IFC ADVISORY SERVICES IN EASTERN EUROPE AND CENTRAL ASIA
An Independent Evaluation of the Private Enterprise Partnership Program
THE WORLD BANK GROUP

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IFC Advisory Services in Eastern Europe and Central Asia

An Independent Evaluation of the Private Enterprise Partnership Program
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<th>Description</th>
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<tr>
<td>BEE</td>
<td>Business enabling environment</td>
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<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
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<td>ECA</td>
<td>Eastern Europe and Central Asia</td>
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<td>FIAS</td>
<td>Foreign Investment Advisory Service</td>
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<td>FMTAAS</td>
<td>Funding Mechanism for Technical Assistance and Advisory Services</td>
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<td>FY</td>
<td>Fiscal year</td>
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<td>IEG</td>
<td>Independent Evaluation Group</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>M&amp;E</td>
<td>Monitoring and evaluation</td>
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<td>PEP</td>
<td>Private Enterprise Partnership</td>
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<td>PEP-ECA</td>
<td>Private Enterprise Partnership for Eastern Europe and Central Asia</td>
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<td>PER</td>
<td>Project evaluation report</td>
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<td>SME</td>
<td>Small and medium enterprise</td>
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Acknowledgments

This report was prepared by a team led by Kelly Andrews Johnson and Beata Lenard, drawing on research and contributions from Susan Chaffin, Jouni Eerikainen, Surajit Goswami, Armine Khachatryan, Jinsook Lee, Nisachol Mekharat, Stephen Pirozzi, Cherian Samuel, Karl Sauvant, and Luba Shara. Saliha Amroune, Yvette Jarencio, and Marylou Kam-Cheong provided general administrative support to the study team. Pamela Cubberly edited the report, and Sid Edelmann and Sona Panajyan managed its production and dissemination.

The evaluation was written with guidance from Denis Carpio and Linda Morra-Imas and under the general supervision of Marvin Taylor-Dormond.

The report benefited substantially from the constructive advice and feedback from many staff at IFC and a number of Independent Evaluation Group colleagues in both IFC and the World Bank. The following IEG-Bank colleagues provided peer review and commented on the report: Shahrokh Fardoust, Ann Flanagan, Nils Fostvedt, Patrick Grasso, John Johnson, Klaus Tilmes, Janardan Prasad Singh, and Shampa Sinha. Peter Freeman and Chad Leechor (IEG-Bank) and Eric Oldsman (Nexus Associates) provided useful comments on the project-level evaluations. Nicholas Burke (IEG-IFC), Neil Roger, and Geeta Batra also contributed valuable comments as peer reviewers.
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Foreword

This evaluation assesses the performance of the IFC Private Enterprise Partnership (PEP), an Advisory Services program established in 2000 in countries of the Eastern Europe and Central Asia (ECA) region belonging to the Commonwealth of Independent States (CIS) to improve investment climates, promote private investment, and facilitate more rapid growth and development of small and medium enterprises.

IEG selected this program for evaluation to promote accountability and derive lessons to guide future IFC Advisory Services worldwide. IEG was also motivated by the fact that other regional advisory facilities had been emulating many PEP features before an independent assessment of the program had been done.

As part of its strategic focus on frontier countries adopted in 1998, IFC began increasing its provision of Advisory Services to facilitate private sector investment. Within this context, a challenging business environment and low levels of foreign direct investment and private sector participation made CIS countries good candidates for expansion of IFC Advisory Services as a bridge to improved investment opportunity. Thus, IFC established PEP-ECA in May 2000, consolidating its large existing advisory program in the CIS. Cumulative donor and IFC combined commitments to PEP-ECA had reached a total of $144 million through March 2007, since its creation. This evaluation includes all mature projects completed by the end of 2005.

The evaluation finds that the PEP-ECA program was largely successful; almost two-thirds of projects achieved successful development effectiveness results. Output delivery and outcome achievements were strong, while impact achievements were lower, reflecting that results took time, relied on many external factors, or were generally more difficult to achieve and assess. PEP-ECA’s management structure, core product line specialization, focus on developing replicable projects, reliance on local staff, strong project implementation and emphasis on achieving target expected outcomes, and long-term project life all helped achieve objectives.

Certain deficiencies, however, limited the program’s potential effectiveness. The design of the funding mechanism often constrained PEP-ECA’s ability to be strategic and responsive to client and
country needs, created delays, and raised costs. Project preparation did not always include sufficient needs assessments and adequate tailoring to specific country development conditions. Efforts to integrate Advisory Services with IFC investment and coordinate across the World Bank Group varied in their degree of success, not always achieving synergies and desired results. PEP-ECA’s approach to pricing Advisory Services was insufficient, and its results measurement and evaluation system had some shortcomings.

This report recommends that IFC should replicate only selective features of the PEP model. A wholesale transfer to other regions without addressing the observed weaknesses is not recommended; for instance, shortcomings in the organizational structure should be addressed and some product lines revisited. Also, IFC should strategically leverage Advisory Services and investment tools in a complementary fashion to tackle long-term country development needs. Finally, building on a recent pricing policy, IFC should formalize more detailed and practical pricing and subsidy guidelines for Advisory Services staff to assess the full cost of interventions and provide subsidies on a selective and justified basis.

Vinod Thomas
Director-General
Evaluation
Предисловие

Настоящий анализ содержит оценку результатов деятельности Партнерства в развитии частного сектора IFC (ПЕП) – программы оказания консультационных услуг, созданной в 2000 году для стран Восточной Европы и Центральной Азии (ЕЦА), входящих в Содружество Независимых Государств (СНГ), с целью улучшения инвестиционного климата, стимулирования частных инвестиций, ускорения темпов экономического роста и развития мелкого и среднего бизнеса.

Независимая группа оценки (НГО) выбрала эту программу для проведения аналитической оценки с целью усиления подотчетности и использования полученного опыта в ходе дальнейшего предоставления консультационных услуг IFC в разных странах мира. Кроме того, на это решение НГО повлиял тот факт, что другие региональные механизмы по предоставлению консультационных услуг уже воспроизводят модели ПЕП еще до проведения ее независимой оценки.

В рамках принятой в 1998 году стратегии IFC уделяет особое внимание деятельности в странах, рынки которых подвержены повышенному уровню риска, расширяя предоставление консультационных услуг с целью стимулирования роста инвестиций в частный сектор. В этом смысле подходящими кандидатами для расширения консультационных услуг IFC и создания предпосылок для улучшения инвестиционных возможностей стали страны СНГ с их непростыми условиями ведения предпринимательской деятельности, а также низким уровнем прямых иностранных инвестиций и участия частного сектора. Таким образом, в мае 2000 года IFC учредила ПЕП для стран Восточной Европы и Центральной Азии (ПЕП-ЕЦА), укрепив тем самым уже существующую обширную программу консультационных услуг IFC в странах СНГ. В конце марта 2007 года объединенные средства доноров и IFC, зарезервированные для ПЕП-ЕЦА с момента его создания, достигли в совокупности 144 млн. долларов США. Эта оценка рассматривает все завершенные проекты по состоянию на конец 2005 года.

Данные анализа свидетельствуют о том, что реализация программы ПЕП-ЕЦА была в основном успешной, при этом положительные с точки зрения эффективности развития результаты были достигнуты в двух третях проектов. Непосредственные практические результаты деятельности и краткосрочные и среднесрочные результаты были высокими, в то время как ее воздействие было скромнее. Это свидетельствует о том, что получение результатов в этой области требует времени, зависит от целого ряда внешних факторов и в целом является более сложным процессом, оценивать который непросто. Достижение целей стало возможным благодаря...
структуре управления ПЕП-ЕЦА, специализации основной группы продуктов, акценту на разработку тиражируемых проектов, опоре на персонал на местах, четкой реализации проекта, упору на достижение целевых показателей и долгосрочному характеру проекта.

Тем не менее, определенные недостатки снижали потенциальную эффективность программы. Стратегический потенциал ПЕП-ЕЦА и способность программы чутко реагировать на потребности клиента и страны нередко ограничивались самим механизмом финансирования, что приводило также к задержкам и росту затрат. В процессе подготовки проекта не всегда в должной степени учитывались оценки потребностей и не всегда проводились соответствующие корректировки с учетом специфики развития страны. Усилия по интеграции консультационных услуг с инвестиционной деятельностью IFC, а также по координации деятельности в рамках Группы организаций Всемирного банка, предпринимались с разной степенью успеха, при этом не всегда удавалось достичь синергизма и желаемых результатов. Подход к установлению цен на консультирование услуги в рамках ПЕП-ЕЦА нельзя признать удовлетворительным. Кроме того, можно отметить некоторые недостатки в системе измерения и оценки результатов деятельности.

В настоящем докладе содержатся рекомендации относительно избирательного воспроизведения некоторых параметров модели ПЕП. Полный ее “перенос” на другие регионы без устранения выявленных недостатков не рекомендуется. Так, например, необходимо устранить некоторые недостатки организационной структуры и пересмотреть некоторые группы продуктов. В целях обеспечения долгосрочных потребностей стран в области развития IFC необходимо также стратегически использовать консультационные услуги и инвестиционные механизмы, учитывая их взаимодополненность. И, наконец, на основе разработанной недавно новой ценовой политики IFC необходимо утвердить для сотрудников службы консультирования услуги более подробные и практичные руководящие принципы установления цен и предоставления субсидий, которые позволят оценивать полную стоимость операций и предоставлять субсидии избирательно и оправданно.

Винод Томас
Генеральный директор
по независимой оценке
Executive Summary

The purpose of this Independent Evaluation Group–International Finance Corporation (IEG-IFC or, in this report, simply IEG) evaluation is to assess the performance of the IFC Private Enterprise Partnership–Eastern Europe and Central Asia (PEP-ECA), a large advisory program created in 2000 to serve countries belonging to the Commonwealth of Independent States (CIS) and to derive lessons that could guide future IFC Advisory Services worldwide. This report is based on an approach paper issued to the World Bank Group’s Committee on Development Effectiveness in February 2006.

**Background**

As part of its strategic focus on frontier countries adopted in 1998, IFC began increasing its provision of Advisory Services to facilitate private sector investment. Related annual IFC and donor commitments rose dramatically—from $25 million in fiscal year (FY) 1996 to $365 million in FY 2006—and by FY 2006 cumulative commitments reached $1.7 billion. During this time, annual expenditures for Advisory Services increased at a slower pace, from $18.3 million to $151.5 million, and cumulative disbursements reached $0.7 billion in FY 2006. Worldwide advisory operations now cover about 80 countries and employ more than a third of IFC staff (1,086 people). IFC envisages further increases in Advisory Services and has undertaken many initiatives since 2006 to introduce a more strategic and systematic approach to Advisory Services development, funding, implementation, human resources, advisory pricing, and monitoring of results (see box 2.1).

Within this context, a challenging business environment and observed low levels of foreign direct investment and private sector participation in CIS countries made the region a good candidate for expansion of IFC Advisory Services as a bridge to improved investment opportunities. Thus, IFC established PEP-ECA in 2000, consolidating its existing advisory program in the CIS, which had already delivered $79 million worth of projects since 1992. Addressing donor requests for long-term IFC commitment to the region, IFC installed a more permanent, specialized management structure.

**PEP-ECA Objectives and Scope**

PEP-ECA’s three objectives were to (a) improve investment climates, (b) promote private investments, and (c) facilitate growth and development of small and medium enterprises (SMEs). Given the success of the pre-PEP-ECA assistance and IFC’s established brand for Advisory Services in
the CIS region, donor interest for supporting PEP-ECA was strong. By March 2007, the cumulative donor and IFC combined commitments to PEP-ECA had reached a total of $144 million since its creation in 2000. From May 2000 until March 2007, IFC conducted 78 advisory projects with total expenditures of nearly $83 million.

PEP-ECA management was organized by core product area to deliver advisory projects in financial markets, corporate governance, business enabling environment (BEE), linkages, and SME development. These core areas broadly reflected IFC investment priorities in the region and served as a basis for implementing a strategically integrated advisory and investment program. Corporate governance has absorbed the largest share of expenditures (29 percent) by volume, followed by linkages (21 percent) and financial markets (20 percent). Country coverage originally included Armenia, Belarus, Georgia, Russian Federation, and Ukraine and expanded in 2001 to include Azerbaijan, Kazakhstan, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan, and Uzbekistan.

IEG selected this pioneering program for evaluation to promote accountability and derive lessons to guide future IFC Advisory Services worldwide. The evaluation was also motivated by the fact that other regional advisory facilities have been emulating many PEP features before any independent assessment of the program had been prepared. This evaluation covers PEP-ECA activity through the end of 2005 and covers two levels of individual Advisory Services: the project and overall program levels, including analysis of the management structure and support functions. Findings from visits to nine countries and evaluation of 44 projects implemented in the CIS comprise the building blocks of the study.

**Findings**

The IEG evaluation of PEP-ECA led to the following findings:

**Overall Performance of PEP-ECA**

The PEP-ECA program was largely successful in achieving its main objectives. These include promoting private investment, as well as contributing to investment climate improvements in the specific areas of intervention. Direct efforts to support SMEs did not demonstrate positive results, whereas indirect efforts (leasing, financial intermediaries, and BEE) were promising, even though concrete evidence of impact on SMEs was insufficient.

Almost two-thirds of projects achieved successful development effectiveness results. This involved the assessment of strategic relevance, efficiency, and three underlying results indicators: outputs (immediate deliverables), outcomes (changes in knowledge, behavior, and attitudes resulting from an intervention; and short- or medium-term effects), and impacts (the consequences of an intervention, often, but not always, long-term effects). (Box 1.1 and appendices B and G include detailed explanation of these terms.) Output delivery among projects was strong (satisfactory or above ratings of 82 percent), and achievement of expected outcomes was largely successful (satisfactory or above ratings of 71 percent). Impact achievement was lower (satisfactory or above ratings of 47 percent), reflecting that results in the field took time, relied on many external factors, or were generally more difficult to achieve and assess. With successful development effectiveness ratings of 78 percent, based on U.S. dollars spent, success ratings improved as volume increased, indicating that larger projects performed better than smaller ones. Larger projects were typically longer in duration, which helped to promote achievement of outcomes and impacts in the field.

Performance of the individual product lines varied; financial markets projects, particularly leasing, outperformed all other business lines in all dimensions measured. Corporate governance and BEE projects exhibited better-than-average success rates. PEP-ECA’s linkages\(^2\) projects had the worst results, but these were the first generation of such projects in IFC and differed significantly in structure and design from current IFC linkages projects. Sectorwide interventions yielded more successful and broader development results (both outcomes and impacts) than those linked to specific IFC investments.
**Strong project implementation was a main driver of success.** Strong project implementation (85 percent satisfactory or better) drove project results achievement and made up for weaker project preparation (only 47 percent satisfactory or better). The latter reflected insufficient needs assessment and tailoring to country and market conditions. Among well-prepared projects, 88 percent recorded development effectiveness ratings that were satisfactory or better; however, among the 53 percent of projects that were poorly prepared, fewer than half had satisfactory development effectiveness ratings. Other key project-level success factors included a long-term (two- to five-year) project focus on achieving project outcomes and impacts and dedicated project teams of qualified professionals combining local staff and international expertise.

**Management and Execution of the PEP-ECA Program**

PEP-ECA’s specialized management structure has been key to the program’s development and implementation. Program objectives were achieved by building expertise, promoting consistency, and aiding project replication, which enhanced efficiency.

**Product line specialization improved overall standard project design and efficiency, but insufficient needs assessment and product line adaptation to specific country conditions limited potential effectiveness.**

PEP-ECA created replicable product models that tended not to be adjusted for specific country conditions at the preparation stage. Although there was flexibility for product adjustments during implementation, the evaluation found that this did not always make up for shortcomings in project preparation. A better balance between the product line rollout and emphasis on country needs and adaptation to country conditions would likely have enhanced results.

**Despite an initial advisory structure designed to mirror IFC regional investment priorities, actual implementation of investments and Advisory Services was not well integrated, diminishing potential synergies and results.** The advisory and investment strategies were not jointly formulated over time. In many instances, a low level of IFC investment in the CIS limited opportunities for effective integration. On the other hand, PEP-ECA product and project selection was affected by the need to replicate core products and/or undertake new experimental projects, as well as obtain donor approval for each project. Practical obstacles also existed to integrating IFC investments and Advisory Services, given differing project cycles and staff incentives. Moreover, few advisory projects successfully tapped IFC investment staff expertise and vice versa. Closer collaboration and greater involvement of IFC’s technical expertise as a global investor could have potentially helped advisory project designers identify synergistic areas for intervention and added greater value for clients.

**Sectorwide initiatives achieved higher development effectiveness and wider impacts than interventions designed to facilitate specific IFC investments.** Most of the interventions that displayed efforts to integrate IFC Advisory Services and investments took place at the individual transaction level. The IEG findings suggest, however, that broader, sector-level strategic integration of IFC Advisory Services and investments might yield greater development results than emphasizing integration at the individual transaction level.

**PEP-ECA efforts to cooperate with the World Bank were ad hoc, varied in their degree of success, and did not always achieve desired results.** IFC Advisory Services were valued overall as part of the World Bank Group effort to advance a country’s private sector development agenda; however, where PEP-ECA/World Bank coordination occurred, it was mostly informal and often based on pre-existing relationships. Without a formal framework for coordination, some opportunities for cooperation were lost and some cooperative efforts fell short of expectations due to different institutional incentives. Since the completion of the IEG project evaluation reports, PEP-ECA has increased its efforts to collaborate with the World Bank, for example,
through creation of joint IFC–World Bank positions in Belarus and Ukraine.

**PEP-ECA’s Financing and Other Cross-Cutting Themes**

PEP-ECA’s funding mechanism, which required each project to receive donor approval for funding, made projects more results oriented, but caused delays, potential missed opportunities, and increased transaction costs. Donor scrutiny and expectations of achieving monitorable results led to a strong emphasis on monitoring and evaluation (M&E) and promoted robust basic project design, which drove efficient proposal development within PEP-ECA. Yet the required attention to donor interests at all stages (selection, preparation, development, and implementation) sometimes affected project performance and also limited PEP-ECA’s ability to improve its impact through more strategic responsiveness. Some potentially good project ideas were delayed or not funded, due to actual or perceived lack of donor interest.

**PEP-ECA has not generally charged clients, regardless of the rationale.** A consistent pricing and subsidy policy was not a core PEP-ECA feature. Many product lines were treated as public goods, with no customer-specific pricing features. Only in mid-2005 did PEP-ECA introduce guidelines for cost sharing.

**Although PEP-ECA’s results-based M&E approach was more advanced than other IFC facilities, the evaluation found some shortcomings.** In 2001, PEP-ECA developed a results-based management framework that, by many standards, stands out among other advisory facilities. This evaluation nevertheless identified shortcomings in project result measurement, particularly regarding the quality of indicators, consistency in reliability of surveys and other forms of data collection, and lack of expenditure tracking by project component, which limits assessment of different types of activities.

In sum, PEP-ECA has delivered a mostly successful program, whose structure was instrumental in both the success of individual projects and the broad achievement of the main program objectives; however, some organizational deficiencies and low success rates in some product lines limited its potential effectiveness. Since early 2006, PEP-ECA has made strides in addressing various issues identified by the IEG evaluation and discussed with the PEP-ECA management and staff during specific project-level evaluations.

**Recommendations**

Based on the report’s major findings, a summary of IEG-IFC recommendations follows:

*IFC would benefit from replicating selected features of the PEP-ECA model, as opposed to its full or wholesale transfer to other regions. Also, some PEP-ECA product lines should be revisited.* PEP-ECA’s strengths include its management structure, core product line specialization, focus on developing replicable projects, reliance on a dedicated team of mostly local staff for project implementation, project-level emphasis on achieving target outcomes, and long-term project life (two to five years). Yet, the current PEP-ECA should address shortcomings in the organizational structure, and other regional facilities seeking to replicate the PEP model should carefully consider and appropriately adjust for them. The following should receive consideration:

- **Designing a more cost-effective Advisory Services funding mechanism to meet strategic objectives, improve client responsiveness, and enhance development results.** The design of an Advisory Services funding mechanism should limit burdensome transaction costs, delays, constraints, and special conditions imposed by bilateral project funding. Sufficient funding should be allocated for project identification, development, and preparation to ensure that projects are ready (country adjusted) for implementation when funding is sought. Where possible, pooled or hybrid funding models should be encouraged; these offer quicker access to project funding, while placing fewer constraints on project scope, design, and staffing.
• Adopting human resource policies that address recruitment and retention requirements and facilitate access to much-needed short-term global expertise. IFC should consider creating a cadre of project managers. For accessing short-term international expertise, IFC should consider forming a pool of Advisory Services experts in core areas, including IFC specialists, World Bank staff, and external consultants, to help project teams address needs in a timely and effective way. Given IFC’s decentralization process, field-based knowledge should be developed with the help of experts. Improving staff skills and experience, retaining global knowledge, and leveraging central units of expertise (e.g., SME, private sector development, and industry departments) should all be key.

• Eliminating or redesigning projects that have not been effective, as is true in many traditional PEP-ECA linkages, and doing more of those that have achieved positive results. IFC should not pursue project models with questionable or weak strategic relevance or marginal IFC role and contribution. PEP-ECA should tap the knowledge of the SME Department and other IFC experience in revisiting its linkages projects.

• Improving the quality of M&E indicators, data collection methods, and cost accounting. Project-specific M&E targets should be tailored to country conditions as part of project preparation, verified as part of the project approval system, and monitored during project implementation. More rigorous surveying techniques and data collection methods should be developed to establish baselines and enable comparisons over time and across countries where possible. Proper utilization of indicators and techniques should be closely monitored to derive lessons and ensure data quality. A more comprehensive expenditure accounting and tracking mechanism should be introduced, which would not only enhance M&E, but provide a useful project management tool for benchmarking costs of different activities and developing Advisory Services pricing and client contribution strategies.

IFC should leverage Advisory Services and investment tools strategically and systematically in a complementary fashion to address long-term country development needs. IFC should consider the following:

• Developing and implementing a cohesive and complementary Advisory Services and investment strategy based on each country’s development needs. This greater institutional and strategic cohesion should be achieved through (a) developing and implementing a cohesive country strategy, where relevant, in which Advisory Services and investments are complementary tools (either Advisory Services projects alone or integrated with IFC investments) for achieving long-term country and sector development objectives, (b) ensuring interaction of Advisory Services and investment staff and leveraging expertise at the operational level for cross-fertilization on projects and sector initiatives, and (c) promoting coordination with the World Bank Group, where relevant, by formally identifying opportunities for collaborative initiatives as they may arise.

• Within each specific country context, exploring how each core area Advisory Services intervention can be structured to maximize impact, leveraging IFC investment objectives where relevant and possible. Also, experimental projects should be developed according to specific country needs and IFC strategic priorities and incorporate the basic successful features and core components of the standard PEP model as appropriate (i.e., reform agenda, training and capacity building, and broad dissemination).

IFC should formalize more detailed and specific pricing and subsidy guidelines for Advisory Services to assess the full cost of intervention and provide subsidies on a selective and justified basis. To that end, IFC should consider the following:

• Further developing the recently issued general pricing policy and principles to provide practical and clear guidelines
and directions for appropriate assessment of subsidy justification, target ranges of pricing for different types of interventions, and include examples and hands-on training. IFC should equip operational staff with practical tools needed for effective implementation of the new principles, including possible pricing ranges based on local market conditions, yet not lock staff into rigid pricing plans imposed corporately. This would also strengthen the strategic relevance dimension of the self-evaluation provided by IFC’s project completion reports, which IEG will validate. This dimension requires assessment of the appropriateness of each project’s planned and actual cost recovery; yet without sufficient guidance on the appropriateness of cost recovery, task leaders are not able to assess this dimension adequately.

- Accounting for the cost of designing, implementing, and supervising the Advisory Services intervention as well as IFC’s overhead and administration costs. This will help in understanding total project costs better and enable adequate comparison among various projects and programs.
Резюме

Настоящая аналитическая оценка, выполненная Независимой группой оценки Международной финансовой корпорации (НГО-IFC или, для целей настоящего доклада, просто НГО), имела целью проведение анализа результатов деятельности Партнерства IFC в развитии частного сектора для стран Восточной Европы и Центральной Азии (ПЕП-ЕЦА) – крупной программы по предоставлению консультационных услуг, созданной в 2000 году для обслуживания стран-членов Содружества Независимых Государств (СНГ), – а также извлечение опыта, который можно будет использовать в качестве руководства при предоставлении в дальнейшем консультационных услуг IFC в разных странах мира. Настоящий доклад основывается на концептуальном документе, выпущенном Комитетом по вопросам эффективности деятельности в области развития Группы организаций Всемирного банка в феврале 2006 года.

История вопроса
В рамках принятой в 1998 году стратегии, направленной на оказание помощи странам, рынки которых подвержены повышенному уровню риска, IFC приступила к расширению предоставлению консультационных услуг для содействия инвестициям в частный сектор экономики. В рамках программы имело место весьма значительное годовое увеличение объема зарезервированных средств IFC и доноров – с 25 млн. долл. США в 1996 финансовом году до 365 млн. долл. в 2006 финансовом году; в 2006 финансовом году совокупные зарезервированные средства достигли 1,7 млрд. долл. США1. В этот период годовые расходы на консультационные услуги росли медленнее – с 18,3 млн. долл. США до 151,5 млн. долл. США, а совокупные предоставленные средства достигли в 2006 финансовом году 0,7 млрд. долл. США. В настоящее время операциями по предоставлению консультационных услуг охвачены 80 стран мира, и в них задействована треть сотрудников IFC (1086 человек). IFC прогнозирует дальнейший рост потребностей в консультационных услугах, и с 2006 года предприняла много инициатив по внедрению стратегического и более системного подхода к консультационным услугам в части их разработки, финансирования, предоставления, укомплектованности персоналом, совершенствования системы цен на консультационные услуги и мониторинга результатов (см. вставку 2.1).

В этом смысле страны СНГ с их непростыми условиями ведения предпринимательской деятельности, низким уровнем прямых иностранных инвестиций и участия частного сектора были подходящими кандидатами для расширения консультационных услуг IFC и создания предпо-
сылки для улучшения инвестиционных возможностей. Таким образом, в 2000 году IFC учредила ПЕП-ЕЦА, укрепив тем самым уже существующую программу консультационных услуг IFC в странах СНГ, в рамках которой с 1992 года было осуществлено 79 млн. долл. США. Идя навстречу пожеланиям доноров относительно долговременного присутствия IFC в регионе, Корпорация внедрила более устойчивую, специализированную структуру управления.

Задачи и масштабы ПЕП-ЕЦА
Три задачи ПЕП-ЕЦА заключались в (a) улучшении инвестиционного климата, (b) содействии росту частных инвестиций, и (c) стимулировании роста и развития малых и средних предприятий (МСП). С учетом успешного опыта оказания помощи в период, предшествующий созданию ПЕП-ЕЦА, и признанного авторитета IFC в предоставлении консультационных услуг в регионе СНГ, заинтересованность доноров в поддержке ПЕП-ЕЦА была значительной. С момента своего создания в 2000 году по март 2007 года совокупный объем объединенных зарезервированных средств доноров и IFC на развитие ПЕП-ЕЦА достиг 144 млн. долл. США. С мая 2000 года по март 2007 года IFC осуществила 78 проектов по предоставлению консультационных услуг на общую сумму в почти 83 млн. долл. США.

Система управления ПЕП-ЕЦА была организована по основным направлениям предоставления консультационных продуктов в рамках консультационных проектов в области финансовых рынков, корпоративного управления, создания благоприятных условий для предприимательской деятельности, установления связей и развития МСП. Эти основные направления в целом отражали инвестиционные приоритеты IFC в регионе и послужили основой для реализации интегрированной в стратегическом отношении консультационной и инвестиционной программы. Самая большая с точки зрения объема доля расходов пришлась на сферу корпоративного управления (29 процентов), за ними следуют расходы на установление связей (21 процент) и развитие финансовых рынков (20 процентов). Первоначально программой были охвачены Армения, Беларусь, Грузия, Российская сейера и Украина, а в 2001 году к ней присоединились Азербайджан, Казахстан, Кыргызская Республика, Молдова, Таджикистан, Туркменистан и Узбекистан.

Независимая группа оценки (НГО) выбрала эту новаторскую программу для проведения оценки с целью усиления подотчетности и использования полученного опыта в качестве руководства при предоставлении в дальнейшем консультационных услуг IFC в разных странах мира. Кроме того, на этот выбор НГО повлиял тот факт, что многие другие региональные механизмы по предоставлению консультационных услуг уже начали во многом воспроизводить некоторые параметры ПЕП еще до проведения независимой оценки данной программы. Эта оценка охватывает период деятельности ПЕП-ЕЦА по конец 2005 года, и рассматривает два уровня предоставления отдельных консультационных услуг: уровень проекта и уровень программы в целом, включая анализ структуры управления и вспомогательных функций. Основу исследования составили результаты посещения девяти стран и оценка 44 проектов, осуществленных в странах СНГ.

Выводы
Оценка НГО программы ПЕП-ЕЦА позволила сделать следующие выводы:

Общие результаты деятельности по программе ПЕП-ЕЦА
Программа ПЕП-ЕЦА была в основном успешной с точки зрения достижения своих основных целей. К этим целям относятся: содействие росту частных инвестиций, наряду с поддержкой мер по улучшению инвестиционного климата по тем конкретным направлениям, по которым оказывалась помощь. Меры, непосредственно направленные на поддержку МСП, не принесли положительных результатов, в то время как результаты осуществления косвенных мер (лизинг, деятельность финансовых посредников и создание благоприятных условий ведения предприимательской деятельности) были достаточно обнадеживающими, даже несмотря на отсутствие достаточного количества конкретных данных относительно влияния косвенных мер на развитие МСП.

Почти две трети проектов достигли хороших результатов по показателю эффективности деятельности в области развития. Эти данные были получены в ходе оценки стратегической значимости, эффективности и трех базовых показателей результативности: результаты (непосредственные практические результаты); итоги (повышение уровня...
знаний, изменения в поведении и мотивациях в результате проведения операций, включая кратковременные изменения или изменения среднесрочного порядка, а также воздействие (последствия осуществления операции, которые нередко, но не всегда, могут иметь долговременный характер). (В оставке 1.1 и приложениях B и G содержится более подробное объяснение этих терминов). Практические результаты по проектам можно оценить как весьма высокие (удовлетворительный уровень или выше, 82 процента); работа по достижению ожидаемых итогов была также в основном успешной (удовлетворительный уровень или выше, 71 процент). Степень воздействия была ниже (удовлетворительной или выше, 47 процентов) – это объясняется тем, что получение результатов в ходе работы на местах требует времени, зависит от многих внешних факторов и в целом является более трудоемким процессом, оценить который сложнее.

При рейтинге успешных проектов по показателям повышения эффективности деятельности в области развития в 78 процентов (рейтинг составляет на основе израсходованных средств в долларах США) можно заключить, что рейтинг успешности проектов возрастает по мере увеличения их масштабов. Это значит, что успешность проекта повышается с ростом его масштабов и что показатели более крупных проектов выше по сравнению с показателями проектов меньшего масштаба. Крупные проекты обычно реализуемы в течение более продолжительного времени, что способствует получению на местах результатов краткосрочного или среднесрочного порядка и усиливает воздействие проектов.

Результаты деятельности по отдельным группам консультационных продуктов сильно отличаются: проекты по развитию финансовых рынков, в особенности в сфере лизинга, оказались впереди всех остальных групп продуктов по всем измеряемым характеристикам. Уровень успешности проектов в сфере корпоративного управления и создания благоприятных условий для предпринимательской деятельности был выше среднего. Самые низкие показатели отмечались в рамках проектов ПЕП-ЕЦА по развитию связей, но это были проекты первого поколения в данной области для IFC, которые существенно отличались с точки зрения структуры и проектных решений от проектов по развитию связей, осуществляемых IFC в настоящее время. Опера-

циони на уровне секторов были более успешными и всеобъемлющими с точки зрения деятельностн в области развития (как в плане итогов, так и в плане воздействия), чем операции, связанные с конкретными инвестициями.

**Эффективная деятельность по реализации проекта – главный залог успеха.** Эффективная деятельность по реализации проекта (удовлетворительный уровень или выше, 85 процентов) способствовала достижению более высоких результатов по проекту и компенсировала недостатки в ходе подготовки проекта (уровень удовлетворительный или выше, всего лишь 47 процентов). Последний показатель отражает неудовлетворительную оценку потребностей и недостаточный учет страновой специфики и конъюнктуры рынка. Среди должным образом подготовленных проектов 88 процентов вышли на уровень “удовлетворительный или выше” с точки зрения эффективности деятельности в области развития, в то же время, среди 53 процентов слабо подготовленных проектов, менее половины достигли удовлетворительного уровня эффективности деятельности в области развития. К другим ключевым факторам, способствующим успешному осуществлению проектов, следует отнести долгосрочное (от двух до пяти лет) планирование итогов и воздействия в рамках проекта, а также создание целевой группы квалифицированных профессионалов для работы по проекту, которую объединяли сотрудники на местах и специалистов, имеющих международный опыт работы.

**Управление программой ПЕП-ЕЦА и ее выполнение**

Специальная структура управления программой ПЕП-ЕЦА стала залогом успешной разработки и реализации программы. Цели программы были достигнуты благодаря наращиванию опыта, обеспечению последовательности действий и поддержанию усилий по тиражированию проекта, что, в свою очередь, способствовало повышению эффективности.

Специализация групп консультационных продуктов по направлениям деятельности позволила в целом повысить стандарты разработки проекта и его эффективность; однако, потенциальный уровень эффективности снизился из-за неудовлетворительной оценки потребностей в рамках проекта и недостаточной адаптации
предлагаемых консультационных продуктов к специфике конкретной страны. В рамках ПЕП-ЕЦА были созданы воспроизводимые модели консультационных продуктов, которые по большей части не были адаптированы на стадии подготовки проекта к специфике конкретной страны. Хотя на этапе реализации проекта нередко проявлялась определенная гибкость в отношении адаптации продуктов, данные аналитической оценки свидетельствуют о том, что это не везде компенсировало недостатки в ходе подготовки проекта. Представляется, что достижение более высоких результатов возможно на основе более сбалансированного сопоставления новых консультационных продуктов и учетом потребностей и специфики стран.

Несмотря на первоначальную структуру консультационной службы, которая была призвана отражать региональные инвестиционные приоритеты IFC, на практике должной интеграции процессов осуществления инвестиций и предоставления консультационных услуг не произошло, что привело к уменьшению потенциального синергизма и снижению показателей деятельности. Статегии осуществления консультационной и инвестиционной деятельности разрабатывались в разное время. Во многих случаях низкий уровень инвестиций IFC в странах СНГ не создавал возможностей для эффективной интеграции. С другой стороны, на выбор продуктов и проектов в рамках ПЕП-ЕЦА влияла потребность в тиражировании основных продуктов и/или в осуществлении новых экспериментальных проектов, и, кроме того, необходимость получения по каждому проекту одобрения со стороны доноров. Существовали и некоторые практические препятствия на пути интеграции процессов осуществления инвестиций и предоставления консультационных услуг из-за различных проектных циклов и мотивации сотрудников. Более того, лишь немногие проекты по предоставлению консультационных услуг учитывали опыт специалистов IFC по инвестициям, и наоборот. Более тесное сотрудничество и усиление внимания к техническому опыту, накопленному IFC в качестве глобального инвестора, могло бы помочь разработчикам консультационных проектов в определении областей для проведения совместных операций и повысить бы ценность деятельности IFC в глазах ее клиентов.

Меры на секторальном уровне продемонстрировали более высокий уровень эффективности деятельности в области развития, при этом было достигнуто более масштабное воздействие по сравнению с операциями, направленными на содействие конкретным инвестициям IFC. Большая часть мер, направленных на интеграцию процессов предоставления консультационных услуг и инвестиций, осуществлялась на уровне отдельных сделок. В соответствии с выводами НГО, расширение на секторальном уровне стратегической интеграции процессов предоставления консультационных услуг и инвестиций может принести более ощутимые результаты в области развития, чем меры по расширению интеграции на уровне отдельных операций.

Меры в рамках ПЕП-ЕЦА по установлению сотрудничества с Всемирным банком носили нерегулярный характер, не всегда были достаточно успешными и не всегда давали желаемые результаты. Консультативные услуги IFC в целом рассматривались как часть мер Всемирного банка по решению задач развития частного сектора в странах; однако, даже в случаях, когда координация действий ПЕП-ЕЦА и Всемирного банка имела место, эта деятельность носила в основном неформальный характер и основывалась на существовавших ранее взаимоотношениях. Ввиду отсутствия формальной основы для сотрудничества некоторые возможности такого сотрудничества были упущены, а отдельные меры по установлению сотрудничества не оправдали себя из-за разных институциональных мотиваций. После завершения отчетов НГО об оценке проектов в рамках ПЕП-ЕЦА были активизированы меры по установлению сотрудничества с Всемирным банком путем создания, например, в Беларуси и Украине совмещенных должностей IFC и Всемирного банка.

Финансирование программы ПЕП-ЕЦА и другие общие вопросы

Механизм финансирования ПЕП-ЕЦА, который предусматривает одобрение донорами каждого проекта, усилил ориентированность проектов на результаты, но вместе с тем привел к задержкам, неиспользованию потенциальных возможностей и увеличению операционных издержек. Тщательная проверка со стороны доноров и ожидание подлежащих мониторингу результатов привели к акцентированию мониторинга и оцен-
ки (МО) и способствовали разработке надежных базовых проектных решений, которые, в свою очередь, помогли в разработке эффективных предложений в рамках ПЕП-ЕЦА. Однако необходимое внимание к соблюдению интересов доноров на всех этапах работы по проекту (отбор, подготовка, разработка и реализация) иногда отражалось на результатах деятельности, а также ограничивало возможности ПЕП-ЕЦА по усилению воздействия операций за счет расширения возможностей стратегического реагирования. Реализация некоторых потенциально перспективных идей по проектам была отложена или не получила финансирования из-за реального или предполагаемого отсутствия донорского интереса.

Клиентам ПЕП-ЕЦА услуги предоставлялись, как правило, бесплатно, независимо от того, насколько это было обосновано. Следует отметить, что последовательная политика в сфере цен на услуги и предоставления субсидий не была сильной чертой программы ПЕП-ЕЦА. Многие группы продуктов рассматривались в качестве общественного блага и не предусматривали механизмов взимания платы с отдельных клиентов. Только в середине 2005 года в рамках ПЕП-ЕЦА были приняты руководящие принципы долевого участия в расходах.

Хотя принятый в рамках ПЕП-ЕЦА подход к мониторингу и оценке на основе результатов деятельности был более прогрессивным по сравнению с остальными механизмами финансирования IFC, в ходе проведения аналитической оценки этого подхода были выявлены некоторые недостатки. В 2001 году программой ПЕП-ЕЦА была разработана система управления на основе результатов деятельности, который во многих отношениях выгодно отличается от других механизмов предоставления консультационных услуг. Тем не менее, в ходе проведения аналитической оценки были выявлены недостатки в системе измерения результатов, в особенности в том, что касается качественной стороны показателей, полной достоверности обследований и других форм сбора данных, а также отсутствия контроля расходов на уровне компонентов проекта, что ограничивает возможности оценки различных форм деятельности.

В целом, в рамках ПЕП-ЕЦА была осуществлена достаточно успешная программа, структура которой сыграла решающую роль как в успешном осуществлении отдельных проектов, так и в масштабном решении задач по основной программе; однако, некоторые организационные недостатки и низкий уровень достижения успешных результатов по некоторым группам проектов снизил ее потенциальную эффективность. С начала 2006 года, программой ПЕП-ЕЦА были предприняты некоторые успешные шаги по решению различных проблем, обозначенных в оценке НГО и ставших предметом обсуждения с руководством и сотрудниками ПЕП-ЕЦА в ходе проведения оценки на уровне конкретных проектов.

Рекомендации

Ниже приводится рекомендации НГО-IFC, основанные на главных выводах доклада.

IFC может извлечь пользу из использования отдельных компонентов модели ПЕП, однако воспроизведение этой модели целесообразно и в широком масштабе в других регионах не рекомендуется. Необходимо устранить недостатки в организационной структуре ПЕП-ЕЦА в ее текущем состоянии; любые другие региональные механизмы, которые стремятся к воспроизведению модели ПЕП, должны внимательно изучить и соответствующим образом адаптировать к своим потребностям. Кроме того, некоторые группы продуктов ПЕП-ЕЦА нуждаются в пересмотре с учетом этих недостатков. К сильным сторонам ПЕП-ЕЦА можно отнести структуру управления, специальный характер основных групп продуктов, акцент на разработку тиражируемых проектов, использование в ходе реализации проекта команд специалистов, состоящей в основном из местных сотрудников, упор в ходе работы над отдельным проектом на достижение целевых показателей и долговременный характер результатов проекта (от двух и до пяти лет). Необходимо учесть следующие рекомендации:

- Для решения стратегических задач, ускорения реагирования на потребности клиентов и улучшения результатов в области развития необходимо разработать более рентабельный механизм финансирования консультационных услуг. Разработка механизма финансирования консультационных услуг призвана сократить чрезмерные операционные расходы, устранить задержки, препятствия и ограничить при-
менение специальных условий, вытекающих из двустороннего финансирования проектов. Необходимо выделить достаточные средства для финансирования отбора проектов, их разработки и подготовки, чтобы обеспечить (с учетом страновой специфики) готовность проектов к реализации на момент запроса о предоставлении финансирования. Следует поощрять использование в тех случаях, где это возможно, моделей коллективного или смешанного финансирования; эти модели позволяют быстрее получить доступ к финансированию, но при этом содержат меньше ограничений относительно масштабов проекта, проектных решений и кадровых потребностей.

• Следует утвердить политику в области людских ресурсов, которая отвечает потребностям набора и сохранения кадров и обеспечивает доступ к услугам специалистов мирового уровня на краткосрочной основе. IFC следует рассмотреть вопрос о создании профессиональных кадров руководителей проектов. Для получения доступа к новейшему мировому опыту IFC следует рассмотреть вопрос о создании групп экспертов по консультационным услугам по основным направлениям, включая экспертов IFC, сотрудников Всемирного банка, внешних консультантов, чтобы помочь проектным группам в своевременном и эффективном обеспечении потребностей клиентов. С учетом процесса децентрализации IFC, экспертная база на местах должна создаваться с участием международных экспертов. Ключевыми вопросами остаются повышение профессионального уровня и знаний сотрудников, сохранение мирового опыта и мобилизация опыта по основным компонентам (например, МСП, развитие частного сектора, отраслевые департаменты).

• Необходимо ликвидировать или переработать неэффективные проекты, что относится к многим проектам ПЭП-ЕЦА по развитию связей, и сосредоточить внимание на тех проектах, в рамках которых были достигнуты позитивные результаты. IFC не следует продолжать использовать модели проектов, которые имеют спорное или несущественное стратегическое значение для Корпорации или роль и вклад которых в ее деятельность являются минимальными. При пересмотре проектов по развитию связей ПЭП-ЕЦА необходимо обратиться к опыту Департамента по развитию МСП и другому опыту IFC.

• Улучшение качества показателей МО, методов сбора данных и коммерческих расчетов. Задачи в сфере мониторинга и оценки в рамках проекта должны быть адаптированы к условиям конкретной страны в ходе подготовки проекта, проверены в рамках процедуры одобрения проекта и должны контролироваться в период реализации проекта. Следует разработать более точные методики и принципы сбора данных для определения исходных показателей и проведения по мере возможности сравнительного анализа в разные периоды времени и по разным странам. Требуется тщательно отслеживать правильность использования показателей для приобретения необходимого опыта и обеспечения качества данных. Необходимо внедрение всестороннего механизма финансового учета и отслеживания расходов, который не только усилит работу системы МО, но и станет полезным инструментом управления проектом при проведении сравнительного анализа расходов по разным видам деятельности и разработки стоимости консультационных услуг и стратегий привлечения клиентов к их оплате.

IFC следует стратегически и системно использовать взаимодополняющие инструменты предоставления консультационных услуг и инвестиций для удовлетворения долгосрочных потребностей стран в области развития. IFC предлагает рассмотреть следующие вопросы:

• Разработка и реализация последовательной и взаимодополняющей стратегии предоставления консультационных услуг и инвестиций на основе учета потребностей каждой страны в области развития. Усиления институциональной и стратегической последовательности можно достичь за счет (а) разработки и осуществления, по мере необходимости, последовательной стратегии, в которой консультационные услуги и инвестиции выступают в качестве взаимодополняющих инструментов (или только проекты по предоставлению консультационных услуг или в сочетании с инвестициями IFC) для достижения долгосрочных целей на уровне страны или сектора, (b) обеспечения взаимодействия сотрудников, занимающихся вопросами предоставле-
ния консультационных услуг и инвестиций, и расширение опыта на оперативном уровне для взаимного обогащения проектов и секторальных инициатив и (c) расширение опыта на оперативном уровне для взаимного обогащения проектов и секторальных инициатив и (c) расширение, по мере необходимости, координации действий с сотрудниками Группы организаций Всемирного банка путем формального определения потребностей в совместных инициативах и месте их возникновения.

• Изучить, с учетом специфики условий каждой страны, возможности структуризации любого основного направления консультационных операций для достижения максимального воздействия, путем усиления там, где это важно и возможно, инвестиционных целей IFC. Необходимо также разрабатывать экспериментальные проекты, которые отвечают потребностям конкретной страны и стратегическим приоритетам IFC, включая в них, по мере необходимости, основные удачные параметры и ключевые компоненты стандартных моделей ПЕП (например, по программе реформ, профессиональному обучению и повышению потенциала, и широкому распространению информации).

IFC необходимо утвердить более подробную и конкретизированную систему ценообразования на свои услуги, а также руководящие принципы предоставления субсидий на консультационные услуги, что позволит определить полную стоимость операции и предоставлять субсидии на избирательной и справедливой основе. Для решения этих задач IFC необходимо рассмотреть следующие рекомендации:

• Дальнейшая разработка недавно принятой общей ценовой политики и принципов, которые призваны стать четким практическим руководством и ориентиром для соответствующей оценки оправданности субсидий, должна включать целевой диапазон цен для различных типов операций, а также примеры и практические схемы. IFC следует вооружить своих оперативных сотрудников инструментами, имеющими практическое применение для эффективной реализации новых принципов, включая возможные ценовые диапазоны с учетом конъюнктуры местного рынка; в то же время, нельзя связывать инициативу сотрудников жесткими ценовыми планами, принятыми на уровне всей Корпорации. Это поможет также укрепить параметр “стратегическое значение” в самостоятельных оценках, содержащихся в отчетах IFC по итогам завершения проекта, которые утверждаются НГО. Этот параметр предполагает оценку приемлемости запланированной и реальной окупаемости затрат по каждому проекту, однако, без необходимого руководства по определению этого параметра руководители целевых групп не смогут правильно его оценивать.

• Финансовый учет затрат на разработку, проведение и осуществление контроля за операциями по предоставлению консультационных услуг, а также учет накладных и административных расходов IFC. Это поможет лучше понять общую стоимость проекта и позволит правильно провести сравнительный анализ различных проектов и программ.

1 Если в данном отчете не указано иное, любые суммы в долларах обозначают доллары США.
2 Проекты по установлению связей в рамках ПЕП-ЕЦА, которые рассматриваются в этом исследовании, были направлены на (a) разработку логистической цепочки, связывающей ряд поставщиков и перерабатывающее предприятие; (b) содействие развитию деятельности и инвестиционных связей среди целевой группы инвесторов (то есть, содействие инвестициям, передача функций внешним подрядчикам, развитие торговли), и/или (c) содействие развитию консультационных услуг и финансирования для поддержки создания новых связей между поставщиками и перерабатывающими предприятиями через единий институт (то есть, выработка рекомендаций для поставщиков по улучшению качества продукции и увеличению ее объемов для перерабатывающих предприятий, а также обеспечение доступа к финансированию, включая лизинг; необходимая модернизация оборудования и создание оборотного капитала для фермеров). Более подробное изложение этих вопросов можно найти в главе 3 и приложении D.
Management acknowledges the significant research effort involved in IEG’s major independent review of IFC’s Private Enterprise Partnership in Eastern Europe and Central Asia (PEP-ECA). This review was based on detailed evaluations of 44 mature advisory assignments completed by PEP-ECA, all of which began after May 2000 and ended before December 2005.

Introduction

Overall, Management agrees with the general direction of the report and its recommendations and is pleased to note that, in nearly every instance, IFC has already initiated responses to the issues raised by the recommendations. Management believes that the review recommendations help support the emphasis and progress that IFC has already made in responding to these issues, even prior to the review findings.

Management is pleased to note that IEG’s independent evaluation found, overall, that the PEP-ECA program was largely successful and achieved its objectives of improving investment climates and promoting private investment. More specifically, some two-thirds of PEP-ECA’s projects by number and some four-fifths by value achieved successful development effectiveness results. The objectives PEP-ECA most clearly met were improving the business climate and promoting investment; less obvious was the area of promoting small and medium enterprise growth.

Management also notes that a key success factor for PEP-ECA appears to be the management approach together with the focus on the development
of key products. PEP-ECA uses specialist managers and replicable programs and had a strong emphasis on local staff hiring along specific product lines. As identified in the report, a number of other IFC facilities have already applied this and other aspects of PEP-ECA’s approach. More recently, IFC has worked with its advisory business line leaders to implement such a product line approach. Namely, IFC has identified project types that are likely to achieve strong development results, which demonstrate potential for scaling-up, and in which IFC already has significant expertise to identify advisory product types with high potential for future replication, where appropriate.

We also note that the report indicates that performance of the individual PEP-ECA product lines varied. Financial markets projects, particularly leasing, outperformed all other business lines in all dimensions measured. Corporate governance and business enabling environment projects performed better than the average PEP-ECA project success rate and the first generation of linkages projects.

Management notes that sectorwide interventions that complemented investment activity demonstrated “significantly higher development effectiveness ratings.” These complementarities may be explained by advisory staff being able to build on existing investment relationships with reputable industry players and also because sectorwide project success would not be tied to the fortunes of a single firm, as would be the case in firm-specific interventions. Whatever the drivers of higher impact, this finding supports IFC’s current approach to encourage sectorwide advisory-investment collaboration wherever appropriate.

Management recognizes that opportunities exist for IFC to continue to enhance its development effectiveness and finds this report informative in this regard. Management would like staff to learn from the report’s findings and recommendations by proposing that IEG conduct a workshop on this report with the SME, PEP-ECA, Central and Eastern Europe, and other relevant departments. Specific responses to each recommendation follow.

Responses to Specific Recommendations

Consideration should be given to designing an advisory funding mechanism that is more cost-effective to meet strategic objectives, improve client responsiveness, and enhance development results.

Management Response

IFC has a funding mechanism that is more time responsive than the project-by-project funding approach used by PEP-ECA, called the facility funding model. Under the facility model, donors fully fund the activities of an IFC facility from the start of its operation, usually over a five-year funding cycle. To date, donors active in PEP-ECA’s region have preferred not to operate on this basis.

With Board approval, in June 2004 IFC initiated an internal Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS). IFC has selectively used FMTAAS to support new project initiatives and fund the back office/administrative work of IFC’s advisory facilities. These funds enable IFC to undertake strategic initiatives when donor funding is unavailable.

Consideration should be given to adopting human resource policies that address recruitment and retention requirements and facilitate access to much needed short-term global expertise.

Management Response

IFC has recently completed a human resource review specifically of its Advisory Services operations. This review investigated issues of attracting, placing, and developing staff with specialist expertise. Recommendations in the review include a larger and more stable core cadre of expert Advisory Services staff, which should help IFC attract and retain specialist staff.

Consideration should be given to eliminating or redesigning projects that have not been effective, as is true in many tradi-
tional PEP-ECA linkages, and doing more of those that have achieved positive results.

Management Response

Some of the poorly rated PEP-ECA projects were directed at SME development. PEP-ECA has completely phased these projects out and is now reaching SMEs through work on access to finance and the business enabling environment. The other poorly rated work was the first generation of linkages projects. IFC has a central linkages team and network that has worked on refining and improving linkage project development impacts.

As noted above, IFC has worked with its advisory business line leaders to identify project types likely to achieve strong development results for future replication. A number of the projects identified for replication include successful PEP-ECA projects, such as leasing.

Consideration should be given to improving the quality of M&E indicators, data collection methods, and cost accounting.

Management Response

IFC has made major advances in M&E since the review period. IFC has identified and implemented sets of standard performance indicators of output, outcome, and impact for each product under its five business lines and is developing incentives for the use of these indicators. IFC has undertaken 20 experimental trials to understand the impact of selected projects better, and the findings are being fed back to advisory staff. IFC is also undertaking project reviews, conducted using external experts, to improve program design and implementation where 11 such reviews have been completed. Furthermore, IFC is currently developing a tailored approach to advisory cost-benefit analysis as a means of better linking M&E to project cost accounting.

IFC should consider developing and implementing a cohesive and complementary Advisory Services and investment strategy based on each country’s development needs.

Management Response

PEP-ECA’s approach has been to identify the need for particular advisory products, including looking at how these projects relate to investment objectives. Due to the difficulty in coordinating the timing of funding from donors (described above), upon identifying country priorities, PEP-ECA undertook general project design up front in order to obtain donor funding and then fine-tuned the project design once donor funding was received and the project launched. With FMTAAS funding, IFC is now better positioned to do more thorough needs assessments to support better project design up front and to launch projects more quickly.

IFC should consider further developing the recently issued general pricing policy and principles.

Management Response

The IFC-wide advisory pricing guidelines were initiated in January 2007. These guidelines involve IFC identifying the expected public and private benefits from an advisory project and then requesting an appropriate level of contribution to
the cost of that project from the recipients of private benefits. IFC’s approach and the effect of the pricing guidelines are currently under review. This review will determine the effectiveness of the current policy and any need for changes.

IFC should consider accounting for the cost of designing, implementing, and supervising the Advisory Services intervention as well as IFC’s overhead and administration costs.

Management Response
IFC already has a major program under way to upgrade its advisory project budgeting further. This program, once complete, will see IFC apply a standardized approach to all of IFC’s advisory project budgeting. This approach will also ensure that every IFC advisory budget accounts for all program elements, including the costs of design, implementation, and supervision.
Chairperson’s Summary: Committee on Development Effectiveness (CODE)

On July 25, 2007, the Committee on Development Effectiveness (CODE) considered the IFC Advisory Services in Eastern Europe and Central Asia: An independent Evaluation of the Private Enterprise Partnership Program report and the Draft IFC Management Response.

Background
PEP-ECA was established in 2000 to consolidate its Advisory Services program in the region and provide a more permanent, specialized management structure. Its objectives are to improve the investment climates, promote private investments, and facilitate more rapid growth and development of small and medium enterprises (SMEs). Other regional Advisory Services facilities have been emulating PEP-ECA features.

Main Findings and Recommendations
IEG found that PEP-ECA was generally successful in achieving its objectives, although the impact was less clear for SMEs. It also noted that almost two-thirds of projects achieved successful development effectiveness results. IEG attributed the positive results to PEP-ECA’s management structure, product line specialization, focus on development of replicable projects, dedicated project teams of qualified professionals, including local staff and international expertise, strong project implementation, and long-term project life. In addition, IEG identified some areas for improvement, including the funding approach, pricing of Advisory Services, as well as the need to assess country and market conditions better and tailor projects to local conditions before project launch. The report also provided three sets of recommendations: (a) strengthen the organizational structure of the PEP-ECA model, focusing on funding approach, human resources, treatment of ineffective projects, and monitoring and evaluation, (b) strategically leverage advisory and investment tools in a complementary fashion to tackle long-term country and sector development needs, and (c) formalize more detailed pricing and subsidy guidelines for Advisory Services to assess the full cost of intervention and provide subsidies on a selective and justified basis.
Draft IFC Management Response

IFC agreed to the thrust of the IEG findings and recommendations and noted that it is already initiating responses to the issues raised in the evaluation report. In this regard, IFC provided information on actions being taken. IFC noted that there are many lessons that could be drawn from the IEG report and informed CODE that IEG had agreed to organize workshops with IFC on the PEP-ECA evaluation for staff working for PEP-ECA and IFC’s Central and Eastern Europe, SME, and other departments.

Overall Conclusions and Next Steps

CODE commended IEG for an informative and well written report. It also appreciated Management’s acceptance of IEG findings and recommendations and its prompt actions to implement them. Members welcomed the achievement of successful development effectiveness in two-thirds of projects supported by PEP-ECA. They also noted that the report provides useful information and lessons for improving the development effectiveness of IFC Advisory Services in general. Members encouraged the use of the findings to strengthen PEP-ECA and other regional PEPs. The main topics discussed by CODE included (a) synergy between the Advisory Services and investments, (b) pricing policy, (c) collaboration among World Bank Group institutions and within IFC, (d) product line specialization, and (e) results measurement and monitoring evaluation. CODE looked forward to a technical briefing by IFC on its pricing policy for Advisory Services.

The following main issues were raised during the meeting:

Complement Advisory Services and investments. Several speakers stressed the importance of leveraging Advisory Services and investments in a complementary fashion to address a country’s long-term development needs. In this connection, a speaker observed the relatively high level of Advisory Services and the lower amount of investments in the ECA region. Another speaker asked IFC about its initiatives to strengthen the synergy between Advisory Services and investments at the country level, and IEG’s views on IFC’s ongoing efforts. A member noted the need for appropriate staff incentives to support complementarity between Advisory Services and investments. Management acknowledged the importance of enhancing the synergy between Advisory Services and investment and noted that the mix of support depended on country and climate-specific circumstances; in some countries, IFC may deliver only advisory support and, in others, only investment, but in most countries, IFC would deliver some combination of Advisory Services and investment. Management expected the shift of staff to the field would strengthen the integration of Advisory Services and investments at the country level. IEG welcomed the steps taken by Management to enhance the complementarity between Advisory Services and investments, which is a work in progress.

Product line specialization. Noting the strengths of product line specialization, one member wondered whether IFC had given thought to developing “flagship” Advisory Services, such as the International Monetary Fund’s financial advisory programs. Others echoed IEG’s findings on the need to adapt product lines to client needs and specific country circumstances, especially at the product preparation stage. A member asked about the gaps in the product preparation stage. IEG elaborated on its findings on the impact of the PEP-ECA funding approach in limiting the adaptation of product lines to the country context, as well as weaknesses at the product preparation stage. Concerning “flagships,” Management responded that a recent review of Advisory Services led to classification of advisory products into three categories: developed (or core), under-developed, and other. Following this exercise, more resources are now focused on the first two categories. A member was interested in the improvements to the product lines, which had relatively lower success rates, namely SME development and linkages. IEG cautioned about drawing definitive conclusions about direct IFC support to SME development because there were only four, very different PEP-ECA projects during the period reviewed. It also noted that indirect efforts (e.g., through fi-
financial intermediaries) were more promising than direct efforts, but noted the need to capture impact on SMEs better. With regard to linkages, IEG noted that the evaluated projects belong to the early generation of such projects, which were executed before creation of the linkages business line under the oversight of IFC’s SME Department. IEG also indicated that the challenges faced in the linkages projects are specific to industries and clients. In response to a specific question about the inclusion of energy efficiency in Advisory Services, Management elaborated on the increasing work in this area that is supported by PEP-ECA.

**Pricing policy.** Several members sought to understand better IFC’s pricing policy and guidelines initiated in January 2007, including the approach to separate public and private benefits and charge recipients of private benefits. They requested an IFC technical briefing on the topic. A member also sought more information on IFC’s experience in implementing the pricing policy and the demand by the private sector projects. Management briefly explained the role of staff judgment in determining public and private benefits and that pricing applied only to private benefits. It noted that there is no pre-set percentage for pricing, which is based on specific project and client circumstance. Management also said that there is an ongoing preliminary review of the implementation of the new pricing guidelines and remarked that firms have so far, as a general rule, been willing to pay the fees. Management added that the client contribution is fairly limited and that costs of Advisory Services are funded mostly through retained earnings and donor contributions. Management agreed to provide CODE with more information on its pricing policy at a technical briefing.

**Internal coordination.** Some speakers raised concerns about the compartmentalization of staff knowledge along product lines, operational departments, and regions. They highlighted the importance of integrating knowledge and experience within IFC and strengthening the synergy among the different units of the organization to serve clients better. Management described the ongoing efforts to ensure internal coordination at the management and staff levels, which includes managers’ meetings every six months to review the work and share experiences and yearly meetings of regional and field-based staff working in specific business lines.

**Strengthening collaboration.** Speakers emphasized the need to improve World Bank Group collaboration, drawing on the comparative advantages of each institution. In particular they called for a formal framework for coordination with the Bank for private sector development, in light of IFC’s scaling up of activities in frontier and International Development Association countries. Management clarified that specific procedures have been introduced to strengthen the World Bank Group collaboration, systematically invite counterparts to strategy meetings and peer reviews, as well as share portfolio information on IFC Advisory Services. A few speakers remarked on the unique comparative advantage of IFC Advisory Services stemming from IFC’s experience and understanding of private sector markets. They encouraged IFC to draw on its expertise in Advisory Services beyond traditional areas, such as new financial market instruments (e.g., hedging instruments, and asset management), and to help private sector clients in developing countries meet the demands of the global market. Management responded that it will further consider how to expand its technical work in the financial area, including the possibility of drawing on the expertise of IFC’s Treasury.

**Monitoring and evaluation of Advisory Services.** A member asked for more information on steps being taken to monitor and evaluate better the development effectiveness of Advisory Services. Management assured members of its efforts to strengthen results measurements, which includes establishing standards indicators for output, outcome, and impact; taking part in a number of external impact evaluations; and working with IEG to improve the quality of project completion reports.
Introduction

This evaluation addresses Advisory Services, which is an International Finance Corporation (IFC) business segment that has grown rapidly and has become an integral part of IFC’s activities. IFC management now recognizes Advisory Services as an essential business line for increasing IFC’s ability to (a) support private sector development and create sustainable development impact, (b) enhance the investment climate, (c) provide additional benefits to investment clients and their surrounding communities, and (d) distinguish IFC from competitors through value-added Advisory Services.

Accompanying the increase of Advisory Services, IFC management has adopted several measures intended to take a strategic approach to developing and delivering such services. These include formation of Advisory Services regional strategies, establishment of five strategic product lines, a new IFC funding mechanism, an Intranet-based project information and approval system, measurement and tracking of results, pricing principles, and measures for enhanced coordination with other parts of the World Bank Group.

Objectives

The purpose of this Independent Evaluation Group–IFC (IEG-IFC) evaluation is to assess the performance of the IFC Private Enterprise Partnership–Eastern Europe and Central Asia (PEP-ECA), an advisory program in ECA countries belonging to the Commonwealth of Independent States (CIS), and to derive lessons that could guide future IFC Advisory Services worldwide. The evaluation addressed the following broad questions:

- What is the PEP model?
- To what extent has PEP-ECA implemented its mandate and achieved its objectives?
- What are the outcomes and impacts of PEP-ECA advisory operations?
- What are the lessons from the experience of PEP-ECA for future IFC Advisory Services?

The IFC Board approved establishment of the PEP-ECA program in May 2000, expanded country coverage in 2002, and extended the program until 2011 in 2005. IEG-IFC selected this program for evaluation because other regional advisory facilities had begun emulating many features, including the PEP...
name, methods, and operations, before completion of any independent evaluation of the program.

**Scope and Methodology**

The evaluation focused on activities undertaken as approved by the Board in 2000 and expanded in 2002, which comprised two levels of evaluation: the project level and the PEP-ECA program level. For the PEP-ECA program-level evaluation, IEG-IFC conducted independent analysis of PEP-ECA as a vehicle for delivering Advisory Services, its management structure, support functions (human resource management and monitoring and evaluation [M&E]), and related dimensions.

At the project level, IEG-IFC evaluated 44 mature advisory assignments comprising the building blocks of the overall PEP-ECA evaluation:

- This study evaluated the full universe of 32 mature PEP-ECA advisory assignments since the creation of PEP-ECA in 2000 and completed by the end of December 2005. IEG-IFC excluded eight studies, which were designed to explore the potential for future assignments, but did not constitute assignments in themselves. The 32 evaluated advisory assignments and the eight excluded exploratory studies accounted for all 40 PEP-ECA interventions completed by December 2005 (see appendix A for an overview of the evaluation methodology and limitations).
- A sample of 12 pre–fiscal year (FY) 2001 advisory assignments in the CIS region of the total of 16 post-privatization advisory interventions was included in the population.
- These pre-FY 2001 PEP-ECA projects were chosen based on their potential to (a) reveal lessons relevant for IFC advisory strategy, delivery, and implementation and (b) shed light on long-term impacts of PEP-ECA projects. The advisory assignments largely comprised the first generation of projects replicated by PEP-ECA, most of which were ongoing at PEP-ECA’s creation in May 2000 and at least in part managed under PEP-ECA.
- The total value of the 44 advisory assignments evaluated for this study amounted to $37.4 million.

The IEG-IFC independent evaluation of 44 advisory assignments related to 34 different parent projects and was, therefore, summarized in 34 project evaluation reports, that is, IEG-IFC combined several assignments that were extensions or subsequent phases of the same project into one project evaluation report. To conduct both the project- and program-level evaluations, IEG-IFC reviewed available documents, data, and information (including PEP-ECA project files and reports; earlier evaluations, surveys, data, and assessments of active mature and closed projects; IEG-IFC’s country and thematic evaluations; and World Bank Group evaluations and internal IFC reviews). Data through 2005 were obtained from PEP-ECA to assess organizational aspects, including data on donor funding, human resources, and project pipeline. In addition, IEG-IFC conducted surveys, stakeholder interviews, and on-site country visits. In total, IEG-IFC interviewed more than 400 stakeholders (including company clients, government clients, journalists, IFC and World Bank staff, donors, relevant experts, business associations, nongovernmental organizations, and so on) and surveyed an additional 210 companies for this evaluation.

IEG-IFC assigned ratings to the evaluated projects based on guidelines and ratings criteria presented in appendix B. Box 1.1 summarizes the rating dimensions and criteria.

**Report Organization**

This report contains six chapters. Chapter 2 presents the IFC strategic context for the PEP model and its evaluation. Chapter 3 presents overall PEP-ECA results and achievements. Chapter 4 explores various structural and organizational aspects of the PEP-ECA program related to its effectiveness—a product line approach, synergies between PEP-ECA and IFC’s investment side, and coordination within the World Bank Group. Chapter 5 discusses the unique PEP-ECA funding mechanism and other cross-cutting themes, including staff hiring, Advisory Services pricing policy, and PEP-ECA’s M&E system. Chapter 6 then provides a summary of conclusions and a series of recommendations.
Box 1.1. Summary of Rating Dimensions and Criteria

**Development Effectiveness**
Development effectiveness is a synthesis of the five dimensions (1 to 5) below and is rated overall as follows:

- **Excellent:** Overwhelming positive development results with virtually no flaws.
- **Satisfactory:** Generally meets expectations.
- **Partly unsatisfactory:** Positive aspects do not compensate for shortfalls; generally failed to meet expectations.
- **Unsatisfactory:** Negative aspects clearly outweigh positive ones; failed to meet expectations.

1. **Strategic relevance** measures the importance of the advisory project to achieving country strategic objectives based on in-country conditions at both project initiation and completion. A summary of ratings follows:

- **Excellent:** Addressed major priority issues, was aimed appropriately at the national level, was highly appropriate for the conditions at project initiation and completion, and achieved appropriate cost recovery.
- **Satisfactory:** Largely addressed major priority issues, had potentially substantial impact on direct recipient and/or local community, was appropriate for the conditions at project initiation and completion, and recovered a majority of costs.
- **Partly unsatisfactory:** Overlooked some priority issues, was appropriate at initiation, but not at completion due to conditions that could not have been anticipated, and achieved substantially less than appropriate cost recovery.
- **Unsatisfactory:** Addressed low-priority issues, was not appropriate given conditions at initiation, and recovered no costs, although it was appropriate.

2. **Outputs** are the immediate deliverables of the advisory project, such as diagnostic reports, training manuals, legislation drafted, managers trained, or business plans developed. A summary of ratings follows:

- **Excellent:** All or more major outputs achieved with excellent quality.
- **Satisfactory:** All major outputs achieved with satisfactory quality.
- **Partly unsatisfactory:** One major output not achieved or of less than satisfactory quality.
- **Unsatisfactory:** Several major outputs not achieved or of less than satisfactory quality.

3. **Outcomes** are changes in knowledge, behaviors, and attitudes as a result of intervention; usually short-term or medium-term effects, for example, client/stakeholder actions taken (passage of legislation, increase of knowledge of leasing, or changes in management techniques, corporate governance practices, or agriculture technologies used) with considerable attribution of changes to the project. A summary of ratings follows:

- **Excellent:** Virtually all outcomes achieved; client attributed changes in behavior and performance to the advisory project.
- **Satisfactory:** Most major outcomes achieved; client attributed major changes to the advisory project.
- **Partly unsatisfactory:** Less than half of major outcomes achieved; client attributed minor influence to the advisory project.
- **Unsatisfactory:** Few or no major outcomes achieved, client did not attribute change in behavior or performance to the advisory project, or the advisory project had negative effects.

4. **Impacts** are the consequences, often but not always long-term effects, resulting from an intervention. They may be positive or negative, intended or unintended. A summary of ratings follows:

- **Excellent:** Exceptional benefits achieved beyond the direct recipients and national or international impact as best practice.
- **Satisfactory:** All intended impacts on direct recipients achieved, and some impact occurred beyond the direct recipient(s).
- **Partly unsatisfactory:** Intended impacts were partially achieved, or some negative impacts resulted.
- **Unsatisfactory:** Intended impacts not achieved, or negative impacts resulted.

5. **Efficiency** measures the extent to which project costs were reasonable in relation to the potential results, whether resources were used economically (funds, expertise, and time), whether less costly alternative ways to achieve the objectives were available, and how reasonable the costs were in relation to the potential results (cost-benefit or “bang-for-the-buck” dimension). A summary of ratings follows:

- **Excellent:** Highly positive cost-benefit ratio; resources expended highly economically at far less cost than the alternatives.
- **Satisfactory:** Positive cost-benefit ratio; resources expended economically and were reasonable in relation to alternatives.
- **Partly unsatisfactory:** Negative cost-benefit ratio; resources could have been expended more economically, and more reasonable alternatives were available.

(Box continues on next page)
Box 1.1. Summary of Rating Dimensions and Criteria (continued)

- **Unsatisfactory:** Highly negative cost-benefit ratio; resources could have been expended more economically; and much more reasonable alternatives were available.

**IFC Role and Contribution**

IFC role and contribution measures in retrospect the extent of IFC’s additionality or specific contribution and considers the likelihood of alternative funding, whether other providers could have filled the gap, whether IFC maximized opportunities to add value, and whether IFC was particularly catalytic, innovative, or developmental in its advisory project. A summary of ratings follows:

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

**IFC Work Quality**

1. **Project preparation** measures in retrospect the extent to which IFC professionally executed its front-end project planning work in relation to the advisory project. This stage considers (a) if project objectives have been identified, (b) if specific, measurable, attributable, realistic, and time-bound indicators have been laid out, (c) if baseline data have been collected and appropriate systems for ongoing monitoring put in place, (d) the extent to which project risks have been identified and mitigated appropriately, (e) if coordination with other partners and stakeholders has been appropriate and sufficient, and (f) if appropriate knowledge sources have been tapped.

2. **Project supervision** assesses (a) candor, timeliness, and quality of performance measurement, (b) maintenance of relations and adequacy of coordination with clients/stakeholders (includes coordination with investment officers, World Bank staff, and others internal/external to the World Bank Group), (c) timeliness and quality of reporting to donors, (d) appropriateness of monitoring, (e) early and appropriate identification and resolution of problems, (f) transition arrangements in staff turnover, (g) and attention to sustainability issues.

3. **Project implementation** assesses (a) the quality of implementation of the IFC component, (b) whether IFC staff took advantage of opportunities and surpassed expectations, (c) whether resolution of implementation issues and service/product delivery were timely, and (d) the extent of client engagement and follow-up. A summary of ratings follows:

- **Excellent:** IFC’s front-end work, supervision, and implementation could serve as a best-practice example.
- **Satisfactory:** IFC’s front-end work, supervision, and implementation were of generally acceptable performance.
- **Partly unsatisfactory:** There was a material shortfall in front-end work, supervision, and implementation.
- **Unsatisfactory:** There were material shortfalls in front-end work, supervision, and implementation.

*Note:* These rating dimensions and criteria are highly similar to those that IFC subsequently adopted and uses for self-evaluations of advisory projects.
IFC Strategic Context and Emergence of the Private Enterprise Partnership Model

IFC Advisory Services increased significantly in the past decade from $25 million in FY 1996 to $365 million annual commitments in FY 2006 and reached a cumulative $1.7 billion; disbursements lagged behind with a cumulative $0.7 billion at the end of FY 2006. IFC established PEP-ECA in 2000 to consolidate a large advisory program in the CIS and create a more permanent and specialized management structure and long-term IFC commitment to the region.

In FY 2006, PEP-ECA accounted for 20 percent of total IFC and donor commitments to Advisory Services done by all IFC regional facilities. Other IFC regional facilities have emulated selected features of the PEP model.

Establishment of PEP-ECA in 2000 was part of a broader IFC initiative to expand Advisory Services.

IFC Advisory Services operations have been expanding in order to support IFC’s investment strategy in frontier countries, adopted in 1998 and confirmed annually ever since. The frontier country investment focus prompted IFC to increase its provision of Advisory Services to pave the way for private sector investments. IFC’s 2003 Strategic Directions Paper confirmed this approach, stating that “. . . Advisory Services . . . are absolutely essential as a complement to investment and, in frontier countries with weak investment climates, are likely to be a better choice of activity for IFC.” In 2006, IFC management set out among other goals, “stronger focus on building a dynamic private sector in the developing member countries (perceived by many as a critical factor for sustained economic growth) by improving the investment climate and strengthening Advisory Services operations” (IFC 2006a).

IFC Advisory Services commitments have increased substantially over a decade, from about $25 million in FY 1996 to $365 million in FY 2006, reflecting the shift in IFC’s strategy (see figure 2.1). Since 1986, the cumulative commitments to IFC Advisory Services totaled $1.7 billion. During the same time, annual expenditures for Advisory Services increased at a slower pace, from $18.3 million to $151.5 million; cumulative disbursements reached $0.7 billion in FY 2006. The majority of this funding has come from donors; IFC contributions totaled about
15 percent before FY 2001, increasing to 37 percent in FY 2007 (as of March 2007). IFC Advisory Services represented about 6 percent of IFC’s 2006 investment product commitments, covered more than 80 countries, and engaged more than a third of IFC’s full-time staff or 1,086 people, 80 percent of whom are now based in the field. IFC envisages further increases in its Advisory Services in frontier countries and has undertaken recent initiatives to introduce a more strategic and systematic approach to Advisory Services development, implementation, and monitoring of results. Box 2.1 presents recent developments in IFC Advisory Services.

**PEP-ECA was based on the accumulated experience of IFC’s large regional Advisory Services program.**

IFC started an active Advisory Services program in countries of the CIS in 1992 to address the need to develop market-oriented economies following the collapse of the Soviet Union. An adverse investment climate existed in the CIS at that time, including a lack of private enterprise, a dearth of investment-worthy projects, and discouragement of foreign investors by unclear and conflicting laws, unreliable judiciary systems, corruption, corporate governance abuses, and crime. Given the situation, IFC decided to focus its advisory program on helping Armenia, Belarus, Russian Federation, and Ukraine to create conditions conducive to private sector investment and growth. IFC also adopted this strategy, given that the majority of CIS countries had only joined IFC between 1993 and 1995 and IFC was unable to make investments before they officially became IFC members.

IFC’s advisory strategy in the former Soviet Union in the 1990s first supported privatization and later promoted investments by an emerging private sector. In response to government requests in Belarus, Russian Federation, and Ukraine, IFC addressed these high-priority areas by focusing its Advisory Services initially on privatization and land reform to create private sector entities.5
Box 2.1. Recent Developments in Advisory Services across IFC

**Funding Mechanism for Technical Assistance and Advisory Services.** IFC created the Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS) in June 2004 to streamline and strengthen IFC funding for Advisory Services, lending it some stability. Although IFC intends for donors to continue funding a major portion of IFC Advisory Services, FMTAAS enables IFC to allocate a part of its retained earnings for Advisory Services financing. In FY 2005–07, IFC allocated a total of $580 million to FMTAAS. IFC intended initially to spend $65 million a year on Advisory Services under FMTAAS, aiming to leverage this amount by two to three times with additional donor funding. IFC subsequently increased this annual spending limit to about $100 million in FY 2006 and $125 million in FY 2007. FMTAAS funds (a) IFC’s contributions to regional and global advisory facilities, (b) particular project or sector work beyond the scope of IFC’s standard commercial due diligence and structuring activities, and (c) specific costs of the regional and global advisory facilities that may not be charged to these facilities themselves. FMTAAS funds are not to be used to replace or displace donor funds.

**Integration of Advisory Services in corporate-wide database.** IFC developed a framework for integrating Advisory Services operations into its corporate-wide database in 2005. New processes for Advisory Services early review approval, supervision, M&E, and resource allocation in parallel with IFC's investment operations processes were intended to enhance strategic focus, improve governance, facilitate results measurement, and promote consistency in funding decisions across the regions. These new processes include a standardized advisory project approval process, supervision reporting (rolled out in 2005), and project completion reports, which are based on an IEG-IFC framework for evaluating advisory projects and programs piloted in January 2007, with rollout in June 2007. IFC’s Small and Medium Enterprise (SME) Department has reviewed Advisory Services product lines to identify lessons learned and develop a comprehensive set of M&E indicators and tools to guide the development and implementation of the new processes and articulate project results. This information on Advisory Services is, therefore, now being collected and shared across IFC and, as IFC’s disclosure policy allows, with donors and other stakeholders.

**Identification of Advisory Services principles and core product lines.** In FY 2006, IFC management developed a set of principles for application to all Advisory Services and identified five core product lines reflecting IFC’s strategic priorities, with which to align all Advisory Services. The five core business lines include (a) business enabling environment with a focus on frontier markets, (b) value addition to firms, focused on corporate governance and linkages, (c) environmental and social sustainability, (d) infrastructure and public-private partnerships (including privatization), and (e) access to finance. A leader and a deputy have been assigned to each business line to review all Advisory Services proposals for quality of design and use of good practice and lessons learned. The business line leaders are also working together with the Advisory Services implementers to focus IFC offerings into a set of core products. To achieve greater overall development impact and to enhance effectiveness through scale and knowledge sharing, management has committed to improved selection of technical assistance activities, as well as increased operational accountability and efficiency.

In late 2006, IFC decided that FMTAAS would contribute funds to Advisory Services activities within the five business lines (under the so-called business line envelope model, in which departments request funds for specific advisory projects) with a multiyear 2007–11 cap of $101.5 million, of which a $41.8 million cap was applied to FY 2007. The cap falls within the overall annual spending limit of $125 million in FY 2007 and limits the overall expenditures that advisory projects may incur under the business line envelopes.

**Corporate Cadre.** IFC management also introduced the Corporate Cadre to strengthen managerial capacity in Advisory Services in FY 2006. Ten IFC staff were selected from across all Advisory Services units as leaders in Advisory Services operations. They have a key role in defining IFC Advisory Services strategy, proposing key policies or process enhancements, assuring consistent quality, and leading knowledge-sharing efforts across the IFC Advisory Services community.

**One Brand Strategy.** In late 2006, IFC issued its One Brand Strategy intending to align IFC Advisory Services with investment operations to serve its clients better and increase IFC’s impact on development. It will also help IFC Advisory Services to stand out in the market and leverage the connection between IFC and the World Bank. In late 2006, IFC also issued principles for pricing Advisory Services offered to clients.

**Advisory Services procedures for coordination.** In 2007, IFC issued procedures for IFC Advisory Services work requiring intra-World Bank Group coordination. Such coordination would generally be expected if the client were a national or local government. Project teams should share/exchange information and draw on expertise and staff from within the whole World Bank Group at various stages of project preparation and implementation.
IFC’s initial privatization work with governments and enterprises also helped develop its understanding of the issues facing the region’s private sector.

On completion of the privatization assignments, IFC followed up by laying a framework for a market economy through postprivatization advisory projects to build capacity in newly privatized firms, address legislative reforms, provide advice to central and local governments, help develop future IFC investment strategies, and identify prospective clients for IFC investment operations. These postprivatization projects evolved between 1997 and 2000 into individual product lines that still mostly exist under PEP-ECA today. They focused on emerging transition needs in CIS countries, such as corporate governance for newly privatized enterprises, SME development (business consulting and other support services), and supply chain linkages (mostly in agribusiness) to support earlier land reform and farm restructuring initiatives. Business enabling environment (BEE) projects emerged from the SME development product line in light of needed reforms to promote SME growth. Financial markets advisory projects first emerged in the Russian Federation with a leasing market development project and advisory projects to banks in which IFC made investments. IFC’s investment strategy in the region drove the selection of these focused areas. IFC was not comfortable investing in high-risk environments; instead, it focused on delivering advisory work in these key areas. Increasing IFC Advisory Services in the CIS region was important in paving the way for future investments and private sector development in general.

With privatization embracing larger areas, introduction of reforms, and increased transparency, IFC proceeded with investment projects in the CIS region (see figure 2.2). This approach also enabled local entrepreneurs to understand IFC’s methods in analyzing investment opportunities and requirements for attracting foreign capital and prepare more bankable project proposals. Previous IEG country evaluations of IFC’s activities in the Russian Federation and other transition economies, as well as an upcoming evaluation of IFC’s activities in Ukraine confirmed the validity of IFC’s strategy to engage initially in advisory projects supporting privatization and then private sector investment. As the IEG evaluation of IFC’s activities in the Russian Federation states, “IFC was only one of many parties contributing [to the privatization effort], but the role it played and the results stand among IFC’s most significant country-level achievements” (IFC 2004a).

By 2000, IFC had delivered and managed about $94 million in Advisory Services since 1992 in this region, of which $79 million was managed by the regional department (before PEP-ECA), covering Armenia, Belarus, Russian Federation, and Ukraine. Given the 1998 Russian Federation crisis and a shift in donor priorities and emphasis on showing results, IFC decided that its CIS advisory program needed more stable funding and a more specialized and permanent management structure to meet new regional challenges, that is, strengthening and consolidating privatization, lessening regional imbalances, developing transparent business practices, and attracting foreign direct investment. In 2000, IFC proposed consolidating its advisory program through a joint IFC and donor-funded Private Enterprise Partnership originally covering Armenia, Belarus, Georgia, Russian Federation, and Ukraine. The program expanded in 2001 to Azerbaijan, Kazakhstan, Kyrgyz Republic, Moldova, Tajikistan, Turkmenistan, and Uzbekistan and again in 2002 to Mongolia (later dropped).

After IFC established PEP-ECA in 2000, it spent nearly $83 million from June 2001 to March 2007 on 78 advisory projects with an average size of $1.06 million. Built on successful project outcomes and prototypes from the pre-PEP-ECA period, PEP-ECA formalized its core product lines to be consistent with its strategic priorities and organizational structure. The PEP-ECA program set out to address priority issues in CIS countries and...
was broadly aligned with the World Bank Group country assistance strategies (see discussions on project strategic relevance in chapter 3). Under PEP-ECA, SME development projects experimented with initiatives to build Internet-based SME toolkits and capacity of business associations and focused less on provision of consulting services directly to individual firms. BEE projects continued the use of annual surveys and analytical diagnostic reports and delivered more focused reform advice to governments intended to reduce obstacles to SME growth. Financial markets projects expanded to include advisory work on microfinance, housing finance, and energy efficiency. Linkages projects included agribusiness supply chains, industry supply chains, mining community development linkages, business development linkages, and agribusiness linkage-based access to finance initiatives. Corporate governance projects refined pilot firm programs and increased efforts on project sustainability.

The new PEP-ECA structure and program was intended to enhance the effectiveness of Advisory Services operations in the region through the following:

- Streamlining administrative operations to reduce duplication and overhead costs;
- Extending funding cycles to improve planning and budgeting functions;
- Retaining qualified staff longer to maximize the returns on accumulated experience and on-the-job training;
- Improving data collection and reporting to inform both donors and recipient communities about the activities undertaken.

In addition, IFC created PEP-ECA in 2000 to respond to donor requests for a long-term commitment to Advisory Services in the region and better align IFC and donor strategic objectives for Advisory Services. IFC committed to

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**Figure 2.2. IFC’s Investments Increased with an Active Advisory Program in the Commonwealth of Independent States**

Source: IFC data.

Notes: 1) The high cost of Advisory Services in 1993 reflected large privatization transactions undertaken by IFC. The second surge in FY 2005 and FY 2006 reflected the increased number of projects undertaken by PEP-ECA following higher commitments in FY 2004.

2) Advisory services in CIS include regional advisory services (also PEP-ECA), the Technical Assistance Trust Fund (TATF), Foreign Investment Advisory Service (FIAS), Capacity Building Facility (CBF), and Private Sector Advisory Privatization Policy and Transactions (PSAPT, now Corporate Advisory Services or CAS).
funding PEP-ECA management and fiduciary functions (overhead), whereas donor funding continued to support direct costs associated with the delivery of Advisory Services via projects. In September 2002 IFC extended its contribution (initially $12.6 million for three years) until FY 2006 with an additional allocation of $13.8 million (see table 2.1) for another three years. In July 2005 IFC approved a second PEP-ECA extension for five years (FY 2007–11), contributing an additional $30.4 million, including funds for Advisory Services innovation and transfer of expertise to facilities beyond PEP-ECA. Annual IFC commitments increased from an initial $4.2 million to $6.1 million for FY 2007–11. In FY 2001–06, total PEP-ECA funding commitments amounted to $128.7 million, including $68.9 million of donor-signed commitments and $59.8 million contributed by IFC, whereas disbursements reached $74.4 million. During the same period, IFC’s investment commitments in the CIS totaled $3.2 billion. Given the overall donor aid flows to the CIS countries in calendar years 2000–04 of about $3.5 billion a year, the PEP-ECA program was a small contributor.

**PEP-ECA aims to improve investment climates, promote private investment, and facilitate SME growth and development.**

The PEP-ECA program emphasizes three strategic objectives:

- **Improve investment climates.** The aim of PEP-ECA projects is to help improve investment climates by (a) identifying obstacles, (b) working with local stakeholders to promote and facilitate reforms, and (c) working with World Bank Group counterparts to develop dialogue with governments. Legal and regulatory reform to facilitate investment and economic growth is part of almost all PEP-ECA projects.

- **Promote private investment** (foreign and domestic). In 2000, IFC’s strategy for increasing foreign direct investment was to focus Advisory Services on sectors with the strongest investor interest and reform-minded local governments to build critical mass and realize maximum demonstration effects. PEP-ECA was also to reduce risk to promote investments that accelerate the transition to market economies, introduce state-of-the-art technologies and management systems, and enhance competitiveness. PEP-ECA, therefore, promoted (a) the pursuit of linkages (supply chain) projects in key sectors, including forestry, agribusiness, oil, gas and mining, and automotive sectors, (b) improvements in corporate governance practices, and (c) upgrades of enterprise practices (e.g., accounting standards and management information systems).

- **Facilitate SME growth and development.** SMEs represent a growing share of CIS economies, but have lacked access to finance, expertise, new technologies, and linkages to large companies and markets. IFC has, therefore, emphasized Advisory Services initiatives that support SMEs directly through administrative and technical capacity building and corporate governance, and indirectly through

| Table 2.1. PEP-ECA Financial Commitments (millions of dollars) |
|-------------------|-------|-------|-------|-------|-------|-------|-------|-------|
|                   | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007–09| Total |
| Donor Commitments | 10.2  | 18.2  | 8.4   | 12.4  | 12.5  | 7.2   | 35.0   | 103.9 |
| IFC project Funding Commitments | 0.2 | 0.2 | 0.7 | 1.2 | 0.7 | 6.6 | 9.6 |
| IFC overhead commitments | 12.6 | | | | | | 58.8 |
| Total commitments | 22.8 | 18.4 | 8.6 | 26.9 | 13.7 | 38.3 | 41.6 | 170.3 |

a) PEP-ECA expects to raise $28–35 million in contributions from existing and new donors for the first three years (FY 2007–09) of the new five year cycle (FY 2007–11).
b) IFC contribution of $30.4 million approved in FY 2006 is for overhead expenditures in FY 2007–11.
initiatives removing administrative obstacles to SME development and strengthening financial institution lending to SMEs. PEP-ECA linkages projects are intended to help SMEs produce higher-quality goods than before to be competitive in international and regional trade through supply chain development and knowledge transfer from qualified sponsor companies or Advisory Services providers. Although SME development was originally one of PEP-ECA’s three pillar objectives, the goal as stated in 2005—“to support the creation and growth of the private sector, especially SMEs”—lessened the emphasis on SME development and was to be achieved indirectly through BEE and linkages and via financial intermediaries projects (see chapter 3 for more discussion).

At the time of PEP-ECA’s creation, IFC investment levels in the CIS were low, and for many of the more difficult country environments, they have remained low. The decision to increase IFC Advisory Services in the region was important not only for IFC investment strategy and prospects, but for overall private sector development in these countries. The three PEP-ECA objectives were relevant for the unique transition needs of CIS countries, which suffered from underdeveloped financial markets and a lack of supportive administrative systems for private sector activity, particularly for SMEs. The PEP-ECA program was therefore appropriate in its aim of addressing these needs of the transition economies. It was also appropriate in terms of IFC’s overall mandate (see box 2.2) and corporate strategy perspective, which prioritized, among others, financial markets development and SME development. As described more in chapter 3, the individual advisory projects were also broadly relevant from the country strategy and needs perspectives.

Other regional Advisory Services programs have emulated PEP features.

PEP-ECA, which originated the PEP model, today carries out a permanent and specialized Advisory Services program in CIS countries, whose design and delivery features (see box 2.3) have since FY 2003 been replicated to varying degrees by other IFC regional facilities, but had not yet been evaluated. After FY 2003, several regional and country facilities adopted the PEP name for their Advisory Services programs (e.g., Africa, Middle East and North Africa, East Asia, Pacific, Southeast Europe, Philippines, China, and Indonesia). These facilities selected from among the main PEP features, tailoring Advisory Services programs to conditions in the field, as well as donor and regional preferences. Some facilities (e.g., PEP–Middle East and North Africa) have adopted an organization by core product line, long-term project design, and implementation focus, but not a bilateral funding structure. Other regional facilities, such as PEP-Southeast Europe or PEP-Africa have adopted the project funding structure developed by PEP-ECA, among other features. Still others have not formally adopted the PEP name, but have adopted selected PEP features, while maintaining other features of the former project development facilities. These different approaches to developing and delivering Advisory Services have evolved over time, creating varying hybrid models across IFC.

Box 2.2. IFC’s Articles of Agreement: Article 1, Purpose

The purpose of the Corporation is to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas . . . In carrying out this purpose, the Corporation shall:

(a) Assist in financing the establishment, improvement, and expansion of productive private enterprises
(b) Seek to bring together investment opportunities, domestic and foreign private capital, and experienced management
(c) Seek to stimulate and to help create conditions conducive to the flow of private capital, domestic and foreign, into productive investment in member countries.
It is worth noting that the project development facilities model, which focused in the 1990s on providing direct assistance to SMEs, has been deemphasized in the past several years. This was due in part to the high cost of providing direct assistance to individual firms (and a move to a wholesale approach, through which advisory efforts focus more on developing the market), low rates of achievement of increased private investment, and lackluster evaluation results, as identified by IEG’s evaluation, *A Synthesis Evaluation of Four IFC-Supported Small and Medium Enterprise Facilities* (2004b).

**Box 2.3. Main PEP Model Features**

- Funding received from IFC (overhead) and bilateral donors (specific implementation costs)
- Donor relations directly managed by PEP
- Bilateral donor funding secured on a project-by-project basis; project design, deliverables, and budget finalized before donor approval received
- Management and administrative support (including human resources) located in the field
- Management structure based on specialization in core product lines
- Concentration on developing replicable projects, with some experimentation in new areas to meet the transitional development needs of the region
- Rollout of core products with a broad assessment to determine country relevance and feasibility; the concept left broad and project manager expected to make necessary country adjustments once the project is launched
- Reliance on local staff for project implementation
- Long-term project duration (from two to five years) with dedicated project staff focusing on achieving targeted expected outputs and outcomes
- PEP staff, except management and administration, hired on a project-by-project basis
- Development of M&E system
- Usually no cost recovery.

Source: IFC (1999–2006) and internal IFC information.
A majority of evaluated projects achieved positive development effectiveness ratings; larger projects performed better than smaller ones. Financial markets projects performed better than the other four product lines in all dimensions, and traditional linkages projects performed the worst. Strong project implementation enhanced IFC work quality ratings and drove project success.

Given their scale, impacts of the PEP-ECA interventions at the overall country level were limited, but the program contributed to improved business climates in specific areas and supported increased private investments. Direct efforts to support SMEs did not demonstrate positive results, whereas indirect efforts were promising, although concrete evidence of impacts on SMEs was insufficient.

Almost two-thirds of the projects had satisfactory or better development effectiveness ratings.

IFC’s development effectiveness ratings synthesize the rating of project results (outputs, outcomes, and impacts) with those for strategic relevance and efficiency (see summary of ratings dimension in box 1.1 and appendix B for detailed project evaluation framework and ratings criteria). Development effectiveness ratings, therefore, are the most telling in determining advisory project results, because they capture the bottom line, that is, both positive and negative, and intended and unintended effects.

Overall project results were positive, especially in light of the difficult circumstances of transition economies in CIS countries at the time. Of all 34 PEP-ECA projects evaluated, 62 percent (21) achieved development effectiveness ratings of satisfactory or better (see table 3.1), of which (a) 15 percent received excellent ratings, suggesting overwhelming positive development results for these projects with virtually no flaws and (b) 47 percent were rated satisfactory, indicating that strong positive aspects more than compensated for shortfalls.

Satisfactory or above ratings on results declined from outputs to outcomes to impacts. Project evaluations confirmed that it takes time for project-supported changes in
behaviors and policies (outcomes) to produce tangible, measurable impacts (long-term effects of changes in behaviors and policies on firms and markets). Satisfactory or above ratings declined from 82 percent for outputs to 71 percent for outcomes to 47 percent for impacts (see table 3.1). Low impact success rates reflected in part the time it takes to observe some impacts and insufficient data for assessing them. Overall, 13 of the total 34 project impact ratings were “too soon to tell.” IEG-IFC, however, assigned preliminary ratings to 11 of these (four of which were less than satisfactory), given the passage of sufficient time and increased availability of information for evaluators to formulate an indicative rating. The problem of insufficient data for assessing impacts was also a challenge in many product lines, but was most pronounced in SME development projects, which was a major contributing factor to the less than satisfactory ratings in that group.

The lower levels of outcome and impact success rates also reflect the actual achievement of fewer outcomes and impacts, beyond outputs. It also reflects the uncertainty in attributing outcomes and related impacts, because changes in policies, laws, and practices depend on many external factors and are influenced by multiple stakeholders and external forces. The implementation of these changes and related impacts on firms and the broader economy was similarly subject to external factors outside the influence of advisory projects. For the most part, the majority of less than satisfactory impact ratings were observed in the linkages and SME development product lines: all four SME development projects and seven of 10 linkages projects received less than satisfactory impact ratings. As described in the following section in more detail, these product lines struggled in general to develop and deliver successful advisory projects, as reflected in the overall impact achievements. In addition, although the challenge of attribution affected most projects evaluated, evaluators dealt with it by teasing out the multiple influences on project variables and clearing out related issues in the project evaluation reports.

PEP-ECA projects were mostly strategically relevant for country contexts. Seventy-six percent (26 of 34) of projects received satisfac-

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<th>Table 3.1. Satisfactory or Better PEP-ECA Project Evaluation Report Ratings</th>
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<td><strong>Source:</strong> IEG data.</td>
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tory or better ratings for strategic relevance (see table 3.1). One of the main drivers behind these positive ratings was PEP-ECA’s project focus on addressing overall priority issues, at the outset broadly aligned with the World Bank Group country assistance strategies and reflected in the three main PEP-ECA program strategic objectives. Also, many projects set out to have a broad or sectorwide impact and were often targeted at the national level.

**Larger projects performed better than smaller ones.** The share of satisfactory or better development effectiveness ratings increased from 62 percent when based on the number of projects to 78 percent when based on the project volume (projects worth $29.3 million received a satisfactory or better rating compared with $57.4 million total volume of projects evaluated for this study) (see table 3.1). This implies that larger projects tended to perform better than smaller ones. Larger projects were also typically longer in duration, which helped promote achievement of outcomes and impacts in the field; when implementation teams needed to make changes to project deliverables and work programs, they had sufficient time and resources to do so. Implementation success rates were significantly higher—94 percent when considered in terms of dollar volume—which suggests that larger projects with longer durations had the resources and time needed to deliver high-quality work and achieve target outcomes and impacts. The upcoming IEG-IFC evaluation of IFC’s activities in Ukraine also confirms that larger and longer projects, particularly if implemented in a sequential manner, brought about wider and more sustainable results.

**Overall efficiency was satisfactory in nearly two-thirds of projects.** The use of local staff and survey companies boosted project efficiency. This was particularly evident in leasing and business enabling environment projects. The largely successful rollout of these product lines also contributed to their strong efficiency ratings (all leasing projects and five of six business enabling environment projects received satisfactory or above efficiency ratings).

In contrast most SME development (three of four) and half of corporate governance and linkages projects received less than satisfactory efficiency ratings. As discussed in the product line sections in more detail below, the often high cost of direct assistance to firms in linkages and corporate governance projects coupled with more narrow or hard-to-measure results contributed to lower efficiency ratings in these areas.

**Strong project implementation compensated for weaker project preparation.** IFC project preparation ratings were low: fewer than half (47 percent) had satisfactory or higher ratings (see table 3.1). PEP-ECA created sound basic product designs (except for linkages projects) and did not intend to adapt each project to specific country conditions at the preparation stage, but rather to provide sufficient flexibility to project managers during implementation to adjust the standard product to market conditions. PEP-ECA front-end needs assessments, therefore, were frequently not sufficient to tailor projects to local country and market conditions.1 This evaluation found that shortcomings in project preparation were quite often offset during project implementation by strong, proactive local teams, who managed to adapt projects to local conditions and focus on achieving expected outcomes and delivering high-quality work.2 Project implementation received the highest ratings of all dimensions: 29 of 34 projects (85 percent) received satisfactory ratings or higher, of which 11 (32 percent) were excellent, indicating projects that could serve as best practice examples. In some cases, however, they were unable to overcome the initial weaknesses of the project preparation stage. Among well-prepared projects, 88 percent recorded development effectiveness ratings that were satisfactory or better; however, among the 53 percent of projects that were poorly prepared, fewer than half (39 percent, or 7 of 18) had satisfactory development effectiveness ratings.

“**Larger projects with longer duration had the resources and time needed to deliver high-quality work and achieve target outcomes and impacts.**”
PEP-ECA project performance was stronger than other advisory projects evaluated by IEG. IFC advisory projects evaluated for an internal IEG report on investment climate for the years 1997–2001 showed lower performance achievements in key outcome and impact dimensions. Of the total of 38 advisory projects evaluated for that study, 50 percent of respondents rated outcome achievement as satisfactory or above (6 percent of outcomes were rated excellent, and 44 percent satisfactory), compared with the 71 percent outcome success rate of PEP.3 Comparison of impact achievement of projects evaluated for the same internal report with PEP-ECA projects evaluated is also possible, as ratings criteria were similar. Of the investment climate advisory projects evaluated, IEG rated 42 percent as satisfactory or better, compared with 47 percent for PEP-ECA project impact ratings.

The comparability of PEP-ECA performance with self-evaluated Pilot 1 project completion reports (PCRs) is limited. In January 2007, IFC launched the first round of its advisory self-evaluations at project completion (through PCRs) with rollout in June 2007, based on the same rating criteria and scale used to evaluate the PEP-ECA projects by IEG.4 IEG conducted desk reviews of Pilot 1 PCRs with limited information available (PCRs and project approval documentation) in an effort to validate the process of presenting information and the appropriateness of ratings assigned, given information presented for the 171 Pilot 1 PCRs. Although information was not sufficient to assign development effectiveness and impact ratings in many PCRs, of those for which ratings were assigned, 75 percent had satisfactory or better development effectiveness ratings; satisfactory or better ratings declined from outputs (84 percent) to outcomes (78 percent) and impacts (66 percent).5

Strong project implementation enhanced IFC work quality ratings and drove project success.

The main drivers of PEP-ECA project success fall into two broad areas: (a) overall IFC work quality (basic project design and implementation) along with IFC’s role and contribution and (b) key external conditions shaping project achievements.

IFC Work Quality

This is a synthesis measure for three indicators: (a) project preparation, (b) project supervision, and (c) project implementation.

Thorough project preparation and appropriate design. In several (7 of 18) cases, projects avoided low results achievements derived from project preparation shortcomings due in part to strong and flexible implementation designs, which often better adapted projects to local conditions and evolving environments. Nonetheless, the following design features were critical for success or the lack of them posed obstacles to success:

- Appropriate tailoring of standard project design and work program to country conditions. A thorough needs assessment during project preparation can (a) enhance the selection of appropriate outputs and expected outcomes and impacts based on country conditions and needs, (b) promote a strategic approach to sequencing advisory activities, and (c) enhance IFC’s understanding of prevailing project risks and better identify appropriate mitigating factors.
- Long-term project focus on achieving project outcomes and impacts. Achieving project results takes time, particularly promoting reforms, changing attitudes and behaviors, and generating tangible impacts in the field. Projects with long time horizons that focused on achieving well-defined target outcomes and impacts showed higher success rates than those of short duration and vaguer than expected outcomes and impacts. Ensuring adequate funding for projects is important in meeting time requirements for achieving objectives. Short-term interventions may be appropriate to reassess client/partner commitment and gauge progress across time where relevant, but more advanced planning and multiple phasing should be considered up front to optimize sequencing and avoid premature exit scenarios. Also,
evaluation at completion and up to three years after should help reinforce focus on the achievement of results.

- **Realistic and clearly stated project objectives and alignment of stakeholder/partner incentives.** Many failed projects had overambitious objectives that teams were not able to meet fully; this occurred most frequently in experimental projects in the linkages product line, which did not benefit from an already established basic project design. Similarly, projects lacking strongly aligned incentives among clients, government, sponsors, and/or key partners struggled to deliver and achieve objectives.

- **Wide dissemination and public education campaigns.** Broad public education and information campaigns in local languages boosted achievement of results by raising awareness, motivating reforms and changes in behavior among target groups, and building IFC credibility and brand.

- **Broad or sectorwide development designs.** Compared with more narrowly defined or single IFC investment supporting advisory projects, broad or sectorwide development designs achieved wider impacts (see table 4.1). Weak or narrow (sometimes donor interest-driven) project designs limited potential project outcomes and impacts to a smaller number of beneficiaries. An IFC transaction-specific focus to integrating Advisory Services and IFC investments also frequently resulted in suboptimal results; whereas, a more broad sector development approach to promoting investment opportunities in general (as well as for IFC) yielded both more successful and broader development results.

**Strong project implementation.** This factor involves (a) high-quality staff and management, (b) an effective mix of expatriate and local project staff, (c) a proactive and pragmatic approach to engaging major stakeholders, and (d) project implementation flexibility.

- **High-quality staff and management.** Project managers (usually expatriates) with unique knowledge of local customs and language, complemented by competent, technically skilled local staff with strong track records within the government, donor community, and among wider private sector clients, played a key role in building IFC’s reputation and achieving results for the projects. Stakeholders were especially satisfied with the quality of PEP-ECA’s local legal teams.

- **The right mix of local staff and global expertise.** In several projects, PEP-ECA successfully combined local expertise with available international best practices and knowledge: a combination that enhanced efficiency, credibility, and relations with counterparts. This was demonstrated by bringing into Central Asian BEE projects the Latvian experience of reforming business inspections and the Vietnamese experience of creating public-private dialogue. In a BEE project in Uzbekistan and an agribusiness linkage project in Ukraine, PEP-ECA also tapped top international experts to bring into local discussions crucial best practices and experience in reforms in comparable countries, which in turn motivated the reform agenda and built local understanding and knowledge in these areas.

- **Use of a proactive and practical approach and finding a local champion to promote business enabling environment reforms.** A practical approach to delivering project outputs and maintaining relations with major stakeholders was a hallmark of successfully implemented projects, particularly when engaging governments in policy dialogue. Successful projects began by establishing a strong local reputation for quality analysis and recommendations in a specific area (business enabling environment, leasing, or corporate governance). Broad public awareness and dissemination campaigns in local languages complemented dialogue on reform agendas by providing project-related information and findings to key target audiences and motivating a sense of urgency for needed reforms. When it came to advising governments on reform in particular areas, proactive project teams made presentations for small groups of high-ranking decision makers and followed-up with frequent contacts with
mid-ranking government officials on finer points of policy discussions, often including assistance in drafting and commenting on legislation, regulations, policy papers, and other interdepartmental government documents. PEP-ECA teams also provided government counterparts with training, information, statistics, logistical support, study tours, and so on. Early identification of a political champion for reform, as was done in a leasing project in the Russian Federation, was a powerful way to promote local ownership and shared objectives to drive results achievement.

- **Project implementation flexibility to respond to country and market needs.** Implementation flexibility permitted teams to take advantage of opportunities and maximize the impact needed to achieve expected outcomes. Flexibility allowed for adjustment of originally planned activities to evolving local conditions. Sometimes, this meant substituting some activities for more relevant ones after project launch; at other times, it meant adding components and activities to the existing plan as country situations and markets evolved.

IFC’s distinctive comparative advantage and additionality. Projects tended to achieve better results when project teams drew effectively on IFC’s core comparative advantages, including its (a) political neutrality as part of the World Bank Group, (b) credibility as a private investor and creditor, (c) pragmatic approach, and (d) special role as an honest broker. Project performance was stronger when IFC was able to make special contributions by exploiting these core strengths (see box 3.1). Of all the projects with successful development effectiveness ratings, all but one had satisfactory or better IFC role and contribution ratings.6

Yet PEP-ECA projects did not always draw on these comparative advantages nor maximize opportunities to add value. About one-third of projects received less than satisfactory ratings on IFC role and contribution, frequently the result of a project’s inability to deliver fully on what was expected. All but one of these projects also received less than satisfactory development effectiveness ratings. At times, this was due to the following:

- Project design shortcomings, particularly in more complex experimental or linkage projects.
- Weak strategic relevance, where it became clear during implementation that it had not made sense for IFC to undertake the project.
- Narrow project scope, which effectively restricted a project’s potential developmental role in a more broad and equitable manner (such as in terms of beneficiaries, at times just a handful compared with an entire sector).

Projects that overemphasized pursuit of specific donor objectives, such as promoting business development to benefit investors of a given donor nationality, rather than supporting a wider set of investors (including IFC investment projects) or broader sectoral reforms for all investors, sometimes fell into this category and effectively limited IFC’s potential developmental and catalytic role.

Strategic Relevance and Existence of Key External Conditions

Good IFC work quality went a long way in promoting a successful project, but other factors remained largely outside the control of the project and affected project success.

- **Strong client commitment was a driver of results and, when lacking, an obstacle to success.** Clients included government, project partners and stakeholders, and investment project sponsors. PEP-ECA did not require strong government commitment as a prerequisite to initiating reform-oriented projects. PEP-ECA project teams were sometimes successful in building needed commitment and buy-in during implementation, but less success in this area diminished project achievements.7 Similarly, low levels of commitment by nongovernmental clients and partners hindered project achievements.
Inappropriate timing and lack of important preconditions may have weakened the strategic relevance of projects. When key preconditions or timing for a chosen advisory project were not appropriate, prospects for project effectiveness might have been diminished. For example, lack of important preconditions of leasing projects in selected low-income Central Asian countries weakened project relevance. Even though project efforts helped pass leasing legislation, market development—contingent on other factors such as financial sector reforms, banking sector development, or currency convertibility—occurred only to a limited extent. In contrast, in countries such as Kazakhstan and the Russian Federation, which were extremely successful in several dimensions of development effectiveness, both market conditions and timing contributed to overall project success.

Financial markets projects performed best, while traditional PEP-ECA linkages projects lacked definition and performed the worst.

Not all the product lines performed equally, based on evaluation results for development effectiveness (see table 3.2, to which this section will refer). Despite the complete coverage of all mature PEP-ECA projects in the evaluation, the number of projects by product line is small, so the results in table 3.2 should be interpreted with caution. Box 3.2 contains a brief description of different types of advisory projects done by PEP-ECA.

With successful ratings defined as satisfactory or better, the different product lines compare as follows:

- Financial markets projects, particularly leasing, out-performed other business
lines and demonstrated overwhelmingly positive development results (see table 3.2). In terms of outcome achievements, all leasing projects received satisfactory or above ratings—and three of five received excellent ratings, as virtually all legal and regulatory reforms recommended by IFC were implemented. In terms of impacts, projects contributed to developing local leasing markets, particularly in the more reform-minded countries, such as Kazakhstan and the Russian Federation. A solid project design improved over time and generated replication efficiencies (see table 3.3 later in this chapter for examples of country impacts). Yet despite the strong basic standard leasing model and supportive learning materials (leasing handbook and manual for operational staff), project rollout demonstrated insufficient adaptation to specific conditions in some CIS countries. Although PEP-ECA leasing projects were the first to build M&E into project designs, the approach revealed some shortcomings in capturing key leasing-related outcomes and impacts.

- **BEE projects all successfully promoted reforms and legislative changes (satisfactory or better outcomes), thanks to overall solid basic project design and a proactive approach to implementation.**

Half received excellent ratings suggesting that governments undertook nearly all recommended reforms attributable to IFC’s projects. Strong, credible local teams drove the high success rates, because they (a) delivered high-quality outputs, (b) raised awareness through broad dissemination in one or more local languages, (c) motivated reform agendas, (d) built strong, collaborative relationships with local stakeholders (including government and donors), and (e) focused on implementing reforms and achieving target objectives. An important unexpected outcome was the building of IFC brand among government officials, experts, and SMEs in countries where IFC undertook BEE projects. BEE impacts were more difficult to detect, because changes made took time to show results in the field and project teams did not emphasize targeting and tracking changes made beyond legislative changes (outcomes) as part of their M&E framework. Table 3.3 contains examples of impacts by country. Relatively low project costs supported the efficiency of this product line.

### Table 3.2. PEP-ECA Project Success Ratings by Overall Rating Dimensions

<table>
<thead>
<tr>
<th>Business line</th>
<th>Development effectiveness</th>
<th>IFC role and contribution</th>
<th>IFC work quality</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Of total number</td>
<td>Of total dollars</td>
<td>Of total number</td>
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<tr>
<td></td>
<td>%</td>
<td>number</td>
<td>%</td>
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<td></td>
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<td>dollars</td>
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</tr>
<tr>
<td></td>
<td>%</td>
<td>millions</td>
<td>%</td>
</tr>
<tr>
<td>BEE</td>
<td>67</td>
<td>4/6</td>
<td>83</td>
</tr>
<tr>
<td>Corporate governance</td>
<td>75</td>
<td>3/4</td>
<td>96</td>
</tr>
<tr>
<td>Financial markets</td>
<td>89</td>
<td>8/9</td>
<td>89</td>
</tr>
<tr>
<td>Linkages</td>
<td>30</td>
<td>3/10</td>
<td>53</td>
</tr>
<tr>
<td>SME development</td>
<td>50</td>
<td>2/4</td>
<td>92</td>
</tr>
<tr>
<td>Multiparlar</td>
<td>100</td>
<td>1/1</td>
<td>100</td>
</tr>
<tr>
<td>All business lines</td>
<td>62</td>
<td>21/34</td>
<td>78</td>
</tr>
</tbody>
</table>

Source: IEG data.
a. Percentages are based on dollar figures before rounding.
**Box 3.2. Advisory Projects by Product Line**

**Financial markets projects.** Starting with leasing in 1997, this product area expanded to include microfinance, energy efficiency, and housing finance. Projects adopted a similar model, all comprising a reform agenda, capacity building and training of clients and stakeholders, and public education (chapter 4 describes the standard project components). A leasing project in central Asia and another one in Kazakhstan, for example, were based on an earlier successful leasing project in the Russian Federation and contained the same basic components. The educational institution part of public education (university courses in leasing topics) was not successful in the Russian Federation and was initially not included in Central Asia rollouts. Yet client demand in Central Asia led to addition of the educational institution subcomponent. With time, PEP-ECA also added business audits to leasing projects, which attempted to take a more systematic approach to integrating Advisory Services and investments and was well received by clients.

**BEE projects.** Standard project components include (a) annual surveys of obstacles to SME growth, (b) reports of findings and recommendations, (c) public awareness and broad dissemination, and (d) policy support to government officials in narrow areas for implementation of recommendations. Surveys evolved over time as PEP-ECA rolled out these projects, reflecting design improvements and adjustments to local conditions and projects. The policy support component went from broad and flexible in the first BEE experience in Ukraine (1996–2001) to very specific, such as permits in Ukraine (2001–present) and business inspections in Uzbekistan (2003).

**Corporate governance projects.** Standard project components include (a) a legal and regulatory reform agenda, (b) course trainings and consultations for firms, (c) a pilot company component to assess firm corporate governance needs and implement action plans at the firm level, (d) educational institution capacity building, and (e) public education and dissemination. The first corporate governance project model was developed and tested during implementation of the Ukraine Corporate Governance Project (1997–2003) and subsequently replicated with some refinements in the second corporate governance project in Ukraine and projects in Armenia, Georgia, and Russian Federation. With time, refinement of the pilot component enhanced potential outcome and impact of firm-level consultations. The focus also shifted from including not only open joint stock companies, but closed joint stock companies as well. Exit strategies became more important over time as PEP-ECA focused on experimenting with different sustainability options.

**SME development projects.** Although the four SME development projects were diverse, they all had a common objective to provide services (e.g., consulting, capacity building, and access to information) indirectly to SMEs through a third party (consulting firms, business associations, and/or Web site). One project consisted of an Internet-based SME toolkit, another established and supported business consulting centers, a third supported business association outreach to clients, and a fourth provided advice to a government-owned consulting enterprise.

**Linkages projects.** Linkages projects attempted to set out parameters for different types of supply chain and community development projects and comprised a broad range of different types of activities that attempted to take on a more specific scope of work with a narrow set of beneficiaries. These projects intended to (a) develop a supply chain linkage between a set of suppliers and a processor, (b) promote business development and investment among a target group of investors (e.g., to promote investment, outsourcing, or trade), and/or (c) promote access to finance for an intended linkage between suppliers and processors via a single institution (e.g., provide advice to suppliers intended to improve quality of production and volume for processors and access to finance for needed equipment upgrades and working capital for farmers). Most linkage projects evaluated did not consist of the three core PEP-ECA project model components of policy reform, capacity building and training, and public relations and dissemination. Instead, most projects included one or, in a few instances, two components. The exception was the Ukraine Agribusiness Project, which incorporated all three components. Despite the project’s success, however, its design was not broadly replicated. Most linkages projects done by PEP-ECA attempted to build on the success of the first supply chain linkage project (Campina).
projects through these two channels was not clear. Passage of new corporate governance–friendly company laws was challenging in these countries where strong opposing interests and lack of understanding of the importance of good corporate governance practices were major obstacles. Nonetheless, some important achievements in the broader legal and regulatory environment (outcomes) were made in Armenia, Georgia, Russian Federation, and Ukraine. Given the inherent challenges of achieving intended corporate governance impacts and attributing them to IFC projects, evaluation ratings on impact were split: two projects received ratings of satisfactory and the other two, partly unsatisfactory. Improved corporate governance practices were necessary, but not sufficient for increasing the financial attractiveness of companies; however, IEG’s survey findings provided some evidence that clients themselves believed that improvements in corporate governance practices and policies increased investments in their companies due to their increased financial attractiveness (see table 3.3). With time, the basic PEP-ECA corporate governance project model has been refined; yet it could benefit from measures intended to promote broader, sustainable impacts. Project preparation, design, and project rollout would benefit from a more detailed country needs assessment to tailor the standard corporate governance project model better to different country conditions and set out more realistic work programs and M&E frameworks. The evaluation noted good collaboration between PEP-ECA and the World Bank Group’s Corporate Governance unit.

- **SME development by outsourcing services to SMEs (direct support to SMEs) showed mixed results, and tracking outcomes and impacts of these projects was difficult.** Two of four of the SME development projects received satisfactory or better ratings in development effectiveness and achievement of outcomes (see table 3.2); yet none achieved most of the impacts intended on SME growth and development. Project preparation shortcomings and weak strategic relevance led to lackluster results, and despite good performance, project implementation teams were unable to overcome these problems.

- **Linkages projects, which performed worse than other product lines, never defined a solid proven model during the period of evaluation and were for the most part vaguely defined until 2005.** Even today, clear consensus does not exist across IFC on what the linkages advisory product line constitutes. Of the current 130 advisory projects in IFC with “linkage” in the name, fewer than half (61 projects for $44 million) fit the IFC SME Department’s narrower formal definition of a linkage project, which is linked to actual IFC investments. The evaluated PEP-ECA linkages projects were highly experimental and represented IFC’s first linkages experience; as such, they are not entirely comparable to new approaches taken by the SME Department. A majority (seven projects) of the 10 linkages projects did not achieve most intended outcomes or impacts (see table 3.2); however, two of the three positive projects achieved excellent ratings. Only one linkage project (in Ukraine) took on a broad sector approach, including policy reform, broad public outreach and dissemination, among others, and was highly successful. Despite its success, however, the project design has not been broadly replicated. Instead, most PEP-ECA linkages projects evaluated attempted to capture, in some form or another, aspects of a very successful supply chain linkage project with an IFC investee company in the Russian Federation, yet attempts to replicate its various features repeatedly yielded less than satisfactory results. The complex PEP-ECA linkages project designs relied on partner commitment, yet incentive alignment was often inadequate. Underdelivery of ambitious work programs lowered ratings. Linkages projects did not always leverage IFC’s inherent strengths and comparative advantages or maximize opportunities to add value.
Although small project scale limited impacts at the country level, PEP-ECA contributed to improving business climates in specific areas of its interventions and supported increased private investments.

The IEG-IFC evaluations concluded that PEP-ECA had an impact on improving investment climates in selected niches. This was especially the case in countries in which the governments demonstrated willingness to introduce reforms in these areas, particularly in Georgia, Kazakhstan, Russian Federation, and Ukraine. The upcoming IEG-IFC evaluation of IFC’s activities in Ukraine confirms that IFC advisory work in Ukraine, despite its overall small amount, filled a relevant and visible niche in improving business investment climate. Nevertheless, it takes time to implement the broad and challenging task of improving investment climates and to detect tangible results. Per the 2005 World Development Report on investment climate (World Bank 2004), “improving investment climates is not an event, but an ongoing process of policy adjustments and fine-tuning across a wide domain. Policies need regular review to reflect changes in conduct of business and lessons from ongoing experience. Michael Porter has suggested that investment climate reforms are a marathon, not a sprint, but even that assessment may understate the task.”

More specifically, the majority of projects (21 of 34) had generally successful components addressing shortcomings in the legal and regulatory framework (see table 3.2). The general success of most of these components, particularly notable in leasing and business enabling environment projects, provides evidence of positive contributions made by individual PEP-ECA projects to improving investment climate conditions. IEG evaluations confirmed that PEP-ECA project-supported legal reform initiatives (outcomes) were implemented, at least to some extent, in the following countries:

- Armenia (leasing and some corporate governance reforms);
- Georgia (leasing, corporate governance, and general BEE reforms);
- Kazakhstan (leasing reforms);
- Kyrgyz Republic (microfinance and leasing reforms);
- Russian Federation (leasing reforms);
- Tajikistan (reforms in the areas of general BEE, microfinance, and leasing);
- Ukraine (several reforms in the areas of general BEE, corporate governance, land, and leasing);
- Uzbekistan (inspections streamlining and leasing legislation).

Using aggregate PEP-ECA data on the legislative reforms that its projects proposed and supported, PEP-ECA estimated that governments adopted more than 150 acts or amendments of various importance up to June 2005. For IEG-evaluated projects only, IEG confirmed that at least 123 acts or amendments were adopted by governments and broadly attributable to the projects. Table 3.3 summarizes some related impact achievements of these legislative and other outcome achievements observed in the IEG evaluation.

Most PEP-ECA projects were small in comparison with the significant flow of donor funding to the region. Given the overall small size of the PEP-ECA program relative to the multitude of factors influencing policy and investment decisions, including a crowded playing field of donors, PEP-ECA’s role was arguably small at the overall country level. As mentioned in chapter 2, the overall aid flows to CIS countries during the calendar years of 2000–04 were about $3.5 billion a year, whereas PEP-ECA’s average expenditures were only about $12.4 million a year in FY 2001–06 (World Bank 2006b and 2006c). In Ukraine, for example, IFC’s activities accounted for only 1 percent of the overall volume of the donor-funded advisory operations in calendar years 1993–2004. Some of this donor assistance was concentrated in areas in which PEP-ECA was active, such as business enabling environment...
### Table 3.3. Examples of PEP-ECA Impact by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>Total project volume (millions of dollars)</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>0.7</td>
<td>Despite inadequate results from an IEG survey, only one company surveyed attributed increased investment attractiveness to improved corporate governance practices associated with IFC's project. Evidence of qualitative impacts was also minimal: some companies surveyed claimed that improved corporate governance led to a better decision-making process, and only a few reported reduced conflicts within the company and enhanced company reputation. Growth in Armenia's leasing volume was partly attributable to the project's advisory role in improving the leasing framework.</td>
</tr>
<tr>
<td>Belarus</td>
<td>1.9</td>
<td>Modest reform initiatives resulting from a PEP-ECA project did not translate into important investment climate improvements. Lack of government commitment and a donor-imposed ban on government involvement weakened the potential to achieve expected results. The PEP-ECA project helped local business associations attract new members, raise revenues, and lobby national and local governments on reforms, but it was not successful in improving the overall business climate in Belarus, the main project component.</td>
</tr>
<tr>
<td>Georgia</td>
<td>4.4</td>
<td>The leasing market grew from $3 million in 2004 to $7 million in 2005. Although this growth was largely attributable to the project's successful reform and training efforts, the overall importance of leasing was still minimal. Few impacts are observable to date in the BEE and corporate governance components of the project, given the project's recent closure.</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>2.6</td>
<td>The leasing market increased from $85 million in 2003 to $200 million in 2004, which was strongly attributable to PEP-ECA project–motivated changes.</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>0.6</td>
<td>Despite a successful leasing reform initiative, the increase in leasing volume was negligible. In contrast, microfinance lending volume grew, which was attributable to project-supported amendments made in the legal and regulatory framework to support microfinance.</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>28.6</td>
<td>The leasing market grew from $500 million in 1997 to an estimated $5–$6 billion in 2005, although not all of this growth was attributable to the three Russian Federation leasing projects. Some clients of the corporate governance project reported a total of $282 million in increased investments directly attributable to project-supported improvements in corporate governance practices. A supply chain linkage project in the Russian Federation that linked a major yogurt producer (and IFC investee company) to local milk producers successfully increased the quality and quantity of local milk production in that region. The project led to high benefits for dairy farms, and some had important impacts on the local economy. PEP-ECA also supported increased investment in the forestry sector, and other, more modest investments were made in association with various linkages projects.</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>4.3</td>
<td>Despite a successful leasing reform initiative, the increase in leasing volume was negligible. In contrast, microfinance lending volume grew, and this growth was attributable to project-supported amendments made in the legal and regulatory framework to support microfinance. Intended impacts were only partly achieved in an effort to support cotton farmers in rural areas: the farmer-owned service company established attracted funding from donors, yet the company is not yet sustainable.</td>
</tr>
</tbody>
</table>
| Ukraine            | 17.3                                       | Changes under the BEE projects in the area of taxation, licensing, and leasing resulted in a decrease of the cost of doing business for SMEs and helped promote growth. Clients attributed increased investment of about $69 million to improved corporate governance brought by PEP-ECA projects. Among the qualitative impacts of corporate governance projects, companies reported improved decision-making processes, enhanced conflict resolution processes between the Board and management of the company, and stronger company position due to improved corporate governance policies and practices. The impacts of direct assistance to SMEs were modest: six of 11 business centers were sustainable on a
analysis and reform, access to finance initiatives, and microfinance. In many of its projects, PEP-ECA teams either partnered directly through some form of cofinancing, such as with the U.S. Agency for International Development on the Central Asia microfinance projects, or coordinated with donors in areas of potential overlap to leverage each other’s work to achieve shared desired outcomes and impacts. In other areas, donors undertook significant initiatives on their own accord, each one in pursuit of achieving its own target objectives to move reform and development agendas forward in their own way.

Despite the difficulty of attributing country improvements to PEP-ECA project activity, the evidence nonetheless suggested that most of the projects evaluated contributed to one or more of the three PEP-ECA objectives (improve investment climate, promote private investment, and facilitate SME growth and development). The fact that PEP-ECA was a relatively small player also confirms its strategy to focus on what it can achieve and let other, larger, and more programmatic development entities, such as the World Bank, respond to larger-scale reform agendas (such as customs administration reform and reform of court systems).

Given their small size, the PEP-ECA projects would arguably have had limited influence on the countries’ overall investment climate improvements,

<table>
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<tr>
<th>Country</th>
<th>Total project volume (millions of dollars)</th>
<th>Impact</th>
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<tbody>
<tr>
<td>Uzbekistan</td>
<td>1.9</td>
<td>Leasing volume increased from about $3 million in 2001 to $45 million in 2005. Although this growth was largely attributable to the project’s reform efforts, it was still small compared with potential growth, which was severely limited by the large state presence in the economy. BEE project-supported reforms helped reduce the number and duration of inspections for SMEs, which translated into important savings for entrepreneurs. Although the overall impact on the country’s business environment was not significantly large at the national level, the two Uzbekistan projects demonstrated that constant engagement of the government in policy dialogue, particularly in less politicized areas, can help motivate small reforms and generate results. A project to train local consultants of a state-owned SME consulting enterprise might have helped PEP-ECA to establish a presence in Uzbekistan and build a working relationship with the government; however, the project did not achieve the expected outcomes and impacts. The impact of this microfinance initiative was limited due mainly to the lack of related reform implementation.</td>
</tr>
</tbody>
</table>

Source: IFC.
as measured through standard investment climate indicators. A general trend existed in CIS countries to undertake reforms and improve climates during the period in which evaluated PEP-ECA projects were active. As a region, the CIS compared relatively well with other regions in terms of improving investment climates. Yet the pace and degree of improvement varied from country to country from 1998 to 2005, although some countries went back and forth. Improvements in investment climate conditions were most notable according to the Institutional Investor Country Credit Risk Rating indicator, which is typically more volatile than the Heritage and International Country Risk Guide indicators (see appendix E). According to the latter two indicators, improvements were less notable; lower middle-income CIS countries showed an upward, yet modest improvement in Heritage scores from 2001.

A general willingness to undertake reforms and improve investment climates on behalf of many client countries helped to support positive PEP-ECA project results and achievements. Receptive and reform-minded governments were an important factor in project success. Although not all CIS countries and governments had high levels of commitment to reform in specific PEP-ECA project areas, the general willingness (which was occasionally strengthened by strong PEP-ECA project implementation teams) to undertake measures to improve investment climates supported more positive outcomes. For example, in the report Doing Business 2007 (World Bank 2006a), nearly all CIS countries improved at least one indicator, except for Uzbekistan and Tajikistan. Georgia was the top Doing Business reformer, jumping to 37th place from 112th the previous year.

Despite efforts and progress made to improve investment climates, the bulk of CIS countries still lag behind and are in need of reform. For example, eight of the 11 CIS countries included in Doing Business rankings are in the lower half of all countries ranked. According to the Wall Street Journal/Heritage Freedom indicator, only Armenia, Georgia, and Kyrgyz Republic received scores less than 3, suggesting policies and regulations are “mostly free,” whereas all other CIS countries covered under PEP-ECA fell in the 3 or 4 range, indicating “mostly unfree” or repressed policies and economies. In the middle-income CIS country group, administrative barriers dominate obstacles to business operations and investment, such as cumbersome licensing and permit requirements, burdensome tax administrations, and inefficient regulation. In the low-income CIS country group, the constraints to investment are more basic—from deficient infrastructure to underdeveloped market institutions (Rutkowski and Scarpetta 2005).

**PEP-ECA projects supported or facilitated increased private investment.** A majority of the projects evaluated (22 of 34) attempted to support or facilitate direct private (local and foreign) investment in some form. For example, supply chain linkages projects might have worked with suppliers to encourage them to make investments to improve production and quality of supplies, or business development linkages projects might have supported investment in the forestry sector through provision of information and analysis of markets of wood suppliers. Financial markets projects might have promoted new direct investment in leasing companies, microfinance institutions, or banks, either directly with IFC investment or indirectly by promoting reforms needed to spur sector investment. Corporate governance projects might have promoted increased levels (or improved terms) of direct investments (loans and/or equity) as a result of improved corporate governance practices. IEG project evaluations indicated that most of this occurred in the Russian Federation, followed by Kazakhstan and Ukraine and more modest levels in Armenia, Georgia, Kyrgyz Republic, and Tajikistan. PEP-ECA aggregate data put project-supported private investments at nearly $900 million; whereas IEG estimated the level of private investment supported by the projects it evaluated at about $810 million. Evaluation findings suggested that many of these investments might have happened without advisory projects; yet in most cases, the advisory projects did help facilitate or speed up investments:
• **Linkages projects.** These projects, which were intended to promote investment in key sectors (forestry; information, communication, and technology; agribusiness; and industry), succeeded in supporting private investment to varying degrees. Attribution of increased investment to advisory projects was high in a few cases; yet according to clients and stakeholders interviewed, several of these investments probably would have taken place absent the advisory project.

• **Financial markets projects.** These projects facilitated new private investment, including many IFC investments in leasing, microfinance, and banking sectors in Armenia, Georgia, Kazakhstan, Russian Federation, and to some extent, Uzbekistan, and promoted on-lending to SMEs. In some instances, such as microfinance in Central Asian countries and leasing in Kazakhstan, new legislation and implementation of project-supported reforms (outcomes) were instrumental in creating new investment. In other instances, such as leasing in the Russian Federation, the sector was growing and IFC’s advisory project helped add momentum to the trend. As such, increased investments can only be partly attributed to the advisory project.

• **Corporate governance projects.** These projects helped enhance the investment attractiveness of some client companies in the Russian Federation and Ukraine, even though improved corporate governance practices is only one of many factors that influenced investment decisions.

**PEP-ECA’s impact on promoting small and medium enterprise growth and development was not clear.**

PEP-ECA devoted fewer resources than other regional advisory facilities to supporting SMEs. As mentioned in chapter 2, PEP-ECA supported SMEs directly through capacity building and indirectly through business enabling initiatives to remove obstacles for SME growth and development and by increasing their access to finance. The diminishing importance of SME development occurred as PEP-ECA management realized that there had been lackluster results and limited relations between these projects and the IFC investment side. During the period of evaluation, PEP-ECA altered its approach by emphasizing SME development more through its BEE and financial intermediary projects. IEG’s evaluation findings for SME development confirmed PEP-ECA’s decision to redirect emphasis from business service development (a direct approach) to financial intermediaries and BEE (an indirect approach), even though measuring actual impact on SMEs suffered from inadequate data. In contrast, IEG findings of linkages projects did not demonstrate much contribution to SME development.

**Direct efforts** to support SME development and growth included four SME development projects in Belarus, Ukraine, and Uzbekistan to introduce business consulting and information services and four linkages projects in the Russian Federation to support SMEs in the automotive, furniture, forestry, and information, communication, and technology sectors. Aside from being few in number, the bulk of these projects did not have high success rates. Also, information on the extent to which SMEs may have benefited from these projects was limited due to lack of appropriate indicators or limited response and follow-up.

**Indirect efforts** to support SMEs—through access to finance via financial intermediaries and BEE reforms intended to remove obstacles to SMEs—showed more promising results. Financial markets advisory projects were largely successful in introducing new financial instruments, such as leasing in the Russian Federation and Central Asia. Despite lack of data on the impact of these projects on SMEs, evidence suggested that SMEs did benefit from increased leasing volumes. Advisory work to improve the legal and regulatory framework for microfinance lending in Central Asia also contributed to boosting microfinance lending in the Kyrgyz Republic and Tajikistan. Advisory projects supported IFC investments in three small commercial banks in the Russian Federation, and institution building resulted in strengthening two of the banks, helping improve transparency, efficiency, and integrity.
and increasing their lending capacity to the SME sector. Similarly, the upcoming IEG study evaluating IFC experience with financial institutions supporting SMEs concluded that Advisory Services to financial institutions oriented to SMEs and microfinance were quite successful. Despite these overall positive results, this study was unable to collect complete data to prove PEP-ECA’s indirect impact on SMEs at the project or country level. As discussed in more detail in the product line summary above, BEE projects focused on removing obstacles to SME growth and were generally successful in terms of achieving intended legal and regulatory reform objectives; the evidence suggested that reductions in the cost and burden on SMEs were achieved in several projects. Yet attribution of the streamlining of administrative barriers on overall SME growth was not straightforward and depended on many external factors; therefore, IEG evaluations could not fully assess the impact on SME growth. Nonetheless, ample World Bank and academic research suggests that removal of administrative barriers encourages formalization of SMEs and helps reduce costs (time and money) associated with doing business, hence, enhancing profitability and growth.22

In conclusion, PEP-ECA delivered a largely successful program with IFC work quality and client commitments as the main drivers of project success. Although PEP-ECA’s contributions were too small to have discernible impacts at the broad country level, they helped improve business climates in their specific and focused areas of intervention . . .”
Program Management and Execution

The product line approach enabled specialization and efficiencies, yet it did not always result in adequate tailoring to meet specific country development needs and posed challenges in terms of staffing and access to expertise.

Although PEP-ECA’s structure reflected investment priorities, the program’s ongoing strategy formulation and project implementation were not systematically integrated with IFC’s investment side. Similarly, cooperation with other parts of the World Bank Group was largely informal. Greater synergies and results were not always achieved.

PEP-ECA’s management structure and project focus have been key to the development and implementation of its strategy.

What set PEP-ECA Advisory Services strategy apart from other regional advisory facilities (particularly project development facilities) in addressing its objectives were (a) its management structure in the field, (b) core product line specialization, (c) focus on developing replicable projects using a standard product design, (d) staff hiring on a project-by-project basis, (e) long-term projects with a focus on achieving specific expected results, (f) reliance on a dedicated team staffed with high-quality local professionals for project implementation, and (g) project-level evaluations.

IFC’s Central and Eastern Europe Department, headquartered in Moscow, manages PEP-ECA. Staff include a general manager, senior operations managers to handle donor relations and oversee development and management of project portfolios, a decentralized human resource unit, a dedicated financial accounting and budget officer, and information technology support (see appendix C for the current PEP-ECA organizational chart).

The specialized PEP-ECA management structure rests now on the following core product lines: (a) financial markets (leasing, microfinance, insurance, banking, and energy efficiency), (b) housing finance, (c) business enabling environment, including SME policy, (d) linkages, (e) corporate governance, and (f) agribusiness and forestry.

Senior operations managers are responsible for new project development in their core areas and in related experimental areas. They focus on replicating earlier successful project models within a country or in other countries, with some experimentation in new areas to meet the
transitional development needs of the region. Product development is an ongoing process, in which new products are designed (e.g., housing finance), whereas others are tested (e.g., linkages) and others are rolled out (e.g., leasing and SME survey and policy). Final project selection is a function of donor willingness to fund a project.

PEP-ECA projects—on average smaller than privatization advisory projects of the past decade—have ranged in size from $150,000 to $4 million and employ an average of 10 staff during a two- to three-year project life, the time required to introduce legislative reforms and bring about organizational or behavioral changes needed for sustainable outcomes to occur.

Most PEP-ECA advisory projects have generally comprised three core components: (a) a targeted reform agenda, (b) information dissemination, and (c) training and capacity building:

- **Targeted reform agenda.** The intention behind this component is to improve investment climates and conditions for private sector investment. PEP-ECA typically conducts a diagnostic survey, analyzes legal and regulatory frameworks, and formulates recommended actions for reform. Once a sector assessment is performed, stakeholders, including local private sector participants, government officials, and representatives of other donors (bilateral or multilateral) are engaged in a dialogue for reform. Notwithstanding the strong emphasis on reforms, PEP-ECA has not required formal government commitment to this reform as a prerequisite to developing projects. Rather, through active engagement, advocacy, and lobbying of other stakeholders and wide-reaching public information dissemination, PEP-ECA’s strategy has been to build consensus and local support for needed reforms.

- **Information dissemination, public education, and awareness raising.** This component is carried out through roundtables, media events, and publications and is intended to inform key stakeholders, including government officials, experts, relevant private sector participants, and media. Broad public relations campaigns in local languages have helped PEP-ECA to meet its main objectives, including raising interest and support for the reform agenda. PEP-ECA’s massive communication efforts have been an effective means of promoting reforms, changes in firm practices, and subsequent project achievements. PEP-ECA has also been effective at articulating results to its most immediate stakeholders: the donors. These efforts have all contributed to building a strong IFC Advisory Services brand for the region.

- **Training and capacity building.** This component is delivered through different channels, including local universities, business development centers, and investor associations, and directly to firms, especially in the leasing and corporate governance lines. The intention behind such activities is to build local capacity, both in the individual sector (such as leasing finance) and among local service providers (such as leasing consulting and tax advisory firms). To enhance the likelihood of sustainable outcomes, PEP-ECA often attempts to implement project exit strategies by transferring project documents, activities, and other essential training materials (e.g., leasing or corporate governance handbooks) to local partners and clients.

A focus on core product lines helped build expertise and promote consistency and efficiencies, but insufficient product line adaptation to specific country conditions limited PEP-ECA’s potential effectiveness.

This evaluation found that pursuing core product lines has helped PEP-ECA to centralize and build internal expertise and knowledge and promote consistency across projects in the same product line. A set of standard product designs also allowed senior operations managers to pull together project proposals relatively quickly, including components, budget, M&E, and so on, for replication in other countries. As such, centralized internal expertise and standard product rollouts brought project development efficiencies.
Project-level evaluations provided some evidence of learning within each product area. Core area project models evolved over time to improve design, work program, type of activity, and M&E framework and measurement. This learning and knowledge management evolution was, however, mostly informal and ad hoc. For example, senior operations managers promoted staff exchanges to share information and good practices across projects in each product area and, where possible, reassigned experienced staff from one project to another when the timing of project closure and launch enabled smooth transitions. Leasing is the only product area in which PEP-ECA developed formal learning instruments; the basis for the leasing project manager's handbook and manual was experience gained and lessons learned after implementation of several leasing projects.

Replication of product line initiatives tended to be the driving force behind new project development, rather than individual country-level needs. Senior staff took brief needs assessment trips to assess appropriateness of new projects. PEP-ECA's approach of broad assessments and loose project parameters was made to support cost-effectiveness objectives, given the limited resources available for project development and preparation. Projects were launched with the intention that project staff, once hired, would make necessary country adjustments. Yet as discussed in chapter 3, these broad assessments were not always thorough enough to prepare or sufficient to tailor PEP-ECA projects adequately to country-specific needs and conditions before project launch, and project teams were not always able to overcome shortcomings in project preparation during project implementation. Although in many instances these projects were still strategically relevant for the country, they nonetheless may not have fully reached their potential in terms of achieving impact and development results, had they been more country adjusted from the onset.

Better balance is warranted between the product line rollout and country needs focus to achieve greater potential development results. For example, a project developed and successfully delivered in the Russian Federation may not be appropriate for the Kyrgyz Republic (see box 4.1). Even with fine-tuning expected during implementation, some fundamental structure and sequencing aspects may need to differ to yield greater impacts in the local environment. This is not to say that significant resources should be spent to develop highly specific projects before approvals are obtained. This evaluation's evidence indicated, however, that more thorough front-end assessment and preparation before project

**Box 4.1. Project Rollout Needs to be Adapted to Local Country Conditions**

Based on the leasing project model developed in the Russian Federation, regional rollouts of the Ural and Northwest Russian leasing projects were largely appropriate; whereas preparation for a leasing project in Central Asia received a partly unsatisfactory rating, given shortcomings in front-end work and adaptation of the standard model to country-specific conditions.

Macroeconomic and financial sector issues were among the main impediments to leasing development in Central Asia, especially in the Kyrgyz Republic and Tajikistan. Yet initial studies and analysis did not discuss the impact of these shortcomings on potential leasing market growth. This precluded a Central Asia leasing project from adapting a work program that might have been better suited for the political and economic local market conditions.

PEP-ECA might have more effectively designed the advisory project in Central Asia to enhance the potential impact and penetration of leasing by, for example, directly addressing, where possible, some of the precondition constraints first and initiating collaborative efforts with the World Bank or other donors active in areas where PEP-ECA had little or no experience or expertise.

“Product line specialization improved overall standard project design and efficiency, but insufficient needs assessments and product line adaptation to specific country conditions limited potential effectiveness.”
launch could make project designs, sequencing, and objectives more appropriate for country conditions and hence enhance development effectiveness results. Moreover, a more thorough project preparation should also involve more strategic integration and planning of advisory programs and IFC investment strategies at the country level in an effort to leverage IFC’s investment and advisory tools better to deliver higher potential impacts to client countries.

Despite IFC’s regional investment strategy driving the initial PEP-ECA structure, advisory projects were largely developed and carried out independently of investment staff and expertise, diminishing potential synergies.

PEP-ECA’s mixed experience in integrating IFC Advisory Services and investments in a more strategically coherent and complementary way highlights the challenges inherent in development work of this nature. The PEP-ECA experience represented IFC’s first attempt to integrate Advisory Services and investment; with no previous experiences from which to learn, PEP-ECA’s management was experimenting.2 During the creation of PEP-ECA, an IFC investment manager was put in charge of developing the advisory program and the product areas chosen were designed to mirror the investment side, which placed a strategic emphasis on investing in financial markets, agribusiness, and industry. For example, leasing was defined as a key area of strategic relevance, given that IFC wished to invest in leasing to support SME access to finance in the region. Improving corporate governance in the region was also a priority for the IFC investment side, given the unique problems posed by overnight creation of hundreds of thousands of shareholders following the privatizations in the Russian Federation and Ukraine. Linkages advisory projects attempted to work with suppliers to improve quality and increase volumes to meet the needs of large agricultural or industrial multinational firms (preferably IFC investee companies). Business enabling environment projects helped IFC to maintain a presence and contributed to the private sector development and SME agenda in countries where IFC investment portfolios were small and/or investments prospects limited.

Although IFC’s investment strategy was expected to drive the regional Advisory Services strategy, this was not done, going forward, in a systematic way across the board. Particularly in the early years of PEP-ECA, IFC investment volumes were not sufficient to provide opportunities for a truly systematic integration of advisory and investment projects. Another important contributing factor appears to stem from the fact that ongoing updates and revisions of IFC regional and country investment strategies were usually formulated by senior investment staff and managers with the support of regional strategists, whereas PEP-ECA senior operations managers developed advisory projects in terms of their potential to replicate core area projects and/or undertake new experimental projects, and on approval of donor support for proposed initiatives. As such, advisory projects ended up being largely developed and delivered independently of IFC’s investment strategies and sector expertise. Managers and staff interviewed for this evaluation on both investment and advisory sides sent consistent messages regarding shortcomings with respect to delivering a more integrated strategy and program.

Similarly, very few advisory projects successfully tapped IFC investment staff expertise, and vice versa. At the project level, the evaluation did not find many successful cases in which IFC investment expertise (staff) contributed and added value to the advisory project during project development, structuring, or implementation. This goes beyond evidence of an occasional dialogue with investment officers and refers more to tapping the knowledge and expertise of technical (industry) staff or higher-level investment staff with expertise in a given area (e.g., agribusiness or financial markets specialists). Among the exceptions were a linkage project to promote energy-efficient production among suppliers of a multinational client, which brought IFC environmental specialists on board to conduct company-level audits and make recommendations to client suppliers, and a leasing project done in
Central Asia where investment and advisory staff worked closely together to develop a regional investment facility and follow-up advisory package. As in most other instances, opportunities for tapping IFC expertise from investment and specialist departments were not effectively and systematically pursued. This is a challenge facing many IFC advisory initiatives and projects, and it becomes particularly relevant if IFC seeks to bring its investment and industry expertise to the advisory side as part of its comparative advantage over other providers of Advisory Services. Box 4.2 later in this chapter presents good practice examples where, in addition to having a truly integrated strategy to developing a sector, investment-side specialists were part of the process of formulating, structuring, and implementing the advisory project.

Achieving synergies with IFC’s investment side, that is, tapping expertise and integrating IFC’s instruments more systematically and strategically, could enhance development effectiveness and strategic relevance. To achieve this objective, PEP-ECA envisioned integrating Advisory Services and investments in three ways:

• **Pre-emptive.** IFC investment is difficult; therefore, advisory activities maintain an in-country presence, while driving improvements in the investment climate and enabling environment for SMEs.

• **Pre-investment.** The intention behind advisory activities is to build an investment client base through leasing interventions, corporate governance, and supply chain linkages.

• **Post-investment.** Advisory Services are designed to support IFC’s investments with client companies through activities such as housing finance and supply chain linkages.

The IEG evaluation found, however, that PEP-ECA had a mixed experience in integrating Advisory Services and IFC investments. This is somewhat understandable, given the lack of integration of staff working on Advisory Services and investments, different project cycle lead times for investments, lack of previous experience in integrating Advisory Services and investments, and previous IFC emphasis on investment projects. In addition, the development of advisory projects has been closely tied to donor criteria due to reliance on outside funding. Although IFC has a lengthy track record of successful emerging market investments, Advisory Services are a relatively new product and the strategic integration of Advisory Services with investments is still evolving.

The *pre-emptive approach* to integrating Advisory Services with IFC investments was the least direct among projects evaluated. Reform agendas pursued in BEE projects typically focused on elimination or reduction of administrative barriers (mostly permits and inspections) for SMEs that were not associated with IFC investments, nor did such activities appear to affect IFC’s ability to invest. Instead, these projects explicitly promoted conditions for SME growth. Had the BEE projects addressed high-level priority constraints and obstacles for IFC investments more directly, the link might have been more tangible. For example, in Uzbekistan, a major constraint for IFC investments related more to the large state presence in the economy and lack of structural reform and privatization, not the burden of inspections. Likewise, PEP-ECA’s SME development advisory projects (business service development, SME toolkits, or business association support intended to build the capacity and bankability of SMEs) had no relationship with IFC investment. It might not have been possible or desirable to integrate SME development advisory projects with IFC investments, particularly in countries where IFC investment prospects were very limited, such as Belarus or Uzbekistan. This evaluation noted, however, that closer integration might have been achieved by linking IFC access to finance transactions (e.g., leasing and/or credit lines) more closely with advisory projects extending support services to SMEs, where feasible. Instead, as discussed above, PEP-ECA’s BEE strategy has been to maintain a presence in countries where IFC’s investment potential is low and to select focused reform initiatives in areas with high potential for success. It has not intended to focus on areas that would help pave the way for IFC investment, nor select reform
agendas with higher priority items that would be very difficult to change.

The pre-investment approach demonstrated a more direct and tangible relationship between Advisory Services and investment, yet results were mixed. The core product lines that attempted, in varying degrees, to integrate Advisory Services and investment directly included financial markets (leasing, microfinance, and local banks in which IFC intended to invest), corporate governance, and some linkages projects.

• Financial markets experience showed that strategic integration of Advisory Services and investment can occur when legislative reforms and market development precede attraction of capital.

Even though coordination between IFC advisory and investment staff was frequently ad hoc and informal, IFC investments followed successful leasing efforts in Armenia, Azerbaijan, Georgia, Kazakhstan, and Russian Federation. IFC investments emerged once advisory projects had successfully created an enabling environment conducive to leasing market penetration and expansion. In the Russian Federation, several IFC leasing investments followed successful advisory projects, and today IFC leasing investment commitments ($89.95 million) in the Russian Federation represent 33 percent of IFC’s total global leasing portfolio. In Armenia, IFC helped to set up the first leasing company with $270,000 in equity and a $2 million loan. In Georgia, IFC invested $3 million in one of the first leasing companies. More recently, advisory project–driven advances to the legal and regulatory framework in Central Asia led IFC to integrate Advisory Services and leasing investment in a more systematic fashion, whereby IFC established an investment facility to provide liquidity to the region, which now offers advice to potential lessees and lessors. Also in financial markets, three advisory projects in the Russian Federation supported three small banks, two of them regional, strengthening their systems and procedures to create best practice models and prepare these banks for IFC investments (accompanied by $9 million loans provided to these three banks to increase SME financing). IFC followed with subsequent investments for total funding provided to the three banks of $31.5 million as of FY 2006.

• Corporate governance projects did not evidence a clear and systematic link to IFC investments based on evaluation findings. Early projects in Ukraine and Armenia showed little coordination or integration between advisory and investment staff. More recent corporate governance projects in the Russian Federation and Ukraine and made more deliberate efforts to communicate and exchange client information, which helped support IFC investments worth $81 million in those countries. Similarly, a few IFC investment clients were invited to participate in corporate governance advisory projects.

• Nearly all PEP-ECA linkages projects attempted to integrate IFC investments into advisory projects in this group, at least at the design stage. Implementation, however, witnessed several projects that were de-linked or missed making the link due to a host of reasons, leaving few solid examples of successful integration. For this reason, this report has classified many linkages projects as pre-investment. Also, in the two access-to-finance agribusiness projects evaluated, advisory projects and investments were developed in parallel, whereby the advisory project played a strong role in establishing the new companies in which IFC was an investor. For the linkages group of projects, the objective of integrating Advisory Services and investments often took on a life of its own, because substantial institutional pressure was placed on finding successful models for linking Advisory Services and investments as a value-added business proposition to clients and to promote new innovative IFC investment structures designed to achieve development objectives. Despite the efforts made to link Advisory Services to IFC investments in these projects, of the eight linkages projects that explicitly attempted to make a link with an IFC investment, only three actually re-
sulted in achieving the link and only one of those that achieved the link (included in the following two paragraphs) had successful results.10

Three projects evaluated for this study fell under the post-investment category. One was a very successful supply chain project that has become a model across IFC. Another envisaged promoting a follow-up investment facility to implement energy efficiency programs in supplier companies, yet was largely unsuccessful, as major outcomes and impacts were not achieved and a follow-up IFC investment did not result. The third advisory project saw IFC’s investee company pull out of the advisory project before it was launched.

Despite the challenges of greater integration, it is also important to consider country conditions and how IFC’s investment strategy evolved in the region. As discussed in chapter 2, given the low volume and number of IFC’s investments in the CIS in the period following the Russian Federation financial crisis, PEP-ECA played a useful role in demonstrating IFC’s commitment to client countries, while building IFC’s understanding of investment barriers and opportunities. Similarly, IFC’s strategy attempted to reflect the different pace of development in different countries of the region. As such, the evolution of PEP-ECA’s role in complementing IFC investment business was substantially different in Belarus and the Caucasus than in the Russian Federation.

Sectorwide initiatives achieved higher development effectiveness ratings and wider impacts than projects designed to integrate Advisory Services with IFC investments at the individual transaction level.

PEP-ECA achieved higher development effectiveness results and a wider scope of impact through broader, sectorwide initiatives designed to promote overall private investment (including, but not exclusively, IFC investments) than through attempts to integrate Advisory Services and IFC investments at the transaction level (see table 4.1). Examples of such sectorwide projects include promoting corporate governance (Armenia, Georgia, Russian Federation, and Ukraine), leasing (Georgia, Kazakhstan, Kyrgyz Republic, Russian Federation, Tajikistan, and Uzbekistan), and agribusiness (Ukraine). This analysis included all advisory projects that explicitly intended to either result in an IFC investment or support a specific IFC investment (e.g., advisory projects to support financial intermediaries and linkages projects to strengthen

### Table 4.1. Comparison of Sectorwide and Transaction-Specific Results

<table>
<thead>
<tr>
<th>Rating dimension</th>
<th>Sectorwide</th>
<th>Transaction specific</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Of total of 11 projects</td>
<td>Of total of $20.8 million</td>
</tr>
<tr>
<td></td>
<td>% number millions of dollars</td>
<td>% number millions of dollars</td>
</tr>
<tr>
<td>Development effectiveness</td>
<td>91 10 20.3</td>
<td>30 3 23 1.5</td>
</tr>
<tr>
<td>IFC role and contribution</td>
<td>91 10 20.3</td>
<td>40 4 41 a 2.6</td>
</tr>
<tr>
<td>IFC work quality</td>
<td>82 9 18.0</td>
<td>40 4 35 2.3</td>
</tr>
</tbody>
</table>

Source: IEG data.

Note: Sector initiatives that at least have the indirect objective of promoting IFC investment included projects in corporate governance (Armenia, Georgia, Russian Federation, and Ukraine), leasing (Georgia, Kazakhstan, Kyrgyz Republic, Russian Federation, Tajikistan, and Uzbekistan), and agribusiness (Ukraine). Transaction-specific projects include seven linkages projects and three commercial bank advisory projects. The one successful linkage transaction-specific advisory project, Campina, was developed as a follow-up to an IFC land and farm privatization project; hence, although the advisory project was linked to an investment at the project level and treated as transaction specific, it was actually the outcome of an earlier sectorwide reform effort.

a. Percentage based on dollar figure before rounding.
supply chains for agricultural processors and large industrial multinationals). As such, project evaluation findings indicated that broader sector- or national-level approaches, including sector reform initiatives, had higher development effectiveness ratings than advisory projects that were initiated to support specific IFC investments (see table 4.1). Not only were project evaluation ratings higher in the former, but the scope of impact was wider and larger when the project served the needs of a broader base of beneficiaries, in contrast to impacts observed on the narrower set of beneficiaries typically involved in advisory projects supporting specific IFC investment transactions. For example, the impact of improved leasing legislation on overall leasing volumes growth affected many lessees, financial intermediaries, and suppliers of leasing equipment across the country. A successful linkages advisory project, however, might have had an impact on a handful of suppliers or, similarly, a bank advisory project might have benefited the bank, its shareholders, and part of the bank’s portfolio of sub-borrowers. This finding suggests that a strategic approach to promoting private investment (including but not limited to IFC investment) would yield greater development outcomes than emphasizing integration of Advisory Services and IFC investment predominantly at the transaction level.

Many practical obstacles to integrating Advisory Services and investments at the transaction level hindered achievement of better results. In addition to the several shortcomings of linkages projects discussed in chapter 3, additional practical aspects of IFC investments and advisory project cycles, staff, and incentives posed challenges:

- Investment and advisory staff incentives were not aligned, and common understanding of what form advisory projects should take was lacking (for example, to subsidize a deal compared with develop the sector).
- Tensions sometimes arose at the project level about whether advisory or investment staff should take the lead in managing relations with clients who were sponsors, or about different objectives and expectations of two IFC teams who were communicating separately and in parallel with the same company.
- Investment staff interviewed stressed the difficulty of “selling” a package of Advisory Services and investment, given their own strongly perceived lack of control and uncertainty on (a) their ability to deliver Advisory Services with donor funds, given the long lead time of one to two years before launch, for which investment staff cannot wait, (b) quality assurance of the services to be delivered, and (c) the cost of the Advisory Services.

Several IFC industry departments have had Advisory Services among their products and have used them occasionally for project preparation (feasibility studies or sector mapping). Other departments have offered Advisory Services on a stand-alone basis, such as by establishing a special program to provide Advisory Services separately from investment projects. Although IFC Corporate Advisory Services offers stand-alone advice to government clients, predominately in the infrastructure sector, IFC is making a concerted effort to follow up with IFC investment where possible and within existing conflict of interest management parameters. The Global Financial Markets Department in IFC has developed the most comprehensive approach for integrating Advisory Services and investment operations within a long-term sector development strategy. Examples of recent efforts to formulate and execute integrated Advisory Services sector reform objectives and IFC investment operations involve the Russian Federation housing finance market and provision of financing for energy efficiency improvements, also in the Russian Federation. These initiatives involve joint advisory and investment strategies, leveraging the expertise of specialists in industry departments and Advisory Services departments, to develop the target sectors (see box 4.2). A similar strategy and initiative have been implemented to develop leasing in Central Asia, in which an...
investment facility was set up to provide liquidity for leasing and the parallel advisory project intended to build capacity of local financial institutions. This joint project followed a major advisory project to improve the leasing enabling environment.

The latest Global Financial Markets Department initiatives to integrate Advisory Services and investment as complementary tools in long-term sector development strategies may provide a model for leveraging IFC’s strengths and enhancing impact. IFC’s new One Brand Strategy is intended to align IFC Advisory Services with investment operations to serve clients better and increase IFC’s impact on development. It is also intended to help IFC Advisory Services to stand out in the market and leverage the connection with IFC and the World Bank.

As part of IFC’s recent initiative to set out key principles for Advisory Services and develop five core product lines, IFC management has brought in investment staff to serve on each product line committee (as either head or advisor) for cross-fertilization as a more strategic approach to developing the Advisory Services business.

**Not all advisory projects should be linked to discrete IFC investments.** In some country or sector situations, however, a more strategic and complementary approach to developing IFC business could reveal obvious synergies that promote better development outcomes. Similar to the approach taken by the Global Financial Markets Department, other IFC industry departments might benefit from a more integrated and strategic utilization of IFC advisory and investment tools within the context of IFC’s long-term country and sector strategies. Part of the challenge for management will be to provide clarity surrounding the parameters of IFC advisory strategy and its relationship with investment in its various forms and product lines to

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**Box 4.2. The Case of Primary Mortgage Market Development in the Russian Federation**

In FY 2004, PEP-ECA, the Central and Eastern Europe Department, and the Global Financial Markets Department adopted a comprehensive approach to development of the housing mortgage market in the Russian Federation by combining advisory and investment activities. The Swiss State Secretariat for Economic Affairs, the Dutch Government, and IFC funded an advisory program (FY 2004–07) of $3.3 million, which PEP-ECA manages. Its purpose is to define operating standards and provide training and implementation support to partner banks in an effort to develop and grow the primary housing mortgage market in the Russian Federation. IFC, through PEP-ECA, contributed an additional $0.7 million, equivalent to 22 percent of the $3.3 million contributed by donors, as an in-kind contribution, providing management and administrative support for the project.

The project contained three main components:

- Improving the enabling environment through diagnostic studies and recommendations for improving mortgage-related legislation, standardizing title search and mortgage registration in pilot regions, as well as lobbying, training, and consulting with local authorities.
- Building origination processing standards and infrastructure with the three to five Russian Federation pilot banks by developing standard mortgage products, establishing standardized mortgage underwriting documentation, developing standardized mortgage servicing processes and appropriate back office and middle office procedures, as well as reviewing internal audits and controls.
- Disseminating information and best practices through seminars and workshops; knowledge sharing with the Home Mortgage Lending Agency and potential mortgage clients, and consulting with local businesses; ads in media; and public awareness campaigns.

To complement the advisory and watchdog function of the Advisory Services, IFC credit lines of about $25–$50 million provided affordable mortgages for renovation of existing and construction of new houses for potential home buyers, initially in dollars, but now also available in Russian Federation rubles. This program provides an opportunity for the pilot banks to introduce new retail products to the market and help them diversify their business risks. With an average mortgage size of $15,000, the IFC credit lines are expected to reach 1,700 to 3,300 families.
staff. For example, at the sector level, scope may exist for better integration of strategy, expertise, and perhaps business development, similar to the Global Financial Markets Department experience. For linkages projects, the role of Advisory Services should be made more explicit than before with more enhanced mode of delivery (quicker access to funding, assured quality of services provided, ability to pass a market test, and so on). Strategies and parameters should be better communicated to staff on both investment and Advisory Services sides, and appropriate incentives should be developed to reward achievement of better results and more efficiency through such integration effort.

In addition, IFC management and systems need to ensure that both perceived and potential conflicts of interest are properly managed. Although no serious concerns related to conflict of interest emerged during the course of this evaluation, the possibility of either real or perceived conflict of interest of IFC as an investor and advisor certainly exists. IFC has in place a robust conflict of interest framework, which is based on international best practice; yet as highlighted in an internal IEG investment climate report, the challenge facing IFC is to ensure that the framework is being consistently applied to all advisory and investment projects pursued.

Efforts to cooperate with the World Bank were ad hoc, varied in their degree of success, and did not always achieve desired results.

PEP-ECA cooperation with other parts of the World Bank Group was often based on pre-existing relationships, that is, not formally planned or carried out on a program or institutional level. The degree of cooperation (from coordination to collaboration) varied by country and by project, as some projects had more incentive and need to collaborate or potential for overlap in terms of mandate than others. As such, projects that focused on pursuing reforms with government counterparts attempted to cooperate with World Bank counterparts more than those that focused mostly on serving the needs of private sector entities. In some cases, a very good division of labor, handoff, and collaboration existed between IFC and World Bank staff; in other cases, overlap and even competition existed between initiatives of the two institutions, creating confusion and even frustration among government officials. In still other cases, IFC and World Bank staff interacted only minimally.

For the most part, cooperation with other donors operating to support private sector development in client countries was similar in nature to cooperation with the World Bank. Institutional relations between IFC and the World Bank were slightly more formal, particularly in the presence of reform and country dialogue with government officials.

Project-level evaluations explored various aspects of cooperation—both coordination and collaboration—between IFC and the World Bank, including the Foreign Investment Advisory Service (FIAS), as well as with other donors by product line, summarized as follows:

- **Business enabling environment projects, as would be expected, typically demonstrated higher levels of coordination and collaboration across the World Bank and with donors in general.** Given their emphasis on broad policy and reform as well as on relations with government officials (predominately the World Bank clients), these projects were marked by wider scope for cooperation with the World Bank, particularly regional staff working in country offices and in private sector development (including FIAS staff in countries where active). As such, PEP-ECA project staff frequently sought to benefit from the World Bank’s close contacts with government counterparts and leading role in conducting country dialogue for reforms, but the level of interaction often reflected the World Bank’s private sector development agenda. Where the World Bank was not active, the Bank officials interviewed were glad to have IFC actively promoting changes in a given area. Where
the World Bank was lending, IFC tried to use conditionality of the World Bank projects as a vehicle for cooperation, which was well received by the Bank staff. Many BEE projects had M&E outcome objectives and targets based on inclusion of achievement of specific legislative changes or reforms as the World Bank project conditionality. Box 4.3 summarizes examples of BEE project coordination and collaboration by country.

- **Corporate governance projects showed mixed experiences regarding cooperation with World Bank counterparts.** In all four countries where PEP-ECA implemented such projects, the World Bank country team advised on corporate governance-related legislation. Despite efforts to work together, different institutional incentives thwarted desired results. For example, in Armenia and Ukraine, World Bank and IFC teams agreed to include passage of company laws to support improved corporate governance practices and standards as a condition of a World Bank project loan. Yet despite this shared objective and efforts to coordinate and collaborate, the fruits of these efforts were largely disappointing from the IFC perspective; actual legislative changes led to little or no substantive improvements in legal and regulatory framework.

- **Leasing projects had some contact with the World Bank and the International Monetary Fund staff regarding IFC's recommended legislative changes, particularly on tax treatment and related implications.** Yet beyond this, staff interaction was limited only to occasional updates on project activities. One major exception was leasing project staff in Kazakhstan, who worked jointly and coordinated quite closely with World Bank staff.

- **Linkages projects demonstrated very little interaction with World Bank counterparts.** Primary project clients and stakeholders were typically private sector entities (large multinationals, farmers, or SME supplier companies), and few of these projects had policy reform components. For these projects, the need to cooperate with the World Bank was less evident. The evaluation also found an overlap in mandates between PEP-ECA and FIAS to promote foreign direct investment. A
couple of PEP-ECA linkages projects involved promoting foreign investment in the Russian Federation working with a foreign investment promotion organization; yet no cooperation with FIAS or attempts to tap into its expertise were observed in these projects.

Overall, IFC Advisory Services were valued as part of World Bank Group efforts to advance a country’s private sector development agenda; yet practical aspects of cooperation resulted in lost opportunities. Several World Bank staff interviewed for this evaluation expressed mixed views on cooperation with PEP-ECA, and IFC in general. On one hand, Bank staff interviewed saw genuine value in the role of IFC as a partner providing Advisory Services and encouraged IFC to contribute to advancing the private sector agendas in client countries. On the other hand, Bank staff did express frustration with the lack of a country-level counterpart within IFC for effective planning purposes. Cooperation between the World Bank and IFC at the country level for planning and developing the country assistance strategy was typically done through IFC staff at headquarters, not the PEP-ECA project or IFC field office staff. Yet depending on the topic, a multitude of IFC staff existed with whom to cooperate, entailing much time and effort from the World Bank’s perspective. Frequent PEP-ECA project management and staff turnover further added to the frustration. The World Bank staff also mentioned unclear reporting lines of IFC staff as a source of uncertainty in terms of how they can work on a World Bank project or initiative where it makes sense. In the words of one World Bank country management unit representative interviewed for this evaluation: “there are lots of one-off visits by IFC staff on specific issues, and sometimes coordination worked out, but this is more of a ‘coincidence of needs’, not real coordination.”

The IFC/World Bank Private Sector Development Vice-Presidency has been encouraging increased synergies and cooperation between IFC and World Bank teams pursuing private sector development agendas. Central private sector development units (including FIAS, Doing Business, and Investment Climate) are actively reaching out to IFC advisory regional facilities to exploit potential synergies between the strong central private sector development diagnostic tools and mechanisms, and the facilities’ strong local team implementation potential. Fruitful collaboration here could be a powerful model in leveraging institutional strengths and enhancing development effectiveness. One example is the Russian Far East Business Development Project, in which FIAS and PEP-ECA conducted a joint study of administrative barriers to investment in Magadan in the Russian Federation. This project illustrates how FIAS diagnostic tools and analysis can be incorporated to enhance project analytical work and recommendations and how PEP-ECA local staff can focus on their comparative advantage of implementing changes and reforms.

Since the IEG project evaluations were conducted, PEP-ECA has increased efforts to collaborate with the World Bank. An important development was the creation of new joint PEP-ECA positions in Belarus (2006) and Ukraine (2007). In both these cases, PEP-ECA project managers from BEE projects have assumed joint responsibilities with the World Bank on the private sector development side. PEP-ECA emphasizes that these decisions were based on a pragmatic rationale and arrangements that were already working on a day-to-day basis, rather than imposing a structure that would make a poor fit for both entities in a given country context.

A recently established World Bank Group committee on cooperation has completed a review of the Advisory Services models of the World Bank, IFC, and Multilateral Investment Guarantee Agency, including their funding mechanisms and delivery systems, with particular attention to synergies and overlaps among the three institutions. The report prepared by the committee concluded the following:

- Staff and management lack clarity on the advisory products of the three institutions: the
nature of the advisory products, role of each institution, their delivery mechanisms, and comparative advantages.

• Mutual understanding on setting strategy and the decision-making process is lacking.
• A potential for duplication of efforts and initiatives could lead to inconsistent advice to and actions for clients as well as competition due to different delivery and funding mechanisms.
• Problems exist with the sharing of information across the three institutions.

Among the initial recommendations of the committee is a proposal to create a core group in the World Bank Group that would propose ways for cross-institutional coordination and collaboration. The World Bank Group committee also recommended that the three World Bank Group institutions should periodically discuss business formulation strategy for advisory activities at the regional level, outside the country assistance strategy process. The Multilateral Investment Guarantee Agency’s Board of Directors followed the committee’s recommendation and approved consolidation of the agency’s technical assistance into FIAS in order to create synergies.

The issue of enhancing World Bank Group coordination and collaboration is a complex one. Various groups at various levels of the World Bank Group are extensively reviewing and discussing the issue. There is also an ongoing IEG evaluation and a report under preparation, which is devoted to this issue. The PEP-ECA evaluation confirmed the well-known problems identified in other evaluations. Different staff incentives, cultures, project cycles, internal processes, external clients, among others, all contribute to the complexity of the issue.

In conclusion, the PEP-ECA program structure was instrumental in the successful delivery of advisory projects and broad achievement of overall program objectives. Some program-level issues, however, limited PEP-ECA’s potential effectiveness, including the following:

• The product line approach, although enabling specialization and efficiencies, did not always result in adequate tailoring to meet specific country development needs.
• IFC advisory strategy and projects were largely developed and delivered independently of its investment strategies and staff expertise, and this diminished potential synergies.
• Cooperation with other parts of the World Bank Group was informal and mixed and may have resulted in some lost opportunities.
The PEP-ECA funding mechanism contributed to strong basic project design and results achievement and measurement, yet it constrained IFC’s ability to be strategic and responsive to client and country needs. PEP-ECA results-based M&E was pioneering among other IFC regional advisory facilities, but had some shortcomings related to quality of indicators and reliability of data collection. Given that most PEP-ECA products were treated as public goods, they did not have specific client pricing features.

**PEP-ECA’s funding mechanism involves management soliciting donor financing project by project, which requires drafting the project design and budget before making a formal presentation to donors.**

Other Advisory Services units, including some regional facilities and FIAS, have had pooled funding mechanisms (i.e., a pool of funds that does not require donor approval at the individual project level) or hybrid variations of pooled and project-by-project funding requirements. In contrast, the PEP-ECA funding model is project based.1 As such, IFC funds PEP-ECA management and fiduciary functions (overhead), whereas donor funding supports the direct costs associated with Advisory Services delivery through projects, including project management and staff salaries (donor approval is given for each project separately). This means that PEP-ECA senior operations managers must draft all project design, intended deliverables, and budget before formal presentation to donors, although these may still be fine-tuned during early stages of the project implementation. Project implementation and staff hiring can begin only after obtaining donor project approval.

Reliance on donor funding on a project basis has made projects more targeted and results oriented, but negative aspects outweigh positive in terms of project delays, additional transaction costs, and missed potential opportunities.

As discussed in chapter 4, the current PEP-ECA structure allows for quick and efficient project proposal development in which senior operations managers can accommodate donor preferences and integrate practices from lessons learned into project designs, implementation, and reporting schedules. Senior operations managers can also relatively quickly pull together project budgets and impact matrices from projects previously developed and proven elsewhere. Donor scrutiny has emphasized the development of M&E (i.e., achieving and showing results)
and promoted development of strong basic product designs.

The need to seek donor funding on a project-by-project basis has consumed both time and money. Some potentially good (e.g., developmental, strategic, and client-responsive) project ideas have not been funded due to lack of donor interest and sometimes not even proposed by PEP-ECA due to lack of perceived donor interest. This was at times exacerbated by tied funding, requiring the hiring of a consultant from a specific country. In addition, across all product lines, donor-driven requirements have at times influenced project design and, in some instances, adversely affected project performance. The most important challenges posed by PEP-ECA’s donor funding structure identified in this evaluation, therefore, are (a) the ability to be client responsive and strategic, (b) the long lead time required for project start up, (c) increased associated transaction costs, and (d) undue donor influence on projects, which sometimes affected project design, implementation, and performance.

The need to seek donor funding on a project-by-project basis has limited PEP-ECA’s ability to be more responsive and strategic. This evaluation found limitations in a number of areas, sectors, or countries with the potential of achieving higher impact. First, some projects, even the ones that were strategic for IFC or a country, could not attract funding due to lack of donor interest or shifting donor priorities. Second, donor interest in some countries was weak, so obtaining funding was challenging for projects in, for example, Armenia, Belarus, Kazakhstan, and Russian Federation. Second, donor interest in some countries was weak, so obtaining funding was challenging for projects in, for example, Armenia, Belarus, Kazakhstan, and Russian Federation.2 Third, donors found some types of activities—mostly linkages and experimental projects outside the standard and proven product lines—less attractive candidates for funding. As such, the dominance of donor-driven interests affected PEP-ECA’s project selection and development. This fact constrained PEP-ECA in the following ways:

- **Ability to be responsive to client country needs and opportunities and pursue strategic projects with potentially strong impact.** Leasing development in Ukraine emerged as a priority project several years before PEP-ECA was successfully able to mobilize donor funding. By the time PEP-ECA secured funding and launched the leasing project in Ukraine, the U.S. Agency for International Development had entered the market with a multimillion-dollar parallel advisory project to develop leasing. In the Russian Federation, due to lack of donor interest, it took PEP-ECA nearly three years to launch a comprehensive advisory and investment mortgage finance program that was particularly strategic for IFC, because it focused on development of a key priority sector.

- **Development of experimental projects.**3 For example, alternative dispute resolution was a priority initiative, which was recommended by IEG’s Russian Federation country impact review and subsequently set out as a priority in PEP-ECA strategy approved by the Board; yet PEP-ECA had difficulty obtaining donor funding. It tried to initiate experimental projects in this area for a few years before finally obtaining funding.

- **Expansion into new program areas.** In 2002, PEP-ECA identified private higher education as a new program area that it had hoped to develop to address both country priorities and support IFC potential investments; however, lack of donor interest resulted in no project initiatives having been undertaken to date.

- **Timely development of advisory linkages projects alongside IFC investments.** The uncertainties and delays in obtaining donor funding often hindered IFC’s efforts to develop an effective investment and advisory linkage package for clients. IFC faced the risk that no donor would be interested in funding or that it would take years to acquire funding and launch the project. On the investment side, clients and investment staff processing transactions simply could not wait more than one or two years for development of the advisory project. As a result, many of the
proposed linkages projects did not establish links with IFC investments, which either went forward without the advisory project or waned and the advisory project went forward.

- **Inability to pursue some projects.** No projects were pursued in Armenia, because no donors were willing to support PEP-ECA advisory work in that country.

Given PEP-ECA’s experience and knowledge of donor preferences, some potentially developmental project concepts were never even pursued in anticipation of low or no donor interest. Some other PEP-ECA projects that were presented to donors, both in the initial concept stage and more formal proposal stage, were not funded or left idle in the pipeline. An interpolation of PEP-ECA project pipeline data available to IEG-IFC from calendar years 2000–03 reveals the following:

- Concepts and proposals left unfunded were concentrated mostly in the Russian Federation, but also affected most other PEP-ECA countries.

- Concepts and proposals left unfunded concerned priority IFC/PEP-ECA areas: financial markets, including housing finance, leasing, student finance, and microfinance; agribusiness; supply chain linkages; corporate governance; business association development; and other areas, such as women entrepreneurs, tourism in Central Asia, and business mediation and arbitration.

**Seeking donor funding on a project-by-project basis has absorbed PEP-ECA management time and raised transaction costs.** The PEP-ECA general manager and senior operations managers spent as much as 30 percent of their time in 2001 on maintaining relations with donors and marketing new projects to them; this percentage increased slightly over time to 35 percent in 2005. In FY 2001–05, PEP-ECA spent a total of $2.7 million on donor-related activities, including staff time and travel (see table 5.1), representing 7 percent of total project costs ($37.4 million) for the period.

In PEP-ECA’s first few years, an important amount of management time and resources went to raising funds for new projects or setting up donor framework agreements, which in FY 2001 represented 25 percent of senior operations managers’ time. As PEP-ECA built its operational framework and project portfolio, time and resources spent

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### Table 5.1. PEP-ECA Management Time and Travel Expenditures on Donor-Related Activities (millions of dollars)

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total donor-related activities</td>
<td>0.36</td>
<td>0.30</td>
<td>0.56</td>
<td>0.47</td>
<td>0.52</td>
<td>2.21</td>
</tr>
<tr>
<td>Total donor-related travel</td>
<td>0.10</td>
<td>0.13</td>
<td>0.09</td>
<td>0.08</td>
<td>0.05</td>
<td>0.45</td>
</tr>
<tr>
<td>Total</td>
<td>0.46</td>
<td>0.43</td>
<td>0.65</td>
<td>0.55</td>
<td>0.57</td>
<td>2.66</td>
</tr>
</tbody>
</table>

*Source: IFC data.*
on donor-related activities for new fund raising dropped to an annual 15 percent in 2002–05, but time spent on maintaining donor relations with existing projects increased from 5 percent in 2001 to 20 percent in FY 2004 where it has since stabilized. Total time and resources spent on donor-related activities have been increasing along with the growth of the PEP-ECA portfolio and represent a cost to PEP-ECA management: about $570,000 in 2005 or about 12 percent of IFC’s annual contribution to overhead.

PEP-ECA has succeeded in increasing the level of contributions from existing donors, as well as attracting new donors. The number of donors supporting IFC Advisory Services in the region increased significantly: from eight in PEP-ECA’s first decade to a peak of 25 donors in FY 2003, declining to 21 donors in FY 2005. Framework agreements have been set up with several donors. These agreements benefited donors by enabling them to shape project and country programs. They also benefited PEP-ECA by reducing the time it takes to receive project approvals. With these so-called umbrellas, PEP-ECA can gain donor approvals in principle more quickly and easily in previously agreed areas. PEP-ECA also reports that it has improved its fund-raising efficiency and leverage efficiency ratios.

Despite the goal of greater efficiency under the PEP model, both the time required for donor approval and the time needed to identify and hire appropriate experts for PEP-ECA projects have contributed to delays in project launches. As a result, PEP-ECA expenditures (table 5.2) lagged behind IFC and donor commitments, particularly in the first few years after establishing PEP-ECA.

**Obtaining donor funding has required long lead times and created delays.** Despite the quick development of project proposals and understanding of donor preferences, the actual time and effort required to market new projects and receive donor funds translated into long lead times between the development of a project idea and the actual project launch. It has taken on average one year to get funding from the initial idea stage to formal donor commitment (see figure 5.1).

As mentioned above, a large portion of senior operations managers’ time has been spent educating donors on the PEP-ECA advisory program and projects in the pipeline. According to PEP-ECA staff interviewed, one part of the challenge of educating and managing relations with donors was high turnover of donor staff. One PEP-ECA senior staff member noted that six different project officers had worked on a single country for a major donor in one 10-month period. Given donor staff turnover and new staff training, little progress had been made in advancing approval of a PEP-ECA project pro-

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**Table 5.2. PEP-ECA Expenditures Compared with Commitments (millions of dollars)**

<table>
<thead>
<tr>
<th>Description</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Total</th>
<th>Percent of Total Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project expenditures (donor and IFC funded)</td>
<td>4.4</td>
<td>4.9</td>
<td>7.2</td>
<td>9.6</td>
<td>11.3</td>
<td>11.2</td>
<td>48.6</td>
<td>49%</td>
</tr>
<tr>
<td>Overhead expenditure (IFC funded)</td>
<td>3.1</td>
<td>4.2</td>
<td>4.1</td>
<td>4.0</td>
<td>5.2</td>
<td>5.2</td>
<td>25.8</td>
<td>26%</td>
</tr>
<tr>
<td>Total expenditures</td>
<td>7.5</td>
<td>9.1</td>
<td>11.3</td>
<td>13.6</td>
<td>16.5</td>
<td>16.4</td>
<td>74.4</td>
<td>76%</td>
</tr>
<tr>
<td>Surplus of commitments over expenditures</td>
<td>15.30</td>
<td>9.30</td>
<td>(2.70)</td>
<td>13.30</td>
<td>(2.80)</td>
<td>(8.50)</td>
<td>23.90</td>
<td>24%</td>
</tr>
<tr>
<td>Total commitments</td>
<td>22.8</td>
<td>18.4</td>
<td>8.6</td>
<td>26.9</td>
<td>13.7</td>
<td>7.9</td>
<td>98.3</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note: 2006 total commitments have been revised downward to remove IFC overhead commitments of $30.4 million approved in 2006 intended for expenditures in 2007–2011. This was done for comparison purpose of commitments and expenditures in 2001–2006.
posals for that country that was well aligned with the donor’s preferences.

Once donor approval has been obtained, recruitment of a project team begins. It has typically taken at least six to 12 additional months to recruit a project manager, depending on the situation and level of expertise required, followed by two to three more months to recruit local staff. In the end, lead times from initial project idea to project launch have taken up to two years.

**Donor preferences shaped project design and implementation.** Specific donor requirements were imposed on project design, scope, and activities, in some cases affecting project performance. In a few instances, PEP-ECA’s role as a donor implementing agency was quite pronounced, with specific donor-led development of project objectives and parameters, work programs, project clients, and project-hired management. Donor-driven requirements that affected project design and, ultimately, performance can be found across all product lines. Examples follow:

- In one BEE project, PEP-ECA intended to promote investment climate reforms that supported SME growth, yet the donor required IFC not to include government officials in the project. The absence of government involvement greatly reduced the project’s prospect of building government buy-in for the need for reform, and hence, diminished the chances of achieving expected outcomes and impacts.
- In another project, a donor required a project structure that combined three unrelated components (leasing, corporate governance, and SME survey and reform) under a single project umbrella. This structure created project staffing and management challenges, as the donor and PEP-ECA struggled to identify a candidate with the qualifications needed to implement three different, thematically unrelated components. This contributed to delays in getting all three components launched.
- In several sector business development and linkages projects, donors limited the scope of activities and participants in the project in a way that diminished the potential impact on overall sector development. For example, in two business development projects and one leasing project, scope and design restricted participation to foreign investors of a specific nationality, which not only yielded narrower impacts, but also raised questions of equity, distribution of benefits, and subsidization. In one of these projects, the strong donor interest and participation dampened IFC’s potential role as a neutral advocate for sector reform, because local stakeholders perceived the project as being dominated by the bilateral donor’s interest.

“Donor preferences shaped project design and implementation, and sometimes affected project performance.”
• Delays in donor funding also negatively affected some projects’ ability to achieve targeted objectives. For example, significant delays in donor funding for one BEE project severely limited the capacity of the project to launch successfully and engage the government in reform effectively, and contributed to high project staff turnover. In one corporate governance project, delay of funding from a donor because of nationality requirements disrupted selection of the project manager and launch of key project initiatives. These circumstances prevented full delivery of the pilot company program and negatively affected staff morale and motivation as well as relationships with the government.

Donor influence on PEP-ECA was not always one way. PEP-ECA at times was able to influence donor interests as a result of proactive engagement and successful outcome achievements. For example, IFC had to convince a reluctant donor to support leasing in the Russian Federation, because this was a new, unknown area for it. In the end, after a successful project outcome and positive experience with the leasing project, the donor adopted leasing as a new product, which it subsequently supported in other countries. Similarly, PEP-ECA’s experience with another donor helped move it from taking a very narrow approach to advisory projects, whose focus was benefiting national investors only, to supporting projects with a wider scope and impact prospective.

**Access to IFC’s Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS) may enhance PEP-ECA’s ability to be more responsive and strategic in the future.** In June 2004, IFC established FMTAAS with funding allocations from IFC’s retained earnings. Beginning in FY 2007, FMTAAS has contributed funds for regional donor-funded operations (project development facilities, PEPs, and other advisory facilities) and advisory activities within the five Advisory Services strategic business lines (business enabling environment, access to finance, value addition to firms, environmental/social sustainability, and infrastructure). This was done through a so-called business line envelope model with a multiyear cap for FY 2007–11 of $101.5 million, of which $41.8 million was applied to FY 2007. This cap falls under the overall IFC annual spending limit of $125 million in FY 2007 for all advisory activities.9

The new IFC funding mechanism may help to address some of the challenges of PEP-ECA donor funding, particularly in areas outside PEP-ECA’s scope, as agreed with donors, where funding is not available. FMTAAS, however, is not expected to replace or displace donor funds. The above-mentioned disadvantages of the project-by-project donor funding model should, therefore, be addressed; this would enable PEP-ECA to be more strategic in responding to the needs of CIS countries and avoid implementation delays, especially given IFC’s goal of becoming by 2010 a client-centered, high-impact development institution.

**Building expertise has brought about human resource challenges in hiring and retaining staff.** The PEP-ECA human resource team has the delegated authority for local hires.10 Quick recruitment of local project staff, rather than teams of expatriate consultants, has been a top priority for developing and delivering PEP-ECA Advisory Services; PEP-ECA’s human resource staff have made great strides toward this goal and their work has been recognized as a model for other advisory programs across IFC in this regard. Except for project management (largely international hires), project teams have relied on local personnel, who accounted for 89 percent of all 321 PEP-ECA staff in FY 2006. Reliance on local staff also contributed credibility to the project team, which enabled more favorable outcomes when dealing with local officials or private sector agents. PEP-ECA contracted external consultants for specific purposes, including training of local staff to build capacity and promote sustainable knowledge transfer.

**The product line approach has required specialized expertise.** PEP-ECA has frequently
faced the decision of whether to build (within the project team) or buy expertise, a project-level decision that requires careful consideration. In many instances, the decision has been to make or build expertise within the project team, with some use of international experts to share good practices from other countries, train local staff, and build team capacity. Although it may make sense to build internal expertise, this may not be sufficient in some areas to ensure good quality, provide best practice advice, and implement projects faster, especially with the increasing level of expertise required by PEP-ECA projects:

- **BEE surveys.** In BEE, the development and implementation of SME surveys took place largely in isolation of other World Bank units and private sector development survey leaders (e.g., FIAS and Investment Climate Unit). Project evaluations indicated that the quality of PEP-ECA’s survey instruments and analysis could benefit from more collaborative efforts with the World Bank Group survey leaders.

- **BEE-focused policy reform agendas.** In policy reform, PEP-ECA’s approach has been to build and create experts within project teams, particularly on permits and inspection reform. Occasional use of international experts has brought in best practice, but it has not been done systematically, because in-house teams may not have had enough access to international best practices on formulating and implementing these reforms alongside the government client. Project evaluations particularly in BEE reform projects suggested that reform components could benefit from accessing international expertise and experiences in narrow areas of project reform focus to enhance buy-in and add momentum for reforms recommended and also to increase credibility of the proposed reform solution designs.

- **Linkages.** In linkages projects, which require highly specialized technical skills, the IEG-IFC evaluation raised some questions on whether PEP-ECA linkages projects could pass a market test and whether PEP-ECA should try to provide highly specialized, technical ad-

A need for reliable access to global expertise exists at the project management level and for short-term assignments to support teams in building capacity and enhancing the quality and relevance of advice provided to clients. This has included accessing short-term consultants, specialists from IFC investment departments and other parts of the World Bank Group with specialized expertise.

The decision to build expertise has brought about human resource challenges in hiring and retaining staff to lead PEP-ECA projects in a timely fashion. Despite PEP-ECA’s success in FY 2001–06 in setting up a relatively flexible and efficient human resource system and expanding PEP-ECA staff, increased specialization in core areas has required more expertise than before. As such, it has become a challenge to identify qualified candidates speaking local languages and willing to relocate to a difficult frontier country for only a two-year commitment without assurance of further opportunity. Once identified, such experts—typically mature professionals with families—usually demand more than the standard PEP-ECA relocation package. To attract such key personnel, PEP-ECA has offered signing bonuses of up to three months’ salary plus a more attractive salary in general. This, however, may have contributed to some inequality within the same level of staff.

Alignment of staff contracts to donor-funded project periods has exacerbated the difficulty of attracting good staff. Linking staff contracts to the life of a project provides some obvious benefits; however, the uncertainty associated with shorter employment contracts (e.g., one- to two-year SME survey and policy projects in the BEE product line, which was less of a problem with three-year corporate governance projects), notably affects the caliber of candidates attracted by PEP-ECA postings.

“The decision to build expertise has brought about human resource challenges in hiring and retaining staff...”
Retention of strong project managers or high-performing project staff has likewise been difficult after project closure:

- Timing of project closure with initiation of another project in a skills-relevant area was not always possible, and qualified staff were lost. In exceptional cases, staff were kept on board for interim assignments until new project positions opened up. Other times, strong PEP-ECA staff moved to other IFC advisory facilities.
- Motivating and retaining capable staff has been challenging as project closure neared with no prospect of extension or follow-up assignments. Job uncertainty has often caused staff to spend significant time looking for new positions in the last months of a project’s life and sometimes even to leave projects before their closure. In April 2005, PEP-ECA introduced completion bonuses of one- to two-month’s salary for staff to stay until project closeout, which so far have appeared effective.
- PEP-ECA training policy and related budget allocation reflect issues of commitment between IFC and PEP-ECA project staff. Despite a wide set of staff training options, PEP-ECA faces tough decisions and trade-offs in increasing much needed training with project staff expected to leave after a two-year assignment. In the words of a senior IFC advisory staff member “PEP-ECA has not institutionally decided yet whether it ‘reents’ or ‘invests’ in project managers” (see below). The result is inconsistent training of project managers, which jeopardizes PEP-ECA’s and/or IFC’s reputation as an advisor, and reduces staff interest and commitment to the project and IFC.

Other regional advisory facilities have identified talent in similar ways as PEP-ECA: through local and international advertising, word of mouth, and so on. PEP-ECA differs from most other facilities, however, in the length of employment for its staff: two to three years until the end of the project, whereas other facilities’ contracts can extend up to five years. Similar to PEP-ECA, other facilities experience high attrition toward the end of projects, as project staff begin searching for other opportunities and are often offered work on projects scheduled to begin before their current project ends. IFC’s Human Resources and Administration Department also uses retention bonuses of one to six months to persuade key staff to remain with the project through the scheduled end date; the department is considering a special bridging arrangement that provides full salary to key staff, while waiting for final approval of a project.11

The Advisory Services employment structure consists almost exclusively of consultants and staff on term or coterminous contracts. Responding to concern about the loss of valuable managerial expertise, institutional knowledge, and experience, IFC created the Corporate Cadre, consisting of senior-level individuals selected by their expertise in delivering and managing advisory programs. These individuals have agreed to be flexible and mobile in deployment to advisory programs needing their expertise.

In the past two to three years, IFC management has launched a few initiatives to strengthen training of advisory staff, build knowledge networks, and adjust the human resource model for Advisory Services.12 Implementation of IFC’s decentralization strategy may also enable easier access to sector expertise in the field. IFC should build field-based knowledge, but needs to mitigate the risk of losing global knowledge. It should also enable staff to cross-fertilize to exchange knowledge and expertise within and among regions.

PEP-ECA has not generally charged clients, regardless of the rationale.

A consistent Advisory Services subsidy and pricing policy was not a core feature of PEP-ECA, which has extended client subsidies regardless of justification. PEP-ECA initially operated without a pricing policy and only in mid-2005 introduced guidelines for Advisory Services cost sharing (see box 5.1) as an initial step to establishing a pricing policy. Given the variety of projects and different markets, many of PEP-ECA’s product lines have been considered public goods (e.g., BEE activities and leasing) and have had no pricing features. PEP-ECA management believed
that (a) no client was identifiable to charge, (b) the client could not afford to pay for the services, or (c) no obvious demand existed for Advisory Services, which PEP-ECA was in the process of building. This was often true for projects involving advocacy, public relations, and awareness-raising activities that promoted legal and regulatory changes as well as attempts to build understanding within the private sector of new concepts and practices.13

This rationale was not entirely appropriate for seminars and training, capacity building, and consulting interventions at the firm level or when packaged together with investments. As time passed, however, it was understandably difficult for PEP-ECA projects to introduce fees for services to clients after they had received them free, even though IEG-IFC project evaluations found evidence of a growing willingness to pay for these services during the lifetime of the projects evaluated in the areas of leasing, corporate governance, and agribusiness.14 Given that PEP-ECA had been operating in the absence of an overall IFC Advisory Services subsidy and pricing strategy, project evaluations included these issues under the strategic relevance dimension for discussion only; thus, even where evidence suggested that some form of cost sharing was warranted, it had no bearing on the project ratings. Ultimately, lack of client contribution for Advisory Services deprived project management of valuable client feedback on the relevance of and demand for specific advisory components, which then affected results and lessons learned for future projects.

Some evidence of client contributions in the PEP-ECA projects evaluated exists, for example, clients contributed 40–70 percent of costs for a business development project, 10 percent of costs for a supply chain linkage project, and nominal fees from Western equipment suppliers in a leasing project, all in the Russian Federation. Absent a coherent pricing policy, however, inappropriate subsidization of Advisory Services has occurred. Use of a subsidy may be justified in some cases, for example, when using Advisory Services to induce a client to undertake developmental activities it would otherwise not do (for example, a commercial bank entering the SME market). By offering subsidized Advisory Services for private goods, however, IFC gives the appearance of trying to sweeten the deal, so this should be managed carefully. Especially noteworthy are those projects involving private sector clients who clearly could have afforded to pay for IFC’s services. IFC also needs

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**Box 5.1. PEP-ECA’s Approach to Pricing Advisory Services**

Advisory Services provided by PEP-ECA can be split into three categories: (a) services that create public good, (b) tailored training and consulting support, and (c) general training and consulting. IFC will not charge beneficiaries for activities creating a public good or driving market development; thus, during the first two to three years of the PEP-ECA operation, financial institutions are not expected to cofinance Advisory Services costs. During all five years of the PEP-ECA operation, all model documents and market research conducted by PEP-ECA are free and available in the public domain.

Considering (b) and (c), two reasons underlie cost sharing for the Advisory Services provided: (a) to create a sustainable service available after project completion and (b) to encourage the beneficiary to value and take it seriously. The first case assumes the need to pilot a new deal structure or test improved services by a local provider. Examples of such services include energy audits and engineering services (design and feasibility studies).

Today, according to PEP-ECA, most projects that work with pilot clients charge fees (with the exception of farms), and all new memoranda of understanding with pilot clients are starting to track in-kind contributions.

. . . lack of client contribution for Advisory Services deprived project management of valuable client feedback on the relevance of and demand for specific advisory components . . .
to be careful in providing free Advisory Services to private companies in which it has or is about to make an investment, once again to avoid the risk of providing a subsidized funding package overall and/or undercutting the market. The high concentration of private sector beneficiaries found in linkages projects or projects involving matching of supplier companies from donor countries to IFC’s designated frontier markets may warrant some level of cash or in-kind contribution from these beneficiaries.

A clear and flexible pricing and subsidy strategy could help promote project sustainability and local market development. Justification for client contribution is multifold. Collecting fees serves several important functions:

- Shows client commitment;
- Allows IFC to test and support the development of the local market for Advisory Services;
- Enables sustainability of project activities after project completion;
- Permits the market to determine an appropriate pricing strategy that reflects product quality, relevance, and the clients’ ability to pay for Advisory Services;
- Allows IFC to leverage existing project funding.

Depending on local circumstances, subsidized Advisory Services has its own rationale as a means of (a) avoiding market failure (public goods, positive externalities, and information issues) or government failure, (b) changing incentives and behavior of clients, (c) addressing equity concerns, or (d) giving IFC influence on project objectives, design, and implementation (e.g., linkage projects, in which the industrial partner has a large vested stake and provides most of the funding). Provision of subsidized Advisory Services, however, in a market with a viable commercial provider of the same services is contrary to IFC’s market practices and core principles. IEG’s 2004 SME facilities study (IFC 2004b), which addressed this matter, recommended that the facilities should “issue explicit guidelines on subsidies to improve the efficiency of their targeting, conform to IFC’s nondisplacement principle, ensure transparency and fairness, and make clients aware of what they would have to pay for unsubsidized services.”

IFC recently issued a new pricing policy for all Advisory Services. On November 29, 2006, IFC issued a corporate-wide policy for pricing its Advisory Services, which grandfathered old projects and took effect on January 1, 2007, for new projects. Two overarching principles of the policy apply to both government and private sector clients: First, any subsidy included in pricing should be justified by the balance of public and private benefits in the particular intervention. Second, even when the subsidy is justified, certain levels and forms of client contribution would often be appropriate to strengthen the client’s commitment to implementation. The overall approach is to be pragmatic. Although task managers should consider pricing as part of project design, they are expected to make judgments on public and private benefits and the scope of any client contribution. Advisory Services intended to support policy, regulatory, and institutional reforms to improve business climate often contain significant amounts of subsidy, but governments capture benefits of these reforms through improved welfare and in principle should pay for Advisory Services to support reforms. Subsidies may be justified in the case of pioneering transactions for public services for which governments may be unwilling to invest, due to delays in or uncertainties about potential benefits or when governments of low-income countries face significant budget constraints. With respect to private sector clients, substantial subsidy may be justified only if Advisory Services intend to benefit companies in general (public good) or when the behavior or practice is genuinely novel in the particular market but is expected to create significant demonstration effects.

Business line leaders are expected to elaborate these general principles further to provide specific guidance on implementation for their respective areas. IFC is also planning to organize Advisory Services pricing training. The new policy and principles are an important first step toward recognizing that subsidies embedded in Advisory Services should be selective and justified.
Nevertheless, they are general and constitute only a first step toward an Advisory Services pricing strategy in IFC to provide clear guidance, not only for each business line, but also various types of projects under each business line, with practical examples on price setting and hands-on training for all project task leaders. Issues of local market development, displacement policy issues, and market distortions also need to be addressed.

Although pioneering for IFC and still evolving, PEP-ECA’s results-based monitoring and evaluation system had some weaknesses.

PEP-ECA established an M&E system in 2001, setting up an impact assessment matrix at project initiation with defined goals, objectives, and activities, against which to measure project outputs, outcomes, and impacts. The impact matrix was intended to discipline staff in focusing on results, providing a basis for performance measurement as well as flexibility. Donors receive results on a project-by-project basis in quarterly or biannual reports. Selected indicators are consolidated across PEP-ECA projects twice a year.

Reliable and consistent measurement of results requires appropriate indicator selection, rigorous data collection, and systematic expenditure tracking. Since 2001, when the central M&E function was introduced, PEP-ECA significantly improved its system of collecting and reporting data. By many standards, PEP-ECA’s M&E framework stands out among other regional advisory facilities that also operated during this evaluation and typically did not routinely and comprehensively attempt to monitor and measure development results at the project level. The PEP-ECA program developed a logical, well-conceived, and easy to navigate Excel-based impact matrix containing outputs, outcomes, and impacts, defined according to the projects’ main objectives. The impact assessment matrix used by PEP-ECA is based on a results-based management framework (appendix D discusses this in more detail).

**Despite the strides in developing the M&E system, this evaluation identified shortcomings in project result measurement.** These shortcomings fall into three categories: (a) inconsistent quality of indicators, (b) inconsistent use of surveys and data collection methods, and (c) insufficient recording of project costs by activity components.

Problems related to the quality of indicators included the following:

- **Indicators that insufficiently captured intended outcomes and/or impacts.** For instance, although leasing impact focused on leasing volume, the program paid little attention to developing parallel impact indicators to assess the deepening of financial markets or impact of increased leasing on SMEs. In addition, although most projects counted the number of training events conducted (outputs), the M&E system lacked indicators reflecting the knowledge and skills gained and behavioral changes that resulted from those events (outcomes). BEE outcome indicators tended to focus on the number of legislative changes or initiatives, which is arguably too narrow and legalistic to assess meaningful business environment improvements. Typical BEE impact indicators—SME sector contribution to gross domestic product and number of registered SMEs—were too indirect and depended on many external factors, complicating attribution to the IFC project. PEP-ECA has recently adopted a methodology to measure the economic impact of its national-level BEE regulatory simplification projects. Similar to IEG’s approach in the project evaluation reports, it compares specific aspects of the business environment before and after enactment of IFC-supported reforms to quantify benefits (direct impact on economic costs and indirect impact on revenues or costs) to the target population.

- **Indicators that lacked clearly defined targets.** Not all indicators had assigned target values, which made follow-up evaluations challenging. For example, some projects emphasized drafting new laws (output) and passing or amending legislation (outcome targets commonly include a broad number of laws, or specific legislative change in a given area, such
as permit law); yet desired target impacts were vague and undefined. Projects should ideally elaborate on specific desired impact targets that attempt to measure improved conditions (for example, reducing the number of days needed to register a business from X to Y or number [or cost burden] of permits or inspections from X to Y).

Shortcomings related to the inconsistent use of reliable surveys and data collection methods, included the following:

- Some projects and product lines, such as corporate governance, leasing, and SMEs, have incorporated surveys to try to measure project impacts; yet surveys were not designed systematically and appropriately to establish a baseline and monitor project results over time. Different methodologies and sampling techniques often limited the comparability of these surveys.

- Some projects used informal surveys that were not representative, for instance, surveying only a small portion of clients who received training on levels of satisfaction and material learned, which could not be projected to the entire client population. Even for projects with more sophisticated survey instruments, few attempts were made to capture what might have happened without a project intervention or to compare client achievement with nonclients.15

- Surveys and other instruments were also not used enough to measure how much participants of various PEP-funded training courses and seminars (a) were satisfied with services offered, (b) acquired new knowledge and/or skills, (c) changed behaviors as a result of new skills, knowledge, and information related to project services, and (d) had benefited in terms of impacts due to changes made. Even though evaluations and surveys before and after projects would probably be the best ways to track such changes, most projects that included training and capacity components did not use this method.

- In several instances clients refused to share information with PEP-ECA project teams or IEG-IFC evaluation teams, preventing both PEP-ECA management and this evaluation from collecting necessary data and assessing project achievements. Projects evaluated did not contain information-sharing agreements between clients and IFC for assessing project achievements.

Regarding recording of project costs by components, no attempt was made during project life to quantify the value of benefits nor to provide information on how much was spent for each component (for example, on surveys, public awareness, drafting policy recommendations, and so on). A more precise calculation of the efficiency of different types of activities of most projects evaluated, therefore, was not possible. This information is crucial in better understanding project efficiency and assessment of the relative developmental “bang for the buck” of different types of project activities.

Nonetheless, as stated above, PEP-ECA has adopted a results-based approach that, until recently, placed its M&E tracking and reporting system ahead of most other IFC Advisory Services providers. With introduction of an IFC-wide approval, supervision, and M&E system in FY 2006, all Advisory Services providers are expected to attain an equal level, in terms of developing logic models to guide project design, articulate expected outcomes and impacts, and track and report achievements. Since IEG evaluation and in part as a result of IEG findings and a participatory evaluation approach, PEP-ECA has taken steps to address M&E shortcomings identified in project evaluations (see box 5.2).

IFC’s SME Department, with its oversight function for advisory operations in IFC, has made strides in introducing a comprehensive monitoring and tracking system, which should improve quality of indicators and collection of data across all advisory facilities. The department accomplished the following:

- Prepared program logic models for three major program lines (access to finance, linkages, and BEE) geared to promoting private sector de-
development. Based on the logic models, it developed core indicators (output, outcome, and impact) for the three business lines, including samples and templates. In 2007, completion of a similar process is expected for the remaining business lines as well as their subareas. Staff training and consultations on the use of indicators are continuing. IFC intends to standardize core performance indicators in all advisory projects to allow comparisons and aggregation. The tools are expected to not only measure the impact of various programs better, but also enhance design of new projects.

- Issued guidelines on data collection and storage, including potential sources of data, and prepared a guide on survey methodologies, questionnaires, sampling, survey schedule, data entry, and administration.
- Organized several program reviews (e.g., SME toolkit, leasing, corporate governance, and linkages) executed by external experts along IEG-IFC evaluation guidelines and sometimes undertaken jointly with donor representatives. Several completed reviews were experimental or quasi-experimental. The SME Department is tracking management implementation of recommendations resulting from these evaluations.

In conclusion, this evaluation explored a number of cross-cutting issues that affected PEP-ECA’s potential performance. The most challenging issue was PEP-ECA’s funding mechanism. Although this bilateral donor-dependent funding mechanism promoted targeted, results-focused interventions, it also often constrained IFC’s ability to be strategic and responsive to client and country needs, raised costs, and created delays. As PEP-ECA focused on specializing in core areas and required greater expertise, recruitment and retention of qualified staff also became a challenge. Client contribution and a consistent Advisory Services pricing policy were not a core feature of PEP-ECA, which extended client subsidies regardless of justification. In addition, even though PEP-ECA’s M&E system is among IFC’s most advanced in the area of Advisory Services, reliable measurement of results was difficult due to some weak indicators and incomplete data collection and expenditure tracking.
Conclusions and Recommendations

Overall, PEP-ECA has been largely successful with respect to achieving its objectives of contributing to improved investment climates and promoting private investments; however, (a) some program-level issues and deficiencies in the PEP-ECA organizational structure limited PEP-ECA’s potential effectiveness and (b) some product lines had low success rates.

Although IFC might benefit from replicating certain aspects of the PEP model, IEG does not recommend its wholesale transfer to other regions:

- Appropriate balance between replication of core products and their sufficient adaptation to different country contexts is essential.
- Product specialization requires reliable access to expertise for both project management and for tapping short-term needs of best practice in specialized areas.
- The funding mechanism is not entirely compatible with long-term IFC and PEP-ECA objectives.

Lessons learned from PEP-ECA projects also provide useful insights on the importance of adapting project models to fit country-specific conditions, leverage the expertise of other World Bank Group units, and more thoughtfully consider M&E objectives and indicators. Appendix F summarizes generic and product line-specific lessons learned from PEP-ECA projects with implications for other IFC Advisory Services. Some key generic lessons include the following:

- Straight replication of a standard product model is not likely to work effectively; adaptation of core product business lines to country conditions can reap greater results.
- Public relations and broad dissemination make up an important complementary component to promoting reform agenda and training/capacity-building efforts.
- Effective exit strategies and incorporation of pricing of services can help ensure sustainable development outcomes and impacts after project closure and support local market development of related Advisory Services.
- Sound M&E objectives and targets enhance team focus on implementation and achievement of results.

Recommendations

1. IFC would benefit from replicating selected features of the PEP model, but wholesale transfer to another region is not recommended. Shortcomings in the organizational structure...
should be addressed, and some product lines should be revisited.

PEP-ECA’s management structure, core product line specialization, focus on developing replicable projects, reliance on a dedicated team of mostly local staff for project implementation, project-level emphasis on achieving targeted expected outcomes, and long-term project life (two to five years) all helped achieve program objectives. Yet deficiencies exist in the PEP-ECA structure that should be addressed and, despite small numbers of projects, some product lines had low success rates. The most challenging issue was PEP-ECA’s funding mechanism. Although this bilateral donor-dependent funding mechanism promoted targeted, results-focused interventions, it also often constrained IFC’s ability to be strategic and responsive to client and country needs, raised costs, and created delays. As PEP-ECA focused on specializing in core areas and required greater expertise, recruitment and retention of qualified staff also became a challenge. In addition, even though PEP-ECA’s M&E system is among IFC’s most advanced in the area of Advisory Services, reliable measurement of results was difficult due to weak indicators and incomplete data collection and expenditure tracking. Consideration should be given to the following:

1.1 Designing a more cost-effective Advisory Services funding mechanism to meet strategic objectives, improve client responsiveness, and enhance development results.

Advisory Services funding mechanisms should be designed to enable strategic and sequential project planning and limit burdensome transaction costs, delays, and constraints or special conditions imposed by bilateral project funding. Appropriate balance should be achieved between development of core products and their country adaptations. As such, IFC should ensure that sufficient funding is allocated for project identification, development, and preparation, so that projects are ready (country adjusted) for implementation when funding is sought. Funding incentives should also be improved to facilitate project experimentation based on country needs. Where possible, pooled or hybrid funding models should be encouraged, which offer quicker access to project funding, while placing fewer constraints on project scope, design, and staffing. Going forward, IFC should be more proactive at engaging donors and educating them about recipient countries and IFC strategic priorities, and learning about their long-term goals or preferences.

1.2 Carefully considering staffing needs for Advisory Services and adopting human resource policies that address recruitment and retention requirements and facilitate access to much-needed short-term global expertise.

To do this, IFC should consider creating a cadre of project managers. For accessing short-term international expertise where product lines require, IFC may consider forming a pool of Advisory Services experts in core areas, which would include IFC and World Bank specialists and external consultants to help project teams address needs in a timely and effective way. IFC should also review training and capacity-building requirements of Advisory Services staff, and develop focused training policy to support its Advisory Services staffing strategy more effectively. Given IFC’s decentralization process, field-based knowledge should be developed with the help of experts in the field. Improving staff skills and experience, retaining global knowledge, and leveraging central units of expertise (e.g., SME, private sector development, and industry departments) should be key. Specialized training, staff exchange programs, and regular meetings intended to share good practices and lessons learned should be routine. Within different business line areas, different staff might be flagged according to expertise and then tapped in a more systematic way into a broader, more formal knowledge-sharing effort. Sufficient resources should be allocated to ensure knowledge sharing and ongoing best practice learning in a more systematic way.

1.3 Eliminating or redesigning projects that have not been effective, as is true in
many traditional PEP-ECA linkages projects, and doing more of those that have achieved positive results.

Projects with questionable and/or weak strategic relevance or marginal IFC role and contribution should not be pursued. In redefining linkages interventions, PEP-ECA should collaborate with the SME Department to tap its knowledge and explore experiences from around IFC. Although PEP-ECA has already discontinued direct SME development projects, indirect SME development projects should include more rigorous methods for capturing and measuring the impact on SMEs.

1.4 Improving the quality of M&E indicators, data collection methods, and cost accounting.

Project-specific M&E targets should be tailored to country situations and conditions as part of project preparation, verified as part of the project approval system, and monitored during project implementation. More rigorous survey techniques and data collection methods should be developed to establish baselines and enable comparisons across time and across countries where possible. The proper utilization of the indicators and techniques should be closely monitored to derive lessons and ensure data quality. A more comprehensive expenditure accounting and tracking mechanism should be introduced, which would not only enhance M&E, but provide a useful project management tool for benchmarking costs of different activities and developing Advisory Services pricing and client contribution strategies. This would also provide data for analysis of benefits and efficiency of the programs and their components.

2. IFC should leverage Advisory Services and investment tools strategically and systematically in a complementary fashion to address long-term country development needs.

IFC has been implementing various initiatives since 2005 to take a strategic approach to developing and delivering Advisory Services. This includes measures to develop principles and operating guidelines, improve funding processes, meet human resource needs, measure and monitor impacts, and more, as described in box 2.1 and throughout this report. Because this report is limited to PEP-ECA's experience and does not cover other Advisory Services, it offers recommendations for management in addition to existing or forthcoming recommendations from relevant working groups, studies, and reviews on Advisory Services. Given the various initiatives and committees focusing on World Bank coordination, this report does not offer a separate recommendation on improving coordination. This report's findings and conclusions support ongoing initiatives and recommendations made elsewhere. Consideration should be given to the following:

2.1 Developing and implementing a cohesive and complementary Advisory Services and investment strategy based on each country's development needs.

This greater institutional and strategic cohesion should be achieved through (a) developing and implementing a cohesive country strategy, where relevant, in which Advisory Services and investments are complementary tools (either Advisory Services projects alone or integrated with IFC investments) for achieving long-term country and sector development objectives, (b) ensuring interaction of Advisory Services and investment staff and leveraging expertise at the operational level for cross-fertilization on projects and sector initiatives, and (c) promoting coordination with the rest of the World Bank Group, where relevant, by formally identifying opportunities for collaborative initiatives as they may arise.

2.2 Within each specific country context, exploring how each core area Advisory Services intervention can be structured to maximize impact, leveraging IFC investment objectives and synergies where relevant and possible.

Experimental projects should also be developed according to specific country needs and IFC
strategic priorities, and should incorporate the basic successful features and core components of the standard PEP model as appropriate (i.e., reform, training and capacity building, and broad dissemination).

**3. IFC should formalize more detailed and specific pricing and subsidy guidelines for Advisory Services to assess the full cost of intervention and provide subsidies on a selective and justified basis.**

PEP-ECA’s lack of emphasis on pricing strategy resulted in inconsistent application and collection of client fees. Although lack of client contribution for public good Advisory Services may have been justified, this rationale was not entirely appropriate with respect to private goods or services provided to firms, including capacity building and consulting. IEG project evaluations found evidence of a growing willingness to pay for these services among the clients surveyed and interviewed. Ultimately, lack of client contribution, either cash or in kind, or subsidized Advisory Services deprived project management of valuable client feedback on the relevance of and demand for specific Advisory Services components, which then affected results and lessons learned for future projects.

The most recent announcement of IFC Advisory Services pricing policy and principles made strides, but more work is needed to develop practical, clear, and useful guidelines for operational staff in each product area for effective implementation. To this end, IFC should consider:

**3.1 Further developing the recently issued general pricing policy and principles to provide practical and clear guidelines and directions for appropriate assessment of subsidy justification and target ranges of pricing for different types of interventions with examples and hands-on training.**

The use of a subsidy or partial subsidy may be justified in some cases, for example, for general policy reform advice that will contribute to the public good or when using Advisory Services to induce a client to undertake developmental activities it would not do otherwise (for example, a commercial bank entering the SME market). Charging fees to clients can help develop local markets for services, support project sustainability, create options for project exit strategies, and reinforce client commitment. Careful consideration should also be given to nondisplacement policy issues or market distortions, which are necessary components for developing sustainable services. Yet task managers require more guidance on justification of a subsidy in the market, as well as how to price different types of Advisory Services, than is contained in the new policy. IFC should equip operational staff with practical tools needed for effective implementation of the new principles, including possible pricing ranges based on local market conditions, yet not lock staff into rigid corporatewide imposed pricing plans. This would also strengthen the strategic relevance dimension of IFC’s self-evaluation project completion reports, which IEG will validate. This dimension requires assessment of the appropriateness of each project’s planned and actual cost recovery; yet without sufficient guidance on the appropriateness of cost recovery, task managers are not able to assess this dimension adequately.

**3.2 Accounting for the full cost of designing, implementing, and supervising the Advisory Services intervention, including IFC’s overhead and administration costs.**

This will derive the entire cost of the Advisory Services intervention and enable more thorough assessment of the effectiveness of the Advisory Services intervention, and adequate comparison among various projects and programs.
The evaluation comprised two levels: the individual advisory project level and the PEP-ECA program level. As such, this evaluation conducted independent project evaluations, as well as an analysis of PEP-ECA management structure and support functions, that is, human resource management and M&E.

**Project-level evaluations.** All together, 44 projects were evaluated, comprising the building blocks of the PEP-ECA evaluation, in 34 Project Evaluation Reports (PERs) (see table A1). Several projects that were extensions or subsequent phases of a project were combined in one evaluation report. Similarly, advisory operations with two or more donors that resulted in multiple assignments were combined in one evaluation report.

A comprehensive evaluation of all 32 PEP-ECA advisory projects initiated from FY 2001 and completed by the end of December 2005 was conducted for this study. The following, because they were studies, were not included in this evaluation: Azerbaijan Technical Assistance Diagnostic project, Energy Efficiency Investment Study, IFC Leasing Best Practice Manual, Russia Banking Sector Corporate Governance Study, Russia Private Sector Higher Education Study, Russia Waste Gas Utilization Feasibility Study, Ukraine Banking Sector Corporate Governance Study, and Uzbekistan Dairy Sector Supply Chain Study (phase 1). The 32 projects were evaluated in 26 PERs.

In addition, IEG-IFC evaluated a sample of 12 pre-FY 2001 advisory activities (in eight corresponding PERs) in the CIS region, which largely comprised the first generation of PEP-ECA projects in the formal product lines, were ongoing at the time of the creation of PEP-ECA in May 2000, and were at least partly managed under PEP-ECA. Before FY 2001 PEP-ECA projects were chosen based on their potential to (a) reveal lessons relevant for IFC Advisory Services strategy, delivery, and implementation in the future and (b) shed light on PEP-ECA projects’ long-term impact.

PERs piloted by IEG-IFC for this evaluation expanded on advisory project completion reports that IFC has recently rolled out for all advisory projects and programs. An IFC working group advised by IEG-IFC developed the evaluation framework (see appendix B for evaluation rating criteria and template). This framework, based on Development Assistance Committee (Organisation for Economic Cooperation and Development) principles, takes into consideration distinct project dimensions, which are rated according to (a) strategic relevance, (b) output delivery, (c) outcome achievement, (d) impact achievement, and (e) efficiency. A development effectiveness synthesis rating of these five dimensions is assigned, as well as a separate rating on IFC’s role and contribution. In addition to these core dimensions, which form the basis of IFC’s project completion reports, IEG’s evaluation prototype rates the work quality of IFC staff, consultants, and other partners.

The evaluation framework, which provided the basis for interview guides, surveys, and focus groups, was adapted to specific product lines when IEG-IFC evaluators, comprising staff and external consultants, conducted phone interviews and visited nine countries: Armenia, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Russian Federation, Tajikistan, Ukraine, and...
Uzbekistan. Meetings and interviews were held with a broad cross-section of stakeholders, including government officials, Advisory Services clients, private sector representatives, multilateral and bilateral donors, World Bank Group staff, educational institutions, representatives from the media, and nongovernmental organizations. In total, IEG-IFC conducted roughly 400 stakeholder interviews and surveyed approximately 210 clients to complete project evaluations. IEG’s team attempted to assign a fair and accurate synthesis rating for each project based on an analysis of information acquired on field visits and from stakeholder interviews, PEP-ECA project documents and reports, IEG-IFC surveys, and self-reported M&E data. The 34 PERs completed by IEG, which capture the results from 44 projects,1 were subject to external and peer reviews as well as feedback from PEP-ECA management and staff to confirm factual accuracy. Although the final text of PERs reflects valuable comments and review by PEP-ECA, the ratings are based strictly on IEG Advisory Services ratings guidelines and IEG-IFC judgment.

Limitations and caveats. Given the wide timeframe for evaluated projects, including before PEP-ECA projects (with the earliest start date of FY 1996 and earliest end date of FY 1999) and PEP-ECA projects (with the latest start date of FY 2003 and latest end date of FY 2005), the extent and quality of data captured, specificity of indicators relative to project objectives, and available documentation varies greatly. Although impact that is more widespread is directly correlated to the passage of time, the M&E frameworks on earlier projects are less robust. Because clients and other stakeholders memories fade, findings based on interviews and survey results on older projects are less reliable as well. Conversely, projects

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Source: IEG data.

Note: PERs are project evaluation reports.
a. Multicountry projects in the Kyrgyz Republic, Tajikistan, and Uzbekistan.
completed more recently are likely to have stronger attribution to PEP-ECA than older projects as a function of partner and participant memory. Likewise, M&E frameworks have been refined over time and indicators are more closely linked to project objectives; however, in some cases, insufficient time has passed for significant or widespread impact to occur.

Evaluations are also subject to limitations. First, time and resource constraints for conducting these evaluations limit the ability to capture all relevant information, despite attempts to access the most meaningful information to provide a fair assessment of all 44 projects in nine countries during the identified period. Second, PEP-ECA’s financial accounting system, which tracked disbursement of donor funds, did not allow for easy tracking of expenditures by client or activity on a specific project. There are examples where not all project activities are accurately tracked. Thus, deriving an efficiency measure was difficult. Third, files from older IFC projects were not complete and the quality of records was uneven, including missing key dates for project proposals and final drafts. Also, some former clients refused to provide data.

In addition, attribution of outcomes to IFC presented a challenge, not only due to the passage of time and faded memory, but also because of the presence of other international donors and financial institutions, multiple stakeholders, non-governmental organizations, and private enterprises active in the same areas. There are examples in which a sufficient number of stakeholders gave credit to IFC for development outcomes, including drafting and passage of legal and regulatory reforms or market growth. IFC often, however, got more credit for contributing to development outcomes than being the sole purveyor. Also, development impact on projects narrow in scope could be more easily attributed to PEP-ECA.

Program-level evaluation. IEG’s evaluation team conducted stakeholder interviews, including meetings with current and former IFC and World Bank staff, to understand cross-cutting themes relevant to PEP-ECA program structure and evaluation of individual projects. The evaluation of PEP-ECA program structure drew on earlier evaluations of project development facilities, PEP-ECA strategy as approved by the Board, presentations and internal reports, IEG’s country and thematic evaluations, World Bank Group evaluations, and internal IFC reviews.²

Environmental and social implications. The PEP-ECA study reviewed the environmental and social implications of the PEP-ECA program, where relevant. This includes an exploration of how project-related environmental and social sustainability issues have been addressed in the PEP model, how these objectives were identified and formulated at appraisal, how they have been monitored and met, and what have been project-level and wider environmental and social impacts of PEP-ECA operations. Those projects that had a direct environmental impact, such as agriculture, forestry, and manufacturing supply chain linkages, were reviewed. In terms of social impact, the absence of indicators tracking development outcomes to women-owned SMEs as a result of PEP-ECA Advisory Services activities in leasing finance, for example, limited measurement.
These guidelines can also be used for evaluating Advisory Services for other purposes, for example, in project supervision reports or project completion reports.¹

IEG-IFC advisory PERs should be concise and the use of bullet points is recommended for the rationales to support the evaluative judgments (ratings) and lessons.

I. Project Evaluation Report Dimensions
IEG-IFC rates advisory projects on nine dimensions: (a) strategic relevance, (b) output achievement, (c) outcome achievement, (d) impact achievement, (e) efficiency, (f) IFC role and contribution, (g) IFC work quality, (h) consultant work quality, and (i) the work quality of partners who were critical to the project’s achievement of results.² Ratings on the first five dimensions are synthesized into an overall rating of development effectiveness, and ratings on three indicators of IFC work quality are synthesized into an overall rating on IFC work quality. Ratings on the two additional work quality dimensions—consultant work quality and others’ work quality—are not synthesized. The following sections provide detailed guidance on how to make rating judgments.

A. Development Effectiveness
This development effectiveness dimension is based on a synthesis of ratings of project strategic relevance, results (outputs, outcomes, and impacts) and efficiency. Desired results for IFC advisory projects are specified ex ante in documents at approval 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 compared at project completion with achieved results in a project completion report. Some results—medium-term outcomes and long-term impacts—may be unknown at project completion, but can be examined post-completion. Results of advisory projects may be intended or unintended and positive or negative. Outputs are the products, capital goods, and services that result from a development intervention. They are the immediate deliverables of the advisory intervention. Outcomes are the positive and negative, intended or unintended, and short- and medium-term effects of the advisory project. Impacts are the positive and negative, often long-term effects produced by advisory intervention—directly or indirectly and intended or unintended (see figure B1).

All advisory projects are eligible for a development effectiveness synthesis rating, but not all projects will be rated on all five dimensions. IEG-IFC should rate those projects whose main objective is the conduct of a feasibility study for an investment operation only on the dimensions of strategic relevance and output. Many of these studies will result in investment operations whose development and investment outcome performance would be potentially captured in the expanded project supervision report (also known as XPSR) system. The output of advisory projects in such cases would be the study itself. The outcome—the approval of an investment project as evidenced by a project data sheet or a no-go decision—is not separately evaluated.

Some advisory projects are studies that result in free-standing specific advisory projects that in turn can be individually rated under this Advisory...
Services rating framework. The output in these cases would be the study, and the outcome would be a new advisory project. Other studies may still have value if, based on their findings and recommendations, a potential investment operation or advisory project is not undertaken, but this impact cannot be measured.

When individual ratings have been made on the five dimensions (strategic relevance, output achievement, outcome achievement, impact achievement, and efficiency) that make up development effectiveness, the ratings are synthesized into an overall rating of development effectiveness. This is not a mechanical average, but a synthesis of the project’s results in the field and its contribution to IFC’s purpose and mission.

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, but the ratings should be based on reasonableness of outcome and impact attainment at completion. It should be noted if this is a preliminary estimate and the impact evaluation should be revisited.

Each of the results dimensions is discussed in turn below.

1. **Strategic relevance.** Did we do the right project at the right time?

The strategic relevance dimension 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 project was the appropriate instrument for the work. For this rating, judgment is made on
whether a “window of receptiveness” to the advisory project exists in terms of the economic or political situation and the advisory project’s centrality to the country priorities and IFC’s country strategy.

Based on IFC’s Article I Purpose (see box 2.2), one important consideration is the extent to which the project is focused on addressing shortcomings in the investment climate or helping to build in-country business infrastructure capacity. Investment climate specifically refers to country conditions, including legal, regulatory, and judicial frameworks; rule of law; institutional capacity; investment incentives and barriers; peace and order situation; level of corruption; and access to cost-effective labor, domestic finance, and business support services.

Principal indicators of an advisory project’s relevance are its focus on the investment climate and/or alignment to a designated country assistance strategy and IFC country strategy high-priority issue; relevance to the direct client as indicated, for example, by client contribution 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 to which it was intended to respond? How well aligned was the work to the country assistance strategy and to the IFC advisory country strategy or sector or program-specific strategy? Are the project’s objectives consistent with the region’s and country’s current development priorities and IFC/Bank Region/country strategic objectives for Advisory Services? What was the client’s interest/receptivity (e.g., willingness to pay a fee)? How appropriate was the work, given the economic and political situation or donor cycle at the time the work was initiated?

- Was the advisory intervention the appropriate instrument for the work? Was the use of a subsidy appropriate? What was the extent of planned and actual client contribution?

- Was the project intended to have broad impact at the regional or national level?

All advisory projects have been deemed relevant at approval to receive funding. If they were not deemed relevant, they would not have been funded. They generally loosely relate to a country assistance strategy or IFC strategy paper, given that they are promoting private sector development. But this dimension goes beyond these minimum levels and looks in retrospect at the centrality of the project to the country as expressed in the country assistance strategy and IFC’s strategic priorities. It also asks about the potential impact of the advisory project. If it was intended to impact the regional or national level, it likely was strategically relevant. Client feedback about the necessity of the advisory intervention for attainment of primary objectives may also be considered under strategic relevance.

The evaluation standards for strategic relevance are as follows:

**Excellent:** Assistance addressed major priority issues; assistance aimed appropriately at national level impact; assistance at initiation and completion was highly appropriate for conditions; assistance achieved appropriate cost recovery.

**Satisfactory:** Assistance addressed major priority issues to a large extent; assistance had potentially substantial impact on the direct recipient and/or local community; assistance was appropriate for conditions at initiation and completion; assistance achieved majority of appropriate cost recovery.

**Partly unsatisfactory:** Assistance overlooked some priority issues; assistance at initiation was appropriate, but conditions changed that could not have been anticipated; assistance achieved substantially less than appropriate cost recovery.

**Unsatisfactory:** Assistance addressed low-priority issues; assistance was not appropriate given conditions at initiation; there was no cost recovery, although cost recovery was appropriate.
2. **Output achievement.** Were the products, capital goods, and services delivered?

Expected outputs should have been specified in the advisory project’s project data sheet. This section reviews the extent to which they have been achieved. Outputs should be evident during the project timeframe. Outputs are the products, capital goods, and services that result from a development intervention. They are the immediate deliverables of the advisory intervention, for example, the diagnostic report, training manuals, legislation drafted, 300 managers trained, 25 women-owned microenterprises developed, or business plan developed. Output indicators and associated targets should have been specified for each project in the project data sheet technical assistance, and this section refers back to them and indicates the extent to which they have been achieved.

Note that the word major is used in looking at output achievement. The issue is not whether every output specified has been achieved, but rather the extent to which the key one or ones have been achieved. If outputs have been modified, the reviewer should take into consideration those outputs originally committed to, as these were the basis for the funding. Shortcomings in output achievement may have to do with either the number of major outputs achieved and/or the extent to which one or more were not achieved.

Client satisfaction measures are typically comments on the quality of outputs. Client satisfaction with the Advisory Services is not in itself an outcome measure. (The outcome is that the client changed behavior or performance as desired per a project objective.) Note that client satisfaction is just one indicator of output quality.

The evaluation standards for output achievement are as follows:

*Excellent:* More than the expected outputs were achieved with at least satisfactory quality; or all major outputs were achieved with excellent quality.

*Satisfactory:* All major outputs were achieved with satisfactory quality.

*Partly unsatisfactory:* Either at least one major output was not achieved or at least one major output was of less than satisfactory quality.

*Unsatisfactory:* Few or none of the major outputs were achieved or several major outputs were of less than satisfactory quality.

3. **Outcome achievement.** Were the intended short- and medium-term effects of the intervention achieved?

Expected outcomes should also have been indicated in the results-based framework for the advisory project. Outcomes are the positive and negative, intended or unintended, and short- and medium-term effects of the advisory project. Client action taken because of the advice given is one common type of outcome measure; it reflects client acceptance of recommendations. (Development and delivery of the recommendations to the client, in this case, as well as client satisfaction with the Advisory Services, could be output objectives.) Two outcome measures are (a) the extent to which short- and intermediate-term outcomes were achieved, for example, acceptance of recommendations and (b) appropriate addressing of environmental and social issues.

Outcomes, however, require the PER author to consider whether or how much the observed effects can be attributed to the project as an intervention. This must involve consideration of a counterfactual or a comparison of current performance to what would likely have happened in the absence of the program. So, for example, if a major project objective is the creation of 100 jobs, it is important to estimate the difference between the current number of new jobs and what would have been the case without the project. Having a baseline pre-intervention number is usually a critical starting point. Then the task is to make a plausible case that it was the intervention that made the difference between the
baseline and the outcome measure. For many projects, the argument will be based on client or expert judgments of attribution. For some projects, large in volume and/or particularly important, quasi-experimental or experimental designs may be possible.

Outcomes are the short- and medium-term effects of producing the outputs. These may be passage of legislation, increase of knowledge of leasing, or changes in management techniques, corporate governance, or plant layout, to cite but a few examples. In some instances, an unanticipated positive or negative outcome may be seen at project completion. When this occurs, it should be noted in the outcome rating rationale. Some outcomes or project effects will be evident at project completion. Others may take longer to be seen and need follow-up.

Outcome indicators should have been specified in measurable terms at the Advisory Services project data sheet approval stage; thus, the outcome indicator for a demonstration project, for example, might be stated as follows: “As a result of this demonstration project, three additional leasing firms will be operating in-country within three years.”

According to International Finance Corporation’s Policy on Social and Environmental Sustainability (2006c), central to IFC’s development mission are its efforts to carry out its investment operations and Advisory Services in a manner that does no harm to people and the environment. IFC endeavors to invest in sustainable projects that identify and address economic, social, and environmental risks with a view to improving continually their sustainability performance within the limits of their resources and consistent with their strategies. Until 2006 IFC has not systematically established environmental, social, health, and safety objectives for IFC Advisory Services at appraisal, nor supervised or evaluated these projects from the environmental, social, health, and safety point of view; therefore, IFC has no evaluative statistics on environmental and social effects of IFC Advisory Services and PEP-ECA projects. IFC Environmental and Social Review Procedures (2006b) includes a procedure to appraise and supervise IFC advisory projects from the environmental point of view. The first IFC advisory projects that include clear environmental, social, health, and safety objectives established by IFC’s Environmental and Social Development Department (known as CES) at appraisal in 2006 will likely enter into IEG’s evaluation program from 2008 onward.

At project completion, most outcomes should have been discernible, but it may be too early to expect achievement of others. If one or more outcomes have been achieved, this should be indicated and a rating on outcome achievement should be given. In addition, however, it should be noted in the ratings narrative that achievement of some major outcomes is not yet known. The narrative should indicate when achievement of those outcomes could be expected. If the likelihood of achieving major outcomes is low, this should be noted in the narrative with explanation of the reasons why. If further major outcomes are expected, the follow-on box for “further M&E recommended” must be checked.

The evaluation standards for outcome achievement are as follows:

Excellent: All or almost all of the major outcomes were achieved; one or more of environmental, social, health, and safety suggested improvements were made and/or projects served as a model for positive environmental and social effects; client attributed changes in behavior and performance to the Advisory Services.

Satisfactory: Most of the major outcomes were achieved; environmental, social, health, and safety areas for improvement have been communicated to the client with some improvements ongoing or made; clients indicated the Advisory Services contributed to major changes in behavior and performance.

Partly unsatisfactory: Some, but fewer than half, of the major outcomes were achieved; client...
acknowledged Advisory Services’ contribution, but attributed relatively minor influence; environmental, social, health, and safety recommendations made to client, but with little or no client response.

Unsatisfactory: Few or none of the major outcomes achieved; no screening of environmental, social, health, and safety issues occurred, although it was appropriate; client attributed little or no behavior or performance change to the Advisory Services, or they had perverse effects.

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 likely have 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. This is generally accomplished through post-completion assessment of what happened because of this project: the value added in the long term. At a minimum, project staff completing the advisory project evaluation report need to indicate the counterfactual and the rationale for attributing effects to the advisory intervention. In IFC, causality can often not be demonstrated with scientific certainty, but only a plausible argument for contribution made.

Four methods for evaluating program impacts traditionally exist. One method—and the strongest—is an experimental design with random assignment to treatment and control groups; the second is a quasi-experimental design in which a comparison group exists, but is not necessarily randomly assigned (e.g., constructed after the fact). The third is called a reflexive design, also known as a before-and-after comparison. It can be a weak design if there is no within-and-without comparison as well. The fourth and perhaps most common method is participant judgment and expert opinion, which is most frequently used for the advisory projects.

Program participants can be asked to estimate the extent to which performance was enhanced as a result of the project. They need to be asked to estimate the net effect—to compare what happened with what would have happened in the absence of the project. Program participants or clients can be asked, for example, to estimate the extent to which their behavior changed as a result of the project or the extent to which they made changes because of the program (outcome) and the impact (on sales and profits, household income, health indicators, and so on) that this had. The investment or project officer may also use their expert opinion to make these estimates. This approach has many problems and is not ideal, but it may be the only real option in many cases.

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 impacts achieved to date, and follow-up evaluation may be recommended. If the likelihood of achieving remaining major impacts is low, this should be noted in the narrative with explanation of the reasons why.

The evaluation standards for impact achievement are as follows:

Excellent: Exceptional benefits were achieved beyond the direct recipient(s) or clients at the national, regional, or global levels; impact extended nationally or internationally as best practice.

Satisfactory: 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: Intended impacts were partially achieved; intended impacts were mostly achieved, but some negative impact occurred.

Unsatisfactory: Intended impacts were not achieved; negative impacts occurred.
5. **Efficiency.** Were the costs reasonable in relation to the potential results?

A project is efficient to the extent that its costs are reasonable in relation to the potential results, in other words, that the “buck” is consistent with the expected “bang” or the cost-benefit ratio is positive. Even when the project has a positive cost-benefit ratio, however, a second important dimension of efficiency is how economically resources were used. 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: a third aspect of efficiency. This dimension takes into account all three measures of efficiency:

- How reasonable were the costs in relation to the potential results (cost-benefit dimension)?
- How economically (funds, expertise, and time) were resources used (Organisation for Economic Cooperation and Development definition)?
- Did alternative ways to achieve the objectives exist that might have been less costly (cost-effectiveness)?

The evaluation standards for efficiency are as follows:

**Excellent:** Assistance had a highly positive cost-benefit ratio; resources used to provide assistance were expended highly economically; assistance was far less costly than the alternative(s).

**Satisfactory:** Assistance had a positive cost-benefit ratio; resources used to provide assistance were expended economically; resources used were reasonable in relation to alternatives.

**Partly unsatisfactory:** Assistance 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:** Assistance 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.

**Overall 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. It is not an average of the five ratings.

The evaluation standards for development effectiveness overall are as follows:

**Excellent:** A project with overwhelming positive development results and virtually no flaws. It indicates the type of project IFC should use publicly to illustrate the contribution of IFC Advisory Services.

**Satisfactory:** A project that has strong positive aspects that more than compensate for any shortfalls. It is a project that generally meets expectations.

**Partly unsatisfactory:** A project that has some strong positive aspects, but that does not compensate adequately for shortfalls, and has generally failed to meet expectations.

**Unsatisfactory:** A project with negative aspects, clearly outweighing positive aspects, and that has failed to meet expectations.

B. **IFC Role and Contribution**

What was IFC’s role and contribution in engaging in this advisory project? This indicator asks to what extent IFC brought additional or special contribution to the advisory project. Was IFC especially pioneering or innovative? Was it particularly catalytic in this case? Did it enter a crowded field and provide Advisory Services that others could have provided? To what extent did IFC provide assistance and direction that yielded greater development results than would have been the case absent IFC’s involvement? Where IFC delivered its usual role and contribution, it
should be rated satisfactory. The excellent rating should be reserved for those cases in which IFC involvement clearly made a significant contribution, such as encouraging a firm to improve its corporate governance.

Principal indicators that should be considered involve the rationale for IFC’s support and IFC’s involvement in the project (at approval and ongoing). Consider what would likely have happened if IFC had not provided the advisory project.

• Would alternate funding for the Advisory Services have been likely?
• Would the company have found alternative financing (e.g., if it was a business development service 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 another similar focus that increased the developmental focus?
• Was IFC particularly catalytic or innovative in its Advisory Services?

The evaluation standards for IFC role and contribution are as follows:

**Excellent:** IFC was essential, and IFC made major contributions that made the project particularly catalytic, innovative, or developmental.

**Satisfactory:** IFC’s role and contribution were in line with its operating principles, that is, IFC had additionality.

**Partly unsatisfactory:** IFC’s role or contribution fell short in a material area.

**Unsatisfactory:** IFC’s role was not plausibly additional, and IFC’s expected contribution was not delivered.

### C. IFC’s Work Quality

This dimension is a synthesis rating of IFC’s performance on the advisory project. The IFC role varies with the Advisory Services, because IFC is sometimes the direct implementer of one or more components of the Advisory Services, while other times, IFC prepares the project and then continues in an oversight or supervision role, while others do the implementing. Ratings on up to three aspects of IFC’s work quality should be synthesized as appropriate: project preparation, project supervision, and project implementation. As explained above, for some projects one or more of these aspects may not be applicable.

The advisory project outcomes should not unduly affect the IFC work quality ratings. Lack of outcome indicator achievement can be caused by external factors, unforeseeable (e.g., force majeure) or foreseen (realized risk), despite satisfactory IFC performance. And a satisfactory outcome rating may be achieved even though IFC did a poor job supervising the project.

#### 1. 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. The project’s relevance is not considered an indicator of IFC work quality, because it is taken into account under the development effectiveness dimension and should not be considered twice; however, if the project required major modification, the nature and extent of the modification should be considered here. It may indicate poor front-end planning that should be reflected in the rating or force majeure events for which there should be no penalty. The rationale for the rating should indicate the basis for the rating in such instances.

The materially deficient or particularly commendable areas in IFC’s project preparation should receive comments. Principal indicators that should be considered include the following:

• 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 internal to the World Bank Group, as well as those external to it. 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 Services with specified dates and monitorable success indicators?

Were environmental, social, health, safety, gender, poverty, and social development aspects taken into account appropriately?

Were cost recovery targets appropriate?

Was attention to sustainability adequate?

The evaluation standards for project preparation and reporting are as follows:

Excellent: IFC’s front-end work could serve as a best-practice example.

Satisfactory: IFC’s front-end work was of generally acceptable performance.

Partly unsatisfactory: There was a material shortfall in front-end work.

Unsatisfactory: There were material shortfalls in front-end work.

2. Project Supervision

IFC may not have a direct role in advisory project implementation, but in any event, it always has a supervisory oversight responsibility to fulfill if consultants or other partners are used to implement the project. Principal indicators that should be considered are as follows:

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, including 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 environmental, social, health, and safety aspects, when applicable;

Use of peer reviewers, as appropriate;

Quality of M&E;

Achievement of cost-recovery targets;

Adequacy of attention to sustainability.

The evaluation standards for project supervision are as follows:

Excellent: IFC’s supervision could serve as a best-practice example.

Satisfactory: IFC’s supervision was of generally acceptable performance.

Partly unsatisfactory: There was a material shortfall in IFC’s supervision.

Unsatisfactory: There were material shortfalls in IFC’s supervision.

3. Project Implementation

IFC may or may not have a direct responsibility for implementing one or more project components. If IFC staff had direct responsibility for implementing one or more project components, this rating should be completed. Otherwise, “non-applicable” should be checked. For example, facility staff may have been direct providers of business development services to SMEs. In this case, they would be the implementers, and this dimension would be rated for them. Alternately, facility staff may have contracted with a university to develop and offer training. In this case, IFC has
no implementation role and “nonapplicable” would be checked. In complex projects, IFC may be the implementer of one or more components and supervisor of implementers for other components of the project. Questions to be addressed include the following: Were IFC-implemented components completed on time and within budget? Were they of adequate quality? What was the extent of client engagement and ownership of the project?

Principal indicators that should be considered are as follows:

- 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/product delivery;
- Extent of client engagement and follow-up.

The evaluation standards for project implementation are as follows:

Excellent: IFC’s implementation could serve as a best-practice example.

Satisfactory: IFC’s implementation was of generally acceptable performance.

Partly unsatisfactory: There was a material shortfall in IFC’s implementation.

Unsatisfactory: There were material shortfalls in IFC’s implementation.

Overall IFC work quality rating. Based on the ratings of the two or three indicators, (a) project preparation, (b) project supervision, and (c) project implementation (not always applicable), rate IFC’s overall work quality on a four-point scale (excellent, satisfactory, partly unsatisfactory, and unsatisfactory). The IFC work quality rating can be no lower than the worst of the indicators and no higher than the best indicator. It is a synthesis rating and not a numerical average. The evaluation standards for overall IFC work quality ratings are as follows:

Excellent: IFC’s performance was exemplary.

Satisfactory: IFC’s performance was materially up to a high professional standard.

Partly unsatisfactory: There was a material shortfall in at least one area.

Unsatisfactory: There were shortcomings in several areas or an egregious shortfall in one area that led (or could have led) to a less than satisfactory Advisory Services outcome or impact.

D. Consultant(s) Work Quality

Frequently, IFC uses one or more consultants to perform the work. This rating should reflect evaluation of the extent to which the consultant(s) professionally executed assigned responsibilities in relation to the advisory project. If a project has used multiple consultants, the rating should reflect the work quality of the principal consultant, if there was one in that role. If there was no principal consultant, the rating needs to be an average rating across consultants. Principal indicators that should be considered are as follows:

- Extent to which the consultant(s) had the right skills for the work to be done;
- Extent to which 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.

The evaluation standards for consultant work quality are as follows:

Excellent: Consultant(s) work quality could serve as a best-practice example for others.
Satisfactory: Consultant(s) work quality was of generally acceptable performance.

Partly unsatisfactory: There was a material shortfall in the consultant(s) work quality.

Unsatisfactory: There were material shortfalls in the consultant(s) work quality.

E. Partner(s) 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 or non-governmental organizations. They may be the clients, such as in a project to build business associations. A key partner will often be a government ministry or other official, even though they may not be the direct service beneficiaries. In these instances, measure can be taken of the extent of the partner’s interest in and ownership of the project and the extent to which the partner’s expected contribution was forthcoming. The rationale for the rating needs to identify whom (e.g., company or governmental ministry) is being rated in this category.

The evaluation standards for work quality are as follows:

Excellent: Partner(s) demonstrated strong ownership of the project; partner(s) contribution substantially exceeded expectations and/or was essential for the project.

Satisfactory: Partner(s) demonstrated commitment during project implementation; partner(s) contribution was fully in line with expectations.

Partly unsatisfactory: Partner(s) demonstrated moderate interest in the project; there was a substantial shortfall in partner(s) contribution.

Unsatisfactory: Partner(s) demonstrated low interest in the project throughout its life; expected contribution from the partner(s) was not forthcoming.

II. Lessons Learned
Lessons that might be helpful to others doing similar advisory projects—at a minimum, one—should be identified. Lessons should focus on how IFC can improve development effectiveness and IFC work quality of its advisory projects. The lessons may be positive (things that worked and should be repeated) or negative (mistakes that should be avoided). Lessons should be written in a three-part format:

• What did we expect to happen?
• What actually happened and why?
• Lessons for future advisory projects.
Each project is required to develop an impact matrix, with the exception of basic feasibility studies and selected donor-funded projects, which have a different matrix requirement. The senior operations manager and impact assessment officer develop a first draft of the matrix during the project design stage. Once the project manager is on board, the draft is shared with him or her, updated, and assigned specific numerical targets.

The impact assessment matrix is complemented by a monitoring tool (usually attached as a second window to the same Excel file) developed jointly by the impact assessment officer and project manager. The monitoring tool contains specific data presented according to the indicators specified in the matrix as well as timeframe, method of information collection, and often those responsible for collection.

Each project manager is in charge of updating the monitoring tool on a regular basis (usually according to donor reporting requirements, that is, quarterly or semiannually). Data are collected using project records, occasional client interviews, surveys, and pre- and postevaluations. Results are reported in interim and final reports to donors. On some occasions, PEP-ECA or the donor may initiate a mid-term or final evaluation for a project. These evaluations can be internal or use external consultants. In each case, the senior operations manager responsible for the project must agree to the evaluation plan and the budget with the impact assessment officer, project manager, and the donor. So far, external evaluations have been conducted on the following five projects: Georgia Business Development Project (Canadian International Development Agency), Information and Communication Technologies Connector Project, Northwest Russia Forest Investment project, Russia Far East Business Development Program, and Ural Leasing Development Project.

The impact assessment matrix is based on the results-based management framework (see figure D1) that PEP-ECA developed in 2001.

**Figure D1. A Results-Based Approach**

```
Goal

What is the problem we are solving?

Objective

Activities

Outcomes

Outputs

Impact

Have we Succeeded?

How will we solve it?

Source: IFC.
```
Most PEP-ECA countries experienced high economic growth rates from 1999 to 2005.

Since 1999, growth of gross domestic product in the CIS region has been higher than the overall ECA region and higher than other developing countries (see figure E1). Markets in most CIS countries benefited from increased demand from Russia’s expanding economy. Thanks to internal structural reforms undertaken in these neighboring CIS countries, the markets were able to respond to expanded Russian demand with increased levels of output and production. The annual average growth from 1998 to 2005 in middle-income CIS countries (8 percent) was slightly higher than in the low-income countries (6 percent). Growth in middle-income countries was particularly strong from 2000 to 2005: an annual average of 10 percent. At the same time, average wages increased sharply in the region, particularly among low-income countries of the CIS, where real wages have nearly doubled since 1997.

High growth prompted several CIS countries to graduate from being low income to middle income during 2000 to 2005 (Armenia, Azerbaijan, Georgia, and Ukraine); whereas the Russian Federation graduated from middle income to high income (see table E1). For most CIS countries, rapid growth has also translated into higher employment to population ratios in the period.

According to a recent World Bank study, the resurgence of growth has been a major driver in poverty reduction in the region. From 1998 to 2003, the Bank estimated that more than 40 million people moved out of poverty. Decreases in poverty during this period occurred particularly in middle-income CIS countries (Kazakhstan, Russian Federation, and Ukraine), but also in low-income CIS countries (Armenia, Georgia, Kyrgyz Republic, Moldova, and Tajikistan), where despite these recent declines, the proportion of people living in poverty is still high.

Reforms undertaken by CIS countries had a modest effect on improving investment climates.

A general trend existed in CIS countries to undertake reforms and improve climates in the period in which evaluated PEP-ECA projects were active. As a region, the CIS compared relatively well with other regions in terms of improving investment climates. Yet the pace and degree of improvement varied from country to country from 1998 to 2005; some countries went back and forth. Improvements in investment climate conditions are most notable according to the Institutional Investor Country Credit Risk Rating indicator, which is typically more volatile than the Heritage Index of Economic Freedom and International Country Risk Guide indicators (see figure E2 and table E2). According to the latter two indicators, improvements were less notable; lower middle-income CIS countries showed an upward, yet modest improvement in the Heritage score from 2001.

The Heritage Foundation and Wall Street Journal Index of Economic Freedom (Heritage Index) tracks 164 countries. Although the index methodology has recently been revised, this report uses the previous methodology, which comprises 10 groupings or subindexes: freedom of trade, fiscal burden of government, government interven-
Figure E1. Income Growth Rates in the Commonwealth of Independent States Outpaced the Rest of the ECA Region and World Averages

![Graph showing income growth rates for the Commonwealth of Independent States (CIS), Rest of ECA, and All other developing countries from 1998 to 2005.]

Source: Alam and others (2005).


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<thead>
<tr>
<th></th>
<th>1998</th>
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<td>LMC</td>
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<td>Uzbekistan</td>
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<tr>
<td>Low-income group if GNI per capita is:</td>
<td>&lt;760</td>
<td>&lt;755</td>
<td>&lt;755</td>
<td>&lt;745</td>
<td>&lt;735</td>
<td>&lt;765</td>
<td>&lt;825</td>
<td>&lt;875</td>
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</table>


Note: LIC refers to low-income country, LMC to lower middle-income country, UMC to upper middle-income country, and GNI to gross national income.
Figure E2. Commonwealth of Independent States Investment Climate Conditions Improved since 2000

Heritage Index Comparison (using yearly income group)

Institutional Investor Country Credit Risk Rating Comparison (Using yearly income group)

International Country Risk Guide Ratings Comparison (Using yearly income group)


Note: LICs means lower-income countries, and LMCs means lower middle-income countries. The three charts show changes in the indexes compared with the base year (2000); increasing values correspond to improving or lower risk conditions; increasing values for Heritage Index ratings normally indicate deteriorating or more risky conditions, but these have been reversed for this chart.
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<tbody>
<tr>
<td></td>
<td>Overall score: 100 = Lowest risk, 0 = Highest risk</td>
<td>Overall score: 100 = Lowest risk, 0 = Highest risk</td>
<td>Overall score: 100 = Lowest risk, 0 = Highest risk</td>
<td>Overall score: 100 = Lowest risk, 0 = Highest risk</td>
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<td>Armenia</td>
<td>3.26 2.26 88 Rank (best to worst) 1 = Best, 5 = Worst</td>
<td>NR NR 30.10 104 Rank (best to worst) 1 = Best, 5 = Worst</td>
<td>56.80 100 Rank (best to worst) 1 = Best, 5 = Worst</td>
<td>– – 100 Rank (best to worst) 1 = Best, 5 = Worst</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>4.28 3.51 145 Rank (best to worst) 1 = Best, 5 = Worst</td>
<td>NR NR 39.75 83 Rank (best to worst) 1 = Best, 5 = Worst</td>
<td>59.50 106 Rank (best to worst) 1 = Best, 5 = Worst</td>
<td>– – 61 Rank (best to worst) 1 = Best, 5 = Worst</td>
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<tr>
<td>Belarus</td>
<td>4.18 4.11 141 Rank (best to worst) 1 = Best, 5 = Worst</td>
<td>13.55 129 Rank (best to worst) 1 = Best, 5 = Worst</td>
<td>59.80 105 Rank (best to worst) 1 = Best, 5 = Worst</td>
<td>– – 94 Rank (best to worst) 1 = Best, 5 = Worst</td>
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<tr>
<td>Georgia</td>
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<td>16.05 122 Rank (best to worst) 1 = Best, 5 = Worst</td>
<td>26.60 115 Rank (best to worst) 1 = Best, 5 = Worst</td>
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<td>Kazakhstan</td>
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<td>32.30 79 Rank (best to worst) 1 = Best, 5 = Worst</td>
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<td>Kyrgyz Republic</td>
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<td>22.50 128 Rank (best to worst) 1 = Best, 5 = Worst</td>
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<td>Moldova</td>
<td>3.30 3.10 92 Rank (best to worst) 1 = Best, 5 = Worst</td>
<td>15.90 124 Rank (best to worst) 1 = Best, 5 = Worst</td>
<td>21.10 135 Rank (best to worst) 1 = Best, 5 = Worst</td>
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<td>Russian Federation</td>
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<td>23.15 99 Rank (best to worst) 1 = Best, 5 = Worst</td>
<td>61.25 55 Rank (best to worst) 1 = Best, 5 = Worst</td>
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<td>Ukraine</td>
<td>3.75 3.24 119 Rank (best to worst) 1 = Best, 5 = Worst</td>
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<td>Uzbekistan</td>
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<td>22.95 126 Rank (best to worst) 1 = Best, 5 = Worst</td>
<td>– – – – Rank (best to worst) 1 = Best, 5 = Worst</td>
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</tbody>
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a. Data are as of November 2006.
b. NR means no rating.
tion, monetary policy, foreign investment, banking and finance, wages and prices, property rights, regulation, and black markets. The composite index rates on a scale of 1 to 5, with 1 as the best score in terms of openness and favorable business climate and 5 the worst. For this report, however, the Heritage Index was reversed to present 1 as the least free economy and 5 as the most free in order for the index to be comparable with the Institutional Investor Country Credit Risk Rating and International Country Risk Guide.

The Institutional Investor Country Credit Risk Rating, produced by Institutional Investor Magazine, measures country sovereign risk (the risk of government default of its foreign debts). Seventy-five to 100 leading banks provide data for these ratings or scores, which grade each country on a scale of 0 to 100; 100 represents the least chance of default. IEG-IFC’s evaluation practice considers a rating of less than 30 an indicator of relatively high-risk business climate for a country.

The International Country Risk Guide, produced by the PRS Group, comprises 22 variables with separate indexes for three subcategories of risk—political, financial, and economic—for 140 countries. The total risk points for each risk category are further combined according to a formula to produce a composite risk rating for the country in question. In every case, the higher the number of risk points awarded, the lower is the perceived risk; whereas the lower the number of risk points awarded, the higher is the perceived risk.

The Fraser Institute Overall Score, also included in table E2, is a composite of size of government, legal structure and security of property rights, access to sound money, freedom to exchange with foreigners, regulation of credit, and labor and business.

Private investment has increased, but domestic credit has been lower in the CIS than other regions.

Improving investment climates during the period of evaluation helped private investment to expand (both foreign direct investment and domestic credit to the private sector) at rates slightly higher than gross domestic product expansion in most countries. Yet compared with other regions, private investment levels remain low. Using yearly income groups, the CIS middle-income and low-income countries had domestic credit to the private sector, compared with gross domestic product, of 14.4 percent and 10.7 percent, respectively, on average during 2000–05, which was lower than every other region. Gross private investment in lower-income CIS countries was only 13.7 percent of gross domestic product, compared with 20.6 percent of gross domestic product in the middle-income CIS countries (table E3).

<table>
<thead>
<tr>
<th>Table E3. Private Investment and Bank Lending to the Private Sector, 2000–05 (average percent of gross domestic product)</th>
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<tbody>
<tr>
<td>FDI (net inflows)</td>
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<tr>
<td>-------------------</td>
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<tr>
<td>Low-income CIS countries</td>
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<tr>
<td>Middle-income CIS countries</td>
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<tr>
<td>Rest of Europe and Central Asia</td>
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<td>Sub-Saharan Africa</td>
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<td>Asia and Pacific</td>
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<tr>
<td>Latin America and Caribbean</td>
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<td>Middle East and North Africa</td>
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Note: FDI is foreign direct investment; GFCF is gross fixed capital formation.
APPENDIX F. LESSONS LEARNED

This appendix summarizes generic and product line-specific lessons learned from PEP-ECA projects with implications for other IFC Advisory Services.

**Generic Lessons**

*Development effectiveness is best served when advisory projects are tailored to specific in-country conditions.* Adaptation of projects within business lines to (a) existing macroeconomic and investment climate conditions, (b) government willingness to adopt reforms and level of partner commitment as well as (c) presence of vested stakeholder interests contributes to achieving optimal project development outcomes. Important pre-project market and needs assessments enable those who are designing advisory projects to identify effective partners and to assign deliverables appropriate to client absorptive capacity and conditions in the field.

*A comprehensive public relations and information dissemination platform helps to drive optimal development outcomes.* Dissemination campaigns serve a twofold purpose: (a) provide education and (b) raise awareness among stakeholders and market participants of market conditions and key reform requirements. The two aspects play an equally important role in helping to motivate change by drawing attention to the needed reforms and providing relevant information to decision makers and the public. IFC advisory projects can play a valuable role in advancing private sector development reforms by addressing gaps in knowledge with respect to an alternative financial instrument (e.g., a leasing product) or a change in tax regulation, law on permits, or SME inspections. Disseminating findings in the local language, providing practical easily accessible examples, and clear recommendations motivate and empower stakeholders to implement reforms based on knowledge and expert advice.

Appropriate and clearly defined M&E objectives are essential for measuring performance of advisory projects and facilitating delivery of interventions as a means of achieving development objectives. Identification of suitable M&E indicators provides a basis for project implementers to focus on achieving desired development outcomes and impacts. Benchmarking of indicators enables advisory projects to (a) track progress toward goal achievement (i.e., effectiveness of Advisory Services) and (b) measure resource utilization and efficiency against performance.

*Effective project exit strategies help to promote ongoing outcomes and sustainable development impact after project closure.* As part of advisory projects, sustainability can be enhanced by building local capacity and leveraging existing institutions, including leasing or trade associations, business centers, consulting or advisory firms, and universities. Many successful advisory projects were able to perpetuate activities after closure through early identification of local partners or stakeholder organizations, which became responsible for knowledge transfer and in some cases were the recipient of relevant project documents, training materials, and activities after IFC project closure.

Successful leveraging of IFC institutional expertise and hiring of outside expert consultants in conjunction with using local staff familiar with the language, customs, and cultural milieu put IFC in an advantageous position to deliver value-added
Advisory Services. IFC role and contribution includes not only its status as a credit-granting institution, but also its in-house expertise in core areas of competence, particularly relevant for projects in the area of financial markets, corporate governance, and industry-specific linkages and sector development.

Product Line Lessons

Corporate Governance

In countries where powerful minority interests retained or acquired control of a majority stake in key companies, it can be very difficult to pass corporate governance enabling environment reforms. Absent a willingness and broad commitment by government and firms to corporate governance reforms—the latter due to vested interests and the former due to a focus on manufacturing and production as the main priority—Advisory Services efforts to advance corporate governance can become sidelined.

Surveys show that the single greatest motivating factor behind firm adherence to good corporate governance policies and practices is the need to comply with government regulation and to avoid incurring fines. As such, reform components of corporate governance projects are nonetheless critical, even if difficult and/or challenging to implement.

Given the challenges of introducing improved corporate governance policies and practices, a strategic and pragmatic approach to projecting components and their sequencing is warranted. Corporate governance project design and component sequencing, which reflects a realistic assessment of vested stakeholders interests and combines regulatory work with direct firm-level assistance, can enhance favorable outcomes. Engaging a broad range of government stakeholders early in the project life makes sense, as does coordination of Advisory Services activities with other donors whose interests are similarly aligned. When it is not feasible to pass new legislation due to political realities, IFC should be flexible in its approach to work with other government agencies and regulators to move forward with needed changes. Otherwise, embarking on legal reform should emphasize the following:

- Careful sequencing of project activities, including timing the introduction of lobbying efforts and determining if pre-lobbying education needs to take place.
- Ensuring project teams have appropriate technical and communication skills to lead an effective policy advocacy and lobbying effort.
- Identifying champions among politicians and influential people interested in being responsible for taking the lead in corporate governance reforms. Corporate governance reforms can span government agencies, and more than one champion may need to be cultivated. Encourage them to take initiative and ownership for leading corporate governance reform efforts.
- Working closely with high-level staff at the World Bank Group (IFC or World Bank resident representative or director) to leverage their assistance and access those in power for more effective policy dialogue.
- Building alliances with other donors and major stakeholders with similar objectives.

Changing local mind sets to incorporate good corporate governance practices takes a long time and requires significant financial resources; thus, during the project approval phase, careful consideration of whether the client base (government and firms) is committed to implementing the needed reforms is important to determining the likely effectiveness of Advisory Services and success of development outcomes. Timing is also important; corporate governance project implementation in ECA, which coincided with privatization or began shortly thereafter, had a better chance of changing behaviors and attitudes before bad habits set in. Due to the subtle and complex nature of corporate governance interventions, a high degree of project selectivity coupled with a minimum commitment of time and money would best serve IFC objectives to improve corporate
governance policies and practices in transition economies.

For enhanced project sustainability and formulation of exit strategies, local market and stakeholder assessments should be made early on to best structure project activities and work programs regarding these objectives. For example, relevant stakeholder willingness to continue corporate governance activities and knowledge transfer after project completion should be gauged. Also, from early on, the pricing of Advisory Services sends an important market signal on the intrinsic value of the service being provided, offset by market demand and affordability to targeted clients. It is often necessary to rely on expatriate consultants who have expertise in corporate governance consultation, advisory services, and training to build capacity initially; however, building local capacity and demand for corporate governance advisory services, such as consultancy firms, financial institutions, and investors, helps good corporate governance practices to reach a critical mass of firms more quickly and helps strengthen prospects for sustaining ongoing corporate governance activity in the future.

Leasing
Leasing advisory projects are strategically relevant for IFC (financial markets development, SME access to finance, potential for investment demonstration effect, and so on); yet one size does not fit all. Leasing market penetration largely depends on pre-existing market conditions, such as financial sector reform, financial sophistication or credit culture, as well as adherence to the rule of law and a reliable judicial system. Absent these preconditions and others, the benefits of standard IFC leasing advisory projects and the ability to attract investment to the sector may be limited. As such, leasing project designs may need to offer a wider range of advisory projects to best suit the needs of individual countries and markets.

Given its more narrow focus, leasing in particular would benefit from the early identification of a champion, preferably a like-minded stakeholder who has political connections and is able to drive a reform initiative through parliament. Formation of a stakeholder group to share responsibilities for advocacy, information dissemination, and consensus on reforms recommended to the government would also enhance implementation prospects. As with any advisory project that addresses gaps in the enabling environment, a strategic approach to drafting and passage of legal and regulatory reforms is essential for success in reform of the leasing market.

Leasing sector development may offer an ideal sector for integrating IFC investment and advisory products and serve as a model for other sector-level integration strategies. Once Advisory Services have helped promote legal and regulatory reform to improve the investment climate and knowledge of a new financial product such as a leasing instrument has been transferred, IFC has the means to provide financial sector liquidity and ongoing Advisory Services to potential lessors and lessees. A positive demonstration effect from deepening of financial markets due to both successful reform efforts and follow-on investment is expected to occur in neighboring markets, as well as among financial institutions in the same market.

Business Enabling Environment
Close coordination with other donors and stakeholder groups may help PEP-ECA to maintain a market niche, avoid overlap in work, and enhance project results. IFC, one of many advisors to governments and firms, succeeded more frequently where it played a unique role, attempted to avoid duplicating the efforts of others, and leveraged others’ activities. Development outcomes were enhanced when IFC coordinated its activities with international financial institutions and donors, which had a significant local presence and common objectives. When deciding to conduct surveys, PEP-ECA should focus on strategically defining its value added not only at project initiation, but on an ongoing basis, because country situations can
evolve quickly. Also, defining a market niche is especially important in countries where PEP-ECA surveys have been going on for years. Better coordination with the World Bank Group and other donors can help avoid duplications and may offer opportunities for piggybacking.

**Depending on country situations, a combination of think tank and focused reform agenda approaches to BEE projects may enhance IFC’s value added in promoting reforms.** Although both models have strengths and weaknesses, some mix or hybrid of think tank and focused approaches might increase IFC’s value added to improving investment environments. The think tank project structure gives the team more flexibility and opportunity to be more responsive and proactive in addressing the emerging challenges, whereas the focused model pursues a more targeted, in-depth reform agenda in a specific regulatory area. Some form of hybrid model might help to fill a gap that often occurs in some client countries—that is, each donor works on its own specific area, which is part of a larger framework for activity and limited in its ability to respond quickly to a changing business environment and opportunities for reform that may arise.

**The right mix of local professionals with international expertise can drive positive development results in the field.** Hiring dedicated local experts with credibility and strong local networks is critical for building support among stakeholders and implementing the reform agenda. In countries with a highly complicated legal environment, having a strong local legal team is simply a must. The project team capacity may be enhanced even more if combined with relevant international expertise, which might fill the skills gap and assist in building local knowledge. International experts from countries that recently experienced similar transformation challenges are especially valuable. The implementation of the decentralization strategy (global and local) may enable easier access to sector expertise. IFC should build the field-based knowledge; yet IFC will need to ensure that its global knowledge is not lost, but rather develops based on enhanced country and client focus.

**Linkages**

A critical success factor in supply chain linkages projects is the alignment of interests and incentives between the IFC project and the international sponsor company, local client company, or agricultural producer. In an optimal scenario, an alignment of interests occurs when there is a pre-existing supply chain that requires strengthening, as in the case of Campina Dairy and Ukraine Agribusiness, as opposed to one that is nonexistent or missing a key element. Development impact and investment outcomes on supply chain linkages projects fell short of expectations when the sponsor company pulled out, an IFC investment fell through, and provision of Advisory Services approved a poor substitute for lack of commercial viability. Supply chain projects dependent on market distortions are more likely to fail as well.

**Assuming that stakeholder interests are aligned, the success of supply chain linkages projects relies on provision of expert advice and consultation to local client companies or agricultural producers.** Delivery of appropriate Advisory Services, including training in international quality standards, introduction of best practices, implementation of management information systems and links, and matching to trade and investment partners, enables companies to improve their competitive position and strive to meet global market demands. Project advisors and trainers who have both the expertise and the belief that achievement of development objectives is possible are the most effective at transferring skills and knowledge to clients and stakeholders.

**IFC has the potential to play a unique role in supply chain linkages projects.** On the one hand, IFC can provide both Advisory Services and investment in a complementary fashion and, on the other, it can be an honest broker among relevant stakeholders, given its credible expert-
ise, perceived neutrality, and ability to take a financial stake. The role of honest broker arises in supply chain development projects in highly fragmented sectors, such as in agriculture, where stakeholders are dispersed and their interests may not be well represented, or when technical or educational levels are low. IFC has been effective in articulating and advocating for stakeholder interests with the government, while delivering valuable practical training and augmentation of skills. The combination of IFC’s unique institutional features has enabled it to help promote private sector development by addressing enabling environment issues in tandem with technical concerns and providing investment, where opportunities exist.
APPENDIX G. DEFINITIONS OF EVALUATION TERMS

INVESTMENT OPERATIONS

*Company*  
The entity implementing the project and, generally, IFC’s investment counterpart. For financial markets operations, company refers to the financial intermediary (or fund manager) as distinct from its portfolio of IFC-financed subproject companies.

*Investment*  
IFC’s financing instrument(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 the IFC investment selected for evaluation.

For example, through an *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*.

*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.

*Nonfinancial markets projects*  
All other projects; sometimes referred to as real sector projects.

NON-INVESTMENT OPERATIONS  
(Advisory Services include all advisory project components)

*Outputs*  
Immediate deliverables of the advisory intervention, for example, diagnostic reports and training manuals.

*Outcomes*  
Changes in knowledge, behaviors, and attitudes as a result of an intervention. They are usually short-term or medium-term effects (e.g., passage of a law).

*Impacts*  
The consequences, often but not always long-term effects, resulting from an intervention. They may be positive or negative, intended or unintended.
For example, an advisory 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 amendment of the leasing law.

**Independent Evaluation Group**

The Independent Evaluation Group, an independent unit within the World Bank Group, evaluates the relevance and impact of the Bank Group’s support to developing countries for reducing poverty and improving people’s lives in sustainable ways. IEG is headed by the Director of General Evaluation, who oversees the work of three units: IEG–World Bank, which evaluates International Bank for Reconstruction and Development and International Development Association support; IEG-IFC, which evaluates Bank Group activities focusing on contributions to private sector development and strengthening the business climate; and IEG–Multilateral Investment Guarantee Agency, which evaluates the impact of Bank Group political risk guarantees and technical assistance intended to improve foreign direct investment in developing countries.

**World Bank Group**

The World Bank Group includes the International Bank for Reconstruction and Development (often referred to as the World Bank), International Development Association, IFC, and Multilateral Investment Guarantee Agency.

**Frontier countries**

If a country meets the criteria of being high risk (Institutional Investor Country Credit Risk Rating of less than 30) and/or low income (gross national income of less than $826 per capita as of 2004, using the Atlas method), IFC classifies it as a frontier country. Frontier countries accounted for around 15 percent of gross domestic product in 2005 (based on IFC [2007]).
Executive Summary

1. Unless otherwise noted in this report, all dollar amounts are U.S. dollars.

2. PEP-ECA linkages projects included in this study attempted to (a) develop a supply chain linkage between a set of suppliers and a processor, (b) promote business development and investment linkages among a target group of investors (e.g., promote investment, outsourcing, or trade), and/or (c) promote both Advisory Services and financing in support of building linkages between suppliers and processors via a single institution (e.g., provide advice to suppliers to improve quality of production and volume for processors as well as access to finance, including leasing, for needed equipment upgrades and working capital for farmers). See chapter 3 for more details.

Chapter 1

1. The cut-off date of the review for PEP-ECA was 2005, yet the report has updated all IFC data until 2007. The report attempts to include information on changes in PEP-ECA since 2005, namely, in impact assessment, cooperation with the World Bank, and project structures.

2. IEG reviewed all PEP-ECA projects except the following eight studies: Azerbaijan Technical Assistance Diagnostic Project, Energy Efficiency Investment Study, IFC Leasing Best Practice Manual, Russia Banking Sector Corporate Governance Study, Russia Private Sector Higher Education Study, Russia Waste Gas Utilization Feasibility Study, Ukraine Banking Sector Corporate Governance Study, and Uzbekistan Dairy Sector Supply Chain Study (phase 1).

3. IFC’s fiscal year ends on June 30.

4. One of the projects evaluated in this group, Ukraine Business Development Project (1994–2001) was clearly a pre-PEP-ECA project that was explicitly not considered a replicable model for SME development initiatives under PEP. Nonetheless, this project was evaluated for learning purposes, given that IFC engages in similar wholesale SME consulting projects in other regions.

5. Similarly, Advisory Services operations with two or more donors that resulted in multiple assignments were combined in one evaluation report.

6. IFC (2005, 2004a) as well as SME Department reviews on toolkits, linkages, leasing, and corporate governance.

7. This IEG-IFC review did not include a rigorous evaluation of the technical quality of analytical diagnostics and reform solutions in the projects.

Chapter 2

1. Frontier countries are defined by IFC as either low income (as defined by the World Bank) or high risk (with an Institutional Investor Country Credit Risk Rating of 30 or below).

2. The sharp increase between FY 2005 and FY 2006 is largely attributable to the establishment of PEP-Africa.

3. According to an internal IFC report, these projects resulted in privatization of 200,000 service and manufacturing enterprises, collective farms, and unfinished construction sites.

4. Advisory Services in the CIS include regional Advisory Services (also PEP-ECA), the Technical Assistance Trust Funds, Foreign Investment Advisory Service (FIAS), Capacity Building Facility, and Private Sector Advisory Privatization Policy and Transactions, now Corporate Advisory Services.

5. Other nonregional programs managed the remaining $15 million; these included FIAS, Technical Assistance Trust Funds, Capacity Building Facility, and Private Sector Advisory Privatization Policy and Transactions, now Corporate Advisory Services.

6. This proposed dual funding structure differed from the pre-PEP-ECA arrangement, which allocated 10 percent of all project-level donor funds to supporting
overhead and general management of the IFC’s Advisory Services program in Eastern Europe and Central Asia.

7. IFC approved the increases in PEP-ECA funding based on PEP-ECA’s success without any formal, comprehensive, and independent evaluation.

8. Assessing these objectives is beyond the scope of this evaluation.

9. PEP-ECA’s annual budget approved by the Board of Directors for FY 2007–11 was $6.1 million, of which $5.1 million is core funding and nearly $1 million is for innovations and exporting expertise. All other phases of PEP-ECA were done with no real budget increase, that is, the budget increased from year to year only by the applicable rate of inflation.

10. Note that chapter 5 discusses the gap between combined IFC and donor commitments ($128.7 million in FY 2001–06) and actual PEP-ECA expenditures ($74.4 million during the same period) in more detail.

11. SME development and FDI promotion—the primary objectives stated in the 2000 PEP-ECA Board paper—were expanded in 2001 to include improving business enabling environments, as well as both foreign and domestic private sector investment, which expanded the 2000 objective of FDI promotion.


Chapter 3

1. IEG project preparation ratings considered learning and adaptation of product line rollout to specific country conditions to be important aspects. Ratings given for project preparation in experimental or first-of-a-kind projects rewarded innovation and appropriateness of basic design to local conditions, whereas ratings on the third or more rollouts of a proven standard project expected project preparation to reflect lessons learned from other similar projects and local country conditions in its adaptation of the basic core project. Please also see box 4.1 for specific examples.

2. Less than satisfactory project preparation ratings were assigned for six reasons: (a) insufficient needs assessments, in which main issues of projects and target markets were not appropriately identified and/or addressed (8 projects), (b) lack of risk assessment and/or proposed mitigations in initial project documents (9 projects), (c) replication of standard projects not sufficiently adjusted for local country conditions or reflected in lessons learned (5 projects), (d) insufficient and in many cases no measurable target outcomes and impacts (8 projects), (e) vague work programs and deliverables (3 projects), and/or (f) material shortcomings in project structure or design (10 projects).

3. For purposes of comparability with PEP-ECA, the percentages of outcome and impact success rates for investment climate report projects evaluated include only projects for which ratings were assigned and exclude projects for which no opinions were possible. Because the investment climate report included projects for which no opinion was possible in the denominator, the satisfactory or above outcome achievements reported were 46 percent and impact achievements were only 29 percent.

4. IFC Advisory Services staff prepare self-evaluations of Advisory Services at project completion (in the form of project completion reports) and are intended to state (and give supporting evidence of) the actual and intended results through a results-based approach.

5. For many project completion reports (PCRs), IEG did not find adequate information to assess the development effectiveness rating; of the total 171 Pilot I PCRs, 45 projects could not be rated for development effectiveness. Similarly, IEG had difficulty assessing impacts of 110 project Pilot I PCRs, largely due to absence of baseline data; lack of measurable indicators; insufficient description; confusion among impacts, outcomes, and outputs; and insufficient passage of time.

6. The less than satisfactory IFC role and contribution rating was assigned because the strong presence of a bilateral donor in the project that was not perceived as neutral compromised and effectively limited the project’s ability to advocate reforms. Otherwise, despite the lackluster reform agenda performance, the project successfully achieved most investment promotion objectives.

7. Note that FIAS does not offer Advisory Services without government commitment. A minister-level invitation to initiate a project and some form of financial or in-kind contribution is a prerequisite for FIAS activities. Given changes in governments and reform priorities over time and inter-government agency differences, however, government commitment cannot be assured for the life of a project and throughout the period required to implement reforms.

8. One of the satisfactory ratings was preliminary, given the recent closure of that project.

9. The IFC SME Department approach to linkages projects differs in that when IFC investments are, in the end, not pursued, dropped, or even cancelled after
Board approval, corresponding linkage advisory projects are cancelled. SME Department–defined linkages projects do not start until drawdown of the IFC loan. Through experience, the SME Department has found that using the IFC investment as an incentive is an important aspect of motivating changes and aligning incentives: the advisory intervention needs to be able to influence the project. This is consistent with IEG evaluation findings, which emphasize the need for aligned partners incentives and strong partners commitment.

10. Note that projects with a narrow focus on beneficiaries did not receive lower development effectiveness project ratings because of the narrow focus. Lower project ratings were assigned, for the most part, because these projects did not achieve intended expected objectives (outcomes and impacts) for the project.

11. In countries that were not reform oriented, such as Belarus and Uzbekistan, the impact of PEP-ECA contributions on improving investment climate conditions was less pronounced. For example, even though changes in legislation were made in Uzbekistan (outcomes achieved), the overall impact in terms of improving investment climate was less significant. Although efforts to streamline inspections in Uzbekistan did not have a significant impact on the overall business environment, given the local context, the small successes achieved were important in demonstrating that tangible changes are possible and can make a difference. Similarly in the area of leasing, despite important improvements made in the leasing legislation (outcome) in Uzbekistan, the actual growth of the leasing market (impact) was not dramatic and IFC was not able to follow up with an investment, due largely to the pronounced dominance of the state in the economy and lack of currency convertibility.

12. Michael Porter is currently the Bishop William Lawrence University Professor, based at Harvard Business School, where he leads the Institute for Strategy and Competitiveness.

13. Without PEP-ECA involvement, similar activities might have been undertaken by others, but evidence exists in some instances that others might not have been as effective. For example, without PEP-ECA projects, the governments of Georgia, Kazakhstan, Kyrgyz Republic, Russian Federation, Tajikistan, and Uzbekistan would likely not have recognized the need for changes in the legal and regulatory environment in the area of leasing in such a short period. Although some portion of changes made and resulting impacts would likely have occurred at some point, stakeholders interviewed indicated that the PEP-ECA leasing projects appear to have sped up the process of leasing reform in those countries. Regarding BEE projects, SME surveys conducted by PEP-ECA in Georgia, Tajikistan, Ukraine, and Uzbekistan might have been carried out by other donors; however, those survey results and reports might not have been disseminated as widely in local languages and proactively promoted.

14. The main donors in the CIS region included the U.S. Agency for International Development, Swiss State Secretariat for Economic Affairs, Canadian International Development Agency, Gesellschaft für Technische Zusammenarbeit (Germany), Swedish International Development Cooperation Agency, Finpro (Finland), Netherlands Development Finance Company, and Department for International Development (United Kingdom). Other donors included the Asian Development Bank, European Bank for Reconstruction and Development, Technical Aid to the Commonwealth of Independent States (European Union), and other parts of the World Bank (see chapter 4 for discussion on PEP-ECA coordination within the World Bank Group).

15. PEP-ECA projects attempted to coordinate activities with other donors and international agencies through communiqués or formation of working groups, particularly focused on promoting legal and regulatory reforms requiring government dialogue and policy advocacy. For the most part, donors and government officials interviewed expressed very positive levels of satisfaction and feedback regarding PEP-ECA projects and their efforts to coordinate with donors and government.

16. The Institutional Investor Country Credit Risk Rating measures country sovereign risk (the risk of government default of its foreign debts). Leading banks grade each country on a scale of 0 to 100; 100 represents the least chance of default. The Heritage Index of Economic Freedom ranks 164 countries in terms of quality of business climate. This composite score considers 50 variables divided into 10 subindexes of economic freedom: freedom of trade, fiscal burden of government, government intervention, monetary policy, foreign investment, banking and finance, wages and prices, property rights, regulation, and black markets; 1 is the best score in terms of open and favorable business climate, and 5 is the worst. The International Country Risk Guide rating comprises 22 variables with separate indexes for three subcategories of risk—political, financial, and economic—for 140 countries.
The total points from the three indices are manipulated to derive a composite country risk score. The composite scores are then broken into categories from very low (80 to 100 points) to very high (zero to 49.5 points) risk.

17. Belarus undertook positive reforms to facilitate starting a business and paying taxes, but negative reform measures to ease the obtaining of credit.

18. IFC invested in leasing companies in Georgia and Armenia and in microfinance institutions in the Kyrgyz Republic and Tajikistan.

19. PEP-ECA aggregate data included figures from ongoing projects, whereas IEG data were based purely on projects that were completed and under evaluation.

20. As approved by the Board in 2000, corporate governance advisory work was originally meant also to serve SMEs; however, in the end most corporate governance projects were directed at the larger, more important, and influential firms in each country, which helped strengthen their potential demonstration effect on other firms.

21. For example, some evidence exists of increased access to finance of SMEs in both the Russian Federation and Kazakhstan due to expanded leasing volumes; however, lack of reliable data limits a full assessment of the impact on SMEs.

22. World Bank (2004) has an extensive bibliography; Simeon Djankov has written on this a great deal as well.

Chapter 4

1. PEP-ECA has always branded itself in the market as IFC, not as PEP.

2. According to PEP-ECA management staff interviewed, at that time, Advisory Services were generally seen as quite separate from investments and the concept of a strong investment link was novel. In fact, the conventional wisdom was that building such linkages presented a conflict of interest in the use of donor funds and was to be discouraged.

3. PEP-ECA BEE projects primarily target SMEs and microenterprises, rather than the larger investors typically financed by IFC. The regulatory barriers identified in the BEE projects look more narrowly into aspects that are measurable in terms of time (days needed for approval) or money (fees and taxes), rather than those broader economic and political risk issues that really deter FDI, larger projects, and the flow of capital. Most regulatory barriers addressed in BEE projects mainly hinder microenterprises and SMEs from shifting from the informal to the formal sector, which generally provides better access to finance and markets, that is, a better ability to grow. For the government, the benefits are the collection of more taxes and fees.

4. This evaluation did not include Azerbaijan leasing; however, the IFC regional Central Asia Leasing Facility disbursed two investments in Azerbaijan for a total of $8 million following a successful Advisory Services effort.

5. IFC investment in local leasing companies occurred on the back of core leasing Advisory Services that resulted in (a) introduction of appropriate legal and regulatory conditions as well as complementary tax codes, (b) education and training to leasing institutions and SMEs, and (c) information dissemination and public relations to raise product awareness and grow demand.

6. Between 2002 and 2005, IFC invested $62.95 million (original commitment figure) of its own funds to support six leasing companies in the Russian Federation. In FY 2006, IFC increased its commitments by $27 million; as a result, the outstanding balance of IFC’s leasing portfolio in the Russian Federation is now 33 percent of the total IFC leasing portfolio in the world.

7. Although the investment was conditional on implementation of changes in the legal and regulatory framework, stakeholders interviewed for the evaluation noted that it was likely that IFC would have invested in the leasing company at some point. The role of the leasing advisory operation was supportive and catalytic, and partially attributable to the positive IFC investment decision.

8. In 2005, IFC launched the Central Asia Leasing Facility, a $30 million fund to finance lessors in Central Asia and Azerbaijan. This facility was the first of its kind to provide a mix of capital and business skills to leasing markets of these countries. In addition, IFC’s investments intended to send a signal to other institutions to consider potential investment in development of the leasing sector. So far, however, the facility has not disbursed funds in Uzbekistan, Tajikistan, or Kyrgyz Republic, due to the challenging investment conditions found in these countries. In contrast, IFC has disbursed $10 million of the facility to Bank Center Credit in Kazakhstan, $5 million to Unibank in Azerbaijan, and $3 million to Azerigazbank in Azerbaijan.

9. Favorable corporate governance practices are a necessary, but not sufficient prerequisite for IFC investment decisions.
10. Linkages projects that attempted to make a link with or promote an IFC investment included the Campina, NW Forestry Operators and Loggers, IKEA suppliers, Agro-Industrial Finance Company, Farmer Ownership Model, Ford, Dmitrov Potato, and Ukraine Agribusiness Projects. Projects that in the end forged or resulted in a link with IFC investments were the Campina, Agro-Industrial Finance Company, and Farmer Ownership Model Projects.

11. Two of the three advisory assignments to support IFC investments in banks were mostly successful.

12. IFC is the only multilateral institution to offer direct Advisory Services to governments on implementing private sector participation transactions. The Corporate Advisory Services Department of IFC provides advisory assistance primarily to governments on private sector participation in infrastructure and other public services, as well as restructuring of state-owned enterprises.

13. The provision of Advisory Services became one of the IFC Global Financial Markets Department’s four primary objectives, and integration with investments is now a key component of the department’s work program. Advisory Services are dedicated to institution building, diversification of financial services, and access to finance for SMEs in the following lines of financial markets business: banking, microfinance, financial infrastructure and credit bureaus, leasing, factoring and other nonbank financial institutions, housing finance, environmental finance, insurance, securities markets, contractual savings, trade finance and remittances, corporate governance, anti-money laundering and combating the financing of terrorism.

14. Coordination was discussed with staff across the World Bank Group (including FIAS, World Bank Institute, the Investment Climate Unit, and financial sector, corporate governance, social, environmental, and infrastructure departments, among others). This evaluation also sought the views of government and private sector clients and donors on the perceived coordination of different parts of the World Bank Group.

15. This project began in 2002 and is still under way. As such, it was not included in IEG’s evaluation.

Chapter 5

1. It is important to note that PEP-ECA did not strategically select the project-based funding model, but it resulted from diverging donor priorities and interests at the time of PEP-ECA’s creation. Only three other IFC Advisory Services regional facilities (PEP-Central East Europe, PEP-Southern Europe, and PEP-Africa) use a similar funding model (i.e., project based).

2. Although the Russian Federation was the largest Advisory Services beneficiary in this region, it also had the largest number of unfunded proposals.

3. Despite the challenges of obtaining donor approval for some innovative projects, before PEP-ECA and PEP-ECA activities have nonetheless managed to experiment quite a lot during the evaluation period. In the period before PEP-ECA (before 2000), major innovations were made in leasing, corporate governance, and SME surveys and policy advice. IFC is now replicating these products across the globe. In the period before PEP-ECA, the first supply chain linkage project ever undertaken by IFC set a standard and is recognized across IFC as a classic example of a successful linkage project. From 2000 onward, PEP-ECA continued to experiment in projects to support agriculture and access to finance in rural areas, yet this did not become a product line. PEP-ECA also enhanced the BEE product line to focus on specific reform agendas (i.e., one issue versus the FIAS general advisor model), which has become a PEP-ECA product. PEP-ECA used studies to launch (or not launch) new initiatives. IEG has not evaluated these studies.


5. IEG-IFC did not review all unfunded concepts and proposals and has no view on the quality or relevance of the unfunded project ideas.

6. The steps included (a) the initial concept for informal discussion to gauge donor interest, (b) analytical process involving a more refined project concept, including data collection, analysis, project objectives, and components and development of an estimated budget; job descriptions; and impact matrix, (c) formal presentation of project concepts to donors (usually done once or twice a year, depending on the donor cycle), (d) donor approval, (e) commitment and disbursement of funds, (f) hiring of project manager and project team, and (g) project launch.

7. In the early days of PEP-ECA, it had taken from two to three years, but this period diminished as PEP-ECA gained better understanding of donor preferences, funding cycles, and formal internal decision-making processes, and as agreement frameworks were established.
8. PEP-ECA managed potential delays by instituting an agreement with donors promising a first-best-effort basis for hiring donor nationals for projects, where requested; if a suitable candidate was not identified within a certain timeframe, PEP-ECA proceeded with recruitment that was free of nationality requirement.

9. FMTAAS will be used to fund IFC’s contributions to (a) donor-funded operations (project development facilities, PEPs, and other operations), whether currently in operation, approved, or to be approved in the future, (b) Advisory Services in relation to particular project or sector work, including project development costs in frontier markets, beyond the scope of IFC’s normal commercial due diligence and structuring activities, and (c) specific costs associated with implementation of IFC’s donor-funded operations and advisory activities that may not be charged to the activities themselves.

10. The PEP-ECA Human Resources Office in Moscow processes all contracts locally. Most hires (F and below) are cleared locally as well; only G-level hires require clearance from IFC Headquarters.

11. The length of the bridge period has not yet been determined, but will likely extend no longer than two months.

12. For example, in the area of training IFC designed a one-week credit course for noninvestment staff, which has been delivered to hundreds of Advisory Services staff. Specialized one- to two-day meetings on particular topics, for example, leasing, microfinance, alternative dispute resolution, and so on have also been organized. Other courses have included a five-day “Doing Advisory Services” course, one on Advisory Services for managers, and others on measuring results, using corporate tools for approval, supervision, project completion reports, and so on.

13. FIAS routinely charges governments about half the cost of its advisory projects (100 percent in some cases). Industry groups have contributed to the costs of World Bank productivity and investment climate surveys.

14. This was evidenced through development of small fee-based markets, often resulting from services and materials introduced through the IFC project. Other times, the evaluations included either survey or interview questions on willingness to pay for services provided by the IFC project as well as in the future, which also indicated varying degrees of willingness to pay.

15. One exception is the corporate governance survey done in Ukraine, developed by IEG-IFC in cooperation with PEP-ECA and the SME Department. This survey was based on a quasi-experimental design.

Appendix A

1. Several projects that were extensions or subsequent phases of a project were combined in one evaluation report, as were advisory operations with two or more donors that resulted in multiple assignments.

2. Simultaneous with the PEP-ECA evaluation, the SME Department conducted several product line assessments, including on leasing, corporate governance, toolkits, and linkages, which provided valuable background information and opportunity for some regional as well as facility comparison.

Appendix B

1. These are pilot criteria that IFC has since refined. Please see the current criteria at http://www.ifc.org/IFCext/rmas.nsf/Content/TrainingMaterials.

2. Definitions of terms used in this section are consistent with those generally used in the development community, as reflected in an Organisation for Economic Cooperation and Development glossary (2002).

3. Many books exist on research design and evaluation that cover these four methods and their strengths and weaknesses in detail. For a brief reference, see Nexus Associates (2003).

Appendix E

1. For the CIS growth expansion, the recovery of growth in the Russian Federation after the financial crisis and devaluation has been an important factor, which coupled with high oil prices, increased demand for regional economies’ outputs. See Alam and others (2005).
REFERENCES


IFC ADVISORY SERVICES IN EASTERN EUROPE AND CENTRAL ASIA
An Independent Evaluation of the Private Enterprise Partnership Program