

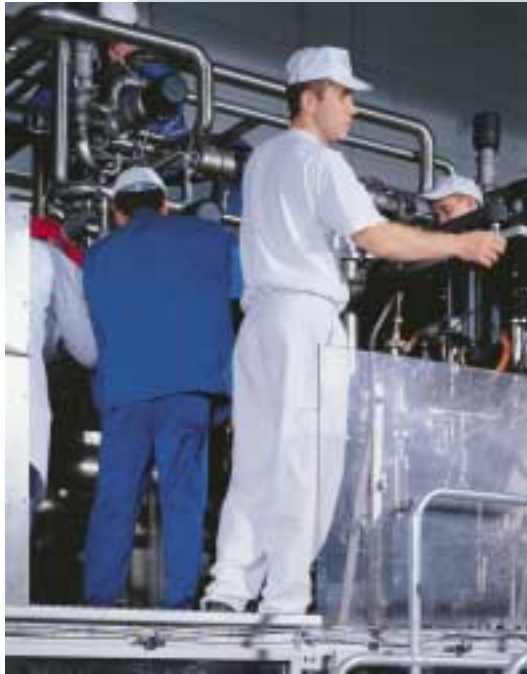
# IFC's Private Enterprise Partnership

provides technical assistance to the private sector in the former Soviet Union with the goal of building successful businesses. It was established in May 2000, when IFC's Board of Directors approved a special three-year budget of \$12.6 million, making a longer-term, stronger commitment to IFC's technical assistance initiatives in the post Soviet region.

The Partnership builds on the ten years of experience of joint IFC—donor programs to develop the region's private sector. It draws on past successes and lessons learned to address emerging challenges in the post-privatization economies. These challenges include instituting market based principles for governing the newly created private sector and improving the business enabling environment, increasing the transparency and efficiency of business practices, stimulating the growth of small enterprises, and attracting direct investment.

To tackle these challenges, the Partnership focuses on the three key areas where it can add maximum value: promoting private





sector investment, supporting the growth of small- and medium-sized enterprises (SMEs), and improving the business enabling environment. IFC's ability to follow through on the Partnership's technical assistance work by mobilizing investment in sound businesses creates incentives for local enterprises to implement meaningful changes.

The Partnership currently operates five country offices in Armenia, Belarus, Georgia, Russia, and Ukraine staffed with over 200 well-trained local professionals. This year the Partnership is expanding its programs to Azerbaijan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. The central management team is located in Russia and Ukraine.

## Donor Funding

The Partnership develops technical assistance programs in full coordination with its donors and looks to donor countries to make these initiatives possible. The Partnership thanks its donors—the Governments of Canada, Finland, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States—for their generous contributions to the private sector reform process in the former Soviet countries.

To leverage donors' resources, IFC covers the Partnership's central management costs, new project development, and project assessment. In addition to funding, IFC contributes the time and expertise of IFC investment staff. On average IFC's contribution to a technical assistance project exceeds 22 percent of the total project cost.

In addition to cost sharing, the Partnership's centralized structure provides a framework for greater synergy among donor programs and a practical mechanism to carry out comprehensive multi-year interregional technical assistance.

## A Year in Review

In FY01, following the successful transfer of know-how to local institutions, the Partnership completed three projects in Ukraine. These initiatives are Unfinished Construction Site Divestiture, and the Business Development Project (both funded by the US government), and the Farm Restructuring Project (funded by the Government of Canada).

The Unfinished Construction Site Divestiture Project pioneered the process of privatizing abandoned unfinished construction sites across Ukraine in 1996. More than 1,300 new small businesses have now completed construction and started operating, creating

62,000 jobs and generating about \$25 million in local tax contributions. To institutionalize the process, the Project transferred the know-how to local state property funds and contributed to the passage of a new law solidifying the legal framework for this innovative way of creating new businesses.

The Partnership also adopted this auction-based privatization model to help large enterprises improve their financial standing by transferring idle or underutilized assets to more efficient and specialized private owners, mostly SMEs. These assets, particularly social service institutions that enterprises inherited from the Soviet era (cafeterias, clinics, company resorts, and child care facilities), are more efficiently run as independent businesses.

The Ukraine Business Development Project created 11 now self-sustaining business consulting centers throughout Ukraine to support SMEs. These centers have helped their clients to mobilize \$13.8 million in financing through a wide range of consulting services and training programs. The centers have contributed to the passage of 25 laws which significantly simplified business registration procedures, reduced the number of inspections for SMEs from 76 to ten per year, and reduced the number of business activities requiring licensing from 56 to 41.

The Ukraine Farm Restructuring Project assisted in transferring 100 collective farms into private ownership to 60,000 farm members and established a local center to continue the privatization process. The Project contributed to the rewriting of the Ukrainian land code to remove obstacles to the sale of land.

In addition to these completed initiatives, in FY01 the Partnership was implementing 13 ongoing projects in leasing, banking, agribusiness, forestry, corporate governance, and SME development. Total donor funding for these projects amounts to \$15 million over the full life of the projects.

## Promoting Direct Investment

The inflow of capital, particularly foreign, brings with it transparent business practices, technology, know-how, managerial skills, and access to export markets—all powerful catalysts to local business development. Despite the vast consumer market, rich natural resources, and educated workforce of the former Soviet countries, investors have been reluctant to pour significant capital into the region because of its unstable legal environment, poor corporate governance, and a lack of reliable local partners.

The Partnership is working successfully with investors to help bring the risks of doing business in the region to manageable levels. It does this by building links between local suppliers and foreign partners and by improving the quality and reliability of local supply and distribution chains. The Partnership, with advice from IFC investment staff, also helps both foreign and local companies gain access to financing.

For example, when a Dutch dairy company, Campina Melkunie BV, considered expanding production to Russia, it faced a major obstacle—a lack of local supply of high-quality milk. Drawing on IFC's extensive experience in Russia's agricultural sector, the Partnership, with support from the Dutch Government through the TATF Program, worked with ten Russian dairy farms to improve the quality and reliability of their milk supply. This work led to a \$50 million investment in a yogurt factory (now operating) by Campina, which IFC helped finance with a long-term loan.

The Partnership also structured Campina's financing worth \$1 million to purchase new milking and cooling equipment and to rent it to the supplier farms. Given the farms' lack of capital, this financing model allowed the farms to make rent payments in milk with terms of one to four years. Building on the success of this model

and its expertise of working in the financial sector, the Partnership has started setting up pilot farmers' credit institutions to provide loans to the farms that have become creditworthy as a result of the long-term supply contracts.

In FY01, the Dutch government provided the Partnership with a three-year grant to expand this type of agribusiness technical assistance in Russia and Ukraine.

In Ukraine, with support from the Government of Sweden, the Partnership began implementing a similar supply chain development program for Chumak—a local company with Swedish investment and management. Chumak is a leader in the local ketchup, mayonnaise, and canned vegetables market. The Partnership advises local farms on reorganization and property rights, trains them in agribusiness and financial management, and introduces new technology and modern agronomy know-how to increase the quality and quantity of vegetable production to meet the processor's needs.

With support from the Government of Finland and private investors, the Partnership is launching a Sustainable Forestry Management Project in Northwest Russia. Building on its previous 12 months of work with Russian forestry companies, the Partnership will introduce sustainable forest

management practices in order to mobilize foreign direct investment in logging and wood processing operations.

In addition to this investment-linked technical assistance, the Partnership works to strengthen locally owned and managed companies by providing hands-on diagnosis and business development services. These services include advice on corporate governance, financial planning, asset restructuring, quality and process management, and sound environmental practices.

The Partnership, with support from the Governments of the Netherlands and Canada, is providing corporate governance training and advice to companies in Armenia, Russia, and Ukraine. The Partnership promotes transparent business management practices, protection of shareholders' rights, and accountability. The Partnership will help match outside investors with those local companies, which demonstrate good governance practices.

## Supporting the Growth of SMEs

The development of SMEs is critical to the overall economic growth of transitional economies. SMEs create jobs, employ workers laid off from declining or restructured enterprises, and generate government

revenues. They also establish a solid foundation for market-based growth by creating a large class of stakeholders.

The SME sector in the countries of the former Soviet Union has emerged as the fastest growing segment of the economy and one of the largest sources of employment. Still, the potential growth of SMEs has been largely constrained by a lack of financing, management skills, and business and commercial information, as well as an unstable legislative and regulatory base.

To support the growth of SMEs, the Partnership implements a number of initiatives to improve SME's access to capital, to build local consulting capacity to deliver focused enterprise support to SMEs, and to help SMEs find long-term partners through the Partnership's supply linkages projects to support larger investors.

To improve SME's access to capital, the Partnership helps to develop financial institutions, particularly leasing companies—a traditionally more flexible and accessible sources of financing to SMEs.

In Russia, the Partnership is working to encourage the development of the leasing sector. With funding from the Governments of Canada and the UK, the Partnership is conducting numerous training, public education, and advocacy programs across Russia to explain the concept of leasing, its

application, and its economic benefits to the private sector and policy makers. Among the achievements of this program are: training of over 1,000 companies in 20 of Russia's regions on structuring leasing operations; creation of a practical bimonthly journal *Leasing Courier* distributed by demand in 79 regions; development of a web page with analytical and practical information on leasing which attracts about 4,000 visitors per month; and mobilizing support for amendments to the Law on Leasing and the Tax Code, which are currently in the parliament. This program has also resulted in the establishment of a new leasing company financed by Deutsche Leasing and IFC (Deutsche Leasing Vostok), and several other IFC investments are at an advanced stage.

The Partnership is about to launch similar leasing development programs in Georgia and Central Asia with support from the Governments of Canada and Switzerland.

The Partnership also plans to work with commercial banks to establish or improve their SME lending practices. In Russia, the Partnership will provide targeted pre- and post-investment support to selected medium-sized banks. Assistance will be customized to increase the viability of each bank.

Additionally, many of the Partnership's initiatives to strengthen local supply and distribution chains to large investors involve working with SMEs. The Partnership seeks to turn these enterprises into reliable, creditworthy businesses and to help them find suitable sources of financing.

To improve local business management skills, the Partnership builds sustainable local consulting capacity to deliver focused enterprise support to SMEs. In Belarus, with US government support, the Partnership works with business associations to strengthen their ability to provide the full spectrum of modern business consulting services and to improve the business environment for SMEs. Operating in a particularly challenging setting, the Partnership conducts comprehensive public education and media campaigns to explain the importance of the SME sector to economic development, to raise public awareness of the main constraints to business development in Belarus, and to advocate for policy reform.

The Partnership is about to launch similar initiatives in Central Asia and Azerbaijan with support from the Government of Switzerland and in close collaboration with IFC's Southern Europe and Central Asia Departments and the World Bank Group's SME Department.

## Improving the Business Enabling Environment

The potential for private sector growth in the countries of the former Soviet Union has been largely constrained by an inadequate legal and regulatory environment. Both foreign investors and local companies name unstable and opaque business legislation and poor corporate governance as major obstacles to business development.

Based on its enterprise-level knowledge of the main business constraints and broader studies of the sectors where it works, the Partnership proposes specific legislative changes. In collaboration with the World Bank, the IMF, and other international financial institutions, the Partnership advocates these changes through an open and continuous dialogue among foreign investors, local enterprises, governments, legislators, and the mass media. The Partnership facilitates such discussions through organizing roundtables, conferences and through the media. It also participates in the work of government and legislative committees discussing policies affecting the private sector.

Working to improve the business enabling environment is an essential component within each of the Partnership's



initiatives. The Partnership builds on IFC's past success in helping to adopt or amend over 100 pieces of legislation across the region. These laws contributed to creating and solidifying the legal framework for privatization, simplifying business registration procedures and taxation of the small businesses, reducing government overregulation of the private sector, and more.

The Partnership is currently working to help create better conditions for the development of the leasing sector and promote sound corporate governance regulations.

In Ukraine, the Partnership (with funding from the US Government) took the lead in drafting a new Law on Leasing, which was

recently passed in a second reading (of three) by the parliament, the Supreme Rada. This law will create a legal base for the development of the leasing industry.

In Russia, the Partnership (with funding from the Government of Canada) has mobilized the leasing industry's support for and helped draft amendments to the Law on Leasing and the draft Tax Code (the section on taxation of leasing operations). The draft Tax Code was recently passed by the lower house of the parliament, the State Duma. The significance of this tax code is that it creates tax incentives for both lessors and lessees, which are crucial for the further growth of the leasing market. The amendments to Russia's Law on

Leasing bring the existing law in accordance with the civil code and, thus, will eliminate ambiguities in the current regulation of leasing. These amendments are soon to be considered in a second reading (of three) by the State Duma.

In Armenia and Ukraine, as part of corporate governance projects funded by the Governments of the Netherlands and Canada (respectively), the Partnership participated in drafting the laws on joint stock companies. Both bills are currently in the parliaments. The Partnership is conducting public education and advocacy campaigns to explain the significance of sound corporate governance regimes to the countries' overall economic development and to mobilize support for these key pieces of legislation.

In Russia, with support from the Government of the Netherlands, the Partnership is working with the Federal Securities Commission to develop recommendations for a draft Corporate Governance Code. The Code will bring together the best international corporate governance practices and explain certain ambiguities in the Russian current legislation.



## Planned Initiatives

In collaboration with the private sector investors, the Partnership is developing new initiatives to promote direct investment. Recently opportunities have been identified in the automotive, general manufacturing, mining, and the financial sectors. The Partnership plans to transfer its successful experience of developing the financial markets, introducing sound corporate governance principles, and building business consulting capacity to other countries of the region. The Partnership is looking to donor countries to make these programs possible.

## More Information

For more information on the Partnership, visit the program's website at [www.ifc.org/pep](http://www.ifc.org/pep).

### Armenia

CORPORATE GOVERNANCE PROJECT. This project, funded through the TATF Program, is a continuation of IFC's efforts to promote adherence to internationally accepted corporate governance practices in Armenia. Working directly with Armenian companies, this project seeks to strengthen their corporate governance practices to make them more attractive to potential investors. To improve the country's business enabling environment the project works with the national government to reform relevant business legislation, such as the law on joint stock companies and the civil code. *The Netherlands*

### Russia

CENTRAL LEASING. This project is a continuation of IFC's efforts to stimulate the development of the leasing sector in Russia. IFC's leasing advisory group works with the government and the parliament to amend the existing law on leasing and the draft tax code to facilitate the development of a competitive leasing industry. The group provides training, direct consultations, and specialized information on leasing to leasing professionals, potential lessees, and government officials across Russia. *Canada*

URALS LEASING. This project, funded through the TATF Program, has opened an office in Ekaterinburg, the Urals region, to provide training and advice to the region's leasing companies and their potential clients, as well as help policy makers to improve the region's leasing regulation. *The United Kingdom*

AGRIBUSINESS. This project is to provide technical assistance to local farms supplying large processors, mostly foreign companies. The technical assistance includes training in financial management, production and distribution and advice on identifying and accessing appropriate sources of financing. *The Netherlands*

CORPORATE GOVERNANCE. This is a major new initiative to improve the investment climate in Russia through developing effective corporate governance in medium and large enterprises. The program will work directly with Russian enterprises in four oblasts to improve their governance practices; will help match outside investors with Russian companies which demonstrate good corporate governance; will work with Russia's Federal Securities Commission, the parliament, and the Supreme Arbitration Court in improving relevant legislation and strengthening its enforcement; and will introduce corporate governance curricula to Russian universities. *The Netherlands*

SUSTAINABLE FORESTRY DEVELOPMENT. In the first phase of this project (completed in 2000), an IFC team worked for one year with ten of the larger forest enterprises in Northwest Russia to help them develop business plans and commence matching them with Scandinavian partners (know-how, equipment, potential investment). The new phase of the project will continue working with local companies to introduce sustainable forest management practices in order to mobilize foreign direct investment in logging and wood processing operations. *Finland*

### Ukraine

AGRIBUSINESS DEVELOPMENT. This project supports the development of local farms and seeks to mobilize investment into Ukraine's agricultural sector. The project will focus on improving the quality and reliability of local supply of raw agricultural produce to make investment into food processing possible. The project will facilitate links between local supplier farms and foreign processors investing locally. *Canada, Sweden*