

5. Recommendations

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

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

Background

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

Recommendation 1

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

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

Background

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

Recommendation 2

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

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

Background

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

- Supply-driven projects that have little client buy-in are highly unlikely to succeed. Similarly, projects attempting to address an issue that is not aligned with country conditions and strategic priorities, whether because the engagement is premature or no longer critical, have a higher risk of not delivering sustainable impacts. This applies both to operations with a core policy advice component, for which ensuring government commitment is indispensable to implementation, and to those geared mostly toward company-level clients.
- The success of larger and longer projects stems from their ability to maintain momentum and generate a critical mass of sustainable behavioral and policy changes; by the same rationale, project families addressing an issue in a sequential and evolutionary manner are even more likely to contribute to such developments. Similarly, a comprehensive synthesis of project components incorporating policy advice, work with selected pilot clients to generate demonstration effects, and public awareness and dissemination campaigns helps ensure lasting and far-reaching results.
- In an environment relatively well supplied by donor funding, lack of coordination among donors can lead to unproductive competition among implementing agencies and implementation of conflicting and incompatible project designs, which can negate impacts.
- The outcomes of smaller projects with a narrower focus associated with investment operations are worse in aggregate than those of larger assignments.

Recommendation 3

- a. IFC should focus on the strategic relevance of its advisory operations and replicate the demand-driven, multigenerational, and multidimensional design of its successful larger operations, using the latter to refine benchmarks for measuring performance of ongoing projects.
- b. IFC needs to be proactive by developing and maintaining regular contact with donors in its areas of engagement to help establish information exchange mechanisms, align priorities, improve distribution of labor, and avoid inconsistencies. IFC also needs to initiate tactical interaction at

the outset of its multi-donor operations to minimize discrepancies in approach and maximize cohesion and alignment of tactics among donors.

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