Rebuilding for Tomorrow:
PRIVATE SECTOR DEVELOPMENT IN FRAGILE AND CONFLICT-AFFECTED SITUATIONS IN AFRICA

IFC’s flagship program supporting fragile countries in Africa is the Conflict Affected States in Africa Initiative. CASA is backed by donor partners Ireland, the Netherlands, and Norway. Denmark and Sweden provide support in select countries.
Disclaimer

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Foreword

The World Bank Group recently set the bold target of ending extreme poverty by 2030 and increasing shared prosperity so that the bottom 40 percent of income earners can benefit from economic growth.

The goals are ambitious and the timeline tight, with no guarantee of success. Still, one thing is absolutely certain: ending extreme poverty will only be achieved by radically increasing development in fragile and conflict-affected states, where a steadily rising percentage of the world’s poorest and most vulnerable people are concentrated.

In Africa, reform and investment have recently fueled remarkable development. Yet the continent remains home to the bulk of the world’s poorest and most fragile places—and to those where it is most difficult to open a business, access financing, or trade across borders. In 2015, 17 of the 33 countries and territories the World Bank Group defined as “fragile or conflict affected” were in Africa.

For these reasons, IFC, backed by donor partners Ireland, the Netherlands, and Norway, launched the Conflict Affected States in Africa Initiative (CASA) in 2008. CASA was designed to help kick-start private sector growth in fragile states by coordinating and adapting IFC’s development programs there, with a focus on supporting smaller businesses, attracting investment, and guiding investment climate reforms.

We know that the private sector is vital for delivering everything from bread and milk to roads and power stations. In fragile states, it can also contribute to stability by creating jobs and opportunities that give everyone a greater stake in the peace.

CASA is active in a diverse set of places, including the Democratic Republic of Congo, Liberia, and Guinea, and expects to extend its support to every fragile state in Sub-Saharan Africa. CASA is also honing its knowledge management strategy to identify and share key lessons learned.

This “SmartBook” is a part of that knowledge management strategy, and the 12 SmartLessons1 collected here offer practical solutions to some of the tough prob-

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1 SmartLessons is a World Bank Group lessons-learned program that enables development practitioners to share lessons learned in advisory, investment, and financial operations in development.
lems of “doing development” in places where it is needed most. Written by IFC staff in the field, they provide operational knowledge on what works and what doesn’t on topics including results measurement, gender issues, public-private partnerships, and business regulation reforms.

The lessons are aimed at those within the World Bank Group and beyond who want to learn from IFC’s experience supporting the private sector in Africa’s fragile states. And our experience shows that, when the public and private sectors pull together, and when the international community provides its full support, even the most fragile of fragile states can build a solid foundation for success.

As the member of IFC’s Management Team responsible for IFC’s activities in fragile and conflict-affected situations, I hope you find these SmartLessons both engaging and informative.

Jean Philippe Prosper
Vice President, IFC Global Client Services
1 Responding to the Unexpected: IFC’s Support to Ebola-Affected Countries

The Ebola outbreak of 2014 started in Guinea and quickly spread to other parts of West Africa, mainly Liberia and Sierra Leone, in what would become the most widespread epidemic of the disease since its discovery in 1976. The three countries worst affected—countries that had only recently begun to extricate themselves from the effects of years of conflict and fragility—faced a severe crippling of their economies as a result of the disruption in trade and supply chains. This SmartLesson provides a perspective on the ongoing story of IFC’s response to an unexpected crisis.

BACKGROUND

In addition to Ebola’s devastating effects on families and livelihoods, it hindered the ability of governments of frontline couno raise much-needed revenue, making them more susceptible to domestic and foreign debts and more dependent on aid. Many of these countries had already started to veer away from this trajectory, and it was unfortunate that such a burden on fragile public health systems would cause years of accelerated economic growth to decline sharply.

The private sector has long been acknowledged as an essential driver of economic growth, particularly in post-conflict countries. By exacting such a severe toll on human capital, the financial system, and market mechanisms, the Ebola crisis caused private sector activity to almost grind to a halt, thereby compromising the provision of basic goods and services, the maintenance of livelihoods, and the preservation of the social fabric. There were legitimate concerns that, unless immediate action was taken, unemployment and food shortages would take root, drive people in the affected countries deeper into poverty, and potentially generate political instability.

In November 2014, IFC intervened by announcing a private sector development package of $450 million in commercial financing to support trade, investment, and employment in Guinea, Sierra Leone, and Liberia, three of the countries hit hardest by the Ebola outbreak. The funds would provide liquidity and trade finance to local banks in the Ebola-affected areas to continue the importation of basic goods and the business continuity training for those countries. The Advisory Services interventions to reduce the effect of the outbreak are funded by IFC’s Conflict Affected States in Africa (CASA) Initiative.

IFC took a two-pronged approach to address the issues for Ebola-affected countries, putting in place both immediate and medium-term plans. The assistance began with a rapid-response program to use existing tools to quickly help clients maintain operations, sustain employment, and ensure the continued supply of essential goods and services. IFC ensured that funds were disbursed according to clients’ needs.

IFC’s immediate response was to provide financial support of about $250 million for the Ebola Crisis Response Facility, which would focus largely on SME (small and medium enterprise) support. The West African Venture Fund would provide zero-interest

2 The CASA Initiative, launched in 2008 and initially supported by Ireland, the Netherlands, and Norway, is helping design and implement integrated strategies that promote economic recovery in conflict-affected countries. Denmark and Sweden are supporting CASA in South Sudan and Liberia, respectively.
working-capital loans to SMEs, rescheduling and working-capital support for existing clients, and training for more than 800 SMEs on “business continuity” strategies. And the Ebola Emergency Liquidity Facility was established (see Box 1.1).

Another essential component of IFC’s response was the Business Continuity Program, which provided $230,000 for business continuity training for over 500 local SMEs in Guinea, Liberia, and Sierra Leone, plus distribution of educational and hygiene supplies to about 300 SMEs in Liberia and Sierra Leone, including clients of the SME Ventures Fund and Access Bank Liberia. As of March 2015, business continuity training has been completed in Sierra Leone and is ongoing in Liberia and Guinea.

IFC is also responding to the crisis is through the Ebola Recovery program, which provides medium-term projects that are in preparation to be implemented as the crisis decreases. This includes a plan to deploy a range of unconventional tools—funds, guarantees, risk-sharing facilities, and advisory assistance—to support new and existing clients. For the success of this program, the cooperation of MIGA3 and the World Bank's newly established Global Practices is essential. Some IDA4/donor funding will be needed to absorb noncommercial risks and provide for first losses alongside IFC investment in several of the pipeline projects that will be undertaken. The medium-term response will consist of $200 million of IFC investment; engagement with clients has begun on the design of projects that focus particularly on infrastructure, SMEs in agriculture and manufacturing, the financial sector, health, and education.

Finally, IFC set up an Ebola Response team comprising people who are well acquainted with our activities in the affected countries as well as with IFC’s products and services. The main activities of the Ebola Response team are to 1) “push” projects in the Ebola-affected countries (EACs); 2) engage industry Global Practice heads; 3) encourage innovation and creative thinking for quick implementation of interventions; 4) track and keep on top of internal processes, to ensure fast disbursements and implementation of interventions; 5) coordinate Ebola response initiatives within the World Bank Group; and 6) use external events to engage companies that are operating in EACs or are interested in Ebola.

Box 1.1: Ebola Emergency Liquidity Facility

The Ebola Emergency Liquidity Facility was established to address the disruption of trade and supply chains and the decline in foreign currency earnings. As a result of the crisis—which caused low commodity prices, labor strains, and a slowdown in trade—many companies reduced or ended operations in the affected countries.

In the three import-dependent, Ebola-affected countries, local banks play a critical role in providing trade finance facilities and foreign currency to pay for petroleum products, food, and other manufactured products. The Facility combines funded working capital and unfunded trade support to provide liquidity in U.S. dollars and trade finance to local banks for the importation of basic goods. It also provides liquidity to private companies through financial intermediaries to help alleviate immediate trade and foreign-currency–denominated working-capital needs.

The initiative, which has an envelope of $75 million to fund critical imports for Ebola-affected countries, supports the importation of basic goods—including energy, food, and agricultural commodities—and other manufacturing goods through short-term working-capital loans in U.S. dollars. A total of $37 million has been committed to Guaranty Trust Bank Liberia, Ecobank Liberia, Ecobank Guinea, and Orabank, and $20 million has been disbursed.

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4 The International Development Association (IDA) is the part of the World Bank that helps the world’s poorest countries. Established in 1960, IDA aims to reduce poverty by providing loans (called “credits”) and grants for programs that boost economic growth, reduce inequalities, and improve people’s living conditions. See http://www.worldbank.org/ida/what-is-ida.html.
LESSONS LEARNED

Lesson 1: Keep the momentum going!

The Ebola crisis in the West African region presented IFC with a challenge to keep the momentum going—to maintain the strides that had been made in economic growth and development, especially in these countries that were emerging from the depths of conflict and fragility. Rather than invent new interventions, we sought to use existing investment tools and Advisory Services products to move quickly in helping our clients maintain operations to sustain employment and continue to ensure the supply of essential goods and services. We also worked to support our clients’ commercial activity by disbursing funds in a timely manner. Some of the projects that we are currently working on include those described in the following lessons.

Lesson 2: Provide agricultural support to smallholder farmers (Liberia).

The outbreak caused many farmers in Liberia to abandon their farms. The goal of this project is to provide support to 1,500 farmers, with a plan to expand support to 7,500 farmers by 2019. The objective is to improve yield and productivity as well as the incomes and livelihoods of farmers. The resulting foreign exchange earnings and tax revenue is expected to benefit the country’s economic development in the long term.

The project is being implemented in Liberia with WIENCO (Ghana) Limited, using support from the Global Agriculture and Food Security Program (GAFSP) Private Sector Window. The program provides support of up to $5 million in IFC financing for the supply of agricultural inputs to small cocoa farmers as well as for the provision of extension services and capacity building.

Another key element of the project is to expand the capacity and infrastructure to increase the purchase volume from small farmers. Although not yet achieved, this intervention is expected to minimize the economic loss from limited farming activities and improve the quality and yield levels of farmers.

Lesson 3: Remove structural constraints to power generation and supply (Sierra Leone).

This project is in collaboration with CEC Africa—an independent power provider—and is expected to remove major structural constraints and address issues of low access and high cost of power by providing an additional 50 megawatts of power generation capacity in Freetown. The project underscores IFC’s commitment to support the efforts of the government of Sierra Leone to rebuild the economy following the Ebola crisis.

The long-term objective of this project is to strengthen the private sector by providing 40 percent of the power supply. There is also the potential to increase the power generation capacity to 128 megawatts over the next four years. The project will cost $130 million, and IFC has been mandated to arrange and mobilize all senior debt associated with the project.

This project was under discussion prior to the outbreak. However, given the severe economic challenges brought on by the outbreak, IFC saw a window of opportunity to prioritize the project and get the attention of all relevant stakeholders, including donor partners and the government, to get this deal done in the fastest possible time.

Lesson 4: Enhance the capacity of power generation and water supply (Guinea).

IFC’s Public-Private Partnership department has tendered a five-year management contract for Electrité de Guinée—a power and water utility and national off-taker. The objective is to enhance the operational and financial capacity of the utility company to provide support.

Lesson 5: Involve key stakeholders and enlist their support (private sector roundtable).

To ensure that IFC’s initial response was in line with expectations of the private sector in the Ebola-affected countries, and to explore additional opportunities...
for assistance to private sector companies, IFC organized a private sector roundtable meeting, which was well attended by representatives from selected private sector companies in the EAC. The objectives of the meeting were to 1) obtain a good understanding of the challenges facing the private sector players in Guinea, Liberia, and Sierra Leone; 2) seek input on priority areas for support, to help shape the agenda of the planned Investor Summit; 3) discuss initial ideas and possible solutions for the challenges; and 4) help the private sector advocate for more regional and international investment in the EACs.

The meeting confirmed that existing clients needed various forms of additional assistance. For example, as a result of the roundtable meeting, a mining client in Liberia is now also receiving assistance to help diversify the economy through agricultural activities within its mining community. Furthermore, where needed, IFC has taken an additional step to encourage governments to amend private sector policies and regulations so businesses can benefit from the short-term lending facilities offered through local banks.

CONCLUSION

IFC’s interventions to preserve the private sector in the EACs, though limited, have given both the private sector and governments confidence that they have a sturdy and resolute partner as the EACs now focus on economic recovery. For example, the additional support following the private sector roundtable meeting encouraged that mining client to remain in business. Also, by prioritizing key energy sector projects in Sierra Leone and Guinea, IFC delivered a resource that will be of significant value to the economic recovery efforts of these countries. Finally, given the importance of SME contributions to communities and overall economic growth, IFC’s business continuity program—providing training on how to avoid infection, financial support for hygiene supplies, and restructured loans to permit continued operations—has given these economies a glimmer of hope as they rise from the ashes of the Ebola scourge.

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Approved by Michel Botzung, FCS Manager, IFC.
Access to Finance
PART 2 Mi CASA Is Not Necessarily Su CASA: How Conflict-Affected Countries—and Projects—Differ

IFC created the Conflict-Affected States in Africa Initiative to focus attention and resources on the many countries in Sub-Saharan Africa (SSA) that are often bypassed by investors because of challenges deriving from conflict and instability. IFC’s Investment Services/Advisory Services microfinance program in SSA has targeted CASA-designated and other fragile countries with eight greenfield projects in recognition of the extreme lack of access to finance in these circumstances. This SmartLesson shares firsthand experiences from these projects, which demonstrate what is perhaps the founding tenet of the CASA Initiative: that conflict affects countries—and projects—differently.

BACKGROUND

Recent research linking conflict and fragility to lack of development in a group of mostly poor countries, predominantly in SSA,5 prompted the World Bank and others to seek common solutions for these countries. The assumption is that projects in this type of context face a common set of problems. To an extent this is true: issues with skills, electricity, or property rights, for instance, pose barriers to private sector development, and they appear to be more acute in conflict-affected or fragile countries. However, the reality is often more complicated and its impact more unpredictable.

Since 2006, the IFC microfinance program in SSA has invested in and provided advisory services to 20 greenfield projects. Eight of them are in conflict-affected or fragile countries6 and provide a rich source of firsthand commercial experiences in setting up new institutions that target the mass market. A surprising aspect of these eight projects is that their performance is not worse—and in some cases is better—than their peers in more stable countries. They tend to grow faster, at least initially, likely due to the extreme lack of access to finance in these markets, and do particularly well in larger conflict-affected or fragile countries, such as the Democratic Republic of Congo. Nonetheless, the challenges that many of them have faced also demonstrate that their performance is more volatile, possibly with higher downside risks for profitability. (See Table 2.1.)

5 See The Bottom Billion (2007), by Paul Collier, which describes the concept of development traps, including the conflict trap.

6 This SmartLesson includes a greenfield project in Kaduna, northern Nigeria, to create Micrcred Microfinance Bank, although Nigeria is not designated as a conflict-affected or fragile country by the World Bank. However, the Boko Haram terrorist campaign has had a heavy impact on northern Nigeria—and the project.
This SmartLesson presents material from interviews with senior staff of three IFC partners: Access, Advans, and Microcred. It discusses greenfield projects in Côte d’Ivoire, the Democratic Republic of Congo, Liberia, Madagascar (see Tables 2.2–2.5), and northern Nigeria.

### Table 2.1: Is There a Price for Conflict or Fragility?

<table>
<thead>
<tr>
<th>Greenfield Projects 3 years of operation</th>
<th>Avg. in Conflict/Fragile Countries</th>
<th>Avg. in Non-Conflict/Fragile Countries</th>
<th>Advantage?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projects included #</td>
<td>6</td>
<td>8</td>
<td>---</td>
</tr>
<tr>
<td>Loans outstanding #</td>
<td>7,839</td>
<td>8,527</td>
<td>Non-CASA</td>
</tr>
<tr>
<td>Gross loan portfolio $</td>
<td>9,790,588</td>
<td>8,861,834</td>
<td>CASA</td>
</tr>
<tr>
<td>PAR &gt; 30 %</td>
<td>3%</td>
<td>4%</td>
<td>CASA</td>
</tr>
<tr>
<td>Deposit accounts #</td>
<td>38,442</td>
<td>30,569</td>
<td>CASA</td>
</tr>
<tr>
<td>Deposit volume $</td>
<td>19,016,499</td>
<td>4,351,418</td>
<td>CASA</td>
</tr>
<tr>
<td>Interest income $</td>
<td>1,830,176</td>
<td>1,989,563</td>
<td>Non-CASA</td>
</tr>
<tr>
<td>Operating expense ratio %</td>
<td>49%</td>
<td>58%</td>
<td>CASA</td>
</tr>
<tr>
<td>Profit/(loss) $</td>
<td>–17,495</td>
<td>–135,204</td>
<td>CASA</td>
</tr>
</tbody>
</table>

Source: IFC analysis.

### Table 2.2: Profile of the Democratic Republic of Congo

<table>
<thead>
<tr>
<th>Democratic Republic of Congo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
</tr>
<tr>
<td>Urban/rural split</td>
</tr>
<tr>
<td>Largest city</td>
</tr>
<tr>
<td>Annual GDP growth</td>
</tr>
<tr>
<td>Human Development Index</td>
</tr>
<tr>
<td>Corruption Perception Index</td>
</tr>
<tr>
<td>Literacy rate</td>
</tr>
</tbody>
</table>

- One of the poorest countries in the world; more than 70% of its population live below the $1.25/day poverty line.
- It has more natural resources than any other country in the world, estimated at $24 trillion.
- Two deadly civil wars in the 1990s led to the deaths of anywhere from 1 million to 5 million people through violence, malnutrition, and disease.
- The Democratic Republic of Congo has stabilized somewhat since 2006, although the eastern region is still experiencing fighting and violence involving other countries.
- It is widely cited as one of the most corrupt countries in the world.

Table 2.3: Profile of Liberia

<table>
<thead>
<tr>
<th>Liberia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
</tr>
<tr>
<td>Urban/rural split</td>
</tr>
<tr>
<td>Largest city</td>
</tr>
<tr>
<td>Annual GDP growth</td>
</tr>
<tr>
<td>Human Development Index</td>
</tr>
<tr>
<td>Corruption Perception Index</td>
</tr>
<tr>
<td>Literacy rate</td>
</tr>
</tbody>
</table>

- Liberia was shaken by coups and violent civil wars between 1980 and 2005, involving child soldiers and brutal atrocities.
- Over 250,000 people are estimated to have died from the violence, and another 1 million people were displaced.
- Liberia remains fragile but has held two peaceful elections and has a newfound reputation as having a reforming, more transparent government.
- The economy has grown more than 7% over the past 3 years but lacks basic infrastructure (e.g., roads, electricity generation).
- The World Bank estimates that the Ebola epidemic will significantly reduce GDP growth to 2.2% in 2014 and 3.0% in 2015.
- It is estimated that 85% of the population live on $1.25/day or less, and only 10–15% of working-age adults are formally employed.


Table 2.4: Profile of Madagascar

<table>
<thead>
<tr>
<th>Madagascar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
</tr>
<tr>
<td>Urban/rural split</td>
</tr>
<tr>
<td>Largest city</td>
</tr>
<tr>
<td>Annual GDP growth</td>
</tr>
<tr>
<td>Human Development Index</td>
</tr>
<tr>
<td>Corruption Perception Index</td>
</tr>
<tr>
<td>Literacy rate</td>
</tr>
</tbody>
</table>

- “The red island” is rural and highly dependent on agriculture, with about three-quarters of the population working on mostly small farms.
- Although conflict has been sporadic, the military has repeatedly interfered in politics and was involved in the 2009 coup.
- After a four-year political impasse with an unelected government at the head of the country, which led to international isolation, a new president was elected in late 2013.
Conflict, political instability, and insecurity

While none of these countries is experiencing open conflict at this point—with the exception of the eastern Democratic Republic of Congo—they still feel the effects of long periods of conflict/instability. In Côte d’Ivoire, for example, life has returned to normal in Abidjan since late 2011, but certain regions outside the capital are still insecure. Liberia suffered through brutal civil wars but has been considered at peace since 2005. In Kaduna, Nigeria, the open interreligious strife that culminated in a series of bombings in mid-2012 has not resurfaced, but curfews and fear of further attacks remain. Madagascar has not experienced the same type of open conflict, but the political instability it experienced between 2009 and early 2014, after a coup and delayed elections, caused a slowdown of trade and investment and a rise in poverty.

IFC’s clients have felt these effects firsthand and have had to review expansion plans and increase security in order to operate in these countries. In Madagascar, Access and IFC’s other microfinance client, Microcred Banque Madagascar, hired police officers to guard branches or reduced the number of branches that handle cash.

At a group level, Microcred Holding has taken a comprehensive approach to security—particularly


Table 2.5: Profile of Côte d’Ivoire

<table>
<thead>
<tr>
<th></th>
<th>Côte d’Ivoire</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>20 million (2012)</td>
</tr>
<tr>
<td>Urban/rural split</td>
<td>51/49</td>
</tr>
<tr>
<td>Largest city</td>
<td>Abidjan, 4.2 million</td>
</tr>
<tr>
<td>Annual GDP growth</td>
<td>8.7% (2013)</td>
</tr>
<tr>
<td>Human Development Index</td>
<td>171 of 187 (2013)</td>
</tr>
<tr>
<td>Corruption Perception Index</td>
<td>136 of 177 (2013)</td>
</tr>
<tr>
<td>Literacy rate</td>
<td>56%</td>
</tr>
</tbody>
</table>


Conflict, political instability, and insecurity

While none of these countries is experiencing open conflict at this point—with the exception of the eastern Democratic Republic of Congo—they still feel the effects of long periods of conflict/instability. In Côte d’Ivoire, for example, life has returned to normal in Abidjan since late 2011, but certain regions outside the capital are still insecure. Liberia suffered through brutal civil wars but has been considered at peace since 2005. In Kaduna, Nigeria, the open interreligious strife that culminated in a series of bombings in mid-2012 has not resurfaced, but curfews and fear of further attacks remain. Madagascar has not experienced the

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At a group level, Microcred Holding has taken a comprehensive approach to security—particularly
for its staff—by creating a security framework for all of its subsidiaries. The framework is based on a set of protocols governed by a group security committee that meets monthly at headquarters and security committees at each subsidiary that operate according to a risk-rating system. Due to a heightened risk rating for the Kaduna subsidiary, for example, international staff live in a compound and are restricted from certain public places because of the threat of kidnapping of foreigners. Microcred also only deploys international staff who originate from or have long experience in difficult countries.

For clients, the effects of conflict/instability can be devastating. Portfolio at risk rose significantly, causing Microcred to write off loans and to slow disbursements. Meanwhile in Madagascar, clients of Access and Microcred made fewer long-term investments in their business with the worsening of the economy and security, since their emphasis was on short-term survival during a period of political limbo.

Physical infrastructure and business environment

Although CASA countries are not the only ones with power cuts and bad roads, the protracted periods of civil war or political instability mean far fewer investments in new infrastructure or maintenance of existing infrastructure. In Liberia, erratic power supply means having to install power generators and purchase kerosene, which adds significantly to startup and operational costs. With only 6.2 percent of roads paved, there is less trade between towns and cities, making the transfer of cash from the capital to the rest of the country more difficult and potentially dangerous.7 Hence few banks have an extensive national branch network. Access Bank Liberia, in operation since 2008, opened its first branch outside of Monrovia in 2013. Even in the capital, roads are so bad that it may take loan officers two to three hours to visit a client’s location during the loan appraisal process, limiting productivity significantly.

A burdensome business environment also adds to operational costs. In many countries, lack of a national ID system forces IFC clients to take extra measures to verify a client’s identity. And because of a poorly functioning court system, they cannot rely on legal recourse to ensure repayment of late loans. Instead, they have used such innovations as specialized recovery teams to collect overdue loans.

Even the local currency can be a problem. The condition of Liberian dollar bills requires them be counted by hand, and the largest bill is LRD 100 (only $1.27). Simply counting out a typical SME loan of LRD 1.5 million takes at least two hours!

This stack of LRD notes must be hand-counted to disburse two loans. (Photo from Access Bank Liberia)

Another problem is the lack of clarity and transparency in the roles of different government agencies. In the Democratic Republic of Congo, for example, the legal framework and its implementation remain very weak. IFC’s partner Advans estimates that the chief executive officer spends a significant part of his time dealing with legal matters, and legal expenses are one of the bank’s biggest administrative costs.

In Côte d’Ivoire, by contrast, neither Microcred nor Advans considers the business environment more burdensome than in other countries, now that stability has been restored. The legal framework for microfinance institutions and the roles of the government authorities are clearly defined in law and are adhered to for the most part.

Human resources

Greenfield projects typically start by filling the top management positions with international staff, who

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are replaced by local—mostly field—staff after two to four years. Field staff are recruited locally and trained as loan officers, then advance to team leaders, branch managers, supervisors, and eventually management. New field staff tend to be fresh out of university or high school, and considerable resources are devoted to training and mentoring them.

In countries where civil wars have disrupted the education system for several decades, such as Liberia or the Democratic Republic of Congo, training of new graduates has to cover such basics as computer skills or professional ethics. Therefore, the training takes longer and is more intensive and more costly.

Surprisingly, IFC’s partners have found that poorer quality education does not necessarily determine how staff will perform over the medium to long term. Advans reports that its Democratic Republic of Congo staff, once trained, tend to be more motivated and loyal and to progress well in their careers. In Liberia, on the other hand, staff retention rates are the lowest of the Access network, despite Access’s general policy of incentives and clear career paths for staff. Banks or international nongovernmental organizations (NGOs) are able to poach trained staff from IFC’s client with the lure of higher salaries, even while offering more limited career opportunities.

For key international staff, insecurity and lack of infrastructure can make it difficult to attract good managers with experience from other greenfield projects to come to these countries or to remain for several years. In cases where there are security concerns, international staff cannot bring their families, thus requiring more frequent trips home or allowing international staff to work from their home country some of the time so they can spend time with their families.

In countries where there has been sectarian violence or tension, HR policies must also address potential issues between staff members. In northern Nigeria, Microcred ensures that it recruits both Christian and Muslim staff, that promotions are fair and transparent, and that no one group dominates in any job category. There are also clear rules that social, religious, and political affiliations come second to being a Microcred employee, and every employee is expected to be tolerant and respectful of others’ opinions. Similar rules were important during the post-election tension in Côte d’Ivoire, when entire neighborhoods and regions were affiliated with one presidential faction or the other.

The business case for working in a CASA country

Given the potential insecurity, poor infrastructure, and higher operational costs, why do IFC’s partners target conflict-affected and fragile countries? For one thing, partners do not always know that social and political upheaval is on the horizon. In Côte d’Ivoire, Microcred and Advans received their licenses from the authorities just prior to the November 2010 elections, and Microcred began operations in October 2010. In Madagascar, Access and Microcred opened their doors several years before the political crisis of 2009.

Despite higher risks and operational costs, CASA countries can present promising business opportunities (see Table 1, above). But potential market size and the state of the competition vary from country to country and do have an effect on a microfinance institution’s growth rate. Kinshasa, capital of the Democratic Republic of Congo, has an estimated population of 8.8 million people, while Monrovia, the capital of Liberia, has fewer than 1 million inhabitants. Not surprisingly, IFC’s client in the Democratic Republic of Congo had a gross loan portfolio twice the size of its Liberian counterpart after three years of operations. Smaller markets are not unviable, but they require different strategies for continued growth and may be more likely to involve market-related issues, such as multiple borrowings by clients and overindebtedness.
In Côte d’Ivoire, both greenfield institutions show strong growth rates, thanks to the size of the economy (representing about 40 percent of the region’s GDP), the sizable population of Abidjan (4.2 million), and the lack of significant competition. The 10 years of crisis prior to the 2010 election considerably weakened the performance and reputation of existing microfinance institutions, which have been unable to recover over the past several years. Meanwhile, micro, small, and medium enterprise (MSME) clients are eager to re-capitalise their businesses now that the crisis is over, allowing IFC’s clients to position themselves as a new breed of microfinance institutions.

LESSONS LEARNED

The following broad principles come from the experience of IFC’s clients in conflict-affected and fragile countries. All of the clients emphasized the highly specific challenges in each country and the importance of understanding and learning how to resolve issues locally.

Lesson 1: Understand the local context.

Competition, size of the local market, and the business environment (including infrastructure) all have to be taken into account when deciding whether to go into any country—especially a conflict-affected or fragile country, where barriers to entry may be particularly high. Advans, for example, was able to capitalize on its knowledge of the Cote d’Ivoire market through previous consulting assignments of its microfinance experts when it started up operations in Abidjan.

Lesson 2: Security preparedness is critical.

If you are planning to work in countries or areas where political or security crises are possible, have clear guidelines on security measures—understood by staff—and keep a constant eye on the situation. Microcred also recommends establishing relationships with embassies or others aware of the political situation, to stay abreast of latest developments.

Lesson 3: Adapt products and services.

When economic opportunities for clients shrank or circumstances increased competition, IFC’s partners reviewed their products and redesigned them or developed new products to fit the current needs of their clients. In Madagascar, Access recalibrated its portfolio toward smaller loans and tweaked its credit methodology to reduce processing costs. Microcred is developing new products such as microinsurance.

Lesson 4: Adversity can be an opportunity.

When crises hit, stand by your clients and your staff. Unlike other financial institutions, which may shut their doors and leave clients vulnerable, IFC’s partners remained open—or reopened as soon as possible—to show that they are committed and reliable, while safeguarding clients’ savings. Microcred’s fast growth in Côte d’Ivoire indicates that clients recognize and reward institutions that weather the storm. Keeping staff employed during hard times also helps cultivate long-term staff loyalty.

CONCLUSION

To paraphrase Tolstoy, “All happy countries are alike; every unhappy country is unhappy in its own way.” Trying to find solutions common to all conflict-affected and fragile countries is likely to be less effective than encouraging private sector actors to adapt to the specifics of each market and to adopt strategies that allow them to be flexible and resilient in times of crisis. The success of IFC’s eight greenfield microfinance institutions operating in conflict-affected and fragile countries suggests that, despite the risks, there is an upside to doing business during and after crises—when pioneers can position themselves as trusted and reputable financial institutions.
ADDENDUM

This SmartLesson was originally written in mid-2013, before the beginning of the Ebola crisis in Guinea, Liberia, and Sierra Leone. Our client, Access Bank Liberia, has been significantly affected by the epidemic: clients have become ill, some have died, and economic activity has slowed drastically, while staff have been personally affected and their ability to move around Monrovia to visit clients has been reduced because of transportation restrictions. ABL has taken measures to face this unprecedented crisis, and IFC is in discussions with the management of ABL and AccessHolding, as the majority shareholder, to provide emergency support, in both the short and medium terms.

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Commitment to a Lady’s First WIN:
Banking Innovation in the Democratic Republic of Congo

Doing business is challenging in the Democratic Republic of Congo, especially for micro, small, and medium enterprises—and more especially for entrepreneurs who are women. But it is getting easier, thanks to innovative banking. This SmartLesson reviews some lessons learned from implementing a Women in Business (WIN) component in a project with Rawbank S.A.R.L., the second-largest bank in the Democratic Republic of Congo.

BACKGROUND

In January 2010, Rawbank commenced implementation of the Africa MSME Finance project (AMSME) in the Democratic Republic of Congo (see Box 3.1). AMSME was an SME Banking Investment and Advisory Services program that incorporated a ‘Women in Banking’ component. This project was linked to a $7 million investment and provided 24 months of in-house advisory services through a resident advisor to enable the bank to strengthen its policies and procedures and to develop staff capacity to expand access to financial services for MSMEs. In 2013, the bank received a second loan from IFC totaling $13 million, targeted at SMEs and women entrepreneurs.

Rawbank officially launched its “Lady’s First” WIN program in March 2010, thereby becoming the only bank in the Democratic Republic of Congo with a program specifically dedicated to women in business. The bank estimates that 23 percent of formal businesses are headed by women.

Box 3.1: A Brief Profile of the Democratic Republic of Congo

With a population of about 68 million, the Democratic Republic of Congo is emerging from almost two decades of civil conflict and economic instability. Although the country has a rich endowment of natural resources, it is one of the world’s poorest countries and remains a highly challenging environment in which to do business.

The Doing Business report 2015 data ranked it 184 out of 189 economies, a decline from the 2011 ranking of 175 of 183 economies. It ranked 172 in starting a business and 176 in enforcing contracts. Key constraining factors include underdeveloped infrastructure, a weak judicial system, inadequate contract enforcement, lack of protection of property rights, and high levels of bureaucracy and corruption. Furthermore, businesses are subject to shifting tax rules, and few keep reliable financial records.

Banking penetration is less than 5 percent, due partly to a lack of coverage but also to legacy issues: foreign currency holdings were forcefully converted to a national currency at some loss to clients, which has contributed to an enduring lack of confidence in the banking system. As a result, a thriving informal sector has emerged that could represent almost 80 percent of the economy. The bank estimates that 23 percent of formal businesses are headed by women.
The following were the key objectives of the Women in Business program:

- Improving access to financial services;
- Improving managerial capacity through training and financial education using Business Edge, IFC’s management training program for SMEs;
- Facilitating women’s access to the market and to information; and
- Helping women entrepreneurs formalize their businesses by providing legal aid.

Under this program, the bank offers additional services, such as personal account officers, who open client accounts at the client’s place of business or home, and a dedicated website with online registration facilities for women entrepreneurs who want to subscribe to the Lady’s First program.

By the end of December 2014, the bank had disbursed 243 loans and 61 overdrafts valued at $23.6 million. Currently loans to women represent about 10% of the Bank’s SME loan portfolio but this is expected to increase to 25% in the next 5 years. The bank also attracted about 1,500 WIN account holders, with deposits valued at $10.65 million.

LESSONS LEARNED

Lesson 1: It is important to manage the commencement of the project.

To ensure a smooth start, the project team needs to prepare ahead of time. For example, the team needs to take the following actions:

- **Monitor any launch communication.** Launch of the Rawbank AMSME project was announced at a press conference, with a subsequent press release. Unfortunately, the prevailing assumption in the market at the time was that the $7 million loan and Advisory Services package was a grant that IFC had given the bank to release to its clients. To correct such a misconception and explain how the AS-linked investment project works, it would be preferable to carefully word
any release and emphasize that the investment is a loan to the bank. The launch could also be an awareness-creation or knowledge-sharing seminar that offers the public an opportunity to seek clarification from the bank and IFC.

- **Prepare the bank staff.** Frontline bank staff should know what to expect from the project, preferably before the official launch. Equip them with the skills to handle enquiries and manage expectations. IFC can assist with carrying out financial market studies or, as happened with Rawbank, organizing focus-group meetings so the bank can understand the sector and its expectations and tailor the message accordingly. It is also important that bank staff understand that they drive the program. In Rawbank, 40 bank staff were trained on customer service for women entrepreneurs soon after the launch, with support from the WIN program. The bank currently has a dedicated Lady’s First team with six staff and champions in each of its 36 branches.

- **Have at least one bank product or service available before launching.** Rawbank was predominantly a corporate bank with high-end SME clients, and the risk appetite was low, with lending mainly based on referrals. In the Democratic Republic of Congo, business viability is determined by account turnover, because only a handful of businesses keep any books for fear of harassment from tax officials. However, clients inevitably assume that the bank is offering credit. It was important for the bank to offer training soon after the launch. In the first training session, however, a number of clients signed up expecting to automatically get credit. The bank used the training to address the issue of credit and explain its policy. In subsequent trainings, the bank focused on women entrepreneurs who already held accounts there, because they had some transactional history and understood how the bank worked.

- **Identify partners who can provide access to women entrepreneurs.** Partnering with a women entrepreneurs association served to bridge certain perception and trust issues, and it also served as a platform for information and idea exchange and a means for networking and relationship building. Such partnership models are valuable for program expansion through general positive buy-in. Rawbank currently partners with four associations and has agreements by which the parties provide cross-referrals and undertake joint tours countrywide.

Lesson 2: **The bank needs time to understand the risk profile of the market—and delivering products other than credit facilitates this understanding.**

When the AMSME/WIN project began, the bank had three outstanding loans to women, and there was some internal skepticism as to how viable the women entrepreneur segment could be. Rawbank was essentially a corporate bank operating in a challenging environment. To successfully downscale, it needed to build an understanding of a segment that it had few prior dealings with. The bank was also perceived by the market as elitist and not approachable—and therefore not the ideal partner.

It was important that the bank initially focus on other needs that would enable women entrepreneurs to strengthen their businesses while it endeavored to understand the risk profile on the segment. Given the legacy of the Democratic Republic of Congo’s banking past and the subsequent suspicion of the banking sector, the nonbanking interventions helped build rapport and encouraged businesses to channel their proceeds banks, which gave Rawbank a transactional history that it could base its credit offerings on.

Through the Africa MSME project, Rawbank has been supported in addressing the credit/risk-management capacity constraint by developing appropriate credit poli-
cies and procedures and by training staff countrywide on credit appraisal. These were prerequisites for the bank to start shifting from referrals and highly collateralized lending. It is now developing a credit product linked to the women entrepreneurs’ account turnover rather than depending on mortgages. Key activities include the following:

- **Training:** In cooperation with the Democratic Republic of Congo SME Entrepreneurship program, the project trained some 510 women entrepreneurs on “Being Bankable,” which is aimed at demystifying the bank and educating clients on services available, business formalization, financial management, and business-plan preparation. The Being Bankable module helped build rapport with clients and provided a forum for the bank to take clients through its lending requirements. Rawbank participates in the selection of the participants to ensure that they meet its client profile.

- **Networking:** Rawbank provides the entrepreneurs access to markets and information through events, business dinners, seminars, workshops, and so on. The bank encouraged the women to create business opportunities between themselves, and it recognized leading female entrepreneurs and encouraged them to share their experiences.

- **Partnership and sustainable alliances:** The bank joined the Global Banking Alliance, a network of banks that share their experiences from working with the women entrepreneur segment. It also benefited from study tours organized by Westpac in Australia and DFCU in Uganda, two banks that had successfully implemented similar programs. The Uganda experience was particularly relevant, because it showed how a regional bank with similar market challenges became a market leader in the segment through its own initiatives—illustrating why IFC should encourage cross-sharing within the region as well as in developed markets.

**Lesson 3: Selection of the bank’s implementation team is a critical success factor.**

WIN programs have to be driven by the banks. There is no formula; the most successful programs are those in which the bank’s team can understand the local market conditions, identify their segments’ banking needs and challenges, and come up with market-specific solutions. The bank’s WIN team must be passionate about a segment that may initially require more effort and produce no immediate results. This passion helps the bank’s team members deal with internal skepticism and go out of their way to find innovative solutions and approaches.

In Rawbank, the Lady’s First project leader was also the bank’s country corporate manager and is responsible for the bank’s relationship officers. We found
it advantageous that he was senior enough to have easy access to management but still had hands-on involvement in the business and the market. When he was identified to lead the WIN project, he was relatively new to his position, and this gave him an opportunity to prove himself and to learn more about the business environment.

The Lady's First program officer’s passion for the women’s segment—combined with her media (rather than banking) background, a creative and entrepreneurial mindset, and approachability—inspired trust among the women she dealt with. Lady’s First is now a department on its own, headed by the first program officer and supported by a team of four men. It is important to note that building a relationship is a core value for women. The importance of the right team, with the right chemistry, cannot be overemphasized.

One key recommendation: include the credit team from the beginning, so the project is not just driven by frontline staff. We should have incorporated the credit department’s input from the start.

**Lesson 4: Internal buy-in requires more attention than external buy-in.**

The Women in Business program nominates external and internal champions to promote the project. Usually, selecting external champions is fairly straightforward—they are leading women entrepreneurs or business role models, male and female. Selecting internal champions can be more complex.

In Rawbank’s experience, the team found that internal champions were more important than the external ones. As the Lady’s First team encountered obstacles in getting approval for product ideas, they strategically selected champions from board and senior management levels, from the marketing and product development departments, from account relationship officers and branch managers, and, more critically, from the credit department. Credit proposals submitted by the relationship officers, whose skill level is being built up, were being turned down; so a champion was identified to go through the credit applications submitted by the relationship officers and ensure that they were complete.

When project staff are based outside the country, it is also useful to have internal champions within IFC itself. For the Rawbank project, the program assistant from the Democratic Republic of Congo office performed this function for the first year.

**Lesson 5: Setting loan targets for the WIN portfolio keeps banks focused.**

The AMSME agreement specified targets for the bank’s SME portfolio. For example, by the end of the term of the loan, 20 percent of the portfolio would consist of loans to women entrepreneurs. Rawbank, like many banks, is relatively conservative in making loans, which is exacerbated by the low level of credit appraisal skills within the bank, a complete lack of reliable financial statements, and a generally weak business environment.

The WIN component includes several low-risk activities—such as training, networking events, and opening deposit accounts—that the banks could rapidly take up. However, the clients ultimately want to have access to credit. Having targets agreed on with the bank gave IFC leverage to encourage the bank to remain focused on the need to take risks on this segment by providing loans to women entrepreneurs, using alternative collateral where appropriate. The bank is now developing cash-flow-based deposit products in response to the limited collateral.

**Lesson 6: Branding the program allows the bank WIN team to tailor products to the markets.**

Branding the program not only makes it easily identifiable in the market, but it also gives the bank and, more important, the women a sense of ownership.
Branding also makes it easier to get internal approval for activities beyond the usual scope of banking. The women’s sense of ownership gives them a vested interest in seeing the program succeed, and they have offered a number of suggestions on how to improve Rawbank’s program.

In the eastern part of the country, where Swahili is widely spoken and where the clientele are relatively conservative, the WIN component, Lady’s First, is known as “Mama ni Mama” (Mother is Mother), which recognizes the role of women in society. The Rawbank WIN component, for example, includes a training program, networking events, sponsorship of awards, and a “red carpet treatment,” which recognizes entrepreneurs who have brought the most business to the bank.

A more interesting innovation was the Rawconseil service. With an estimated 70 percent of the businesses operating informally in the Democratic Republic of Congo to avoid the perceived legal hurdles, the bank recognized that there was more money in the informal sector than in the formal sector and introduced the Rawconseil service to educate entrepreneurs on the process—and advantages—of formalization. The Rawbank legal officer participates in training programs and is available for consultation. To date, 214 women have benefitted from this service, with demand driven by the recent need to register businesses to comply with newly introduced legislation. As a service to its members, many of whom faced long delays and varying rates, the bank submits applications on their behalf. The Lady’s First department so far offers the service at no additional cost to its clients, and the bank has recruited a legal officer for the department, as needs expanded to include counsel on family property rights and so on. In addition, the Democratic Republic of Congo recently joined OHADA – Organization for the Harmonization of Business Law in Africa – which promises to bring more updated and efficient business legislation to the country and requires all businesses to register.

CONCLUSION

Four years after Lady’s First was launched, it remains the most visible program within the bank. One challenge that recently arose is the issue of non-performing loans in one province where contracts held by SMEs were reviewed after a change in leadership. Such issues are not uncommon in fragile economies where the government is the biggest customer and where political instability and weak legislation that does not support enforcement of contracts has a more adverse impact on SMEs. Initially, some of the bank’s management did not consider the women entrepreneur segment viable, but it continues to get management support and now has asset targets when before it was primarily seen as a liability driven program. And the program has raised the bank’s profile in the Democratic Republic of Congo and with its development partners. The Lady’s First program has also contributed much—
needed deposits, although it will not be a mass-market program. Rawbank has maintained visibility in the market through sponsoring events or awards, and it dedicates a page in its annual report and website to the Lady’s First program.

The bank’s commitment to the women entrepreneur segment continues to grow, and we have seen the shift from viewing it as almost a corporate social responsibility to recognizing it as a profitable segment that gives Rawbank a competitive edge in the market. In April 2013, the bank opened its first branch exclusively dedicated to women customers, incorporating Rawconseil, the legal advisory service.

A follow-up Risk Management project with a focus on credit risk is ongoing with Rawbank to ensure that procedures introduced in 2011 are ingrained in the bank credit operations to support sustainable lending to new and riskier segments.

ABOUT THE AUTHOR

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Approved by Greta Bull, Manager, Financial Institutions Group Advisory Services, Central African Federation.
Putting the Cart before the Horse:
Working with South Sudan’s Nascent Financial Sector

South Sudan became an independent country in July 2011 after its residents overwhelmingly voted to separate from the Republic of Sudan. Two lengthy and brutal civil wars in the last half-century have stunted the country’s development and displaced many of its residents. Internal conflicts as well as uncertainty about its relationship with Sudan continue to plague the Republic of South Sudan. In this volatile environment, under the auspices of IFC’s Conflict Affected States in Africa Initiative, the investment services team set out to help build the fledgling country’s financial sector. This SmartLesson shares some of the lessons we learned.

BACKGROUND

IFC opened a country office in Juba, South Sudan’s capital, in late 2011 and finished staffing it by early 2012. Our goal was to identify “low-hanging fruit”—interventions that could be executed quickly, with high impact to clients. IFC would quickly move in to revitalize the financial sector by empowering some local banks and at the same time introduce new financial products to meet various business needs. Given the environment, donors and the government had been looking for quick, high-impact wins to move the change process forward, but their expectations were dampened by the reality on the ground.

Among the issues the IFC team faced in developing the embryonic financial sector were ever-changing policies and lack of capacity at all levels. The central bank, Bank of South Sudan (BSS), which is less than three years old, lacks the capacity to execute its primary mandate—to supervise financial institutions and contain any possible systemic risk. Also lacking is the capacity to drive legal and regulatory reforms, including policies that facilitate effective entry/exit of financial institutions.

On the other hand, the number of banks and nonbank institutions is on the rise. But a poor legal/regulatory framework has contracted banks’ portfolios; they are not lending, despite significant financial resources at their disposal. Reforms are required to support growth, including establishing lines of credit and guarantee funds. Over time, it became clear that a strong financial sector foundation was needed before the “usual” IFC Investment Services interventions could be implemented.

When entering a new country, IFC Investment Services typically looks at the financial sector, among other key sectors, where the focus is on the central bank, commercial banks, and microfinance institutions. In South Sudan, Investment Services began by assessing how best to help commercial banks scale up their activities, boost lending, and strengthen their balance sheets. The initial focus was on strategies that are critical in facilitating financial development in the immediate aftermath of conflict, including taking equity stakes in and establishing lines of credit with local banks for on-lending; leasing; and setting up risk-sharing facilities. The South Sudan-based investment officer, working together with colleagues from Trade Finance (South Africa) and Supply Chain Development from Washington, D.C., first followed these tried-and-tested IFC methods.

However, these strategies are not effective in every fragile and conflict state (FCS), and they did not
produce results in South Sudan. Although new banks are opening every month to capitalize on the country’s oil-production business and growing economy, it quickly became apparent that a strong financial and skill-based foundation—underpinned by a strong legal framework—would be needed in the world’s newest country before IFC’s complement of advisory and investment services could be implemented.

**Challenges**

From the early stages of IFC’s cooperation with BSS, it was evident that the regulatory body did not fully or immediately grasp its critical role within the country’s financial sector. In response, IFC launched a financial services and supervisory training initiative to strengthen the capacity of BSS’s personnel. However, the problem of staff retention remained: when staff leave, the knowledge literally walks out the door! It was therefore vital to instill in management the importance of staff retention so the institution could build a solid foundation of knowledge.

For commercial banks in South Sudan—which currently concentrate on cash transactions, deposits, and foreign exchange trading—expanding access to finance for SMEs should not be problematic. Here is the puzzle: unlike in other markets, the banks actually hold significant deposits at any time, but little lending is taking place.

In South Sudan, however, the real problems were cultural and legal obstacles. Following a half-century of civil strife, the majority of South Sudanese had little or no exposure to banking prior to independence and so did not understand banking and its value; in fact, only 1 percent of the population was “banked” as of 2009. The population had little understanding of the legal obligations associated with contracts (which, in any case, were only weakly enforced). The absence of an overarching legislative framework, as well as gaps in existing legislation, meant that wary banks were reluctant to make loans. The microlending sector was hampered by similar constraints.

IFC tried unsuccessfully to establish lines of credit with commercial banks so they could provide foreign-currency loans. The closure of the oil pipeline from South Sudan through Sudan in January 2012 dried up available foreign currency reserves in South Sudan and prompted the government to enact a harsh austerity program. Bank clients could borrow U.S. dollars, but could repay loans only in the local currency. And the banks themselves depended on the foreign currency allocated to them by the central bank to service imports of critical commodities. Following the oil pipeline shutdown, the amount allocated was reduced drastically from $5 million to $1 million per bank weekly. This continued until the amounts were as low as $300,000, and even this was earmarked for education, health, and emergency travel. The initiative to establish credit lines broke down, because IFC would not accept repayment in local currency.

Strengthening banks by taking equity stakes in them, which enables expansion of branch networks and scaled-up product offerings, came with its own set of constraints. IFC would normally not invest in banks that are majority-owned or controlled by the government, or those with a rating of less than investment grade. The team identified two local banks that seemed suitable investment candidates: both had adequate branch networks outside the capital, Juba. However, one bank was 80 percent government owned, and the other had strong political ties meaning neither was

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8 Most bank deposits are kept in the form of cash, and loans and advances are almost flat, according to an IFC Leasing Report of February 2013. Loans as a percentage of deposits range from 15–25 percent.

9 The National Baseline Household Survey (2009) for South Sudan shows 99 percent of the population with no bank account, 53 percent of households using cash every seven days, 82 percent having never borrowed money, and only 5 percent borrowing/having borrowed to purchase equipment. Source: Business Survey Listing (2010), the Southern Sudan Centre for Census, Statistics and Evaluation.
eligible. The shareholders of another local institution were reluctant to invite equity partners, including IFC, out of fear that it would dilute their shareholding and influence.

Earlier in 2012, IFC had proposed taking an equity stake in a local microfinance institution, to boost its balance sheet and lending activities, but that decision had to be delayed as the microfinance institution was in the process of negotiating to sell a majority stake to another financial services company.

On the positive side, over the past two years, IFC has been working with the government of South Sudan to build up the country’s legal and regulatory framework to ensure a sound financial infrastructure. To date, 22 commercial laws have been passed that have significantly eased and streamlined doing business in South Sudan. IFC continues to work to help the government improve the financial legal framework as well.

LESSONS LEARNED

Lesson 1: Know the people, place, and politics! When first entering a post-conflict environment, closely examine the in-country context.

Before lending or extending lines of credit to financial institutions in a country such as South Sudan, first assess whether the legal environment will safeguard and protect the rights of both lenders and borrowers in financial transactions. If not, legal reform will be necessary to put in place a supporting and enabling infrastructure so that banks feel comfortable lending. Components include a leasing/secured-transaction program, which involves setting up credit bureaus, mortgage registries, movable asset registries, and so on. Also, it is useful to take the time to learn about the local people and the culture.

Similarly, when IFC is considering investing in equity, shareholders must be educated about IFC’s role as an equity partner. Instead of competing with existing shareholders, seeking to outmaneuver them, or wresting control of a financial institution, IFC helps the institution grow and deepen the financial sector. To explain IFC’s investment practices and goals, it is helpful to take majority shareholders on a study tour to neighboring countries, such as Kenya and Tanzania, to show them how IFC helps financial institutions grow. Another option is to explore other IFC financing instruments (such as SME Venture Capital), which may be better suited to the FCS context. This facility can leverage funding from venture capitalists and help SMEs transition from small to larger investments.

South Sudan’s financial sector is largely undeveloped, and many of its people have little or no direct experience with or history of using banks or agreeing to contracts. Thus the need for a significant investment in training and education for small business owners before banks can safely extend loans to the public. The SME community will need to understand the legal obligations involved in accessing finance. For example, during a business plan training session with the South Sudan Chamber of Women Entrepreneurs in April 2013, a participant complained that the bank asked for “too much information” and then declined her loan application. She didn’t understand the necessity of building a relationship with her bank before it will lend money.

Many borrowers sign loan agreements without reading the terms and conditions; in some instances, defaulters have physically prevented a lender from repossessing or attaching an asset forfeited because of nonpayment. Targeted education and sensitization programs will enable South Sudanese to better understand what is required of them when taking a loan.

Lesson 2: One size fits none! Avoid adopting a one-size-fits-all approach in a fragile country. Be flexible and adapt “rules” to match the reality.

When working with the financial sector in South Sudan, IFC found it advantageous to play down ex-
pectations, expand its timeline, and take a flexible and adaptable approach to unexpected developments. For instance, the team learned not to make snap judgments in assessing the potential of a local bank to achieve investment-grade status. IFC decided to work with banks that were not of “typical” investment grade, otherwise no business could be done in the country! Commercial banks in post-conflict countries often need intensive capacity building before they can benefit from IFC’s services and investments; smart and strategic advisory can play a key role.

The team had to be flexible and walk extra miles including guiding banks on how to obtain swift code capabilities.

**Lesson 3: Sustainability over subsidy! The strategy for microfinance institutions should include realistic goals based on commercial rather than humanitarian principles.**

Microfinance institutions in South Sudan face many constraints: a lack of capacity, a limited pool of skilled workers, inadequate financing, and a strategic focus that too often bears no relation to the country’s context.

In many fragile states, stakeholders have become reliant on a donor-driven environment in which grants are the norm. Perhaps for this reason, many microfinance institutions are modeled after NGOs, in which funding comes from donors and the emphasis is on humanitarian assistance.

Even those institutions that are commercially focused are overly reliant on lending to salary earners, targeting loans primarily to government workers. After the oil pipeline was shut down in 2012, austerity measures were put in place and government workers felt the pinch, with housing allowances cut in half and job-specific allowances, such as benefits and incentives, eliminated. As a result, workers were unable to make repayments, and because microfinance institutions did not react quickly, many collapsed under the burden of nonperforming loans on their books.

Instead, these institutions need to thoroughly assess the local market and diversify their portfolios away from loans to civil servants. Smallholder farmers and microenterprises represent a potential client base, but microlenders will need to understand how best to tap this market.

Switching to a more commercial strategy and working to be in the black rather than in the red takes focus and planning. Until there is a more commercial outlook, IFC sees little opportunity to get involved. While IFC may not interfere with humanitarian or social-focused microfinance institutions, it is designing Advisory Service programs in capacity building, trade finance, and risk management for commercially oriented microfinance institutions, such as FSSL, to improve their performance.

**Lesson 4: In an environment with limited data, develop applications that help IFC and the World Bank easily collect, share, and analyze data.**

Reliable data are scarce in South Sudan. The World Bank is using tablets installed with statistical packages that will help surveyors collect household survey data. Given that numerous World Bank Group staff may interact with the same financial institutions during overlapping or consecutive missions, using an application that allows all the members of a team to update and pool information will boost communication and coordination. In many countries, organizations are using mobile technology to collect and share information and send targeted information on m-banking and m-health to mobile users. This technology can also be deployed in the financial sector to make potential clients aware of bank and microfinance services.
CONCLUSION

IFC can improve its effectiveness in helping grow South Sudan’s emerging financial sector by following a customized approach, assessing the country context (including the legal, financial, cultural, and historical environment), being flexible and adaptable, and helping microfinance institutions become more commercially focused. Developing and adopting informational and analytical tools and applications for data gathering and sharing will also facilitate the exchange of data and client communication.

The IFC South Sudan office is lobbying with senior management to intensify critical Advisory Services intervention in the financial sector to improve its profile and create investable opportunities. Such efforts are reflected through ongoing initiatives such as capacity building at the central bank and commercial banks, the Financial Leasing draft bill, value chain development, and scoping for the SME Venture Capital fund. With the proper sequencing great sustainable results can emerge.

ABOUT THE AUTHORS

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Approved by Michel Botzung, IFC FCS Manager.
Winning the Peace and Building Confidence in Burundi: IFC’s Efforts to Strengthen Burundi’s Private Sector

Two years—and a lot of work!—can bring huge improvements to people living in a conflict-affected country. Burundi, a small landlocked country in the heart of Africa’s Great Lakes region, is recovering from a prolonged civil war. At the government’s request, IFC sent an Investment Climate team to help with reforms to make the country more attractive to investors. This SmartLesson describes the many achievements of IFC’s effort in Burundi and offers a number of lessons on how the World Bank Group can leverage its resources to jump-start investment climate reforms and create the conditions for sustainable private sector development in a conflict-affected country.

BACKGROUND

Beset by civil war during the last two decades, Burundi remains one of the poorest countries in the world. A 2001 peace agreement brought stability, but sporadic fighting continued for years. As recently as 2008, an opposition group bombarded the capital, Bujumbura. Although Burundi is today largely peaceful, its private sector continues the fight against red tape. Before the World Bank Group’s interventions, the cost and time involved in setting up a business in Burundi were prohibitive for all but the most determined entrepreneurs.

The government, realizing that peace without economic growth would not provide hope and stability, turned its focus to improving the business environment and developing a strong, private sector-driven economy that is integrated into the East African Community. To help make this vision of a strong economy a reality, Burundi’s government turned to IFC for investment climate support. This led to a $1.7 million, four-year (2010–2014) advisory services cooperation agreement between IFC and Burundi, which enabled the Bank’s Investment Climate team to support the government in enacting pro-business reforms that reduce the time and costs of doing business, simplify tax procedures, improve transparency, and stimulate dialogue between the public and private sectors.

Reforms achieved in a conflict-affected context

For the last two years, the Bank Group’s Doing Business report has ranked Burundi among the world’s top 10 reformers, a major achievement for a country that until
recently was among the world’s most challenging places to do business. Burundi was ranked 177 out of 181 economies in the 2009 Doing Business report and has climbed to 159 of 185 in the 2013 report. Burundi has enacted numerous reforms that are paving the way for economic growth and job creation. Key reforms include simplifying procedures and reducing the cost of compliance with business regulations as well as simplifying laws in such areas as business registration and dealing with construction permits, property transfer, and trade logistics. For example, based on API (Burundi Investment Promotion Authority) figures, the pace of business registration has doubled, increasing from 674 new businesses registered per year in 2010 to 1,347 in 2012 (see Figure 5.1).

This dramatic result is due in part to the improved ease of registering a business, which took 14 days in 2010 but only a single day in 2012. And the cost of registering a business plunged from $208 in 2010 to $32 in 2012—a substantial reduction in a country where the average revenue per capita is $250 per year. These reductions in time and cost also have increased Burundi’s cross-border trade.

More recently, the government simplified the tax regime for small businesses and made it easier to comply with business taxation. In addition, the corporate income tax rate dropped from 35 percent to 30 percent, in line with the other East Africa Community countries. The government also streamlined the processes for filing corporate income taxes and value-added taxes.

Building on earlier reforms supported by the World Bank, the Investment Climate team helped Burundi pass or amend major pieces of commercial legislation in 2010–2013. For example, the new Company Code (2011) streamlined business registration and strengthened investor protection. And one-stop shops were introduced to reduce the time and cost of obtaining construction permits and transferring property—two essential transactions in a country engaged in reconstruction.

To ensure the sustainability of reforms, the Bank Group team helped establish a Doing Business steering committee—a cross-ministerial and public-private body in charge of spearheading and monitoring reform progress, under the leadership of the second vice president for economic and social affairs. The steering committee also serves as a public-private dialogue platform for creating consensus on business reforms.

**LESSONS LEARNED**

**Lesson 1: The three Ps: People! Presence! Persistence!**

**People.** One of IFC’s greatest strengths is its global reach and expertise. To take full advantage of this

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10 Gross National Income per capita, World Development Indicators, World Bank.
strength, it is essential to have a team in the country as early as possible. Having a team onsite helps speed the implementation and provides for clearer communication with the client and stakeholders.

In Burundi, a key success factor is the return of skilled diaspora, who bring fresh viewpoints and a determination not to let the country go back into chaos. The return of a spirited, determined younger generation is a cause for celebration and a sign that Burundi is on a path to greater prosperity.

Building reform management capacity has helped ensure that the agenda not only focuses on low-hanging fruit but also is able to tackle deeper and more complex reforms. The challenge was to find people with the right skills. Although many were returning, thousands more of Burundi’s educated citizens had left the country during the conflict. This skills shortage presented implementation challenges—both for the Investment Climate team and for the counterpart government agencies. By tapping into Burundi’s diaspora communities, we were able to achieve a good mix of people. One of the roles of the program coordinator was to work through local talent and skilled diaspora in Bujumbura to identify the reformers—people who were not on one side or the other of the conflict, people from outside who can just focus on the technical work.

**Presence.** Working side by side with the client means IFC can quickly provide assistance, better identify and manage risks (which can be numerous and quite sensitive in a fragile or conflict-affected environment), and more readily react to changing political and social developments. IFC’s presence in the country was made possible through the CASA Initiative and initial seed funding from Ireland, the Netherlands, and Norway. Responding to the early results of our work and the credibility of our experts, donors such as Trade Mark East Africa followed suit to support the investment climate program.

Being there meant that IFC was able to firmly establish itself among the government and private sector. This should make it easier for IFC to launch future programs in the country.

**Persistence.** Working face to face, rather than via remote management or occasional missions, helps build trust and confidence. In Burundi, we have demonstrated that day-to-day follow-up and persistence with the client allows a team to build and sustain momentum for pursuing reforms.

Post-conflict governments face many challenges in trying to consolidate the peace and can have trouble prioritizing when every problem is urgent. Showing persistence in supporting the decision makers and reform teams helped ensure that the early traction and reform momentum would not be lost among the sometimes overwhelming flow of priorities.

**Lesson 2: The three Cs: Call up! Commit! Commence!**

The Arusha Peace and Reconciliation Agreement (which ended Burundi’s civil war in 2000) created a complex balance of power shared among many actors throughout the government and administration. Regarding investment climate issues—which range from business regulations to tax and trade issues as well as sector concerns—this meant that decision making was scattered among multiple ministries and specialized agencies, thus clouding the country’s vision and complicating the reform drive.

We found that the scattered decision making across a multiplicity of government agencies—sometimes with conflicting interests or by groups that were previously in conflict—resulted in weak ownership of the reform agenda. To overcome this obstacle, we had to call up (enlist support) at the highest levels of government to build strong commitment. This was made possible in Burundi by the close involvement of the second vice president of the Republic.
of Burundi, who also is the chairman of the Doing Business steering committee. The team works in close collaboration with the office of the senior economic advisor at the Second Vice Presidency and with the dedicated Secretariat of Reform. A key lesson: don’t commence a project until you first call up allies and decision makers and then get commitment from the right people in the right places.

During the ceremony to launch the Doing Business report in 2013, Burundi was recognized as a top 10 reformer for the second consecutive year—and the only Sub-Saharan African country to receive that recognition. Members of the government and representatives of the private sector have all combined their efforts to achieve a successful reform agenda and have earned worldwide congratulations. Through sharing ownership—with strong commitment from the top—they are proving that successes reconcile people and encourage reconstruction.

Lesson 3: Think short, go long!

Start with quick wins, but keep focusing on the long term. Beginning with quick wins to build momentum and confidence before moving on to tackle more complex and political problems proved to be a good strategy. Indeed, one of the large stumbling blocks to reforms was that many people did not believe that a country that had suffered for so long could make progress and escape from the bottom. That’s why we started with relatively easy but high-visibility reforms, such as streamlining business registration.

“Nothing succeeds like success” was true in Burundi. Early, positive reforms gave the government an appetite for more. Through the Doing Business report, international investors in the tourism, agribusiness, and other sectors also witnessed these early victories and began exploring the possibilities in Burundi, demonstrating that the country not only can improve its own circumstances but also can become an example for others to follow.

Another element of the program—participation in peer-to-peer events across the region—helped strengthen the confidence of the Burundi reform team, convincing them that they could drive both short-term and long-term reforms. Exposure to good regional (such as Mauritius) and international (such as Singapore) practices, for example, played an essential role in building this confidence within the dedicated reform teams that were established in all key areas of interventions.

Also, having the public and private sectors represented on every reform team created a platform for public-private dialogue on business-oriented issues that affected short-term and long-term objectives. In particular, IFC supports and encourages the direct participation of civil servants and people in the informal private sector—not just high-level officials and large companies—as active members of the reforms team. Having this level
of participation is a key achievement, because it is necessary for all levels of the economy to understand the importance of reform and to share concerns and discuss strategies.

**Lesson 4: Uravuga icongereza? (Do you speak English?) I don’t!**

French and Kirundi are both official languages of Burundi. About 90 percent of the people, particularly small traders and farmers, speak neither French nor English but only Kirundi, the local language. So it is useful to make regulations in French, but it is even better to translate them into Kirundi. The Bank Group’s Investment Climate program communicates in French, English, and Kirundi.

Communication is essential (but not sufficient) to help restore investor confidence. For countries like Burundi that have recently emerged from conflict, the first challenge is to overcome negative perceptions of the past that may not reflect the present reality. Indeed, negative perceptions can be long-lived, and it might take years for a country to “rebrand,” partly because positive reports about growth and stability are much less likely to be front-page news than are stories about war and bloodshed. As a result, only those enterprises already operating in the country know that the situation has changed and that the country is “back in business.”

However, despite growth and progress, our 2012 edition of Africa attractiveness survey reveals that a perception gap remains between [investors] already doing business in Africa, who are believers in the emerging African growth story, and those who have not yet invested and continue to associate the continent primarily with instability, conflict and corruption. As a result, and while [foreign direct investment] projects continue to grow strongly, Africa still lags behind most other regions in capturing the imagination of many international investors.

—Ernst & Young

One way to overcome such a perception gap is through communicating positive stories, such as successes in implementing pro-business reforms. For this purpose, the Doing Business report is an important tool for policymakers, because it documents favorable results of a country’s efforts to improve conditions, and it is read and consulted globally.

**CONCLUSION**

Countries recovering from conflict must rebuild infrastructure, strengthen institutions, increase trade, encourage entrepreneurs, and develop exports. But before any of that can happen, they must build trust and confidence. Without broad-based support for a long-term economic vision, no amount of tinkering—with random infrastructure or trade projects, for example—will lead to sustainable private sector growth. Successful economies encourage individual excellence, but they also strive toward national goals. In Burundi, IFC learned that
being patient, persistent, and on the ground were absolutely necessary to achieve any progress. Experiences from Burundi and elsewhere suggest that the direction of reform may be just as important as rankings. Although Burundi is still ranked in the bottom section of the Doing Business report, the consistent efforts and positive direction of the last few years have drawn great global attention, which is changing the mindset of investors.

Launch of the communications campaign for a one-stop shop. (Photo by Oulimata Sarr)

ABOUT THE AUTHORS

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Approved by Peter Ladegaard, Head for Eastern and Southern Africa, Investment Climate, and Colin Shepherd, Head of CASA Initiative.
The Curious Case of Business Registration Reforms in Burundi:
How IFC-World Bank Joint Efforts Changed the Course from “Quick Win” to More Sustainable Business Registration Reforms

BACKGROUND

Despite reconstruction efforts, Burundi’s gross national product has continued to drop (from $119 billion in 2007 to $102 in 2011) as a result of reliance on subsistence agriculture, undiversified and low-value exports, weak infrastructure, poor governance and institutional capacity, and very low private sector investment. Burundi’s growth averaged 4.1 percent during 2004–2013, which falls below the 7.0 percent projected in the Poverty Reduction Strategy Paper II as well as the average of East African Community member states.

Since 2010, Burundi has successfully implemented an ambitious investment climate reform program using Doing Business (DB) reforms as an entry point and earning recognition as a top global reformer in DB reports 2012–2014, delivering a total of 15 reforms. In parallel, the Financial and Private Sector Development project of the World Bank has supported the government’s efforts to strengthen governance and the regulatory environment for an improved business environment.

Burundi is one of four fragile and conflict-affected countries selected to pilot a World Bank Group Joint Business Plan. The JBP approach builds on the Bank Group’s Country Assistance Strategy for Burundi and focuses on four components: energy, coffee, business registration, and commercial justice. In particular, the project combined IFC advisory assistance with Financial and Private Sector Development (FPD) financial resources to deliver a comprehensive Bank Group-wide solution to clients in business registration and commercial justice.

To implement these reforms, the government set up a high-level steering committee for Doing Business, chaired by the second vice president; an executive reform committee with four full-time reform staff; 10 technical working groups for each of the Doing Business indicators; and one full-time reform advisor in the Office of the Second Vice President.

One of the priority areas identified for reforms was the streamlining of procedures to start a business.

Previously, starting a business in Burundi required visits to several agencies, including the Commercial Court as the custodian of the Business Registry, the Revenue Authority, the Social Security Fund, and the Health Fund. In March 2012, with the support of the IFC Investment Climate Program, Burundi introduced a one-stop shop for business registration in the Investment Promotion Agency (API), bringing together five institutions: the API, the Commercial Court, the Burundi Revenue Authority, the Labor Inspection, and the National Social Security Institution.

In establishing the one-stop shop, the focus was on simplifying the “front office” procedures and cutting the number of steps and days needed to start a business. Representatives of all relevant stakeholder agencies were seated in one office space at the API. A prospective business could now come to one place to complete most of the procedures needed to start a business. This reform significantly reduced the steps necessary to register a business from 8 to 4, and the days from 13 to 8. The costs were also reduced from 117.0 percent to 18.3 percent of income per capita. As a result, the ranking of Burundi in the indicator starting a business significantly improved from 99th to 27th place overall.

According to the API, since the one-stop shop began, 2,026 companies have been established through its system, with an average of 168 companies per month. (See Table 6.1.)

The reforms had a significant positive impact in reducing the time and cost to register a business. However, they focused exclusively on creating a “front office,” where the stakeholder agencies’ representatives were simply recipients of the various registration application forms, while the “back office” remained unchanged, with each stakeholder agency retaining its separate processes without links for sharing information between them. The unintended consequences had to do with the sustainability of this regime.

For example, these reforms did not tackle the major problem of the business registration regime: that Burundi still does not have an accurate, up-to-date, transparent, accessible, and reliable business register, and the current regime will not enable its creation. Currently, it is not even possible to obtain data about the total number of registered companies and entrepreneurs in Burundi.

Another problem with the reformed regime is that the one-stop shop was created to handle only incorporation of new companies. Any subsequent changes of registered data (change of address, directors, and so on) are registered the “old” way, and companies have to visit each of the stakeholder agencies separately. No exchange of information occurs between the stakeholder agencies, and the historical paper records of the business register remain in the Commercial Court. This means that the establishment of the one-stop shop caused the splitting of the business registration

### Table 6.1: Companies Created at the One-Stop Shop (2012–2014)

<table>
<thead>
<tr>
<th>Form of Company</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole trader (SU)</td>
<td>580</td>
<td>902</td>
<td>966</td>
</tr>
<tr>
<td>Private company limited by shares (SPRL)</td>
<td>550</td>
<td>777</td>
<td>687</td>
</tr>
<tr>
<td>PLCc (SA)</td>
<td>132</td>
<td>175</td>
<td>155</td>
</tr>
<tr>
<td>Limited Liability cooperative (Cooperative)</td>
<td>29</td>
<td>106</td>
<td>218</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,291</td>
<td>1,960</td>
<td>2,026</td>
</tr>
</tbody>
</table>

Source: API OSS.
process into two separate streams, the first stream for incorporation of new companies and the second stream for registration of changes to existing data. As a consequence, there are now two separate repositories of information about businesses, neither of which is up to date or complete.

In addition, there are several other unresolved operational, legislative, and institutional issues with the current regime. For instance, the business register is not accessible and reliable: The one-stop shop is operated from one office located in Bujumbura, and businesses that are incorporated in other parts of the country need to physically come to Bujumbura to register. The historical records of the Commercial Court are poorly archived, incomplete, and inaccurate. Currently, there is no mechanism in place for updating the Business Registry, and the current system does not require or enable exchange of data between the stakeholder institutions.

The Doing Business methodology cannot capture all of these issues, as the starting a business indicator measures only procedures related to incorporation of companies in the largest business city and not how post-incorporation registrations are performed. It also does not measure the completeness and accuracy of a business register.

To highlight all of these unresolved issues, the Bank Group team produced a policy note identifying the main issues as well as options for proceeding with more systemic reforms. This helped the government recognize the challenges, and even though Burundi is ranked the 27th easiest place to start a business, more systemic business registration reforms were identified as an area of joint focus of IFC Advisory Services and World Bank FPD financing. Despite the impressive strides in streamlining business entry, the team went beyond that and identified systemic and strategic issues that need to be tackled.

The team agreed on combining the advisory services provided by IFC with support from the FPD project in the form of software and hardware needed to create an e-registration platform. The policy note and action plan were presented as a joint effort and were endorsed by the government of Burundi. An important decision resulted: to take business registration out of the Commercial Court and fully transfer it to the competence of the one-stop shop. Moving business registration out of the courts is a difficult decision for countries such as Burundi that are based on a civil law system, despite the trend in past decades toward administrative management of registries and away from a legal process involving courts and notaries. In some countries these efforts have been blocked by powerful vested interests of judges and lawyers. The policy note and recommendations were endorsed with the objective to continue working on business registration reforms, not only from the perspective of Doing Business rankings, but also from the perspective of creating a centralized, reliable business register and securing institutional sustainability of the reforms undertaken.

LESSONS LEARNED

Lesson 1: A joint IFC-World Bank engagement can enable the move from quick-win reforms to a more sustainable reform model.

While reducing the cost and time of registering a business is important to the private sector, this is not the main objective of business registration reforms; the ultimate purpose is creation of a sustainable, up-to-date, accurate business register available to all stakeholders. The business register is the main building block in the business environment framework: it is connected to improved access to finance, collateral registry, and creating conducive policies based on accurate data. Even when DB is an entry point, you need to plan early for a sustainable solution to ensure that the reform achieves its intended purpose.
The joint IFC-World Bank efforts helped the government of Burundi move beyond just simplifying business registration procedures by cutting the days and costs related to starting a business toward more sustainable reforms. Leveraging all resources available within the Bank Group—in this case, linking IFC advisory activities to the World Bank budget support—helped provide a stronger impetus and incentives to reform. This approach provided support to the one-stop shop by identifying additional areas for streamlining the processes as well as the most cost-effective and efficient solution for institutional reforms—combining sound technical advice with support in the form of hardware and software for the one-stop shop.

On the other side, the Commercial Court was initially opposed to letting go of the Business Registry. But once it was agreed that the World Bank will provide support to the Court to better focus and deliver on its core mandate of resolving commercial litigation, the Court was more receptive of the Bank Group recommendations regarding the one-stop shop.

Lesson 2: While DB is useful for creating an appetite for further and deeper structural reforms, the more difficult structural problems must be addressed from the beginning, once there is reform momentum.

It is important to note that the DB methodology is limited in reach (in this case targeting only limited liability companies in the capital city) and excludes other important types of companies that equally require facilitation, although there are plans to adapt the methodology to cover all relevant entities. Here are some tips for using the DB methodology as we applied it to the Burundi context:

- Look at the institutional framework and “back office” issues in addition to simplifying the “front office.” Avoid the use of “informal” arrangements between stakeholder institutions (one-stop shop as a front-office solution), each using different forms, not exchanging data, duplicating functions, and with various levels of capacity and sophistication.

- Establish accountability and clear decision-making authority when introducing a one-stop shop—to avoid institutions fending for their own particular interest, which defeats the purpose of creating one-stop shops. The independence of the business register function and the ability to retain revenues are critical to avoid politicizing this key technical function.

- Get strong political commitment to the reforms. This is essential, as some decisions challenge the status quo and face strong resistance, particularly in countries where there is rampant corruption and lack of transparency. Business regulation reforms, when properly undertaken, are a win-win solution, as they promote transparency and accessibility of data for both the government and private sector. Many countries in Sub-Saharan Africa have taken advantage of DB to build momentum for investment climate reform. While they will continue to make DB advances, they must also look to other reforms, such as industry-specific changes that drive investment growth and job creation. Others—particularly FCS—still have to address basic elements of their business environment for which DB-focused reforms serve as an effective starting point.

Lesson 3: Prepare to phase out the reform process.

Burundi is a fragile and conflict-affected country and as such has limited capacity to undertake structural reforms. The World Bank Group team was able to overcome these challenges and work with a few key reformists in the government to build their capacity and drastically improve key elements of the investment climate over a short time span (DB reform agenda). Where there is significant lack of capacity
to start both DB and structural/systemic reforms in parallel, beginning with the DB reform agenda helps develop capacity progressively, but teams must plan for structural reforms immediately, to avoid promoting a dysfunctional system.

**CONCLUSION**

Many countries have enthusiastically embraced the Doing Business reform agenda as a way to create appetite for reforms and realize their ambition for private sector-led growth. Using Doing Business as an entry point is effective, as it allows governments to organize reforms around measurable indicators. However, this approach often results in quick-win changes that need to be reinforced with more fundamental work. The main objective of business registration reforms is not cutting steps or days but creating a sustainable, up-to-date, accurate business register as the main building block in the business environment framework—linked to access to finance, collateral registry, and providing valuable data to policymakers. Even when DB is used as an entry point, teams need to plan early for a sustainable solution and to avoid increasing legal and operational risks. Teams should use the Doing Business framework to create an appetite for further and deeper structural reforms, keeping in mind the structural problems from the beginning.

Burundi still has a long reform journey ahead. At this writing, its DB rank is 139 out of 183 countries, and it faces other challenges not captured by the Doing Business report. Building on the momentum created under the first phase of technical assistance to the government, the Investment Climate department of World Bank Group will continue to provide support to the reform agenda and encourage the government to embark on new areas of reform, particularly focusing on sectors with potential to rapidly transform Burundi’s economy, opening them to private sector participation.

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**ABOUT THE AUTHORS**

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Public-Private Partnerships
It’s a Texas Two-Step—but Who’s Leading?

Building Public-Private Partnerships in South Sudan

Working in South Sudan is a bit like dancing the Texas Two-Step, with perhaps a few elements of the Hustle thrown in. It’s a challenging environment, to say the least. South Sudan, which falls under IFC’s Conflict Affected States in Africa Initiative, is a fragile post-conflict state and the world’s newest country to boot. This SmartLesson explores the difficulties and obstacles in promoting public-private partnerships as a means of strengthening the private sector and thus the country’s economy.

BACKGROUND

Staff from IFC’s Public-Private Partnership (PPP) Office in Nairobi have been traveling to Juba since 2006, even before South Sudan gained independence, in an effort to promote the adoption of PPPs by the South Sudan leadership. Given its recent history of conflict, South Sudan’s infrastructure is severely underdeveloped, and the IFC team identified a range of potential PPP projects of possible interest to local and international investors as well as of great value in spurring development of the domestic economy. Among them were a concession for the development of a cement factory; a performance-based management contract for the power-distribution utility in Juba; and several small and medium build-operate-transfer projects for the provision of water services in secondary cities around South Sudan and for warehouse and logistics for the pharmaceutical supply chain. But not all PPP projects run smoothly; see, for example, the case study in Box 7.1.

Challenges

In South Sudan, as in many post-conflict environments, there can be frequent turnover of government officials and cabinet ministers. Fragile and conflict states have usually had limited or no experience with PPPs, and their governments may be mistrustful of....
them. The government of South Sudan, which tends to view all international organizations as “donors” or potential donors, failed to understand IFC’s unique focus on the private sector. In instances where IFC does contribute funding for a project or initiative, there is even greater scope for confusion.

Despite the numerous challenges, the results to date of the PPP project have been promising. And the experience of promoting these partnerships provides lessons and insights that may benefit field staff working in other FCS.

**LESSONS LEARNED**

*Lesson 1: Clarify IFC’s role as a partner for the private sector, and invest selectively.*

Clarifying IFC’s role and modus operandi with regard to setting up PPPs is critical when working with any government, and perhaps even more so in an FCS. It was necessary to regularly communicate and reiterate IFC’s terms and policies to the government. At the same time, proffering a “carrot” will build political goodwill. Disbursing funds may provide optimism and buy-in, but funding targets must be strategic and measured so as not to create unrealistic expectations.

For example, the IFC team sourced grant funding from the Public-Private Infrastructure Advisory Facility to carry out a diagnostic on the electricity-distribution system in Juba. The aim was to identify existing bottlenecks as well as to develop a high-level expansion plan and costing estimate for an upgrade of the distribution network in anticipation of power generation projects that were then under development. This funding was instrumental in building a relationship of trust with the government.

However, the IFC team perceived that, in undertaking pro bono work for the government, it had created an expectation that subsequent projects also would not require payment, thus blurring the distinction between conventional donors and IFC’s PPP Transaction Advisory Team, which operates on a fee basis. After this experience, the team took care to present gestures of goodwill carefully to be sure those in the government understood—to avoid raising expectations.

*Lesson 2: Leverage relationships with other World Bank Group teams and staff, and profit from experiences acquired in other countries.*

It was especially important to build on the foundations and networks of other World Bank and IFC staff operating in South Sudan. For instance, at the time of the PPP initiative, IFC’s Investment Climate team was already working closely with the Ministry of Commerce and Industry, in particular with the ministry’s undersecretary. The PPP team, along with Investment Climate colleagues, leveraged these relationships to raise the subject of PPPs during meetings with government officials and advocate for their use in the cement and hydropower sectors specifically.

Sharing knowledge gained from other countries where PPPs have been successfully set up may persuade reluctant governments of the benefits. Building on its experience elsewhere in Africa, IFC invited officials from South Sudan’s Ministry of Health to attend a PPP water conference in Senegal, where there was opportunity to meet and to learn from the experience of other countries. The conference facilitated discussion and opened new possibilities, such as the establishment of small-scale water systems in South Sudan. (See the case study in Box 7.2.)

*Lesson 3: In a fluid environment, build a strong consensus within your client base—and understand the political and power dynamics, particularly during cabinet shuffles.*

Understanding the power dynamics in the rapidly shifting political environment of an FCS government is critical to a successful outcome. Rather than
rely on a single “champion,” it’s important to build a wide consensus and broad base of support within the relevant ministry to safeguard project momentum in case senior officials are shifted in or out. When personnel changes occur in government, it is important to understand their implications and to reaffirm and reevaluate existing contacts and outlooks.

For instance, in the power-distribution project, a government reshuffle brought in a new permanent secretary who strongly opposed the PPP initiative and was influential enough to derail it, despite the support of key figures within the ministry. The government did not immediately signal that it had lost interest in private sector involvement in the distribution sector. By not cultivating a relationship with the permanent secretary to discuss the advantages of leveraging private sector expertise, IFC missed an opportunity to understand which way the wind was now blowing.

Lesson 4: Use a “one World Bank Group” approach to increase leverage and advance negotiations on the implementation of PPPs.

Potential investors in conflict-affected states are frequently wary of political risk and the lack of a legal or regulatory regime to protect and secure investments. Getting a regulatory framework in place is a critical component of helping create a PPP-friendly environment, but eliciting government commitment to reform or draft legislation can be a daunting task. Coordination between different Bank Group departments can be effective in sending a consistent message to the government on the urgency and importance of reform to attract investment. Likewise, using the full complement of Bank Group services can be indispensable in persuading investors to take advantage of PPP opportunities. For instance, involvement by MIGA may go a long way toward easing investor uncertainty regarding political risk, which is a significant factor in many fragile states.

Lesson 5: Be flexible, persistent, and responsive.

Persistence, flexibility, and responsiveness are key attributes when promoting PPPs in a fragile or war-torn country. Maintaining relationships with government officials and keeping lines of communication open are critical, as is patience. Even when it may appear so, the door is rarely totally closed and may reopen or shut at any moment. IFC sought to gauge institutional interest at the outset and worked to generate more enthusiasm over time. Each time the South Sudan government expressed interest, the IFC team caught the next plane to Juba to meet with the relevant ministry and discuss next steps. By keeping the lines of communication open, the team was able to move the PPP process forward in several sectors.
CONCLUSION

Of the potential PPP projects mentioned in this SmartLesson, the cement and small-scale water initiatives remain viable. To promote and encourage PPPs in a context such as that of South Sudan, a well-thought-out, clearly defined strategic approach is needed. Keep in mind that it will probably be necessary to clarify IFC’s role as a private sector partner and not a traditional donor; leverage additional funding from other sources and build on World Bank Group experience both in-country and internationally; develop a strong consensus among government stakeholders; and understand and appreciate the unpredictability of local power dynamics. Achieving all of these objectives will ensure a deeper understanding of the local environment. And being flexible, persistent, and responsive can bring success in small increments.

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Infrastructure
8 Putting Clients First—and Communities Second to None

Developing one of world’s largest mining projects in a fragile economy brings several challenges, such as ensuring that small businesses are integrated into large value chains to enhance the potential benefits for corporations and communities. The Guinea Linkages Program (2008–2012) was implemented to help SMEs secure their share in the multibillion dollar Simandou iron ore Project in Guinea. This SmartLesson shares lessons we learned throughout the Guinea Linkages Program about how to persevere in the face of great uncertainty, to put clients first and communities second to none.

BACKGROUND

**The country:** Guinea sits atop some of the world’s largest deposits of bauxite and iron ore. With 47 percent of its population living below the poverty line, Guinea is ranked 160 out of 177 countries on the Human Development Index and 179 out of 183 countries in ease of doing business (according to the Doing Business 2012 report). The World Bank classifies Guinea as a “fragile country,” indicating weaknesses in economic management, structural policies for social inclusion and equity, and public sector management and institutions.

**The market:** Despite these challenges, the potential for private sector growth in Guinea is significant. As with other low-income and fragile countries, the Guinean economy is largely reliant on MSMEs. According to Enterprise Surveys, firms with fewer than 50 employees account for 84 percent of all new jobs in Guinea.

Extensive exploration drilling platforms and access tracks have been built on the slopes of Pic de Fon at 1,600 meters elevation, Simandou, Guinea. (Photo from Rio Tinto’s “Simandou Economic Impact Report,” May 2013)

**The players:** In the early 2000s, two international mining giants, BHP Billiton and Rio Tinto, began planning massive investments in Guinea. BHP had a 33 percent stake in the $3.5 billion Sangaredi aluminum refining and mining operation. In 2007, it signed a cooperation agreement with IFC to support SME capacity building and links with the company’s
operations. At the time, IFC was discussing the possibility of investing in the project.

The Simandou Project includes construction of a world-class iron ore mine in addition to a port and a 650-kilometer railway. When construction is completed, Rio Tinto’s Simandou iron ore Project is expected to be the largest integrated iron ore mine and infrastructure project ever developed in Africa. IFC is currently a 4.6 percent shareholder in the project. In 2009, Rio Tinto signed a cooperation agreement with IFC to participate in the Guinea Linkages Program.

**The challenges:** Though both companies were looking to engage with local businesses, early assessment indicated that Guinean SMEs lacked the capabilities required for large infrastructure projects. Previously, BHP Billiton had worked with IFC on a successful supplier-development initiative on its Moal smelter plant in Mozambique; under the current circumstances, it requested similar assistance in Guinea to leverage IFC’s experience to implement proven solutions to address technical, operational, financial, and management challenges faced by Guinean SMEs.

**The project:** Specifically, the Guinea Linkages Program undertook the following activities:

- Through the program, IFC set up a franchise network for Business Edge (BE), IFC’s business management training solution for SMEs. BE master trainers trained and accredited four local consulting firms to offer BE. These firms became BE franchises in Guinea, providing fee-based training and other business services to local SMEs, thus bucking the trend of donor-subsidized training. During the pilot phase of the program (2010–2012), these franchises trained more than 800 people, including 100 who received intensive individual coaching.

  - The program supported the development of local procurement policies for BHP/Guinea Alumina Corporation (GAC) and Rio Tinto’s “Guinea Buy Local Program.” The program also resulted in the identification of potential opportunities to contract local businesses in key sectors. In addition, IFC (through the Investment Climate business line) assisted the government of Guinea with developing a one-stop shop for business registration. Another outcome of the program was the availability of a database of more than 700 SMEs to facilitate mining companies’ access to capable local businesses. Finally, Rio Tinto built an enterprise center in the city of Beyla to provide the necessary physical infrastructure, which will be established as an information hub.
and networking center for SMEs, business consultants, and clients.

- The program supported local SMEs’ efforts to develop business plans and worked with a local bank to make it easier for local SMEs to access financing. Furthermore, IFC’s Financial Markets team and BICIGUI (a local bank) launched a $5 million risk-sharing facility to finance local SMEs. (See Box 8.1.) Finally, IFC provided support to the government of Guinea to improve a new leasing law that was ratified in 2012, which will help local SMEs gain access to capital equipment needed to carry out their contracts.

**The impact:** As of December 2012, the following results had been achieved.

- Over $9.1 million in new contracts between local businesses and international mining companies such as Rio Tinto, GAC, and BHP;
- More than 700 new jobs created in local businesses as a part of the mining sector’s supply chain—permanent jobs directly related to contracts received from the clients (Rio Tinto, GAC) and their related international contractors; and
- Over $457,000 in financing facilitated for local SMEs.

**Lessons Learned**

**Lesson 1: Ensure client buy-in and satisfaction at the operational level as well as the management level.**

**What we expected:** Following the signing of a cooperation agreement with BHP/GAC (which

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**Box 8.1: Excerpt from Rio Tinto’s “Simandou Economic Impact Report”**

**Developing businesses at the grass roots – ADCAP / GIP**

In 2008, Macka Sow, a Beyla resident, and three other local youths looking for employment opportunities launched the Association pour le Développement Communautaire et Agro Pastoral (ADCAP). With the support of Simandou’s Communities department, ADCAP registered itself as an NGO, employing locals to provide agro-environmental services to the Project. These have included intensification of agriculture in villages around Simandou (22 hectares in 2010 growing to 160 hectares in 2012), reforestation projects, and bush management projects for Simandou’s geology work.

Between April 2009 and December 2011, ADCAP participated in nine management workshops through the IFC/Siandou supplier development programme which were accompanied by individual coaching. In January 2012, Macka Sow established Générale d’ingénierie et de Prestation (GIP SARL) – a new business to capture private sector market opportunities. He came to Conakry and registered the new business in a few days thanks to the Guichet Unique, which was recently opened by the Government of Guinea with support from the IFC. (In 2012, Guinea’s lifted its ranking in the World Bank’s Ease of Doing Business index partly driven by a 26 place improvement in the ease of starting a business.)

In the first half of 2012, GIP earned revenues of over GNF 243 million ($34,000), and together with ADCAP, employs 25 people with an additional 81 temporary staff. ADCAP and GIP recently participated in an IFC Business Plan training workshop developed with BICIGUI (a Guinean bank). The skills taught in this workshop will allow ADCAP/GIP to prepare official financial statements, helping them to access bank finance and drive further growth.

Source: Rio Tinto’s “Simandou Economic Impact Report” (May 2013).
was to pay 100 percent of program costs) and a memorandum of understanding with Rio Tinto (which was to pay 50 percent of direct program costs and 95 percent of staff costs), we expected smooth implementation of the program.

What actually happened: Once implementation began, the clients’ staff initially assigned to this program shifted to other priorities, which meant that the new staff in the clients’ procurement departments (our key counterparts on the program) did not fully understand how the program fitted with their operational mandates or contributed to the delivery of their key objectives; therefore, we were unable to enjoy full cooperation from our counterparts.

How we managed: We had extensive engagement and regular meetings with our counterparts, plus monthly reporting to provide updates on program planning and achievements that linked the result to their operational objectives. We also invited our counterparts to participate in some of the training activities that we organized, and we facilitated their interaction with some of early beneficiaries of the program, therefore giving them a chance to establish their capacity. Through this combination of extensive engagement and demonstration of tangible program results, we eventually bridged the trust gap.

What we learned: Client collaboration at the operational level is as critical as (senior) management buy-in. To ensure successful implementation of collaborative efforts, it is necessary to customize the relationships at the management and operational levels. This helps 1) develop a common understanding of the project’s objective and, more critically, its contribution to the key operational departments’ mandates and objectives that are required in program implementation; and 2) generate and sustain momentum and collaboration throughout program implementation.

IFC has played a key role in helping us develop our Guinea Buy Local Strategy to increase local sourcing by providing expert advice as well as relevant tools and services.

—Graham Davidson, Managing Director, SIMFER S.A., a subsidiary of Rio Tinto

Lesson 2: Creating shared value for the client, donors, and communities requires increased focus and a balanced approach in program delivery.

What we expected: Once we consolidated the operational alignment, with the clients’ operational teams taking ownership, we expected program implementation to proceed smoothly, with the achievement of expected impacts that met the clients’ needs while generating greater public benefits for the Guinean economy.

What actually happened: As program activities ramped up, the clients’ needs for quality suppliers also escalated. Given the clients’ procurement teams’ positive take on the program, they wanted it to focus exclusively on a few priority SMEs to meet their operational needs. However, the program was also intended to deliver broader and more robust impacts that would benefit the entire Guinean economy. Though the two options are complimentary, program implementation efforts need to be balanced between meeting the clients’ short-term needs and generating greater public benefits.

How we managed: Through continued engagement with the clients, we offered a program implementation approach that assures the clients of our ability to deliver on their expectations while also meeting market-level public benefits. Program implementation efforts were therefore designed to 1) support the rollout of Business Edge in Guinea to increase training and SME capacity building through the open market; 2) combine diagnostic and program-related training for client-identified SMEs with further training...
through the BE open market; and 3) offer extensive subsidized training and coaching to client-designated SMEs (preferred suppliers).

Using this approach, we helped the clients meet both short-term and long-term operational needs and increased the number of firms that provide Business Edge training and capacity-building services in Guinea. Furthermore, by integrating the client’s strategy on economic and community development into program implementation, we were able to support SMEs in the local communities beyond immediate business needs.

What we learned: It is important to develop good relations with clients and build confidence in IFC’s ability to support the delivery of benefits that strengthen their social license to operate in a community while generating public benefits in the process. Also, building some cost-sharing mechanisms into the program design gave IFC leverage to pursue public benefits beyond the relevant impacts agreed with the clients.

Lesson 3: Use IFC’s diverse internal expertise to create totally new opportunities.

What we expected: We planned to roll out the Guinea Linkages Program on the model of earlier IFC linkages programs in Mozambique, Ghana, Zambia, and elsewhere.

What actually happened: Initially, two key functions were assigned to the program: 1) identifying SMEs to receive training and coaching from business service providers already operating in the market, and 2) working with clients’ procurement teams to develop policies and procedures that will facilitate local procurement. However, early in program implementation, it quickly became apparent that in Guinea key enabling factors for program success (such as qualified local training providers and financial products designed for SMEs) were missing.

How we managed: Following internal consultations, the program launched a Business Edge training-of-trainers certification activity, leading to the accreditation of four BE training firms and the availability of IFC’s Business Edge training methods and materials in the Guinean market. With these results, the program could deliver focused interventions on select SMEs in line with the clients’ operations. In the meantime, with the benefits of the increased BE training market, a wider range of SMEs could pay directly to receive training available in the market. During the follow-on program, the certification program was scaled up and the number of BE firms in Guinea increased from four to seven, with more certification still pending.

As the program advanced and both the capacity of local SMEs and the procurement practices of our clients improved, it became clear that local suppliers’ lack of access to finance was a major hindrance to their entry into the mining sector. Through internal consultation and coordination between various departments, including Sustainable Business Advisory, Financial Markets, Access to Finance, and Investment Climate, IFC developed a coordinated strategy to increase suppliers’ access to finance.

What we learned: By leveraging IFC’s diverse products and services, local supplier-development programs could offer comprehensive solutions to address multiple challenges in the market.

Lesson 4: Contingencies should be built systematically into programs designed for fragile contexts.

What we expected: IFC expected a short pilot to lead to a full program, if the pilot was successful.

What actually happened: Guinea experienced a coup d’état a few months after the program started. A year of military rule eventually led to Guinea’s first democratic elections. The political turbulence caused delays to the development of the clients’ investment
program and the implementation of the Advisory Services program, forcing a one-year pilot to extend over four years. For several years, it was difficult to show final impact, because impact was mainly tied to procurement opportunities of the clients’ investment program.

How we managed: Throughout the situation, IFC remained committed to the program and continued its implementation under difficult conditions; by the time client companies finally started awarding contracts, the program had enhanced the capacity of local SMEs, which were invited to tender. As a result, Rio Tinto felt confident to continue its relationship with IFC as it proceeded toward the construction phase, which had significantly more market opportunities associated with it. Though the GAC project was eventually put on hold and IFC had to end its work with the company on local supplier development, many of the SMEs trained through the GAC component of the program obtained contracts with Rio Tinto.

Furthermore, we undertook a series of no-cost extensions to expand the program’s time frame without increasing the originally planned budget. We did this to maintain alignment with the investment clients’ project development timeline; once the situation stabilized and the client agreed to an extended scope, IFC initiated a new program exclusively with Rio Tinto, incorporating lessons learned during the pilot phase.

CONCLUSION

A project such as Simandou offers complex business, development, and governance challenges that are peculiar to a remote project in a fragile country with limited institutional and regulatory capacity. Program teams working in fragile countries need to quickly build rapport at an operational level, tailor solutions for all stakeholders, tap into IFC’s tremendous resources, and be flexible, making necessary adjustments to such elements as impact indicators and program timeline.

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Approved by John Kellenberg.
Imagine a fragile or frontier economy in which SMEs can access long-term risk capital. Imagine such an economy in which high-potential entrepreneurs provide everything from staples like corn and coffee to sophisticated logistics and communications services. Imagine an economy in which private equity investors work hand-in-hand with investee firms to achieve goals that spur private sector growth. If you think you couldn’t possibly be imagining a post-conflict country, you would be wrong. This SmartLesson examines how IFC, through its SME Ventures program, works with the West Africa Venture Fund (WAVF)—an IFC investee fund—to channel risk capital and advisory support to SMEs operating in some of the world’s toughest places.

BACKGROUND

Liberia and Sierra Leone are neighboring West African countries on the coast of the Atlantic Ocean. In addition to a common border, the two nations share a troubled history of conflict. Liberia endured two civil wars between the late 1980s and early 2000s, while Sierra Leone experienced related conflict from 1991 to 2002.

Both countries’ burgeoning small business sectors were prime targets during these decade-long civil conflicts. Entrepreneurs were systematically targeted; the majority of them fled abroad to save their lives. Businesses that had taken years to build were lost overnight. By the time conflict ceased in the early 2000s, the private sector of each country had been destroyed. The workforce was largely unskilled and the physical infrastructure mostly demolished.

More than 10 years after the cessation of conflict in Liberia and Sierra Leone, WAVF is providing risk capital and advisory support to companies that are rebuilding decimated economies and serving as role models for the future. Today, the governments of Liberia and Sierra Leone are resolved to revive their economies through private sector growth strategies, known as Agenda for Transformation (in Liberia) and Agenda for Prosperity (in Sierra Leone). These initiatives focus on helping SMEs access market opportunities through local content development policies aimed at public procurement and the supply chains of large multinationals.

In this new SME-oriented environment, IFC sought to work with government agencies responsible for promoting SME finance. The Ministry of Commerce and Industry in Liberia and the Ministry of Industry and Trade in Sierra Leone were identified as key coordination partners for SME Ventures, an IFC program that provides risk-capital financing and advisory services to high-potential entrepreneurs and SMEs in post-conflict and fragile IDA countries. IFC commercially supports local fund managers, who make equity investments (typically $100,000 to $500,000) in local SMEs.

By working at three levels—the government, fund manager (WAVF), and SME—SME Ventures set out to galvanize the creation of an ecosystem that bolsters SME finance in West Africa. Achievement of such a goal would require regulators who understand and embrace private equity; fund managers who have the capacity to source deals; and entrepreneurs who are willing to relinquish some control over their compa-
nies in exchange for growth opportunities. Through coordinated efforts at all three levels, private equity is making inroads in West Africa. SMEs are beginning to gain the support they need to obtain risk capital, access market opportunities, and create jobs.

Four years after SME Ventures began working with WAVF in Liberia and Sierra Leone, the results are promising. These countries exhibit an appetite for both risk finance and business development services. More than 1,200 direct and indirect jobs have been supported, and more than $9 million in financing has been invested in 22 SMEs. Hundreds of other SMEs have paid for training facilitated by the advisory program, even without benefiting from the access-to-finance component. Recently, Ebola has had a sobering effect on some of the businesses, and many have lost the key revenues that they enjoyed before the outbreak. WAVF and IFC then teamed up to provide interest-free working-capital loans to the investee companies to enable them to continue to operate if possible and to retain key staff. In addition, the relevant medical devices, such as electronic thermometers and veronica buckets, were delivered to the SMEs and their staff alongside training on health and sanitation safety.

LESSONS LEARNED

Lesson 1: Because private equity is a new concept in many fragile and conflict situations, take the time to educate the market.

Private equity is an entirely new concept in Liberia and Sierra Leone, and for the SME sector. When Anthony Oboh, the managing director of WAVF, launched the fund in mid-2011, many SMEs were unable or unwilling to submit suitable business plans—a precondition for accessing funding. Some thought it was a scam designed to steal their business ideas. Others opposed the equity concept altogether because of the ownership and profit-sharing aspects of equity. Though these SMEs needed financing, the idea of shared ownership was foreign to them; it was unheard of to bring outside shareholders into family businesses.

Today, after two years of hard work, WAVF has raised awareness and improved understanding of private equity in Liberia and Sierra Leone. In the process, it has built a reputation for providing patient, medium-term capital and professional investment services to the SME sector. Beyond the financial investment, WAVF’s support to investee clients extends to day-to-day handholding (for instance, on managing cash flow and installing and operating production machinery) and management skills training. WAVF coordinated with IFC Advisory Services to first identify gaps in investees’ management skills and then provide Business Edge training on financial literacy, sales and marketing, personal productivity skills, and other management topics.

Now WAVF’s challenge is to raise enough funds to meet demand from local SMEs, who are racing to become the first producers of everything a post-conflict economy needs to return to normal—from bread, eggs, and toilet paper, to printing presses and transportation systems. In response to this, Cordaid, a Netherlands-based NGO, worked with IFC’s investment team and in 2014 invested an additional 25 percent of the value of the fund to boost the capacity of WAVF to invest in more SMEs going forward.

Lesson 2: Build the capacity of both the fund manager and the investee firms.

Investing in SMEs is a risky proposition anywhere in the world. That risk is amplified in FCS, where few SMEs have direct experience with formal financial systems. SME finance (medium term) is almost completely unavailable in FCS and frontier markets; when banks do lend, they prefer short-term loans rather than the long-term finance that firms need to sustain growth. IFC and WAVF devised an approach to SME finance that goes beyond finance to build capacity at the fund-manager and SME levels.
At the fund level, WAVF’s management team frequently participates in international private equity forums, including training events organized by IFC. To foster cross-regional learning, the SME Ventures program organizes annual private equity workshops where the Ventures team and fund managers convene to share best practices. IFC also continues to help WAVF build its capacity to advise investees by designing products that respond to their needs. For instance, in addition to Business Edge, WAVF and the advisory program can now offer training in corporate governance, financial management, and environmental and social standards.

At the SME level, finance alone is not sufficient in these difficult markets: SMEs often lack the breadth of management expertise needed to run and grow companies. WAVF works hand-in-hand with investee firms to build their management capacity, which includes helping them develop solid business plans. Preliminary results show that WAVF is gradually restoring confidence in SME finance. Since its official launch in April 2011, WAVF has invested in more than 20 SMEs (22 are in its current portfolio) in Liberia and Sierra Leone. WAVF’s strategy is to deliver a combination of risk capital, advisory assistance, and handholding support that entails intensive skills training and seconding a finance officer with oversight of capital outlay and revenue flows for the investee. This hands-on approach is paying off in project implementation effectiveness and financial control, and it is attracting the attention of other investors.

In Sierra Leone, for example, WAVF invested in Intrapex Ltd., an ailing mineral water production firm experiencing financial challenges with three commercial banks. WAVF succeeded in affecting change in the company at two levels: 1) it helped the firm repay its debts through short-term financing; and 2) it provided customized advisory support. With WAVF’s guidance, Intrapex paid off its recurring short-term debt and became profitable in less than two years. WAVF’s role was to establish a sound accounting and corporate structure for a family-run business. Annual sales increased from $500,000 to $1.5 million without any additional machinery. Sales are projected to surge to $10 million per year over the next two to three years.

Lesson 3: Create platforms that foster private equity awareness by working with government agencies and other partners.

An independent evaluation conducted by the Bella Research Group of Harvard in 2013 confirmed that “in both Liberia and Sierra Leone, investors report a substantial pipeline of potential deals, much of which is generated through Business Edge programs.” In both countries, business plan competitions have generated enthusiasm for entrepreneurship in general and WAVF in particular. Sierra Leone’s business plan challenge has been going on for three years. In Liberia, a specific Business Edge business plan training program garnered 120 applicants, of which 30 received training and 10 were referred to WAVF. Two of these became WAVF investees. The first annual MSME Conference, held in April 2013 in Monrovia, created additional interest in WAVF as a source of financing.

The government of Liberia is using WAVF success stories to boost confidence in SME finance and convince other financial institutions to fund SMEs with high growth potential in a buoyant postwar economy. In April 2014, IFC and the Ministry of Commerce and Industry co-hosted the second annual MSME Conference. In her opening remarks, Liberia’s President Ellen Johnson Sirleaf praised Fabrar Inc., a WAVF-funded rice processor that buys and processes rice from smallholder farmers. “This is a good example of linking Liberian MSMEs to markets through efficient supply chains with larger companies,” she said. “This is a successful Liberian SME story that is helping small business to link to markets, boosting access to finance, improving food security, and creating much-needed jobs for Liberians.”

President Johnson Sirleaf specifically recognized Fabio Lavelanet, owner of Fabrar Inc., for his entrepreneurial prowess. “Fabio used last year’s MSME Conference to expand the idea of working with small growers to
deliver high-value Liberian red rice to the local and international markets,” she told the audience. “He is an example of how a small business with big ideas can serve markets both locally and abroad, representing the best that Liberia has to offer.”

Lesson 4: Invest in companies that will lay the groundwork for a wider post-conflict recovery.

WAVF invests in strong companies that are transforming their local economies. These are SMEs with good growth prospects and well-thought-out business plans. They are the companies making industries more competitive and bringing down costs through import substitution. Where possible, WAVF has tried to build value-chain links between investee firms, thus helping create a more interconnected and less wasteful economy.

For instance, in Sierra Leone, corn from Maize Milling Ltd. is used to provide feed (of which there is a shortage) for Pajah Ltd. In turn, Pajah provides day-old chicks to African Pride. Poultry manure from Pajah is used as organic fertilizer by Maize Milling, reducing fertilizer costs by almost 50 percent and creating a network of growth-oriented SMEs.

CONCLUSION

IFC and WAVF have demonstrated that SME finance can work even in post-conflict countries. After a war, institutions are weak, infrastructure is destroyed, and SMEs (where they exist at all) are informal. It takes a concerted effort to restore confidence in the market and to find entrepreneurs with investable ideas that will turn around economies. As IFC’s experience has shown, no single institution can resolve all the challenges that hamper SME finance in difficult markets. The SME Ventures program—through its work with the governments of Liberia and Sierra Leone, the West Africa Venture Fund, and SMEs—is changing the perception and reality of SME finance in post-conflict West Africa. In the process, it is proving that, even in the toughest markets, with the right support small businesses may not just survive—they can thrive!

POST-SCRIPT: RESPONDING TO EBOLA IN SIERRA LEONE AND LIBERIA

At the time of the SmartLesson’s original publication, the Ebola outbreak in West Africa had not yet begun. It would have been nearly impossible for the IFC team—or the rest of the world, for that matter—to foresee the rapid spread of the disease throughout West Africa. In the intervening months, however, the epidemic—spreading at an accelerating pace in mid-2014—overwhelmed Sierra Leone, Liberia, and Guinea. It had a devastating impact on the local populations and this was further reflected in the economic hardship which permeated the region as business owners and their clients took ill or left the country. In addition, movement was restricted and bottlenecks hampered imports making general business operations slow down and in some cases grind to a standstill. All these factors took a toll on many of the firms in the West African Venture Fund.

In the midst of the crisis, the Netherlands-based organization Cordaid, which maintains a social investment program, joined IFC as an anchor investor in WAVF.12 Cordaid’s investment of $4.6 million, finalized on October 10, 2014 was made as part of the organization’s Stability Impact Fund strategy, to stimulate entrepreneurship in fragile contexts. IFC considered Cordaid’s investment as a strong show of support for the SME Ventures concept and for the potential of SMEs in Liberia and Sierra Leone.

Beyond financing, Cordaid’s involvement provided valuable insight for IFC. The organization had a track record of delivering grant-funded resilient business development services for entrepreneurs in crisis situations, and results-based financing of public services

in fragile countries. As a result, Cordaid’s expertise in different crises in other geographies helped IFC develop and implement a two-pronged Ebola response plan to support the investee firms in late 2014 and early 2015:

1. **Zero-interest loans.** IFC deployed a portion of its technical assistance funding to provide most investee firms with interest-free loans to cover approximately three months of employee salaries, up to a maximum of $25,000. This would allow the firms to keep afloat despite a dramatic downturn in business.

2. **Ebola prevention training.** IFC contracted with Population Services International to provide sanitation kits and training for WAVF investees. These measures were very well-received by investee staff eager to learn more about how they could take measures to avoid disease.

IFC and its partners are hoping with cautious optimism that most WAVF investee firms can resume their businesses to full operational capacity during the remainder of 2015.

The Ebola epidemic is a stark reminder that in fragile and post-conflict countries, unexpected crises have the potential to derail progress, no matter how carefully it has been nurtured. In the case of SME Ventures, fortunately, the strong partnership with an organization with complementary activities provided essential guidance in navigating a situation of significant uncertainty. This reinforces the strong importance of partnerships in working in difficult contexts.

Moreover, the SME Ventures team has realized that even in crisis situations, businesses can thrive and even make a positive impact on the crisis. One of the WAVF investees, GLS Liberia, which is a logistics firm, found itself in the position of being the only logistics provider in the country after foreign firms exited the market during the crisis. While GLS Liberia was already poised for growth and in a position to compete with the other players, these developments accelerated the firm’s expansion. As part of its efforts to defeat Ebola, GLS Liberia also waived its agency charges for all imports of Ebola Prevention and Control (EP&C) shipments, and was instrumental in delivering essential supplies. IFC was able to see that its SME Ventures model was making a difference in ways it never could have imagined when the program began.

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Monitoring and Evaluation
Measuring Results in Post-Conflict Environments: Not Your Usual Cup of Tea

Since its beginning in 2005, the results measurement system for IFC Advisory Services has become increasingly formalized and standardized. Thousands of arbitrary indicators have given place to a core list of measures categorized by product and business line. The evolving monitoring and evaluation (M&E) system allows teams and management to monitor the performance of projects, aggregate them across business lines, and report to donors, clients, and beneficiaries. This system works quite well in stable environments—but not so well in fragile and conflict situations. This SmartLesson explains how the framework may be adjusted and customized to better capture results in FCS, how doing so would enhance IFC’s thought leadership among other international organizations, and—more important—how it would improve our ability to tell the story of our work in FCS and capture the impact of our projects.

BACKGROUND

IFC has provided a wide range of support in nearly all African economies emerging from conflict. In a majority of cases, there was no difference in how we developed and implemented the results measurement framework, or how we assessed the success of projects in those post-conflict countries as compared to more stable and prosperous states. This SmartLesson focuses on what we measured right and what we failed to capture in Liberia, South Sudan, and the Democratic Republic of Congo.

Access Bank Liberia (ABL) was one of IFC’s first microfinance greenfield interventions in post-conflict environments in Africa. IFC boldly chose a particularly challenging market: Fewer than 1 percent of Liberians have access to electricity, making operational costs prohibitively high for the businesses. ABL, for example, spends about $30,000 per month just for electricity. Money counting is a problem, too. The Liberian dollar is available only in small denominations (the largest bill is worth $1.24, and it is not widely circulated), so it takes a cashier at least two hours to count a relatively small business loan. Picture a suitcase full of money to buy a mobile phone!

At the end of the fifth year, ABL surpassed the target for number of institutions created, deposits issued, loans disbursed, and new financial products launched. It has effectively become the bank for microentrepreneurs and SMEs in Liberia, accounting for 65 percent of the market share, with 59 percent of female clients. The bank has developed staff skills through hiring young people with reasonable educational backgrounds but not necessarily university degrees. The microfinance institution now employs 446 staff—not a number that will make its way into IFC’s job statistics, but a considerable achievement in light of the low level of education and the scarcity of formal jobs. All of these 446 young men and women have now acquired basic business skills and work experience in the formal economy, which will set them on a good career path either within the institution or outside.

Also remarkable is that ABL increasingly lends in Liberian dollars, no small achievement in a U.S.-dollarized economy and a clear way to provide micro and small local businesses with what they need. Yet this aspect of ABL’s work is easily lost in our reports and statistics, which translate everything into U.S. dollars.
On the other hand, ABL still is not profitable, with the rate of nonperforming loans higher than expected and portfolio growth slower than expected when targets were set before the institution even existed. So how should we rate the project’s performance? Do the existing indicators fully capture the project’s impact in the field? For example, what effect does the project have on boosting the business profits and confidence in the country or the institutional capacity of the banking sector? How much of a demonstration effect results from simply showing that you can conduct transparent, commercially orientated microfinance in Liberia?

To understand these unmeasured benefits, we have to go beyond the current set of standard indicators. However, it is not simply about adding more metrics. Rather it raises the issue: to what extent do we need a new, more holistic approach to M&E in FCS while squaring this with the need for more efficiency in a refocused IFC?

In South Sudan, the Investment Climate program faces similar challenges in capturing effects of IFC’s interventions on peace building, business confidence, and institutional capacity. The team assisted the government in adopting 15 laws laying the foundation for commercial activities in the country. The laws were published, simplified, and made available to the users and implementers, thus making the law accessible—one of the tools of good governance. The program has been supporting the launch of three registration offices outside the capital city of Juba and development of an investment authority and a one-stop shop for government-to-business services.

Even though the IFC team was a pioneer in business-enabling environment reforms in the country, which sent a strong positive signal to the business community, the increase in the business community’s confidence remains largely unrecorded. Despite a severe conflict that broke out in December 2013, the Juba business registration office issued 336 registrations and received 580 returns during that December and January, at a time when other agencies were evacuating staff from the country. This is testimony to the value of these reforms as seen by the private sector. How are we capturing this resilience of the institutions the World Bank Group has created?

In the Democratic Republic of Congo, we set an ambitious objective of creating a special economic zone (SEZ). At the end of the fifth year, the government allocated a site for the SEZ, but the actual zone has not been established yet. Among the main reasons was the absence of a regulatory framework aimed at instilling confidence in investors and signaling the government’s commitment to a stable SEZ policy regime. On the other hand, the project laid the foundation for a $27 million component of a $110 million World Bank growth-pole project, which reconfirms the interest of the client in this intervention. It leads to a question: Was the duration of the IFC project adequate for establishment of the SEZ? This SmartLesson argues that longer time frames are required for projects aimed at creating new institutions.

LESSONS LEARNED

Lesson 1: Flexibility is important in selecting the relevant indicators and targets to set the right results metrics in FCS.

Not all currently used impact indicators are suitable for the situation in FCS. For example, the direct compliance cost savings measurement primarily captures the reduction in number of days, procedures, and cost associated with the regulatory compliance by the businesses. But South Sudan is a newly born country aiming at creating new institutions from scratch rather than improving the efficiency of existing ones.

13 In greenfield projects, targets typically are set before IFC, together with other partners, invests to create the institution from scratch. This is already challenging in stable markets but becomes close to wild guessing in post-conflict situations.
The requirement to submit the annual returns, for example, will almost certainly create an additional burden for firms that used to operate in a tax-free environment. Yet tax collection is crucial for any government in generating official tax revenue as a source of development finance and service delivery. Annual returns also generate important information about the enterprises and are a strong tool that can be used to monitor corporate governance. The improved service delivery arguably will contribute to cementing the peace and stability in the country, but it will also support the informed planning process of the economy.

Similarly, the indicators net income and value of financing facilitated do not fit well in the FCS context. They are not sufficient to measure the results of our microfinance project in Liberia. While financial sustainability is important, other effects—such as the demonstration effect or employment for local staff—are big achievements for the emerging financial sector. In addition, financing facilitated notes the incremental growth of the value of loans outstanding. Results will appear disappointing compared to stable countries, since loans in post-conflict situations are generally much smaller and are adversely affected by currency fluctuations. For results calculations, IFC should use the exchange rate at approval as a standard practice—but remain flexible to use what makes the most sense.

In moving toward the inclusion of more qualitative measurements, we need flexibility in selecting targets when data are not easily available. FCS cannot afford to allocate a large amount of funds or human resources for gathering economic data. Thus the operational team is forced to rely on back-of-the-envelope calculations. In Liberia, the original targets for the project were set based on recommendations provided by a feasibility study. The study accounted for factors common to the developing economies, but it did not fully take into account additional difficulties of a country emerging from war: regulatory uncertainty, high cost of operations, low credit culture, reduced level of education, and government interference. As a result, the project set overly ambitious targets.

This SmartLesson does not advocate for the development of a separate M&E system for FCS but rather for giving the projects in post-conflict countries the option to select suitable indicators beyond the set of standards we are using right now. We should also recognize that implementing projects in FCS is hard enough on its own; measuring results should not make it even more complicated. FCS projects should be approved with a minimal indicator framework. To get this right, the M&E specialist, along with the project manager, should conduct an ex ante assessment of the institution. This assessment would involve a conflict-sensitivity analysis of the proposed project, which entails the definition of appropriate indicators to measure the results of the projects and ensure compliance with at least the “do no harm” principle. This assessment can be easily integrated into the integrity due diligence or appraisal of the institution to avoid increasing the burden on our client.

Already being piloted by IFC Results Measurement staff in the Africa region, the assessment involves working with the client to 1) make IFC reporting requirements operationally useful for the client, 2) assess the capacity of the management information system to provide data/reports, and 3) build the client’s local capacity in data analytics. Through an interactive and client-focused process, we can arrive at new suitable indicators that might help capture the missing results and potentially become standard across IFC’s interventions in FCS. Similarly, we need to allow projects in FCS an option to adjust targets beyond the 12 months from approval deadline, which IFC Advisory Services governance currently does not allow. One possibility might be...
to set definite targets before 50 percent of project budget has been reached.

**Lesson 2: Data collection in FCS requires more time, innovative approaches, and additional financial resources.**

IFC’s team in South Sudan has been supporting the development of both an investment authority and a one-stop shop since 2007. The government, private sector, donors, and IFC all are interested in the impact-level results of these interventions. However, there is little empirical evidence linking the project activities to any investments generated. IFC also spent quite a lot of money on training the government, SMEs, and financial institutions. The effect of these trainings, too, remains largely unrecorded. (See Box 10.1.)

Linking project activities to impact results is challenging in any environment, but even more complex in FCS. Collecting data in conflict-affected environments is more problematic because of unpredictable, complicated, and fast-changing situations. It is also more costly as a result of security and logistical issues, availability of data, and capacity of state institutions to track and record information.

At the same time, having baseline data is critical to setting optimal targets. Therefore, interventions in FCS need to allocate additional budget and a longer time frame for the design phase. The baseline data gap needs to be covered by primary data collection, which is costly and time-consuming. The Global Center on Conflict, Security and Development of the World Bank, for example, recommends 40 percent additional budget for designing a project in FCS.

All parties involved in a project in FCS should be encouraged to think creatively and design innovative means to measure results. Our standard approach of hiring an international consultancy to conduct an evaluation may not be optimal. Instead, we should get out of our silos and use the resources available in IFC and elsewhere in the World Bank Group: Why not bring in a project leader from a different region—someone who has experience with projects in FCS—to conduct a peer review under guidance from M&E? Or we could leverage the excellent country experts of IBRD\(^4\) to put the results of the project into the context of FCS. Finally, we should look at what our

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**Box 10.1: Continuing Support during Conflict—How Do We Capture the Impact?**

Immediately before the outbreak of the unanticipated conflict in mid-December 2013, IFC organized a massive investment conference in Juba, attended by about 800 investors from 55 countries. IFC supported the development of project profiles of the key defunct government projects, getting the government to designate them for PPP transactions, and developed sector profiles and communications materials for key sectors of the economy. All of this established the platform for delivery of huge private investment opportunities in South Sudan, but the investment could not happen during the life of the project because of the conflict.

Nevertheless, the team remained in contact with the one-stop service center throughout the conflict and continued support from Nairobi to make sure the South Sudan Investment Authority kept responding to investor inquiries. The one-stop service center issued 10 certificates to potential investors from December 2013 to March 2014.

It is highly likely that the project’s inputs will contribute significantly to future private investment in South Sudan. But to capture the impacts, the project needs to allocate additional financial resources for post-completion monitoring, as well as develop an innovative approach to track the impact.

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\(^4\) International Bank for Reconstruction and Development (IBRD) is part of the World Bank Group.
“neighbors” are doing: FCS do attract a lot of donor attention, and some of the donors have advanced experts and systems in place to deal with FCS.

Lesson 3: It takes at least five years to create a functional and sustainable greenfield institution, and success cannot always be guaranteed.

Establishing a commercial microfinance institution in a market as challenging as Liberia or creating a one-stop shop for investors in South Sudan takes more than the three years we usually allocate for our advisory projects. Our experience in Africa’s most fragile countries shows that for projects aimed at creating such greenfield institutions, the project duration should be longer than the typical two to three years, especially if development of those institutions requires laws to be passed and staff capacity built. To make an institution fully functional and sustainable in FCS requires an intervention of at least five years. For the institution to become profitable takes another one to two years at least. But since the environment is challenging we must accept that some of our projects will fail, while a good number will linger in a grey zone between success and failure. This calls for a rethinking of our bipolar rating system.

Lesson 4: For fragile and post-conflict countries, a full-time presence onsite is essential.

Presence of a full-time staff in Juba has made a material difference in achieving significant project milestones. Officials praised the team for providing long-term uninterrupted support to the newly born nation in creating a core legislative base for business activities, building capacity of the government employees, and introducing the best private sector development practices from the region and around the world.

Putting together a high-quality onsite team in post-conflict environments is difficult but essential to the success of the project, since clients’ and counterparts’ severe capacity constraints require a more intense client engagement than is necessary for the typical project. It is important to 1) have a program coordinator onsite at the beginning of the project; 2) allow a realistic time frame for project implementation; 3) when feasible, balance carefully the use of consultants and internal staff; and 4) budget a premium for consultants working in FCS.

As noted above, we should carefully map out who is already present in a given country. Before we build our team and potentially compete with other donors for the same scarce resources, we should explore all options for cooperation and joint teams. FCS require innovative ways of working; some bilateral and multilateral donors have joint regional coordinator positions, and they conduct ex ante assessments or evaluations together.15 There is no reason why IFC should remain absent from these initiatives, particularly since our core competence is not in conflict situations.

CONCLUSION

We advocate for six core changes in our approaches to measuring results in FCS:

1. Shift from a “conflict blind” to a “do no harm” approach in designing, implementing, and measuring projects in FCS.

2. Minimize the burden and allow more flexibility in selecting a limited set of useful indicators and targets.

3. Think upfront about the potential cost of data collection, especially to allow for ex ante assess-

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ments of the institution by Results Management and operational staff and putting in place infallible and secure data collection systems.

4. Allow more time for project implementation, especially if the intervention includes the creation of new institutions.

5. Move away from a simplistic classification of success and failure. Accept that many projects will linger in a grey zone between success and failure while creating hard-to-measure benefits for local populations.

6. Piggyback on resources already available in the country, including the World Bank and other development finance institutions.

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Special Economic Zones
11 Fragile—Handle with Care: Designing a Special Economic Zone Framework in a Post-Conflict Country

All post-conflict countries share at least one common constraint: the investment climate is generally very poor. A poor investment climate is a major obstacle to economic growth, as it increases the cost of doing business to levels that tend to make most investments unprofitable—which in turn increases the risk of renewed conflict. Even where the will to reform exists, the capacity to do so is often lacking. Well-meaning aid programs can fail simply because it is difficult to implement them. One solution is to establish a Special Economic Zones regime to encourage investment. This SmartLesson describes IFC’s SEZ program in the Democratic Republic of Congo and shares some of the lessons learned.

BACKGROUND

In 2008, with support from the Conflict-Affected States in Africa Initiative, IFC began working on the SEZ program in the Democratic Republic of Congo in partnership with the government. (See Box 11.1 for a description of the SEZ concept.) The SEZ deliverables have since been incorporated as a $27 million component in a $110 million Western Growth Poles Project, approved by the World Bank in 2013.

With a population of about 70 million and an area of 2.4 million square kilometers, the Democratic Republic of Congo is Africa’s largest post-conflict country. The civil war (which lasted from the mid-1990s to the early 2000s, with some rebel movements still active

Box 11.1: What Is a Special Economic Zone?

A special economic zone is a platform that aims to overcome investment climate constraints by introducing reforms in a limited geographic area. By offering access to serviced infrastructure, economic performance-based incentives, reduced bureaucratic interference, and enhanced enforcement of property rights, the SEZ has the potential to create an environment conducive to business reforms and investment. It seeks to create normal business conditions for companies—foreign and national—wishing to invest in a country.

In general, only three types of firms appear to succeed in post-conflict countries:

- Firms in sectors (such as natural resources) where returns are high enough to cover all operating (including informal) costs;
- Firms in monopolistic situations (in particular, importers that can pass costs on to consumers); and
- Firms that are politically connected.

These constraints tend to concentrate investment in limited areas of the economy. In particular, they tend to discourage productive investment in manufacturing or agribusiness. This is why SEZs, with their normalized business environment and access to infrastructure, are so important in attracting a wider range of investment. International experience has indeed demonstrated that SEZs can be effective in helping countries overcome limited resources and implementation capacity, build hard and soft infrastructure, and create jobs.
in the eastern regions), combined with invasions from neighboring countries, caused death and destruction on a wide scale. But the collapse of the economy occurred even earlier.

The World Bank’s 2006 Investment Climate Assessment showed electricity, access to finance, general instability, taxation, and transport to be the most important impediments for private enterprises (Figure 11.1). Access to land was another major constraint (for foreign investors in particular).

Nevertheless, since the early 2000s the country has been recovering from years of conflict and has experienced strong growth, the return of political and macroeconomic stability, and rising commodity prices until 2008. Thanks to support from the World Bank Group, among others, the Democratic Republic of Congo became one of the top 10 reformers in the Doing Business rankings in 2014. However, the investment climate remains a major impediment to sustainable growth, and the need for further reform remains as urgent as ever. The private sector, beyond some large incumbent firms, is dominated by informal businesses and continues to face serious constraints to growth.

The SEZ program

In April 2008, IFC’s SEZ program started at the request of the government. Funded by CASA, the program has so far been IFC’s main advisory intervention in the Democratic Republic of Congo. Its objective was to set up a legal, institutional, and regulatory framework for a SEZ regime in the country, and to attract an international SEZ developer to a pilot zone in a public-private partnership.

Based on IFC’s recommendations, the government selected a pilot site at Maluku, near Kinshasa, and the SEZ law proposed by IFC was adopted by Parliament in 2014. Feasibility studies were prepared, including a master plan for Maluku, the environmental and social impact assessment, and the resettlement action plan that now underpin the $27 million SEZ component in a $110 million Western Growth Poles Project approved by the World Bank in 2013. There already has been strong tenant interest in the proposed zone, which will likely include a wholesale market for Kinshasa, to be connected to a large-scale commercial farm at Bukanga-Lonzo, in Bandundu province, that will also be supported by the World Bank. The resulting agri-industrial value chain will facilitate the proposed public-private partnership for the Maluku SEZ.

Despite the progress—and support by several important stakeholders—the program faced some serious challenges throughout its implementation:

- **Lack of capacity:** In a post-conflict country, the formal structures of government exist, but capacity is generally feeble. In the Ministry of Industry, for example, the only effective counterpart for a long time was the minister him-

![Figure 11.1: Percentage of Enterprises Ranking Investment Climate Problems as Major or Severe](source: World Bank Enterprise Survey, 2006.)
self. To address this constraint, IFC established, with support from the World Bank, a SEZ technical support unit that has served as liaison since 2010. Although the unit’s performance has been uneven, skills have been transferred, and the unit will form the nucleus of a proposed national SEZ authority, as envisaged under the SEZ Law, which is to be supported by the Western Growth Poles Project.

- **Lack of consensus:** Multiple—and shifting—alliances make up the government of the day. Furthermore, ministers do not always communicate with each other. It was therefore important to build support beyond the direct counterparts and undertake concerted actions in all areas relevant to the SEZ program. For instance, IFC requested the establishment of a cross-ministerial steering committee, which formally made all decisions throughout the program. Since the Western Growth Poles Project was approved by the World Bank, the Ministry of Finance has taken overall responsibility for the component.

- **Lack of understanding of the concept:** Previously, the country had a framework for a free zone around the Inga dam on the Congo River in the Bas-Congo province, but this was abandoned with the introduction of the new Investment Code in 2002. The first challenge was to dispel the notion that the SEZ would simply be a resuscitation of that endeavor under a different guise. The second challenge was to explain the difference between a SEZ and a free zone, which relies essentially on exemptions from taxes and duties. The third, more arduous challenge was to address the concern that IFC would in effect hand over sovereignty in the SEZ to a foreign entity. The program team mitigated such concerns by continually branding the SEZ program as a government-driven initiative.

- **Limited access to land:** Despite the country’s size and the government’s formal ownership of all land since 1974, very little land is actually available, as a result of informal land rights, confusion over title deeds, and superposition of formal and customary rights. The program therefore devoted significant effort to finding a site that met technical requirements—such as proximity to population centers and transport corridors—that was economically viable and that was available for development. Maluku was designated as an industrial area in the 1980s, and a major steel mill (now derelict) was constructed in the area during the Mobutu regime. And IFC was able to demarcate the SEZ site with relatively few legal obstacles (see Figure 11.2). In particular, the government has undertaken to expropriate and compensate existing leaseholders.
• **The overall investment climate:** One of the program’s main challenges has been precisely the overall investment climate that it seeks to improve. Security still tends to trump economics, and the priority the government claimed to have given to the SEZ program did not always translate into actual implementation of agreed milestones. This did inevitably delay activities.

**LESSONS LEARNED**

The first three lessons address the practical issues of implementing a SEZ program. The last three lessons are more conceptual and may contribute to the ongoing debate about the usefulness and sustainability of special economic zones overall, and in post-conflict countries in particular.

**Lesson 1: Set up clear milestones.**

In a post-conflict country with weak governmental decision-making capacity, it is important to set up a program with clearly defined activities, milestones, roles, and responsibilities for each side. The SEZ program in the Democratic Republic of Congo was structured so that progress was conditional on decisions made by the government. Given the weak capacity, however, it would have been tempting to move forward independently of government action. The main function of the milestones was to clearly place the responsibility for project progress in the government’s hands and maintain IFC in its proper role as technical advisor.

**Lesson 2: Reach out to stakeholders.**

Outreach remained key to making progress, especially in a divided political system such as the Congolese one. Outreach here did not necessarily mean a communication strategy or a public-private dialogue mechanism. In fact, the SEZ program had neither of these as separate components. Nevertheless, the program team continually engaged with all kinds of stakeholders to explain what the program was about, what its benefits were, and what IFC’s role was. The aim was to build a general comfort level with the concept and thus allow the program to make further progress with a wider support base. The momentum generated resulted not only in the incorporation of the SEZ deliverables into the Western Growth Poles Project but also in widespread tenant interest for the zone.

![Figure 11.2: Maluku Master Plan](Source: Schéma directeur de la ZES de Maluku, October 10, 2012.)
Lesson 3: Identify the right champions.

In a post-conflict country it is often difficult to know who the actual decision makers are. Since SEZs require broad institutional support for their implementation, a SEZ champion inside the government must be able to influence his or her colleagues. In addition, there often are parallel power structures, whose support is crucial. The people “behind the throne” should never be underestimated. The establishment of a steering committee was one of the ways to gain additional champions and ensure consensus among all stakeholders. More generally, there needs to be strong government commitment for a internationally competitive program for SEZs, which is key to their success.

Lesson 4: Focus on the outcome.

Throughout the program, the team sought to keep in mind the final objective: the construction of a SEZ by a private developer that is willing to take the project forward and to risk its own money—such a public-private partnership is to be supported by the Western Growth Poles Project. This can happen either with the assistance of IFC and the World Bank Group or as a result of the framework proposed by IFC and enacted by national authorities. Each milestone under the program was therefore only a step in a process leading to a privately managed SEZ that can create goods, services, and employment.

Lesson 5: Focus on the framework.

A SEZ is considerably more than just the serviced land. It is foremost the legal, institutional, and regulatory framework that clarifies the relationships between the different stakeholders: the companies in the SEZ, the SEZ developer, the SEZ authority, and the state (see Figure 11.3). There often is confusion between the role of the SEZ authority (to regulate all zones) and that of the SEZ developer (to manage one or more zones). Their relationship, roles, and responsibilities need to be well defined in a SEZ law—particularly in post-conflict countries, where state interference constitutes one of the main constraints to private sector development.

Figure 11.3: Preferred Relationships between SEZ Stakeholders

Source: Markus Scheuermairer.
Lesson 6: Don’t second-guess the market.

A SEZ is also about process: the activities should concentrate on turning to market demand and facilitating investment in general, rather than determining what kind of investment should be made. Experience demonstrates that a “build it and they will come” strategy often is a recipe for failure. Location, for example, is a critical element of success, in particular proximity to major trade routes and population centers. This highlights the importance of having a clear and transparent set of mandatory regulatory criteria by which SEZ location and designation decisions are made.

In the Democratic Republic of Congo, the pilot zone at Maluku is likely to attract agri-processing industries, light manufacturing, and logistics, given its location and the needs of the Kinshasa metropolitan area, where many food products are currently imported and priced beyond the range of most consumers. However, the framework has been designed to allow any industry to be set up in the zone. There should be no restrictions, since a SEZ is better used not only as a tool for industrial policy but also as a means to enable investment and reforms that should spread in time to regional or national levels. The ultimate sign of success for a SEZ is not only its multiplication but also the extension of its framework across the entire jurisdiction.

Conclusion

SEZ programs in post-conflict countries are inherently difficult to implement yet offer an attractive proposition for investors whose interest is piqued by a market with potential but who may balk at the infrastructure and investment climate constraints. Both opportunities and challenges need to be well understood—it is more than knowing what to do; it is knowing how to get it done.

In particular, SEZs in such an environment should be designed to foster economic competition against incumbents that benefit from various mechanisms of rent extraction. Yet these same incumbents will most likely be critical partners in the establishment of SEZs. Therein lies the inherent contradiction: a SEZ is about taking power away from the incumbents, but it cannot be established without their cooperation.

More generally, poverty reduction is not only about raising incomes but also about reducing relative expenses. That’s why the introduction of competition is important in post-conflict countries—because its absence maintains prices at high levels for transformed as well as primary products. A SEZ that fosters competition against incumbents therefore contributes to growth, to job creation, and ultimately to poverty reduction.

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Happy to Be One of Many Parents!
Establishing a Commercial Code and Court in Liberia

Success has many parents, but failure is an orphan.
—Unknown (but cited by many)

During the reform process in Liberia, various parties worked until the last minute to prevent enactment of the country’s commercial code and bill to establish a commercial court. However, once the bills were signed into law, these same people were quick to claim their contribution to the success. This SmartLesson describes our own claim to the success and looks at the challenges of working in conflict-affected states, particularly the surprising subordination of the common good to personal interest, the pronounced dysfunction in public service, the profound dearth of capacity, and the overwhelming importance of relationships.

BACKGROUND

Our contribution began with the design of a collaboration between IFC and the World Bank to provide technical expertise and financial support to draft and promulgate a commercial code as well as to design and develop the legislative framework and the refurbishing of premises for a commercial court in Liberia. The result of this effort was the establishment of a best-practice commercial court and the drafting and enactment of nine commercial laws that clearly demarcate the rights and obligations of parties to commercial transactions.

The challenge

Many post-conflict countries suffer from judicial systems that are virtually defunct and incapable of delivering basic services. The legitimate perception that the system is corrupt makes the private sector reluctant to use it. Liberia is no exception. The protracted conflict led to an exodus of talent and left the country’s infrastructure in shambles. As part of its reconstruction efforts, Liberia’s Poverty Reduction Strategy, which promotes private sector-led growth, has focused on addressing investment climate and other systemic challenges as a way to encourage private investment.16

In October 2009, the Bankers Association and the Central Bank of Liberia requested that IFC provide technical and financial support for the development of a commercial code and a commercial court.17 This request resulted from agreement—among private sector umbrella organizations and the government—that the lack of a modern commercial code, efficient court systems, and other dispute resolution mechanisms

17 A local effort to develop a commercial code started in 1976 but was never completed.
were among the principal constraints to doing business in Liberia.\(^\text{18}\)

**The project**

The Commercial Code and Court Project in Liberia is a World Bank Group-wide endeavor that has leveraged the competencies of the World Bank and IFC. It also is a cross-business line initiative within IFC.

**The approach**

Through the public-private dialogue framework (Liberia Better Business Forum), all stakeholders had agreed that a modern commercial code (to end the inconsistencies generated by reliance on often unsuitable precedents from various U.S. states) and a commercial court (for speedy resolution of commercial disputes) would significantly improve the investment climate, ensure security for commercial transactions, increase access to finance, and inspire confidence in Liberia as an investment destination. The components of the intervention sought by Liberian public and private sector stakeholders were the following:

- Technical expertise and financial support for drafting a best-practice commercial code;
- Facilitation of stakeholder input into and technical support for promulgation of the commercial code;
- Funding and facilitation for a study tour and the design of a commercial court;
- Technical expertise for drafting best-practice procedures for a commercial court;
- Technical expertise for designing a complementary ADR (alternative dispute resolution) framework;
- Financial resources and procurement support for refitting premises for the commercial court and for training judges.

**Responding through collaboration.** Although the proposed IFC Advisory Services (AS) intervention seemed likely to yield practical, tangible, and immediate benefits for Liberia, IFC has no AS business line under which the development of a commercial code and commercial court would fit. Further, even if IFC were able to engage, it would be impossible for AS program funds to pay for the rehabilitation of the premises required for the future commercial court.

Consultation within IFC made it clear that the proposed outcomes would have an enormous positive impact on Liberia’s investment climate. As a result, IFC developed an intervention across business lines,
piggybacking on the ongoing Investment Climate Program in Liberia (to ensure quick deployment and completion before the next election cycle). The intervention drew from and extended planned activities of the Access to Finance and Investment Climate business lines.

Under the guidance of the IFC resident representative and the World Bank country manager, IFC also partnered with an ongoing Bank project for the improvement of the Liberian judicial system. The initiative—funded by the Low Income Countries Under Stress Trust Fund—delivered a comprehensive action plan for the improvement of the judiciary and was able to fund the bricks and mortar needed to refit a court. The joint IFC-World Bank team also consulted with donor partners such as SIDA (the Swedish International Development Agency) to fund automation of the commercial court and the United Nations to fund the training of judges.

LESSONS LEARNED

Lesson 1: Assume nothing.

*Your assumptions are your windows on the world. Scrub them off every once in a while, or the light won’t come in.*

—Isaac Asimov

Too often, proposals for legislative reform drawn up by governments and development partners make the following assumptions:

- that the intrinsic and proven logic of reform proposals will generate support;
- that patriotism will trump self-interest; and
- that the need to consult all important stakeholders will be self-evident.

Unfortunately, in post-conflict countries in particular, such assumptions may be wildly inaccurate. Although the desire and need for an overhaul of the laws governing commercial transactions in Liberia were evident and in the public interest, some of the principal stakeholders expected to be financially compensated for this work and threatened disruption. This was a source of concern, particularly because one of the stakeholders was said to have appropriated the intellectual property rights of a previous donor-sponsored work product that had been intended to benefit all Liberians. To get around such obstacles, we had to be creative in providing public recognition as a non-financial incentive for stakeholders to commit their time and resources to the project.

The project team also had assumed that enlarging the stakeholder group would ensure that the bills that would compose the commercial code would undergo greater scrutiny and result in a superior product. We did not count on some stakeholders seeking to dominate the process in the belief that such dominance would translate into personal financial gain.

However, we succeeded in persuading everyone that extensive consultations were necessary because the legislature would be loath to pass a law that important stakeholders had not endorsed. The solution was to convince each identified stakeholder group that they were essential for the success of the initiative, and to allocate precise roles and functions to each. This strategy ensured that each group felt responsible for the passage of the law, and it created a ready-made constituency to encourage the legislature and the president to act quickly.

Lesson 2: Study tours do have a purpose—or two or three!

*Coming together is a beginning; keeping together is progress; working together is success.*

—Henry Ford

*They may forget what you said, but they will never forget how you made them feel.*

—Carl W. Buechner (among others)
Study tours are often dismissed as trivial activities that result in wasteful spending. When the Commercial Code and Court Project began, Liberia had no model of a strong, well-functioning court system that could demonstrate the value of the proposed legislation. Instead, there had been heavy reliance on often unsuitable American jurisprudence, plus a patchwork of incomplete and sometimes contradictory commercial laws, which made the private sector highly risk-averse and reluctant to rely on the court system for relief. The country’s court system was deficient in many ways, including a lack of case-management systems, a lack of resources, the absence of applicable precedents, and a dearth of appropriately qualified judicial officials.

The study tour to neighboring Ghana’s commercial court allowed stakeholders to visualize what they wanted, learn from Ghana’s experience, and reach difficult conclusions about Liberia’s needs. Stakeholders stepped out of their familiar Liberian context, left behind the distractions of work, and committed themselves to examining how Ghana’s model could be adapted to Liberia. Previously perceived as superior in the subregion, Liberia’s “fall from grace” was all the more evident when contrasted to the relative efficiency of Ghana’s public sector. This revelation, together with national pride, motivated the stakeholders to strive for deeper reforms.

Having personally witnessed a commercial court in action also allowed participants to speak about their findings with conviction. For example, when they saw how effective the mandatory pretrial conferences in Ghana’s commercial courts were in reducing the number of cases sent to trial, stakeholders adopted this previously unfamiliar concept.

To ensure that stakeholders actually deliberated on and made the necessary decisions, we organized debriefing sessions after each day’s activities. That interaction encouraged vigorous debate and allowed them to reach conclusions that would ultimately bring the commercial code and court legislation to life.

Lesson 3: Local versus foreign consultants: find a middle ground.

*Necessity is the mother of invention.*

—Plato

Because the development of legislation is a uniquely sovereign activity, we knew that we had to tread carefully to ensure that the drafting of the commercial code reflected the legal traditions of the stakeholders. We realized that the civil conflict had decimated the
country’s judicial system and isolated Liberia from the kind of reforms that had strengthened legal systems in other developing countries.

Although we recognized the benefits of engaging a local expert, the relative dearth of capacity and the comparatively low levels of remuneration for World Bank Group local consultants made it difficult to hire some of the more eminent commercial lawyers to draft the legislative text. Because quality local consultants were not readily available at the Bank Group local pay scales, we hired an international consultant—which met with strong resistance from the stakeholders.

Given Liberia’s history—and the perception that its resources have been exploited for the benefit of foreigners—there is a general wariness about heavy foreign involvement in key sectors, including the judicial system, even where the need for foreign expertise and advice is evident. In Liberia’s post-conflict circumstances, these fears are magnified, and there is a pervasive sentiment that highly paid foreigners work in the country without understanding its context and, more important, crowd out work opportunities for locals. This sentiment is so deeply held as to have been entrenched in the Constitution, which bars non-Liberians from practicing (expansively interpreted to also include teaching) law.

Faced with the possibility of the project’s stalling for want of local drafting expertise, we came up with the best possible alternative: We hired a distinguished local lawyer to work with an international commercial lawyer and apportioned the workload appropriately to reflect the pay scales. The project received an enormous boost from the engagement of a local lawyer to complement the work of the international lawyer. The local lawyer had expertise in legislative drafting and private sector development, plus extensive professional dealings with the large group of stakeholders. As a result, stakeholders voiced their concerns more freely, and his presence in the country and knowledge of the stakeholders permitted access and feedback that otherwise would have been impossible. This contributed significantly to improving the draft legislation.

Lesson 4: Understand the subtexts.

We have two ears and one mouth so that we can listen twice as much as we speak.

—Epictetus

Conflict generates relationships and styles of communication that cannot be taken at face value. Although peace now prevails, public interaction continues to be greatly influenced by old war-related rivalries that underlie every action and communication. Outsiders seeking to engage Liberian politicians and leaders, particularly on such sensitive matters as legislative reform and institution building, must develop a sense of trust and build confidence with Liberians for them to be comfortable enough to open up.

In our case, lack of awareness of how local actors relate to one another could have introduced tensions for reasons that we would have been oblivious to. Fortunately, the local consultant was willing to communicate openly with us and explain stakeholders’ concerns, which we sought to address. The outcomes of these communications were not always directly measurable, but in sum they were critical to advancing the project. The result was that we learned to identify reform champions—and challengers of reform—and successfully preempted divisive issues and potential conflict.

Identifying allies to help navigate such relationships and to translate the coded subtexts is an invaluable means for understanding what is not always explicitly communicated. Although legislative reforms require engagement of a wide range of key stakeholders, it is important, especially in a post-conflict setting where institutions are fragile, to understand issues that will unite key stakeholders. This requires special emphasis on understanding the histories and past relationships that could still influence their behavior and attitudes.
CONCLUSION

After climbing a great hill, one only finds that there are many more hills to climb.

—Nelson Mandela

Although the development of commercial codes and the creation of commercial courts are not typical IFC Advisory Services products, they can lay the foundation for significantly improving the investment climate and access to finance. To maximize development impact in post-conflict countries, we need to be flexible, responsive, and innovative about how we deploy resources and skills. In this instance, IFC’s engagement of stakeholders, which resulted in unprecedented collaboration between different groups and wide endorsement of the proposed legislation, was such that, once the laws passed, each constituency sought to convince everyone that the project was their “baby,” and that they had done the most to bring it to fruition. We were ecstatic that all stakeholders claimed credit.

Although elated at the progress to date, we anticipate future challenges but heeding the words of Mandela, we shall remain undaunted by the many more hills to climb.

ABOUT THE AUTHORS

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Credits

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