

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

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*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.*

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## BACKGROUND

IFC and one of its key donors launched the Ukraine and Russia Banking Sector Corporate Governance Projects in 2004 and 2005.<sup>6</sup> 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**

	<b>Providing Free Services</b>	<b>Charging a Fee</b>
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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