bank discusses this issue in more detail.

[8] In this regard, IFC's (2004) evaluation of World Bank assistance to transition economies, referring to de Melo and others (2001: paragraph 1.14), remarks that "while initial conditions (levels of development and resources, macroeconomic distortions, trade interdependence, location, years under central planning, and so on) helped explain the rate of economic liberalization and growth, economic liberalization was the most important factor determining differences in growth between transition economies. Political reform was in turn the most determinant of the speed and comprehensiveness of economic liberalization."

[9] These and other macroeconomic data (paragraph 7–14) come from internal World Bank databases.

[10] Armenia, Azerbaijan, and Georgia.

[11] Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

[12] For a substantive discussion of Ukraine's macroeconomic conditions, please see the Ukraine country assistance evaluations.

[13] World Bank (2000b), paragraphs 5–8 in the executive summary and paragraphs 3.4, 3.12, 3.14, 4.16–4.17, 5.1, 5.3, 5.16.

[14] As established by IFC for country business environment assessment purposes. A country is considered high risk if its Institutional Investor Country Credit Risk Rating is below 30, medium risk if this rating is between 30 and 60, and otherwise low risk.

[15] Although the European Investment Bank focuses mainly on infrastructure, EBRD's target sectors and strategic priorities in Ukraine are similar to IFC's with a focus on agribusiness; manufacturing; property and tourism; banking sector, micro-lending, and non-bank financial institutions; energy; and infrastructure (EBRD 2005b, as approved by the Board of Directors on May 17, 2005).

Chapter 3

[1] FY 2006 PEP-ECA data for countries other than Ukraine are not currently available.

[2] Chapter 4 discusses the performance of IFC's advisory operations in Ukraine and relevant lessons from experience and IFC's value added.

[3] This excludes $0.8 million in advisory engagements with individual clients, grouped instead under "individual assignments."

[4] Seventy-one percent of Ukraine's land area is agricultural, compared with an average of 50 percent for the rest of ECA and 13 percent for Russia. This is surpassed only by Kazakhstan and Moldova with 77 percent each. At the same time, Ukraine lacks the extensive natural resources to develop extractive industries; however, much of Ukraine's agricultural potential was underexploited in the 1990s. (See World Bank 2000b: paragraphs 1.13 and 4.11–4.12, and EIU (1996–2006).

[5] This is largely explained by Ukraine's population and economy size. In terms of both aid to gross national income and aid per capita, Ukraine received lower rates of official development assistance

than many smaller CIS countries, such as Armenia, Georgia, Moldova, or Kyrgyz Republic (Organisation for Economic Cooperation and Development statistics).

[6] Based on interviews with representatives of the Canadian International Development Agency (CIDA), Department for International Development in the United Kingdom, European Union–Technical Assistance for the CIS, U.S. Agency for International Development, and Secretariat for Economic Affairs (Switzerland) in Ukraine. Other sources include the 2005 USAID Ukraine annual report, EBRD (2005b), CIDA (2001), EIU (1996–2006), and others. Although private sector development constitutes the core of IFC's operations, it is indeed a relatively specialized activity for most donors, because a large proportion of their funding in Ukraine has been directed toward political, security, nuclear safety, and humanitarian causes.

[7] For the purposes of the review, "cooperation" is defined broadly to include any interaction among World Bank Group institutions intended to improve the development impact of Bank Group instruments by maximizing synergies and reducing duplication and inconsistencies. It includes both coordination and collaboration. "Coordination" is defined as efforts to integrate the strategies of the three institutions to accomplish common objectives, such as through division of labor, and does not necessarily involve interaction on specific interventions. "Collaboration" is defined as interaction among the three institutions on specific interventions.

[8] World Bank (2000a: paragraphs xv, 55, 62, and 67) and World Bank (2003: paragraph iv).

[9] There is evidence of positive developments in this area: it was agreed on May 10, 2007, that the current project manager for PEP business enabling environment in Ukraine would spend 20 percent of his time to work with IBRD in addition to his duties in PEP-Ukraine. His day-to-day duties include acting as a focal point for collaboration and exchange of information on business enabling environment issues, providing support to World Bank Group operations focusing on private sector development and business enabling environment, and providing input into the design of IBRD analytical and advisory products, surveys, lending operations, and others.

[10] Latest figure available.

[11] It is noteworthy that of the 22 dropped projects, EBRD (the only other significant source of foreign private sector funding) subsequently financed only three, suggesting that, although these three may have been lost by IFC as a result of competition with EBRD, others do not appear to have been bankable, at least at the time.

[12] Besides Ukraine, Central and Eastern Europe includes Armenia, Belarus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Poland, Russian Federation, Slovakia, and Slovenia. Compared with ECA, the region excludes 15 countries in Central Asia and Southern Europe, which a different administrative region manages within IFC.

[13] The FY 1994–2000 share of promotion and prospecting costs in total investment-related costs in Ukraine is even higher at 32 percent, compared with 26 percent in Russia and 22 percent in ECA; however, a Central and Eastern Europe comparison is not available.

[14] Chapter 4 discusses the performance of IFC's investment operations in Ukraine and relevant lessons from experience and IFC's value added.

[15] Furthermore, although EBRD is not barred in its founding documents from investing in European Union member countries, it faces a diminishing role in such countries. As a result, the recent and ongoing accession of 11 Central European countries to the European Union has raised the pressure for EBRD to invest in CIS states.

[16] This includes both private and public sector commitments; the latter equal about 30 percent of EBRD's total committed volume.

[17] EBRD's fiscal year is equivalent to the calendar year, unlike IFC's (July 1–June 30); thus, the comparison between IFC and EBRD fiscal year commitment volumes provides a general indication of relative volume, but lacks precision year by year, due to the resulting timing difference. For the pur-

poses of figure 3.3, IFC commitment subtotals were recalculated in a calendar-year format to be directly comparable with EBRD figures, and regional facility amounts allocated to Ukraine in FY 2005 (two facilities totaling $125 million) were added to IFC Ukraine commitments to parallel EBRD's methodology.

[18] At the same time, 29 percent of EBRD private sector commitments is represented by working capital facilities to trading companies and short-term financing against warehouse receipts; IFC was historically reluctant to engage in this type of transaction, but more recently has successfully undertaken such projects in Latin America and the Caribbean region, as well as globally.

[19] Before the period under review, EBRD undertook two privatization advisory assignments in 1992 totaling €1.8 million.

[20] With an average size of about $300,000, EBRD's technical cooperation projects are smaller than IFC's average advisory assignments (25 percent of the overall IFC average). They are, however, 1.8 times larger than IFC's average investment project–related advisory assignments and much more numerous than either (254 compared with IFC's 45 total operations and 12 project-related operations or 2.5 technical cooperation assignments per EBRD investment project, compared with 0.4 advisory assignments per IFC investment project).

[21] According to a 2006 internal IFC memorandum on technical assistance and advisory services pricing guidelines.

[22] Regarding IFC, the importance of maintaining a presence in the country is further supported by IFC's current strategic vision and can be achieved within the Global/Local Initiative.

[23] This is a simplified comparison, because it expressly ignores the numbers and promotional contribution of Headquarters-based staff in each institution.

Chapter 4

[1] The evaluation framework for advisory operations, outlined in detail in appendix B, broadly consists of two groups of ratings: (a) development effectiveness, comprising strategic relevance, project outputs (immediate), outcomes (short- to medium-term), impacts (long-term), and efficiency and (b) work quality, comprising IFC role and contribution; IFC work quality at project preparation, supervision, and implementation; and consultant and/or partner work quality, if applicable. Like investment operations, advisory operations are rated on a four-point scale from excellent to unsatisfactory. This framework is also similar to the current pilot advisory project completion report framework, but also includes work quality ratings. Ratings for PEP-ECA projects were discussed with project teams and PEP-ECA management as part of the PEP-ECA study.

[2] Based on partial data. Full statistics are not available.

[3] For the majority of these, lackluster performance was a consequence of IFC's attempts in the late 1990s to use advisory operations to supplement business development efforts and enhance IFC's degree of comfort with potential investees. Although this tactic was an attempt to mitigate the effects of a difficult business environment, it did not prove viable and has been discontinued.

[4] This finding for Ukraine advisory projects differs from that for the 34 projects evaluated for the PEP-ECA study, in that aggregate project preparation ratings were lower than other work quality ratings (45 percent by number of projects and 54 percent by funding volume). Although the 34 projects in question include seven projects in Ukraine that were also included in the present study with identical ratings, differences in the performance of other projects in the two respective samples (non-Ukraine projects in the PEP-ECA study and non-PEP projects in the Ukraine study) are the reason.

[5] This again contrasts with the corresponding PEP-ECA study finding, that is, aggregate project implementation ratings were higher than other work quality ratings for the 34 evaluated projects (85 percent by number of projects and 94 percent by funding volume).

[6] Incomplete documentation often makes the demarcation between officially and de facto dropped projects difficult.

[7] A number of projects that may appear supply driven were intended to generate demand in areas in which none had previously existed, such as corporate governance.

[8] Sources include various internal reports: final reports to donors for the Small-Scale Privatization project and the Unfinished Construction Site Divestiture Project (both, U.S. Agency for International Development), reports for the Mass Privatization Project regional hubs (Crimea, Luhansk, Kharkiv, Sumy, and Zhytomyr,), interim and final reports to donors for the Land Privatization Project (Department for International Development in the United Kingdom, U.S. Agency for International Development, CIDA, the Netherlands), and PEP Annual Reports 2001–05.

[9] Sources include project evaluation reports for the PEP-ECA study, advisory project supervision reports, project completion reports, and other IFC documents.

[10] Sources include advisory project supervision reports, project completion reports, and other internal IFC documents.

[11] It should be noted that, although mature Ukraine projects were fully covered in this evaluation, evaluated ratings for the rest of ECA and IFC projects are derived from a statistically representative random sample of IFC approvals evaluated within the annual expanded project supervision report program.

[12] IFC's project evaluation cycle covers a statistically representative sample of five-year-old approvals on a rolling basis; thus, evaluation results for comparator ECA and IFC groups are not available for approvals after FY 2001.

[13] For all financial markets approvals evaluated for IFC FY 1994–2001, excluding Ukraine, the percentage of "high-high" outcome ratings by number was 36 percent and the percentage of "low-low" outcome ratings was 37 percent, whereas work quality was satisfactory or better for 64 percent of the projects. These figures are lower than the corresponding success rates for evaluated non-financial markets investments in the same period (outcome ratings of 49 percent and 31 percent respectively), whose aggregate work quality is the same. The poorer performance of financial markets projects as a group is influenced to some extent by the poor results of investments in collective investment vehicles (CIV) (when viewed separately, non-CIV financial markets investments have "high-high" and "low-low" rates of 42 percent and 32 percent respectively). It should also be noted in this context that financial markets project performance has tended to improve: according to an IEG annual review of evaluation findings in FY 2005, results for more recent (FY 1997–99) financial markets (non-CIV) approvals are in line with the average for all sectors.

[14] For risk profiling analysis, IFC uses the Heritage Foundation Index of Economic Freedom (available at: http://www.heritage.org/research/features/index/), which tends to be more static than the IICCRR; as a result, under this methodology, Ukraine is still considered high risk (see appendix D for details).

[15] According to an IEG-IFC annual review.