



Track Record: Lessons from IFC's Corporate Governance Experience

IFC ADVISORY SERVICES IN SUSTAINABLE BUSINESS



International Finance Corporation
World Bank Group

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Message from the Global Business Line Leader

IFC supports the sustainable development of markets that work for all members of society. Building on IFC's environmental and social performance standards, we promote sustainable business practices among firms across a full range of industry and services sectors.

As part of this overarching commitment to developing sustainable businesses in emerging economies, IFC provides advice to companies, banks, governments, and relevant institutions on how to strengthen corporate governance practices so that businesses can attract capital, improve their performance, and better weather financial crises.

This publication highlights the lessons learned through IFC's years of corporate governance work. It is an impressive compilation, written by staff for SmartLessons, the IFC/World Bank program that enables development practitioners to share their knowledge in advisory services and investment and financial operations.

Through the prism of their own experience, positive and negative, the authors capture practical lessons on the challenges faced in designing and implementing projects to bolster the corporate governance practices of businesses in emerging markets. These lessons provide first-hand, straightforward, and useful analysis that can help guide future efforts, enhancing project design, strengthening implementation, improving results, and deepening the impact of this important work.

Monika Weber-Fahr
Global Business Line Leader
Sustainable Business Advisory

June 2011

Building Sustainable Businesses by Improving Corporate Governance

Sound corporate governance is crucial for sustainable private sector development, as it reduces risk and helps companies attract investors. There is a clear connection between well-governed companies and better company performance, with benefits such as easier access to finance, improved efficiency, enhanced market reputation, and stronger risk management.

IFC is recognized as the leader among development finance institutions in bringing about lasting corporate governance improvements in the countries and regions where we work. Our efforts are making a real difference: in public policy, in the ways in which companies run, in the curricula taught at higher-level educational institutions, and in how the media report on business-related news.

At its core, IFC's leadership in promoting good corporate governance is built on the compilation of knowledge our staff has developed over more than a decade of engagement.

This book of SmartLessons is a compendium of our knowledge on implementing corporate governance projects. The lessons represent an impressive body of work, with individual contributions written by our staff—the people who really know what they are talking about, because they are out there, engaged in the work on a day-to-day basis. It reflects the evolution of our project approach as the world has changed. In the early years of our work, efforts focused on the newly independent and newly market-driven nations of the former Soviet Union. More recently, projects have addressed the sometimes rocky road to stability for emerging market countries as they struggle to regain economic momentum in the wake of the global financial crisis. Meanwhile, new opportunities and new challenges lie ahead as events in the Middle East and North Africa underscore the broader importance of IFC's core mission to drive job creation and economic development by supporting expansion of well-governed, sustainable, and thriving private sectors.

IFC's approach to this corporate governance work has undergone change as well. Now, we are moving into the next stage, as we mainstream corporate governance considerations into our investment activities. This shift is an institutional acknowledgement of the critical importance of good corporate governance in reducing our portfolio risk, in improving the performance of our clients, and in supporting sustainable private sector growth in emerging markets.

Darrin Hartzler
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June 2011

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A Brief History of IFC's Corporate Governance Advisory Services

The breakup of the Soviet Union in the 1990s led to the birth of a raft of newly independent republics. However, the rocky transition from central economic control to market economies during that period made IFC investment in private enterprises next to impossible in any of the new republics. Rather than sit on the sidelines and watch, IFC made a bold decision: to assist in the development of market economies by helping these new governments re-organize and sell off non-functional or inefficient state-owned enterprises to private entities. The end goal of this strategy was future IFC investment in the private sectors that we helped to create. Along the way, we developed a viable model for corporate governance projects that has been successfully replicated—with refinements along the way—throughout the region and beyond.

In the newly independent republics of the former Soviet Union, the key players didn't understand all that they didn't know about corporate governance. As such, IFC's early corporate governance advisory services efforts were, in effect, experiments in heightening awareness about the role and importance of corporate governance in these countries.

Starting first in Ukraine, and then moving throughout the region, we designed projects that reached a wide range of key parties, including companies, governments, academic institutions, and the media. Our efforts sought to educate these parties on the value of good corporate governance and create strong demand for our corporate governance advisory services. The approaches used have been tested and refined over the course of more than a decade, resulting in the development of a flexible and adaptable corporate governance donor-funded project model. The model has been replicated—with strong results—in other regions where IFC is active, with specifics customized to fit local conditions.

This work has helped strengthen general business environments to encourage more private sector development. In addition, improvements in corporate governance have helped companies that are preparing to seek outside capital to enhance their performance and gain increased access to financing sources.

In the meantime, events on the world stage—and the coincidences of timing—continue to elevate the importance of corporate governance. Following IFC's initial advisory work as new market-based economies in former Soviet republics came into being, the Enron scandal of the early 2000s brought renewed scrutiny on corporate governance practices in the West. More recently, in the aftermath of the global financial crisis, there has been renewed focus on corporate governance lapses that may have contributed to the meltdown. And now, change is sweeping across the Middle East and North Africa, bringing with it the potential to address corporate governance challenges in ways that can help strengthen economies and expand the private sector.

Such events highlight the fact that there is no real end point to good corporate governance: as market conditions change, as new financial instruments are created, and as technology enables ever-evolving ways of doing business, there will be an on-going need to adapt corporate governance practices—as well as public policies—to keep pace. The project model we have developed is well suited for such a dynamic: within a standardized structure, the content can be altered and adapted to address current and future challenges.

This book is a compilation of our experiences from years of work on corporate governance, and offers SmartLessons on what we have learned. The book provides practical guidance on what to do and what pitfalls to avoid from the people who know the work the best: IFC's corporate governance advisory services staff, who collectively have designed and implemented projects in more than 50 countries and counting since 1992.



Pre-project Planning and Design

There are several stages in the early development of a donor-funded advisory services corporate governance project, starting with the initial concept, which should be aimed at addressing a specific market failure (a systematic problem that is creating obstacles to private sector development).

Determining which challenge to address involves asking a number of questions:

- What in the market needs to change?
- How will we change it?
- How can success be measured?
- Have others tried to do the same thing?
- Are there existing services in this market niche?

Answering such questions requires some in-depth research: into the specific sector, such as banking; on existing regulations in the country relating to corporate governance; about the level of corporate governance awareness in the country; and on which donors are active in the country, what their country strategies are, and whether they are already funding any corporate governance related projects.

While this may prove a time-consuming exercise, a thorough job here can avoid significant problems down the road. In fact, information gathered during this early stage will help determine the feasibility of a potential project.

A well-planned, three-to-five-day feasibility study, conducted on the ground in the country, will solidify the information already gathered, and help separate what has been written from the truth: Are regulations really enforced? Is there an appetite for corporate governance? Is there a sense that business, government players and donors have an appetite for implementing reforms? Would there be a reliable funding source for the duration of the project?

The information learned from both activities—desk research and insight from meetings on the ground—will help verify assumptions and refine initial ideas, so that the project, if it does move forward, will have a well-defined mission and objective, based on the reality in the country.

The SmartLesson in this section addresses a key aspect of this pre-planning work: conducting a corporate governance practices survey.

Reducing Survey Implementation Delays: Experiences of a Corporate Governance Practices Survey in Kazakhstan

The corporate governance team in Kazakhstan experienced many challenges that severely delayed the completion of its survey in that country. The purpose of this SmartLesson is to share some of the challenges faced with the survey and to provide useful tips to reduce delays with other surveys.

BACKGROUND

IFC has been implementing corporate governance advisory projects within the former Soviet Union since the mid-1990s.¹ A survey of corporate governance practices in project countries has been a key deliverable for these projects, as the survey's results:

- Establish a statistically significant baseline of current corporate governance practices and awareness in each project country's joint stock companies and banks. From this baseline, improvements in local corporate governance practices can then be assessed at the end of a project's life to help measure the project's impact;
- Assist with the development of each project's training seminar topics and public education work;²
- Serve as useful public awareness tools, through widespread dissemination of survey results; and
- Enable IFC and other experts to gain cross-country insight by comparing the survey conclusions of multiple countries.

Unlike surveys related to administrative barriers and business-enabling environments, corporate governance surveys ask target companies about their internal practices related to topics such as shareholder rights, transparency, and the effectiveness of their boards of directors.

One of the most recent projects to carry out a



corporate governance practices survey has been the IFC Central Asia Corporate Governance Project. This three-country project began in Kazakhstan and has recently expanded to include first Tajikistan and then the Kyrgyz Republic.

LESSONS LEARNED

1) Conduct a baseline survey as early as possible, ideally even before project set-up and launch.

Like most of its sister corporate governance projects, CACGP started working on developing its corporate governance practices surveys during the project set-up phase, once local experts had been recruited. This meant that, during the course of developing the survey questionnaire and finalizing tender

documentation, the project teams were also busy with client development, project launch activities and training seminar development. Delays became inevitable with the project's resources being pulled toward multiple priorities.

With a baseline survey, it is vital that the survey be started as early as possible, ideally even before the project has commenced set-up and recruitment. When a baseline survey is delayed, it reduces the relevance of the survey for project impact assessment purposes. Early survey implementation also enables the team to minimize the impact of problems or delays related to the survey's completion, because such problems are addressed earlier.

A pre-project baseline survey, however, will also present its own challenges. With no local experts on the ground, a local legal (or other appropriate) consultant may need to be employed to adapt a prior survey's questionnaire to the local legal regime and to assist with the tender for survey company selection. Any concerns about survey quality resulting from the use of an outside consultant can be mitigated if an IFC business line has developed an appropriate model survey questionnaire for the survey's topic.

SUGGESTED PROGRESS REPORT QUESTIONS

Name of company
Region
Name/title of primary contact
Status of request to be surveyed (accepted/rejected)
If rejected, reason for rejection
Questionnaire complete? Y/N
Expected date of questionnaire completion
Comments

2) Designing the procurement process to increase options helps to reduce potential delays.

Multiple tender advertisement methods. As part of the procurement process, the Kazakhstan project team researched (through World Bank Group contacts, Yellow Pages and other methods) and proactively contacted all known local survey companies, requesting expressions of interest and subsequently including interested parties in the tender process. This system of direct contact was considered appropriate in case survey companies might not see an advertisement placed in a local newspaper.

However, the limited number of suitable submitted bids, combined with the later discovery of additional survey companies, required that a second tender round be held, thereby delaying the survey launch. Unknown to CACGP, there were companies that conducted surveys as a supplement to other work activities. Had CACGP published an open advertisement in a widely circulated newspaper, in addition to directly contacting known companies, participation in the first round would likely have increased.

Upon the project's expansion into Tajikistan and the Kyrgyz Republic, this dual approach to publicizing the survey tender was used. Submitted bids were from survey companies that learned of the tender from both direct contacts and the published advertisement, and an adequate number of suitable bids meant that no extended tender process was necessary.

Structuring the tender to receive a range of bids.

The tender documents for past corporate governance surveys usually listed a fixed amount of companies to be surveyed and invited survey companies to provide corresponding price quotes. The larger the survey sample, the lower the error rate in the survey's conclusions. It can therefore be important to have as large a sample size as possible for a given survey's budget.

With the uncertainty of survey costs in Kazakhstan, CACGP drafted tender documents, at the outset, to require price quotes for three different quantities of

BY THE NUMBERS: CORPORATE GOVERNANCE PRACTICES SURVEY

Country	Number of companies and banks being surveyed	Number of survey questions	Number of weeks to conduct survey
Kazakhstan	138 (reduced to 100)	105	28
Tajikistan	72	61	8
Kyrgyz Republic	100	60	Pending

joint stock companies and banks to be surveyed (e.g., 80, 120 and 150 companies). This proved to be a useful structure, as it allowed CACGP to determine that its Kazakh budget could handle the middle-range option provided by bidders. Had we selected only one quantity of companies (e.g., 80 companies) for the tender, price quotes might have been over budget or under budget, resulting in the need to re-tender or negotiate with bidders.

We continued this practice for the Tajik and Kyrgyz surveys, with those budgets and needs justifying the selection of the smallest range option provided.

Deciding what to exclude from the tender: data collection vs. written analysis. Local survey companies provide vital data collection and statistical data relationship analysis for the topics being surveyed. However, our experiences with earlier corporate governance practices surveys taught CACGP that survey companies rarely have the expertise required to provide the necessary subsequent written analysis related to corporate governance. When a survey company was required under a tender to conduct such written analysis, the universal result was delays in the survey completion, due to the need for project experts to rewrite the analysis. CACGP learned from this experience and had the tender process expressly exclude such written analysis; such analysis is to be performed by the project team.

3) Keep potential delays in mind when designing and overseeing the survey.

Ensuring oversight of the survey company allows for quick understanding of potential problems. The Kazakhstani survey company faced major problems finding companies that were willing to participate in the survey. Ultimately, the survey company contacted virtually every joint stock company in Kazakhstan that satisfied the survey criteria to encourage them to participate in the survey, and we had to contractually reduce the required number of completed surveys when it was clear that the target level would not be reached.

The survey company did not initially tell us of the extent of the problems. The survey company was required to submit periodic progress reports based on templates that CACGP had adopted from past surveys. However, as delays mounted, CACGP required that more details be provided in weekly supplemental progress reports, stating specific reasons why companies were refusing to participate in the survey and the titles of target company personnel that were providing such refusals. Had the report structure been more comprehensive at the outset, CACGP might have learned more quickly about the challenges the survey company was facing.

Once the target company refusals were better understood, CACGP worked with the survey company to overcome the obstacles, even though this was not required under the services contract. It was determined that terminating the relationship with the survey

company and re-tendering would have caused even longer delays, and that it was in the project's best interests to move forward with the assistance.

Managing participant confidentiality concerns.

Confidentiality was given as the main reason that targeted companies refused to participate in our Kazakhstan survey.

To assist the survey company, CACGP originally executed a general letter of support that was included in survey-related documentation. In this letter, we explained the purpose of the survey and why it would be useful for companies to participate. As confidentiality concerns arose, the letter was amended to provide general comfort as to confidentiality, noting that information on individual companies would not be publicly distributed by IFC. Even though the project maintains strict confidentiality of survey responses, we felt that a confidentiality comfort letter was more appropriate than scores of individually executed confidentiality agreements, as so many agreements would have been unwieldy to execute and unnecessarily expose IFC to contractual obligations. This letter helped in many cases, although numerous companies remained concerned about the survey company itself leaking information.

Due to the very small number of local banks in Kazakhstan, it was vital that as many banks as possible answer the banking-specific questions in the survey. As an exception, the project therefore agreed to have face-to-face meetings with some banks to explain the survey and how the information would be used. These meetings did increase bank participation (and were useful for project client development), but this approach is not a realistic option for a large survey.

Tajik companies have not expressed the same confidentiality concern during the survey process. This may be due to a simpler survey questionnaire or to differences in business culture. The project's client companies in the Kyrgyz Republic, however, have been extremely concerned about confidentiality, so we have anticipated the need for confidentiality reassurance during the implementation of the survey in that country.

Managing survey size. Because CACGP was the newest IFC corporate governance project in the region, we benefited by being able to adapt questionnaires from past corporate governance surveys that had been conducted by our sister projects within the former Soviet Union. Those prior surveys had been frequently revised and had become progressively more comprehensive. CACGP extended this behavior, and "just a few more questions" by enthusiastic editors ultimately resulted in a survey questionnaire of approximately 100 questions.

While there were a variety of reasons given by companies for refusing to participate, a recurring concern was the large amount of time required to complete the survey.

Based on CACGP's experiences in Kazakhstan, we significantly reduced the number of questions for our surveys in Tajikistan and the Kyrgyz Republic, basing the questionnaire on the core questions that are most common throughout many corporate governance surveys.³

The Tajikistan survey is now nearing its end and has had far fewer companies refuse to participate. The Kyrgyz survey will commence shortly.

CONCLUSION

There are many possible problems that can cause delays in the implementation of a survey; a few key ones have been explained in this SmartLesson, and it is important to anticipate as many potential delays as possible during the planning stage. Hoping for the best, but planning for the worst will better ensure that delays are avoided or, at the very least, spotted and addressed as quickly as possible.

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Project Design

IFC's first attempts to design projects aimed at improving governance environments date back to 1992. As each successive project was launched, the model would be tweaked to reflect the lessons learned from the prior project, with the goal of achieving maximum effectiveness.

From the start, the project design approach involved a standard structure that included several categories of activities. Individual project teams could alter the amount of effort and resources that went into each category depending on the unique needs of the country or region.

Project components are designed with the aim of meeting specific goals for developing the private sector in emerging markets:

- Increased access to competitive and affordable external financing

- Better operational and financial performance through improved strategic decision-making and managerial oversight
- Improved compliance to build or restore relationships and confidence with key players, including investors, regulators, and employees

While the aims are clear, the work is complex, and involves more than just hands-on work with companies—it includes efforts targeting banks, government, the media, and educational institutions.

The SmartLessons in this section provide insight into the evolution of the project design model for donor-funded corporate governance advisory services projects, to reflect the complexities and the interwoven nature of the work.

One from Column A; Two from Column B: Using a Flexible Project Model for Corporate Governance Advisory Services Projects

In a restaurant, patrons can select from a variety of food course options under a number of central themes, depending on their tastes. Similarly, designing the optimal corporate governance project involves identifying specific activities that fall under four different umbrellas: companies and banks, educational institutions, enabling environment, and public awareness. The SmartLesson below describes a comprehensive approach to corporate governance projects that allows for standardization and flexibility, with the amount of time and resources spent on each critical area depending on the country and its level of development.

BACKGROUND

What is a project model? Stated simply, it is an approach in which project designs are based on a standard template, featuring a variety of different activities. The weight of each activity—the amount of time and resources spent on it—depends on the contextual needs of a country or region. IFC makes use of the project model approach in our corporate governance advisory services work.

Our corporate governance project model evolved as a result of nearly two decades of hands-on experience, with over 100 staff providing direct assistance to companies, executives, shareholders, regulators, legislators, educators, and nongovernmental organizations in some of the most challenging emerging markets in the world.

Over these years, the model has been tested and refined, resulting in the development of a flexible and adaptable approach to designing donor-funded corporate governance projects.

Starting first in Ukraine and Russia in the early 1990s, following the break-up of the former Soviet Union, efforts soon extended to Armenia. Within five

years, corporate governance projects constituted more than one-third of IFC's advisory services portfolio in the Europe and Central Asia region. The first replication of our project model approach in another region was in the Middle East and North Africa, where an ambitious advisory services program was launched in 2002. In 2005, a corporate governance advisory services program started in the Balkan region, covering the former Yugoslav Republic of Macedonia, Albania, Bosnia and Herzegovina, and Serbia, with project management based in Belgrade.

Along the way, we learned some key lessons on how to create the optimal mix of project components.

LESSONS LEARNED

1) Improvements aren't sustainable in a void: take a comprehensive approach when addressing corporate governance gaps to include working with government, educational institutions, and the public.

You can talk all you want to companies about why they need to have independent boards, get their books audited, or hold regular shareholder meetings, but unless there are rules and regulations requiring

such activities, it's unlikely that company executives will rush to change. It's not that the business case for better governance isn't there: indeed, our own evidence from our work in Ukraine and Russia draws a direct link between improved financial performance of companies and enhanced corporate governance, compared to companies that did not address their governance gaps. Still, companies need incentives to encourage such changes.

Similarly, if emphasis is placed only on developing corporate governance curricula for educational institutions, there's a risk of creating an "ivory tower" mentality that would not translate well into the day-to-day realities of the business world. And if the public fails to understand the value of better-governed companies, it is unlikely that they will pressure companies to address the issues or call on government officials to enact policies to drive improvements.

Bottom line: The governance arena touches all of these key audiences. Overlooking one or the other could make the overall effort less successful and less sustainable.

"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," notes an IEG review of our Ukraine projects.⁴

Our project model incorporates this comprehensive approach, based on a standardized template with a variety of key components, including:

- Direct assistance to local companies and banks seeking to improve their corporate governance;
- Advice to regulators, legislators and self-regulatory organizations on corporate governance standards and creation of an environment that incentivizes good governance;
- Curriculum development with educational institutions; and
- Public awareness activities, including media training on corporate governance topics.

"It is not possible to work on the business case for corporate governance in the absence of an adequate legal framework."

—Triple Line Consulting, *Corporate Governance Project Review*

2) *Select the mix of project components based on what stage of market development the target country is in.*

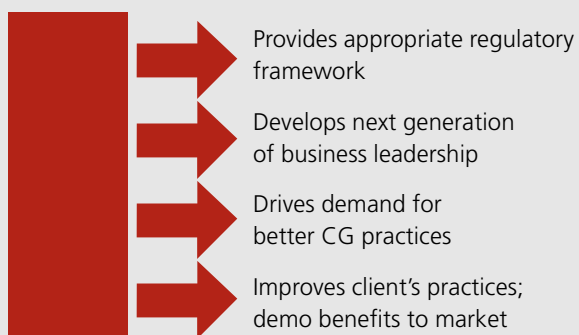
The level of market development and the level of corporate governance awareness go hand in hand. Based on our experience, the earlier the market development stage, the greater the need to focus on creating an enabling environment to set the stage as the private sector begins to grow. So, in countries like Tajikistan, Uzbekistan and the Kyrgyz Republic, the majority of project resources have been devoted to putting modern legal and regulatory frameworks in place. In others, like the Balkan nations, market

CORPORATE GOVERNANCE PROJECT OBJECTIVE AND APPROACH

Objective

Improve corporate governance practices

A programmatic approach to CG in a country or region



Side effect

IFC branded as global leader in corporate governance

economies are in a growth mode, and regulatory frameworks already exist. Work here is primarily focused on company-level capacity building.

Still, it is important to note that this is a generality: the level of country-based corporate governance development is not always an indication of company-level awareness or endorsement of the value of corporate governance. While some nations may have regulations, codes, and policies in place, companies may fall well short of best practices or awareness, meaning that the bulk of the project should focus on company-level improvements.

3) Plan a longer time frame for projects in countries with low levels of development.

A two-to-three-year time frame is not long enough, because there is so much work to be done, and because efforts to write new laws and add new regulations can take a long time. When countries are in the early stages of developing market economies,

most of the focus is on working with governments, so projects should be a minimum of five years.

As countries progress into the market development and market growth stages, there's increased focus on company-level work, and project durations can be shortened. Still, we have found that it can take up to a full year to adapt corporate governance assessment tools and best practice materials to local language and regulatory requirements before company-level work can begin.

We have also learned that staff in longer projects develop greater expertise and experience, which can be leveraged to help with IFC investment operations.

CONCLUSION

The traditional approach at IFC and the World Bank had been to hire consultants to fly in and handle the TOR /mandate however they chose to handle it. Our approach was different: to design a project

FOUR PILLARS OF IFC'S CORPORATE GOVERNANCE PROJECT WORK HOW IFC'S ADVICE IS DELIVERED

Work with Companies/Banks

- Public seminars
- Private consultations
- Pilot program

Work with Government

- Legislative reform support
- Public/private dialogue
- NGO support

Work with Universities

- CG course seminars
- CG case studies
- Roundtables/events

PR and Publications

- Manuals and handbooks
- Model charter and by-laws
- Media training
- Web site



DESIGNING CORPORATE GOVERNANCE PROJECTS IN TRANSITIONAL AND DEVELOPING COUNTRIES: A TOOLKIT

The Corporate Governance Toolkit provides step-by-step guidance on designing and implementing corporate governance advisory services projects in transitional and developing countries. It addresses all stages of a project life cycle:

- Development stage
- Project start-up
- Work with companies and banks
- Work with educational institutions
- Communications and public relations
- Measuring results of corporate governance projects

The toolbox contains templates and samples of documents, including:

- Project proposals
- Sample press release for project launch
- Sample agendas for company and bank seminars
- Memoranda of Understanding samples for public policy work
- Sample educational curricula, including case studies and tests
- Press articles and success story examples
- Agenda for a press tour
- Baseline survey questionnaire/post-project impact survey questionnaire

based on a standard template and to alter the weight of each activity depending on the contextual needs—the project model. A key factor in this replication approach was a locally engaged staff under the helm of an expatriate specialist project manager.

Through almost two decades of projects, we have tweaked this model, experimenting with format and content. Now, with significant experience, there's a wealth of documented knowledge on which to draw—and we know what works.

The dynamic, flexible nature of the project model allows for a high level of customization, including types of activities and areas of focus as well as duration and scope, while taking into account the development stage of the country or region. It also allows for evolution and change as circumstances change, while encouraging replication of efforts that have a demonstrated record of effectiveness. The recent decision to mainstream IFC's corporate governance methodology into investment operations will undoubtedly result in new iterations of the model, for even greater impact.

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The author gratefully acknowledges the contribution of Motria Onyschuk-Morozov in the preparation of this SmartLesson.

APPROVING MANAGER

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September, 2010

Structuring Corporate Governance Projects

IFC's corporate governance program assists businesses throughout the Middle East and North Africa region in improving their corporate governance practices. The program has five core objectives, namely to provide: advisory services to banks and companies on implementing corporate governance; assistance to investors to incorporate corporate governance into their investment decision-making; policy advice to the public sector on regulatory reforms and drafting national codes of corporate governance; sustainable institutional capacity for corporate governance, including corporate governance institutes and educational institutions; and training on corporate governance for the financial press.

BACKGROUND

There is a clear business case for corporate governance. A 2004 study of S&P 500 firms by Deutsche Bank showed that companies with strong or improving corporate governance practices outperformed those with poor or deteriorating governance practices by about 19 percent over a two-year period. In its 2005 global survey, Governance Metrics International found that the stock prices of the 26 enterprises it ranked highest in corporate governance outperformed their benchmark indices in one-, three-, and five-year periods. Both studies demonstrate the effect that corporate governance practices have on the overall value of a company.

Yet, while most clients intuitively state that corporate governance matters, few really understand what corporate governance means. According to IFC, corporate governance refers to a set of structures and processes for the direction and control of corporations. Corporate governance affects the distribution of responsibility and accountability among the main participants in the corporation—including shareholders, directors, and managers—and the rules and procedures for making decisions on corporate affairs. Corporate governance thus provides the structure through which corporate objectives are set, implemented, and monitored. A well-governed company is marked by: a strong commitment to good corporate governance; a professional, independent,

and vigilant board of directors; a robust control environment; a strong framework for disclosure and transparency; and a culture of protecting shareholder rights, in particular of minority shareholders.

Corporate governance matters to the region. Many Middle Eastern and North African enterprises, as well as those in other regions, have reached a stage in their corporate life where adopting corporate governance has become crucial to their future growth and competitiveness, in particular as they transition from mid-size family-owned enterprises to large companies with regional ambitions. By improving their corporate governance, these companies may improve their ability to access outside capital, lower their cost of capital, improve their performance, and build public trust, confidence, and goodwill.

Corporate governance also matters to IFC. IFC has worked on corporate governance in more than 80 countries, and this extensive experience has positioned IFC as a global authority on governance issues for the private sector in emerging markets. Corporate governance matters to IFC's investment services, as it helps minimize portfolio and reputational risks, adds value to IFC's clients, and helps develop capital markets.

The following lessons learned are based on experience from implementing corporate governance advisory projects in Russia and across the MENA region.

LESSONS LEARNED

1) Corporate governance is a journey, not a destination.

Corporate governance projects should be structured to last at least three, ideally up to five, years, depending on the level of private sector development. Corporate governance reforms are ultimately based on changes in behavior, notably those of shareholders, directors, and managers—and indeed in a corporation’s culture. Such change is not made overnight. As Peter Drucker, the famous management theorist, once stated: “Culture is process over time.” And so changes to a corporation’s governance policies, procedures, and processes can positively affect a company’s corporate governance culture and the behavior of its agents. This extended time period will also allow the project team to better monitor project outcomes and impacts.

2) Obtain the godfather’s blessing, but avoid the kiss of death.

A corporate governance project should receive formal support from both the private and public sectors before being formally launched. This holds particularly true in emerging markets with powerful groups that are happy with keeping the status quo. Indeed, absent a strong commitment by both the public (relevant ministries or authorities, such as the capital markets authority and/or central bank) and private sectors (leading industry or business associations), corporate governance reforms are likely to be reduced to a “box-ticking” exercise, and the project is thus unlikely to achieve its intended impacts.

A word of warning, though, when interacting with government: public sector backing may provide legitimacy and lend support to deliver corporate governance advisory services in a country (the “godfather’s blessing”). It also may be accompanied by meddling and interference, which could jeopardize a project’s ability to engage with the private sector as an “honest broker” (a project’s “kiss of death”) or to

help the public sector reform a country’s legal and regulatory framework.

For example, the Russia Corporate Governance Project’s work to help develop the regulatory framework in Russia was limited in part due to the nature of its relationship with the Securities Regulator. A number of private sector companies also cited their uneasiness about cooperating with the project absent public sector support. The Egypt Corporate Governance Project, in turn, forged a strong, yet arm’s-length, relationship with the Egyptian Ministry of Investment and Capital Markets Authority, which in turn facilitated the project’s ability to launch a series of advisory services for the private sector, as well as the region’s first institute of directors and the world’s first country code of corporate governance for state-owned enterprises.

Practically speaking, signing a Memorandum of Understanding rather than a formal agreement with the project’s public sector counterparts is often the best way forward. This allows the relevant government counterpart to take ownership and offer support, yet also keep a healthy distance from the public sector.

3) Remember that the sum is greater than its parts.

When structuring a corporate governance project, it is important to target all key stakeholders involved in the reform process. While companies have the difficult task of implementing corporate governance, a number of other stakeholders have an important role to play in ensuring sustainable reforms. For example, in Pakistan, the project team is training the local press and financial media to ensure that the quality of reporting on corporate governance improves. It is also working with both banking and company regulators to improve the overall corporate governance framework.

Another project component is to build sustainable capacity. Thus, many of the project activities are being channeled through the Pakistan Institute of Corporate Governance, a nascent institute that IFC

hopes to build and make sustainable. Finally, the project team in Pakistan is engaging directly with the private sector, conducting a series of awareness-raising events, technical workshops, and company-specific interventions. Given the challenges of introducing improved corporate governance practices in form rather than theory and on a sustainable basis, only an interaction of all stakeholders is likely to produce the desired development impacts.

4) Do not outsource your core competency.

The success of a corporate governance project will ultimately depend on the quality of project staff—both international and local. Human resources are core to IFC’s business model, and hiring the right individuals with real and practical corporate governance expertise, leadership qualities, and communication (presentation and public speaking) skills poses a serious and time-consuming, yet not insurmountable, challenge.

It is best to launch the hiring process at the earliest possible stage, ideally between the PDS-Early Review and PDS-Approval stage and once funding has been secured. Hiring outside corporate governance consultants to support the project team in carrying out its work is an option, in particular when staffing constraints exist or when project teams are

inexperienced (to transfer knowledge). For example, during the program’s extremely brief ramp-up phase, a number of consultants were hired to support the local IFC team to reach a greater number of banks and companies and thus help ensure that impacts and success stories were developed from the get-go. However, IFC’s additionality—its unique mix of “global” corporate governance expertise and “local” knowledge—should and must not be compromised and outsourced, lest IFC lose its reputation as a global leader in corporate governance for emerging markets.

5) Remember the top-down, not bottom-up approach.

It is important to hire the project officer/manager first, prior to hiring other project staff, allowing the project officer to lead the selection process for key positions within a project. While perhaps obvious to most, the pressures from senior management or donors of recruiting a project manager during a very short time frame may lead program management to overlook this important step. In the end, the consequences of hiring (and then possibly firing) the “wrong” staff comes at great human cost to the staff in question, and will wind up costing even more time. This occurred in Russia, where the project manager was hired after a significant number of local staff had been hired and an operational structure put in place, both of which had to be changed to allow the project to achieve its results.

6) Educate, educate, and then educate.

Staff training is of great importance from the outset and should be included in the budget. Corporate governance is a complex topic, combining a multitude of different disciplines such as corporate and securities law, finance and accounting, economics, and other specialized fields, including risk management and internal control. It will likely prove difficult to find an individual with in-depth expertise in all disciplines. A training program on corporate governance may well prove to be a key success factor in minimizing the project’s operational (and ultimately reputational)



Dr. Ashraf Gamal El Din, Executive Director of the Egyptian Institute of Directors, and Sebastian Molineus, Program Manager, IFC Corporate Governance Program in the Middle East and North Africa, discuss corporate governance issues around a joint IFC – EloD event

risk, enabling project staff to provide quality services to client companies from the start. IFC's Corporate Governance Department plays an important role in providing training, not least of all on IFC's Corporate Governance Assessment Methodology, and in carrying out assessments. An exchange program between advisory staff is another possibility.

7) Replicate successful country projects at the regional level.

Rolling out existing IFC products across the region on a “light-touch” basis, once successfully piloted and “standardized” in a country, is an effective means of ensuring that a product is able to reach other stakeholders beyond a project's immediate focus, and can help corporate governance spill over into other countries. Such light-touch interventions will typically consist of identifying a successful product such as a bank training program for directors developed in Egypt and partnering with a regional institution such as the Union of Arab Banks that is mandated to identify and invite local, country-based institutions like national banking institutes. This regional institution can then organize a series of events for the local institutions to transfer the product: workshops on how to tailor the product to local conditions and train-the-trainer events on how to teach the bank training program. Then IFC staff can participate and share their insight and experience without significant time input.

8) Avoid the “tree falling in the forest” syndrome.

Before developing the monitoring and evaluation framework, ensure that your project has a clear goal; set of objectives that are specific, measurable, actionable, realistic, and time-bound; and action plan. Only then will the project teams be able to link project goals to impacts, objectives to outcomes, and activities to outputs. Then it is best to request that project staff look beneath the numbers of the monitoring and evaluation framework to ensure that they understand the underlying rationale: what, how,

and when to monitor and evaluate. Finally, ensure that you have a budget set aside for this, including for a mid-point evaluation. In the end, what you cannot capture or measure will not be evaluated and, worse, cannot be proven (like a tree that falls unnoticed in the forest). For example, the MENA program recently conducted a corporate governance review for an IFC investee client in Algeria. Because the costs and time commitment were considered minimal, the work was not captured in a PDS document and hence is not formally included in most internal or external communications.

9) Define the exit up front.

During the final months of the Russia Corporate Governance Project, the wealth of information and experience the project team had gathered was to be filed into folders, which in turn were to be placed in boxes, which in turn were to be stored in the World Bank's basement. Rather than follow this traditional path of shutting a project down, the project team decided to transfer its know-how and resources to a local institute of directors. However, this transfer was only partially successful, mainly due to the short time period to effectuate the transfer and unwillingness of local staff to move to the institute. A project's exit strategy should thus be considered at the earliest possible stage, ideally at the project conception stage. In fact, the project's exit strategy is best made a project objective. At the same time, the exit strategy should not tie the project to a specific partner institution; rather, the project team should be allowed the necessary flexibility and time to work with and test the various project partners in a particular country.

ABOUT THE AUTHOR

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May 2007



了... 呢... 的... 不...

1. 缺陷可以...
2. 缺陷如下:
① 缺陷少...
② 对工作的...
3. 对... 的...
① 时间...
② 资料包发送...

Project Staffing

In the early days of our corporate governance work, staffing considerations operated on a different set of assumptions—and different budgetary strictures—than today. Indeed, the jury is split on the question of whether a small core staff is ideal or whether a larger in-house team works better. To some extent, the answer to the numbers question is no longer relevant: moving forward, the model of project staffing that is described in our first SmartLesson here is simply not realistic today.

Nevertheless, getting the staffing right is critical to the success of a corporate governance project. As with other aspects of this work, what it means to get the staffing right will vary from project to project, and from country to country.

For instance, in countries where corporate governance is not developed at all, and the market is not sophisticated, it may be important to engage a full-time project manager. If there are several countries in the region with similar levels of development, it may be possible to appoint a single project manager who supervises all the activities, supported by team leaders on the ground in each country. Of course, cost, scope of work, cultural nuance, and capabilities all play a role here as well.

The SmartLessons in this section go beyond the numbers question to provide some guidance on the kinds of qualifications that are needed to help ensure maximum project impact.

Can We Talk? Staffing Considerations in Project Design

There is a straight line connecting the pioneering successes of IFC's early corporate governance advisory services projects and the fact that IFC hired talented local staff with fluency in the local language, customs, and business culture, and trained them to become experts in their field. The value of this approach has strengthened over time, as our efforts to create a market for corporate governance in developing countries have resulted in a growing demand for corporate governance services. IFC-trained local experts form the foundation of a new fee-for-service market niche—corporate governance consultancy services.

BACKGROUND

Staffing for corporate governance advisory services projects is not a one-size-fits-all proposition. There are a number of factors to consider, including the size, scope, and duration of the project and the project's budget. These factors are typical considerations for any project—they are not unique to corporate governance. Still, there are considerations unique to corporate governance advisory services projects when determining the optimal approach to staffing. Here are some of the key lessons on staffing we have learned over our nearly two decades of work in corporate governance advisory services projects.

LESSONS LEARNED

1) Consider the country's stage of corporate governance awareness: the less awareness there is, the more local hires are needed.

Project work in countries with a low level of understanding about the value of corporate governance typically focuses more on work with governments, given the lack of a legislative or regulatory framework that would require companies to meet certain standards. We found that in such countries—like China, the Kyrgyz Republic, Tajikistan, Uzbekistan and Vietnam—deep knowledge of the ins and outs of government was absolutely key. How government officials make

decisions, how political compromises are reached, how policies are made: the reality on such issues is often different from what the rule books might suggest.

International consultants, while experts in the field of corporate governance, may lack this nuance. Aside from speaking the language (see lesson 2 below), local staff have a deeper understanding of how things work. They also may be more equipped to earn the trust and cooperation of government officials in this very delicate stage of the game.

Bringing on local staff who may themselves have a low level of corporate governance knowledge and training them by exposing them to world-class experts also starts a critical process: building a base of experts with local knowledge and global expertise to meet growing demand as the country progresses along the corporate governance continuum.

When countries are in the market development stage—characterized by a growing private sector, some foreign direct investment, some enabling legislation, and a basic awareness of corporate governance—project focus is divided a bit more, to include more work with companies, educational institutions, and the public. But here, too, it is important to hire local staff, for similar reasons: the ability to connect on a deep level with key audiences and to overcome an inherent mistrust of outside experts. At the height of

IFC's Ukraine Corporate Governance Development Project during the 1990s, the corporate governance advisory services staff team totaled 32 people, including a stable of 15 locally trained lawyers. We found that having a deep bench of skilled staff was particularly important for countries in this market development stage, where projects feature multiple components aimed at various target audiences, but where there is not a large pool of local consultants from which to draw. Our approach relied on hiring talented local staff and training them to become leading corporate governance experts, under the guidance of an experienced international project manager. The project team found that hiring local staff enabled them to gain a deeper understanding of the unique conditions on the ground—things that could not be found in a textbook or in formal government documents.

As countries move into the market growth and maturity stage, projects may need fewer staff resources, because they can make use of a larger base of consultants who have been cultivated and trained by IFC, and who can now take on a share of the work as they build their own consulting businesses and expand the country's economic base. There is an increased acceptance of the value of corporate governance, which increases the trust and acceptance for international experts who may parachute in for short stretches to deliver seminars or workshops.

2) Talking the talk: hire staff who can speak the local language.

It sounds like one of those things that is so simple it doesn't deserve mention. But it does because, stated simply, the success or failure of a project rides on the ability to communicate.

Of course, staff who are fluent in local languages also need a critical knowledge base—and they may not be fluent in the language of corporate governance. This is where the combination of international expertise and local skill sets becomes important, although the exact approach will vary depending on region and country.

VESTED INTERESTS ARE A GOOD THING: THE INTANGIBLE POWER OF LOCAL HIRES

When Ukraine gained its independence after the fall of the Soviet Union in the early 1990s, many young Ukrainian professionals were torn between leaving their homeland to seek better opportunities elsewhere and staying put amidst all the uncertainty to help build the foundation of a new country. Others who were trying to build a life abroad were inspired to return home.

Among them: young Olga Mykhaylyuk, who decided to return home to complete her education and professional studies in Ukraine.

Following completion of her professional degree, Olga signed on as a local consultant with IFC out of a deep sense of patriotism, with a goal of making lasting contributions to her country.

"Over the years of my work with IFC, we've provided consultations to hundreds of local companies, helping them to improve their corporate governance. With each company's progress, Ukraine's investment attractiveness increases, and this helps our economic growth. I feel so proud that I have helped my country become a bit stronger—I feel as if I have made a real difference," Olga says.

The moral of the story: never underestimate the intangible power of locally hired staff who have pride in their country and therefore have a vested interest in seeing positive results.

In implementing their projects, the Middle East and North Africa team found that from their base in Cairo, they could train local staff in Egypt, Pakistan, and Jordan. They sent in experts as needed, but they relied on local skill sets and native fluency with local languages to be the front line in carrying out projects.

3) Budget time and resources accordingly to build local consultant capacity.

Staffing circumstances today at IFC are a far cry from the early 1990s when we first started our corporate

governance advisory services work. In IFC's current streamlined staff environment, large staff contingents, such as the 32-member project team deployed under the Ukraine Corporate Development Project, are not going to happen.

Even in countries where there is a growing consulting base, working consultants may lack specialized knowledge of corporate governance.

We no longer deploy staff in the same numbers—and many suggest that this is a better, more efficient approach. But it also means that it is more important than ever to make sure that consultant qualifications, expertise, and capabilities match the needs and requirements of the project.

In its early stages, the corporate governance team in Eastern Europe made some staffing mistakes based on faulty assumptions. During the design phase of the initial corporate governance project, a single country manager was hired for each of the five target countries. The idea was that the country managers would supplement their efforts by hiring local consultants to carry out the work, including:

- Organizing awareness-raising events and seminars;
- Working with local counterparts;
- Identifying companies eligible for assistance; and
- Working with the companies to identify and implement improvements.

The plan, which sounded good on paper, turned out to have a significant flaw: there weren't many qualified local consultants in the region—it was a detail we had

overlooked during the scoping portion of the project design phase.

The result: the team had to look outside the region for consultants who could conduct corporate governance assessments and help clients implement improvements. While we found capable consultants in Slovenia, the cost of bringing in expertise from abroad severely limited the number of companies assisted, and reduced the overall impact of the project.

Even in countries where there is a growing consulting base, working consultants may lack specialized knowledge of corporate governance.

This was the case in China, where the team sought to add capacity by bringing on local consultants for a donor-funded project that started in 2008. A number of local consultants wanted to work with us, but they were not corporate governance experts. And while there are a number of international consulting firms with bases in China, the in-country staff similarly lacked specialized corporate governance expertise.

So we took a step back.

We realized that we needed to train consultants on our methodology before we could expand our direct advisory work with companies. This extensive effort has taken a full two years. And now, after several highly successful training classes in Beijing, Tianjin and Shenzhen, among other locations, there is a strong and growing base of local consultants trained in IFC's corporate governance methodology.

Early results are strong, including information shared by Chuangzhi Investment Consulting Firm, one of the project-trained institutions: the firm notes that two clients were able to attract a combined \$2.2 million in financing as of June 30, 2010, because of the corporate governance improvements they made, with the assistance of the consulting firm. The firm also notes that the clients would not have been able to mobilize this funding without the corporate

governance improvements. Additional results include:

- More than 37 professional institutions have incorporated IFC's CG methodology into their consulting services offerings to their client companies.
- More than ten of the 37 project-trained professional consulting institutions generated a total of \$259,000 in revenue from their CG consulting services to their clients.

Of course the real work—connecting these newly trained corporate governance experts with companies and banks to bring about lasting governance improvements at the company and bank level—is only just starting.

CONCLUSION

Staffing is a critical issue with any project, and perhaps more so with CG projects. The complex nature of the effort requires lots of hand-holding and significant interaction with a range of government officials, bureaucrats, leading educators, and corporate executives; this makes appropriate staffing even more critical. As the discussion on the staffing model has

shifted from large IFC-staffed projects to small staff operations that manage outsourced resources, the discussion on an appropriate model is ongoing. The challenge for the next generation of projects is to learn from the lessons of the past and to get creative in adapting to the realities of delivering effective projects in the coming years.

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APPROVING MANAGER

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In-House, Outsourcing, or a New Hybrid Approach to Advisory Services: the Corporate Governance Project in the Balkans

IFC uses (at least) two types of approaches for implementing advisory projects. One way to ensure implementation of services is by taking an in-house approach to project delivery. This is based on IFC staff both managing the project and undertaking comprehensive substantive work directly with clients. The approach is tailored to projects that require a highly intense dialogue with different counterparts where narrow expertise is needed. These projects are accordingly staffed with people possessing the relevant skills.

The other way is by taking an outsourcing approach to project delivery. This is based on IFC staff only managing the project, with the extensive use of outside consultants to deliver specialized work and advice to clients as needed. In these cases, there are fewer IFC staff involved in projects, and the approach is used in those regions where there is a sufficient consultancy basis capable of delivering specialized advice. This SmartLesson will propose a third, hybrid approach that can be used for delivering advisory services projects. It is a model relying on two pillars: creation of regional teams of IFC staff who are both involved in project management and delivery of services on the ground, and progressive empowerment of local consultants to ensure sustainability of IFC efforts.

BACKGROUND

Advisory projects in the Europe and Central Asia region have historically relied more on the in-house approach because projects were rather complex and programmatic in nature and involved providing assistance to various types of clients both in the private and public sectors. This assistance was often provided through cross-fertilization of knowledge and experience of project staff that continuously worked with companies, academic institutions, government entities, and regulators, and used what they learned with one set of clients to inform work with or provide examples for the others. This model was particularly characteristic of corporate governance projects.

In Southern Europe, many projects were structured to use the outsourcing approach. Launched in 2005, the corporate governance project in the Balkans had the goal of improving the corporate governance

practices of companies and banks in the region (Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro, and Serbia). This goal was to be achieved by providing direct support to companies and banks in implementing good CG practices, developing an effective CG regulatory framework, strengthening the training capacity of educational institutions, and increasing public awareness of CG issues, effectively a programmatic approach.

As we moved to the implementation phase, the team began to see a mismatch between the project's goals, which were extensive, and project staffing, which envisaged only one staff member for each of the five countries (one project manager sitting in Belgrade, and four project officers sitting in Albania, BiH, FYR Macedonia, and Serbia, with the project officer in Serbia also covering Montenegro). Thus, the project model was programmatic in its substance (delivering

a comprehensive approach to working on CG) but was based on the use of consultants in its delivery. From this, various challenges began to emerge, with the biggest one related to working with potential client companies.

Throughout the whole region, there were very few reliable consultants who could deliver CG services that would be up to IFC standards. The project advertised for consultancy services several times, but only a handful of companies applied, out of which only two were assessed to be able to perform the work. However, these companies were not able to internalize IFC's CG methodology and deliver results as needed. Because of this, project officers spent approximately half of their time on additional work that involved commenting and rewriting assessment reports prepared by the consultants. In addition, clients were not always satisfied with the final product from the consultants, and it took project officers additional time to ensure that the reports were accepted by clients and that implementation of recommendations took place.

As a result, the team started thinking about the introduction of a hybrid model for delivering advisory services. Namely, the project officers would become more deeply involved in company-level work, delivering the technical assistance to clients. Staff would take on the assessments, prepare the reports, and assist clients in implementing recommendations. At the same time, the project team made a conscious decision not to abandon the modest consultancy base. Rather, we understood that building their capacity would provide for sustainable delivery of services in the future. A decision was made to partner with them—to involve them in the work as much as possible, and to see them as depositories of CG knowledge and skills.

Two key lessons were learned by the CG Balkans team from its experience with the hybrid approach.

By progressively involving consultants in the project work, you allow them time to internalize the approach that sometimes seems obvious to project staff.

LESSONS LEARNED

1) Form regional teams of staff with complementary skills.

The project's regional team had only one project officer per country, which allowed for territorial coverage that would ensure the daily presence of IFC staff in each of the countries to manage the day-to-day implementation of the project. Also, it happened by chance that all team members possessed different knowledge and experience. One project officer is an expert in external and internal audit; another in law; a third in business development and management; and a fourth in finance and public policy. It would be rare to find a consultancy company in our region that could put together a truly multidisciplinary team such as we had with our project staff. With staff stretched to deliver more to clients, and with the commitment to turn chance into competitive advantage, the project manager and regional business line leader encouraged the team to think of themselves as a regional resource, able to deploy staff as needed throughout the region, based on the needs of the projects and clients.

This was successfully done by several IFC projects in the Balkans. But what can make it an even more successful model is to consciously select project staff during the project inception phase who are located in different countries and have different and complementary skills. You then have a mini-matrix in which people territorially cover certain countries and functionally cover specific project areas.

INTRODUCING THE HYBRID APPROACH: THE ELEKTROPRIVREDA BiH CASE STUDY

A client from BiH, the electric utility company Elektroprivreda BiH, expressed its interest in a full-scale assessment of its CG practices. Because EP is the second-most profitable company in the country and a big market player, we faced a situation in which we needed to find a way to work with a client that had a potentially broad demonstration effect and to ensure that high-quality services were delivered. We realized that the consultants we had at our disposal would not be able to take on this kind of assignment, so we decided to “test” our new regional team.

The project manager, together with the project officers from BiH and Albania, would jointly conduct this assessment. There was some hesitancy and anxiety about the ability to work with such a high-profile client. But the program manager had confidence in our abilities as staff, which was crucial to ensuring that we were motivated and understood how important it was to deliver.

Presenting the assessment report to the company was the turning point that built our confidence. The board of EP immediately asked when we could start assisting the company in implementing recommendations. The whole CG team became involved in the delivery of training for the board of directors and management. This required each of us to explore and research concrete areas in which EP required additional advice. This meant a good deal of additional work but also allowed staff to specialize in niche areas—for example,

in the development of remuneration policies, the drafting of CG codes, and the assessment of internal audit and control frameworks.

Over the period of a year and a half, IFC helped EP to identify weaknesses in its CG, develop a set of recommendations to overcome key deficiencies, and organize training activities for relevant staff. As a result, EP introduced new policies and procedures for internal audit and control; improved disclosure tools for shareholders, using the company Web site; developed a CG code; and amended its charter to ensure that the board of directors and management operated in line with better governance standards. The first impact results from our work are visible: the decision-making process in EP is improved, the internal company structure is streamlined, and internal control processes are advanced.

The results at EP significantly inspired the project to start involving and establishing lasting relationships with relevant institutions in each country that would act as key depositories of knowledge and skills in CG. Hence, when the project signed its next mandate, a local consultancy—Advantis Broker from BiH in this case—was made a partner in the assessment by participating together with the project staff in interviews with company representatives, commenting on the assessment report, and assisting the company in implementing recommended changes.

In developing a regional team, it is important to be strategic in the selection of project staff. Try to find people who possess skills that are complementary so as to ensure that if there are tasks that require different expertise, there is a team ready to take on the challenge.

2) Partner with consultants and continue to build their capacity, even if you cannot use them immediately for independent work.

Based on the initial structuring of the project, consultants were crucial to its success—first, for work on the ground and second, for sustainability purposes. From the very moment when the hybrid approach was conceived, it was understood that in our cooperation with consultants, we wanted to take the best from the consultancy approach and then identify and overcome its limitations. We decided to create what we believed was an even more sustainable format of cooperation with consultants by involving

them progressively in the concrete work with client companies with vigilant oversight. Through this, we were transferring not only the knowledge but also the philosophy behind IFC's CG methodology. This was not always easy when we were relying on consultants alone to deliver services. Very often, consultants would listen but would not understand exactly what the IFC CG methodology was all about. For example, they would not always appreciate why it was important for training to come after the assessment and not before it or they would not focus enough on the workshops with the working groups in companies that implemented the recommended changes. Because IFC staff were now leading the work with the clients, we could ensure that the IFC CG methodology was being followed and by involving the local consultants in this work, they could learn through our example.

By progressively involving consultants in the project work, you allow them time to internalize the approach that sometimes seems obvious to project staff. Treat consultants with respect and understanding, but use them in ways that are most appropriate to the market situation. Do not allow their approach to result in products that could compromise the overall IFC methodology of work and product quality.

CONCLUSION

In our case, the hybrid approach was created out of necessity. We believe that it has a chance to grow into a specific format for delivery of IFC advisory services. It is neither better nor worse than the in-house approach or the outsourcing approach. However, it does provide a new more flexible avenue that IFC can use to deliver high-quality services to clients, while creating opportunities for development of staff and building sustainable relationships with consultants.

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Doing More with Less: Creating Innovative Corporate Governance Products When Resources Are Scarce

Following a successful first phase of improving corporate governance practices in Azerbaijan, the Azerbaijan Corporate Governance Project noticed that ever more clients in the market were interested in our corporate governance advisory services. We faced a significant challenge, however, having lost a number of staff members and being unable to replace them due to limited hiring policies. At the same time, demand was growing to develop more sophisticated products, as many market players were already aware of the basics of corporate governance. This SmartLesson describes the experience of the project team in providing innovative corporate governance products with limited resources.

BACKGROUND

The Azerbaijan Corporate Governance Project was launched in 2005 with the purpose of improving the corporate governance practices of Azerbaijani joint-stock companies and banks, thereby helping them gain easier access to capital. To accomplish this goal, the project partners with companies and banks to further improve their corporate governance practices and minimize their portfolio risk, and strengthens the capacity of educational institutions to provide corporate governance training. The project also works with the government of Azerbaijan to improve the regulatory environment governing corporate governance issues, increase public awareness of corporate governance issues, and strengthen the media's capacity to cover these issues by training them in corporate governance.

During Phase 1, we helped 336 different companies improve their corporate governance, and project clients attracted \$17.9 million in investment due to improved corporate governance practices. The project also developed a model university corporate governance course that was adopted by five Azerbaijani institutions and subsequently exported to other IFC corporate governance projects.

Based on the project's solid success and growing demand for corporate governance in the country, the second phase was launched in 2007, with the added objective of assisting banks and investors in assessing and improving their client and investee corporate governance practices.

Despite staff shortages, we needed to maintain the same level and quality of service, while delivering more sophisticated corporate governance products. Here are some lessons learned from recent experience that contributed to the more efficient delivery of Azerbaijan Corporate Governance Project services in a climate of scarce resources.

LESSONS LEARNED

1) When developing a product, consider whether it could be of interest to other project clients.

For example, the idea to raise journalists' awareness of financial crisis issues emerged on an airplane as project team members, coming back from a corporate governance network meeting in Krakow, were brainstorming and discussing the financial crisis and its relation to corporate governance. As a result, we developed a training workshop, including case

studies, called “Corporate Governance as a Response to the Financial Crisis,” and delivered it to local business journalists a month later. Through this training, the project received extensive media coverage. Because we also work with educational institutions to help develop corporate governance curricula, we thought of approaching them to ask if they would be interested in a seminar on this topic. Several educational institutions expressed strong interest, and the following month we organized and delivered the same presentation for educational institutions, resulting in the topic’s incorporation into two of the educational institutions’ curricula.

2) Think of ways one product developed for one group of clients (meeting one project objective) could be tailored to meet other client groups’ needs.

Product development did not stop there. After the local media published various articles on the topic following the media training, a number of project clients approached IFC with questions about corporate governance and the financial crisis and requests to share materials. The banking sector was particularly interested in the causes of the financial crisis, the role of boards, and what boards should do to mitigate the consequences of the crisis. Considering the strong interest, the project further elaborated on the topic, included more case studies, and organized roundtables for bankers. We also delivered a roundtable discussing the same topic in the framework of our roundtables for lawyers, which we hold regularly. The interest was so broad that this roundtable was attended by lawyers of the central bank and the State Securities Commission. Because a number of institutional investors also expressed interest in this topic, we further developed the materials by expanding the case studies, including specific advice on how to assess and address risks. We delivered the materials to local investors as part of an effort to improve their knowledge of corporate governance practices. In addition, as part of IFC’s internal intercountry knowledge sharing, the China

Many products that are specific at first glance can be creatively restructured, elaborated upon, redesigned, and developed into products that would be interesting for other audiences.

**EXAMPLE 1:
DOING MORE WITH LESS**

LESSON 1

Product 1	Target Audience
Presentation on corporate governance and the financial crisis	1. Journalists 2. Educational institutions

LESSON 2

Product 2	Target Audience
More in-depth module on corporate governance and the financial crisis	3. Bankers 4. Lawyers 5. Investors 6. Regulators

Product 3	Target Audience
Article on the financial crisis	All

EXAMPLE 2: DOING MORE WITH LESS

LESSON 1

Product 1	Target Audience
Screening tool	1. Local investor 2. Other investors

LESSON 2

Product 2	Target Audience
Training module on the screening tool	3. Educational institutions 4. Mass media

Corporate Governance Project asked us to deliver the presentation to its clients and students of the Business School of Nankai University in Tianjin, China.

In another example, the project developed a corporate governance screening tool for investors to provide them with easy-to-use guidelines for assessing the corporate governance practices of their potential investee companies. After developing the screening tool, we realized that it could be useful for other groups that had requested more advanced training for practical applications of corporate governance. The project therefore is developing a training model, based on the screening tool, for educational institutions so that they can demonstrate to students a practical use of corporate governance in the workplace. A media seminar on how investors evaluate corporate governance is also being developed for business journalists.

Many products that are specific at first glance could creatively be restructured, elaborated upon, redesigned, and developed into products that would be interesting for other audiences. This approach is especially effective as it requires less effort and time—which is relevant, considering the limited staffing and

resources—and at the same time it yields good results and has a favorable impact on the project's work.

3) When developing a product, seek input from your clients.

Because many of our services are delivered to local businesses, it is always useful to consider the clients' input. Our experience has shown that incorporating clients' opinions is useful because it not only helps to adapt the tools and content to local realities, but also because it helps effectively develop products with less time and limited staff resources.

EXAMPLE 3: DOING MORE WITH LESS

LESSON 1

Product 1	Target Audience
Presentation on the transformation from limited liability company to joint stock company	1. Lawyers

LAWYERS' INPUT

LESSON 3

LESSON 2

Product 2	Target Audience
Training module on transformation from limited liability company to joint stock company	2. Enterprises

Product 3

Product 3	Target Audience
Article on transformation from limited liability company to joint stock company	All

A specific example relates to the development of model documents for clients. During the years of its existence, the project has prepared a number of model corporate documents, including a model charter and other corporate bylaws for companies. As the project's work intensified with financial-sector companies, including banks and insurance companies, there was a growing demand for model documents for these sectors. Using previous models and based on client feedback received at meetings and through correspondence, the project has further developed model documents in three packages tailored for the needs of banks, insurance companies, and other joint stock companies, respectively. For example, the insurance companies commented on provisions related to the duties of directors in bylaws and model charters. These comments were subsequently incorporated in the model documents for that sector.

The model documents were distributed to the respective clients for preliminary review and, on receipt of their comments, the drafts were finalized. The in-house counsels and other relevant personnel (internal auditors, managers) in these companies both assisted in the development of the model documents and acted as peer reviewers to ensure accuracy and applicability.

A final example shows how one product can be used in different ways. Many clients approach the project requesting information about how to transform themselves from a limited liability company into a joint-stock company. In response to the heightened interest from a number of companies and partners in this topic, we devoted one of our regular lawyers' roundtables to a discussion of the issue in more depth.

At this roundtable, our project experts learned from the clients' experience and gathered much practical knowledge on the subject. Using this knowledge, the project decided to write an article for its regular bulletin on the topic, using client experiences as the foundation. One of our training partners then asked us to present the topic at a seminar for the partner's clients. The project created a presentation from the article and tailored it to the seminar audience. From one roundtable, we were able to produce an article from which we developed a training presentation for our clients.

CONCLUSION

In sum, we have learned that it is possible to adapt one product for multiple purposes and audiences as an efficient way to create new products. Given the human resources constraint faced by our team, we found this approach to be invaluable in meeting the needs of our clients.

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Pricing

It is not news—and it is not unique to corporate governance projects—that people tend to make a stronger commitment to services for which they must pay than to services they get for free. However, a balancing act is needed, since charging fees for a service that people don't think they need might not result in success.

A basic rule of thumb:

Do not charge fees for activities that:

- Lead the market in the country: where there's a need to convince the players of the importance and value of corporate governance improvements; or

- Provide a public good: policy reforms, educational projects.

Do charge fees:

- To be taken seriously: on a cost-sharing basis with clients; and
- To create a sustainable fee-for-service model that will endure after project exit: with fees as close to market rates as possible.

The SmartLessons in this section address a number of pricing challenges that are encountered over the lifetime of a corporate governance advisory services project.

Pay Less, Get More: A Sustainable Business Approach to Capacity-Building Services

In advisory services, we often try to develop markets for capacity-building services where currently there is no visible demand or supply. For the corporate governance program in Southern Europe, we developed a market-based approach to enable our partners to explore new business opportunities in the field of specialized education, training, and conferences that they previously had avoided because of lack of experience and/or high financial risks.

BACKGROUND

Initially, the model that we followed in our corporate governance program in Southern Europe was for IFC to organize a conference or training, hire consultants, and pay for all the costs. Because corporate governance was a new concept, we believed that no one would pay for our conferences and training, and therefore we did these events for free.

On average, a one-day conference would cost from €10,000 to €30,000 (about \$13,000 to \$39,000), and whenever we would follow up, we would realize that through our activity we had created little chance of sustainable development because:

- Free events made it more difficult for us to attract the right people who cared deeply about the topic;
- The consultants we used never took ownership of the event and never envisaged replicating the event without us; and
- The public believed that our events were just a temporary trend that would disappear with the end of the project.

Based on these shortcomings, we decided to adopt a new approach that would allow us to ensure sustainability in what we do. We convinced our consultants and partners to become the main owners of the conferences and training sessions, while IFC would provide capacity-building support and share most of the financial risks.

Through this model, we managed to reduce our costs for conferences and trainings in most cases to ZERO and even to get some return from our activities!⁵

LESSONS LEARNED

1) What is the Sustainable Business Approach?

The idea is simple. As we try to convince our partners to enter new business segments that we want to develop, we insure their potential financial risks up to 75 percent of the potential total loss. So if the activity cannot take place or if there is a loss, we will reimburse our partners 75 percent of the net loss; and they will only have to support the remaining 25 percent. By doing so, we remove most of the financial risk from our partners and therefore give them an incentive to try new activities.

2) Is it too risky for IFC?

In fact, we not only cover risks but we also work to minimize our financial risks. We help our partners develop a business plan that we believe carries the best chances of success.

For us to enter in this kind of partnership, we need to believe that the activity envisioned can raise enough funds from the participants to cover at a minimum the costs associated with the event. To break even, and possibly to make a profit, is what in our view guarantees sustainability. Since we take the bulk of the financial risk, we have a lot of leverage to express our views on how the business plan should be

prepared. On the other hand, the fact that the partner is potentially liable for the remaining 25 percent of the loss gives him a strong incentive to take full ownership in the business plan and to ensure that all factors are taken into account.

This is where the “real” work of advisory services takes place, because here we talk about the content of the activity we plan to deliver and how IFC can help our partners do it. This is why this model can be adapted to all types of advisory services projects, not just for corporate governance.

3) How is the arrangement set up?

In order for our partners to feel real ownership in the activity, we usually let them be the front-runners and main organizers of all activities needed for the event. Of course, we assist them whenever necessary, but in front of the public, we always appear as the supporter or partner and not as the main organizer. This helps our partners build their own capacity and reputation in the market. We also allow our partners to collect all the fees from the participants and to look, if needed, for sponsors and other partners.

As soon as the partners need to pay invoices for the event, and as long as there are not enough proceeds yet from the participants, they submit them to us and

we pay the expenses as they occur, as long as they do not reach the limit of 75 percent of the total pre-identified costs. We considered a simpler approach whereby our partners would pay all the associated costs, and we would reimburse them at the end only if there was an actual loss. In reality, however, our partners proved very reluctant to pay for the costs themselves before receiving proceeds from the participants, or they had a liquidity shortage. This is why we pay them instead and get compensated later.

For this approach to work, we need to sign a cooperation agreement with our partners in which the detailed business plan is an integral part of the agreement. We also clearly stipulate how and what we will pay for, namely all expenses related to the event, as they occur and as long as they cannot be paid from the proceeds paid by participants. If these conditions are fulfilled, then we ask our partners to send us the invoices (with copies of the bills received by them).

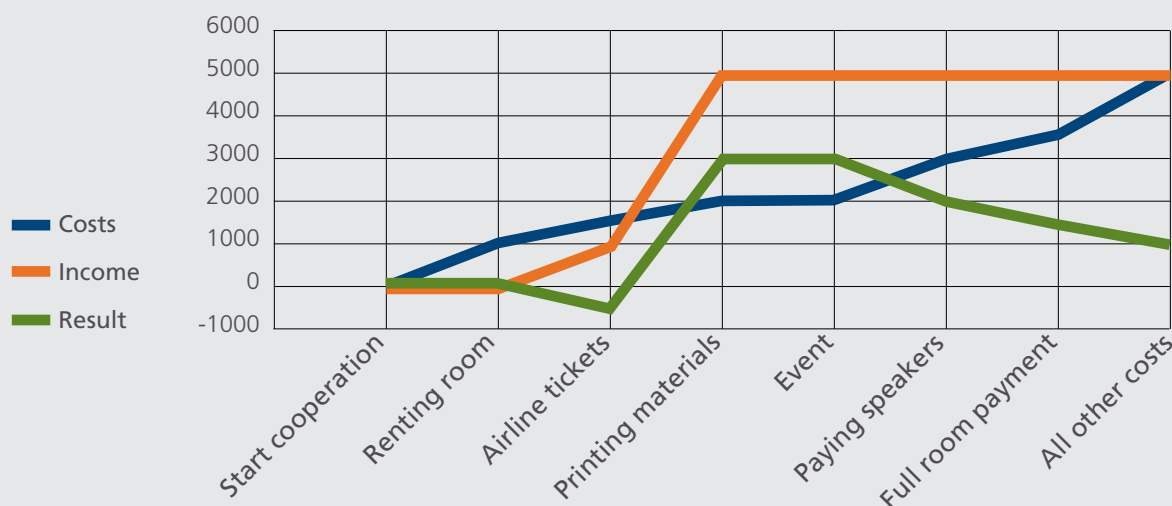
In reality, the arrangement works even better than on paper. We rarely pay 75 percent of the total costs; in fact, in most cases we pay nothing. The reason is that as the first payments are due, our partners usually already have proceeds from participants to cover such costs, and therefore the conditions mentioned in the agreement are not fulfilled. However, stipulating in the agreement that we would cover costs if needed is important because it reassures our partners. We want to convince our partners to enter new businesses, so we need to give them incentives.

Note: Please take into account the fact that, should the forecasted costs be higher than \$5,000, you will need to ask your partner to register as a vendor through the World Bank system so that you can pay him, should you need to. This is just a formality, but failing to do so in advance can make you lose time and cause your partner to become frustrated.



An event organized based on the sustainable business approach.

EVENT COSTS VS. INCOME: A HYPOTHETICAL EXAMPLE



4) What happens at the end of the event, or if the event does not take place?

If the event is canceled for any reason outside the control of our partners, we calculate the net loss and reimburse them 75 percent of that amount. In most of the foreseeable cases, cancellations will occur before the event takes place, which means that not all planned costs are due: for instance, if a conference is canceled, the speakers will not receive their full fees but at worst only a fraction of them. Therefore, in this case, losses are limited and fully manageable. The same process is followed if there are not enough proceeds from the event, namely if there is a loss.

If the event is profitable, we then calculate the net profit and share it in reverse—namely, we get 25 percent and our partner keeps 75 percent. In this case, we send our partner an invoice with the amount corresponding to our share of 25 percent of the profit. This may be the area in which we faced the most problems as our partners would tell us that no matter how well they understood and appreciated the model, it was always a psychological matter for them

when they received an invoice for payment from an international organization. Should this be an issue, our suggestion is that you simply remove the share of 25 percent of profit in favor of IFC.

For the sake of good relations and to avoid misunderstandings, it is important to explain to the partners that “net” (be it a loss or a profit) means that we take into account what each party pays in advance and gets reimbursed from it, before calculating the net portion. This is an area in which we had several misunderstandings at the beginning, and therefore special emphasis is required here.

5) How does it work in practice?

See chart above for a hypothetical example showing how the system works:

According to the hypothetical example in the chart, IFC pays the bills only as long as the income is not higher than the costs (to be compensated later in case the event is successful). In this example, IFC would have to cover the airline tickets, but the purchase of the printing materials can already be done by the

partner, as all the participant fees have been received. At the end, our example shows a profit of €1,000 (\$1,313), which is reached after all costs (including previous payments from IFC) are paid. Thus, we will receive €250 (or 25 percent of the profit), and our partner will keep the remaining €750.

We used this model 10 times in four countries and with more than six partners. From our events, we had losses only twice due to a miscalculation of the demand.

Even with losses, the same partners are still working with us to explore the market further and to continue what we initiated. In all other cases, our events were profitable. Here are some examples:

Two years ago, we initiated a course on corporate governance with the University of Belgrade. Students were asked to pay €800 (\$1,050) the first year and €1,200 (\$1,576) the second year. Costs to set up the course were estimated at roughly €10,000 (\$13,140). The first year, the university had 35 students and 45 in the second year. Not surprisingly, the university will launch the course for a third year, and this time it will be done without our support.

We helped the Serbian Association of Managers launch a training series for its members on several topics associated with corporate governance. Through the sustainable business approach, we could convince them that they needed to develop capacity in-house, rather than hire expensive consultants. Together, we delivered four events spread over eight months, and in each of them we managed to get around €1,000 (\$1,313) of profit for a four-hour conference, the costs of which were approximately €4,000 each (\$5,252). The association now continues this exercise in other fields without asking for our support.

When a Macedonian financial weekly magazine, *Kapital*, was interested in entering the field of organizing business conferences, we jointly organized a conference on corporate governance. We wanted to keep the participation fees below €200 (\$263), but that was not enough to cover all expenses. Thus, we urged the partner to look for other sources of income, and the magazine quickly managed to sell paid ads to several sponsors. The event gathered more than 200 participants and media, and, in the end, we received €1,000 (\$1,313) as part of our financial profit. Included in the activity was the publication and delivery of a special magazine dedicated to the conference.

CONCLUSION

This approach really works as a trigger and safety net in which our partners feel more confident to test new business opportunities. Most important, this model has allowed us to ensure sustainability of our events. In most of the cases so far, our partners continue even without our support and even broaden the scope of their activities to new topics.

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Money Can't Buy You Love...But It Can Buy You Our Services: Experiences in Charging for Corporate Governance

The policy that came out in early 2007—to charge for some advisory services—has created a bit of controversy. But, we may be able to shed some light on the issue, since a few of IFC's corporate governance projects in Ukraine and Russia have been charging clients for services since 2004.

BACKGROUND

IFC and one of its key donors launched the Ukraine and Russia Banking Sector Corporate Governance Projects in 2004 and 2005.⁶ Given that the banking sectors of these countries were relatively profitable and had a culture that was more open to paying for consulting services, they seemed ideal candidates for testing the concept of pricing for advisory services. The “public good” aspects of the project, such as working on the legislative framework, were free of charge, but additional assistance that benefited the banks directly were fee-based. The projects charged a fee for services such as:

- The pilot bank program, in which participating banks received a comprehensive assessment of their corporate governance, together with a series of consultations and workshops over several months to help them improve some of their corporate governance practices;
- Written consultations, including reviews of charters and bylaws; and
- Certain high-level seminars.

LESSONS LEARNED

The following lessons summarize what we have learned so far.

1) Fees should be market-driven—not cost-driven. Setting a range of prices offers much-needed flexibility.

Since corporate governance is still a new issue in the region, very few consulting firms, let alone international or local organizations, were providing the same services as those planned by IFC's projects. Therefore, attracting clients to corporate governance products was a higher priority than recovering project costs. In determining the prices to charge for project services, the UBCGP and RBCGP considered fees being charged for comparable services, such as audits and legal due diligence reviews, at reputable consulting and law firms working in Russia and Ukraine, and then set project fees close to these rates. However, given that corporate governance was a newer topic, we made a small reduction. For training events and seminars, the projects researched fees for similar events aimed at private companies, delivered by both international and local organizations. Project event prices were above those charged by local nongovernmental organizations and slightly below those of other international organizations.

The rationale: set fees high enough to be taken seriously for the given market, but low enough to be affordable to most clients (see Table 1). Having a range of fees offered the flexibility to set lower fees for smaller, regional banks with less-complex

TABLE 1: FEES CHARGED BY PROJECTS

	Russia Banking Corporate Governance Project	Ukraine Banking Corporate Governance Project
Pilot Program	\$15,000 – \$20,000	\$30,000 – \$40,000
Workshops	\$2,000 – \$4,000	\$2,000 – \$4,000
Corporate Document Reviews (charter and bylaws)	\$2,000 – \$15,000	\$5,000 – \$7,000
Public Seminars	via IFC = free via local partner = \$100–\$1,000 per person	via IFC = free via local partner = \$100–\$1,000 per person
Total Fees Collected	\$250,000	\$230,000
Project Budget	\$2.1 million	\$1.5 million

structures (and often lower profitability) and higher fees for large banks with nationwide branch networks. In practice, most of the clients readily accepted the fees proposed, and very few negotiated them down. Discussions focused more on deliverables and timelines. There was only one bank that one of the projects was not able to agree with on fees and, as a result, was not accepted into the pilot program.

2) The sales pitch to clients needs to be more sophisticated for fee-based services than for services that are free.

Public seminars were the key source of clients for the projects. Clients became pilot banks through a process of self-selection. Once a client expressed interest in the pilot program, project staff considered the bank’s commitment, financial position, and reputation; this process included discussions with IFC’s financial markets investment team. If the bank was identified as a good candidate, project staff prepared a detailed presentation on the pilot program and met with the bank’s management to discuss it. This meeting afforded an opportunity for

the project to provide a thorough explanation of its services and of the pricing policy. It also helped set clear expectations for both parties from the outset. A formal contract then solidified this understanding.

Both projects found that when clients were well-informed about the project and its pricing policies, they were generally open to paying for services, and there were very few problems in negotiating and collecting fees.

3) The process of charging and collecting fees in an institution such as IFC is not always easy, and it requires additional administrative resources.

You can name your price, but can you get the money? Charging for services not only required a different type of advisory services contract, but also necessitated a whole range of administrative support to generate invoices, collect fees, and account for revenues. Law firms and consulting companies have entire departments devoted to billing, but the projects’ administrative and financial staff had to

add billing responsibilities to their other project duties. New reports, forms, and procedures needed to be created, as well as a system for receiving funds through appropriate channels. The accounting staff was crucial in this work and became a vital part of the project team.

Charging fees was particularly troublesome for a similar corporate governance project in Central Asia. All payments had to be made to IFC’s offices in Kyiv or Moscow, because IFC does not have official status, and thus no separate bank account, in Kazakhstan.

Collecting fees for low-cost activities (below \$500), such as seminars attended by many different participants, was not worth the administrative burden to the projects. Therefore, the projects partnered with local nongovernmental organizations for such activities and allowed them to retain the fees in exchange for handling the event logistics, registering participants, and collecting fees. This arrangement had the added benefit of building local capacity and encouraging these partners to conduct similar events on their own in the future.

4) You have different clients in the project pipeline when you start charging fees.

In general, IFC found that more sophisticated companies and banks—primarily medium-to-large, profitable banks—that understood the value of corporate governance were willing to pay for project workshops and participation in the pilot program. Smaller banks attended seminars but showed limited interest in the pilot program—possibly due to the fees, or perhaps because they felt they didn’t need these services.

In comparison to the other corporate governance projects that provided free services, the banking projects found that not only did the type of client companies change, but the type of client representative who participated in the seminars, workshops and consultations changed as well. Instead of company department heads and mid-level managers, participants included CEOs, directors, and top-level managers (see Table 2).

TABLE 2: COMPARISON OF PARTICIPATION IN FREE VERSUS FEE-BASED SERVICES

	Providing Free Services	Charging a Fee
Types of companies coming for services	Smaller companies Not always profitable Need to explain value of CG Often took things more slowly Did not always have adequate resources	Larger companies More profitable Understand value of CG Implemented changes faster Invested more resources in the process
Seminars/workshops attended by higher proportion of	Company department heads Mid-level managers	CEOs Directors Top-level managers
Agreement between client and IFC	MoU with a general description of services to be provided	MoUs with more detailed outputs and deadlines set for each stage of the process

5) Client behavior and commitment improve when services come with a price tag.

Changes in the client pipeline were accompanied by changes in client behavior. Paying clients took the advice more seriously, implemented changes faster, and often showed rapid success. These successes created a powerful demonstration effect in the market. Clients became more conscious of quality and more interested in establishing detailed descriptions of services and firm deadlines for specific project deliverables, such as document reviews and reports on their corporate governance practices. Some clients also requested a clause in their contract ensuring that they could exit the contract mid-way if they were dissatisfied with project services. Overall, charging fees raised the level of client commitment to the services. Many of the clients also allocated more resources to implementing better corporate governance, such as hiring corporate secretaries and electing (and remunerating) independent directors.

On the other hand, this does not mean that clients receiving services free of charge in other projects were not sufficiently committed; a vast majority were dedicated to making corporate governance improvements. However, in many cases the paying clients implemented changes more quickly and more broadly. They also took the process more seriously. It's possible that this was because banks are generally more sophisticated and more determined to succeed with the programs they undertake. Another likely factor was the increased interest of international investors in the financial sector at the time. But maybe paying does influence behavior.

Note: Because of these changes in the pipeline, IFC should be careful that the desire to include a pricing component doesn't obscure the greater project goal and prevent clients that can't afford the services from benefiting from the project. Looking back at projects that offered free services, we see a number of successes with clients that would not have paid for services at the outset; had free services not been offered, these projects might not have had the broad reach and impact that they did. A project that charges fees in

PRECONDITIONS FOR CHARGING

- Awareness of the topic
- Seeing value in such services
- Use of consultants
- Affordability of fees

a market that is not quite ready risks getting few clients and taking a long time to develop a pipeline. Even in more developed markets there may be clients that understand the value and show a high level of commitment, but need to be subsidized in paying for these services. This is where a flexible approach, including a price range, is key.

6) To charge or not to charge? That is the question—and it needs to be answered at the start of the project.

Whether to charge for corporate governance advice in a project largely depends on the level of awareness of corporate governance in the country, and the state of development of the market. If companies don't even understand what corporate governance is, let alone what benefits it will bring, charging for project services at the outset will be risky. Companies will be unwilling to pay for something they don't comprehend. They need to be educated about corporate governance first, and see a few companies benefit from making such changes, before the concept will gain acceptance. Corporate governance is a cultural change that takes time.

Furthermore, in weaker economies with less-developed markets and struggling companies, affordability of such services will likely be an issue. If the market is somewhat more advanced and the project is focused on increasing capacity and building demand, charging may be just the right strategy. When companies understand that getting advice on and making improvements to corporate governance



Determining fee structure for corporate governance events such as this seminar is dependent on a number of variables.

could lead to investment, they are often more willing to pay for such services. It is also helpful to determine whether there already is a culture of using consultants, and whether similar services are offered on the market. (See box for a summary of preconditions for charging.)

In this region, IFC felt that Russia, Ukraine and Kazakhstan were markets where charging could work. In other countries, such as Georgia and Azerbaijan, financial institutions might be willing to pay for these services, but the corporate sector is probably not ready yet. In Tajikistan and the Kyrgyz Republic, where IFC is still raising awareness on a very new topic, it is

still too early to think about fees. In such countries, public education is an important component of advisory work—through public seminars, publishing articles and handbooks, disseminating information about international best practices and their benefits, and working with journalists to educate them about corporate governance so that they can report on the topic knowledgeably.

It is important that the pricing decision be made at the start of the project. If the project starts charging mid-way, without a clear and distinct separate phase of project work, there is a risk of confusing and losing clients.

CONCLUSION

Ultimately, the experiment in charging for corporate governance advisory services was a success. The RBCGP collected \$250,000 in fees and the UBCGP \$230,000. In both cases, all fees that were contracted were collected within a reasonable period of time. Furthermore, the improvements made by clients, coupled with increased interest in these financial sectors by international investors, yielded strong results. Many of the pilot banks were able to use the fact that they made corporate governance improvements to attract significant investments. Together, the two banking projects enabled over \$2 billion of investment, where clients identified corporate governance improvements as influencing their ability to obtain financing.

More importantly, we believe that these successes had a strong demonstration effect on the market. In recent surveys on corporate governance practices in Russia and Ukraine, IFC learned that one of the

key motivators for companies and banks to improve their corporate governance was seeing the example of their peers. Therefore, we hope that more banks and companies will follow suit and improve their own corporate governance.

In 2007, the Russia and Ukraine banking corporate governance project teams received IFC's Corporate Award for their work.

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APPROVING MANAGER

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December 2007



Working with Companies and Banks

It is quite logical: in countries with a small private sector, and little-to-no foreign direct investment, a corporate governance advisory services project will focus more on other areas, such as building a regulatory framework. Increasingly, though, developing countries around the globe are prioritizing the expansion of their private sector as a way to promote sustainable growth.

Along with the expansion of the private sector comes the need for a stronger corporate governance project focus on companies and banks. And the more developed the private

sector, the greater the need for this direct work. Our experiences show that this work builds on itself, as more companies experience, first-hand, the benefits of improved corporate governance: in our surveys of companies in emerging markets, client companies and non-clients alike often cite the corporate governance improvements of their competitors as the strongest driver of their own efforts to improve their practices.

The SmartLessons in this section share what we have learned from our direct work with companies and banks.

Making the Business Case: Direct Engagement with Companies and Banks to Improve their Governance Practices

Good corporate governance practices can keep companies out of trouble, help attract investment, ease access to cheaper capital, and outperform their competition. But companies, particularly in emerging markets, may be resistant to making needed changes. After encountering such resistance, IFC's corporate governance advisory services teams identified an approach that addresses the resistance head-on and includes public seminars, private consultations, and a pilot program, so companies can experience for themselves the tangible performance improvements that come with better governance.

Quantitative and anecdotal evidence alike indicate that well-governed companies receive higher market valuations. For companies in emerging markets, good governance is particularly important: improving corporate governance is likely to increase other capital flows and reduce the cost of capital—a key issue in emerging markets, where the perception of risk is higher. Improved governance structures and processes also help ensure quality decision making, encourage effective succession planning for senior management, and enhance the company's long-term growth prospects, while giving companies opportunities to help manage risks and add value to clients.

BACKGROUND

Many companies are unaware of the value of focusing on corporate governance practices. With so many critical priorities, why should companies spend time and resources on such seemingly minor details as how many times shareholders meet during the year? Banks also may not make the connection between reduced portfolio risk and investment in well-governed companies.

In our years of experience developing corporate governance advisory services projects, we faced this challenge over and over again: how to demonstrate to companies that there is a strong and compelling business case for improved corporate governance.

To address these issues—and to get at the necessary change of culture and mindset—we take a multi-

pronged, graduated approach to our work with companies and banks that includes public seminars, private consultations and workshops, pilot programs, and corporate governance document review.

These activities have yielded some important lessons.

LESSONS LEARNED

1) Use public seminars as a gateway to future engagement, and structure them to appeal to busy top management.

Public seminars are often the first opportunity for management and board members of companies and banks to learn about corporate governance best practices. Seminars typically last a half-to-full day and include a presentation by a speaker well-versed in the topic, a broad selection of reference materials,

and—occasionally—breakout sessions for more detailed discussions or case studies. In seminars we have conducted, we address a range of topics, including:

- Definition of corporate governance
- Role of the supervisory board
- Board committee functions
- Annual shareholders’ meetings
- Protection of minority shareholders’ rights
- Conflicts of interest
- Internal control systems
- Internal audit functions
- Financial reporting, transparency, and information disclosure

Company executives who attend the seminars may use the information to start making improvements in these areas on their own. The seminars also encourage companies to follow up by requesting private consultations/workshops or applying for the pilot program.

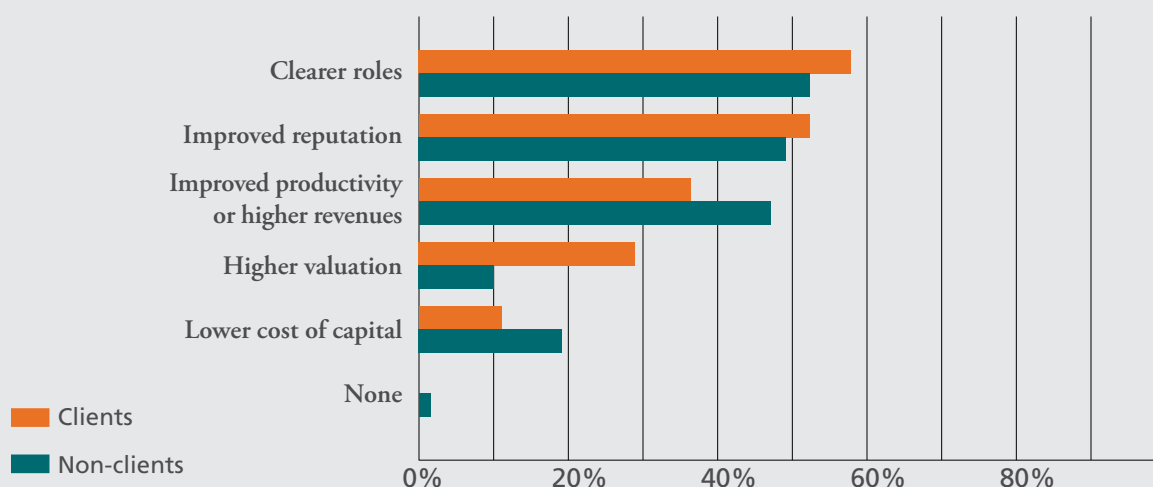
It is important that top managers commit to attending

the seminar, because they are the decision makers and can set the process in motion to start effecting change. But sometimes, these senior managers may not want to commit to a full day or half day away from the office. The key is to make these managers want to come. We found that this can be achieved in different ways: by featuring well-known speakers, by providing an opportunity to network, and by arranging a convenient time frame, among others.

In Russia, we altered our original format to create condensed versions of seminars, delivered as a highly successful series of breakfasts for CEOs. Breakfasts featured high-profile speakers, good food, an opportunity to network, and a brief time frame. This helped to attract time-stressed businesspeople.

Still, management buy-in at seminars is not always sufficient to get to the next stage. Sometimes, we found that certain company officers were assigned to attend seminars. They acted as “scouts” for the firm’s executive team and board, testing the content to determine its value. The real successes come when board members and company owners, along with the

**BENEFITS FROM IMPROVED CORPORATE GOVERNANCE
(89% OF CLIENTS AND 76% OF NON-CLIENTS RESPONDING)**



Source: Joint IFC SECO External Evaluation of IFC Corporate Governance Projects in Russia, February 2010

senior management team, commit to attending.

The value of the public seminars, consultations, and workshops extends beyond the information that can be shared with participants: they also provide the CG team with additional insight about potential participants in pilot programs.

2) Be selective and choose pilot companies with care.

Given the amount of project resources that go into working with pilot companies, careful selection of appropriate companies is critical. Consider the extent of the effort involved:

- **Assessment of the client's corporate governance practices:** Work includes reviewing corporate documents; minutes of shareholder and board meetings; and financial statements; and interviewing board members, managers, and shareholders.
- **Preparation and presentation of corporate governance assessment report:** Work includes analysis of current practices and detailed recommendations for improvement prioritized by urgency and ease of implementation.
- **Consultation with directors and managers:** Work includes prioritizing areas of focus and developing an improvement plan.
- **Assistance with implementation of priority improvements:** Work includes consultations, workshops and orientation sessions for boards of directors, help in revising corporate documents, help in organizing shareholder meetings, advising on effective corporate structures and meetings, developing the role of corporate secretary, providing assistance in improving financial reporting and information disclosure, and improving internal control systems and internal audit functions.

The goal of such in-depth direct assistance is to demonstrate short-term and longer-term benefits, such as the ability to attract investment, streamline decision making, reduce corporate conflicts, and increase efficiency.

Use a competitive process to choose participants in a comprehensive pilot program, basing selection on criteria such as:

- Level of company commitment to change
- Transparency
- Willingness to disclose information
- Business reputation
- Financial condition and growth potential
- Lack of resources to hire international consultants

The inclusion of one or two high-profile, wealthier companies in a pilot can set a strong example for other firms.

We also note here that while enthusiasm from individual company executives is nice, full buy-in from the entire management team is critical for pilot companies. It is easy to get drawn in by managers who show enthusiasm to participate as part of a pilot—or as the scout sent by the management team to a public seminar. But given the intensive work required for a pilot firm, it is important to gain commitment from the board of directors and shareholders, not just from management. This will help ensure that the recommended changes will occur at all levels, and that new procedures, often outlined in company bylaws, will be adopted by these key groups. If you cannot get this full commitment, it might be a good idea to pass on this company's participation in the pilot.

3) Take a practical, business-oriented approach to improvements, because compliance-driven approaches may not work.

Since many developing countries lack extensive corporate governance regulations, companies operating in these markets may not be compelled to make changes because of compliance-related issues—there's not much with which to comply. So, suggesting solutions that are strictly compliance-driven or that focus on adoption of international best practices may not be met with much enthusiasm. In

fact, taking this approach could lead companies to become less invested in the process—companies often view such approaches as overly cumbersome and expensive, with little value.

On the other hand, evidence from studies of our Ukraine and Russia corporate governance projects shows that pointing to best-practice examples of companies that have improved their governance practices—and the positive bottom line impacts that resulted—are a powerful motivating factor for other companies. For instance, of the 69 client companies participating in the Ukraine Corporate Development Project that responded to our survey, 77 percent cited the experiences of other companies as a prime motivating factor for their own corporate governance improvement efforts.

4) Create a “pull” in addition to the “push” by encouraging banks and investors to consider corporate governance in evaluating risks of potential investments.

Urging or pushing companies or banks to improve governance for its own sake is one thing; creating an incentive for better governance can pull more companies into the process. Better-governed companies are less risky, meaning that investment in such firms reduces the bank’s or investment fund’s portfolio risk—and enhances these firms’ ability to attract new investment. In fact, there’s a growing body of evidence to suggest that companies can lower their cost of capital by demonstrating corporate governance improvements.

Encouraging financial institutions to consider corporate governance when evaluating the creditworthiness of companies seeking financing is a way to create an incentive to pull companies forward into making improvements.

The good news in this regard is that IFC itself, as a financial institution, is taking the lead here: we are now requiring that new investments be analyzed for corporate governance risks before making an investment decision.

PRIVATE CONSULTATIONS AND WORKSHOPS: BUILDING ON THE GENERALITIES OF A PUBLIC SEMINAR

Enterprises that either attend seminars or hear about IFC’s CG advisory services work may be interested in more specific information relating to issues that affect their particular company. Detailed consultations might include:

- **Document reviews by project specialists** of charter and bylaws to assess compliance with local laws and recommend improvements to align with international best practices and go beyond what is required in the local legislation. In many cases, this work involves recommending additional by-laws for the company to cover issues not addressed by the current corporate documents. Reviews also might include work on a company-level corporate governance code. It is usually possible to charge a fee for drafting such documents.
- **In-house workshops** for boards of directors or management boards, lasting from a few hours to a full day. Topics are often similar to the issues covered in seminars, but include analysis of and reference to specific issues, policies, and procedures of the company in question.
- **One-on-one discussions** on specific problems and topics of corporate governance.

These consulting services are typically provided free of charge in new markets. However, in more developed markets it is often possible to charge for more in-depth written consultations, document reviews, and workshops. A reasonable number of verbal consultations are usually free of charge, due to the administrative burden involved in charging fees for small amounts.

MOST INFLUENTIAL FACTORS FOR CORPORATE GOVERNANCE IMPROVEMENTS IN RUSSIA, 2010

1. Example set by other companies and banks
2. Activity of IFC Corporate Governance Project
3. Government regulations
4. Strategic investor actions
5. Activity of consulting firms
6. Activity of other donor-sponsored projects

Source: Joint IFC-SECO External Evaluation of IFC Corporate Governance Projects in Russia, February 2010.

The new policy comes on the heels of a directive issued by the IFC Management Team last spring integrating corporate governance into all aspects of IFC's business. As of September 30, 2010, all larger and potentially riskier new IFC investments must be analyzed for corporate governance risks and opportunities as part of the due-diligence process. The requirement will apply to all investments starting July 2011.

We know from our own experience that it can take bank officers a considerable amount of time to evaluate the corporate governance practices of their clients. If the process is too long and burdensome, banks may skip the process altogether. Because of this, we developed easy-to-use assessment tools for

bank credit officers and investment officers so they can evaluate the corporate governance performance of companies in which they are considering investments. The tools can be customized for the specific needs of the bank or investment fund, and depending on the type of investment—equity or debt. They are the same tools that are being rolled out within IFC for use by investment teams as they assess the corporate governance risks of new investments.

CONCLUSION

As IFC mainstreams corporate governance considerations into its own investment operations, we will have a first-hand way to understand the associated successes and challenges. Our own experience with our own client companies, coupled with our experience working with other client companies and banks, will help us to refine our approach even more.

ABOUT THE AUTHOR

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The author gratefully acknowledges the contribution of Motria Onyschuk-Morozov in the preparation of this Smart-Lesson.

APPROVING MANAGER

Darrin Hartzler, Manager, Business Advisory Services
October 2010

A Thousand Cups of Tea: Strengthening Risk Management and Governance at SandBank*

SandBank is dealing with more than its share of challenges—and taking on some new ones. Not only must the bank cope with the global financial crisis, but it must also operate in a highly volatile political environment. On top of this, SandBank has been transitioning through an unexpected change in leadership at the chairman/chief executive officer level. Yet while the rest of the global financial sector experienced sharp profit declines, SandBank recorded remarkable growth of 15 percent. But this was not good enough for Chairman and CEO Mr. H. Habib, who recently took the reins of SandBank; he wanted to take risk management to another level—to assess his bank’s risk management and governance practices against international standards.

BACKGROUND

SandBank is the largest non-foreign bank in the country (many of the banks operating there are from neighboring countries), accounting for nearly 20 percent of all credit facilities and about 15 percent of all deposits in the country. The bank has experienced sharp growth in the past 18 months, with both assets and deposits growing more than 20 percent. It currently operates the largest network of branches in the country and employs nearly 800 staff. Because of SandBank’s extensive network and strategic importance as a “local” catalyst to outlying territories, IFC made a 5 percent equity investment in the bank in 2008.

Looking forward, SandBank is expecting continued growth, introduction of new product lines and possible expansion into other markets. It is because of this anticipated growth that Mr. Habib wanted to be sure his bank’s current risk-management and governance infrastructure could keep up with the bank’s ambitions. In May 2009, SandBank engaged IFC Advisory Services in the Middle East and North Africa to assist.

Following are a few lessons, touching first on our IFC team preparation and then on the actual client work.

LESSONS LEARNED

1) Put the right people in the right place at the right time: don’t let internal organizational structures and/or limitations drive the solution. When building a tailor-made value proposition for the client, draw upon all the expertise available within IFC.

Mr. Habib, who spent many years working for two major global banks prior to joining SandBank, understood that effective risk management permeates the entire enterprise. That’s why he wanted a top-to-bottom review of the bank, from board functions down to specific branch procedures.

A diverse team was assembled to respond to the client’s needs. The team, led by the banking advisory program in the Access to Finance pillar, also included a corporate governance specialist from the Corporate Advice pillar. The combination of the two disciplines was critical to building the value proposition for

*NOTE: The name of the client and the country of operation have been altered to retain client confidentiality.

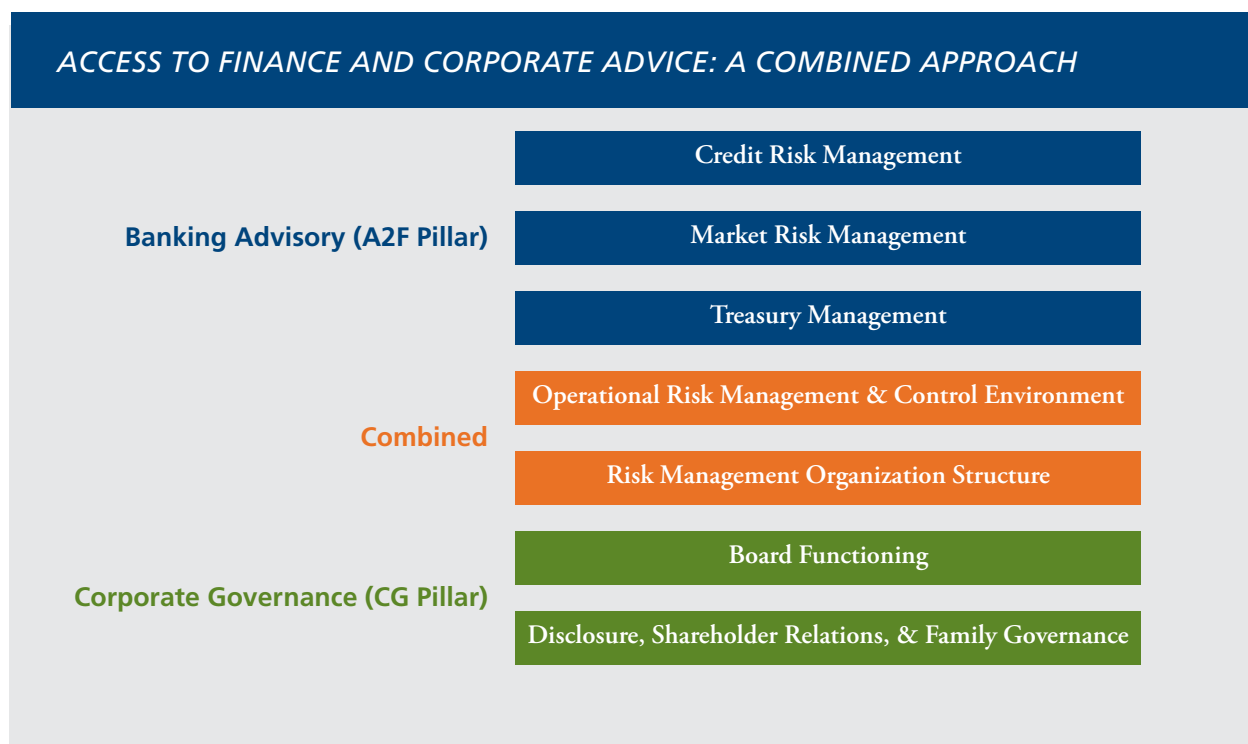
SandBank. The team was able to use tools and methods from both practices, making its approach to assessing SandBank more comprehensive.

2) By putting the right people in the right place at the right time and not letting internal silos get in the way, a couple of related lessons emerged.

First, spend ample time upfront determining how best to create a combined approach from different methodologies, and then divide responsibilities among team members. Prior to the site visit, the team met to do just that (see diagram). Broadly, Banking Advisory went into depth on SandBank’s core banking and risk-management operations, such as credit risk, market risk, and treasury management. Corporate Governance focused on board issues and other key governance practices, such as information disclosure, shareholder relations, and family governance. The whole team collaborated on defining a new risk-management organizational structure and

assessing operational risk and control areas, such as audit, compliance, internal control, human resources, and information technology. The team then defined documentation needed from the client (such as annual reports, financial statements, various policies and procedures) and the list of interviewees. The interviewees list was extensive, covering a majority of board members, numerous management staff, branch staff, and external parties (for example, external auditor, bank regulator). Planning the schedule of interviews was critical—especially since many of the key staff still sit in the outlying areas of the country and were available only via video conference. This upfront planning helped orchestrate the site visit and ensure that the team could cover all areas of the combined approach relatively smoothly and efficiently.

Second, as important as it is to clearly divide responsibilities upfront, it is equally important to collaborate on client interviews whenever possible.



For example, CG took the lead in interviewing board members, and BA led the detailed risk-management discussions with various management-level staff. However, most of the meetings included both BA and CG, which brought a variety of perspectives to the discussions and allowed team members to understand the complete risk-management framework throughout the bank. For example, CG could understand the detailed risk-management processes that ultimately feed into the information provided to the board, and BA could appreciate the board's points of view on management-level processes in the organization. Having this holistic picture helped the team formulate an integrated set of recommendations, from the board level down to the individual-unit level.

3) What works today may not work tomorrow: assess the effectiveness of current processes, and build on them where possible—but, more important, anticipate the client's future requirements as you draft recommendations.

To its credit, SandBank had already made strides in improving its risk-management activities. For example, in the area of operational risk, SandBank had recently shifted most of its key operating systems from a part of the country where the bank originated to the business capital as a way of improving business continuity and avoiding political unrest. And even though many of its key managers still sit in the outlying regions, the bank has not missed a single day of operation this year.

However, the purpose of this project was not only to assess the current effectiveness of a particular practice but also, more importantly, to consider what will be needed in the future. So, even though many of the bank's current practices may be sufficient for today's business context, they might not be adequate to support the bank's increasing volume, evolving products, and ambitions for expansion. Therefore, the IFC team's line of questioning aimed not only

at understanding the current processes but also at anticipating future requirements.

For example:

- Given the strategic direction of the bank, including possible expansion beyond the country's border, does the board have the right structure and skill sets to guide the organization?
- Given the likely volume increase of credit facilities (the loan-to-deposit ratio today is only about 30 percent), are the credit processes properly designed and controlled?
- Given the development of new products, are the front and back offices prepared to support these new types of transactions?
- Given the continued expansion of branches, is the bank adequately prepared to address the challenging HR needs?

These and many other such questions helped the IFC team identify a number of improvement opportunities. Altogether, 42 recommendations emerged, including 22 with high priority. The recommendations were first presented to the senior management team during a four-hour work session and then to the full board of directors. In general, SandBank received the recommendations well and intends to move forward aggressively. However, given the breadth and depth of the recommendations, the biggest challenge for the bank was to determine which changes to pursue first. The IFC team assigned priorities (high, medium, low) to each recommendation to help SandBank develop a roadmap for the improvements. Based on this roadmap, SandBank has begun its journey toward stronger risk-management and governance processes that will support the bank's future expansion.

4) A thousand cups of tea: help the client develop formal processes to handle future volume—but also retain some elements of the personal culture that has brought the client this far.

Credit risk management was one of the key focus

areas for the assessment. The team evaluated SandBank’s entire credit cycle—from loan origination to loan payoff. During the credit-cycle assessment, Middle East and North Africa A2F leader Jim Gohary asked a SandBank branch manager how he assessed a client’s creditworthiness. The branch manager responded that he sits down with each client and has a cup of tea, and this informal, personal discussion gives him good insight into the client’s background and creditworthiness. Jim acknowledged that this kind of insight is indeed valuable, and it is in the spirit of “know your client” risk-management principles. But what happens, Jim asked, when 1) SandBank expands its loan volume, as it is expecting to do; and 2) SandBank strives for more proactive credit monitoring, whereby creditworthiness is reviewed on an ongoing basis throughout the term of the loan—not just once at origination? Suddenly, a single cup of tea grows into a thousand cups of tea.

The informal approach alone is not sustainable as the

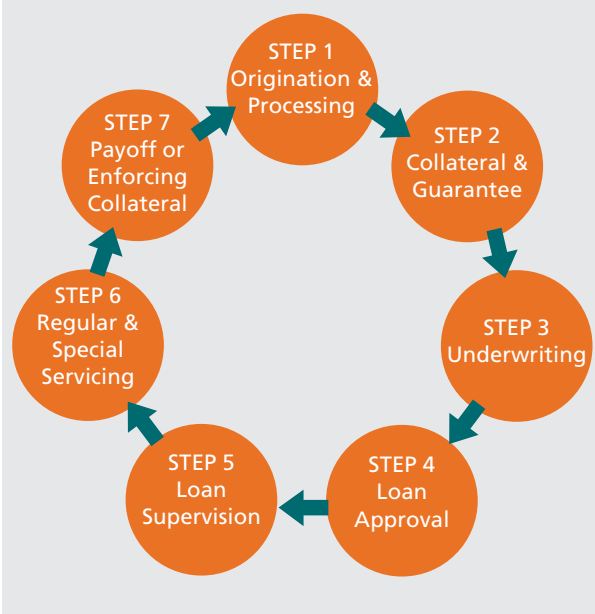
portfolio grows in size and complexity. It should be complemented with more formal and routine credit-review processes, used consistently across the bank.

For example, the IFC team recommended a structured credit-review process with clear procedures on activities such as credit underwriting, collateral review, credit scoring, and credit pricing. Credit scoring (rating a client’s risk according to a defined methodology and specific criteria) will enable SandBank to take a more risk-based approach to credit risk management by focusing more attention on, and exerting more control over, loans rated as having higher risk. In addition, this approach will help SandBank better understand its total capital at risk across the entire portfolio, and ensure that it is in line with the bank’s overall risk appetite. The IFC team also recommended a more robust portfolio-monitoring process, to ensure that credit risk is monitored routinely and reported to senior management and the board in an aggregated format.

HIGHLIGHTS OF KEY RECOMMENDATIONS

- Establish two **new board committees** for risk management and HR/nominations to complement the existing Audit and Investment Committees.
- Strengthen **board composition** by seeking two or three outside directors with backgrounds in finance/accounting, risk management, and regional banking.
- Elevate risk management in the organization by creating a **chief risk officer** position that reports directly to the CEO and interacts regularly with the board Risk Management Committee.
- Reorganize the bank so that all **risk management operations** come under the CRO to achieve coordinated, enterprise-wide improvement in the management of all types of risk.
- Formalize the bank’s **credit risk management** processes, including development of a credit scoring system and capital allocation techniques.
- Establish an **Asset Liability Committee** to help plan and manage assets and liabilities in a coordinated fashion (for example, term matching).
- Strengthen **investment operations** by introducing a formal investment strategy to manage the bank’s significant liquidity (loan-to-deposit ratio is less than 40 percent).
- Institute a risk-based approach for **internal audit** to ensure that all types of risk (not just credit) are addressed and that audits are focused on the high-risk areas.
- Strengthen the **HR function** to go beyond transaction processing and become more of a strategic partner to the CEO to help manage the bank’s evolution.

THE CREDIT CYCLE—A KEY AREA OF FOCUS FOR THE PROJECT



Yet, at the same time, the IFC team encouraged the bank to retain the cup of tea approach in the branches, to be sure that loan officers are dedicated to particular clients on a personal level. This practice will help SandBank maintain its high level of customer service and strong foothold in local communities. It will also enhance the bank's management of credit risk by enabling loan officers to stay abreast of client developments and to anticipate events before they occur. SandBank fully endorsed these recommendations and many others like them that were aimed at adding structure to the rapidly growing bank without losing that personal touch and community outreach.

CONCLUSION

The IFC team is now helping SandBank implement many of these recommendations. This process will take considerable time, given the enterprise-wide scope of the effort. Many of the board-level changes will be implemented in the near term, while many of the operational changes (for example, restructuring the credit risk functions) will take several months to become fully effective. However, the tools and lessons from this project have immediate relevance for other MENA advisory projects aimed at helping banks improve their risk management and governance processes. For example, a similar effort is taking place for a bank in Yemen and there is a possibility of one in Afghanistan.

A thousand cups of tea came to symbolize a transition process common to many banks in the region—an ambitious bank moving into its next generation of operation, while at the same time trying to preserve its founding roots. A transition that, once achieved at SandBank, will undoubtedly make Mr. Habib's cup of tea taste a bit sweeter.

ABOUT THE AUTHORS

Jim Gohary, Principal Operations Officer responsible for the Access to Finance Pillar in the Middle East and North Africa region, joined IFC in the summer of 2008, having previously worked at GE Capital, Royal Bank of Canada and USAID.

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APPROVING MANAGER

Jesper Kjaer, Senior Manager, IFC Advisory Services in MENA
September 2009

Making Glocalization Work at IFC

After joining IFC in the Middle East and North Africa corporate governance program last year, I have experienced glocalization in its truest essence. Wikipedia describes the phenomenon of glocalization as “the individual, group, division, unit, organization, and community which is willing and able to think globally and act locally.” At IFC, we have all the right ingredients to do just that. As a global organization with 181 member countries, IFC has field offices in 81 countries and professionals from more than 126 different countries. Different projects, programs, and departments are ideally positioned to optimize the resources and opportunities provided by IFC’s global organizational structure and culture. A few interdepartmental and interproject initiatives have successfully tapped these resources and created immense synergies. This SmartLesson discusses one such example and explains how the Pakistan Corporate Governance Project has attempted to make glocalization work.

BACKGROUND

As a part of the MENA Corporate Governance Program, the PCGP is one of the few country-specific corporate governance projects. Since the project’s inception three years ago, the project team has focused on introducing corporate governance initiatives to the Pakistani corporate sector and engaging with local regulators, academia, and civil society, with a focus on improving corporate governance in the country. For example, the Securities and Exchange Commission of Pakistan introduced a Code of Corporate Governance in 2002. However, the commission was finding it difficult to gain support of the stakeholders in accepting and practicing this code when the PCGP was launched three years ago. Since then, the project team has engaged with various stakeholders in Pakistan to introduce the business case for corporate governance and has undergone a very steep learning curve in the process. The team is now confident about contributing its experience and expertise to other corporate governance initiatives across the MENA region.

Last year, I was given the opportunity to help coordinate two training events for microfinance institutions in the Maghreb region that were interested in improving their corporate governance practices. This was a collaborative initiative between IFC’s regional microfinance investment team and

the corporate governance program. The first was a workshop for MFIs based in Morocco and Tunisia that were undergoing or contemplating undergoing a transformation process whereby they would change from nongovernmental organizations to regulated deposit-taking institutions. The second event was an orientation workshop on corporate governance for directors of the largest MFI in Morocco. Both the events under this initiative were very successful, with a satisfaction rate of more than 85 percent, even though they were extremely challenging to arrange and conduct. The main challenges came from having to consolidate and address the various expectations that came from multiple stakeholders, both within IFC and from external clients. How did we do it? How can such events be conducted even more smoothly? We learned the following lessons along the way.

LESSONS LEARNED

1) What? Why? Where?—Managing the expectations of all stakeholders is crucial to the success of a glocal event.

When you are using organizational resources from around the world and working with several teams simultaneously, it is very easy for things to fall between the cracks and get lost in translation. The stakeholders we worked with for the microfinance

events were the MENA microfinance advisory teams based in Dubai and Cairo; the corporate governance program manager based in Cairo; IFC's Rabat field office for logistical support; the corporate governance unit in Washington for French-speaking corporate governance experts; and the external clients for whom the training was being offered.

Initially, there were some communication lags, which resulted in delays with decision making, as there was a lot of back and forth in terms of what was being said and done. However, we quickly realized that what was missing from our planning, thereby contributing to the lack of progress, was a clear knowledge of each shareholder's expectations of these events. Clarity often emerges after people simply articulate their problems. Once we understood the problem, it was easier to address the issues head on. The PCGP team took the lead and came up with a draft of key issues that we thought should be addressed at these training events. We shared the document with all of our internal stakeholders, and this started the sort of interaction and feedback cycle that brought the inherent expectations of each stakeholder to the table. In addition, by communicating with our microfinance colleagues, we found that because they had previous working relationships with many of the institutions we were targeting, they were able to help us gauge our clients' expectations.

2) Huh? What are you saying?—Use technology for effective communication.

Following the first lesson, we learned that communicating effectively was the really important lesson from our experience in arranging the two training sessions in Morocco. When the people involved in delivering an event are spread all around the globe in different time zones, communication becomes extremely challenging. As a key coordinator of the event, I remember asking my colleagues in Washington to call me at 11 p.m. Pakistan time. Taking the ownership of this event and a personal interest in ensuring its success kept me motivated enough to work beyond normal office hours and



Taking notes at the Directors' Orientation Workshop.

helped me learn the importance of communicating with my colleagues.

There is nothing more important than ensuring that you do not waste time in communicating. E-mails are great, but at times they can slow you down and you may not be able to get your point across in the first instance. For such cases, where things need to be discussed and deliberated, phone calls are a good solution; but, if possible, do videoconferencing. Being able to see your counterpart as you discuss matters is invaluable. The nonverbal communication that is lost in e-mails and phone calls helps in understanding what is being said much more easily and quickly. This is especially true for IFC. Because our colleagues are spread all over the world and in most cases English is not their first language, it is difficult to understand each other sometimes due to differences in accents, cultural context or professional backgrounds.

3) Who is in the driver's seat?—Depoliticize decision making and exploit the collective wisdom of the team.

When conducting events that entail using resources from two or three different country offices and different departments, there may come a time when no one knows which team is in the driver's seat. This may be because of differing objectives of each



Lots of ideas after engaging with stakeholders...

When people involved in delivering an event are spread all around the globe in different time zones, communication becomes extremely challenging.

team, unstated biases, or executive hubris. In our experience with organizing the training sessions, we learned that decision-making processes should exploit the collective wisdom of the entire organization and beyond. A day after the first event, the team got together for a breakfast meeting to analyze its performance and make course corrections. The effectiveness of this process depended on getting buy-in of the entire team in fine-tuning our strategy for the second event. The team had developed a strong chemistry in a very short time—opening up channels of communication leading to an uninterrupted flow of ideas and suggestions for ways to optimize our performance for the next event, the Directors’ Orientation Workshop.

4) Okay, now what?—Contingency planning is important, but being able to think on your feet is the key.

Despite trying our best to anticipate and mold our training according to the clients’ needs, during the first half of the first day of training, we could easily sense that some in the audience had very specific corporate governance-related concerns; these participants did not want broad-brush training, but rather a more direct problem-solving session. While it is difficult to resolve one client’s specific issues in a forum where there are a number of clients present, we improvised on our original design. During the second half of the day, we created a small exercise where we asked representatives from the MFIs to write down five of their most pressing corporate governance problems. We then tried to find those issues that were common among all the participants and addressed those. The effect was twofold. First, it made the audience feel like they were being heard and that their issues were being addressed. Second, given the large number of common corporate governance problems each MFI had listed, the MFIs realized that their problems were not as unique or complex as they had initially perceived.

You can only do so much contingency planning, but when it comes to responding to the audience, be prepared to think on your feet and improvise. Gauging the audience's reaction and tinkering with the event's format accordingly, while the event is ongoing, needs some courage. If done correctly, however, the rewards are plentiful and lasting.

5) So, how was it?—The importance of timely follow-up.

It is easy to feel relaxed and euphoric once the wrap-up session takes place and the audience leaves smiling and grateful for a day well spent. But we have to keep reminding ourselves that the job is not over yet. Given the nature of work we do at IFC, it's extremely crucial to keep the relationship with the clients alive. Timely "thank you for your participation" e-mails, follow-up on any further developments, and responses to any queries that have arisen during the event are all important to the ultimate success of any event.

CONCLUSION

IFC provides us with a unique opportunity to create immense synergies in our work by working across borders, areas of specialization, and cultures. Tapping

into the global resources of the organization is extremely interesting and rewarding but, at the same time, challenging. The MENA corporate governance team is increasingly looking to work glocally. More and more of our events and new initiatives combine staff from two or more countries or another department within IFC. The benefits are twofold: not only do you create synergies this way, but you also accomplish more with less. The combination of these two factors makes globalization a key success factor in doing things the IFC way.

ABOUT THE AUTHOR

Mahwesh Bilal Khan has been working for the Pakistan Corporate Governance Project as an Operations Analyst since April 2008. Before joining IFC, she worked for the Securities and Exchange Commission of Pakistan as an assistant director of the Project Management Unit, where her main responsibilities included overseeing corporate governance-related matters and reforms.

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May 2009

Attracting Clients to Your Advisory Project: “It Is Better to Have 100 Friends Than 100 Dollars”⁷

If you need to sell your advisory project’s services to reluctant private-sector clients in a challenging local business environment, this SmartLesson is for you. It is based on our recent experience of persuading Kyrgyz joint-stock companies to improve their corporate governance practices.

BACKGROUND

The IFC Central Asia Corporate Governance Project in the Kyrgyz Republic launched its client activities in March 2008. The overall project objective is to improve corporate governance practices of local joint stock companies and banks to increase their ability to attract investments. Providing companies with training seminars and direct consultations on corporate governance issues are key project outputs. Companies showing dedication to corporate governance reform through such cooperation may then be selected by the project to be “corporate governance pilot companies.” Through the pilot program, the project performs a comprehensive corporate governance assessment of a limited number of companies and provides detailed assistance to improve the companies’ governance, so that they can serve as an example to the local business community.

After holding several public seminars and advertising in local newspapers, we expected a burst of calls from companies hungry for our consultations. Instead, we received only four requests in the first two months.

Direct marketing seemed to be the only way out of this situation. We held numerous introductory meetings with companies, hoping to convince them that our advice wouldn’t be based only on theoretical best practices, but also could be of practical use

within the business environment of the Kyrgyz Republic. The companies were reluctant to share their current corporate governance practices and documents with the project experts. Most of them expressed real skepticism about the project’s ability to render meaningful assistance, and they didn’t hide their feelings.

Indeed, the first thing we heard from these companies was: “There is no such thing as a free lunch.” Numerous donors have technical assistance programs in the Kyrgyz Republic, but not all of them have been found to be credible in the local business community. For this reason, people did not believe that free advisory services could be efficient and usually suspected ulterior motives. Although most of the companies were very much interested in investments and/or grants, they simply didn’t see any benefit from our advisory services.

Because of the project’s limited resources, we couldn’t meet with all the companies we wanted to cover. That’s not surprising, as there are more than 900 joint stock companies in the Kyrgyz Republic, and the project had only two staff members. Therefore, we needed to change our business development strategy. In doing so, we learned some vital lessons that might be useful for other projects faced with similar challenges.

LESSONS LEARNED

Let Your Partners be Your Friends, or How to Make 100 Friends

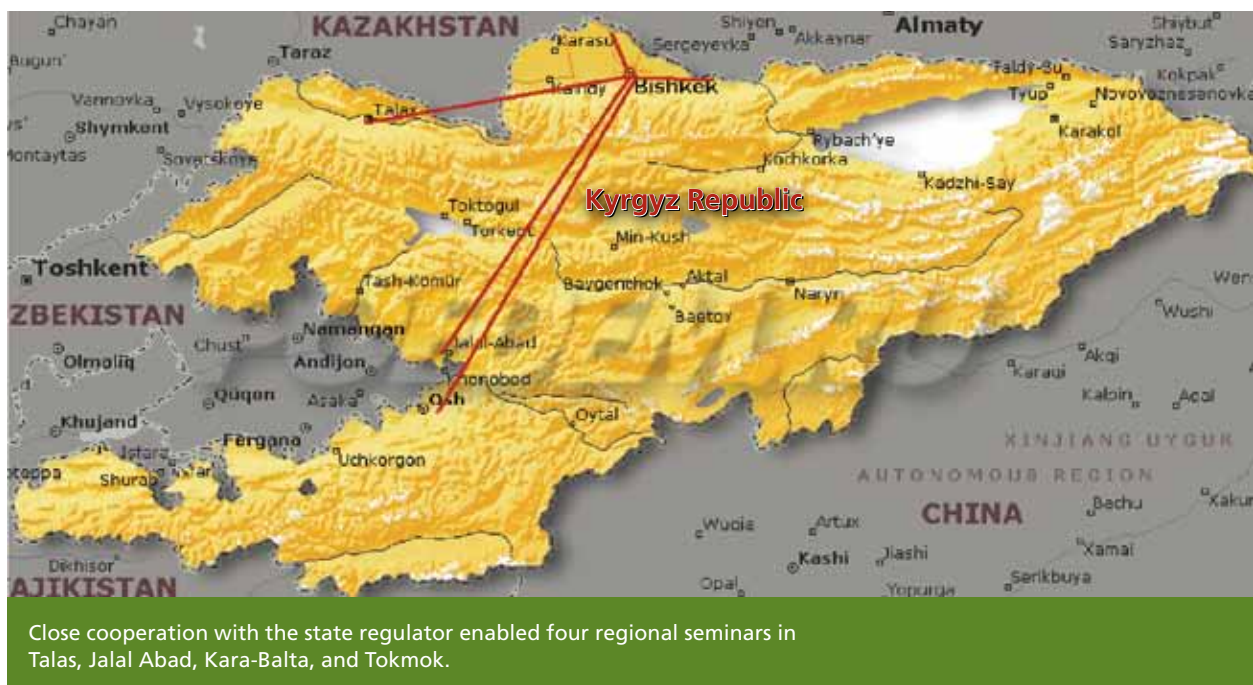
1) Create win-win situations with government partners.

Because one of the project's objectives is to reform the regulatory environment in the country, we wanted to work with the state body authorized to supervise joint-stock companies and help develop the corporate governance framework. Our key partner from the government side was the state regulator, Service of Financial Supervision of the Kyrgyz Republic. We learned that such cooperation has additional benefits.

In a Central Asian culture like that of the Kyrgyz Republic, potential clients will take a project's assistance more seriously if key government officials or bodies show interest in the project's goals. Especially in regional cities, companies are used to running their businesses under the strict supervision of state authorities. The private sector takes the initiatives of the financial regulator very seriously, so our partnership with the state regulator greatly

increased the visibility and level of respect for our services among the companies we were targeting for consultations.

First, we needed to win some goodwill from the state regulator. Every organization, including state bodies, has an official action plan. As a rule, it has to go through different bureaucratic procedures to be amended. Compared to state bodies, IFC advisory projects are able to modify their work plans more easily and adjust them to different situations. Because we also have access to unique methodologies and experiences accumulated by IFC all over the world, we can advise our government partners on many issues. We used this advantage to adjust our project design and help our partner implement its own action plan. For example, the state regulator experienced difficulties in raising public awareness on corporate governance issues and informing people about new amendments to the Kyrgyz legislation on joint-stock companies in the regions. We organized joint seminars in the regions that allowed us to share the costs and set aside 20 to 30 minutes in the agenda for these seminars to provide participants with specific state regulator information. We made sure that the





A seminar for microfinance organizations on “The Best Practices of Building an Effective Board of Directors.”

goals of our partner and the goals of the project coincided on important core concepts.

We have since collaborated closely with the state regulator to improve corporate governance legislation through participation in working groups, to hold seminars for joint-stock companies in the capital and in regional cities, and to raise public awareness of corporate governance issues. One of the most successful events was a recent seminar on annual shareholders’ meeting procedures and annual report preparation. It was held in early February 2009, right before most joint-stock companies held their annual shareholders’ meetings. The fact that the participants could raise issues that companies face, learn about relevant international best practices, and get answers on contentious questions directly from representatives of the state regulator had a great impact.

Another win for IFC was lower project expenses, because the state regulator was responsible for organizing the seminars, including printing and mailing invitations and renting the conference hall.

Our cooperation with the state regulator extended to the real world as well. We discovered that many local company representatives did not know much about IFC or, because of their lack of English, were

apparently reluctant to directly access our project Web site, not realizing that it was provided in both English and Russian versions. We therefore arranged to have the project’s banner placed on the state regulator’s Web site, which made it possible for information about the project and its activities to reach a larger number of companies. Project experts also initiated a special section for corporate governance on the Web site that includes ongoing work on corporate governance development in the Kyrgyz Republic.

2) Make nongovernmental organizations your friends.

From the very beginning, our corporate governance project has maintained a friendly relationship with relevant local nongovernmental organizations, in particular the International Business Council, the Association of Microfinance Institutions, and the Union of Kyrgyz Banks. They have been operating in the local market for a long time and have broad client databases, good reputations, and efficient channels of information dissemination. We invited them to the project’s official launch event and held introductory meetings with them in order to present the project and discover potential areas of mutual cooperation. Since that time, we reserve places for them at our seminars and roundtables and, at their request, hold special seminars for their members. The Association of Microfinance Institutions, for example, requested special training for microfinance organizations on the best practices for building an effective board of directors. As a result, 14 people from 12 microfinance organizations had an opportunity to learn about relevant corporate governance best practices.

In return, the NGOs have always been glad to provide our project with their informational resources. Take NGOs seriously; there may be many NGOs in your country, but among them you can find one or two of the most authoritative and reliable. Invite them to your project launch and keep them informed about upcoming events.



Dear IBC Members and partners:

We are happy to send you our monthly Newsletter – February 2009! IBC sincerely hopes that you will find the enclosed newsletter informative and useful. Should you have any questions regarding information and/or events listed in the newsletter, please feel free to contact our office any time.

In this issue:

- Regulation “On the procedure of power supply to industrial entities and business structures of the Kyrgyz Republic” page 1
- Social partnership is on the way! page 1
- Government reduces the number of inspection bodies by 30% page 2
- Taxes, taxes and taxes page 2
- Donors’ coordination group on business & investment climate page 2
- MGN Capital offers exclusive services page 3
- IBC’s new members; Asiamotors LLC and J’son & Partners LLC page 3
- Free employee for every company page 4
- Attn: “IFC’s corporate governance project is looking for joint-stock companies to participate in its pilot company program” page 4
- IBC Calendar page 5

3) Employ your baseline survey company as your agent in communicating with potential clients.

One of the key initial activities of our project has been its baseline survey, which is intended to provide insights into the level of corporate governance in the Kyrgyz Republic, define the problems of current practices, and assist with finding ways for improvement. According to the contract and terms of reference, the survey company was obliged to interview no fewer than 100 joint-stock companies, including 12 financial banking institutions. It was a great opportunity for our project experts to meet with companies without having to spend time on logistical matters.

After the survey company selected the companies to be interviewed, our project experts reviewed the list and chose companies that we thought would be particularly useful as project clients, based on their public visibility, size, and potential corporate governance issues. For each of these companies, the survey company scheduled a joint meeting. During these meetings, we had an opportunity to introduce the project and explain key corporate governance concepts and how they related to each company’s governance. As a result, the companies understood better the purpose of the survey and began to trust the corporate governance expertise of project experts. This led to a large increase in consultations with these

companies and made the survey go much faster and more efficiently.

The survey company's experts also agreed to hand out materials about the project to the companies not included in the list for joint meetings. Right after the meetings, we received many calls from companies requesting our consultations. Thus, the number of consultations during this time increased substantially.

Work closely with your survey company when they select companies to be interviewed. Let the survey company know that you are interested not only in results but also in the process and problems the survey company faces during the survey. Establishing a good relationship with them will ease your work and reduce disputes during the period of delivering a final report.

Why 100 Dollars Will Not Work in a Country Like the Kyrgyz Republic

4) Keep in mind the local peculiarities and national habits of the people in your country of operation.

In developing countries, things are often not what they seem, and one never knows what resources can be relied on. We remembered that while we were preparing for our regional seminars. The first example was an outdated government database of joint-stock companies. Although it was the official database from the state regulator, due to the financial and energy crises facing the country, many companies had closed, changed their telephone numbers, or refocused their activities. To make a list of invitees to our corporate governance training, specialists from the state regulator and their local contacts helped us by striking nonoperational companies off the list.

As another example, in one region we put an ad in the local newspapers for a seminar on corporate governance issues, but not many people showed up. The reason was simple: Only one in ten people outside Bishkek, the Kyrgyz Republic's political and commercial capital, know what corporate governance is. Only a few of them have ever heard of IFC and

its activities. It was not easy to provide people with information about the project because some of them are not computer-literate and many lack access to the Internet and e-mail. Identifying these challenges helped us decide whom to partner with for regional seminars, as a strategically selected partner could help our project increase trust with regional companies otherwise suspicious of outsiders. Once we began joint regional training sessions with the state regulator, attendance at those events greatly increased.

CONCLUSION

Why Having 100 Friends Is Better Than 100 Dollars

Our new client development strategy and close cooperation with partners during 2008 and early 2009 allowed us to increase the number of client consultations to 150 and the number of participants at seminars and workshops from 50 to 267. Before developing the new strategy, we had held an average of eight consultations per month. However, after our various efforts, the number of consultations increased to an average of 28 per month. Increased awareness of the project's activities among joint-stock companies allowed us to attract new people to participate in the seminars and workshops.

ABOUT THE AUTHORS

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April 2009

Be Smart in Selecting Your Clients: The First Step May Define Your Whole Project

To prepare an excellent meal, you start by choosing the best ingredients. Similarly, successful corporate governance projects need to select well-suited clients. The goal of IFC's corporate governance projects is to improve the clients' corporate governance practices, thereby helping them operate more effectively and allowing them easier access to capital. This SmartLesson provides lessons learned during the Pilot Program, one of the many activities undertaken by the Georgia Corporate Governance Project. As we worked to improve the corporate governance practices of Georgian companies and banks, we discovered—or rediscovered—the value of careful client selection.

BACKGROUND

As the name implies, the Pilot Program works with select companies and banks to create a model of best practices of corporate governance. During the Pilot Program, the project team conducts a full-scale corporate governance assessment of the client. This in-depth assessment consists of a review of the client's corporate documents, and numerous face-to-face interviews with its supervisory and management boards and its personnel. The project delivers to the client an assessment report and recommendations, and helps with the implementation of recommended improvements. The goal of the program is to replicate the best corporate governance standards, on a smaller scale, for one company in order to demonstrate its effects for other companies and for the public at large. Positive results for the pilot company, such as the attraction of investments, not only have significance for that company, but through a demonstration effect, these results are important for the entire market as well.

LESSONS LEARNED

1) Selection of the right candidate is critical to achieving good results in the Pilot Program and making the pilot company a real model for other companies.

The main criteria for candidate selection are:

- The candidate should be committed to making changes to improve its corporate governance practices.
- To have a demonstration effect, the candidate should have a good market image and reputation.
- The ownership structure of the candidate should not have significant state or foreign investment.⁸
- The candidate should have a realistic development program for potential investment.

Even though the pilot candidate should comply with all four of these criteria, the first one has the most important role in final success, because it requires that the management, the supervisory boards, and the large shareholders truly aspire to improve corporate governance at the company.

2) Commitment to improving corporate governance should come from the company itself—not from just one person in the company, even if it's the most key person.

The most common corporate governance problem in Georgia, as in many former Soviet countries, is the vertical (top-down) decision-making process, in which only a few people—or even just one person—

can make key decisions for the company. In the short term, dealing with this arrangement may be expedient, since you don't need to negotiate with or persuade many different players on the advantages of good corporate governance, and one person can move the process forward faster. But in the longer term, this management style has a disadvantage, because it develops bureaucratic procedures and practices that can slow down the whole process and increase the risk of errors in decision making.

In the case of the GCGP, one of our pilot candidates was a successful bank, well known by businesses and the public, and one of the biggest employers in Georgia. It was the seventh-largest bank in Georgia by asset size and one of the leaders in the banking sector, as measured by the number of customers and its branch network. The bank also wanted to attract foreign investment, and it understood the importance of good corporate governance to attract new investments. A successful pilot program might have a strong demonstration effect and would help increase the awareness of good corporate governance in the sector and country.

However, the decision to participate in the Pilot Program, as with almost all decisions in that bank, was made solely by the chief executive officer, who was a corporate governance champion in the company. The chair of the supervisory board agreed with this decision, but she did not know any details since she had a very passive role in the bank's operations. The concentration of decision-making power in one person was so high that even minor actions or decisions could not occur without the CEO's notice. For example, it was impossible for our team to receive the necessary initial corporate documentation from the bank, or to set up an interview schedule with members of the supervisory and management boards and people in other key positions without prior permission from the CEO. This concentration of decision-making authority in one person made it extremely difficult for our project to begin the pilot program.



The candidates should commit to changes that will improve their corporate governance practices.

After completion of the selection procedure, and right before the Pilot Program was to begin, the CEO was elected to Parliament and had to resign from his position at the bank. This turn of events has delayed the launch of the program because the other members of the management board, who were used to the situation in which the former CEO made all the decisions, were not able to decide on their own to move ahead with the project. Given these circumstances, we could not go forward with this candidate at the time, and a year later we are still waiting for management to reorganize and show a stronger commitment to improving its corporate governance.

3) Diversify the risk by working with several pilot candidates—not just one.

During the selection process for the pilot, it is important not to put all your eggs in one basket. For instance, relying on just one specific contact within a company might be risky for the project. But it is also risky for the pilot to rely on just one candidate company, as illustrated by our experience with the bank that lost its CEO. Always work and negotiate in parallel with different pilot candidate companies, to diversify the risk of process interruption.

In our case, even before the CEO left, the concentration of decision-making power within the bank was so high that it harmed the project to some extent, because it

caused us to spend much effort and time on a bank that did not become an active client. If the bank had been the only pilot candidate for the project, the negative impact would have been much higher.

Fortunately, the project also had worked and negotiated with another pilot candidate, providing consultations and workshops to both banks at the same time. These interactions gave us more confidence in assessing both clients' commitment to improve their level of corporate governance. After the failure of one pilot candidate, we immediately used our back-up plan and switched and intensified our work with the second pilot candidate. This way, we minimized the time gap and smoothly moved on to focus our attention on the other bank.

4) Be alert to indicators of pilot success or failure signs that the candidate is (or is not) committed to good corporate governance.

Different companies have different cultures and styles of governance and management. A manager's or the chairman's behavior, attitudes, and values may say a lot about the company's corporate culture. Improvement in corporate governance practices to some extent implies changes in corporate culture. Each company has its own corporate culture, and experience tells us that changing it is quite difficult. In some cases, it has taken years for a corporate culture to develop; therefore, changing it is very time- and resource-consuming.



A seminar for microfinance organizations on "The Best Practices of Building an Effective Board of Directors."

While working with pilot companies, it is important to understand whether the specific corporate governance improvements needed also require changes in corporate culture, and whether the company is ready for such changes. Sometimes these changes involve very sensitive issues, and the company may refuse to implement them. For example, formalization of some practices or a requirement to start documenting meeting results might be understood by someone in the company as distrust. Also, the delegation of duties might imply a loss of power for some.

During the process of working with particular pilot candidates, the team should observe governance styles, behaviors and corporate cultures. For instance, they should monitor attendance at the project seminars, workshops and consultations, and pay attention to interactions within the company.

An assessment team needs to be smart and understand the clues early on during the work with the pilot candidate. Is the company ready for changes? If not, the company will not be in a position to implement recommendations for improving corporate governance, and continuing with that candidate will not be a proper use of resources.

Workshops and seminars provide opportunities for the assessment team to observe interactions within the pilot candidate company.

Experience gained through working with pilot candidates has taught us that there are definite links between corporate culture and the success or failure of a pilot program. The table lists some signs to look for when evaluating a candidate's corporate culture. Disregarding these signs may have a negative impact on the final results of your pilot program.

CONCLUSION

Selection of candidates is the first step in a corporate governance project's pilot program, and it may determine the success or failure of the entire project. So be smart in selecting your clients! The most common corporate governance problem with companies in

THINGS TO LOOK FOR IN EVALUATING A PILOT CANDIDATE'S CORPORATE CULTURE

Negative Signs	Positive Signs
Delays in providing information	Information provided on time
Difficulty setting up meetings with top management	Top management always ready to meet with the project staff
Unwillingness of the chairman and other members of the supervisory board to attend seminars or workshops	The chairman and other members of the supervisory board regularly attend seminars or workshops
Difficulties reaching and communicating with the CEO	Direct communication with all members of top management
Lower management not meeting with you unless top management signs off on it	Free communication with lower management
At meetings, participants asking CEO's permission to ask questions	At meetings, all participants feel free to ask questions, and feel free to disagree with top management
Lower management trying to hide problems they have in the company	Lower management discuss problems they have in the company and ways to solve them
CEO's personal secretary is afraid to contact him	

emerging markets is the top-down decision-making process, with a single individual responsible for all the key decisions—making the success of your pilot program largely dependent on that one person. That is why it is important to have a commitment from the company itself, rather than being dependent on the goodwill of just one person. Also, it is always better to diversify and work in parallel with two or more pilot candidate companies, so as to minimize the risk of process interruption if one candidate falters. Finally, be alert to the corporate cultures, attitudes and values of your pilot candidate companies, noting those positive or negative signs that often can predict the success or failure of a pilot program.

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Risk Management: So Critical, Yet So Elusive

Every good organization around the globe firmly espouses the benefits of sound risk management. Certainly, the recent financial crisis has underscored this imperative. Yet it is remarkable how elusive an effective risk management function can be for many organizations. This is definitely the case for many of the companies we have worked with as part of the corporate governance program in the Middle East and North Africa. This SmartLesson is based on our recent work with an investee company to help put in place a simple but effective enterprise risk management process. This work was part of a wider corporate governance improvement effort for the company. It also draws on experiences we've had with other companies and provides lessons for any organization trying to figure out how to actually make risk management work.

BACKGROUND

This particular client, a mid-size, private manufacturing sector company in the Middle East and North Africa region, still operated as a small, closely-held company. It had essentially outgrown its current infrastructure, including many of its management control functions. As with many companies of this nature, there was no formal risk management framework in place. The client noted that managers considered risks implicitly as part of their day-to-day operations and addressed issues reactively as they occurred. It also mentioned that a risk assessment had been conducted in the past year by an outside advisor and delivered in a written report to the company. The challenge for this client was to help design an effective risk management function that had the following characteristics critical to its success:

- Embedded throughout the organization, not just at senior levels and not just in the financial processes but also in project operations, where much of the risk lies
- Routine and used as a real management tool, not just as a check-the-box reporting exercise
- Promoting ongoing, timely dialogue regarding risks facing the organization

LESSONS LEARNED

It should be noted that the client is still in the process of fully implementing the recommendations described below. This is to be expected, given the enterprise-wide scope of the effort. Nevertheless, several immediate and important lessons can be drawn from this experience.

1) Focus on the process and keep it simple.

The primary focus should be on the process. While it's important to have a firm understanding of risk management concepts, tools, and techniques, the key consideration should be: how does a company actually put in place a working process for discussing risk on an ongoing basis? For this client, we considered the following:

- What risk-related information is being collected?
- What is the flow of that information in the organization?
- What dialogue is the information supporting?
- How frequent is the dialogue?
- Who in the organization is having the dialogue?
- What actions and decisions is the dialogue informing?

These considerations helped shape the design of the risk management processes for this client. Another lesson is to keep the process simple enough that managers use it and take it seriously—that is, make it stick. This was especially important for this client, since it had previously tried different approaches, none of which were sustained. Unnecessarily complex processes can be counterproductive. For example, we observed processes in other clients that require managers to complete a long series of reports and forms that go into excruciating detail about their risks and mitigation strategies. They require so much effort that managers do not use them as an effective management tool—rather, they are just a burdensome reporting exercise for senior management. We were careful to avoid that for this client.

Ultimately, the process we recommended for this client did not employ any new concepts. Rather, we distilled common risk management concepts down to a simple form to create an easy-to-use process. One of the main tricks was to figure out how we could integrate the risk dialogue into the client's existing planning and performance-monitoring processes. So, rather than create a completely separate risk management process,

BOX 1: RISK MANAGEMENT—HOW THE TERM IS USED

Risk management means different things to different companies. Some companies point to a detailed risk assessment report, conducted annually, as their form of risk management. Others point to dedicated risk management staff that focus on monitoring risks for the organization, sometimes using sophisticated risk models. Here, we are talking about overall **enterprise risk management**, relating to the processes in place throughout a company to continually assess potential risks and take actions accordingly to help manage those risks and achieve defined business objectives. The scope includes any type of risk—internal and external—facing the company at all levels of the organization. This is the bedrock of any company's management control environment and, hence, its corporate governance framework.

we simply tied it to the client's existing management activities, such as biweekly executive committee meetings and ongoing unit-level status meetings (see Box 2 for process highlights).

2) Integrate risk management with other key management control processes.

In the past, this client treated risk management as a separate, periodic process conducted by particular individuals and an outside advisor. We illustrated how risk management can be linked to other key management functions to create a seamless, continual process for controlling the organization (see Figure 1). We highlighted the following:

- **Integration with business planning.** Risks should be identified for all strategic initiatives based on the company's business plans (which, fortunately, were well-developed for this client) and, ultimately, made part of the plans themselves.
- **Integration with performance monitoring.** Risks and the mitigation actions should be reported and monitored as part of the company's routine performance-monitoring processes, just as with other types of performance information (such as financial performance, project performance). These reviews should be continual and should feed back into the planning cycle on an ongoing basis.
- **Integration with internal control.** Control activities for the organization should be linked to the specific risks identified. The same matrices used to identify and assess risks can then be used to identify the control activity (or mitigating action, depending on the nature of the risk), to ensure that the internal control framework is risk-based.
- **Integration with internal audit.** The internal audit function, which did not exist prior to the corporate governance review, should assess the entire risk management and control framework to ensure that it is working effectively. The

BOX 2: HIGHLIGHTS OF THE RECOMMENDED RISK MANAGEMENT PROCESS FOR THE CLIENT

- Given the defined strategic initiatives from the company's business plans, define the corresponding risks for each by considering: What can go wrong?
- The risks should include all types of risks, both internal and external.
- For each risk, rate (on a scale of 1 to 10) the likely impact and probability of each. Then use the combined ratings to assign an overall priority rating, for instance the higher the impact and probability, the higher the priority.
- Identify mitigation action(s) for each risk, and assign responsibility. This will depend on the risk appetite. For example, low-priority risks may not require much, if any, mitigation.
- Provide biweekly updates to the executive committee alongside other performance reports. The risks and mitigating actions are no different from other strategic initiatives that should be constantly monitored. Consider a scorecard approach that assigns qualitative progress indicators.
- A risk matrix such as this should be completed for each business unit and also at the overall enterprise level. This matrix can be cascaded down into the business units and integrated with their monitoring and reporting activities.

assigned risk priorities can help ensure that the internal audit program is risk-based, focusing on the highest-priority risks and controls.

3) *It's all about the dialogue.*

Simply put, if the right risk dialogue is not happening, the process is broken. Whatever form the risk management process ultimately takes in an organization, it must be facilitating a routine, useful dialogue about risk throughout the enterprise. For this client, most of the risk-related dialogue was reactive, addressing particular issues after they surfaced. Further, it was mostly bilateral between the chief executive officer and the relevant manager and

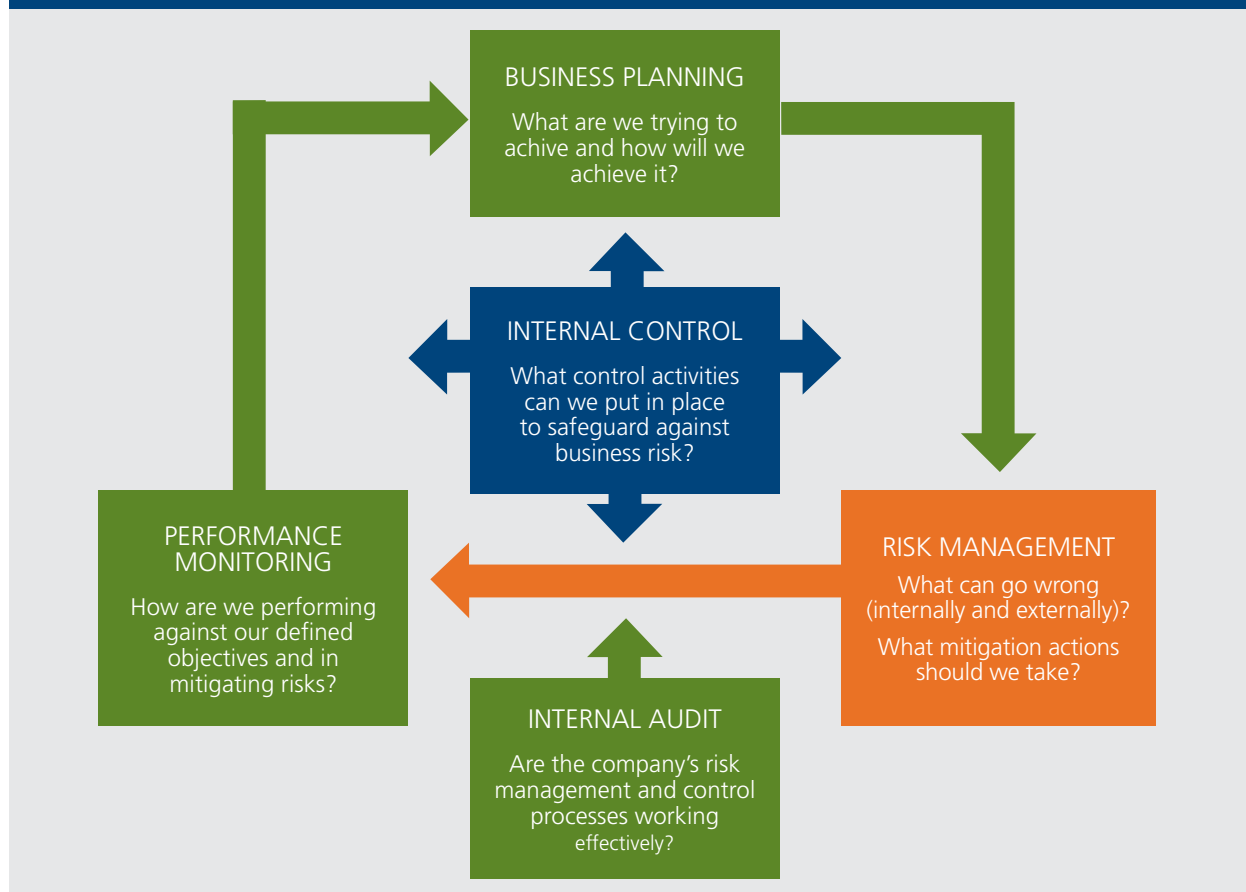
not considered in a structured way. We suggested the following to help improve the dialogue:

- **Encourage transparency.** The dialogue should encourage candid reporting by staff so as to promote organizational transparency and useful management actions.
- **Consider all types of risks.** The dialogue should not focus only on financial risk, as is common. It should consider all types of risk, both internal—operational, financial—and external—market, political—that may inhibit achievement of the company's strategic objectives.
- **Challenge assumptions.** Discussions should challenge underlying assumptions, such as those about the probability or impact of particular risks. Every strategic initiative has a potential downside that needs to be discussed.
- **Have measured responses.** Not every risk identified will require a corresponding mitigating action. There is a cost and benefit to be considered for each. The risk appetite should drive the appropriate mitigation strategies.
- **Be proactive.** Do not let discussions focus solely on reacting to recent issues; rather, push managers to be forward-looking and to try to anticipate risks that may occur in the short term and even longer term on a continuing basis.
- **Demand stress-testing.** Consider extreme or worst-case scenarios and the likely impact. Consider a variety of scenarios and not just business as usual. This is especially critical in today's environment.
- **Become second nature.** Reinforce the notion that any performance or strategic discussions should automatically include risk dialogue, so that it becomes second nature for staff to constantly consider: What can go wrong?

4) *The board has a key role.*

From a governance perspective, the board of directors should have an effective challenge function in risk

FIGURE 1: INTEGRATING RISK MANAGEMENT WITH OTHER KEY MANAGEMENT CONTROL FUNCTIONS



discussions. One of the major benefits of having a well-functioning, diverse board (as we promote for good corporate governance) is its ability to offer different perspectives on discussions about strategy and risk and to effectively challenge management. Therefore, the process should be designed to ensure that the board is receiving the right information and having the right dialogue about the risks facing the company. We emphasized this point to the client and included it as one of the key responsibilities for the board audit committee.

CONCLUSION

Risk management concepts will continue to evolve, especially in response to the current financial crisis gripping companies around the world. Yet, in our

experience, the most value-added advice we can offer to our clients is not only to help them understand risk management concepts as they evolve, but also to offer practical lessons on how to actually make them work.

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1 + 1 = . . . 50 Million!

It takes two arms to carry something securely for a long time without dropping it. This is a story of how two arms of IFC—investment and advisory services—successfully cooperated and helped each other to develop, nurture, and carry a client relationship that eventually led to an \$8 million investment deal and another \$42 million in the pipeline.

BACKGROUND

Since its independence in 1991, Ukraine has moved from a closed, planned economy to one of the fastest-growing, dynamic economies in Europe. Local businessmen have displayed entrepreneurial spirit and have comprised the backbone of the country's expanding economy. Although larger investment deals are often favored within IFC, it's frequently the smaller, local entrepreneurs who truly value and benefit the most from cooperation with IFC. When our assistance to them is a well-coordinated joint effort between investment and advisory services, they benefit even more. Asnova is a case in point.

Asnova Holding (“Asnova” or “the Company”) was established in 1992 by four Ukrainian entrepreneurs with the opening of one small store in Kyiv selling basic goods such as shampoo and soap. The business grew, and in the late 1990s one of its companies became the exclusive distributor of Procter & Gamble's goods for Kyiv and Central Ukraine. Today, Asnova has evolved into a leader in the Ukrainian wholesale and retail market of fast-moving consumer goods, employing more than 4,600 people.

Asnova was first contacted by IFC back in 2002 on the recommendation of Procter & Gamble, which referred to Asnova as a reliable and trusted partner. In the years that followed, Asnova became not only a long-term investment partner of IFC but also a success story for its advisory services arm.

LESSONS LEARNED

1) Take a comprehensive approach to client management. Form a joint investment-advisory

services team at the early stages, and let advisory staff participate in initial meetings and take part in the appraisal process.

Although the company had demonstrated strong management skills and its ability to grow a successful business from scratch, during the appraisal IFC identified some areas in need of improvement. Asnova had no audited financials; the legal corporate structure was complicated, with more than 50 subsidiaries; and, while the company had taken an initial step by forming a closed joint-stock company, its corporate governance was in its infancy.

Coinciding with the appraisal process, the Ukraine Corporate Development Project, an advisory services project focused on improving corporate governance in the private sector, began actively rolling out its pilot company program, offering corporate governance assessments, followed by CG improvement plans and training and support in implementing recommended changes. The investment team thought that Asnova could benefit from this type of assistance.

The UCDP advisory staff was brought in early on to work closely with and complement the investment team—participating in numerous client meetings, conference calls, and internal investment team discussions. The advisory services team was asked to conduct a preliminary assessment of Asnova's corporate governance and inform the investment team of its findings. Advisory services also contributed by identifying potential risks for the investment project and offered mitigating solutions. Many of these findings were incorporated into the decision book of the investment project.

The investment team supported the advisory services team's findings by reinforcing the message to the Company that the need for CG improvements overall was much higher than what would be required as a precondition for a loan but that, in the end, it would help bring Asnova closer to international best practices. It was left up to Asnova's owners to decide whether or not (and when) to apply for the UCDP pilot program.

2) Advisory services and investment don't always happen simultaneously.

The advisory services team should be patient. You want the company to choose a time that's right for them and ensure that they are fully committed. Using investment as a motive (or stick) for improving things like corporate governance can lead to a "window dressing" exercise that, in the end, can increase the risk for the investment, not mitigate it.

Although the company's shareholders were interested in learning about CG best practices, they were at first somewhat skeptical about whether CG could really add value. At the time, Asnova was run like a small family business, with decisions made informally and issues usually discussed until everyone agreed. The advisory services team expressed concern that the company had inefficient decision-making procedures and that, due to a lack of formalized corporate governance structures, there was an increased risk of conflicts among the owners. This was communicated to Asnova's shareholders, but they believed that formalizing procedures and a clear division of powers could unsettle their friendly relationships.

As a result, the investment process continued while the advisory services team took a back seat. The investment team included some key requirements on corporate governance as a condition to financing the deal but didn't push on the rest. When IFC decided to invest, the advisory services team was somewhat disappointed, worrying that its leverage to encourage broader CG changes at the company was lost. However, having a strong working relationship with IFC and having sown the seeds of corporate governance at the outset

had its effect on the company. Having gone through a rigorous due-diligence process and evaluation of a range of strategic and management issues, the owners soon realized the weaknesses of their systems and the value that improved corporate governance could bring. After an eight-month break, Asnova's management re-engaged with IFC's UCDP team to become a corporate governance pilot company.

The advisory services team designed a CG improvement program with more than 30 different activities, including various workshops, special training for the company secretary, a revision of the board of directors' role, succession planning, and formalization of company procedures. From a CG-reluctant group of friends, the company owners became leaders and promoters of good corporate governance.

3) Investment and advisory staff need to work together as one IFC team. To make this happen, there must be frequent sharing of information between the investment and advisory arms. Both teams should know about the client's achievements and problems.

Throughout the process, the investment team and the advisory services team regularly informed one another of developments. The investment team often invited the advisory services staff to client meetings and internal discussions, and the advisory services team kept the investment staff up to date on any interactions with the company. Once the CG pilot program was under way, the advisory services staff summarized Asnova's achievements and also conveyed problematic areas in need of improvement, which were incorporated into a future action plan. At the same time, investment staff shared information on the company's performance and future ambitions. There were no formal procedures: each team member shared ideas and what he/she knew. Usually this happened either via e-mail or a simple chat between advisory services and investment staff.

This sharing of information helped the advisory services staff increase the quality of workshops by



Asnova CEO Urfan Guliev speaks at IPO Forum.

making them more relevant to the company's current situation and also by taking into account its medium- and long-term plans. This also enabled the investment team to keep abreast of what was happening in the company outside of the investment deal. Working together with Asnova's management and shareholders, IFC investment and advisory services staff were all part of a team that developed an attractive range of services to add value to the company's business.

4) Be a trusted partner of the client. Keep in touch with the client on a regular basis, including after the deal is signed and advisory services are completed, and broaden the relationship to involve the client in other activities.

Over the life of the relationship, IFC's investment and advisory services teams have built up a significant amount of trust with the company. The initial project, which was small by IFC standards, was the first step in building a strong relationship. It was used by both parties to get to know one another and has led to both sides wanting to deepen and expand the relationship.

It is important to keep in close touch with the client, even on an informal basis, and worthwhile to include the client in events that can benefit both parties—as a guest speaker at conferences and as a participant in training events organized by IFC. For example, Urfan Guliev, Asnova's chief executive officer, was

invited to speak about his company's experiences at an IPO Forum at which dozens of local companies were present. His presentation was cited as among the most interesting and informative. It put Asnova in the spotlight, and for IFC it provided a strong demonstration effect of how improving corporate governance and working with IFC on the financing side can lead to success. At the introduction of IFC, Guliev also recently made a presentation at a well-attended Ukrainian CFO conference at which he spoke highly about his relationship and experience in working with IFC.

Here our SmartLesson ends, but the relationship continues ...

In FY05, IFC provided a \$6 million A loan and a \$2 million C loan to Asnova for the expansion and modernization of its distribution, warehouse, and logistics business. IFC is currently working on a second financing for the company of up to \$42 million, including a syndication and possible equity investment, to further expand the company's operations. In spite of the UCDP's official closure, the company keeps in contact with IFC's advisory services consultants—seeking advice, sharing information, or simply discussing general CG trends in the country.

This is what good client relationship management is all about.

ABOUT THE AUTHORS

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When You Sweep the Stairs, You Always Start from the Top⁹

Real and demonstrable commitment by a company's senior officers and directors is critical to achieving lasting corporate governance reform. Two cases from the corporate governance program in the Middle East and North Africa highlight the importance of securing such commitment. These cases bring out two areas where lack of understanding can lead to resistance to change: 1) not understanding the meaning of corporate governance; and 2) not understanding how corporate governance can improve the bottom line. Overcoming these challenges is a formidable but necessary task in building the business case for companies to implement corporate governance reforms. This SmartLesson addresses how to obtain such commitment when implementing any company-level effort to effect change to a company's governance framework, policies, and practices. The lessons also may be applicable to other staff who engage with private sector clients.

BACKGROUND: HOW DO YOU OVERCOME RESISTANCE TO CHANGE?

Most project teams implementing corporate governance reforms at the company level may be confronted with initial skepticism, lack of knowledge, and resistance to change. For example, most company directors and officers may not truly understand the meaning of corporate governance. A recent IFC survey on corporate governance practices across the Middle East and North Africa region showed that 59.2 percent of respondents could not define corporate governance properly. Most confused “corporate governance” with “corporate social responsibility.”

Regarding the ability of good corporate governance to add value to the bottom line, only 49.3 percent of respondents in the same survey thought corporate governance was important or very important to their organization. And of those that did, most cited compliance as the main driver for reforms.

To illustrate resistance issues, imagine yourself as a project officer who has to make the business case for corporate governance during a meeting with the company founder and chairman. The issue at hand

is board composition: how do you change from a board composed exclusively of family members (in particular, sons and daughters who may not be qualified) to one with independent directors? To overcome any skepticism and build a sound and compelling business case, you need a proper explanation of how corporate governance pays off and how independent directors can help ensure that a business sustains the livelihood of future generations.

LESSONS LEARNED: A COMMITMENT-BASED THREE-STEP APPROACH

Experience shows that the best means to effect real change at the boardroom level is a three-step approach built around commitment.

STEP 1: SOW THE SEEDS.

1) For senior decision makers, organize events that are interactive and fun.

Roundtables and seminars during which participants can interact and pose questions, even if in a limited manner, are preferable to one-dimensional (and often boring) conferences—although conferences with interactive elements may be suitable for introducing

the topic of corporate governance. Interactive elements may include discussions about case studies, as well as breakout groups, role playing, and mock board meetings.

Participation by high-level decision makers (board chairmen, directors and senior managers) increases the likelihood of implementation at the corporate level. How do you ensure such participation? Partnering with a local institution with strong contacts in the business community is probably your best bet to ensure that the audience is made up of senior directors and managers.¹⁰ The IFC brand name usually does the rest. Take a look: In Case 1, the chairman of EgyTrans attended not one but several IFC training events; in Case 2, none of the client company's directors attended similar courses offered by IFC in the United Arab Emirates.

2) Give them something they can touch and feel.

Integrating local case studies and success stories into these events will help demonstrate that corporate governance works in practice. EgyTrans is already being used as a model case study, and the Dubai client as its antithesis.

When local case studies are unavailable, perhaps during a project's start-up phase, the project team



Award ceremony for the best annual report during a corporate governance conference in Egypt.

CASE 1: EGYTRANS

Hussam Leheta, chairman of the Egyptian Transport and Commercial Services Corporation, a logistics and transportation provider, sought IFC help to improve performance through better corporate governance. This idea came to him while attending a training course on corporate governance—the Board Development Series¹¹—organized by IFC's Egypt Corporate Governance Project.

Under the chairman's leadership, EgyTrans made bold corporate governance improvements, including professionalizing the board and audit committee, recruiting a professional corporate secretary, and drafting a policy on related party transactions. The company also published its corporate governance improvement plan on its Web site, underscoring its commitment to transparency and accountability.

The process was expensive in the short term (it cost 5 percent of the company's annual profit to make the upgrades). However, after the overhaul the share price soared 29 percent, and several equity firms expressed interest in investing.

CASE 2: A DUBAI-BASED COMPANY

An IFC team conducted a corporate governance assessment for a Dubai-based company, a potential investment client. The company's chief executive officer was eager to pursue corporate governance improvements for his institution. However, the IFC team failed to obtain the board's commitment.

One year after the submission of the final corporate governance assessment report—and the ouster of the CEO by the board—the company has yet to implement any of the report's recommendations.

can fall back on success stories from other regions or corporate governance programs, such as the Banca Commerciale Romana story.¹² For example, the program team recently organized a large-scale conference on corporate governance for banks in Riyadh—the first such conference in Saudi Arabia—for more than 258 bankers and other stakeholders. The team not only integrated interactive elements like panel discussions into the event, but also invited the CEO of BCR to present his views on how to implement corporate governance, and the positive impact it had on his bank.

3) Be smart: use these events as business development opportunities.

Many will argue that training is not a core competency of IFC, but it is an effective means of reaching out and explaining the benefits of corporate governance to a broad audience. In addition, training events are opportunities for developing business—both advisory and investment services—and promoting IFC’s brand among a country’s private sector, which may not always be familiar with the topic at hand (or with IFC, for that matter).

4) Use these events to identify future champions.

Awareness-raising events also let staff identify key players, such as Leheta of EgyTrans, who are likely to emerge as future corporate governance champions, who may well request more in-depth advisory services, and who can serve as future case studies.

For example, while implementing the Russia Corporate Governance Project in 2003, the local team leader in Samara noticed that both the CEO and the chairman of a company called KubyshevAzot traveled almost two hours each way to participate in the awareness-raising events organized by their office. A relationship was quickly forged between the company and IFC, and the project team agreed to conduct a full corporate governance assessment for the firm. One year later, following an onsite visit by



Breakout session during a corporate governance workshop in Egypt.

an IFC executive vice president, the company became an investment client.

5) Don't be afraid to charge!

One frequent argument is that fees would lessen the outreach due to lower attendance levels, but the corporate governance project team in Egypt found just the opposite: In April 2006, they organized a free conference and had 69 participants. Next, they organized three more events and charged from \$45 to \$60 per person, and to everyone’s surprise they attracted an average of 73 participants over the three events. To date, the ECGP has generated \$132,192 in revenues and \$58,243 in net profits from its training activities alone.

Charging fees not only helps cover IFC project expenses, it also adds drive for IFC staff, who may work that extra 10 percent to meet higher expectations, and also increases the likelihood that participants will act on the takeaways from the conference.

Finally, although some may argue that conferences and seminars are “public goods” and should not be subject to participation fees, offering free conferences may undermine the market for conferences and training events, contrary to IFC’s mandate to support, and not displace, the private sector.

STEP 2: DRILL DOWN.

Focus on providing in-depth and targeted advice to support individual banks and companies, or groups of individuals (for example, directors or company secretaries) in implementing good corporate governance. Examples of such targeted assistance may include corporate governance assessments and reviews, company-specific workshops, and consultations.¹³ The following lessons learned in implementing Step 2 further show the need to obtain buy-in and commitment:

1) Map, but don't forget to gauge commitment.

A project should strategically define, select, and approach its future clients to ensure that it chooses the right companies for maximum development impact and demonstration effect, in particular when engaging in single-company projects, such as corporate governance assessments or reviews. A mapping exercise will help project staff strategically approach and select future client companies that are best placed to serve as case studies.

In the team's experience, three types of companies are ideally suited to become best practice case studies: private, family-owned companies seeking a public listing; companies in financial difficulty, or coming out of a scandal, that now seek to turn their operations around and rebuild stakeholder trust; and state-owned enterprises seeking to privatize. All will likely have the motivation and commitment for real change, instead of treating corporate governance as a window-dressing project.

This mapping exercise should involve close collaboration with the investment side of IFC to ensure that a future investment is a possibility, and also to help demonstrate IFC's value-added proposition. EgyTrans was a company in the process of a turnaround; the Dubai company was a start-up, preoccupied with thousands of other management issues.

CASE 3: THE PAKISTAN CORPORATE GOVERNANCE PROJECT

The project initially organized a series of broad awareness-raising events, such as a November 2006 conference on corporate governance for listed companies in Karachi, which attracted over 150 participants. The event raised awareness among mid-level managers, but it is unlikely that it achieved major impacts at the company level.

As follow-up, the project organized a series of interactive workshops within the framework of the Board Development Series, targeting a select group of 38 CEOs, CFOs and board members. The participants soon understood that corporate governance does indeed pay. Even before the course finished, they managed to formally change 48 policies and procedures within their companies.

2) Choose quality over quantity.

Given the amount of work required to implement the recommendations contained in a corporate governance assessment or review, it is advisable to focus on a few highly committed companies—which makes the selection process acutely important. This focus will ensure that the selected companies reap the full benefits of corporate governance—as contrasted with working with a large number of companies, thus diluting the potential impact. This selectivity will further help ensure that the business case is properly built.

3) Get CEO and chairman buy-in.

Prior to initiating a corporate governance assessment (or other single company-focused project), both the chairman and the CEO should formally voice their awareness of and commitment to the project. It is a mistake to have company-specific work solely



Engaged participants at corporate governance event in Egypt.

supported by the CEO and other senior managers—which was the case with the Dubai client—without the board’s active approval and support of the project (and vice versa). In fact, during the corporate governance assessment of the Dubai client, two of the board members did not take the time to meet with the project team; and the one director who did meet with them showed outright hostility toward corporate governance.

Without support from both the board and management, it is unlikely that recommendations for improving corporate governance practices will be implemented. In cases where neither the chairman nor the CEO constitutes or represents the majority shareholders, commitment from the majority shareholders should be sought as well. This understanding should be formally captured in an

agreement signed by the chairman and the CEO, or through an exchange of letters.

4) Conduct targeted workshops—the Board Development Series—for senior participants.

The ECGP team has found that targeted workshops for groups of individuals (chairmen, directors, CEOs, company secretaries, internal auditors, and so on) are highly effective in promoting change, particularly when conducted with the same group of participants over an extended period. Indeed, following the axiom, “less is more,” we found that inviting fewer, but more senior, people can have greater impact than inviting a greater number of junior mid-level managers. That the chairman of EgyTrans attended every single part of the Board Development Series speaks volumes. (For another example, see Case 3.)

5) Ask: Does the end justify the means?

Company-specific advisory services are not an end in themselves. Of course, any intervention, even for a single company, will have some positive effect, but it is likely to be only a drop of water on a hot stone.

To ensure that the potential impact is not limited to a single client—and that donor funds are used efficiently and effectively—it is imperative that one single success story serve as an example to others. Writing simple, brief case studies and disseminating them during awareness-raising events is effective, especially for companies in the same sector that may see corporate governance improvements in one of their competitors as a potential threat to their market position and seek to implement corporate governance reforms of their own. Not surprisingly, the ECGP team is now writing up the EgyTrans case study.

STEP 3: BUILD LONG-TERM RELATIONSHIPS WITH CLIENTS.

Delivery of a corporate governance assessment may not be sufficient on its own to ensure the achievement of expected project outcomes and impact. The team has worked with a number of clients—for example,

a regional gas company—that did not have the internal know-how or resources to implement the recommendations.

1) Explain, but also hold hands.

All corporate governance assessments or reviews should thus be designed to include time for working with the client to implement the recommendations made in the report—for instance, by providing consultations and workshops. This follow-up has the added value of building long-term relationships with key clients, and ensuring that these companies become future best practice case studies.

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Working with Regulators and Policy-Makers

Efforts to improve the regulatory framework as it relates to corporate governance issues is a key component of most of our projects. Our partners in this work include securities commissions, ministries of economy/economic development, central banks, and stock exchanges.

Specifically, our work here involves:

- Providing advice on writing new laws and regulations;
- Suggesting amendments to existing legislation;
- Offering comparative analyses on laws and regulations from other countries; and
- Assisting in the development of corporate governance codes or listing requirements.

Frequently, the efforts take place under the auspices of a task force affiliated with or under the patronage of the local securities commission. This adds legitimacy to the reforms. It also helps ensure buy-in by involving all the various stakeholders: stock exchanges, investment funds, self-regulating bodies, think tanks, law firms, donors, and other technical assistance projects.

We generate additional public support for reforms through roundtables and other events, often co-organized with local government or NGOs to provide feedback from the private sector and facilitate private-public dialogue. The nature of our projects, incorporating a comprehensive approach that includes direct work with private sector clients, government, and other stakeholders makes it easier to bring all the parties to the table.

As a whole, work on legislative reform usually has many starts and stops along the way. Things might be slow during politically tense times—like an election year—but teams must be flexible

enough to mobilize resources when there is sudden interest for reform from the government. Because of this, it is good to have a strong core team of professionals that can work on a number of project elements instead of staff dedicated to one element, such as policy reform.

While we have had relatively strong success in influencing the adoption of regulations or listing rules, more complex and far-reaching pieces of legislation, such as securities laws or laws on joint stock companies, have proven considerably more difficult to influence, because:

- Efforts require more resources and wide support from a broad range of stakeholders; and
- Initiatives are often hindered by the fact that lawmakers, many of whom hold interests in private companies, don't necessarily want legislation that promotes minority shareholder rights and increases transparency to apply to their businesses.

In countries where key laws are difficult to change, it might be more prudent for the project's policy efforts to focus on voluntary corporate governance codes. Such documents are seen as less threatening and can provide guidelines for local companies to follow in the absence of effective legislation. Once some of the company practices become more accepted in the business community, it becomes less controversial to introduce them into the legislative framework.

The SmartLessons that follow detail ways to engage effectively with governments and clients to bring about the needed regulatory changes that will support and encourage the mainstreaming of corporate governance improvements.

Help Me to Help You: Strategies for Working Effectively with Governments

In development work, we all have heard many words of advice for effective work with governments. But succeeding at policy work is easier said than done. This paper describes how IFC's Georgia Corporate Governance Project was able to support the process of reforms in a fast-paced, challenging political and administrative environment and amid shifting government priorities. The purpose of this SmartLesson is to share some of the challenges faced in our work with government and to provide useful tips for effective policy work.

BACKGROUND

In 2004, the government in Georgia began undertaking a wave of reforms to help spur the economy by reforming government institutions and making significant changes and amendments to existing laws and regulations. Reforms were carried out at a fast pace, with varied levels of stakeholder participation and with certain shortcomings. The government's reform agenda included many priorities, such as private sector development and privatization, market deregulation, trade facilitation, tax reform, improvements in the investment climate, and facilitation of European Union integration. But, with such a loaded agenda and a lack of professional and institutional capacity, corporate governance problems were often overlooked. The importance of establishing corporate governance standards in the country was not fully appreciated, although many corporate governance problems were intertwined with the government's reform efforts. For example, protection of shareholder rights was closely related to efforts to improve the investment climate.

The Georgia Corporate Governance Project, similar to many other IFC corporate governance advisory services projects in the region, has been working to improve the legal framework regulating corporate governance in Georgia. In attempting to find the best

way to establish good working relationships with the government and provide effective policy advice, we learned four key lessons.

LESSONS LEARNED

1) Prepare the background and build government awareness before initiating policy work, because people only see what they are prepared to see.

Sometimes, policymakers are just not ready to tackle the policy problems for various reasons. They may not see the real problems; they may not have a clear picture; or they may not be prepared to evaluate the situation. In such cases, there is a need for more groundwork.

In our case, for quite some time the project had been suggesting that the Georgian government adopt regulatory norms for protecting minority shareholders. This recommendation was not taken into consideration, however, because the government was not convinced that there was a significant policy problem. There was a need for more awareness work, which the project tackled in several different ways.

In 2004, IFC's Georgia Corporate Governance Project conducted a baseline survey of corporate governance practices. More than 150 Georgian companies

completed the survey. Widespread dissemination of the results made the survey a useful public awareness tool. In addition to other areas for improvement, the survey identified shareholder rights as a major loophole in the legislation. The project team used the survey results as a tool during discussions with the government. The survey helped demonstrate that protection of shareholder rights was an area that needed improvement and helped convince policymakers to adjust their regulatory efforts.

The project also used various global economic indicators, such as the World Bank's Doing Business indicators and the World Economic Forum's Global Competitiveness index, to demonstrate how poor protection of shareholder rights was negatively affecting various rankings on these indices, and how better protection would not only improve some of the economic rankings but would actually help increase investor confidence.

Following this groundwork, the project was able to raise the government's awareness and put the protection of shareholder rights on its agenda.

2) Provide a clear process and guidance on how to implement policy recommendations.

Even if there is political will from the government to take certain policy advice, often there is no process or capacity in place to implement it properly. Therefore, advisory projects need to point out the different options for implementing a particular policy, describe best international practices, and indicate the actions that need to be taken—and by whom—in each specific area.

For example, after much discussion, Georgian policymakers were willing to introduce shareholder protection mechanisms, but they did not have a clear plan for what exactly needed to be done. The project helped create a roadmap that included the following elements:

- Relevant examples from best international practice and different regulatory mechanisms for protection of shareholder rights

Even if there is political will from the government to take certain policy advice, often there is no process or capacity in place to implement it properly.

- Assessment of how each mechanism would work under local conditions and help in reaching agreement on the mechanism to be applied
- Analysis of the legal framework and identification of the piece of legislation that needed to be amended
- Identification of the group responsible for developing the draft, along with help in drafting the amendments

This approach proved to be very useful. The government followed IFC's advice and, for the first time in Georgia's history, decided to introduce a clause protecting minority shareholders from misconduct by management and controlling shareholders.

3) Ensure participation of key government counterparts and encourage public-private dialogue.

Once awareness has been built and there is a will to address the policy issue, it is crucial to choose the right group to steer the process. It is important to include key government counterparts who have the political power to push the reform, so that there are no undue delays and the initiative does not get shot down midway through the process. But it is equally crucial to encourage public-private dialogue and ensure participation of key stakeholders who have the experience and can add value to the decision-making process.

After the government was convinced of the need to introduce legal amendments to improve protection of shareholder rights, it was decided that a task force would be created and that a related piece of legislation, introducing amendments protecting minority shareholders and regulating conflicts of interest, would be drafted and presented to the parliament. The goal was then to ensure the creation of an effective task force that would include key stakeholders who had first-hand knowledge and experience. The task force was led by the state Minister of Reforms Coordination and included representatives from several ministries, members of parliamentary committees, the Georgian Stock Exchange, a number of nongovernmental organizations, and staff from several donor-funded advisory projects.

Accomplishing this goal also involved building a meaningful dialogue among the parliamentary groups and their private-sector counterparts early on in the process. The Georgian cabinet at that time, being backed by the majority of parliament members, almost never had a problem adopting legislation. To ensure that all interested parties were informed and satisfied, the project initiated discussions with a number of parliamentary committees to prepare members of parliament and experts for the upcoming hearing on the draft law. The project also convinced the task force to send the initial drafts and receive feedback from private-sector representatives affected by the legislation. This turned out to be an excellent idea. Most suggestions from the interested parties were taken into consideration and contributed to the improved quality of the draft legislation. This also helped to generate public buy-in.

4) Stay responsive to changes, remain flexible, and be ready to modify your strategy to fit new conditions.

In policy work, it is important to remain flexible and responsive to the changing government agenda.



Encouraging public-private dialogue helps generate public buy-in.

Frequent shifts in priorities may occur, and the government may adopt a strategy that is in conflict with your policy suggestions. You must remain responsive to changes and be willing to modify your strategy to fit the new demands.

As an example, the project put much effort into supporting the National Bank of Georgia in developing a draft corporate governance regulation for banks. Before the regulation was adopted, the government initiated reforms of the financial sector. The supervisory function for commercial banks was transferred from the National Bank of Georgia to the newly established Financial Supervisory Agency, and the reform became oriented toward less government regulation. But the new agency was not interested in adopting the corporate governance regulation, and the initiative came to a halt. After much discussion, the project team decided that finding interested counterparts in the private sector and helping them develop a voluntary corporate governance code would provide best-practice guidelines for banks to follow while remaining in line with the government's new agenda. After holding discussions with private-sector and government counterparts, the initiative started moving again, now in modified form. The

Association of Banks of Georgia was interested in the initiative and agreed to be the owner of the Corporate Governance Code for Georgian banks. The project helped create a task force for developing the draft code of best practice with the Association of Banks of Georgia, the Georgian stock exchange, and bank representatives. Now that the draft has been developed, it is being discussed by the wider group of Georgian banks.

CONCLUSION

Through effective application of the lessons discussed in this document—building government awareness before initiating policy work, providing a clear process and guidance for implementation, ensuring participation of key government counterparts, encouraging public-private dialogue, staying responsive to changes, and modifying the strategy to fit the new conditions—the project achieved the following results over a two-year period:

- Amendments to the Law on the Securities Markets regulating conflicts-of-interest were drafted by the project and adopted by parliament (enacted March 2007).

- The project's comments regarding the composition of audit committees in banks and remuneration for supervisory board members were reflected in the draft Law on Commercial Banks (enacted March 2008).
- A task force on development of a voluntary corporate governance code for commercial banks was created and the draft code developed (February 2009).

ABOUT THE AUTHORS

Kakhaber Kutchava joined the IFC Georgia Corporate Governance Project as a legal advisor in February 2007. He works with banks and companies to improve corporate governance practices and with the government in Georgia to address weaknesses in regulating corporate governance.

Maia Tevzadze, the project manager of the Georgia Corporate Governance Project, joined IFC in May 2008.

APPROVING MANAGER

Motria Onyschuk-Morozov, Principal Operations Officer in charge of corporate governance, IFC Advisory Services in Europe and Central Asia

May 2009

Global-Local: The Ticket To Ride: Introducing Corporate Governance Codes in the Middle East and North Africa

Codes of best practice are essential tools for enhancing corporate governance practices at the national and corporate levels.¹⁴ To help developing countries and transition economies with the task of establishing these codes, the Washington, DC-based Global Corporate Governance Forum produced a toolkit on crafting, developing and implementing corporate governance codes. The product was widely disseminated, yet in some regions such as the Middle East and North Africa, very few countries had developed their own national code. This vacuum led GCGF to team up with IFC Advisory Services in MENA to roll out the toolkit through a series of workshops to encourage development and adoption of country codes.

BACKGROUND

The challenge of diversity. The main challenge of using workshops to engage partners in the MENA region lies in the diversity of the business sectors and financial markets in the region. MENA includes 19 countries, from Morocco in the west to Pakistan in the east. At one end of the spectrum are “frontier markets” such as West Bank and Gaza and Yemen (which have underdeveloped capital and financial markets) and, at the other end, such oil-rich Gulf countries as Saudi Arabia and the United Arab Emirates (which have rapidly developing capital markets). Given these disparities, the project team had to address several challenges, such as: How can we find common lessons and experiences to advise countries with such wide variations in economic conditions? How do you persuade key decision makers and individuals who can influence the development of a code to attend?

We decided to roll out the project on a regional basis to be able to reach out to more clients and make the approach more cost- and resource-effective. The team also believed that sharing experiences, lessons learned, challenges and success stories within a region, no matter how diverse it is, could be a powerful driver in

achieving corporate governance reforms.

Over a period of 18 months, the team delivered a series of three workshops: “Initiating the Code Development Process” in Egypt, “Drafting and Consultation Processes” in Jordan, and “Implementing, Monitoring and Reviewing Codes” in Morocco.

A successful global-local approach. The global Forum and local advisory services team members drew on each other’s strengths and developed a clear division of responsibilities. The Forum developed the agenda of each workshop and selected (and covered the costs of) international speakers. Advisory staff identified, invited, and managed regional participants, and covered their travel and accommodation costs.¹⁵ To cut the red tape, the teams even initiated a joint PDS document in iDesk, which was linked to the respective budget codes of each unit.

Results beyond expectations. The preliminary goal was to foster the development of three corporate governance codes in the region. But by the time the workshops were completed, 14 codes had been adopted, or were in the process of being developed or revised.

LESSONS LEARNED

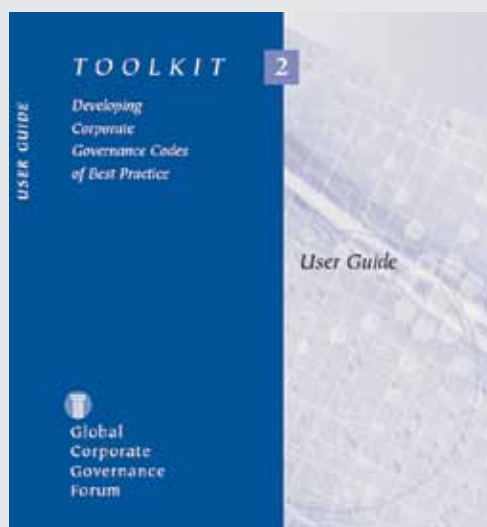
1) *Don't reinvent the wheel if you don't have to.*

Instead of inventing something from scratch, the teams used the framework of the GCGF's toolkit in structuring the workshops, and then gave the toolkit to participants for guidance. This ensured that the workshops were informed by successful experiences and were rich in substance. The toolkit also provided the team and technical advisers with a road map to adequately advise country task forces.

2) *Start with stakeholders who have actively demonstrated interest.*

Instead of trying to identify and attract key stakeholders in every country, which would have delayed the project, we decided to focus on those who had already expressed interest in developing a corporate governance code. We hoped that by working with the willing, we would create a regional-momentum engine for code development—and that indeed turned out to be the case.

USER GUIDE FOR THE BEST PRACTICE TOOLKIT



“The Corporate Governance Code Development program in the MENA region was conceived at the outset of a wave of interest in corporate governance reform in the region. It has been highly successful in accelerating the early stages of this reform process and has been implemented in a manner to support national initiatives and to encourage national ownership.”

—Rajeev Pillay, *Independent Evaluation Consultant and General Partner, Abacus International Management LLC*

We began with just four countries (Egypt, Morocco, Jordan, Lebanon). The number of participating countries¹⁶ grew rapidly as key local stakeholders learned about the program and expressed their willingness to join. Participation was limited to three or four individuals per country. About 20 or so participants attended each workshop. Mostly they were heads of stock exchanges or securities commissions, representatives of professional organizations, heads of institutes of directors, representatives of government ministries, and private sector members of code-crafting task forces.

3) *Choose a highly interactive, motivational workshop design when you have such diverse participants.*

The workshops were designed to be highly interactive learning events. They included exercises, case studies, role plays, international best practice presentations and presentations on specific regional issues. The objective was to avoid lecturing the participants, but rather to engage and motivate them. For example, each workshop started with a “tour de table,” during which the moderator asked participants from each country specific questions on their progress and challenges in the code development process. This

MENA CORPORATE GOVERNANCE IMPLEMENTATION STRATEGY



allowed the participants to learn from each other, and it even provided for a stimulating competitive edge. At the same time, this approach helped us avoid formal presentations by participants, the timing of which is usually difficult to control. In most cases it was the first time the participants had attended this style of workshop, and the feedback was excellent.

4) Don't do all the work: maximize national ownership for effective implementation.

Initially, we underestimated the amount of logistical work needed to organize and deliver the regional workshops. Our staff in the field felt overwhelmed. To address this concern, the team agreed to seek a higher involvement of local institutions and have clients carry more of the organizational burden. Local institutions were increasingly involved at the second and third workshops.

When the team moved to country-specific advisory work as a follow-up to the workshops, local institutions were already fully involved. From the start, the strategy was to help and advise clients, but not to do the work for them. The establishment of task forces and the drafting of the codes were left almost exclusively to national leaders. As a result,

codes were better adapted to local needs, and recognized by local stakeholders as their own.

As noted by the independent evaluation that the forum commissioned, team members and international experts were inconspicuous throughout the process. However, they were highly appreciated and effective in their behind-the-scenes roles throughout the code design and drafting process in all the countries involved. When asked, the team provided clients with technical advice, information about comparative experience, and comments on drafts. However, the project team emphasized to national partners that they were free to accept or reject technical advice provided by international experts.

5) Get pro bono support—if you can.

Through its Private Sector Advisory Group, the Forum is able to provide high-level pro bono corporate governance expertise and practical experiences on code development processes. In the MENA region, PSAG shared best practices and provided guidance during the workshops. It played an important role in providing substantive and comprehensive feedback on draft codes prior to their

final adoption. Clients greatly appreciated this service, and most country task forces requested that their draft codes be peer reviewed.

Although these international experts played a crucial role in the process, it is important to point out that they did not draft the codes or otherwise do the work for local stakeholders. Furthermore, PSAG members cannot be hired as consultants.

Naturally, countries can develop and adopt national corporate governance codes without the support of a group such as the PSAG, but doing so would mean missing out on an exceptional resource or having to hire adequate consultants that would considerably increase the cost of such a project. On the down side, a timetable can't be imposed on PSAG members, since they are not under contract and also have other priorities, which poses a scheduling challenge.

6) Plan follow-up activities in advance. Timely knowledge transfer is important—to avoid being overwhelmed by demand.

As a result of the momentum created by the workshops, the Forum and the corporate governance advisory team in MENA were immediately swamped with requests for additional country-specific advisory services to develop and implement national codes. Within the limits of their resources, the Forum and the regional advisory services team responded to the demand and assisted country task forces in their work. Yet, to satisfy all the requests for extensive support, the pool of experts that the Forum and regional advisory services can draw on must be broadened.

For future projects of this type, the Forum needs to put more emphasis on global knowledge transfer and

staff training in the project's early stages. As a first step in rolling out new toolkits or other knowledge management products, workshops should be organized in-house to better share new knowledge and have a larger team of experts and operations officers ready to satisfy demand in the field.

To help address this need within the MENA region and elsewhere, the Forum is organizing a knowledge management workshop for operations officers and consultants, based on the content of the toolkit and on experiences gathered in the MENA region.

“We were extremely pleased with the way in which the GCGF expert performed his function; he never interfered, but provided substantive advice upon request and supported us fully in our efforts.”

—Chair of the Code Drafting Committee, Morocco

ABOUT THE AUTHORS

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APPROVING MANAGER

Philip Armstrong, Head, Global Corporate Governance Forum

September 2008

How Do You Get Companies to Comply with Voluntary Legislation? Develop the Legislation With Them

How do you promote better corporate governance when companies operate in a regulatory vacuum? How do you encourage them to comply with voluntary guidelines in the absence of legislation? IFC's Ukraine Corporate Development Project found that getting the public sector's help in developing those guidelines from the start is key to creating a sense of public ownership and, consequently, the incentive to follow the guidelines.

BACKGROUND

The situation in Ukraine in the early 2000s was typical of former Communist Bloc transition economies: thousands of new joint-stock companies and millions of shareholders emerging from the privatization process and operating in a regulatory vacuum. In Ukraine, these companies were loosely governed by a handful of provisions in the Law on Business Associations, which dated from 1991 and left much to be desired.

A new joint-stock company law had been in development for years, but its adoption was constantly getting postponed or disrupted by government officials—particularly those who had interests in businesses and did not want transparency.¹⁷ Ukraine's president issued a decree mandating corporate governance reforms, and the Securities Commission felt pressured to deliver. They approached the Ukraine Corporate Development Project. Motria Onyschuk-Morozov, Project Manager at the time, recalls that one of the commissioners called the team in for a meeting and said, “We've decided to adopt a Corporate Governance Code for Ukraine. Can you get us a draft by next Thursday?”

IFC discussed this request at some length, since ideally a country would adopt a good corporate law first and a code later. However, the project team felt that helping the government develop a voluntary

corporate governance code could lay the groundwork for the law and would, in the meantime, provide best practice guidelines for companies to follow. But, this would not (and should not) happen in a week! The key was to ensure that the process of developing this voluntary code would be transparent, and that companies would be included in its development.

LESSONS LEARNED

1) Guide the process, but let your government partner be in the driver's seat and take the spotlight.

IFC had been in Ukraine long enough to know that the best approach to policy reform efforts is to maintain low public visibility as an international institution—you make more progress when you work through a local champion. Project staff guided the Securities Commission behind the scenes by providing sample codes from other countries and sharing best practices on how the process should work. To bring international experience and expertise to the table, IFC arranged an international video conference with corporate governance code experts from around the world (with funding from the World Bank Institute's Global Distance Learning Network program).

The project decided that the Securities Commission's corporate governance task force would be the ideal

group to take the code work forward. Already in existence, the task force included representatives of various stakeholder groups such as stock exchanges, investment funds, self-regulating bodies, think tanks, and law firms. Working through the task force gave the initiative legitimacy by having multiple stakeholders involved in the process. IFC's team remained in the background, drafting sections of the code and providing advice on international best practices.

2) Build public awareness of corporate governance codes before starting work on the policy document—to begin the process of public ownership and buy-in.

Prior to starting the drafting process, the project, in partnership with the Securities Commission, set up workshops on corporate governance codes in five cities around Ukraine. The workshops were open to directors and managers of all companies.

These workshops covered topics such as the role of country codes and the Organisation for Economic Co-operation and Development's Corporate Governance Principles, to create a greater understanding of the need for a corporate governance code.

Participants were then asked to talk about how a code could apply within the Ukrainian context, and to present their ideas to government officials at a series of roundtables set up by the project. Issues such as

“We’ve decided to adopt a Corporate Governance Code for Ukraine. Can you get us a draft by next Thursday?”

—Member of Ukraine Securities Commission to IFC Corporate Development Project Team



Meeting of the Securities Commission's corporate governance task force.

conflicts of interest and related party transactions were particularly relevant to Ukraine. Giving companies the chance to voice their opinions early in the process helped encourage buy-in and build demand for a corporate governance code.

3) Give the public the ability to offer comments and suggestions for the draft. This further increases a sense of ownership of the document.

Following extensive review, the draft code was approved by the Securities Commission task force. Then it was circulated widely to state bodies and stakeholders such as joint-stock companies and investment funds. (See box for a list of key stakeholders.) In line with its strategy, IFC funded the publication of the draft but let the commission do most of the distribution. In addition, a copy of the draft was uploaded onto the project's Web site to invite comments and suggestions online.

Knowing that the document they were considering was a draft gave individuals and groups a powerful sense that their input was valued and that they were being brought into a transparent process to which they could contribute. To build on this enthusiasm in the private sector, IFC also worked with the Securities

Commission's regional offices to co-organize a series of smaller public roundtables around the country. Initially, 23 meetings were held in different oblasts of Ukraine, but interest and demand were such that the Securities Commission later organized 100 additional meetings. A total of 128 public discussions of the draft code were held in 24 oblasts of Ukraine, attended by 4,370 people, including executives of joint-stock companies, professional stock market participants, academics, public servants, and others.

Two recurring themes at these roundtables were whether the code should be mandatory or voluntary and how the code was to be implemented by local companies. In particular, the commission was more inclined to try to enforce the code and make it mandatory, given the absence of a good law. Project staff provided concrete examples of how codes work in other countries. In the end, the commission decided to adopt a voluntary code to set an example of best practice for local companies.

KEY STAKEHOLDERS IN THE PROCESS

- Directors and managers of companies
- Shareholders
- Securities Commission
- Stock exchanges (seven exist in Ukraine, but only two have any influence)
- State Property Fund and other ministries (due to the number of companies still owned by the state)
- Nongovernmental organizations, a few of which were already part of the task force on corporate governance

“This was a critical process that gave us a chance to reflect our own needs in a document that was essentially for us and not handed down from Parliament.”

—*Yakiv Goldenberg, Ukrnafta*

After the public review process, IFC helped the task force organize a concluding roundtable to summarize the feedback. The review resulted in very few changes to the final version of the code, since most of the comments related to implementing the code and whether it would be a mandatory or voluntary document. However, such wide involvement by various parties ensured that all who were affected by the document were familiar—and comfortable—with it and, most importantly, felt that they were part of the process.

4) Don't stop with the adoption of the document. Give companies the tools to implement it properly.

The final version of the code, officially called the Ukrainian Corporate Governance Principles, was adopted and signed by the Securities Commission in December 2003 and published in March 2004. Corporate sponsors, many of which were involved in discussing the code, even funded the cost to publish and distribute 8,000 copies of it throughout the country.

Although IFC could have stopped with the passage of the code, the project decided that companies would be more likely to adopt it if they had good implementation tools. IFC drafted a sample charter and bylaws for open joint-stock companies, which included the best practices outlined in the code. These

documents—used by the project team and refined based on feedback from clients over a number of years—were further discussed by the task force and adopted by the commission. This way, companies had a complete set of ready-to-use templates they could customize to help them comply with the code.

One of the first companies that began implementing the code, and even drafted its own company-level corporate governance code, was Galnaftogaz, a growing Ukrainian gas company. This step, combined with other corporate governance improvements, helped Galnaftogaz receive an IFC investment in 2005. The project team, together with Galnaftogaz, publicized this success story to send a signal to other companies in the market that corporate governance reforms can lead to investment.

CONCLUSION

Ukraine still has not passed a joint-stock-company law, although a draft law was passed in the first reading in May 2007. In its absence, most companies make reference to the Ukrainian Corporate Governance Principles as the key document that sets the corporate governance agenda in the country. And,

according to the Securities Commission, about 70 percent of public companies have adopted elements of the code into their company charters, even though the code is voluntary.

Currently, the commission is in the process of amending the code to reflect the latest changes to the OECD Corporate Governance Principles. With a revised draft in hand, the commission is following the process that IFC set out earlier, by arranging for national-level public discussions and roundtables before official adoption.

ABOUT THE AUTHORS

Teresa Ha, Communications Associate for IFC Advisory Services in Europe and Central Asia, based in Moscow, worked in publishing in New York prior to joining IFC.

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APPROVING MANAGER

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December 2007

Education, Training, and Capacity-Building

There are multiple aspects to the education, training and capacity-building component of our corporate governance advisory services project work. The efforts here have a multi-pronged focus.

WORK WITH LOCAL CONSULTANTS

Consultants may already have a client base, but they may lack education on corporate governance. So, work here helps them develop the expertise to expand their range of service offerings, thus helping to develop the market for corporate governance consulting services. Cultivating an educated local consultancy base also means that we can reach more clients than we otherwise would be able to do. Consultants who are in the process of learning IFC's corporate governance methodology sometimes tag along as part of our staff work with companies, so they receive hands-on training in addition to coursework.

And ultimately, as the number of paid engagements between local consultants trained in IFC's methodology and client companies or banks increases, this becomes a strong indicator of sustainability, signaling that:

- Demand for CG services is growing organically, outside of the hands-on involvement of a development institution like IFC, so that

even after we exit there's a sense that CG improvement activity will continue and build on itself. In China, for example, this is starting to happen.

- There is enough of a local consulting base with the specialized skills to meet this demand, thanks to the training these local consultants got from IFC.

WORK WITH EDUCATIONAL INSTITUTIONS

Efforts here focus on curriculum development, provision of instructional tools and materials, and expert guidance for professors at professional schools like business and law schools, to teach corporate governance methodology in a systematic way to the next generation of managers, directors, and business leaders. The goal: as these students move into the real world of business, they will have internalized the corporate governance concepts learned in school, contributing to the mainstreaming of good corporate governance as part of day-to-day business activities.

Our project teams have developed a model corporate governance course that is easily replicable and adaptable for use in many countries. Our direct work with the private sector provides a steady source of real-life material on which to build case studies to enrich classroom

learning. We have also organized case study programs for professors to teach them how to develop, write, and teach case studies. In Ukraine, we held a nationwide case study competition, as a way to encourage the development of new materials. We worked with the authors of the top entries to refine their drafts and published the winning case studies.

WORK WITH PROJECT PARTNERS

IFC project teams often work with other organizations to ensure that various stakeholders are involved in the project and trained in corporate governance issues. Common project partners include:

- Institutes of directors
- Business associations
- Shareholders' associations
- Audit/accounting associations
- Think tanks
- Professional organizations

Project staff work with these entities to help strengthen their programs and services, increase their membership, and put them in touch with their international counterparts. The work also might include encouraging these groups to get involved in lobbying for policy reforms in their country.

Typical activities include organizing joint events and seminars, helping develop training courses for their membership, sharing results, methodologies and tools, and on occasion, inviting key members to participate in study tours. For example, the Ukrainian Association of Bankers participated in a study tour of Switzerland, along with other project clients. The group met with their counterparts at the Swiss Banking Association and member banks to learn how the organization functions and provides valued services to membership.

For professional groups like lawyers and accountants, targeted continuing education activities have proven popular. In Azerbaijan, for instance, the project team held a series of well-attended brown bag lunches on various corporate governance topics for lawyers from private law firms. This approach allows for discussion of more sophisticated topics, given that participants have a certain base of knowledge of the issues.

An important aspect of the capacity-building work also involves training within client organizations—so-called “training-of-trainers” efforts—so that clients will build their own institutional capacity to educate their own staff on corporate governance efforts.

The SmartLessons in this section reflect the range of our experiences in this critical area.

Sowing Seeds on the Beautiful Journey in 10 Cities: Improving Corporate Governance Practices by Strengthening Local Capacity for CG Consulting Services

Corporate governance is a journey, not a destination. The IFC China Corporate Governance Program started its journey in 10 cities of China in 2009 and sowed “seeds” on the ground. Today, some of those seeds are germinating, blossoming, and bearing fruit. This SmartLesson describes what steps we took, including selecting partners, mapping the journey, choosing partners for maximum impact, localizing training, and following up afterward.

BACKGROUND

The IFC China Corporate Governance Program is a three-year advisory services project that aims to improve CG practices among Chinese private companies through different types of intervention that focus on direct company assistance, knowledge management, and capacity building.

Since its inception, the program faced the small-versus-big challenge. With a small team of three and a small budget dealing with a big country and a big market, how do we reach the maximum target companies in China to improve their CG practices with limited project resources? How do we accelerate program impact throughout China as a whole? Who will be the program’s successors to deliver CG services in the Chinese market after we exit?

After deep consideration, we designed what we called “The 10 Cities Project.” Our goal: to deliver 10 workshops on the well-established IFC CG methodology in 10 cities throughout China by targeting local professional institutions to improve their capacity to provide CG consulting services and to better enable them to provide CG services to their client companies in China.

Since 2009, we have delivered 10 CG methodology

workshops in China. More than 280 representatives from over 170 professional institutions—including management consulting firms, law firms, and accounting firms—have participated in the workshops.

Participant evaluations from the first seven workshops demonstrated the initial impact of the project. Thirty-seven professional institutions that were trained incorporated the IFC CG methodology into their consulting services to 115 client companies, provided CG training to 1,103 individuals, and reviewed 125 CG procedures for client companies for improvement. Ten of these institutions reported revenue of \$259,036 generated from CG services to their client companies.

LESSONS LEARNED

1) Select the right partner for the journey.

It is important to have a strong local partner to co-organize the training in different regions and cities in such a big country. In the beginning, we chose a CG research center in China that had participated in our CG training programs before and showed its commitment to cooperate with us as our strategic partner for the 10 Cities Project. Later,

we discovered that although the center's regional, Beijing-area network was strong, it did not have a good countrywide network. That meant that we had to struggle on our own to organize and deliver the workshops in different cities.

After some searching and consideration, we identified a good potential partner in the management consulting committee of the China Enterprises Confederation (MCC), which has an extensive, countrywide network, including 56 provisional committees. MCC works as a bridge among enterprises, management consulting organizations, and government.

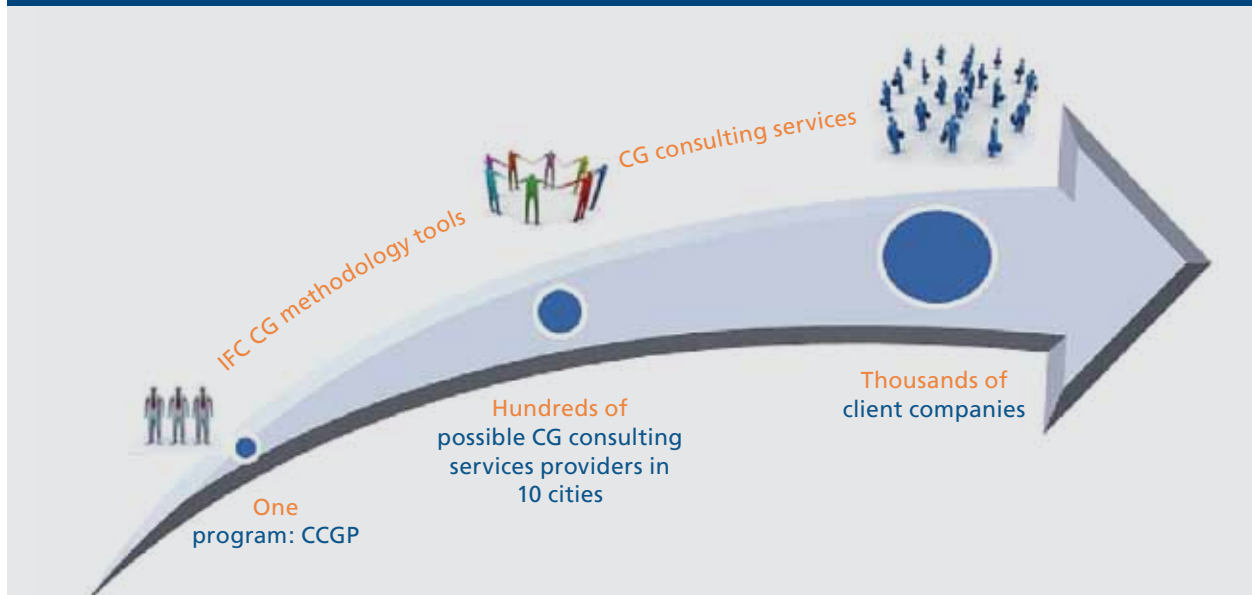
However, convincing this powerful institution to embark on a long journey with a "stranger" was not easy. In the beginning, MCC didn't know about IFC and had doubts about our motives in China. To dispel their doubts, we invited MCC's officers to IFC's Beijing office for a field visit and showed them what IFC has done in China in the past years. We also invited MCC's director to participate in the board of directors training workshop organized by the program. Gradually, MCC recognized the value



Training participants discuss the case studies in the Shenzhen workshop.

of our program and began detailed discussions and negotiations with us. At the initial negotiation, MCC disagreed about sharing costs with IFC and also requested that IFC pay it for organizing the training workshops. We showed MCC the value of the IFC CG methodology for its member firms, which are top management consulting firms in China; defined common goals with MCC; and agreed to cover the travel costs of one officer designated by MCC to travel together with us to different cities for the training workshops. Ultimately, MCC agreed to help organize the training workshops in different cities and share the workshop organizing costs, including the

THE 10 CITIES CHINA CORPORATE GOVERNANCE PROGRAM PROJECT



provision of resources such as classroom facilities, equipment, lunch, refreshments and the like. MCC also designated an officer who was responsible for recruiting target audiences and facilitated local media reporting.

2) When deciding where to hold workshops, map the journey together with your partner.

It's a bit of an understatement to say that China is a big country. It spans a massive swath of geography and is home to more than 600 cities.¹⁸ Deciding on the 10 cities was definitely a challenge. Should we go to cities in rich regions or in frontier regions? Should we hold sessions in large cities or medium-size cities?

We started by identifying the important elements that would form our decision criteria, such as local partners' support and market needs. We discussed these elements with our partner and settled on four key criteria:

- Sufficient target audience;
- Strong market need for CG services;
- Availability of support from MCC's provisional committees; and
- Breadth of impact across various regions, with emphasis on frontier regions.

Next, we created a list of around 20 cities and narrowed it down to ten to 15, using the criteria to compare and contrast. Finally, our local partner MCC identified a final list after discussions with its provisional committees in the target cities. The route of our journey to 10 cities was mapped out.

3) Select good "seeds" for sowing by identifying the target audience and selecting participants carefully for maximum impact.

The objective of the 10 Cities Project is to build and strengthen the capacity of professional institutions for CG consulting services and to improve the CG



IFC team, MCC team and training participants in the Dalian workshop.



Trainers from IFC CG team (left to right: Charles Canfield, Vladislava Ryabota, Min Liu)

practices of their client companies through their engagement. Just as farmers select their seeds with care so that they can have strong yields and quality produce, we realized that we needed to select with care the consultants who would be trained because they would play a key role in ensuring the success of the project.

We discussed at some length how to select our own good “seeds” for sowing in the 10 cities. We decided to limit the number of participants for each workshop to 20 to 40 people, and we noted that potential CG service providers might come from management consulting firms, law firms, accounting firms, investment consulting firms, management schools and the like. We also developed a list of qualifications for participants:

- Educational background; skills or expertise in executive management, finance, corporate governance, corporate law, accounting, or banking
- General knowledge of corporate governance
- Minimum of five years’ consulting experience
- Client list that includes a minimum of 15 companies that have used the participant’s consulting services within the last three years
- Willingness to incorporate CG consulting services as part of the participant’s portfolio of service offerings

A pre-training questionnaire was created that contained information on our selection criteria. Using the questionnaire, we conducted a pre-training survey

DIRECT QUOTES FROM PARTICIPANTS

“What I learned from the training is not only the knowledge of corporate governance, but also a set of very comprehensive and practical tools for corporate governance advisory services. I will definitely adopt the methodology and provide corporate governance services to my clients in the near future.”

—Mr. Ren Haoqian, General Manager, Chengdu Daoqin Management Consulting Firm

“This is the best training I have ever attended in the past 30 years in China!”

—Ms. Ao Dongyang, Senior Consultant, Training Center of Shenzhen Qianghua University Research Institute

“CG is a journey. As a consulting service provider, we still have a long way to go. I believe my consultation will be much more convincing, once equipped with IFC CG Methodology.”

—Ms. Wu Qingzhen, General Manager, ChongDaTongHao Management Consulting Co., Ltd.

“The difference between IFC training and other training I attended from other places is that the IFC training is more practical. It’s amazing that tomorrow I can use the tools and skills I learned from this training to provide CG services to my clients.”

—Mr. Duan Fanglan, General Manager, Tianjin Guanghua Enterprise Management Consulting Co., Ltd.

“This training broadens my vision and also provides me an opportunity to view CG from a different angle. I will combine IFC’s CG methodology into our practice, and I am looking forward to the results of this combination.”

—Ms. Gao Yuexing, Deputy Director, Financial Department, Shanghai SHENYIN WANGUO Research Consulting Co., Ltd.



A training participant in the Beijing workshop presents the group discussion results.

among the candidate participants in each city, which helped select the best candidates. It also helped us understand their skills, experiences, and expectations for the training.

4) Don't give them a fish for free, but let them pay for fishing tools and teach them how to fish.

Lessons learned from earlier advisory services projects showed that the participants might not value what they learned from the training if the training were free. To avoid this situation, we discussed the pricing issue with our partner and agreed that MCC would charge participants for the training and use the fees to cover part of the training costs. After consultation with its provincial committees in the target cities,

MCC outlined a low-cost approach to organize the training that included conducting the training in the training room contributed by MCC's member firms in target cities and providing cost-effective food for lunch and coffee breaks. MCC also decided on a two-tier pricing policy that charged \$30 to participants affiliated with MCC's member firms and \$220 to participants not affiliated with MCC firms.

5) Don't forget to acclimate to the local climate when sowing the seeds: localize your training.

To equip our participants with the skills they needed and to help them learn how to seek clients for their new offerings, we put a great deal of thought into training design and preparation of training materials

to fit the Chinese context. To ensure that the IFC methodology training would be linguistically and culturally appropriate in China, we localized the training by translating all the tools into Chinese and adding local case studies into the training materials. We worked with our colleagues from IFC's CG unit, Charles Canfield and Vladislava Ryabota, to develop a comprehensive training model, which includes presentation slides, case studies, sample documents, in-class exercises, and practical tips.

The training agenda was designed to avoid talking too much about CG in general. Instead, we focused on presenting the tools and how to apply them in China. During the 1.5-day training session, we also shared our experiences on how to interview client companies and brainstormed with participants on how to sell CG consulting services to target clients. Local guest speakers talked about their own experiences in providing CG consulting services for Chinese companies. Participants also had opportunities to discuss ways to localize and customize the methodology.

6) Don't ignore your seeds after sowing them, but water them regularly for sustainable growth.

Training is not a one-off event. Don't ignore the people trained by the project after the training. Give them sustainable support.

On the second day of the training, most of the questions from participants focused on concerns about follow-up support from IFC and MCC. To address the participants' needs, we developed a follow-up plan for the 10 Cities Project:

- Invite participants to suitable CG events. For example, we invited some of the trained people to the seminar on board crises organized by the program in Beijing to equip them with the knowledge of CG as a response to financial crisis.
- Regularly share good CG articles and information. To maintain good relationships with the trained people, we sent good CG reports, articles

and case studies to them about every two months by e-mail. Each time, we received many feedback e-mails from participants who highly appreciated our knowledge sharing. We also sent participants a greeting card when the new year came in.

- Develop and distribute a handbook on CG consulting services. We are planning to work together with MCC to develop a user-friendly handbook on CG consulting services for more potential CG service providers. The handbook will include some real cases on CG consulting services in China contributed by the trained people who have incorporated the IFC CG methodology into their consulting services.
- Organize a CG forum to build a bridge between enterprises (potential CG services buyers) and the trained firms (CG service providers). We are planning to co-organize an event with MCC in Beijing after the handbook is complete. The project-trained people will be invited to the forum to directly communicate with enterprises on CG consulting services.

CONCLUSION

The IFC China Corporate Governance Program sowed hundreds of "seeds" along its journey in China. Some of these seeds have germinated, blossomed, and borne fruit, while others will need more time. However, the lessons from The 10 Cities Project have relevance for other CG advisory projects aimed at improving enterprises' CG practices through strengthening local capacity.

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August 2010

Learn Before You Lead: The Corporate Governance Board Leadership Training Resources Kit

Most codes of best practice in corporate governance require directors to undergo periodic training to improve their knowledge and skills so that they can become better leaders and change agents of their companies. After holding four residential corporate governance leadership courses in Washington, D.C., and consulting with institutes of directors, universities and other trainers, IFC's Global Corporate Governance Forum¹⁹ identified the need for a global corporate governance curriculum targeted at directors of companies in developing markets.

BACKGROUND

Research demonstrates that better-governed companies attract capital at a lower cost and perform better in the long run. Better companies also lead to better societies, creating sustainable businesses that contribute to the overall economic development of the countries within which they operate. Our challenge was to help boards of directors understand the concepts of corporate governance and how these concepts can be turned into practices that add value to the company. From that understanding, the boards of directors can act as agents of change by analyzing the boards on which they sit, identifying shortfalls from best practice, and implementing the necessary changes to make their boards more effective.

To address this challenge, we decided to develop the Corporate Governance Board Leadership Training Resources Kit to strengthen the skills of corporate governance trainers, who, in turn, would work directly with company directors and members of governing bodies (referred to herein as directors or boards of directors). By doing so, training programs can exponentially improve national capacity to achieve wider adherence to corporate governance best practices.

When the project started in 2006, we were also aware that there were more than 70 existing providers of

director development programs. After surveying the landscape, we concluded that, although director development was a relatively new phenomenon, a lot of good material and curricula were already in existence in more than 30 countries, including the curriculum developed by the IFC Corporate Governance Advisory Services team in the Middle East and Northern Africa region. However, some training centers, especially those in developing and transition economies, did not have the resources to develop their own curricula, or had weaknesses in their programs and needed additional material to enhance their training offerings.

We therefore decided to use current best practice already in place in certain parts of the world and to use this knowledge to develop a generic program and materials targeted at directors' training institutions and associations in developing and transitional countries.

Following are some of the key lessons we've learned while developing and implementing the Resources Kit.

LESSONS LEARNED

1) Use a multidisciplinary team to develop materials that are interactive and appropriate for adult learners.

The research we gathered showed that, although large numbers of directors were being trained in

various programs, the impact of this training was not reflected in improved board leadership and practices. We decided to consult specialists in adult learning to see if they could identify why this was so. One expert, Mary Jo Larson, advised us, “Directors with knowledge of corporate governance may not have the skills or confidence to influence their boards. To activate directors, [it is important to] provide a safe space for board members to discuss local realities, plan strategies with peers, and practice the leadership skills required to bring constructive changes to board decision making.”

The Training Resources Kit therefore includes a separate Training Skills Guide that provides interactive learning strategies that trainers can use to enrich the sessions for adult learners. Within each training module, there are activities that provoke discussion and debate. Also included in the Training Resources Kit is a case study that traces the evolution of a hypothetical founder/family-owned company, Organica Futura, while it considers corporate governance reforms as part of its evolution toward becoming a public company.

To develop such material, we pulled together a multidisciplinary team of five consultants with expertise in corporate governance, adult education, and strategic communication. The team spent 18 months developing the Training Resources Kit. We also got director training institutes and other trainers to contribute their knowledge and assistance. Although each consultant worked separately on his or her section of the Training Resources Kit, it was critical to hold regular meetings with the core team to peer-review all sections, discuss key challenges, and ensure an integrated approach to the material as it was being developed.

In deploying the training, we found that interactive learning techniques work better in smaller groups. We therefore advise training providers to run workshops with from 20 to 30 participants so that the participants can maximize the benefits of the training. One of the challenges of this for local training providers, especially where they have to pay for

RESOURCES KIT FEATURES

- Emphasis on interactive exercises for adult learners that draw on participants’ diverse, relevant experiences
- Maximum flexibility through a modular curriculum that can be adapted by institutions to suit their needs and those of their directors
- A standardized curriculum that includes PowerPoint presentations to enhance the learning experience and minimize the training provider’s investment of time and resources for curriculum development
- Advancement of corporate governance reforms by instilling in participants leadership values that can help them to work within their companies or organizations to adopt best practices
- Creation of long-term relationships with those responsible for implementing corporate governance best practices
- Enhancement of the training provider’s brand and authority in the policy-making process to develop national corporate governance codes
- Encouragement of participants to be “change agents” of corporate governance by developing the knowledge and skills needed to build support within their boards for implementing best practices

facilitators, is keeping costs at a level that participants can afford.

2) Flexibility is key: Consider a modular approach and encourage institutes to “localize” and own the material.

Given the fact that we are a global program, and due to the disparate nature of the countries and the levels of the skills base within the countries in which we operate, we decided to adopt a modular approach to the curriculum within the Resources Kit to give it maximum flexibility. Trainers can use single modules for their presentations, as well as combine the modules to present a course suitable to



Group exercise at the launch of the Corporate Governance Board Leadership Training Resources Kit, Washington, D.C., March 2008.

the requirements of those directors being trained. The Resources Kit's curriculum is divided into five parts. The first four parts each contain four modules; the fifth has only one. Each module includes:

- **Contents and schedule:** a detailed lesson plan, allocating time for each activity, and directing the trainer to relevant material (PowerPoint slides, handouts, case studies)
- **Notes:** providing background material and source references
- **PowerPoint Slides:** to support the trainer's presentation. These can be modified to match the branding identity of the trainer and also be localized so that directors can obtain information that is relevant to them

Because the Global Corporate Governance Forum is a global program, we couldn't develop the Training Resources Kit for a specific region or country. From the start, we knew we had to keep it at a general level, and that it would require more work from each

institute to localize it to regional or country-level requirements. The Training Resources Kit is only a framework, and this is clearly explained to each trainer and each institute when we do our training-of-trainers program. Depending on the institute's level of development, some may require extra assistance to work on this localization—for example, preparation of case studies to be used during training.

But even when the Forum is providing help to the institutes to localize the material, the ownership element is crucial to the success factor: ultimately it is the institute that will run the program and respond to local market demand, and therefore the national ownership is imperative. This scalability building process has also proven to be a resource-intensive process (both financial and human resources) that requires attention and guidance throughout, and that often causes a major challenge for local institutes and institutional development partners.

3) Use the Internet to build a community of trainers.

Because we had limited resources to roll out the Training Resources Kit, we looked at different ways to use it for maximum effect and decided on a training-of-trainers approach. We held a workshop in Washington, D.C., with representatives from directors' training institutions and individuals involved in training directors in Africa, Asia, Eastern Europe, Latin America, and the Middle East and North Africa. This group would help us disseminate the Training Resources Kit in the future by running their own TOT courses or by using the Training Resources Kit to train directors within their region.

Since the first workshop, which had 20 participants, there have been 16 TOT courses held in 13 countries across four continents. As of December 2009, more than 300 trainers have been trained to use the Training Resources Kit.

Because the participants in the TOT sessions are from all around the world, we developed a new online resource—a blog—to support the Training Resources Kit. On the blog, trainers can freely obtain the content and resources in the Training Resources Kit and are able to access any future edits/additions to it. The blog also facilitates collaboration through the sharing of ideas and experiences—thus building cross-regional engagement.

4) Employ mechanisms to maintain quality control and ensure feedback.

To exert quality control over use of the Training Resources Kit, we instituted password protection for the blog, with access restricted to those trainers who have participated in and completed a training-of-trainers event. This was an essential part of our dissemination strategy, not only to make sure that intellectual property rights were protected, but also to ensure a measure of quality control. After all, if we let anyone access the blog, they would be able to download the material without having been trained in it. Including only Forum-trained trainers creates a

“I thought at first this was going to be yet another feel-good workshop. But I realize now that I have been given the tools to open doors and work with people in a different way—just by noticing their preferences, their strengths, and the way they make decisions. This is going to help me as a trainer and as a board director.”

—*Malawi TOT participant*

community of trainers who have undergone the same training and can further share experiences. This allows for a platform of cross-pollination.

In addition, we decided that every individual or training institution using the Training Resources Kit for training would be required to enter into a contract with the Forum. The contract stipulates how the Training Resources Kit can be used and what feedback needs to be given to the Forum on its usage. For that reason, the agreement provides evaluation samples and survey samples that the institutes can use for data gathering.

This feedback is important, as it helps us to better understand the impact of the training, provides information to us and our donors on the impact of the Training Resources Kit, and allows us to measure its usage and relevance to those directors who have been trained.

Evaluation forms to be completed by training participants are included in the Training Resources Kit. From these evaluations, it is evident that those trained to date with the Training Resources Kit have found it to be very relevant and useful. Participants have also rated the use of the interactive adult learning techniques highly, rating the overall quality at 4.64 on a 5-point scale. Evaluation has been highest where the Training Resources Kit has been localized and local trainers have been used to pass on their experiences and demonstrate hands-on skills.



Interaction at a training-of-trainers program in Brazil, February 2009.

We are also looking at ways to measure the impact on boards of the training that is carried out using the Training Resources Kit. This is obviously more difficult than evaluating the knowledge transfer at each of the training workshops. To date, we have had low responses to surveys carried out on the impact the material has had on boards, so this is one area on which we will be concentrating in the future.

CONCLUSION: EVOLVING THE TRAINING RESOURCES KIT

Corporate governance is a constantly changing subject, and we realized from the evaluations that we need to keep the Training Resources Kit evolving while enhancing the overall impact effectiveness. This year, the Forum will organize a review meeting, gathering a small user group to reflect on lessons learned across the regions and discuss the different experiences, successes, and challenges. Discussions will be formulated around how we will move forward with the material and its dissemination strategy.

Going forward, it is becoming apparent that the Forum's engagement with the training institutions and corporate governance associations needs to be done on a smaller scale to ensure higher impact and stronger local ownership. Working with a narrower pool of institutes that already have the structures in place to absorb the resources' intensive process will

also allow a deeper, longer-term intervention.

In turn, deepening the Forum's intervention will allow for providing ongoing support, including a regular consultative approach. It's becoming apparent that a one-time TOT event is not enough for trainers to become proficient and to show behavior changes. There is a need to develop a series of TOT sessions for trainers from those directors' training institutions and corporate governance associations that have implemented and are successfully using the original TOT methods and techniques, so as to help them consolidate and build on the skills they have learned.

This will also lead to a more efficient data-collection process, which has been a major challenge in the first roll-out phase. Having a narrower, longer-term approach will enable us to help guide the institutes through the monitoring and evaluation mechanism and requirements, which should result in more systematic feedback on the longer-term impact of the training on the trained directors' boards.

Finally, having a longer-term intervention with institutes and their trainers will facilitate the development of a real-life case studies database from local trainers. This user contribution system approach will leverage trainers' contributions in ways that will be useful to other trainers and will be shared through the Web-based Forum-trained community of trainers.

ABOUT THE AUTHORS

Ghita Alderman, Projects Officer at the Global Corporate Governance Forum, oversees the Sub-Saharan Africa portfolio, and managed the development of the Corporate Governance Board Leadership Resources Kit as well as its dissemination strategy.

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APPROVING MANAGER

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January 2010

From Takeoff to Landing in Accrediting Corporate Governance Training Programs

Most of the OECD member countries have training institutions that offer corporate governance courses and programs for directors (for example, the Institute of Directors in the United Kingdom, the National Association of Corporate Directors in the United States) that have received independent accreditation.²⁰ There is a high demand among corporate governance institutes and institutes of directors in the Middle East and North Africa region and possibly other regions to have training programs that are accredited by recognized international bodies.

BACKGROUND

The IFC Egypt Corporate Governance Project sought to create a culture of good corporate governance in Egypt and, despite its short lifetime of two years, managed to pave the way for such a culture. The ECGP helped the Ministry of Investment create the Egyptian Institute of Directors and strongly supported its activities over the lifetime of the project.²¹

In May 2007, ECGP offered the “Board Development Series.” Designed by four officers, the program consisted of 24 modules with 72 hours of training over 12 nonconsecutive days. It was the first such program to be available in the region and was carried out through the EIoD. The first group of trainees included 25 high-profile delegates from prestigious large corporations and banks in Egypt.

The participants appreciated the knowledge gained from this intensive program, but at the end of the first of four parts, they asked us if we granted certification²² for successful completion of the training program.

Soon after this first course, it became quite clear that there was a demand among corporate governance institutes and institutes of directors in MENA to have training programs accredited by recognized international bodies. Accredited programs are held in high esteem by participants because they not only benefit from the learning experience during the training but also become certified.

After researching and asking within IFC to find out whether IFC could accredit training courses and/or certify directors, the answer was simply “no,” because IFC is not an accreditation body. And yet we own the know-how; we have the expertise to formulate and develop training programs. Because no other corporate governance project in IFC has pursued the opportunity of seeking accreditation for a corporate governance training course, we decided to become pioneers, and along the way we learned some valuable lessons.

LESSONS LEARNED

1) Make sure that the accreditation agency is reputable and credible.

We knew for sure that selecting the right accreditation body would be a key starting point to the success and sustainability of the BDS program. But the big challenge in our case was to find a reputable, credible agency that would accredit a corporate governance training program. Unfortunately, there is no list of accreditation agencies, especially when it comes to corporate governance programs. We contacted several corporate governance experts within IFC as well as from other top-notch corporate governance institutions, such as the National Association of Corporate Directors and the Conference Board. Many of them referred RiskMetrics to us.

...It became quite clear that there was demand among corporate governance institutes and institutes of directors in MENA to have training programs accredited by recognized international bodies.

RiskMetrics Group, formerly known as Institutional Shareholder Services, is a worldwide proxy and corporate governance service provider committed to helping companies improve their corporate governance. As part of this commitment, RiskMetrics Group accredits director education programs that foster improved corporate governance practices. By accrediting selected director education programs, directors are exposed to today's best practices in corporate governance. Only director education classes that meet or exceed RiskMetrics Group's standards receive accreditation. Each curriculum is evaluated based on the promotion of strong corporate governance practices.

Since its initial release in June 2002, RiskMetrics Group's Corporate Governance Quotient has become the industry standard for rating companies on their governance structure and practices. RiskMetrics has accredited more than 50 leading programs, including the NACD, the Stanford Directors' Summit, the Harvard Business School, the Conference Board, and the Wharton/SpencerStuart Directors' Institute.

Directors attending an accredited director education program gain valuable insights, and RiskMetrics Group will take this continuing education into consideration when evaluating their company's CGQ® score. CGQ® credit for companies with directors attending an accredited program lasts for two years.

2) Ensure that your program meets the accrediting agency's expectations.

Before you start the process of accreditation, review the accrediting agency's standards and requirements to make sure your program meets them and, if not, whether you could alter the program to meet these qualifications.

You don't want to be in a situation where you apply and receive a refusal. This might have negative implications for your program, for IFC, and for your partner. Especially in the MENA region, word of mouth is very powerful, and negative word of mouth can kill a program before it even starts.

According to RiskMetrics, "Only director education classes that meet or exceed RiskMetrics Group's standards receive accreditation."

The following are examples of these standards:

- The program must consist of a minimum of eight hours of instruction
- The curriculum must focus on improving a company's corporate governance practices
- Programs should address topics such as board oversight of management, the work of the key board committees, board performance evaluations, succession planning, and the like



Participants listen intently as IFC facilitator conducts training event.



IFC trainer conducts program for certified directors.

The BDS met all the standards except for one condition, which was that at least 25 percent of the speakers must be current or former directors of publicly traded companies.

This was a bit tricky because we were planning to deliver the entire program ourselves. However, we managed to get the speakers on board through screening, interviews, and selection, and provided them with training-of-trainers sessions. We also relied on our senior operations manager more than once to deliver two modules because he had previously served on different boards.

3) Allocate time and resources for preparation of a lot of material.

To expedite the accreditation process, make sure that you prepare the basic information in advance. For instance, basic information can include the title of your training program (which should be standard for all your documentation), the sponsor (IFC, in our case) and training provider (IFC partner), the program agenda, and program dates. Submit the basic information along with your first request.

Later, when the agency contacts you, it will require more in-depth information. This can include such things as the detailed outlines and instructor sheets of every program module; the number of delivery hours for each topic in every module and the means

of delivery; the curriculum materials, exercises, cases, and support and reference materials; the trainers' recent biographies, including their experience that is relevant to the topic to be delivered; annexes, references, and additional resources; and sample and model documents.

You should be ready and reply directly. Don't underestimate the work involved; there is a tremendous amount of information needed, and the work to be carried out is huge and needs a lot of time to complete. But, once you collect all that is needed, there is a high certainty that the program will be accredited. It goes without saying that all of these materials and much more should be in a standardized format, edited and reviewed by professionals, and definitely approved by your manager.

The accrediting agency will then have a committee review the program, request any additional information or documentation if necessary, and suggest changes. Benchmarked against the accrediting agency's standards, the committee then decides whether to accredit the program.

4) Once accredited, add your own requisites to boost credibility.

You can take the accreditation body standards to the next level and add your own requisites to the certification stage. According to Wikipedia, certification requires providing proof of passing standards or meeting predetermined requirements for certification. This may include meeting continuous or regular review requirements. Professional certification for individuals usually requires experience and the passing of knowledge or competence tests.

For instance, RiskMetrics grants certification after participants have completed a minimum of eight credit hours out of the total BDS 12 credit hours. We added an additional requirement of successfully passing self-evaluations (approximately 240 multiple-choice questions) where the minimum pass rate is 80 percent for the combined results.

This was and still is not a condition imposed by RiskMetrics, but we believe that having this requirement will add more credibility to the program. And it turns out we were right. The implication of our requirement is that participants who pay and attend the BDS will not receive certification unless they meet our requirements and those of RiskMetrics.

CONCLUSION

The whole process of accreditation by RiskMetrics took us six months. It may be a prolonged process, but the benefits are enormous. The RiskMetrics charge for accreditation was zero; hence there was no cost involved, apart from the time of IFC staff members.

International accreditation, which entitled program participants to carry the “certified director” title, had a profound marketing impact on the demand for repetitions of the training program. Before accreditation, the course was a bit hard to sell. For example, in Egypt before the program was accredited, the EIoD had trouble getting one group of trainees (about 17 participants) to attend during the first six months. After accreditation, the same institute easily gets four to five intakes a year. One of IFC’s partners,

for instance, now organizes the BDS training program four times a year, in English and Arabic. With each of these courses, the partner earns more than \$100,000 per year.

The accredited BDS, which became the flagship of the EIoD, supported the IFC exit strategy not only in terms of the financial sustainability of the institute, but also because RiskMetrics’ continuous follow-up and supervision of the EIoD ensure that the training program consistently retains its high quality.

RiskMetrics has granted automatic accreditation to the same BDS training program offered by other IFC partners, such as the Pakistan Institute of Corporate Governance and the UAE’s Mudara Institute of Directors.

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August 2009

Mainstreaming Lawyers and Judges to Improve the Corporate Governance Regime: The Pakistan Example

Characteristically, corporate governance projects have focused on directors and senior managers. However, since 2007, the IFC Pakistan Corporate Governance Project has hosted a seminar series for judges and lawyers with the goal of inspiring and equipping young legal talent with the necessary skills to play an instrumental role in improving the corporate governance regime in Pakistan. The seminar series, which included two seminars directed at lawyers and three seminars for judges, with 134 participants overall, signified a strategic realignment in bringing the legal fraternity into the fold of the project's activities. This SmartLesson demonstrates how the legal community can be used as a vehicle for corporate governance reform in a country.

BACKGROUND

There is strong evidence that lawyers and judges can be instrumental in improving the corporate governance regime in a country. First, most countries have a mandatory corporate governance code, and corporate lawyers are regularly consulted by companies seeking compliance with these regulations. Second, they have access to a company's higher echelon, whose commitment to good corporate governance is a decisive factor. Third, once sold on the business case for corporate governance, lawyers are able to influence a meaningful change in owners' behavior and help them improve their corporate governance. Fourth, lawyers' input in drafting relevant corporate governance regulations brings them to the forefront of corporate governance reform.

Lastly—and this is the central point of this SmartLesson—minority shareholders' rights are traditionally protected through a court-driven process. However, given the uncertain outcome and expense incurred in pursuing court proceedings, minority shareholders can benefit enormously from out-of-court settlement of their disputes. In fact, due to scant shareholder activism, coupled with

cumbersome court procedures, lawyers and judges in Pakistan may be your best chance to ensure that corporate governance disputes are resolved outside the courtroom, with them as mediators.

LESSONS LEARNED

1) Get early input to identify the prime constituency to work with.

From the start, we engaged with lawyers. Following a consultative process that comprised one-on-one meetings with various lawyers, we decided to target young talent. The benefits of this approach were obvious. Young lawyers tend to be more receptive than their senior colleagues in approaching a subject. Without having already developed professional bias regarding most corporate governance issues, they are more likely to approach any training with an open mind. In the formative stages of their careers, they are also more flexible in pursuing higher education or independent research in the corporate governance area.

Although the idea of targeting judges seemed straightforward on paper, we soon realized the first challenge we faced in organizing a seminar for

judges—how to access this group who preferred to remain out of the public eye except when presiding over trials? After some thought, we decided to establish contact with a training institute. We thought this would ensure that judges turned out en masse to participate in trainings, and hence we would have more impact in delivering the corporate governance message designed for them. A training institute’s involvement, we calculated, would, by default, be an endorsement of the value of corporate governance training for judges (which at this stage was going to be first of its kind).

We approached the Federal Judicial Academy, a government-run training institute. The Academy, established in 1988, is the oldest judicial training institute in Pakistan and provides training for judges nationwide, unlike its provincial counterparts. However, as the Academy focuses mainly on delivering hard-core judicial training, we had to convince them of the rationale for supplementary training on corporate governance. Over multiple meetings, we explained that such training would emphasize the court’s role in addressing minority shareholders’ concerns. The emphasis on alternative methods for the resolution of corporate governance disputes, we pointed out, was also essential for reducing court burden and efficient settlement of such disputes. As a result of these discussions—which centered on the rationale for and the basic outline of the seminar series—the Academy was able to recognize the value of conducting these seminars.

2) Tailor the presentations to your audience’s needs.

The consultative process with the law firms and the Academy also helped us develop training material that was audience-focused. Based on the feedback received from lawyers, the training material on the one hand highlighted the role of lawyers in improving the corporate governance of their client companies. On the other hand, the seminars emphasized the need for effective resolution of disputes involving boards,

senior management, and shareholders through the use of alternative dispute resolution measures, including mediation and other statutory mechanisms for protecting minority shareholders against majority oppression and mismanagement. In addition, court decisions were used as case studies to highlight the nature of corporate governance disputes in Pakistan. One example is a recent ruling of the High Court that put the corporate governance of one of the bidders in a high-profile privatization transaction right in the middle of a controversy regarding the eligibility for such sale.

In working closely with the Academy and directly with judges, we received invaluable input for developing group exercises for workshops with young lawyers. For example, each individual judge was asked to write a judgment in favor of good corporate governance practices in a fictitious corporate governance dispute. We also developed a group exercise in which lawyers would put themselves in the shoes of an advisor to the securities regulator and propose changes they would like to see made to the corporate governance code. Research conducted on corporate governance-related disputes and their out-of-court settlement by the Global Corporate Governance Forum, an IFC multidonor trust fund facility mandated to improve corporate governance policy standards and practices in developing countries, provided more in-depth insight to the training.

3) Sell the business case for corporate governance.

According to a survey of corporate governance practices in Pakistan, commissioned by the project in 2007, an overwhelming 89 percent of respondents stated that a mandatory corporate governance code was the main reason for their compliance with good corporate governance practices. Given that many nonlisted companies are not obliged to comply with the corporate governance code, tackling this narrow view was a tough challenge. We focused on training



Khawar Ansari, a member of the Pakistan Corporate Governance Project, addresses a group of mediators during a training workshop at the Karachi Centre for Dispute Resolution.

to help both lawyers and judges fully understand the underlying economic rationale for good corporate governance practices—such as increased efficiency, lower cost of capital, and increased access to capital—in order to put them on the same page with enlightened managers and directors. During presentations, we shared with participants various findings from research conducted by leading resources that linked good corporate governance practices with the building of more efficient organizations—a characteristic valued highly by investors. This provided a potent redress, because we felt that any change in the perception of lawyers would trickle down to their clients. One clear proof of this was that many participants highlighted the economic rationale for good corporate governance in both the discussions and the group activities during the seminars.

4) Exploit synergies to enhance the benefits of the intervention.

The seminar series led to other opportunities for working with lawyers with other IFC programs and units, thus helping to avoid duplication and enhance the overall impact of the Corporate Governance Project's activities. Through close cooperation with its staff, the project helped the Global Corporate Governance Forum to reach out to local lawyers and relevant institutes and solicit

their input to help with developing a toolkit for resolving corporate governance-related disputes. We also reviewed the Forum's toolkit and provided our input to its contents. Further, in association with IFC's Alternative Dispute Resolution Project in Pakistan, we designed a half-day workshop for mediators trained by the Karachi Centre for Dispute Resolution on their role in mediating corporate governance disputes. Consequently, the two projects were able to join forces for a common agenda. The project team also made best use of the diverse skills in law, management, and corporate governance at its disposal. For example, a team member with legal qualifications took the lead role in designing and undertaking these activities.

CONCLUSION

Some key outcomes illustrate the project's success in training lawyers and judges in corporate governance. We received subsequent requests from the Academy to make the seminar available again. We also plan to engage them for a follow-up seminar. But, the most interesting outcome is that, by focusing on lawyers as a new target group, we were able to find creative ways of supporting other programs and units within IFC that paved the way for future interaction with these programs and units to support a better corporate governance regime. For the project, such close cooperation with these programs and units within IFC is aimed at increasing our corporate governance footprint in Pakistan.

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May 2009

A Bird in the Hand is Worth Two Fleeing By:²³ Creating a Corporate Governance Course for the University of Belgrade

It all started with good intentions. IFC's corporate governance program in Southern Europe was in contact with the law faculty of the University of Belgrade to discuss possibilities to help it develop CG courses. As it happens, when you initiate talks with potential partners, we found that another institution was also discussing development of a new course with the university. The institution was in talks with the faculty of economics and showed interest in corporate governance. We decided to join efforts and try to develop a new product with both faculties. This SmartLesson discusses how IFC's CG program in Southern Europe collaborated with many different partners at the University of Belgrade to set up a corporate governance course.

BACKGROUND

This process started in early April 2006. We had a first meeting with representatives of both faculties and quickly decided that each organization should allocate one person to handle this process on a daily basis. We called them managers. We also appointed a Steering Committee, represented by the people in charge of every institution, and decided on the working rules.

The rules were simple. The SC would be in charge of the key material decisions and would meet a minimum of twice a month, unless otherwise needed, in order to approve each milestone of the project. Our first decision was to conduct a joint feasibility study and present the available options to the SC for its final deliberations. Driving directions for the study were the use of synergies between the two faculties; sustainability; and a combination of short-term, medium-term, and long-term projects, as well as undergraduate and postgraduate options. The feasibility study was due before the end of the summer semester of 2006, so that we could start the courses in the winter semester of 2006–2007.

At the beginning, everything went as planned. Managers were meeting regularly and drafting their

reports. The SC was meeting as scheduled and formally approving all milestones.

By May 2006, everything was ready. The first chosen option was to launch a specialization course on CG in September 2006. This course would focus on the financial and legal aspects of CG. The faculty of economics would cover all topics related to information and disclosure, as well as auditing and financial reporting. The law faculty would cover all other topics. The target audience would be executives and other high-level managers from companies. The course would charge fees and would be profitable. A combination of local and foreign professors would allow local professors to learn from their foreign peers in the long run, and would also help the course gain credibility in its first year. Other medium-term options included development of optional courses and gradual inclusion of CG in the formal curricula.

Two weeks before the official launch of the promotional campaign for our specialization course, a representative from the faculty of economics called for a special meeting of the SC, during which he suggested a new approach. He was not satisfied with the division of the courses among the two faculties

and thought his faculty was not getting enough recognition, as he thought his level of involvement was greater than the one provided by the law faculty. Furthermore, he felt that too much focus was being put on the legal aspects of CG and not enough on the financial aspects. Therefore the conclusion was that the faculty of economics would not support the agreed plan. He suggested a new plan in which the faculty of economics would take the lead on a number of topics. He concluded, “Either we work this way, or I am out of this project.” Days afterwards, the project team met with the representative, but he was reluctant to change his mind.

All the work we had done was wasted. Although disappointed, the CG program decided to focus only on the law faculty. Instead of trying new approaches, we decided to focus on what the law faculty was good at. Instead of telling them what we could do, we decided to let them bring us their wish list.

The idea was simple: we can help you, but you tell us how. Very quickly, the law faculty explained that they had specialization courses on several topics but not on CG. These specialization courses were intended for all interested participants, as long as they had a bachelors degree in social sciences. The fees were calculated in order to make the course profitable, and the minimum number of participants was determined to



Course participants listen intently during one of the courses.

Instead of telling them what we could do, we decided to let them bring us their wish list. The idea was simple: we can help you, but we want you to tell us how.

be around 30. That number of participants was also seen as optimal to allow for discussions and debates by participants.

The IFC Corporate Governance Program provided advice on the syllabus and contacts with academics from abroad. Within months, the project became very concrete, and the specialization course on CG was launched in April 2007 with 40 participants. This course lasts eight months, with classes every Saturday. The participation fee is €1,000 (\$1,313), which makes the course fully profitable. With this setup, the CG project had no costs to bear and only provided advisory services.

LESSONS LEARNED

1) Too many partners may seriously hinder the end result of a pilot project, especially if they bring different agendas to the table.

Even though we had agreed on formal working rules and had formal meetings where everyone agreed on the course of action, we could not prevent the sudden change that happened at a crucial point in the process.

2) Always ensure that you perceive potential conflicts of interest beforehand and act accordingly.

We should have considered earlier the fact that the two faculties involved are often competing. We

thought we would overcome this by formalizing the process, but we were unable to because of the strong differences between the two faculties.

3) Do not aim for solutions that are too complex. Find out what your partners do well and use their experience, rather than trying to teach them new things at the very beginning of your cooperation.

This helps to build goodwill. Eventually we succeeded by following the specialization model of the law faculty. This also allowed us to act faster in the process. Now that we are cooperating on one project, the faculty has asked our advice on a number of other issues.

4) If you work with partners that have different agendas, try to get their buy-in and commitment before you start. Do not expect a legal document to do it for you.

One of the reasons for the failure of our first initiative was that our partners (faculties) did

not feel committed to our Memorandum of Understanding. Would a formal contract have made a difference? We do not think so, because at the end of the day we would not have been willing to enforce our contract with partners to our program. Therefore, commitment and buy-in at the beginning are essential. From our perspective, the way to gain this commitment and buy-in is to understand the agenda and priorities of your potential partners. After that, you just need to ensure that you take their views into consideration and provide them with sufficient recognition.

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Getting Universities to Adopt Corporate Governance: Not as Easy as It Looks!

The main goal of IFC's Corporate Governance Project in Pakistan is to establish sustainable capacity in the country so that, once the project is over, institutions will be able to improve their corporate governance practices to international standards using locally available resources. The project aims to achieve this goal by helping set up a stable and robust regulatory framework, establishing sustainable institutions to train directors and improve board performance, training the media in selecting and reporting on issues that communicate the local relevance of corporate governance, and encouraging business schools to incorporate corporate governance as a core subject in the MBA curriculum.

BACKGROUND

This last goal—helping universities embed corporate governance into the Master of Business Administration curriculum—is the focus of this SmartLesson. This important focus aims to inculcate best practices at the grassroots level and build a resource pool of formally trained corporate governance expertise. The key steps in the process are:

- Getting buy-in from faculty and students at the start;
- Conducting a training-of-trainers program for the business school faculty;
- Strengthening our relationship with the key stakeholders at the university; and
- Remaining connected with the students to reinforce the importance of corporate governance.

In achieving this milestone, we had to navigate some potentially tricky hurdles that threatened the success of this entire initiative. The SmartLesson below—lessons learned while implementing the first corporate governance course based on IFC's material and taught by a university in Pakistan—shows how the project team addressed these challenges.

LESSONS LEARNED

1) Get buy-in at the outset.

We chose to start with a local university so that we could manage any hiccups with close personal attention. The first step was to embark upon a fact-finding mission to gauge the appetite of key stakeholders and determine their requirements for a corporate governance course. To accomplish this mission, the project team organized a half-day seminar with faculty members, the head of the business school, and postgraduate students. The seminar gave us the opportunity to assess the different stakeholders' levels of interest in a corporate governance course. Based on the seminar, we concluded there was sufficient traction from faculty and students alike to encourage us to sign an agreement with the university to proceed with the development of a corporate governance curriculum and the design and delivery of a TOT program for the faculty.

2) Make course corrections in a timely manner.

After developing the corporate governance curriculum, designing the TOT program was relatively straightforward. All we had to do, it seemed, was to select the relevant material, adapt the content to the local context, and deliver the training. Before

the three-day training, we paid one last visit to the business school to confirm areas of focus of the training. All the pieces of the puzzle seemed to be clicking into place.

The first part of the training was going as planned. The audience appeared to be attentive. As the presentations unfolded, however, we began to sense an uneasy silence. We realized that many in the audience were not responding; they were looking into space! Then, as the presentations became more and more intricate, some members of the audience started to become agitated. A couple of the faculty lecturers began to share their fears. They questioned whether the concept of corporate governance would fly in Pakistan, and whether their students would show any interest in corporate governance.

These people carried the main responsibility for the success of the course, and it appeared they were sensing a shift in the burden of responsibility from IFC to themselves, as they realized that the success of this initiative now rested on their shoulders. Other faculty members joined in, for good measure, with more general objections, most of which had no grounding in principles of good corporate governance. It did not take long for the mood of the audience to shift from polite attendance to antagonistic and at times markedly aggressive. As the course wore on, the atmosphere became intimidating and highly charged, and we became concerned that this audience reaction would jeopardize the entire training program. We knew we had to find a way to reassure and motivate this core group of faculty lecturers to move ahead with the original plan.

Urgent action was required to cool the temperature before the situation became overheated and slipped from our control. We brought the three key opinion leaders center stage to focus everybody's attention. To harness their experiences, we opened up a discussion on their achievements in corporate governance. They talked of their experience serving on boards, some within the country and some abroad. By recognizing

their achievements, we were able to reinforce our key messages on good corporate governance practice. This marked a turning point in the process, because the audience started to engage and take ownership of the material we were presenting. As a result, the atmosphere calmed down and became more positive and conducive to learning. This change was reinforced in the positive feedback from the post-training evaluations.

3) Continue to build bridges with the key stakeholders after the event.

Because we wanted to ensure the successful implementation of our agreement with the university, our engagement with them did not stop at the end of the three-day training-of-trainers program. After the training, we leveraged several other opportunities to visit the faculty and follow up on their promises to start teaching corporate governance to their MBA students. Unfortunately, the university seemed to be dragging its feet in getting the corporate governance course on the road. The head of finance, the original sponsor of the project within the university, had become too busy to take this project across the finish line.

We therefore focused on the senior lecturer, who had been one of the most animated and energetic participants during the TOT. We worked closely with him, encouraging him to champion the project and sign up students for the first corporate governance course. At first he was reluctant, because he felt there would be very few takers. He claimed the students were not very familiar with the topic of corporate governance, and would not see career prospects in this field. We saw this as an opportunity to present our business case for a corporate governance elective course in the MBA program. Our premise was that corporate governance is an emerging issue and, in light of the unfolding global financial tsunami, this issue was here to stay. In addition, since very few people had any kind of specialization in corporate governance, students with formal academic grounding in corporate governance would be in high

demand. We also offered to present these arguments directly to prospective students. In the end, this was not necessary, because 30 students signed up for the corporate governance elective.

4) Reinforce the relationship with the end user.

Once the students were on board, having signed up for their corporate governance elective course, we reinforced their good decision by inviting them to IFC for an orientation on the landscape of corporate governance in Pakistan. We wanted to nurture these students so that they would become ambassadors of good corporate governance practices at their university.

We lined up a videoconference with the students, the Pakistan Institute of Corporate Governance, and IFC. We briefed the students on the objectives and achievements of the IFC Corporate Governance Project and the work of the institute in accrediting directors, increasing membership, and orienting companies on corporate governance. The ensuing discussion was highly interactive. It ranged from a review of local business leaders' opinions on corporate governance to the opportunities and barriers to the progress of good corporate governance practice in the country. The students were thoroughly engrossed, and we rewarded them with certificates of participation. This activity generated a buzz at the university and enhanced the prospects of high enrollment for the second batch of students.

CONCLUSION

Engagement with the students is set to continue, because IFC has offered to meet with the students again toward the end of their course. The response from the university has also been positive, including an invitation for IFC to deliver orientation lectures during the next round of recruitment for the new batch of students. Also, since the initial course, other colleges have asked IFC to provide an orientation on corporate governance and training-of-trainers, and have shown interest in using IFC materials for their intended corporate governance courses. The key ingredients of our success were getting buy-in at the outset, building strong relationships with key stakeholders, making course corrections in a timely manner with back-up plans, and nurturing the students to become ambassadors of good corporate governance practice at their university.

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Public Awareness and Media Training

As with any other issue, there's a direct correlation between public awareness about corporate governance and media coverage of stories related to corporate governance. Most of our corporate governance advisory services projects devote some time, effort, and resources to national public education campaigns, aimed at raising awareness. Part of this work involves providing training to educate journalists on the importance of good corporate governance and working with the media to encourage coverage of corporate governance-related news.

The work here helps create a broader popular understanding of corporate governance and the proper functioning of a modern corporation. It leads to changes in attitude that can help drive new behaviors: increased support for reforms, heightened interest in the study of corporate governance topics as part of professional training in law and business, and acceptance of foreign investment as a necessary condition for growth of the economy.



RAISING PUBLIC AWARENESS

Our public awareness work takes a variety of forms: press conferences, round tables, articles written for trade publications, and interviews with the press. In many cases, projects sponsor the publication and distribution of periodic newsletters on corporate governance issues, making use of data from our surveys on corporate governance practices. Information from surveys can be shared with key government officials as well, to help drive home the message on the value of governance improvements.

These efforts enable better understanding of the importance of good corporate governance for the

general public. Awareness activities are also aimed at shareholders, to help them learn more about their roles, rights, and responsibilities.

MEDIA TRAINING

Providing training to journalists and members of the media builds their skills and knowledge, and leads to more sophisticated coverage of business issues in a particular country. It also ensures that the work of informing the public and keeping corporate governance issues in the public eye will continue after project activities end.

Bringing stories of interest to the media is another key aspect of our work. Because journalists are looking for interesting, headline-grabbing pieces, our role here is to bring good stories to them, in addition to helping them understand the value of good corporate governance. This can mean arranging press tours so that journalists can visit firms that have implemented corporate governance improvements and interview decision-makers at these firms about the reasons for their initiative and how it has enhanced company performance.

In particular, journalists are interested in:

- Shareholders' rights
- Transparency
- Securities markets
- Statistics, numbers, and data

It is also worth noting that working with journalists carries some risks, since some may be looking for gossip or scandal rather than solid news. One way to avoid this trap is to assign all media-related contacts to a dedicated staff person with professional communications skills. This also ensures that messaging remains consistent.

The SmartLessons in this section offer insight into successes in media training and public awareness activities.

Earning Astana Yellow Jerseys in a Corporate Governance Race: Engaging External Partners in Communications in Kazakhstan

What do corporate governance and bicycle racing have in common? Frankly, not much. But the IFC Central Asia Corporate Governance Project team felt like cycling champions after our success in raising awareness about corporate governance in Kazakhstan. The corporate governance “race” in Kazakhstan started in 2006 in Almaty when a team of 11 people got together to launch the project. Just as the Astana cycling team retains its first place in the world ranking, subsequently reinforced by the victory of Alberto Contador in the Tour de France, our project team came out winners in helping corporate governance become an important topic in Kazakhstan. In this SmartLesson we would like to share how the project partnered with international coaches, local experts, and government bodies to promote corporate governance through publications, annual conferences, and seminars for mass media representatives in Kazakhstan.

BACKGROUND

Kazakhstan is located in the heart of the Eurasian continent at the crossroads of East and West. When the project started operations, not many of the region’s businesspeople knew what corporate governance was. IFC’s communications objective was to widely spread the word about corporate governance, convince policymakers to create a favorable legislative framework, and—the most important task—inspire joint-stock companies and banks to implement corporate governance standards. A yellow jersey goes to those companies and banks whose shareholders value investment attractiveness!

The success of the Astana team expanded the popularity of cycling around the world, including in Central Asia. Similarly, just a year later after the project launch, the need for improved corporate governance has been noticed at the highest levels of power in Kazakhstan. In February 2007, President Nursultan Nazarbayev publicly emphasized the importance of development of corporate governance principles and improvement of corporate governance at state-owned companies. Samruk-Kazyna National Welfare Fund was established to enhance the

competitiveness and sustainability of the national economy, relying on corporate governance principles. Prime Minister Karim Massimov also participated in a corporate governance awareness conference in February 2007 in the Kazakhstani capital, Astana, thereby greatly raising the profile of the topic through the accompanying press coverage. In spring 2007, full Senate hearings on the competitiveness of the economy included invited experts on corporate governance.

However, the corporate governance race was not easy. To provide an information campaign to raise awareness on corporate governance, the project team developed a three-year communications strategy that included:

- **Engaging international partners** such as Organisation for Economic Co-operation and Development, German Technical Cooperation Society, and Reuters;
- **Collaborating with the government** of Kazakhstan in conducting three annual international conferences with participation of more than 200 delegates each year from different countries;

- **Engaging the local business community** through publication of their views and experience in our quarterly magazine, *Vestnik of Corporate Governance*; and
- **Inviting IFC internal involvement**, including organizing four seminars for 40 journalists, one of them in cooperation with the Global Corporate Governance Forum and Reuters.

Moreover, the project published more than 300 analytical and informational corporate governance-related articles, and produced helpful publications.

LESSONS LEARNED

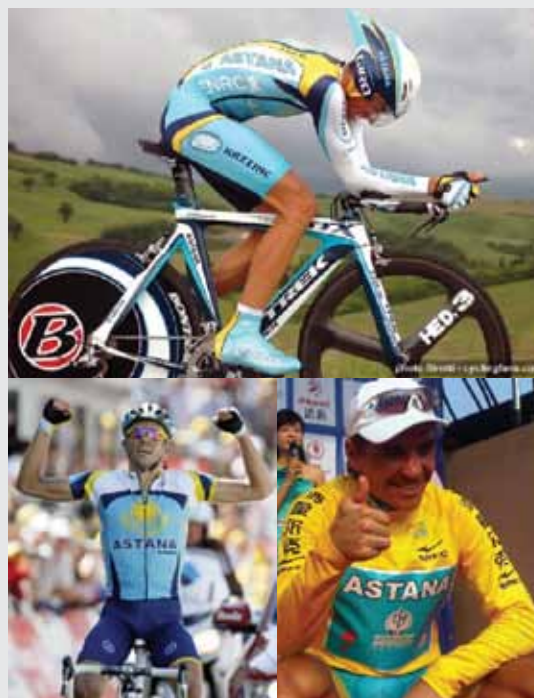
1) To multiply your project's effectiveness in raising awareness about corporate governance, build partnerships with government agencies and with associations of financial institutions.

The project partnered with the Agency of the Republic of Kazakhstan on Regulation and Supervision of the Financial Market and Financial Organizations and with the Financial Institutions' Association of Kazakhstan. Together we promoted good corporate governance by organizing annual international conferences in 2006, 2007, 2008, and 2010.

The events were platforms to analyze and discuss the practical issues and challenges in the implementation of corporate governance principles in Kazakhstan, to promulgate the experience and recommendations of the international experts, and to develop optimal solutions regarding efficient corporate governance and controls in companies.

More than 150 delegates participated each year, including shareholders, bankers, investors, and financial market regulatory bodies. They represented Kazakhstan, Russia, Azerbaijan, the United Kingdom, and the United States. Discussions covered such issues of corporate governance as protection of joint-stock companies against hostile takeovers and greenmail, information disclosure, establishment of efficient internal controls, corporate governance rating, actual issues of board of directors' activities, corporate

DRAWING INSPIRATION FROM THE ASTANA PROTEAM



Astana is a professional road bicycle racing team sponsored by the Astana group, a coalition of state-owned companies from Kazakhstan, and named after its capital city, Astana. The Astana team attained UCI (Union Cycliste Internationale) ProTeam status in its inaugural year, 2007.

Since 1919, the leader of the general classification in the Tour de France (the classification by which the winner is determined) wears a yellow jersey.

governance concerns in initial public offering holdings, and development of a corporate secretary institute.

2) Cultivate champions for corporate governance from among international coaches and worldwide experts.

The project worked with a variety of individuals and organizations to raise awareness of corporate governance, particularly among key stakeholders. For example:

COMMUNICATIONS STRATEGY FOR 3 YEARS



A Kazakh translation of OECD Principles.

• **OECD Principles in Kazakh:** IFC partnered with OECD to publish the official translation of the OECD Principles in Kazakh to educate policy-makers, investors, corporations, journalists, and other stakeholders in Kazakhstan. That was the first

international benchmark in corporate governance to be translated into the Kazakh language. The official translation plays a significant role in enhancing corporate governance standards and advancing business standards of Kazakhstani companies, which in turn enables them to improve company performance and attract outside capital. In addition, the official translation of the document facilitates the development of the legislative framework and enforcement of effective rules of corporate governance.

• **Cooperation with GTZ:** Together with GTZ and the Supreme Court of the Republic of Kazakhstan, IFC organized a series of events in which leading experts in corporate governance from Germany spoke to representatives from joint-stock companies and banks. The series focused on actual issues concerning the Law on Joint-Stock Companies in Kazakhstan.

3) Provide workshops, seminars, and other vehicles for educating the mass media.

IFC, the Global Corporate Governance Forum, and Reuters cooperated in organizing a regional media workshop: “Reporting on Corporate Governance in Central Asia and the Caucasus Region.”

The project organized other seminars for journalists, who in turn became effective at promoting corporate governance through mass media in Kazakhstan. Not all participants of our seminars became fans of the topic. However, with some of them, IFC acquired long-term, fruitful relationships. Since 2006, for instance, Kazinform has published more than 30 news stories, articles, and interviews about IFC and corporate governance.



The conferences boosted the level of corporate governance in the local market and raised awareness of the topic through media mentions about its importance.



Twenty-four mass-media representatives participated in the writing seminar and evaluated it highly.

“The seminar for journalists organized by IFC was interesting due to the fact that it raises awareness of corporate governance. The topics were selected appropriately, the speakers were brilliant, and the presentations were informative, interesting, and intelligible. I personally learned important and interesting facts.”

—*Daniyar Sikhimbaev, Kazinform News Agency*

One of the seminars the project organized for journalists addressed the issue of writing about corporate governance. It started by explaining corporate governance from the very beginning: What is corporate governance? What are its principles? It also discussed how to promote corporate champions and how to shame bad practice. And an independent economic observer from Kazakhstan conducted a session on how to prepare analytical material on corporate governance.

At the second seminar, “Corporate Governance: Current Realities,” an expert from Interfax, Moscow, focused on investor relations for 17 mass-media representatives. IFC’s legal advisors explained

“Social Corporate Responsibility versus Corporate Governance, and Rights of Minority Shareholders.” And IFC’s investment staff discussed “Importance of Corporate Governance in the Investment Decision-Making Process.”

4) *Engage the local business community and international experts in promoting corporate governance—by inviting them to write for your own publication.*

The project worked closely with such partners as Standard & Poors, KPMG, international experts, and local bankers by publishing articles, interviews, and theoretical materials in our quarterly magazine, *Vestnik of Corporate Governance*.



Vestnik of Corporate Governance.

We initiated a public information campaign to raise awareness on corporate governance–related issues among the wider reader community in Kazakhstan. That campaign targeted managers of joint-stock companies, supervisory board members, government

officials, students at institutions of higher education, the mass media, and securities-market professionals, as well as existing and prospective shareholders.

Vestnik of Corporate Governance became a valuable source of information, with case studies from the world’s best corporate governance practices, modern trends, experts’ opinions, theoretical aspects, and an effective toolkit for the introduction of proper corporate governance principles.

Initially it was distributed only in Kazakhstan and then far beyond the borders—in the Kyrgyz Republic, Tajikistan, and Russia. It is always hard to measure communications efforts, but one indicator is the increasing number of subscribers—of both hard copies and the electronic version—and a growing number of downloads from the Web site.

“We are very much interested in *Vestnik of Corporate Governance* magazine issued by IFC, which in our opinion is one of the leading professional corporate governance magazines in the Commonwealth of Independent States.”

—*Igor Korotetskiy, KPMG Moscow*

The most remarkable aspect of the whole process of developing magazines was the active involvement of all members of the team—from discussing the name of the publication, to brainstorming the concept and contents of every edition, to inviting international and local partners to write articles based on theoretical knowledge and practical experience. This quote from the Astana Cycling Team’s official Web site captures it well: “Cycling is a team sport. Without a coherent and competent team, no leader can win a victory.”

5) Look within IFC to discover talents that support your project.

Along with promotion of corporate governance, we discovered talents *within* IFC. For example, Nurlan Sarsenov, legal advisor, became an excellent writer who contributed a lot to the communications component of the project. Not only has he written analytical and informational articles for more than half of the editions of *Vestnik*, but his articles also have been published in *Securities Market Magazine* in Kazakhstan almost every month for three years. He has already published three books on corporate governance issues and will do more in the future!

Another is Adalyat Abdumanapova, team leader for Kazakhstan, whose many talents include making presentations, lecturing students, consulting, and writing, and her successful initiative to develop a Corporate Secretaries Club in Kazakhstan can be replicated in other countries. Now the project communicates regularly with members of the Corporate Secretaries Club via newsletters.

TEAM SPIRIT

Guest members of our publication team:

INTERNATIONAL EXPERTS

Lado Chanturia, professor from Bremen University in Germany, wrote “The Boundaries of What Is Permitted: Shareholders Rights to Get Information on Germany.”

Hans Joachim Schramm, also from Bremen University, shared his knowledge on “Corporate Blackmail: Useful Information for Kazakhstan, Based on Experience in Germany.”

Aleksandr Okunev, Director of Corporate Governance Center in Ukraine, wrote “Where to Get 46,000 Corporate Secretaries in Ukraine?!”

LOCAL EXPERTS

The team has also partnered with the **Kazakhstan Supreme Court**, conducting joint training and roundtables on corporate governance topics. As a result, **Ulbosyn Suleimenova**, judge of the Supreme Court of Kazakhstan, published a practical article in *Vestnik*, “Judicial Practice in Shareholders’ Agreements.”

Beybit Shermuhametov, Judge of Financial Court in Almaty, dedicated a series of articles in *Vestnik* to “Problematic Issues of Invalidation of Large Transactions in Kazakhstan.” The series became a practical guide for international legal companies operating in Kazakhstan, according to feedback from readers.

Other IFC contributors to *Vestnik* include Boris Janjalia, a colleague from IFC’s sister project in Georgia, who wrote an article on “Mediation—An Alternative to Corporate Disputes”; Yulia Holodkova, a team leader for the Kyrgyz Republic, who contributed an article about “Results of the Corporate Governance Survey in Kyrgyz Companies”; and Tahmina Nurova, a team leader for Tajikistan, who wrote on “Review of IFC Corporate Governance Project in Tajikistan.”

Note: Some people have writing talent, and some do not. At first, the team thought everyone should contribute to *Vestnik* on a rotation basis: all experts would write articles about their own spheres of expertise. But this approach became very challenging for the whole team when it became clear that some team members were just not good at writing and sometimes took weeks or even months to finalize an article, even with the help of other team members. It is more efficient to identify the good writers and then let them do the writing.

6) Find ways to support the media's efforts to cover corporate governance.

As a result of educating journalists, the number of media mentions has increased. However, most news agencies use their in-house translators, who are not familiar with corporate governance terms. We found that the following items helped improve the journalists' accuracy:



"Brief Glossary of Corporate Governance Terminology."

- **Brief Glossary:** In some cases, translators used *Corporate Management* instead of *Corporate Governance* in articles and widely published them. Communications associates tried to explain the difference over the phone, but without much success. IFC's in-house translator,

Zhanna Ambartsumyan, came up with a brilliant idea—to develop a “Brief Glossary of Corporate Governance Terminology.”

- **Russian-English/English-Russian Glossary:** When someone mixed up “shark repellent” with “white knight,” we realized we needed to develop the “Russian-English/English-Russian Corporate Governance Glossary.” In consultation with the project's experts, IFC's in-house translator endeavored to make the glossary as comprehensive as possible. The idea of a corporate governance glossary was replicated in Tajikistan's project.

CONCLUSION: SEASON ENDS WITH YELLOW JERSEYS

Engaging the government and international and local partners in promoting corporate governance worked well in Kazakhstan. To demonstrate how it works in practice, the project chose a few “pilot” companies. This will be another story—another stage of the race.

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The Pen Is Mightier than the Sword if Properly Aimed! Training the Financial Media on Corporate Governance

The financial media have the platform and the potential to promote better corporate governance practices and corporate transparency—by showcasing new standards and reporting on bad corporate governance practices among companies. By raising the general public’s awareness of key corporate governance issues, the financial media can indirectly effect improvements in the practice of corporate governance. The challenge is to help them use their platform in ways that contribute to greater stability and efficiencies in the private sector, and ultimately lead to economic development. In the Middle East and North Africa region, educating the press on corporate governance issues is key to creating local demand for better practices in the region. This SmartLesson shares lessons learned during a project to do just that.

BACKGROUND

The IFC corporate governance program in MENA, jointly with the Global Corporate Governance Forum and in collaboration with Thomson Reuters Foundation, launched a regional project to help the financial media strengthen their role in covering corporate governance issues. The project delivered three subregional interactive workshops with the following goals:

- Raising awareness and promoting a better understanding of corporate governance issues among the financial media;
- Increasing the quantity and quality of media coverage of corporate governance, and thus better informing institutional investors, policy makers, managers, and board members on corporate governance issues in the region; and
- Helping promote corporate champions and discourage bad practices, thus encouraging better enforcement of good practices.



IFC and the Global Corporate Governance Forum with the Mashreq Press training participants in Egypt.

LESSONS LEARNED

1) First come isn't necessarily first served: establish eligibility criteria upfront.

Prior to the workshops' organization, the project created certain eligibility criteria to select the most capable participants. We wanted media people who would be willing to tackle and write about local



corporate governance issues. To this end, we required each participant to submit an article, complete with byline, on corporate governance. Then we evaluated each one.

This requirement was key to ensuring a certain quality standard in writing and a level of understanding and knowledge about corporate governance among the future workshop participants.

Caution: It is paramount to disclose these eligibility criteria upfront. Otherwise, it is difficult to justify the rationale for accepting some applicants and denying others.

2) It takes two to tango: select a strong partner.

It is important to have a strong partner to lead the part of the training on journalism. In our case, choosing Thomson Reuters Foundation, a highly respected international news agency, gave our workshops real credibility. In the media industry, Reuters is perceived as one of the world's leading sources of news, and its respected name was a crowd magnet. Having such a partner motivated experienced journalists to participate.

3) A friend in need is a friend indeed: call on IFC's local offices for support.

IFC's local offices can facilitate outreach to the right target media outlets. In our case, we relied on the help of the Morocco, Lebanon, and Jordan offices to tap their knowledge of journalists and to profit from their established media contact lists. We also involved them in extending letters of invitation, contacting local journalists, and following up with the journalists regarding their participation. This assistance was of great benefit, because it allowed the project leader to focus on more substantive issues.

4) Experience is the best teacher: local speakers have hands-on familiarity with local issues.

Inviting local speakers—instead of international ones—to the different regional press training workshops turned out to be a good decision. Not only did it save money, but it also gave us speakers who could do a better job of addressing local corporate governance issues. For instance, they had a better understanding of the local corporate governance problems faced by policymakers, they were able to share insights into real cases from their home countries, and they emphasized how media support can help local companies more easily embrace better corporate governance practices. Overall, their affiliation with the region helped create a positive and memorable experience for the attendees.

5) In for a penny, in for a pound: participants need to attend the entire workshop.

Since every session of the workshop is important, it should be viewed as a “full meal”—rather than as a “buffet” where attendees can take a little of this and a little of that. To ensure full participation and commitment, workshop organizers announced at the start of the events that certificates of attendance would be distributed only to those participants who attended the entire workshop.



IFC team, trainers, and participants in the Gulf media workshop.

6) Less is more: three subregional workshops served multiple countries.

Inviting journalists from across the MENA region to the three subregional workshops ultimately proved to be more efficient and cost-effective than holding an event in each individual country. In fact, this approach required only about a quarter of the budget needed to conduct individual country workshops.

The project didn't charge for its services, with few exceptions, since the aim was to serve the public interest rather than the interests of a specific private sector counterpart or group. By addressing intermediaries such as the financial press, we could achieve the benefits of raising public awareness of corporate governance issues on a sustainable basis more effectively than we could by directly addressing a handful of companies and banks.

7) Catch as catch can: it takes planning and persistence to follow up and track articles.

Never underestimate the time and effort needed to follow up and track articles in different countries! Be sure to plan for this important aspect upfront. To track published articles in different countries throughout our region—and to provide an opportunity to engage with participants—we sent an invitation to all workshop participants to join

a Facebook page established by the GCGF. The Facebook page, called “Reporting on Corporate Governance,” features updates, relevant materials, and information about upcoming events that are posted to provide a channel for the media to share and exchange news, opinions, and suggestions. This platform will also provide an opportunity for journalists to promote their own work, as well as to raise the profile of their media outlets by sharing coverage of the latest corporate developments.

We also invited participants to continue sending their articles to IFC. And we offered incentives, such as: providing technical comments and feedback from the project leader on their draft articles; inviting some of them to future IFC workshops to give presentations on how they are investigating leading stories in their home countries; and providing contacts in their home countries—such as key government officials, professors and corporate governance practitioners—to help strengthen their articles. This approach enabled the project to collect 50 articles.

VIRTUAL SUPPORT

The Global Corporate Governance Forum's Facebook-based “Virtual Press Club” was created as a communications vehicle for those interested in corporate governance reporting, and as a platform for updates on the program's status. Participants are encouraged to “meet” their peers worldwide and connect with corporate governance experts, including training-program participants.

The Facebook page is also a channel for participants to provide comments and suggestions for the Forum's Corporate Governance Media Toolkit.

To date, some 200 people—including workshop participants and trainers, corporate governance experts, and IFC corporate governance communications officers—have joined the club.

Note: To be successful at the impact level and, more specifically, to make a strong case that the journalists' articles improved after their training, it is necessary to compare each participant's articles on corporate governance published before attending the workshop (for example, you can use the article submitted to meet the eligibility criteria) with those published afterward. This quality assessment should be carried out by an external independent consultant from an academic institution or a consultancy firm. The consultant should have extensive experience in corporate governance in the region, and should lead the "before and after" evaluation based on a series of qualitative benchmarks.

CONCLUSION

The project's methodology, as designed by the GCGF, was new to the wider MENA region. It included

hands-on training, a coaching element, and insights into journalistic and investigative techniques. IFC also served as a catalyst by providing a forum for the regional press to voice concerns to market regulators, and to make recommendations to be included in corporate governance reform processes.

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APPROVING MANAGER

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March 2010

“Good Governance Is Good Business” Debuts on Pakistan TV: How to Get Your Message to a Million People in 30 Days

With the lifting of strict government censorship and an end to sole ownership by the state, a wide range of private TV channels have developed in Pakistan. That’s why it seemed opportune for IFC Advisory Services in the Middle East and North Africa to try something different and sponsor a TV series—to create awareness of and make the business case for good governance within Pakistani companies and financial institutions.

BACKGROUND: WOULDN'T THIS MONEY BE BETTER SPENT ELSEWHERE?

Why should IFC sponsor a TV show, when it could put the money into program development? That’s what the Pakistan Corporate Governance Project team wondered. We asked: Is it worth it? We had two roads to choose from: We could continue with business as usual, organizing workshops, inviting key stakeholders and hoping they would show up for the whole event; or, we could take a more innovative approach. The second road was filled with challenges, of course, but that’s the one we chose. And in the end it proved more effective.

LESSONS LEARNED

1) Think about what you want to achieve, and simplify the message so it connects with an audience that extends beyond businessmen and government.

After an extensive procurement process, IFC decided to partner with the leading English-language TV channel, Business Plus (<http://www.businessplus.tv/>),



which offered around-the-clock business news and analysis.

When we say that corporate governance is a public concern, a lot of people

have no idea what we’re talking about; so, we wanted to reach those people—to have our message go beyond a narrow community of business owners and corporate managers. Therefore, the program’s objective was to tailor its content to suit the varied information needs of the channel’s diverse viewers. For that reason, in addition to covering technical issues, it addressed generic questions, such as: Could anyone become a stakeholder in a corporation? How does poor corporate governance affect the country? Doesn’t poor corporate governance lead in some cases to bankruptcy, consequently affecting the incomes of thousands of families?

Working as partners, IFC and Business Plus carefully sorted out critical program elements, including the format, duration, number of episodes, allocation of airtime, extent of coverage, selection of program logo, and program design. The 25-minute format comprised moderated panel discussions and a series of onsite interviews of the key stakeholders, including directors and managers of companies. There were 13 episodes in all. The program was allocated a prime-time slot and could be viewed across Pakistan.

We also made sure to choose the right panelists to deliver the right message to such a wide audience. Each panelist’s credentials, including corporate governance experience, were properly reviewed. We also had a chance to choose some of the program panelists from the cadre of certified directors who

had participated in an ongoing director training program developed by IFC in association with a local partner and training institute, the Pakistan Institute of Corporate Governance, and to present these individuals as corporate governance champions. Also, an interview with the government's corporate regulator provided the opportunity to spell out various aspects of government policy in promoting good corporate governance practices.

2) Involve your communications professionals while the horses are still in the barn.

Design the project in line with IFC's communications and brand-building guidelines. For example, the communications staff can help with issues related to presenting the bigger picture of IFC's work in the country and deciding what kind of information to emphasize.

3) Be proactive in mitigating reputational risk.

The use of electronic media to disseminate information on good corporate governance was new. The medium is not comparable to a workshop or a seminar—the sort of activities we were traditionally engaged in at that time—where you closely manage everything from developing the content through presenting the material to choosing the audience and the level of publicity by the press and the electronic media. With TV you have less control over the presentation of the material and the response of the audience. In a highly visible project such as this one, less control increases IFC's reputational risks. We were very conscious of this situation and mitigated the risks as follows:

We carefully chose and trained the program's anchor. An anchor acts as the human face of a TV show, and the success of a TV program is inextricably linked to the anchor's performance. In consultation with the host channel, we chose a management consultant who had experience moderating TV shows for that channel before his engagement with the project. In addition to his experience as a moderator,

he had been advising companies on corporate governance issues in his consulting capacity. IFC's corporate governance message wasn't new to him, since he had taken part in one of the training events that IFC had organized for the public in Lahore.

The next task was to develop a close rapport with the anchor and have him understand what we were trying to achieve through this program. We coached the anchor on issues relating to corporate governance and IFC's role, and on asking the right questions targeting these issues.

The project manager played a leading role, providing the anchor continual guidance on issues arising out of discussions or other aspects of the program during rollout. In addition to the training we provided, it was important to encourage the anchor to undertake independent research on the specific topics and themes of each episode. And we solicited his input on the selection of the panelists for each episode.

“The use of electronic media to promote good governance in Pakistan has helped tremendously in creating an awareness of the key issues amongst the business community and also encouraging the regulators to take action where needed. The TV platform has allowed IFC and Business Plus to spread the message of good governance far and wide.”

—Amir Qureshi, TV anchor

We reserved IFC's right to review and vet all 13 shows before airing. In consultation with the channel and the anchor, IFC's project manager reviewed each show to provide technical advice on the content. As time passed, and with the increased capacity of the anchor, fewer modifications were needed.



Amir Qureshi, anchor, moderates a discussion with panelists David Monkman, CEO, Business Support Fund; Afra Sajjad, Head of Policy Development, ACCA Pakistan; and Abid Burki, Director, Centre for Management and Economic Research, Lahore University of Management Sciences.

4) Remember to strike a balance between promoting IFC as a player in the corporate governance field, and at the same time not having the TV series come across as an IFC commercial.

The show was primarily about raising awareness and encouraging businesses to introduce good corporate governance. We didn't want to tout our own achievements—or to be perceived as doing so. We wanted to deliver the message that good governance is good business for everyone, while branding IFC as a knowledgeable and credible player in this field. This was a delicate balance and one that demanded careful thought.

We encouraged the anchor to facilitate independent and thought-provoking discussions, since it was necessary for the panelists to be able to discuss the corporate governance practices of Pakistani companies in candid terms. However, we made sure the program stated clearly that the views expressed by the anchor and the panelists were not to be attributed to IFC or taken as carrying IFC's stamp of approval. Furthermore, because the purpose of this program was not to publicize IFC but rather to raise awareness on corporate

governance, IFC's name was deliberately taken out of the program's logo. However, the promo for each episode indicated that the program was sponsored in partnership with Business Plus and IFC.

5) Evaluate your initiative.

As with any program, it is important to measure—to the degree possible—what the project achieved. For example, we used the following indicators:

Program reach: We were aware that a more structured approach could have been taken to track viewers (including, for example, recall and exposure surveys), but the team opted for a more informal (and cheaper) way. The TV channel provided IFC with viewership numbers based on its own tracking. According to the channel, more than a million Pakistanis watched the IFC-sponsored program.

New business: As a result of the program, the project manager received calls from more than 15 leading companies in Pakistan asking for help in integrating corporate governance practices.

Beyond the numbers: The TV program contributed to raising awareness of good corporate governance and established corporate governance as a public concern. Most important, the program managed to build the capacity of media professionals, such as the Business Plus staff and the anchor, to carry on with the message.

ABOUT THE AUTHORS

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How to Develop Sustainable Activities in the Field of Public Awareness and Increased Training Capacities: Experiences from Serbia

A company with good corporate governance standards will usually benefit in two ways. First, it will have improved performance. Second, it will have access to cheaper capital or debt. Although some companies need only one of the two benefits, most in the Balkans need both. This is because markets in Southern Europe are developing fast, and most companies are often targets for takeovers due to their proximity to Western Europe.

Local companies realize that the new entrants are better organized and have large amounts of capital that allow them to be more competitive. Therefore, local companies perceive the need to improve their corporate governance to survive. With this in mind, IFC has been using market approaches to promote corporate governance services in the Southern European marketplaces where the concept of corporate governance is still limited. To enhance this process, IFC has developed an insurance scheme offered to the suppliers of corporate governance services. This innovative approach of providing financial risk coverage in a nascent market has enabled IFC to work with local partners in a sustainable way.

BACKGROUND: HOW DO YOU DEVELOP A MARKET WHEN ONE DOES NOT EXIST?

One of the main challenges at the beginning of the program was that corporate governance was an almost unknown concept in the Balkans. As a result, demand and supply in this field were limited. When you could find them, the buyers were not ready to pay for what the suppliers were offering. One of the objectives of the program is to help companies improve their standards in corporate governance, and another is to improve training capacities of educational institutions in corporate governance in a sustainable manner.

In order to cope with these very valid but nonetheless complex factors, we developed a seven-step approach. Even though this has been tested for less than a year and with slightly fewer than ten clients and partners, results from these tests have so far been very satisfactory, with high levels of sustainability. Local institutions have taken ownership of corporate governance programs and are offering training

programs on their own. That these training programs have been profitable is a promising sign of increasing demand for the product and its potential for sustainability.

LESSONS LEARNED

1) Understand the demand side.

- Who are the buyers?
- What are the expectations of each of the buyers?
- What are the products/services that would match supply and demand?
- What is the level of quality needed to match the price that buyers are ready to pay?

Companies are the main targets for corporate governance. They include several stakeholders, such as the shareholders, the directors, the executives, the employees, the suppliers, the clients, the workers, and, ultimately, the authorities that govern the daily life of the companies. Even though all have certain

interests in better corporate governance standards in their companies, not all would be ready to pay for the related services or have enough power to implement the recommended changes in governance structure. For example, even though employees have a clear interest in being in a company in which executives and directors follow good standards of corporate governance, they have almost no power to influence the adoption of such standards unless they are represented on the boards of the companies. The same would apply to minority shareholders, who will not be able to influence the board as to the direction of the company. Therefore, certain stakeholders will not be ready to pay for corporate governance services.

In our case, we focused on what we call key decision makers. In Southern Europe, markets are structured so that the companies are characterized by concentrated ownership of majority owners. These majority owners often play the role of chief executive officer at the same time. Therefore, these key decision makers are our primary target as potential buyers. These CEOs are also surrounded by a small number of internal trusted advisors who have a high level of influential power. They are our secondary target.

Under them, fall our third target: middle managers who are instructed by their superiors. They need training in order to implement the new practices. Details on identifying the right targets and matching them with appropriate suppliers are described below.

2) Understand the supply side.

Corporate governance embraces legal concepts; thus, we had to work with lawyers. But corporate governance is also about organization and strategy, so we also had to work with consulting firms offering expertise on this subject. Finally, corporate governance is also about financial reporting, so we had to consult financial experts.

As such, we drew up a list of potential suppliers in the broad sense. In this exercise, we were looking not at what exists in the market, but more ideally at what would be the needed attributes to supply the demand.

This would allow us to assess the gap, if any, between our needed attributes and the reality. This would also allow us to consider the source of the suppliers.

3) Analyze your demand and match it with the right supplier.

In some cases, this step may be unnecessary, because the demand is homogenous. In other cases, different demands come from different levels of management, depending on the respective target groups (as in our case), and the suppliers have to be identified accordingly.

Several types of demand were identified in the process. CEOs, who had limited knowledge of corporate governance, needed sufficient information to be able to communicate internally and decide on the next steps to be taken by their subordinates. Based on the approaches used by top business schools to train executives, we then developed short training courses. Consulting firms would be the best suppliers for this target group to deliver training to the CEOs. Since they have experience in advising companies on very practical topics, they could also be the trigger to sell the concept to the CEOs. Because these top leaders maintain very busy schedules, their training sessions need to be concentrated, packed within the time frame of only a few days.

Executives directly under the supervision of CEOs also lacked understanding. Because they were more involved with the implementation, they needed more specific training, focusing on technical and practical tools as opposed to broad concepts and ideas. We therefore had to work more at the level of long-term executive training programs. Associations would be best suited to provide long-lasting training to their members and to middle managers focusing on day-to-day practical problems.

Middle- and lower-level managers, who still would have the ability to implement changes at their level, would need longer-term, educational, and academic programs. Universities are well-suited for this.

Even though all company stakeholders have an interest in better corporate governance standards, not all would be ready to pay for the related services or have enough power to implement the recommended changes in governance structure.

4) Assess the willingness and capacity of each potential supplier to become a corporate governance specialist.

At this stage, we made a presentation of the project to the potential suppliers. We realized that if the activity is to be sustainable, the supplier has to have the following minimum attributes:

- Human resources or capacity to grow in this field
- Knowledge or capacity to become a trusted corporate governance specialist
- Willingness to enter this field with a long-term approach or, in other words, to have other than a purely financial interest in entering this market segment

5) Agree on a common goal, and set the strategy to reach this goal.

This is the most rational and difficult step to ensuring a successful long-term relationship. Our goal was to ensure an improvement in corporate governance knowledge that would translate into better corporate governance practices. We created a tailor-made strategy in each case. With each of the partners, we discussed their needs as suppliers and their agendas so as to help them to develop

customized services and products to meet the market demands, instead of using a cookie-cutter approach. This was done to ensure buy-in and identification from the suppliers.

6) Develop an action plan and agree on a budget.

Once the goals and strategies were set, decisions were made on the next steps to translate the strategy into concrete deliverables. For this it is necessary to set a precise agenda and answer the following questions:

- What kinds of activities will there be, and when will they take place?
- What will be the role and responsibilities of each supplier?
- How should the work of each supplier be coordinated?
- How often is there a need to supervise what is being done?

For each supplier, we developed a specific agenda based on the specific strategy. Once each activity is agreed on, it is necessary to develop a budget that includes all costs—namely, staff costs, public relations and advertising, all logistics, fees for speakers if any, etc. In our case, we also included the cost for IFC's staff that would be involved in preparing or advising on the activity. The idea was twofold. First, we determined that in order to be sustainable, the activity has to be profitable. This meant we would always draw our suppliers' attention to the fact that sponsorships or donations of all kinds, including subsidies from international organizations and nongovernmental organizations, were not a sustainable replacement for fees paid by participants. If at this stage simulation does not show profit from the fees paid by participants, then it makes no commercial sense to deliver it.

Second, since we were aiming to have sustainable activities, this meant that at a certain moment, IFC and our program would withdraw from the activity

FINANCIAL RISK COVERAGE THROUGH INSURANCE PLAN

Because we are pushing potential suppliers to enter into new markets with new products, we are aware that this involves uncertainty that translates into potential financial risks for the suppliers. In the worst-case scenario, the event could attract no or not enough participants, and this would translate into a financial loss. This alone can act as a strong obstacle to suppliers entering a new market. This is why we adopted an approach in which we would act like an insurance company. The idea is that, once the budget is set, we insure up to 75 percent of the total costs and agree with our supplier that if revenues are not reached to cover all expenses, we will cover the difference to put our supplier in a break-even situation. Our supplier would only have to cover the remaining 25 percent of the costs. This setup gives the supplier a financial incentive to test new markets, because it reduces the financial risks on his side. It also ensures his commitment, since part of his money is at stake if the event is not managed correctly.

If the event is profitable, the profits are shared, with the supplier receiving 75 percent of the profits and IFC the remaining portion. Of course, before sharing the profits, each party is reimbursed from any payment made before the event. This allows us to maintain a certain control on the cost components of the activity, because if our supplier is tempted to inflate the costs,

doing so will automatically reduce the amount of profit that will be realized and will at the same time increase the reimbursement that has to be paid to IFC at the end of the event.

CHALLENGES:

The concept of paying for services: Both suppliers and buyers were skeptical of IFC's promoting the idea of selling services to be profitable. Because of IFC's mission, all the parties thought that services from IFC should be provided for free. Changing this mind-set and getting the involved parties to accept and internalize the idea of paid services was challenging.

Internal issues with handling reimbursement: Because this is an unusual arrangement of doing business—IFC giving cash to the clients beforehand to execute the program and getting reimbursed later after the clients sell their services—there was confusion at IFC about how to handle these payments and reimbursements. Because the supplier is our partner and is not hired by IFC, we had to figure out how to treat advance payments to cover costs related to the event. The same happened at the end of the event for the payments to and reimbursements from our partners. In that case, we circumvented the problem by sending invoices to our partners for the amount to be paid.

to let the suppliers work by themselves. Therefore, each activity with our suppliers had to be designed accordingly.

Once the budget was set, we decided on how many participants we needed and how much they would have to pay. Setting the price is also an important part. Because we are talking about buyers who are not aware of the concept of corporate governance, the price has to be in line with what they are ready to pay

to hear about this new concept. However, the price also has to act as an entry barrier or selective tool to allow for better targeting of participants. In other words, a price that is too low will bring in all types of audiences, and a price that is too high may close the door to potentially interested participants.

In our events, the prices ranged from €200 (\$268) for a three-hour conference to €1,500 (\$2,012) for three days of training, whereas a nine-month executive

course could cost around €900 (\$1,207).

In addition to careful financial planning, there was the feature of financial risk coverage that IFC provided (see box), which encouraged and assured the suppliers that they could offer corporate governance services in the nascent market.

7) Deliver the training and assess the situation.

Once all elements are determined, the activity is ready to be delivered. In all our activities, we always place our supplier at the forefront; and we ourselves act as supporters but not organizers of the event. This is done with the purpose of giving greater visibility to the suppliers and allowing them to promote their brand and reputation in this new market while ensuring sustainability. We also use each event to gradually withdraw our presence and increase our supplier's level of effort.

If all is done correctly, the following benefits can be gained:

1. High commitment from local suppliers
2. Clear strategy to develop sustainable activities
3. Increased chances of successful exit for programs
4. Leverage from suppliers to reach targeted audiences

ABOUT THE AUTHOR

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December 2007

Successful Launch Events Help Build Momentum for IFC Projects: Lessons from the Central Asia Corporate Governance Project

A good first impression can give any new relationship a boost—even the relationship between an IFC advisory services project and a country. Based on our own experience with the Central Asia Corporate Governance Project, and on lessons from other similar projects in the region, we believe that the first impression of a project is a gauge for the effectiveness of the project's future performance. And the strength of that first impression depends on how well the introduction is organized. This paper shares some of what we've learned about how to organize a successful launch event—and make a good first impression.

BACKGROUND

To promote corporate governance reform in the region, IFC runs projects in Russia, Ukraine, Georgia, Azerbaijan, and Kazakhstan. Our experience with the Central Asia Corporate Governance Project—the newest of these projects, launched in 2006—shows that a well-executed official launch event allows us to achieve the following objectives:

- Announcing the official commencement of the project's activities
- Liaising with potential counterparts and clients
- Raising awareness within the business community
- Promoting media coverage
- Attracting state officials' attention to corporate governance issues

LESSONS LEARNED

1) Prepare for the launch event: a "to do" list—with deadlines—is vital.

Do your best to make the organizational and logistical elements perfect before the event. Prepare promotional materials. Give special attention to

liaising with the mass media. Arrange face-to-face meetings with potential clients and counterparts of your project.

Start preparing for the launch event at least two months in advance (see Table 1). It takes the efforts of the whole team, but one person should be responsible for coordination and monitoring.

Organize individual meetings to introduce your project to potential clients and counterparts. Experience shows that face-to-face meetings work most effectively. Prepare all marketing materials that are to be presented at the launch event, and develop



To encourage attendance at the opening press conference, the project staff met individually with journalists ahead of time.

TABLE 1: SAMPLE LAUNCH RECEPTION “TO DO” LIST

<i>Actions (To complete before the event)</i>	Timeframe
1) Develop a database of potential clients of the project.	2 months
2) Choose a date and style for the project launch.	2 months
3) Work on promotional materials: the project’s information brochure, banner, flags, Web site, and other marketing materials.	2 months
4) Prepare an invitation card and envelopes in the IFC corporate style.	3 weeks
5) Identify and select speakers.	3 weeks
6) Organize individual meetings with companies and media.	1 month

the project’s Web site, to make the information on your project available to all of the interested parties.

As a result of our preparations, 80 percent of the representatives of companies and 72 percent of the media professionals whom the project staff had met with individually attended the launch.

2) Have a well-planned launch reception to announce: “An IFC advisory services project has come to your country!” and demonstrate the professionalism of IFC staff.

It is important for the launch reception to demonstrate the professionalism of IFC staff. But, there is no “one size fits all” for how to do that. One IFC project used the premises of the embassy of the donor organization for its project launch and invited the ambassador, who had a warm 40-minute conversation with the mass media. Journalists liked the open atmosphere and wrote many positive articles. Two other projects used five-star hotels. Another project organized a photo contest beforehand, and on the launch day announced the winners. The style of the project launch can be affected by the venues that are available in the city.

Our project decided that brief speeches during a cocktail reception format would work best. The launch reception took place at the Intercontinental

Ankara Hotel in Almaty, Kazakhstan. More than 127 representatives from joint-stock companies, educational institutions, and the government participated, including Senator Utebaev, chairman of the Committee on Budget, Finance, and Economy of the Senate of the Republic of Kazakhstan.

Make every team member a promoter. At our launch event, the entire team staff attended and were professionally dressed. Everyone had studied the goals and future activities of the project, to be able to speak knowledgeably and enthusiastically about it and to project a professional image. Our team also understood that, even though it was an enjoyable



The press conference took place immediately before the official launch event.

TABLE 2: SAMPLE PRESS CONFERENCE “TO DO” LIST

<i>Actions (To complete before the event)</i>	<i>Timeframe</i>
1) Develop a list of media companies.	2 months
2) Organize individual meetings with journalists.	1 month
3) Write a press release.	3 weeks
4) Circulate the press release, brochure, and marketing materials.	The day of the press conference

party, our reason for being there was professional and we were all to make an effort to mingle among the guests, introducing ourselves and the project to as many people as possible.

3) Hold a press conference to inform the media—and to establish a good working relationship with them.

Build liaisons with the mass media. A good supply of information about the project is vital for a positive IFC image. Our project held a press conference just outside the room where the launch reception was about to take place. Some 29 representatives of 15

leading mass media organizations in Kazakhstan participated. In all, 16 media outlets broadcast this event in Kazakhstan, in the region, in the United States, and even in Spain!

The press conference unexpectedly started late, and we were concerned that guests arriving for the reception had to walk by the press conference. But, the situation turned to our advantage: many reception attendees were excited to watch a press conference with so many media people attending, which served to increase their excitement about our project.

Give journalists as much information as you can. Besides a press release with names and titles of the speakers, provide an information brochure and articles about your project, as well as any other useful information about your business line (see Table 2).

4) Develop promotional materials that are attractive and professional.

Promotional materials—including, for example, an information brochure, file folders, and a Web site—create an image of IFC. So, it is important to be professional when presenting information about the project, whether in person or via promotional materials.



As a result of early promotion, the project's first seminar was well attended.

Recommendation: as you develop the brochure about your project:

- Personalize the introduction and perhaps include a photo of your project manager
- Detail the project activities
- Provide information about IFC and other donor organizations
- Include statistics from IFC experience, to confirm accomplishments

To coincide with the project's launch, the Central Asia Corporate Governance Project published the first issue of a 20-page quarterly, *Bulletin of Corporate Governance*, which included an interview with Karl Bach, the project manager, along with staff introductions and updates on the project's activities. It also included interviews with Gorton de Mond, IFC regional representative, and project partners, such as the head of the Association of Financiers of Kazakhstan. In addition, the bulletin provided information about IFC and a brief history of its corporate governance program. The project has since received positive feedback and continued subscriptions.

Also, the project's Web site (www.ifc.org/cacgp) became active almost simultaneously with the launch event. Now, all interested parties may use it to browse news and information related to corporate governance. To be effective, a Web site needs to be up and running by, or soon after, the launch event, since project materials distributed at the launch event refer to the Web site.

EXAMPLE OF IFC STATISTICS

As of December 2005, more than 7,231 companies in the region received consultations on corporate governance from IFC and attracted investments of more than \$486 million, including \$41 million from IFC.

5) Be proactive after the launch event: don't give your potential clients and counterparts a chance to forget what they have learned about the IFC project.

Two weeks after the launch event, the Central Asia Corporate Governance Project conducted the first seminar, "Introduction to Corporate Governance: Board of Directors." For the sake of efficiency, as well as to create momentum and excitement about the project's activities, we told potential clients about this seminar at the same time we invited them to the launch party. Apparently it worked: 46 representatives from 29 companies showed up!

ABOUT THE AUTHOR

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International
Finance Corporation
World Bank Group

IFC Advisory Services
in the Mekong region

IN PARTNERSHIP WITH:



The European Commission



Finland's Ministry of Foreign Affairs



Dutch Development Cooperation



Netherlands-IFC Partnership



New Zealand's Agency for International Development



Swiss Secretariat for Economic Affairs



Donor Relations

Even in the best case scenario, client fees will only cover the portion of corporate governance advisory services projects focused on direct work with companies. So, donors will always remain an important piece of the funding puzzle. It is a mistake to treat donors as simply an open check book—not only will this not help accomplish the goal of getting the project funded, but it also means losing out on the opportunity to capitalize on donor knowledge of the local environment and key players. Failure to engage with donors beyond merely cashing the check also could make it harder to attract new rounds of funding.

As arms of their representative governments, donors are motivated by their nations' own strategic interests—and they are influenced by the public opinion of their countries.

But in an environment where budgets are tight and the list of needs in the developing world seems to grow longer by the day, it is understandable that the value of allocating resources to something that cannot always be captured in a quick sound bite may not be readily apparent.

Thus, an important aspect of the work here is on making the case for the value of prioritizing corporate governance issues. In effect, this can involve a concerted effort to “connect the dots”—showing donors why they should care about these issues.

“Donors need ammunition to convince their own authorities that they should be spending money

on such projects,” notes IFC Director Christian Grossmann. “You can have the best-planned project in the world, but if there isn't a compelling story that you can tell to highlight the value, or if there is no mega-trend that has catapulted the issue into the limelight—like Enron or Lehman Brothers—donors may not be interested.”

Success stories and case studies with outcomes of other projects—including quantitative data from monitoring and evaluations, if available—can help in this regard, as part of a broader presentation package that also includes:

- A well-structured proposal;
- Specific deliverables;
- A summary of the donor's strategies in the targeted country and how the project aligns with the strategy (this requires some preliminary research to narrow down the field of donors to those that have interest in the country and in the issues); and
- Information on why IFC is uniquely positioned to carry out this work: as an investor, we know what investors are looking for. We have relationships with companies and with policy makers, enabling us to work from the bottom up within companies and from the top down at the policy level and at the educational level to effect change.

The SmartLesson here offers additional insight into maintaining positive donor relations.

Five Keys to Developing Fulfilling and Lasting Country-Level Donor Relations: Lessons from the Azerbaijan Corporate Governance Project

Much of IFC's advisory services work is funded through partnerships with donor governments and other multilateral institutions. Such donors are vital partners for IFC, and maintaining good donor relations is paramount to making IFC's advisory services work even better. The Azerbaijan Corporate Governance Project, for example, is implemented with the financial support of the State Secretariat for Economic Affairs of Switzerland.²⁴ Its goal is to improve the corporate governance practices of Azerbaijani joint-stock companies and banks, thereby helping them gain easier access to capital. At the April 2007 IFC-SECO semiannual meeting in Lviv, Ukraine, SECO commended ACGP as a model for maintaining a good donor relationship. This SmartLesson shares some of what we've learned from this relationship over the last three years.

LESSONS LEARNED

1) Establish and maintain a good working relationship with all of the donor's representatives related to your project.

In general, the IFC-SECO partnership is managed at the senior level primarily by the General Manager of IFC Advisory Services in Europe and Central Asia, with semiannual reporting to SECO's office in Bern. However, a good, and perhaps overlooked, practice is for the project manager and other staff to establish a relationship with the country representatives. These representatives can be great allies, since they constantly communicate with the head office, and your successes are their successes as well.

When ACGP started, there was no Swiss representative in Azerbaijan, but shortly thereafter SECO announced that it would post a Swiss national in Baku. Even before the representative's arrival, the project manager established a relationship with

him and served as a source of information, both on work-related matters and on life in Baku. Moreover, the IFC team strategically planned the date of the project's official launch to coincide with an initial visit by the SECO representative, making it possible for him to speak at the event. This association has grown into a professional and congenial relationship.

2) Be sure the donor representatives know they are members of the team.

The project organizes regular "meet the staff" meetings with the country representatives, so they can get to know the staff and understand each person's role. These meetings also ensure that every member of the project team understands the importance of the donor, and that each member knows the donor country representatives by face and name. Before staff met the SECO regional director for the first time, the ACGP project manager circulated his photo via e-mail, along with the correct spelling and pronunciation of his name.

During the meetings, each team member gives a concise update on his or her current work, providing a good opportunity for the donor to express any concerns about the project activities. ACGP found this to be a more efficient way to discuss concerns than doing so at the formal semiannual meetings.

Another team-building effort is the practice of discussing any major undertaking with the donor before commencing the activity. For example, ACGP discussed beforehand with SECO a plan to execute a Memorandum of Understanding with a project partner and the selection of various pilot companies. Even though SECO always agreed with the project's undertakings, its representatives felt informed and provided better support than they might have if they had found out about the changes after the fact. Moreover, SECO's representatives often offer sound advice that can make a good initiative even better.

To promote the spirit of collaboration even more, we started sending jointly signed cover letters to recipients of major ACGP publications. For example, the project manager and the SECO regional director signed cover letters accompanying the official Azerbaijani translation of the Organisation for Economic Co-operation and Development Principles of Corporate Governance and the ACGP Corporate Governance Survey Results that were sent to over 250 companies, banks, and other project partners.

Also, it is important to make sure the donor is aware of changes in staffing and recruiting. When someone leaves the team, the ACGP project manager promptly informs the SECO regional director.

3) Keep your donor informed.

We found that the local SECO representatives appreciated periodic updates, but given all of the administrative reporting in IFC, we did not want to add another layer. So the project manager and the local representative agreed that an informal e-mail every other month would be sufficient. They chose this schedule to coincide with the project's

preparation of information for the IFC Advisory Services in Europe and Central Asia internal bulletin, which is circulated every two months.

Keep the donor informed about future events well in advance.

Along with the update e-mail, the ACGP project manager sends the SECO country representative a list of planned and tentative events. In addition, monthly informal luncheons with the donor representatives help keep them informed.

Become a source of additional information for the donor.

Occasionally, SECO country representatives request information beyond the scope of the project area. For example, ACGP is a good source of information on the banking and financial sector in Azerbaijan, due to its work with clients in this sector. Without divulging any confidential client details, the project has provided information that SECO country representatives have found helpful in the funding of other projects in the sector. Additionally, we often refer SECO to other contacts who are better suited to answer certain questions.

4) Allow the donor to use the project as a vehicle to promote its presence and visibility.

Invite the donor to all project events, and, if warranted, ask one of the donor's country representatives to speak at or participate in any formal opening ceremony.

If you ask the donor to speak, provide adequate background information on the event, and clearly outline the issue and the message that the project hopes to deliver. For example, when the ACGP asks SECO representatives to speak at its events, the project manager sends them an agenda, speaking points or a "scene setter" that explains the event, and mentions who else will be speaking and attending the event. As a follow-up, ACGP always sends thank you e-mails to donor representatives for their



A reception for clients and partners gives the donor an opportunity to meet the people we work with.

participation, along with copies of any newspaper stories about the event.

During project events, the appropriate staff should introduce the donor's clients and partners.

Make sure your clients and partners, and especially government officials, understand how important your donor is for the success of your project and, ultimately, its clients and stakeholders.

At a client-and-partner reception for SECO representatives from Switzerland during the April 2006 Baku semiannual meeting, these representatives had the opportunity to meet such individuals as Naida Saidigova, who was the first lecturer in Azerbaijan to deliver a corporate governance course based on ACGP's model university course. SECO representatives expressed appreciation for the chance to match a face and a person with the plethora of stories and numbers contained in written periodic reports.

The Baku team prepared the clients before SECO's visit by giving them a one-page note on SECO and how SECO had benefited their company. Such preparatory work can pay huge dividends. For example, during an official Memorandum of Understanding signing ceremony, a frequent client of ACGP thanked SECO and its regional director, by name, on national television. Donors greatly appreciate such recognition.

Ensure the donor's visibility at your events and in your office.

The ACGP prominently displays the donor's banner in its office conference room, and we have placed a number of small Swiss flags on desks and in common areas throughout the Baku office. So, clients who come to the office for meetings are well aware of the donor's place in the project.

SECO banners and flags are always on display at project events—and strategically placed for events that will be televised. At the last joint meeting in Lviv, the project manager showed SECO a video montage of the project's television news coverage in Azerbaijan, and the donor was pleased to see its banner so prominently displayed.

If you invite outside experts to present at seminars or conferences, make sure you provide them with sufficient information about the donor, so they understand who sponsored their participation. Also, always provide information about the donor in your press releases and other communication with the media, to increase the likelihood that the journalists will mention the donor and its activities. For example, whenever staff open or moderate a project event, the speaker acknowledges and thanks SECO (at least once by its full name, the State Secretariat for Economic Affairs of Switzerland), and if SECO representatives are present, we thank them individually by name.

Reminder: Be sure to include the donor's name and current logo on presentations, project publications, and conference or seminar banners and agendas.

5) Be honest, available and sincere.

Donors will respect you and trust you for your honesty.

If you make a mistake, admit it, apologize, and make sure it won't happen again. Don't make excuses or try to cover up an error. For example, during a particularly busy period with several consecutive events, the project

failed to send SECO an agenda for one of the events that we had invited them to attend. The day before the event, we contacted the donor to remind them of their participation. When the representative said they had not received the agenda, the project manager promptly apologized for the oversight and accepted responsibility. The donor representative understood and was happy to receive the agenda shortly thereafter. Due to the project's regular communication with the donor, the representative was already aware of the event and it was not a big surprise. And, the project's record of open communication and good faith led the donor to see this misstep as a minor oversight, soon to be forgotten.

Be available, responsive, and punctual.

Regardless of the travel demands that go with the job, the project manager or a designee should always be available to the donor. If travel takes a project manager away from the project for a significant amount of time, let the donor know who the contact person is during this period. Also, the donor will appreciate it if you can be easily reached. The same approach should be applied to donor requests. Moreover, don't be late to meetings or cause delays in starting events on schedule—especially with the Swiss!

Be cheerful and sincere.

ACGP staff members feel lucky to have a donor such as SECO, whose representatives are reasonable and easy to deal with. The relationship should be based on a genuine desire to cooperate—not just going through the motions to secure funding. Remember that it truly is a partnership and should be managed as such.

CONCLUSION

Good donor relations ensure the smooth running of the project—and benefit IFC in general, since it periodically proposes new projects to SECO and often requests extensions of existing projects. For example, following the April meeting, SECO granted a 14-month extension to ACGP. The SECO country representative noted that it was an easy give to extend such a project.

ABOUT THE AUTHORS

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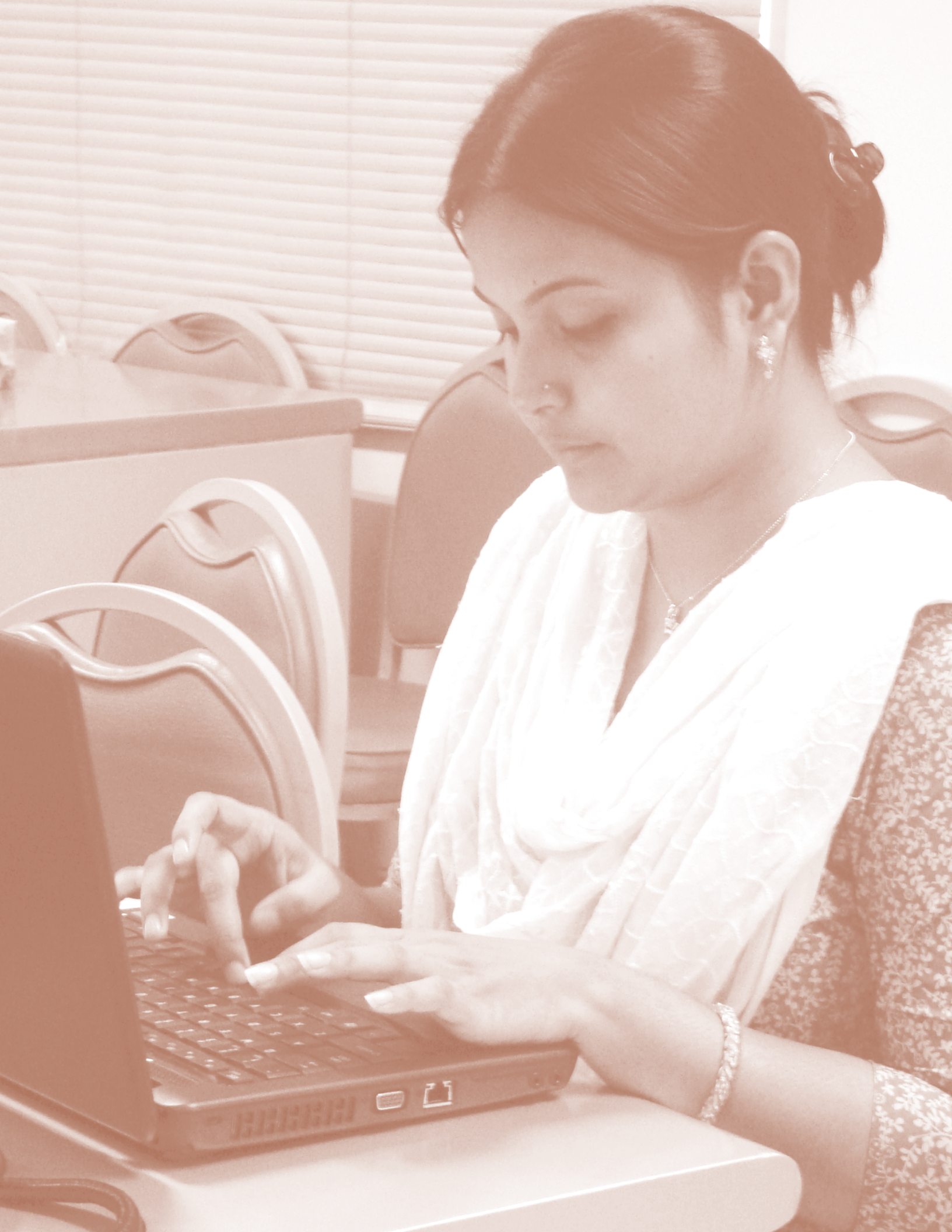
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Reporting, Monitoring, and Evaluation

In measuring the impact of projects at closure, we look at the four areas of focus within our project model. We have developed an approach to measure impacts and results within each of these areas:

- Direct company-level improvements to corporate governance: measured by surveys of clients and non-clients on practices and impacts
- Improving the regulatory framework: measured by passage and implementations of laws and corporate governance codes
- Work with educational institutions: measured by surveys of educational institutions on students taught and curricula used
- Public awareness and work with media: measured by media monitoring

In designing evaluations of our programs for purposes of reporting, we look at three basic questions:

- Do improvements in corporate governance result in investment?
- Is there a demonstration effect in the market?
- How do we achieve sustainability?

Of course, reliance on surveys to measure company-level impacts gives rise to a number of challenges. For instance, despite best intentions, survey questionnaires may not be completely unbiased. In addition, comparing performance of non-client and client companies presumes that

non-clients will be forthcoming on their financial data. In reality, this is not always the case—very few non-clients are willing to provide impact-level financial data, making it difficult to compare ability to attract investment. We are continuing to try new approaches that will help overcome these challenges.

We are also starting to think about ways to assess the longer-term impacts of projects, well beyond project closure.

What's the reason for this?

Often, project closure is the starting point for clients that were beginning to undertake corporate governance improvements. Many clients and non-clients are still in the planning stages when we exit projects, with implementation of additional improvements to come. In addition, the extent of new investment in client companies due to changes in corporate governance practices may not be apparent at project closure. Instead, such investment may come over a more extended time frame.

To address this evaluation gap, IFC, in cooperation with SECO, recently conducted a first-ever evaluation to assess the longer-term impact of IFC advisory activity in Russia during the period 2001-2007. The evaluation quantified strong impacts and results in all four areas of project work. It validated the theory that significant additional impacts would be realized two-to-three years after projects close.

How Did We Do? Measuring Results of Corporate Governance Advisory Services Projects

In Ukraine, 52 out of 70 surveyed client companies (74 percent) that upgraded their corporate governance practices as a result of IFC consultations reported improvements in production, sales, profits, and/or decision-making. It's a notable statistic, one that can be used to help us tell our story and make a stronger case for the value of corporate governance, as well as assist in attracting funding for new projects. Over the years, IFC's corporate governance project teams have developed an effective approach to gathering such information and measuring results.

BACKGROUND

In the early years of our corporate governance project experience, measuring results was a challenge—we needed to figure out how and where data should be collected, how to benchmark improvements, and how to understand the connections between corporate governance improvements and positive impacts such as lowered cost of capital.

In these early years, the connection between good governance and stronger businesses was not well-documented. In some cases, there were internal battles that needed to be fought so that client company management would see the importance of the work as a tool to help improve business profitability and the overall business environment.

Careful attention to monitoring, evaluation, and results measurement has helped increase awareness and deliver the message that good corporate governance practices strengthen companies, and can help mitigate portfolio investment risks through improved company performance.

And, as with any other project or investment, ongoing monitoring and evaluation has become an important tool to see if the team is on track to meet goals, as well as to uncover any gaps or problem areas so they can be resolved.

Even though we recognized the value of project monitoring and evaluation, we faced a considerable challenge: coming up with an effective way to measure the results, progress, and impact of projects with multiple components and varied activities.

Over the years, we have developed a viable approach to measuring the results of all levels of corporate governance work with clients, ranging from companies and banks to education institutions, from media to legal work. This has netted a sound base of reliable data on the significant results yielded by our corporate governance projects that we can present to donors, IFC management, and—of critical importance—potential clients, to demonstrate the business case for making governance improvements.

Here are some key lessons we have learned along the way.

LESSONS LEARNED

1) Baseline surveys are important not only for assessing outcome and impacts—results can highlight deficiencies and enable better targeting of activities to address the deficiencies.

Of course, we know that baseline surveys are important for providing information that we

can use on post-project assessments to determine outcome and impact. But we learned through hard experience—meaning that in some of our earlier projects in Russia and Ukraine we omitted this important step—that conducting an initial baseline survey helps the team understand the overall level of corporate governance practices in the given country, region, or sector. And even though the overall design of the project might not be materially changed, incorporating baseline survey results early on can help direct certain activities toward deficiencies uncovered.

It is also helpful to collect baseline information on the overall understanding of the benefits of corporate governance and the link to investment. For example, in Azerbaijan, we asked about respondents' awareness of and commitment to good corporate governance practices by asking what they knew about the Organisation for Economic Co-operation and Development Principles. This gave us a frame of reference on which to base our work so that we could address gaps, and a benchmark against which we can measure overall market awareness changes at project completion.

In our work, we collected data on the existence of specific internal documents before starting in-depth work with clients. Comparing this baseline information on specific companies with post-project outcome assessments on these same companies is a simple, accessible way to demonstrate the strong results achieved. It's a snippet of information that can be summed up in a sound byte, and it gives the team a hook to interest the media so that they will cover the story.

2) In corporate governance projects there's no real way for us to compare apples to apples, but there's a way to get close!

One issue we encounter when evaluating corporate governance projects is selection bias; the clients who choose to work with IFC are often more likely to undertake improvements in the absence of the

ABOUT IFC'S CORPORATE GOVERNANCE PROJECT EVALUATION METHODOLOGY

Evaluations of corporate governance projects focus on answering three key questions:

- Did corporate governance improvements result in measurable impacts, such as improved access to finance, lower cost of capital, and/or improved reputation for project clients?
- Did the projects achieve a demonstration effect in the broader market?
- What is being done to ensure the sustainability of the project's work?

Among the tools developed to measure the results of corporate governance projects are:

- Standard indicators for internal tracking by the project team
- Survey questions and templates to assess outcomes and impacts
- Tips and questions for in-depth interviews
- A questionnaire for educational institutions

project. This limits our ability to attribute the clients' results to the work of the IFC project. If we could compare our clients to non-clients who were also really eager to improve corporate governance, and did it through some means other than the IFC project, we could get around this issue, but, unfortunately, it's nearly impossible to create a truly comparable control group for comparison.

In Russia and Ukraine, we focused on an approach that would bring us close: comparing companies that worked with the project and similar companies that had no contact with the project. While this does not fully address the selection bias issue, it does give us meaningful data and serves as a good indicator of project results.

For purposes of deciding how to measure results, we categorized our corporate governance projects in Russia and Ukraine under two main umbrellas:

- Group A: projects with more than 25 active clients and/or a large population of prospective clients; projects with clients that have similar competitors
- Group B: projects with less than 25 active clients and/or a small population of prospective clients in the market; projects with exceptional clients—those with overwhelming market share or the largest size in the market

For projects that fall in the Group A category, conducting a survey that compares impact and outcomes between client companies and non-client companies can help us understand the effectiveness of the project. In Ukraine, this kind of survey revealed that 75 percent of companies that worked with IFC as pilot companies experienced improvements in production, sales, or profits as a result of improved corporate governance, compared to 34 percent of non-client companies that reported undertaking similar improvements to their corporate governance practices—it's a big difference, and a great statistic to help tell the story.

For projects that fall in the Group B category, statistically significant comparisons between clients and non-clients are not possible. For these projects we focused on collecting outcome and impact information from clients at the beginning, midpoint, and end of the project, and just telling a “before and after” story on the results.

3) Monitoring can be a tool to uncover issues during project duration.

Even the best-planned projects can go awry. Careful monitoring of progress can ensure that things stay on track—and can help redirect projects if what was initially planned isn't working as well as it should. We found this to be very effective in Azerbaijan, where a review after the first year of our operations indicated that the number of consultations we conducted

was quite low, compared to the set targets in our monitoring and evaluation framework. When we investigated, it turned out that company executives had limited time to spend on such meetings.

To address the issue, we decided to set up a hotline, staffed 24 hours a day, seven days a week.

Some might ask: Was 24 hours a day, seven days a week coverage really necessary?

The answer: yes.

Many companies in Azerbaijan hold their Supervisory Board meetings in the evenings and on weekends, and it is during such meetings that questions are likely to arise.

Companies could call in with questions and get their questions answered right away, on demand. We rotated the job of staffing the hotline among consultants. It proved an effective tool to help companies and to introduce them to what we were offering. The more they understood about how we could help, the more willing they were to participate. While we did not formally measure the effectiveness of the hotline, we believe that it did lead to more consultations—and increased the likelihood that they would be willing to pay for services. The hotline also served as a great marketing tool in our start-up phase, because it helped raise awareness about the project.

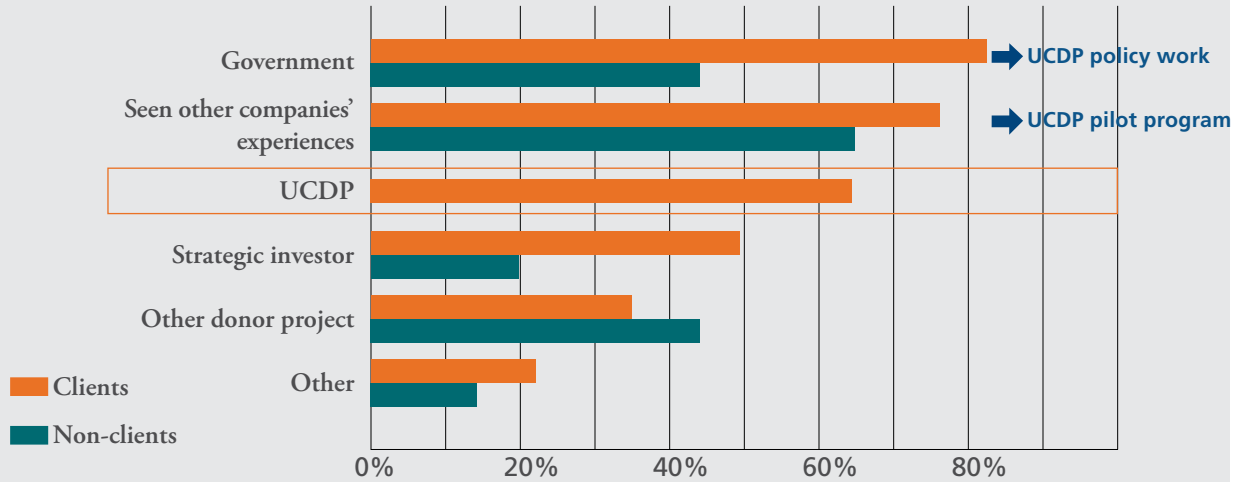
4) Don't underestimate the value of a good story: the combination of solid, quantitative data and anecdotal evidence can make the case.

In-depth interviews with pilot clients can enrich peoples' understanding, and also get at some of the softer, harder-to-quantify yet equally powerful results. These interviews can serve as the basis of success stories or profiles that can tell the story to donors and other external audiences.

Also of note: such profiles can make a strong case to other companies that may be considering undertaking corporate governance improvements. This demonstration effect—companies learning from the reported experiences of others and following suit—

MOTIVATING FACTORS BEHIND IMPROVEMENTS TO INTERNAL DOCUMENTS AND CORPORATE GOVERNANCE PRACTICES

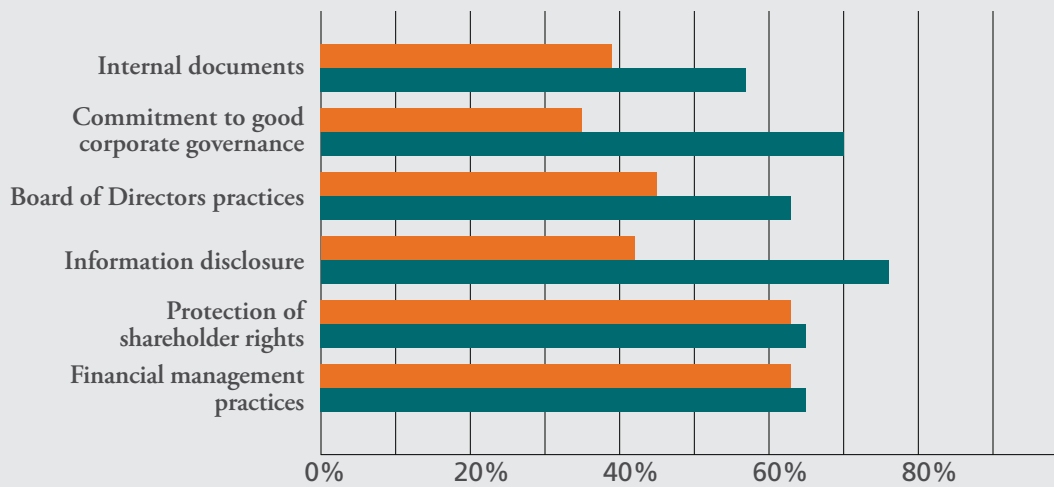
Percentage of companies that cited each of the following as a motivating factor for introducing or modifying practices or documents at least once



(89% OF CLIENTS AND 54% OF NON-CLIENTS RESPONDING)

MOTIVATING ROLE OF OTHER COMPANIES' EXPERIENCES

Percentage of companies citing "seen other companies' experiences" as a motivating factor for introducing or modifying practices or documents at least once



(30% OF CLIENTS AND 53% OF NON-CLIENTS RESPONDING)

(Source: Ukraine Corporate Development Project: Outcomes and Impact of Assistance to Companies, 2006)

RUSSIAN UNIVERSITIES USING IFC MATERIALS IN COURSE DEVELOPMENT

Educational Institution	Course Name
Tolyatti State University	Organization of Enterprise
Samara Academy for the Humanities	Corporate Governance
Samara State Technical University	Corporate Governance
Samara State University of Economics	Strategic Management, Strategic Management II, Crisis Management
Samara International Market Institute	Theory of Organization, Human Resources Management
Moscow Higher School of Economics	Program of the Corporate Director, Corporate Governance, Corporate Policy, Introduction to Corporate Governance for Corporate Secretaries, Strategic Management of Finances
St. Petersburg State University—Law Faculty	Corporate Governance in Power Energy Company, Problems of Corporate Governance
St. Petersburg State University—Management	Corporate Governance
St. Petersburg State University of Economics and Finance	Investments, Corporate Governance
Northern Caucasus Academy of State Service (Rostov)	Corporate Governance, Management of International Business
Ural State Economic University (Yekaterinburg)	Corporate Finance, Corporate Finance II
Ural State University (Yekaterinburg)	Course of programs in second year of magister study, Corporate Social Responsibility
Ural State Law Academy (Yekaterinburg)	Corporate Law
Ural-Siberian Institute of Business (Yekaterinburg)	Strategic Management
Ural State Technical University (Yekaterinburg)	Strategic Management (President Program)

Source: Joint IFC-SECO Evaluation of CG Projects, Russia, February 2010

can be extremely powerful. Our analysis of corporate governance projects in Ukraine bears this out: for both clients and non-clients, the two most significant motivating factors for undertaking improvements were legislative requirements and seeing other companies' experiences.

Success stories can help in media outreach and public relations efforts, and for the educational and policy work components as well. In fact, a direct quote from an investor, professor, or government official about the effectiveness of the work can go a long way toward driving home the message about the value of corporate governance improvements.

5) Maintaining good records of legislative recommendations, draft laws, and amendments to existing legislation will help track changes.

Projects can achieve country-wide impact and sustained results through passage of new legislation related to corporate governance practices. To track results here, be sure to keep track of what's been proposed. Following the passage of laws, IFC's legal specialists or legal consultants can determine if the recommendations from the project were included in the legislation, provided that the project has tracked the details of the proposed revisions and the key contact people in the government agencies to whom the recommendations were presented. Surveys to track changes in country-wide corporate governance levels at the end of a project can also include questions on compliance with these new laws to show how the changed legislation influences company behavior.

Tracking behavioral changes based on new legislation also gives governments an important tool to use as they promote a corporate governance agenda. For example, in Georgia, we helped the government introduce a new, streamlined company reporting format to replace a rather complex and confusing process. Within one year after the introduction of this new format, compliance with reporting requirements

Careful attention to monitoring, evaluation, and results measurement has helped increase awareness and deliver the message that good corporate governance practices strengthen companies and can help mitigate portfolio investment risks through improved company performance.

surged 70 percent. Monitoring and documenting this outcome gave the Georgian regulators more evidence to help drive new public policy and to explain the rationale behind additional legislative changes.

6) Measuring the results of media outreach and public awareness activities is complicated, but do-able.

Media publicity is a key tool to demonstrate the value of IFC's corporate governance efforts to the broader marketplace. It is next to impossible to show a direct causal link between publicizing the work we do with clients, the effect on the wider group of potential clients, and the country's level of corporate governance practices. Still, there are ways to present a convincing case on this issue.

In Russia, for instance, we found that engaging the services of a media monitoring firm to track mentions of corporate governance was a cost-effective way to get the information we were looking for. The firm conducted rapid searches and analyses on a list of corporate governance-related terms in 72 federal-level Russian publications. Their findings showed a

nearly 300-percent spike in the number of corporate governance mentions—from 604 mentions in 2001 to 1,755 mentions in 2008.

Another dramatic spike in the number of media mentions came around the time of our Initial Public Offering conference launch in Ukraine. Such monitoring helped provide further evidence of the project's demonstration effect in the market.

In our experience, a high percentage of clients and non-clients typically report that hearing about the positive experiences of other companies is a prime motivator of their desire to change (see lesson 4). This shows not only the important role played by the media in reporting these experiences, but also the way in which the projects can use this to influence the behavior of non-clients as well.

7) Educational components of corporate governance projects can have the most durable impact, but results are hard to quantify.

If cost were not an issue, tracking the career paths of graduates who have taken corporate governance course work as part of a business or law school curriculum would be a great way to measure long-term impact: to look at where they are working and how their corporate governance knowledge helped them in their managerial roles. But this would require extensive—and expensive—longitudinal studies, tracking career progress for 10-20 years post-graduation. Still, just because such studies are not feasible does not mean that this important component should be overlooked.

We determined that one way to measure the results of corporate governance projects that work with academia is to focus on how universities and individual professors are using the materials we provide. To find this out, we developed a survey that questions universities and professors on their use of teaching modules and educational products that were created as part of the project. We also included questions to gather information on the number of students reached with these materials, as well as qualitative feedback on the usefulness of the materials provided.

CONCLUSION

As attention to corporate governance issues becomes mainstreamed into IFC's business, measurement will become even more complex—and ever more critical. The measurement tools and templates being developed will require fine-tuning to reflect this new reality.

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Capturing Results in a Better Way: Eight Lessons in Productive Data Collection

Although many development partners have been discussing impact and evaluation for the last 30 years of international development, there still seems to be disagreement on indicators, impact, and how to collect the data—and discussions are ongoing. Evaluations and impact assessments are crucial for IFC advisory services projects. They help identify issues in implementing strategies that ultimately stand in the way of realizing the project’s goals and provide vital lessons for the success of future endeavors. Based on our experiences at the IFC South Asia Enterprise Development Facility, we want to share some lessons on how to collect monitoring and evaluation data in the most effective way and what data to look for.

BACKGROUND

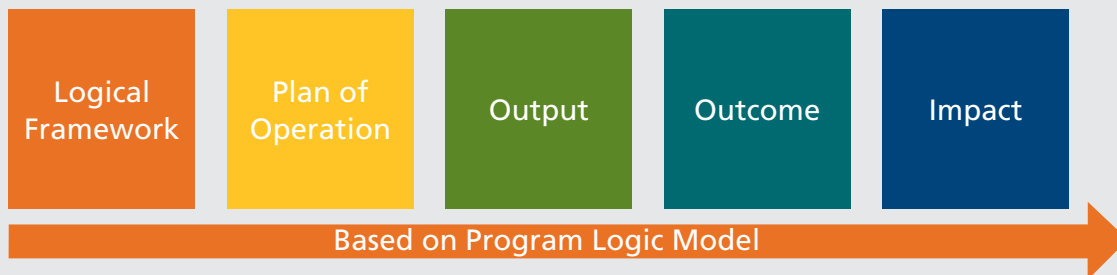
During the first cycle of the project, our monitoring and evaluation team, as a pilot, adopted a results-based performance measurement tool to assess the effectiveness of our interventions. The tool was based on a planning matrix derived from causal chains to make intended impacts within the framework of IFC development objectives and strategies.

We wanted this tool to help us assess the impacts of interventions and guide us in improving our future efforts. However, due to various challenges, not all

staff members were able to use the tool to its full potential, and thus our M&E results fell short of their high aspirations. Although everyone wanted a good and useful system, few welcomed the work involved in updating files unless there was some kind of urgency. Often their input came too late in the process to be useful.

Anecdotal feedback and actual application of the piloted performance measurement tool revealed several other issues; addressing them taught us some valuable lessons.

FIGURE 1. MONITORING AND EVALUATION CAUSAL CHAIN



LESSONS LEARNED

1) Develop the relationship with the client or the information provider before requesting any data.

A major hurdle was the enterprises' reluctance to share data, such as the status of their business performance. In countries like Bangladesh, information is spread by word of mouth, according to oral tradition. This means that the transmission of knowledge, information, and data occurs not via books and Web pages, but through people interacting with one another in informal settings. Owners of small and medium enterprises prefer to get to know the people they are dealing with before they give out business- or finance-related data. Local businessmen feel comfortable providing information in a subjective manner by talking to peers and colleagues, rather than by doing lonely research on facts and evidence. In other words: first the relationship, then the data-sharing. In the future, we plan to employ the oral tradition approach to build up rapport and strong networks with associations and business chambers.

2) Secure stakeholder consultation and buy-in at the outset.

Previously, M&E was perceived as a data collection unit that worked on numbers in an isolated way. Now we know that stakeholders must be part of the process to ensure the tool's success. Stakeholders include task managers and transaction leaders, clients, service providers/associations, management, development agencies, and donors (see Figure 2). It is important to get feedback from the stakeholders regarding the project's interventions and the expected impact they will have. Every stakeholder needs to understand how the data affect and illuminate their project's success, and hence take ownership over this dimension of the project. Teamwork and group brainstorming generate the kind of innovative approach that is necessary.

We found that involving donors is a useful strategy.



IFC staff engaged directly with farmers in the field to assess their needs.

Because donor staff members keep changing, we also realized that it is important for them to understand the past, the present, and the future outcome of plans.

3) Include a clause in the Memorandum of Understanding that ensures data sharing related to the project from every stakeholder involved.

Previously, we collected data from multiple sources using various methods but were often left with numerous blanks or conflicting information. It is not that clients did not want to cooperate; they just lacked the foresight to provide the necessary data in the language we wanted. By coaching the clients on how data can be collected and how the clients themselves could leverage the information, we started collecting required data right at the outset through the MOU, and we were able to see significant improvements in data compliance.

Because we kept the data to ourselves, the clients didn't see much value in their contributing. We learned that we should also share company data and our diagnosis with the clients so that they could see the value of the information.

FIGURE 2. STAKEHOLDER CONSULTATION

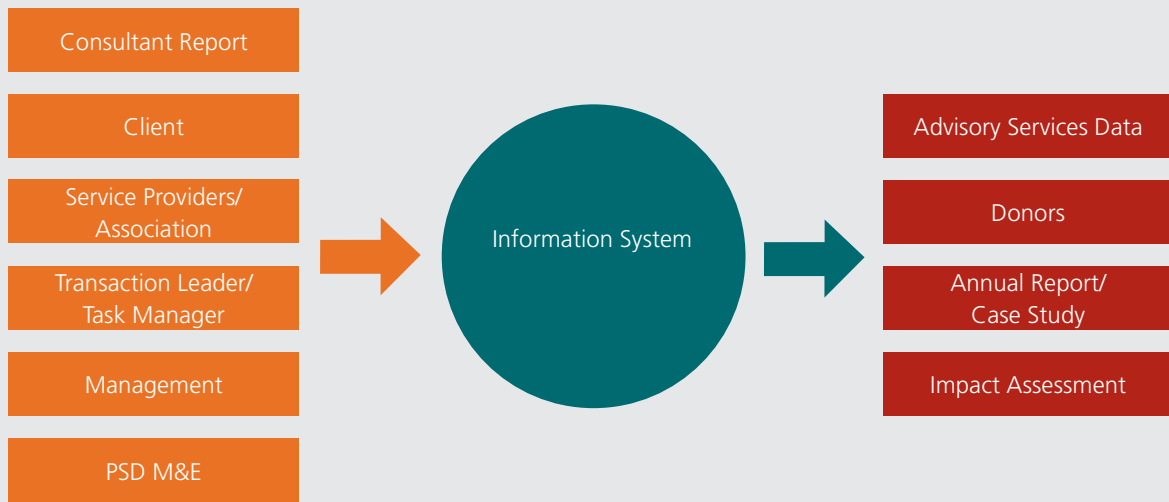
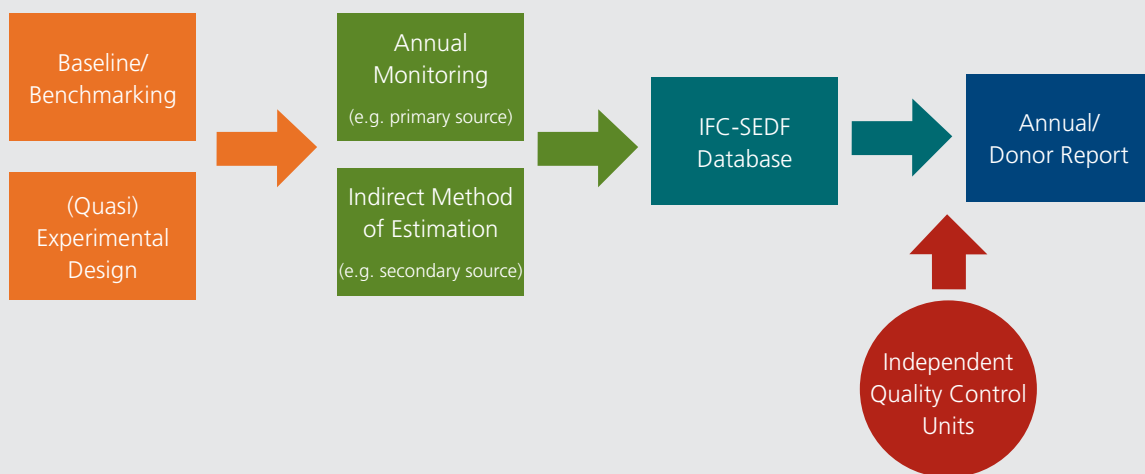


FIGURE 3. MONITORING AND EVALUATION FRAMEWORK





To ensure success, stakeholders must be part of the process.

4) Add an independent quality control unit.

Even with more consistent data sharing, we encountered problems with sustaining data quality in terms of consistency and comparability. We learned that an independent quality control unit would be a useful addition to provide a neutral view on data validation and process compliance (see Figure 3).

5) Educate users about the value of constant feedback.

It took time to educate users on M&E. Many of them simply did not see beyond data collection. As a result, the tool missed receiving constant feedback, which would have given diverse users' perspectives. Ultimately, we leveraged corporate-wide demand and an M&E network to educate users on the importance of M&E by circulating information from organized M&E discussions among colleagues who were not originally a part of the process. That said, it is still a difficult process.

6) Customize tools for collecting baseline and monitoring data.

We have multiple demands for our information. We need to adhere to the indicators and guidelines provided by the Results Measurement Unit, based in Washington, D.C., to summarize the global data from the field (more generic/standard in nature); provide sectoral benchmarks to create an industry-specific baseline so that we can do some comparisons after the interventions; and give information and feedback to the task managers. In addition, we use the data for our own value-added marketing of our advisory services through sharing industry-level information with the clients so that they are aware of the changes taking place within an industry.

Initially, we followed the generic indicators suggested by the Results Measurement Unit. But we soon learned that it is crucial to design exclusive, user-friendly templates to address the specific issues of each relevant sector. For example, if we are working on the garment sector, it is important to look at the export volume, labor margin, and unit price of the garments to see how growth has been achieved. On the other hand, it is important to benchmark the cost of raw materials and inputs like electricity and gas for the light engineering sector, the focus of which is on



The ready-made garments industry requires customized tools for collecting data.

reducing costs of inputs to other industries that use light engineering products as their raw materials.

The biggest lesson we learned is that it is really important for the results measurement team based in the field to understand the causal relationship between interventions and certain results so they can tailor the indicators accordingly. The M&E team should be involved at the project design stage. Doing so increases the workload, but then there is no shortcut.

7) Go beyond measuring the impact on primary beneficiaries.

Previously, we tracked the effects of our interventions at the outcome and impact level only on the primary beneficiaries. We then learned that it is critical to focus on the changes in the business practices of those affected by our interventions directly and indirectly, because that provides greater insight into the strengths and weaknesses of our interventions.

For example, most of the access to finance work involved building partner financial institutions' competency in lending to SMEs by introducing new SME-friendly products and training. We helped these institutions build and maintain a good tracking system that would look at changes in their SME loan portfolio, nonperforming loans, the number of borrowers and outreach, and the growth of new products. However, when the external evaluators saw that the banks were doing well with our assistance, their first question was, "So what?" They wanted to see precisely how the SMEs benefited by taking a loan from the bank, and how they improved their business performance. The same concerns were raised in all the business lines. The biggest lesson we learned is that, in designing interventions, we really need to be specific about what kind of changes we want to see in the ultimate beneficiaries and how we can attribute our interventions.

8) Follow through in the short and medium term.

We also need to look beyond short-term M&E. For example, after facilitating the organization of an electrical fair to promote local products, at year's end we measured the participants' sales and job growth. It was only later that we realized that we should have continued our M&E efforts and tracked how many future contracts or businesses they secured as a result of participating in the fair.

CONCLUSION

Our experience from the pilot demonstrates that a revised Management Information System-based performance measurement tool that addresses the aforementioned bottlenecks is the best way to ensure that the desired goals of the project are achieved. We also plan to use our comprehensive monitoring and evaluation database for all kinds of reporting, such as semiannual IFC reporting, corporate advisory services project management templates, semiannual donor reporting, management reporting, press releases, and case studies.

ABOUT THE AUTHORS

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Special thanks to David Martz, Abdullah Mamun, Farhana Gaffar, Shazia Ahmed and Mohammad Rehan Rashid.

April 2009



Exit Strategies

Should we stay or should we go?

Gaining commitment from donors and from IFC to implement an advisory project on corporate governance is a challenge, it's true. The bigger challenge, though, is that the need for on-going support for corporate governance improvements in the markets where we work extends well beyond the two-to-five year timeframe of a typical project. The needs will continue long after IFC and donors have exited the project.

Because of this, devising a viable exit strategy at the outset of any project is critical. The exit plan will define the sustainability of the work done during the lifetime of the project. It also will provide some comfort to partners and donors, so they see that once project funding is depleted,

there is a plan to ensure continuing capacity to keep the work going.

Planning when and how to exit a corporate governance advisory services project is a delicate business. With so many projects through the years, we've had a range of experiences related to exiting—or not exiting when we should have.

Considerations might include the level of capacity already in the market and how quickly it may be developing, the level of resources committed, and the market viability of the exit. Bottom line: there must be a business case for any exit strategy.

The SmartLessons in this section provide a frank look at our exit strategy experience.

To Exit or Not to Exit? And Where's the Exit, Anyway?

The IFC mission contains that great word “sustainable.” And yet every project must end at some point. When that happens, how do we ensure that the progress that has been made continues? Since 2000, IFC has completed more than 50 advisory projects in Eastern Europe and Central Asia. We have experimented with a number of different exit strategies for our projects, from handing over activities to existing organizations, to creating brand-new entities, to transferring materials to project partners. We have also made the same mistakes several times, including designing a follow-on phase rather than designing an exit.

BACKGROUND

Initial thinking on this topic was prepared in the fall of 2007 as an outcome of discussions with the Swiss Secretariat for Economic Affairs, our donor partner, which takes exit strategies very seriously. This SmartLesson is not meant to be all-encompassing, nor does it present any sophisticated analysis. It simply summarizes a few practical takeaways on exit strategies across the business lines in our region.

THE 3 MYTHS ABOUT EXITS

Myth #1: We're so good at this, let's keep doing more.

Although the market may want more IFC services, it is often hard to accept that our additionality has expired. Many advisory projects should naturally close when IFC's catalytic role comes to an end. Consider the product/practice curve on page 169. If your project ends when the market for the new product or practice you've worked to introduce has already become widespread and accepted, you can usually assume that sustainability has been achieved. In other words, because the demonstration effect has taken hold, there are no additional public benefits from working with individual firms. Those who need the technical support can buy it on the local market. When that happens, the best exit strategy is for our advisory staff to shift their attention to other countries or to return to their own marketplace after project completion and

continue to apply the new skills and practices they learned at IFC in the private sector.

Myth #2: Once we pass a law, the change is sustainable.

This continues to be one of our favorite delusions. Consider our experience with leasing regulations in Central Asia. Although IFC advisory teams initially succeeded in introducing favorable legislation for leasing in the Kyrgyz Republic and Tajikistan, the leasing lobbies in the country were not strong enough to advocate against reversals. In both cases, IFC had to spend significant additional efforts to reenact the legislation once again.

The key question to ask is whether the client base you are leaving behind has the critical mass and is organized well enough to fend for itself if the regulations change after IFC is gone. Alternatively—or, better yet, concurrently—policymakers need to be sufficiently educated about the subject matter to understand what drives or inhibits the private sector. If not, then we have not managed the exit strategy sufficiently well.

Myth #3: Spinning off the advisory team is the exit of choice.

This happens over and over again. The team is so great, and they really know their product: why don't we just spin them off into a business? In hindsight, our track record with this exit strategy isn't great.

In fact, this is probably the most complex and risky exit of all the options. In the simplest terms, this is because you are combining the risk of a new product/service with the risk of a new business. And we know that more than 80 percent of new businesses fail.

So what are some of the lessons from implementation?

LESSONS LEARNED

1) Plan the exit at the proposal phase, and implement it over at least one year.

An exit is part of a project and needs to be planned within the project proposal just like any other major activity. The exit strategy also needs to be regularly updated and reviewed throughout the project life cycle. Premature exits can potentially undermine your entire program. From our experience, a good exit strategy takes on average one year to implement. Unfortunately, we usually think about exits only in the last three months of the project.

There can be three possible objectives for good exits:

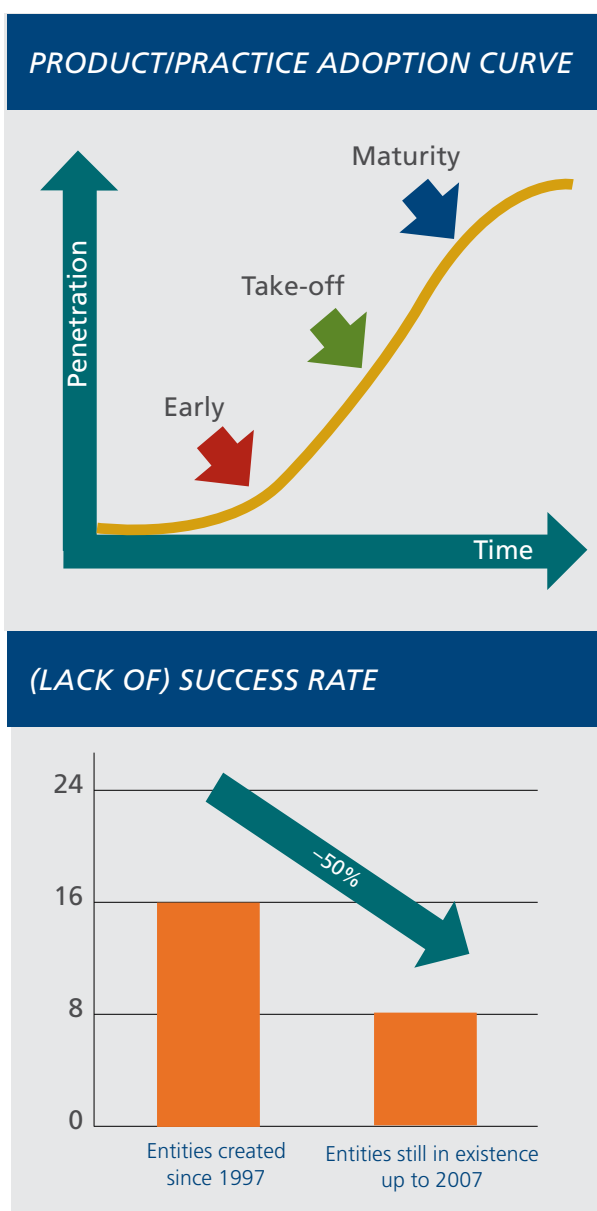
- Maintaining the momentum of new practices being introduced, assuming the market is not yet at the maturity stage;
- Ensuring that legislative changes are not reversed after project completion; or
- Providing continued affordable access to training and consultations on the relevant topic(s).

Depending on your program, these objectives should be designed into how you actually structure the work. For example, if your project envisions introducing new services in the marketplace, the emerging best practice is to competitively select, where possible, several exit partners as you launch the project. This approach maximizes the time during which you can work with your exit partners, and also ensures that you don't distort competition by leaving behind only one provider.

2) Focus more on the product, less on the exit partner.

A common way to exit a project is to hand over

project activities to partners. However, it's much more important that the product itself has sufficient demand in the market at appropriate price levels. Too often, we focus on "building the capacity" of an exit partner, overshadowing the real goal of making sure the market is ready for the product and that several service providers can competently meet the emerging demand. Consequently, when we stop building capacity of our exit partner and subsidizing the product, the service disappears from the market. Investing significantly in building market awareness, selecting multiple exit



partners, and appropriately charging for services during the course of the advisory project all help to prepare the market for this transition.

Our work in the automotive sector in Russia has been a good example of where this exit strategy actually worked. The objective of the Automotive Component Supplier Development Project, supported by the U.S. Government, was to help Russian automotive supplier companies improve quality and efficiency by minimizing waste and inefficiencies in the production process. The project trained several consulting companies in lean production and other techniques, and a significant amount of effort was spent on general awareness about the benefits of lean production within the sector. As a result, after the project closed in 2004, there was a critical mass of clients willing to pay for the lean production product; and three consulting firms could meet this demand in a competent manner. As indicated in the graph below, the business of one of our partner consulting firms grew tenfold by being able to respond to market demands.

3) Staff spin-off exits separately.

As already mentioned, this is probably the most complex and risky option, because it combines the risk of a business start-up with the risk of a more sophisticated new offer on the market. In some cases, however, this is the last resort and only available option. Normally this happens when there is no one in the marketplace who is capable of or interested in taking up our product, and yet we believe it is critical for the private sector at a given point in time. An example of this “last resort” situation was our attempt to find a reputable partner to work with us on the financing and marketing of cotton in Tajikistan, after the civil war there. This sector was accountable for a significant share of the country’s gross domestic product and almost the sole source of income for the rural population. We had no takers and proceeded with creating a new organization, with all the accompanying growing pains.

We learned the hard way that exits that foresee the spin-off of project activities into a separate company

need to be staffed accordingly from day one. An entrepreneurial mindset becomes probably the most important criterion for the selection of the project team. This is not necessarily so for our normal advisory services programs. Our experience spinning off the *Roundtable* magazine, a regular publication of the Ukraine Corporate Development Project, for example, showed that while many staff members were excellent writers and editors, the team did not possess the necessary combination of marketing and business skills to make the magazine sustainable. Although the magazine enjoyed popularity under the IFC umbrella, its existence ceased with the project. The Ukraine SME Toolkit Project, on the other hand, recruited its project manager with terms of reference clearly stating that IFC support would continue only through the initial 18-month gestation period, and that we expected the successful candidate to be able to run the Internet site in the marketplace thereafter. The Web site created through this program, Vlasnasprava.info, has now been operational without IFC support since 2004.

CONCLUSION

There still seems to be a lot of anxiety about exits in IFC. It is easier to be creative and conceive the next phase. What we have learned, however, is that exits are perfectly manageable processes as long as we are disciplined enough to think proactively about them up front and treat them as objectives in their own right, with sufficient time allocated to implementation. We’ve also learned that it is empowering to actually claim certain things as “done.” After all, IFC’s role is to be out there, looking for the next frontier.

ABOUT THE AUTHORS

Tania Lozansky, Head of Advisory Services in Europe and Central Asia, worked in the ECA region as senior operations officer across several business lines and products.

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November 2009

LEASING REGULATIONS

Kyrgyz Republic

IFC helps pass amendments to Tax Code exempting imported leased equipment from VAT



2003

2004

2005

Government removes leasing VAT incentives



2006

2007

Government reenacts VAT incentives



2008



IFC helps pass amendments to Tax Code exempting imported leased equipment from VAT



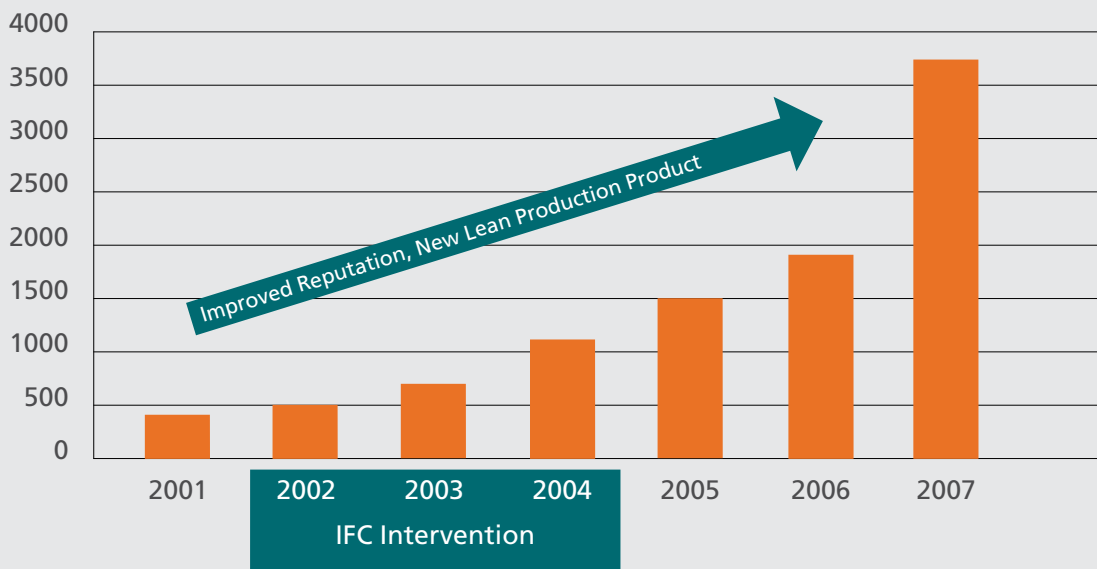
Government removes leasing VAT incentives



Government reenacts VAT incentives

Tajikistan

ANNUAL SALES PRIORITET CONSULTING COMPANY



Steering Institutes Towards Sustainability: A New Exit Strategy?

In the old days, we closed donor-funded projects by putting papers in folders, placing the folders in boxes, and moving those boxes into the cellar—or, worse, shredding it all. Either way, we lost years of valuable information. Since then, a number of projects have grappled with developing an appropriate exit strategy, but often too late and without identifying an institution, organization, or company that could preserve a project’s knowledge and carry on with its activities. The Egypt Corporate Governance Project decided to address this issue by dealing with the exit strategy from the beginning, integrating it into the project objectives, and building in mechanisms for project sustainability through local capacity building.

BACKGROUND

In line with its overall goal to help build sustainable businesses in the Middle East and North Africa region through improved corporate governance practices, the ECGP defined sustainable institutional capacity for corporate governance advisory services as a priority.

We decided to cooperate with institutes of directors, or institutes of corporate governance, and direct all project activities through such institutes, thereby enabling them to continue project activities beyond the project lifetime. Such institutions are found all over the world and serve as professional networks for senior executives and board members, offering information, advice, training, conferences, and publications to help maximize the potential of their members. These institutions either focus exclusively on corporate governance or provide wider services in the area of senior executive training and education.

In December 2005, the ECGP launched its activities with two local partners, the Egyptian Institute of Directors and the Egyptian Banking Institute. Although the EIoD had not launched any activity until then, it was the only organization in Egypt that focused exclusively on corporate governance. On the other hand, the EBI was a well-established training institution operating under the umbrella

of the Egyptian Central Bank and profiting from an advantageous market situation for bank training in Egypt. We chose two such different types of institutions because each can play a vital role in the overall project design. A mixed selection of institutes might best mitigate the different risks associated with each type of institute.

LESSONS LEARNED

The following lessons describe the details of and rationale behind institutional selection.

1) ***It takes two to tango.*** *Building sustainable institutions is hard work, often going beyond the capacity and lifetime of an IFC advisory project. You have to be selective in choosing the institutions you work with. Working with a start-up institution could be too time-consuming and too risky, but cooperating exclusively with an already existing institution might not enable you to meet all of the project’s objectives.*

It is remarkable to build a project from scratch in a sustainable manner, but it requires a long-term and exclusive commitment that at times absorbs much of your resources. This approach does not allow for diversification of risks. Neither does it meet the overall strategy of the donor-funded facility.

In countries where corporate governance is not a familiar concept, supporting a start-up that focuses exclusively on this topic has some distinct advantages. For instance, you may have a much deeper impact on the institution's operations and the direction it takes in the future. Consequently, the institution and its staff show a high level of commitment, since corporate governance would be their only business.

An already existing training institute focuses on other subjects as well, which might limit the time and personnel available to integrate additional training modules. In our case, the EBI frequently carried on other projects with other donors. On the other hand, the advantage of an established institute is that you do not have to be worried about its future existence.

2) Don't put all of your eggs in one basket. *Diversify from the beginning; don't give the slightest hint of an impression that you work exclusively for only one institution, particularly if you have decided to cooperate with and invest in a start-up institution.*

In the first year, our team ended up working almost exclusively with the EIoD, since there was no time to advance on other project components, such as with the EBI. But IFC's role is to foster competition, not to create monopolies. Supporting only one institution for over a year risks inviting criticism from other training institutions that do not get the same type of support (which, luckily, did not occur in our project). At the same time, you do not want to work with more than one start-up in corporate governance services, because you cannot assess easily whether the market demand can support more than one institution exclusively committed to corporate governance. Also, working with two start-ups is far too time-consuming. However, you may provide your training materials—maybe in a shortened version—to other training institutions, thus reducing the risk that the success of your project depends on one institution only.

Our recommendation for future projects: if you choose several institutes to work with, two of them should be already existing training institutes for



After using international speakers for the earlier conferences, the project supported the formation of an Egyptian resource faculty for the Egyptian Institute of Directors.

which corporate governance is just a missing training component. And one of your institutes should focus exclusively on corporate governance, whether it is a start-up or not. As criteria for the selection of a start-up, you should insist on having some prerequisites already in place—which we unfortunately had not done. Such prerequisites could be a business plan, a (minimal) number of staff, and management that is performance-oriented and committed to a quality approach. Ideally, the project's lifetime would be longer than just two years for such intense cooperation.

3) Check out the reality. *Don't expect to be able to transfer staff recruited on IFC's payroll to a start-up institution after the project's termination.*

At the outset of our cooperation with the EIoD, the Minister of Investment appointed one of his advisors to serve as chief executive officer for the EIoD on a fulltime basis—major progress over the prior situation, where another advisor took care of the EIoD as just one of many tasks. But the EIoD had no staff, no business plan, and basically no clue how to provide services on corporate governance. Although the last point is an ideal match with IFC's advisory products in corporate governance, rectifying the other deficiencies—setting up a business plan and recruiting staff—posed a number of difficulties for us.

To address the EIoD staffing issue, we recruited three staff members on one-year IFC coterminous agreements to work at the EIoD site while remaining under the overall supervision of IFC's project officer. The main idea was that staff should get used to working with the CEO of the EIoD and eventually, after one year, shift their employment to the institute. The practical reason for this set-up was that IFC Advisory Services in MENA was not entitled to provide the institute with a grant enabling it to hire its own staff directly. At the time, this approach sounded feasible to us, particularly since the salary level of the IFC staff would have been carried forward by the EIoD.

After half a year, two of the three staff members wanted to leave the EIoD for several reasons, the main one being that IFC is perceived as a more prestigious institution than a start-up—and in this case also governmental—institution. To avoid having more than one staff member resign, we changed the original design of the project, allowing the two remaining staff to continue as project officers with IFC and waiving the expectation that they would voluntarily shift to the EIoD. On this basis, they continued working for the EIoD by sharing their knowledge with the new team at the EIoD and undertaking overall project management functions from an IFC point of view. Foreseeing such an issue early on, we had initiated the recruitment process for further staff on the IFC payroll, but this time, we prioritized their possible willingness to stay with the EIoD as a selection criterion. We also recruited on a short-term consultant basis only. More importantly, at that time, the EIoD did not need such heavy lifting, at least from the project officer's side. Finally, the CEO of the EIoD was able to request more staff, seconded from the Ministry of Investment, which increased the level of independence from our staff and in general made the CEO better equipped to run the institute.

Qualifications of the staff of a start-up such as the EIoD are very different from those of the staff the ECGP was looking for to implement its project. The EIoD needed staff with excellent

business development skills who were committed to the start-up idea, and the ECGP was looking for subject-matter experts who showed a potential for developing training materials and presentations on topical corporate governance matters. In hindsight, it's no surprise that the staff members we originally hired, and who designed training programs under our supervision, were more attached to IFC and its project than to the EIoD.

Regarding the lack of a business plan, it was of paramount importance that it be developed without IFC's involvement. The business plan should provide a basis on which to objectively judge whether an engagement with the institute makes sense. Also, the degree of professionalism within the institute can be evaluated according to the plan. If the project is asked to support the drafting of such a plan, objectivity perishes. With the EIoD, we were lucky that, thanks to a World Bank grant, a third party (a department at the University of North Carolina) was drafting the business plan. But, due to massive delays in delivering the plan, we really could not have walked away by the time it was completed.

4) *Cash is king.* Move quickly toward sustainability by letting the institute charge for all of its services—to ensure sufficient operating cash flows.

As a rule, it will take about seven years for a start-up institution to achieve overall sustainability. Therefore, you should not raise the expectation that you can create a sustainable institute after a project intervention of just two or three years. Yet, some elements in the business plan that serve as cash generators can become sustainable. In our case, we managed to put the training capacity of the EIoD on very solid ground. In general, for an institute of directors, training can generate 40–60 percent of revenues, with the remainder coming from membership fees and sponsors.

After the first conference, we started to price for every event. Although the conferences generated a small loss, which is normal due to the invitation of

international guest speakers, our 72-hour program—the Board Development Series, a training program covering all aspects of corporate governance and designed exclusively for a small (20 maximum) set of directors and executives—yielded a profit. Including the two intakes of the Board Development Series and three further conferences, the project generated \$117,133.33 in revenues for the EIoD.

Furthermore, the Board Development Series is internationally accredited as a director training program by Risk Metrics Group, formerly known as Institutional Shareholder Services, a worldwide proxy and corporate governance service provider that also accredited the director training programs of INSEAD and the Conference Board. This element of international accreditation, entitling participants of the program to carry the title “Certified Director,” had a profound impact on the demand for revolving repetitions of the Board Development Series.

5) Think strategically. *From the beginning of the project, consider building a resource or training faculty consisting of a reasonable number of local trainers.*

Even if you have created a demand for certain training programs, and companies are interested in your corporate governance advisory services, at some point the training institution needs a resource faculty that can educate on corporate governance in the same way the members of the IFC project team do. The availability of local experts is especially important to ensure the sustainability of training.

The first two rounds of the Board Development Series were delivered by IFC staff, occasionally with the help of international consultants. Although the participants appreciated this international dimension, the presenters were not able to put international best practice into a local context. (In part, the discussions among participants compensated for this deficiency.) Another disadvantage of having international consultants, especially in the context of sustainability, is their high cost. Sometimes international consultants do not charge for their time, but use the

presentation as an opportunity to develop their own business, which should be allowed only within an acceptable timeframe. (One consultant took up half an hour of a two-hour module to give credit to his own work, which is, of course, not acceptable.) Even if the international consultant doesn't charge (and is not exaggerating his own agenda), flight costs—most of the consultants justifiably request business class—might still be substantially higher than the costs for local consultants.

As a consequence, we supported the formation of an Egyptian resource faculty for the EIoD, composed of the participants of our first intake of the Board Development Series. Although all of our selected trainers were experienced executives, the challenges they faced in the training environment—such as delivering the presentation, engaging the participants in discussions, and answering tricky questions—called for preparation ahead of time and a specific training objective for them in the project design.

CONCLUSION

Later, the EIoD conducted a successful and highly profitable annual conference and is currently organizing the fourth part of the Board Development Series completely on its own. The demand for this type of training is higher than ever and will continue to provide the institute with a pivotal revenue stream. The EBI recently conducted training on bank governance, which the project designed for them, that attracted over 20 participants.

ABOUT THE AUTHOR

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September 2007

Endnotes

1. To date, IFC Advisory Services in Europe and Central Asia has implemented corporate governance projects in Armenia, Russia, Ukraine, Georgia and Azerbaijan, in addition to the Central Asia Corporate Governance Project.
2. For example, if the survey results show that many corporations are not establishing an effective internal corporate secretary function, a project may want to focus on increasing training and developing tools on this issue.
3. CACGP is now using these questions to develop a core corporate governance survey that could be rolled out globally to allow comparisons across countries.
4. [http://ifcnet.ifc.org/ifcint/ieg.nsf/AttachmentsByTitle/UkraineCIR/\\$FILE/CODE2007-0040+Ukraine+CIR.pdf](http://ifcnet.ifc.org/ifcint/ieg.nsf/AttachmentsByTitle/UkraineCIR/$FILE/CODE2007-0040+Ukraine+CIR.pdf)
5. This paper is a follow-up to another SmartLesson by the same author: “How to Develop Sustainable Activities in the Field of Public Awareness and Increased Training Capacities: An Experience from Serbia.”
6. These projects work on policy reform, public awareness, and educational programs, but spend a substantial amount of time providing corporate governance advice to private sector companies—work that many would classify as a “private good.”
7. A play on a popular Russian proverb.
8. The thresholds (maximum of 25 percent each for state and foreign ownership) may be modified if the candidate meets all the other criteria and shows genuine dedication to the goals of the program.
9. A German proverb.
10. Another reason for partnering with local organizations is for IFC staff to focus on using their corporate governance know-how to provide value-added services such as preparing and delivering course materials and not conference management. Partnering is also an excellent means of passing knowledge on to the local partner organization.
11. The Board Development Series is an in-depth, interactive course on corporate governance for current and future directors. It consists of four parts, each with six modules of two-to-three hours, and is typically taught over a half-year period. It is accredited by the Institutional Shareholders Services, and participants who complete the course are certified.
12. Details of the BCR case study are available at: www.ifc.org/ifcext/corporategovernance/
13. A corporate governance assessment is an in-depth examination of a company’s corporate governance framework, policies and procedures, and actual practices, followed by recommendations and an implementation plan. A corporate governance review is a shorter version of an assessment. Corporate governance consultations consist of targeted advice on a single issue.
14. The codes reflect best practices for the governance of firms, including issues such as board membership and board composition, board practices, selection of board members, remuneration and dismissal of management, auditing and information disclosure, and relationships with shareholders.
15. Participants from Gulf Cooperation Council countries all covered their own costs.
16. In addition to Lebanon, Egypt, Morocco, and Jordan, countries with participants in the series of workshops were Algeria, Bahrain, Oman, Pakistan, Saudi Arabia, Tunisia, United Arab Emirates, and West Bank and Gaza.
17. For example, the new law was introduced in June 2001, right before the lunch recess on the day before Parliament was to break for the summer. A few years later, not one but two new versions were presented to Parliament—both very similar, but one with pro-management adjustments. Many Parliamentarians were confused and declined to vote.
18. Cities with a total population of 360 million.

19. Established in 1999, the Global Corporate Governance Forum is an IFC multidonor trust fund facility that focuses on supporting practical, targeted corporate governance initiatives at the local, regional, and global levels through its toolkits, publications, events, sponsorship of research and Private Sector Advisory Group.

20. According to Wikipedia, accreditation is a type of quality assurance process under which services and operations of an educational institution or program are evaluated by an external body to determine if applicable standards are met. If the standards are met, accredited status is granted by the agency.

21. At a later stage, ECGP supported the creation of a local resource faculty that is easily able to carry the organization and delivery of technical training events forward. As a result, the EIOD reached a level where it successfully organizes technical training events in a sustainable manner without further support needed from the project.

22. According to Wikipedia, certification refers to the confirmation of certain characteristics of an object, person, or organization. One of the most common types of certification in modern society is professional certification, where a person is certified as being able to competently complete a job or task, usually by passing an examination.

23. A Scottish proverb.

24. SECO is the Swiss Confederation's competence center for all the core issues related to economic policy. It is also involved in efforts to reduce poverty and to help developing countries that have transition economies build sustainable democratic societies and viable market economies. As of February 28, 2007, SECO supported nine IFC advisory services projects in Europe and Central Asia.

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