



# 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.<sup>1</sup> 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 appendixes 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<sup>2</sup> 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 syn-**

**ergies 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 linkage 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 corporatewide. 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.