

## 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:

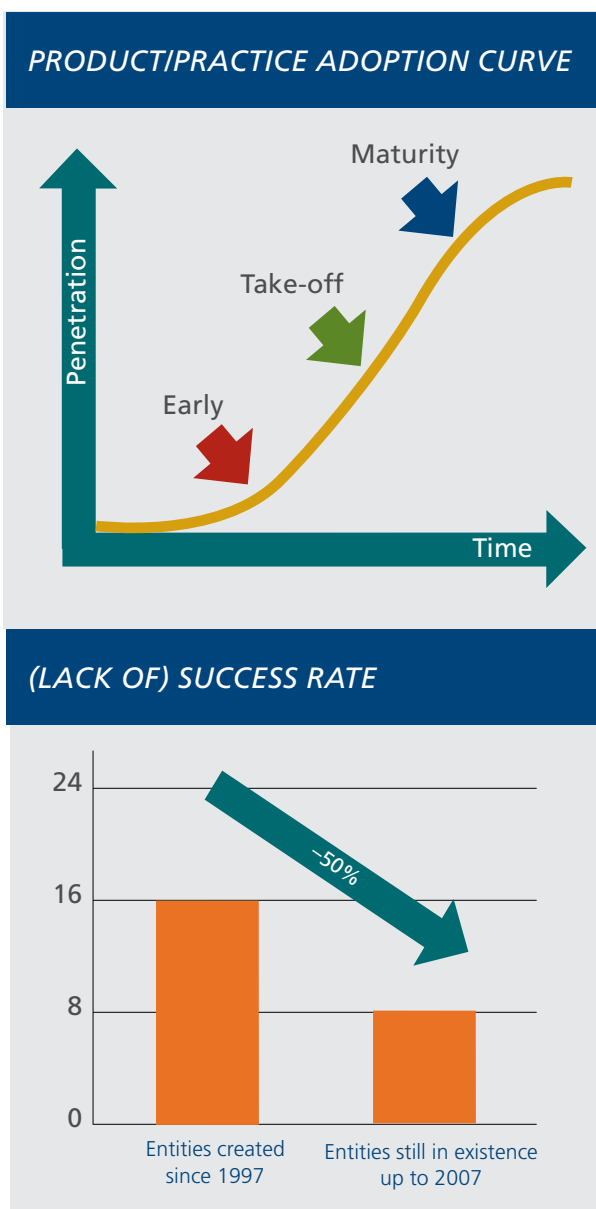
- Maintaining the momentum of new practices being introduced, assuming the market is not yet at the maturity stage;
- Ensuring that legislative changes are not reversed after project completion; or
- Providing continued affordable access to training and consultations on the relevant topic(s).

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](http://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

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## 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

