

**About IEG-IFC**

IFC's Independent Evaluation Group (IEG-IFC) independently evaluates IFC's investment and Advisory Services operations and reports its findings to IFC's management and Board of Directors. IEG-IFC is a resource for helping staff understand what IFC has learned and how IFC can do better business in the future.

**About Findings**

IEG-IFC *Findings* helps inform IFC and Bank Group managers and staff about new evaluation findings and recommendations. The views expressed here are those of IEG-IFC and should not be attributed to IFC or its affiliated organizations. The findings here do not support any general inferences beyond the scope of the evaluation, including any inferences about IFC's past, current or prospective overall performance.

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## Evaluation of IFC Advisory Services in Eastern Europe and Central Asia

This evaluation assesses the performance of IFC's Private Enterprise Partnership (PEP), an Advisory Services program established in 2000 in Eastern European and Central Asian (ECA) countries belonging to the Commonwealth of Independent States (CIS). The program was designed to improve investment climates, promote private investment, and facilitate the growth and development of small and medium enterprises (SME) in the region. IEG chose to evaluate this program to promote accountability and derive lessons to guide IFC advisory work worldwide, given that other regional Advisory Services facilities have been emulating many PEP-ECA features.

The main findings of this review are:

- The PEP-ECA program was largely successful in achieving its main objectives. Almost two-thirds of projects achieved successful development effectiveness results.
- PEP-ECA's management structure, product line specialization, focus on developing replicable projects, reliance on local staff, strong project implementation, emphasis on achieving target outcomes, and long project life helped achieve the set objectives.
- However, certain deficiencies limited the program's potential effectiveness: (i) the funding mechanism's design caused delays, missed opportunities and raised costs; (ii) there were weaknesses in front-end needs assessments and adaptation of product roll-out to country needs and conditions; (iii) Advisory Services and IFC investments were not well-integrated, reducing potential synergies; (iv) the pricing approach of Advisory Services was inadequate; and (v) the monitoring and evaluation (M&E) framework, which was pioneering in IFC, had some weaknesses.
- IFC should replicate only successful features of the PEP model; shortcomings should be addressed and some product lines revisited. Also, IFC should strategically leverage Advisory Services and investment tools in a complementary fashion. Finally, building on a recent pricing policy, IFC should formalize more detailed and practical pricing and subsidy guidelines for Advisory Services staff.

**Creation of PEP-ECA was part of a broader IFC initiative to expand Advisory Services.** 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 -- with cumulative commitments

reaching \$1.7 billion by 2006. Annual expenditures for Advisory Services increased at a slower pace since projects typically take several years to complete (\$18.3 million to \$151.5 million over period and cumulative disbursements of \$0.7 billion by FY 2006). Worldwide Advisory Services operations now cover about 80 countries and employ more than one-third of IFC staff (1,086 staff in FY 2006).

## EVALUATION OF IFC ADVISORY SERVICES PROGRAM IN EASTERN EUROPE AND CENTRAL ASIA

Within this context, a challenging business environment and low levels of foreign direct investment and private sector participation made the CIS countries good candidates for expansion of IFC Advisory Services to improve investment opportunities. Thus, IFC established PEP-ECA in 2000, consolidating its large existing Advisory Services program in the CIS. Since PEP-ECA's creation and through March 2007, cumulative donor and IFC combined commitments reached \$144 million, 78 Advisory Services projects were implemented and nearly \$83 million was spent.

**PEP-ECA performance was largely successful.** The PEP-ECA program largely achieved its main objectives of promoting private investment and contributing to investment climate improvements in specific areas of intervention. Direct efforts to support SMEs did not demonstrate positive results, whereas indirect efforts (leasing, financial intermediaries, and business enabling environment [BEE]) were promising, even though concrete evidence of impact on SMEs was insufficient.

**Almost two-thirds of projects achieved successful development effectiveness results.** Output delivery and outcome achievements were strong, while impacts were lower, reflecting that results took time, relied on many external factors or were generally more difficult to achieve and assess. Based on volume (U.S. dollars spent), successful development effectiveness ratings were 78 percent, indicating that larger projects performed better than smaller ones. Larger projects were also typically longer in duration, which helped promote achievement of outcomes and impacts in the field.

**But performance of individual product lines varied.** Financial markets projects, particularly leasing, outperformed

other business lines in all dimensions. Corporate governance and BEE projects had above-average success rates. PEP-ECA linkages projects had the worst results in all rated dimensions. These projects were the first generation of linkages in IFC and differed significantly in structure and design from current IFC linkages projects. Sector-wide interventions yielded more successful and broader development results (both outcomes and impacts) than projects linked to specific IFC investments.

**Strong project implementation was a key driver of success.** Strong project implementation drove IFC work quality ratings and frequently rectified project preparation shortcomings. Other important aspects that helped achieve objectives include: PEP-ECA's management structure, product line specialization, focus on developing replicable projects, reliance on local staff, project and program level emphasis on achieving target outcomes, and long project life.

**However, certain deficiencies limited the program's potential effectiveness.** The design of the funding mechanism often constrained PEP-ECA's ability to strategically respond to client and country needs, creating delays and raising costs. As PEP-ECA specializes in core areas, staff recruitment, retention and reliable access to global expertise become increasingly challenging. Project preparation did not always include sufficient needs assessments and adequate tailoring to specific country conditions. Efforts to integrate IFC's advisory and investment work, and to 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-oriented M&E system had some shortcomings.

## CONCLUSIONS AND RECOMMENDATIONS

- IFC should only replicate successful features of the PEP model, as opposed to its full or wholesale transfer to other regions, and should address shortcomings in the PEP-ECA structure; namely the funding mechanism should be adapted to meet strategic objectives, improve client responsiveness and enhance development results; human resource policies should address recruitment and retention requirements and facilitate access to much-needed global expertise; and improvements should be made in the quality of M&E indicators, data collection methods, and cost accounting. Some product lines should also be revisited.
- IFC should strategically leverage Advisory Services and investment tools in a complementary fashion to tackle long-term country development needs.
- 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.

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