

Foreword

This Country Impact Review evaluates the results and analyzes the performance drivers of IFC's investment and advisory operations in Ukraine from fiscal year (FY) 1993 to FY 2006, *i.e.*, since Ukraine became a member of IFC. In doing so, it seeks to inform IFC's component in the Ukraine Country Assistance Strategy and make recommendations aiming to further improve operational results going forward. The review is concurrent with the IEG-WB Country Assistance Evaluation covering operations undertaken by the IBRD during fiscal years 1999 to 2006.

In the past fourteen years Ukraine has emerged as an independent state and has undergone a dramatic transition from a centralized planned economy to a nation with a thriving private sector. Yet given the length and depth of Ukraine's recession in the 1990s and the tenuous political commitment to reforms, the country remained relatively unattractive to private investors for much of the period under review.

In response, IFC's strategy focused initially on advisory operations to establish Ukraine's private sector, alleviate investment climate constraints, and foster investment opportunities that would also attract private sponsors. Thus in the study period, IFC mobilized US\$55 million in donor funding for 45 advisory operations in Ukraine. IFC's advisory-centric strategy was appropriate given country conditions, but the expected increase in IFC's investment activity did not materialize until recently. However, parallel to the notable improvements in Ukraine's business climate over the past few years (partly attributable to the impact of IFC advisory operations), IFC's involvement in Ukraine has expanded rapidly in recent years. At present, Ukraine is IFC's ninth largest investment portfolio with a total outstanding balance of more than US\$600 million.

Regarding advisory operations, this evaluation concludes that IFC was able to achieve satisfactory or better results in 68 percent of the projects implemented, particularly for larger and longer advisory assignments. Evaluated investment projects performed slightly better than those in the rest of ECA region and the average for IFC, although the relatively small number of these projects does not allow a more detailed analysis at this stage. Meanwhile, an analysis of the risk profiles of recent investment commitments yields encouraging indications of their likely future performance.

Going forward, the report recommends that given the improved business climate conditions prevailing in Ukraine, IFC should focus its strategies on medium-term (3-5 year horizon) priorities and follow a more systematic approach to identifying investment opportunities. Moreover, with respect to the momentous task of addressing remaining privatization challenges among larger companies and in the area of infrastructure, the study calls for increased coordination between IFC and IBRD. Finally, the report recommends that based on its extensive experience in advisory operations in Ukraine, IFC should consider replicating the design of successful large advisory projects, promote greater donor co-ordination and cohesion in IFC's areas of engagement, and exploit synergies between programmatic advisory and investment operations.

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