

Chairperson's Summary: Committee on Development Effectiveness

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

(Meeting of October 29, 2007)

1. On October 29, 2007, the Informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) considered the Ukraine Country Assistance Evaluation (CAE)¹ prepared by the Independent Evaluation Group–World Bank (IEG-WB) and the Ukraine Country Impact Review (CIR) prepared by the Independent Evaluation Group–IFC (IEG-IFC), together with the IFC Draft Management Response.
2. **Summary of the Ukraine CIR.** IEG-IFC found that IFC's advisory-centric strategy was appropriate. IFC advisory operations in Ukraine outperformed evaluated IFC advisory operations in Europe and Central Asia (ECA) countries. IFC investment operations in Ukraine performed better than evaluated investment operations in the rest of the ECA Region and the average for IFC. IFC coordinated a number of advisory activities with the International Bank for Reconstruction and Development (IBRD), but the extent of the cooperation was relatively limited. IEG-IFC recommended that IFC: (a) focus its strategies on medium-term (three-to-five-year) horizon priorities and follow a more systematic approach to identifying investment opportunities, (b) coordinate with IBRD to ensure that both institutions work sequentially and/or in parallel to address remaining privatization challenges among larger companies, and (c) replicate the strong design of its successful large advisory projects, promote greater donor coordination and cohesion in its areas of engagement, and exploit synergy models between programmatic advisory and investment operations.
3. **Draft Management Response (CIR).** IFC Management thanked IEG for its findings and recommendations and mentioned that they would be taken into account in the preparation of the new country partnership strategy (CPS). The World Bank representatives pointed out that the new CPS would reflect a spirit of partnership with Ukraine and that IEG's specific recommendations on sectors and forms of intervention would be considered in this way. IFC's engagement continues to be guided by the four-year CPSs prepared jointly with other World Bank Group institutions. IFC is keen to pursue joint opportunities through the joint World Bank/IFC Sub-National Department, including investments in public-private partnerships and support for a range of municipal services. The infrastructure sector remains a priority for IFC in Ukraine, where IFC will appreciate IBRD's policy advisory work in advance of privatization. IFC uses its experience with successful demand-driven, multigenerational, and multidimensional larger operations to develop follow-up advisory projects that focus on the next logical area of intervention. Donor coordination is established and maintained at the project level. In addition, IFC is the lead donor of the Enterprise Support Working Group, created as part of a new donor coordination initiative by the Ministry of Economy of Ukraine.
4. The representative of the constituency that includes Ukraine overall supported the CAE and CIR results. At the same time, she felt that the IEG-IFC report could have benefited from its discussion with the Ukrainian authorities. IEG-IFC noted that it is general practice not to discuss the CIR with the government, because the private sector is the IFC's client. At the same time, the report will be presented in early-2008 in Kiev and discussed with government and other stakeholders.

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

The following points were raised:

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

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

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

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

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

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

Jiayi Zou, Chairperson, CODE