
GLOSSARY AND ACRONYMS

ADB	Asian Development Bank
AEF	Africa Enterprise Fund
AfDB	African Development Bank
AMSCO	African Management Services Company
APDF	Africa Project Development Facility
APSO	Agency for Personnel Service Overseas
ASECA	Asesoría Empresarial Centroamericana
ATMS	African Training and Management Services
AUSAID	Australian Agency for International Development
BAS	Business Advisory Service for the Caribbean and Central America
BESO	British Executive Services Overseas
BUNT	Business Development Utilizing New Technology
CDB	Caribbean Development Bank
CDC	Commonwealth Development Corporation
CESO	Canadian Executive Services Overseas
CIDA	Canadian International Development Agency
DANIDA	Danish International Development Agency
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECIP	European Community Investment Partners
EC-PHARE	European Community-Action Plan for Coordinated Aid to Poland and Hungary
EDL	Enterprise Development Limited
ESSA	Enterprise Support Service for Africa
EU	European Union
EXIM	Export-Import Bank of India
FinnFund	Finnish Fund for Industrial Cooperation Limited
FINNIDA	Finnish International Development Agency
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden NV
FSU	Former Soviet Union
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
ICDS	Industry Council For Development Services BV
IDA	International Development Association
IESC	International Executive Service Corps
IFC	International Finance Corporation
IFU	Industrialization Fund for Developing Countries
IMF	International Monetary Fund
KHF	UK Know-How Fund
MIGA	Multilateral Investment Guarantee Agency
MPDF	Mekong Project Development Facility
NIB	Nordic Investment Bank
NORAD	Norwegian Agency for Development Cooperation
ODA	Overseas Development Agency
OECD	Organization for Economic Cooperation and Development
PBAS	Polish Business Advisory Service
PDF	Project Development Facility
PIIF	Pacific Island Investment Facility
3P	Międzynarodowa Pomoc Polskim Przedsiębiorstwom
SIDA	Swedish International Development Cooperation Agency
SME	Small-to-Medium-Sized Enterprises
SPPF	South Pacific Project Facility
TATF	Technical Assistance Trust Funds Program
TRADENZ	New Zealand Trade Development Board
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USTDA	United States Trade and Development Agency

TABLE OF CONTENTS

2	Message from the Executive Vice President to the Donor Community
1	1. Overview of IFC's Comprehensive Technical Assistance Program
7	2. Technical Assistance Trust Funds Program (TATF)
3	Annex I: TATF Support for IFC's Environmental Program: An Effective Partnership for Sustainable Development
7	Annex II: Selected TA Projects Supported through TATF Program
13	3. Project Development Facilities (PDFs) and Business Advisory Services (BASs)—An Overview
3	The Africa Project Development Facility (APDF)
3	African Management Services Company (ATMS/AMSCO)
7	Business Advisory Service for the Caribbean and Central America (BAS)
51	Mekong Project Development Facility (MPDF)
55	Polish Business Advisory Service (PBAS)
60	South Pacific Project Facility (SPPF)
64	4. Foreign Investment Advisory Service (FIAS)
7	5. Privatization Activities in the Former Soviet Union (FSU)
7	Annex: Summary of Privatization Activities in the Former Soviet Union

MESSAGE FROM THE EXECUTIVE VICE PRESIDENT TO THE DONOR COMMUNITY



nnik Lindbaek
e Vice President

We have already arrived at that time of year when we review and assess what we—in partnership with the Donor Community—have been able to accomplish over the past 12 months. As was the situation a year ago, we intend that this year's report reflect IFC's commitment to providing a full briefing on the work being carried out under our donor-supported technical assistance programs. In addition, with the backdrop of IFC's 40th anniversary celebration, the reflective mood that we now find ourselves in—as we take stock of where we are as a Corporation and where we are headed—is intensified. It is thus especially important, in this context, that we give close attention to the underlying trends and innovative new directions in the technical assistance arena given that such activities are often an important leading indicator of newer countries, regions, and sectors where IFC's investment operations may be headed in the future.

As always, it is a truly great honor for me, on behalf of IFC and its Management, to express our gratitude to each and every one of you in the Donor Community for the vital role that you continue to play in the success of our technical assistance programs. These achievements are amply detailed in this report which is focused primarily on the fiscal year just concluded. Highlighted are some of the initiatives taken in newer sectors, such as health care, education, and microenterprise financing—along with other areas that have traditionally been the focus of the Corporation's investment and technical assistance activities: state enterprise privatization; small and medium enterprise support; capital markets development; management training; private provision of infrastructure and environmental evaluation and analyses.

IFC's medium-term strategy has been discussed with the Board recently in the course of the review of the Corporation's "Three Year Plan, FY97-99 and FY97 Business Plan and Budget Framework." The main focus of the strategy is on efforts to enhance IFC's development impact by strengthening its role and

expanding the scope of its activities where needed—as an integral part of the World Bank Group. One new component of this strategy—formally approved by the Board in early September—is “Extending IFC’s Reach: Initiative to Enhance IFC’s Development Impact.” This is a three year pilot program to promote private sector investment in a selected group of sixteen countries where IFC’s activity has been limited or non-existent as a result of difficult country conditions. In this context, as well in the framework of ongoing operations, the delivery of high quality technical assistance services will remain at the core of the Corporation’s corporate strategy. Private sector development in nearly all of the countries of mutual interest is characterized by dynamic expansion—which is, in no small way, being driven by globalization and the growing linkages developing between your own respective economies and those of the countries receiving technical assistance. IFC’s own FY97 technical assistance agenda must therefore be influenced by evolving trends and future directions of your individual bilateral aid programs about which we expect to learn more when we get together.

This leads me to the closing observation that the success of our future technical assistance services depends to a large degree on the inputs we receive directly from you—at Breakfast Meetings as well as throughout the year. We hope that this report stimulates as productive a dialogue on October 2, 1996 as it did during last year’s Meeting. So that we might focus on the more important issues, please inform Nissim Ezekiel or Alakadri Bose in advance of the forthcoming Meeting of particular discussion points you would like to see raised.

Looking forward to seeing each of you again soon.


Jannik Lindbaek
Executive Vice President

September 1996

I. OVERVIEW OF IFC'S DONOR-SUPPORTED TECHNICAL ASSISTANCE PROGRAM

Background

IFC's primary objective is to stimulate efficient and environmentally sound private sector development in emerging markets through direct investment and mobilization activities, as well as by helping improve the policy and regulatory framework for private domestic and foreign investment. In support of this objective, IFC has—since the early 1980s—carried out a comprehensive donor supported technical assistance program encompassing several interrelated but focused initiatives. This program—which has added a new dimension to the Corporation's activities—is a major complement to IFC's ongoing budgetary and staff support for technical assistance and advisory efforts in areas such as capital markets development and private provision of infrastructure. In addition, technical assistance efforts are embedded in the Corporation's mainline project financing function (through intensive project evaluation and structuring efforts). This comprehensive technical assistance program is based on a

major collaboration between the Donor Community and IFC, and now includes the following components (each one is described in detail later in this report):

- Technical Assistance Trust Funds Program (TATF);
- Project Development Facilities/Business Advisory Services (PDFs/BASs):
 - Africa Project Development Facility (APDF)
 - African Management Services Company (AMSCO/ ATMS)
 - Business Advisory Services for the Caribbean and Central America (BAS)
 - Mekong Project Development Facility (MPDF)
 - Polish Business Advisory Service (PBAS)
 - South Pacific Project Facility (SPPF)
- Foreign Investment Advisory Service (FIAS); and
- Privatization Activities in the Former Soviet Union (FSU).

This comprehensive program essentially comprises four main elements. TATF is supported by a growing number of bilateral trust funds provided by individual donor countries (including newer participants like Ireland, Israel and New Zealand) and multilateral agencies (such as the EC), and is administered by the Corporation under the articles of individual trust fund agreements negotiated between the donor concerned and IFC. These trust funds are utilized (in close consultation with the donors concerned) to support individual projects which generally involve the preparatory phase of investment proposals (including analysis of environmental aspects), and, increasingly, advisory work in areas such as privatization, capital markets, and private provision of infrastructure. A detailed discussion of this program follows in Section 2 and includes: a focused discussion on TATF's support for IFC's environmental approach to ensure that projects are sustainable, and to catalyze private investment in the environment through a proactive role (Annex I); and illustrations of a broad range



Photo courtesy of Howard Jain

TECHNICAL ASSISTANCE ADDS A NEW DIMENSION TO
COUNTRY VIETNAM

THE CORPORATION'S ACTIVITIES; IT COMPLEMENTS
PROJECT FOR PROJECT

IFC'S ONGOING BUDGETARY AND STAFF SUPPORT FOR
TECHNICAL FACILITIES AND PROJECTS

TECHNICAL ASSISTANCE AND ADVISORY EFFORTS IN

AREAS SUCH AS CAPITAL MARKETS DEVELOPMENT AND

PRIVATE PROVISION OF INFRASTRUCTURE



Zimbabwe: Chiparawe Irrigation Dam Earthworks in progress; the project will ensure year-round supply of water to Chiparawe Farms and downstream users.

of TA proposals supported by this program (Annex II).

The PDFs/BASs element comprises six regional/country specific initiatives (e.g. APDF) which are supported by groups of donor countries and multilateral agencies and administered by IFC. The essential purpose of these initiatives is to provide technical assistance support in the areas of: project preparation and structuring, training, and operational assistance to small and medium-sized enterprises (SME), generally sponsored by local entrepreneurs. This year, IFC, as usual with the help of the donor community, has expanded the regional focus of such activities with a major initiative for the Mekong region. These initiatives are described further in Section 3.

The Foreign Investment Advisory Service (FIAS)—created by IFC in 1985, and currently operated as a joint-service between IFC and the IBRD—advises governments of developing and transition countries on how to enhance their policies, programs and institutions in order to attract

a greater volume of beneficial foreign direct investment (FDI). The work of FIAS is summarized in Section 4.

Finally, there is IFC's technical assistance program in the Former Soviet Union (as presented in Section 5). This essentially involves major support to privatization and capital markets development activities in the region, supported primarily by funding from USAID and the UK Know-How Fund but increasingly also benefitting from support from other donors through the TATF program.

IFC believes that the comprehensive program discussed in this report continues to advance the mutual objectives of all of the partners involved in this collaboration, viz., the developing countries; the donor community; and IFC. While making a useful contribution towards these shared objectives, the program has supported a diverse group of entrepreneurs—including SMEs—and has assisted governments concerned in developing critical policy and institutional changes required to enhance prospects for sustained private sector-led growth.

IFC's Overall Strategy

The technical assistance and advisory activities carried out by the Corporation with donor support need to be viewed against the framework of IFC's overall strategy and approach for enhancing developmental impact. These were most recently summarized in the Corporation's *Three Year Plan, FY97-99, and FY97 Business Plan and Budget Framework* discussed by the IFC Board of Directors in May 1996. IFC's global strategies have traditionally comprised three main components: technical assistance and advisory work; net investment for the Corporation's own account; and mobilization of additional capital from other investment sources. These three components are often closely inter-linked in terms of their economic and developmental impact at the country level. Disseminating the lessons arising from IFC's extensive advisory and transactions base is also becoming an increasingly important part of IFC's strategy for promoting efficient private sector development. This is being accomplished through a series of publications under a "Lessons of Experience" series which focuses on topics such as privatization, capital markets development, and private infrastructure provision.

The fundamental principle of the Corporation's approach to its technical assistance activities is similar to that which underpins IFC's investment activities. This principle entails utilizing the unique private sector experience and staff expertise that have been accumulated over a forty-year period and leveraging them to an optimum level through the mobilization of additional resources from international capital markets to support investment activity, and from the Donor Community to support the project preparatory and advisory activities.

Reflecting market trends, there has been a very rapid increase in the demand for the Corporation's investment activity—which has grown by about 17% annually since the US\$1 billion 1991 General Capital Increase; net investment is expected to grow further by about 7% annually during FY97-99, reaching a level of US\$3.7 billion in FY99 from US\$2.85 billion in FY95.

The support provided by donors for advisory activities thus enables the Corporation to supplement its own direct budgetary (and staff) allocations for advisory work, and utilize its internally generated capital in the form of retained

Impacts on wildlife habitat and floodlands must be carefully assessed in the establishment of ecotourism operations.



earnings—for maximizing the investment support extended to private companies in developing countries.

Support from the Donor Community

Table 1 below provides an overview of the cumulative donor funding of the Corporation's comprehensive technical assistance program. It should be noted that this information, and, in particular the dollar figures shown, are approximate and are subject to rapid changes as replenishments are agreed upon by individual donors, and as exchange rates fluctuate. These numbers are thus reflective more of the order of magnitude of the support provided by the Donor Community, rather than as an accounting statement of the program. Overall, donor contributions have accounted for about 85% of the more than US\$330 million of cumulative total cash costs of the various initiatives involved. This reflects the true strength of the partnership, with IFC providing overall coordination

and expertise for implementing the program, along with almost 13% of the total cash funding needed. Hence, IFC, besides its know-how, has provided US\$1 for every US\$8 needed—with the donor community contributing the major part of the funding and appropriate linkages (sponsorship, technical know-how and facilities). The Bank Group's contribution is more than one-sixth of the total support of some US\$280 million by the Donor Community.

The World Bank's own direct cash contribution to the IFC technical assistance program (as shown in Table 1) reflects only the specific budgetary support to FIAS operations. It should be noted that, as a member of the World Bank Group, IFC interacts with the Bank in a wide variety of ways, and benefits from this structure on an ongoing basis in ways significantly greater than indicated solely by the dollar volume of the FIAS contribution. As one additional example, the Bank has through FY96 provided direct budgetary support to IFC's capital markets advisory work and technical assistance activities, and this has recently amounted to over US\$2 million annually.

Table 1: IFC Donor-Supported Technical Assistance Program

Cumulative Financial Support in US\$ millions equivalent up to July 31, 1996

Donor	TATF	PDFs/BASs	FIAS	FSU	Total
I. IFC Donor Community					
African Development Bank	0.0	6.5	0.0	0.0	6.5
EBRD	0.0	1.2	0.0	0.0	1.2
European Community	4.3	7.3	0.0	0.0	11.6
Inter-American Devt. Bank	0.0	3.4	0.0	0.0	3.4
UNDP	1.0	14.0	7.9	0.0	22.9
Users Fees	0.0	2.1	0.0	0.0	2.1
Australia	0.7	4.2	0.7	0.0	5.6
Austria	0.1	0.0	0.0	0.0	0.1
Belgium	0.0	2.5	0.1	0.0	2.6
Canada	3.2	13.2	1.1	1.7	19.2
Denmark	2.2	9.4	0.0	0.0	11.6
Germany	0.1	7.4	0.0	0.0	7.5
Finland	3.3	3.1	0.5	0.1	7.0
France	0.1	6.5	0.8	0.0	7.4
India*	0.0	0.0	0.0	0.0	0.0
Ireland	0.3	0.0	0.0	0.0	0.3
Israel	0.2	0.0	0.0	0.0	0.2
Italy	6.7	2.8	0.1	0.0	9.6
Japan	6.3	9.8	3.2	0.0	19.3
Luxembourg	0.0	0.0	0.1	0.0	0.1
Mexico	0.0	0.5	0.0	0.0	0.5
New Zealand	0.3	1.3	0.2	0.0	1.8
Netherlands	2.6	9.0	1.4	0.0	13.0
Norway	3.9	5.6	0.3	0.0	9.8
Poland	0.0	0.5	0.0	0.0	0.5
Portugal	0.0	2.9	0.1	0.0	3.0
Spain	0.0	0.0	0.1	0.0	0.1
Sweden	3.7	6.2	1.3	0.2	11.4
Switzerland	4.6	10.3	1.0	0.1	16.0
United Kingdom	4.0	4.1	1.2	25.0	34.3
United States	4.6	24.1	3.8	18.5	51.0
ICDS	0.0	2.6	0.0	0.0	2.6
Caribbean Devt. Bank	0.0	0.1	0.0	0.0	0.1
Others	0.0	0.8	0.0	0.0	0.8
	52.2	161.4	23.9	45.6	283.1
II. World Bank Group					
IBRD	0.0	0.3	5.2	0.0	5.5
IFC	1.1	29.9	11.7	0.0	42.7
MIGA	0.0	0.0	2.9	0.0	2.9
	1.1	30.2	19.8	0.0	51.1
Grand Total	53.3	191.6	43.7	45.6	334.2

Notes:

* Indicates Contribution-in-kind.

TATF includes One-time Funding for Specific Projects (excluding EC/IFC Equity Line of ECU 5 million); includes IFC's recent \$1M contribution.

PDFs/BASs comprise AMSCO, APDF, BAS, ESSA, MPDF, PBAS and SPPF.

MPDF is included in the PDFs/BASs; so far, IFC and the Government of Australia have made firm commitments totaling US\$4.6M; in principle contributions totaling some US\$11.4M have been secured from EC and the Governments of Norway and Switzerland.

FIAS is a joint service supported by IFC and the World Bank.

FSU refers to IFC's Privatization Activities in the Former Soviet Union.

The broad and continually expanding donor base of IFC's TATF program is significant because... it enables the Corporation to seek out technical expertise...from the most suitable sources worldwide...thereby making the whole program effectively "untied."

The broad and continually expanding donor base of IFC's TATF program is significant because, in addition to the volume of funds available, it enables the Corporation to seek out technical expertise for individual projects and advisory tasks from the most suitable sources worldwide, rather than being unduly constrained by the availability of specific donor funding, thereby making the whole program effectively "untied." Traditionally, IFC has supported most of these programs by both cash contributions as well as by contribution of staff resources. Beginning with FY97, IFC's Management has proposed and the Board has approved a new budgetary allocation of \$1 million to the TATF program; this will both increase the resources available for technical assistance activities as well as provide added flexibility by allowing the combination of "untied resources" with individual trust fund support.

Looking Ahead

During recent years, the TATF Program, had been making annual commitments of about US\$6 million to support about 60-65 TA transactions. As indi-

cated in last year's report, FY96 commitments have greatly expanded to some \$11 million to support more than 80 TA projects due to availability of a substantially increased contribution from Japan, and replenishments from Australia, Ireland, Italy, Switzerland, the United Kingdom, and the United States. Looking ahead, this trend is expected to be sustained because of additional contributions being discussed with several donors, including Canada and the European Commission.

The PDFs/BASs in selected regions continue to make progress in developing entrepreneurs for small and medium sized (SME) enterprises, including the upgrading of local skills. APDF has entered its third cycle after two successful phases, and SPPF has entered its second cycle after a successful initial phase. PBAS having made great strides in the field of upgrading local skills, and BAS having operated successfully since its inception in 1981, are both entering the final phase of transition to local affiliates. In addition, IFC recently launched the Mekong Project Development Facility (MPDF) for which significant "in principle" support has already been secured from several donors (Switzerland,

EC, Norway) with others expected to join; IFC and Australia have already committed funding for MPDF.

FIAS, having completed its eleventh year, continues to contribute towards creating a climate conducive to private sector development through accelerated foreign direct investment—thus far involving more than 90 countries. The opening of FIAS's first regional office in Sydney has enabled it to provide expanded services in the Pacific region. During FY96 FIAS completed 31 advisory projects, of which 27 dealt with new subjects, while 4 were concerned with finding ways to implement earlier FIAS advice. In addition, FIAS sponsored three major conferences—two focused on FDI in Infrastructure (in Central and Eastern Europe and in Africa) and one dealing with competition and incentives for FDI in Asia.

Looking to the future, IFC strongly believes that it can maintain, and even expand—given the significant growth in TATF and launching of MPDF—its comprehensive technical assistance program—with expected expansions in both the volume and nature of TA

initiatives. To achieve this program, IFC must count on having the continuing and generous support, advice, and cooperation from the Donor Community, which has been both the foundation and hallmark of the build-up of IFC's comprehensive technical assistance program.

IFC is also conscious of the need to further diversify its Donor Community to include countries not traditionally included in this category—but which have an increased ability to make contributions because of the recognized capacity of firms and consulting organizations in their fast growing economies. Already, the program benefits from such in-kind support from India; in addition, we have expanded the program through support from Israel and New Zealand. IFC has also begun the process of approaching other countries such as Malaysia and Singapore—and plans to approach others such as Brazil, Korea and Thailand—to participate in this effective TA pro-



A new 100-room resort hotel, The Liberty Club, is being built in Grenada. BAS successfully assembled a financing package and found additional equity investors for the project

gram. Companies from these countries are now increasingly active as foreign investors and advisors in overseas markets—and in some cases their approaches and technologies may be uniquely suitable for developing country needs.

Subjects For Discussion

Given last year's encouraging participation and productive interaction by the Donor Community, we expect an increased level of participation this year during which specific issues may be raised by donors; however, it may be useful to highlight some of the issues that could benefit from further attention by the Donor Community and IFC in order to make the existing collabora-

tion even stronger and more effective:

- changing focus of donors' developmental activities and budgets.
- continuing donor support for specific initiatives and new directions.
- flexibility in utilization of donor funds, and broadening of focus to improve utilization.
- extension of future interactions between the Donor Community and IFC (with a view to improving understanding of the broader range of developmental activities of donors and IFC—potentially improving the synergy and efficiency of these efforts).



COUNTRY: PAKISTAN

PROJECT: EDUCATIONAL BEST PRACTICES—

EXPERT ASSISTANCE AND EVALUATION FOR

PRIVATE SECTOR SCHOOL SYSTEM

2. TECHNICAL ASSISTANCE TRUST FUNDS PROGRAM (TATF)

Introduction

The Technical Assistance Trust Funds Program (TATF) is one of the cornerstones of IFC's technical assistance effort. The TATF Program has brought a new dimension to the Corporation's operational and advisory work by enabling IFC to be involved in the preparatory phase of selected investment projects, and in a broad range of privatization advisory and other business development initiatives. The program thus enables IFC to combine its know-how and experience with resources from the Donor Community for the benefit of private sector development in developing countries.

The TATF Program was instituted in 1988 by IFC. The trust funds that support the program have been established by bilateral and multilateral donor agencies and managed by IFC. The objectives of the trust funds are: to help IFC identify and help develop potentially attractive business concepts and viable projects—of mutual interest to IFC and the Donor Community—at an early stage of development; to



create private sector opportunities and expertise among IFC-supported enterprises; and, more recently, to identify opportunities and coordinate technical assistance activities focused on the development of financial and policy environments conducive to private sector investment.

IFC currently manages—through this program—25 technical assistance trust funds, established through collaborations with the European Community, and the Governments of Australia, Canada, Denmark, Finland, India, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States of America. Through FY96, cumulative contributions of US\$45 million have been provided by the donor community to assist the Corporation in implementing technical assistance work.

Since inception of the TATF program in FY89, some 330 TA projects have been approved for funding by donors, reflecting more than US\$33 million of commitment of funds to support TA assignments coordinated through TATF.

Particularly significant in this regard, these donor supported trust funds strengthen IFC's ability to extend and deepen its role as a provider of developmentally important technical and advisory assistance in relatively more difficult regions and sectors; for example, through supporting "lead" involvement by IFC in emerging countries, or on interesting business opportunities in relatively smaller or innovative projects. These TA activities might not have been possible without the availability of the trust funds resource thereby imparting an element of additionality.

Resource Mobilization

Since last year's "Report To The Donor Community," two new trust funds have been established—with the Governments of Israel and of New Zealand; these valuable new resources

have been complemented by replenishments totaling nearly US\$11 million equivalent by the Governments of Australia, Finland, Ireland, Italy, Japan, Switzerland, the United Kingdom and the United States. In addition, IFC is initiating discussions for establishment of trust funds with a number of other countries—such as Singapore, Malaysia, Korea and Brazil—who could contribute resources and regionally important expertise suitable for developing countries' needs.

As indicated above, IFC's Board has also approved a US\$1 million budgetary allocation for FY97 to the TATF program from its own resources. This new resource will complement existing trust funds and introduce further flexibility in TATF operations.

Program Highlights: FY89–96 Achievements

TATF's resources and commitments have risen in response to a growing demand for the support they provide—from 15 projects approved in FY89 involving slightly over US\$1.5 million in commitments, to 83 projects supported in FY96 with some US\$11 million in commitments—a seven-fold increase in dollar terms. As is

illustrated in the accompanying charts, the TATF Program has achieved a reasonably balanced regional and sectoral coverage, supporting and extending IFC operating capabilities, and introducing technical expertise sourced, where appropriate, from the donor countries. The attached Annex II to this section highlights some two dozen recent TATF supported projects (most approved during FY96), reflecting this breadth of coverage.

During its eight years of operation ending FY96, TATF has:

- mobilized resources of over US\$45 million through 25 trust funds established by 17 donors; about one-third of the trust funds are targeted for Eastern and Central Europe including the FSU;
- supported some 330 TA projects involving a combined commitment of over US\$33 million; so far, at least one in three TA assignments, focused on feasibility and project preparatory work, has become an IFC investment;

The Technical Assistance Trust Funds Program (TATF) enables IFC to combine its know-how and experience with resources from the Donor Community for the benefit of private sector development in developing countries.

- helped establish and operate the IFC/EC Equity Line with ECU 5 million of initial contribution for supporting relatively smaller projects in selected regions; after a slow start, several proposals for EC equity investments—in parallel with IFC—are currently under active consideration by the EC;
- strengthened the ability of IFC to work in developmentally key areas that are strategically focused for private sector growth—e.g., capital markets development, infrastructure, environment, SMEs—with over half of TA projects approved during FY96 involving one of these areas; and
- coordinated increasing interaction with the donor community through: field visits; meetings in Washington with cofinancing delegations; participation in IFC promotional seminars; and, as appropriate, arranging opportunities for IFC's operating and support departments to discuss directly with selected donors the results of TA projects.

Operating Results: FY96

In FY96, TATF again increased its scope of activities, in terms of levels of funding support, and the range of activities supported. Projects approved reflect a representative mix of support for investment projects, along with support for advisory services to Government—mainly on capital markets development through institution-building—and a range of developmentally significant assignments in the infrastructure area.

Along with preparatory work in more traditional sectors, such as agribusiness, cement and forestry related industries, the operating results for FY96 reflect the role of TATF in strengthening the Corporation's ability to work on strategically focused areas for private sector growth—e.g., capital markets development, infrastructure, environment, advisory services, and SMEs. Slightly over half of TA projects approved during FY96 involving one of these areas. Figures 1 & 2 show the regional and sectoral breakdowns of technical assistance projects supported for FY96, as well as for the cumulative period since its inception; Figure 3 illustrates the rapid growth of



INNOVATIVE IFC TRAINING SHOWS FINANCIERS

HOW ENVIRONMENTAL RISKS AND OPPORTUNITIES

IMPACT PROFITABILITY OF FINANCIAL INSTITUTIONS

TATF's resources and commitments have risen in response to a growing demand for the support they provide...83 projects supported in FY96 with some US\$11 million in commitments...a seven-fold increase since its inception in FY89....

the TATF program since its inception.

Moreover, through TATF, IFC may be able to conduct—utilizing consultants supported by the trust funds—independent and objective assessments (on, say, environmental issues) required to prepare an investment project, to undertake developmentally important advisory work, or to prepare projects in cases where internal resource constraints would limit that option.

Japan Comprehensive Fund

The Japan/IFC Comprehensive Fund—finalized in October, 1995—has made a strong contribution to the FY96 TATF program. The impact of this resource has been particularly evident on the Corporation's ability to undertake TA projects with broader sectoral and regional focus—and wider distribution of benefits—and to support TA proposals with strong developmental impact and potentially important innovative work that might open up new avenues for appropriate private sector involvement.

New Client Countries

There are a number of newer countries which received TATF support for the first time. These include Moldova and Armenia (both agribusiness), Georgia (glass works), Macedonia (textiles), and Tajikistan (metals refining).

Multi-Donor Projects

In FY96, TATF again played an important role—through supporting consultants to complement IFC's own staff—in making possible the implementation of several potentially significant "mega" TA projects, funded through grants from multiple donors. In the Czech Republic, preparatory assistance was provided to help the Nova Hut steel complex to position itself—subsequent to the restructuring and privatization envisaged—for cost-effective production of quality steel goods that could compete in international markets, based on a combination of technology upgrades, focus on selected products, and existing comparative advantages. Support from multiple donors was also secured for privatization work on projects in Uganda (national telecommunications company, involving a range of technical, legal and management expertise); and in Pakistan, for assis-

tance on privatization of the Faisalabad Area Electricity Board.

A project identification and development technical assistance initiative—focused on specific investment opportunities. In forestry-related industries—is currently underway; this covers selected projects in Baltic Republics and Western Russia, and builds on (i) existing sector studies covering the region; (ii) IFC’s regional and industrial expertise; (iii) specialized “know how” and in-depth regional experience of consultants from donor countries.

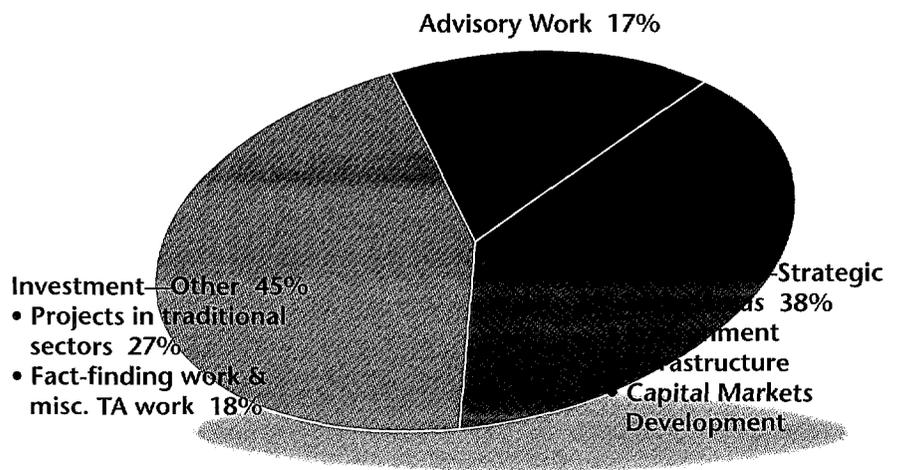
Conferences and Seminars

TATF was also an active player during FY96 in the Corporation’s effort to promote broader familiarity with IFC’s activities—in particular, its commitment to technical assistance as a critically important tool for private sector development. Mr. Lindbæk was this year’s keynote speaker in plenary session of a major global conference sponsored by the European Communities Investment Partners (ECIP) in February, in which Mr. Ezekiel also spoke to share IFC’s experience on the privatization of infrastructure services. TATF

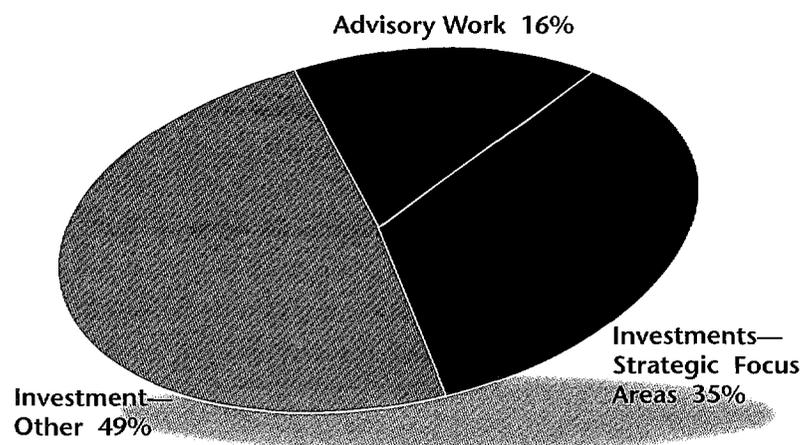
staff were also involved in IFC promotional roadshows with a strong focus on the Corporation’s technical assistance activities, to “spread the word” about TATF resource in selected forums, and about opportunities for firms from donor countries to access them; these forums included, participation by both government and business groups in Ireland, India, Italy, and the Netherlands.

FIGURE 1

*Operating Results—FY96
(83 Projects)*



*Operating Results—FY89–96
(328 Projects)*

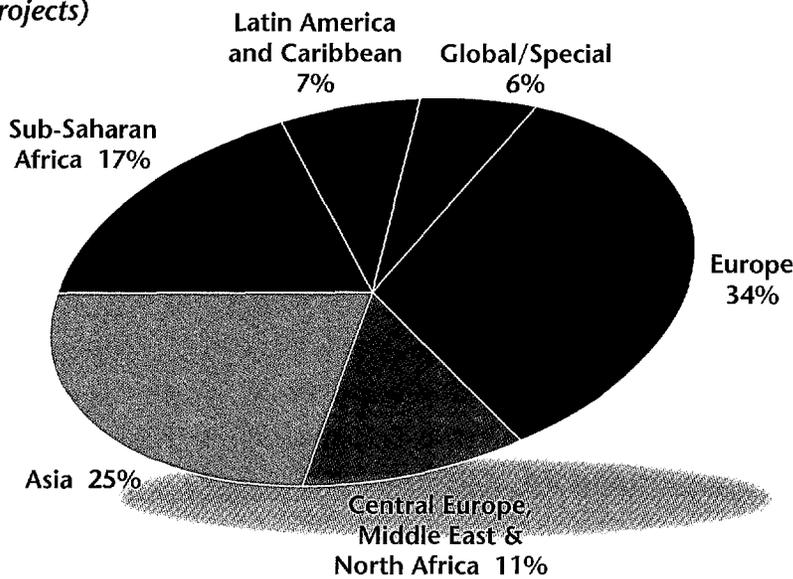


IFC co-sponsored—with the World Bank and the Government of Italy—a pioneering seminar in Mozambique on identifying and removing “second-tier” constraints to private sector economic development and foreign investment; in addition to significant attendance by private sector representatives at the request of the

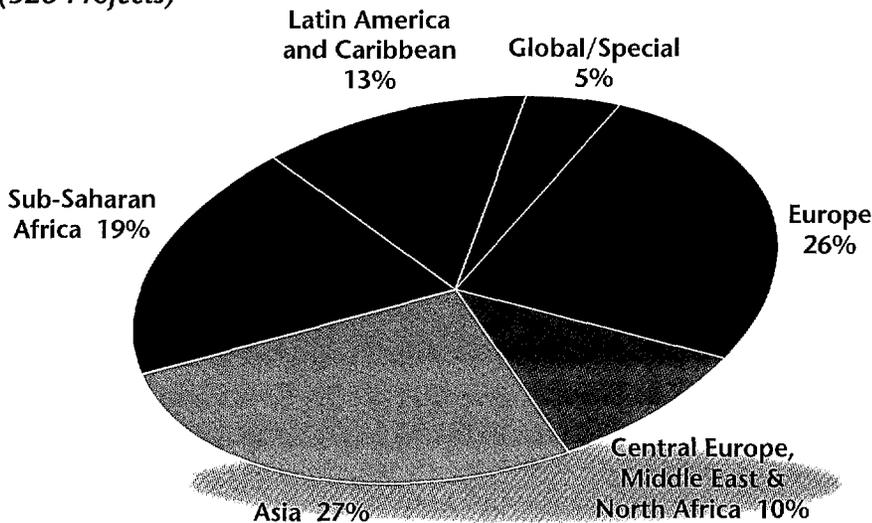
Government of Mozambique, this work will be ongoing through FY97. Participating were members of Government, representatives of Government of Italy (which provided funding support), and specialists in this area.

FIGURE 2

Summary of TA Projects by IFC Region—FY96 (83 Projects)



Summary of TA Projects by IFC Region—FY89–96 (328 Projects)



Progress on Priority Areas

FY96 has seen substantial progress on a number of “priority areas” identified in last year’s Report:

- supporting technical assistance and advisory services in countries where the initial cost of doing business and structuring projects is higher because of the early stage of policy reform and/or the transitional nature of the economies in question;
- assisting to implement IFC’s focus on the development of infrastructure and capital markets through supporting preparatory and implementation work as well as to support the TA needed to strengthen the policy framework and institution building;
- supporting the growing demand for IFC’s advisory services—privatization in

particular—in a cost-effective manner; and augmenting IFC's capacity to address and evaluate project-related environmental issues; strengthen environmental policy formulation in developing countries, including environmental awareness and skills through focused training arrangements.

During FY96, TATF has placed increased emphasis on arranging opportunities for IFC's operating and support departments to discuss directly with visiting donors the results of TA projects approved in meeting mutual objectives, and to explore opportunities and constraints regarding program management and impact. These discussions appear to have helped to enhance understanding of TA assignments under implementation—both through increased availability of most current information on these—and the nature of delays and consequent developments impacting TA work.

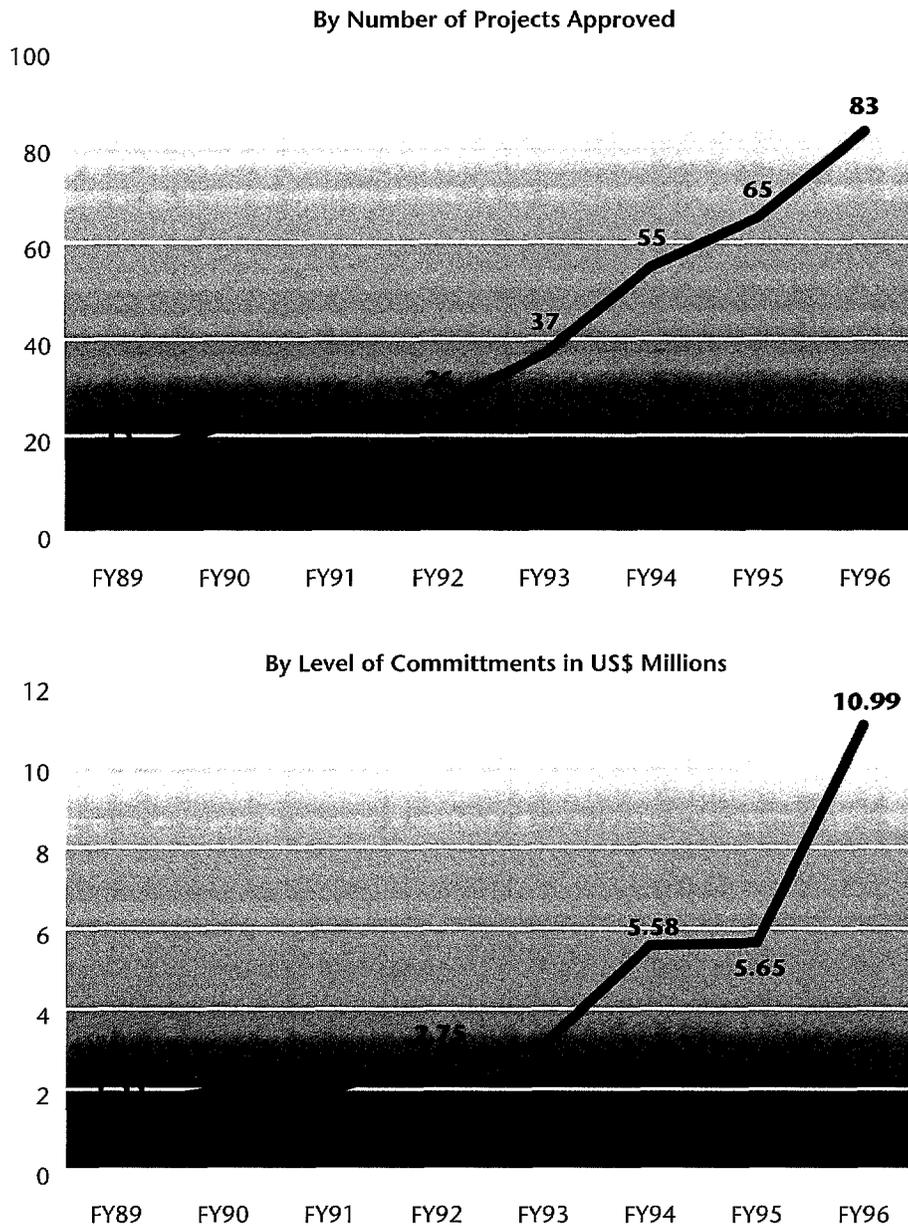
Also as highlighted in last year's Report to the Donor Community, the TATF reporting function has been significantly strengthened. In addition, the

direct communication between Donor representatives and task managers of TA projects has been expanded in order to facilitate a greater level of interaction. Overall these steps have helped ensure a more timely "retirement" from active reporting of those authorized TA projects for which prospect of implementation appears unlikely.

We remain concerned—as has been discussed over the past year, both within IFC and with some donors—about achieving a speedier rate of utilization of some of the trust funds. While recognizing that the TATF will to a considerable extent remain a demand-driven service, the program has undertaken a number of specific internal initiatives within the Corporation to assure familiarity with the availability of, and operating parameters for accessing, the trust funds. These steps include: regular reports to managers on program results on a quarterly basis, and presentations for potential users in selected promotional forums. We also have in

FIGURE 3

TATF Program Growth, FY89–96



advanced stages of development several “user-oriented” information and processing products.

We are therefore hopeful that one result of the several initiatives underway would be a growing range of opportunities overall—on the part of IFC staff—for productive contacts with external counterparts—e.g., local sponsors, potential foreign sponsors, operating groups, consultants, other development institutions—on a more frequent basis. The purpose is a general broadening of familiarity with this collaboration between IFC and the donor community, and creation of ready channels for increased awareness of this resource, especially for certain regions, to ensure an improved rate of utilization.

Looking Ahead

Disbursement

For some projects, disbursements have in past lagged substantially behind the commitment for funding support.

IFC is now in the process of carrying out a comprehensive review of all ongoing TA projects to identify those where progress (as measured by disbursements) has been slower

than expected. Reports will be made to donors on specific cases where newer implementation schedules need to be implemented, or where cancellation of a particular commitment may be more relevant (with the funds returned to the unutilized pool).

Developmental Impact

IFC is also now in the early stage of preparing—in line with the increased emphasis on development impact of the World Bank Group activities, and amongst the Donor Community generally—an internal self-assessment of the developmental impact contribution of TA assignments supported through the TATF program. The longer-term aim of this effort is three-fold: (i) to find ways to identify and give increased priority during FY97 (and beyond) to those activities with prospect for favorable developmental impact; (ii) to characterize results of the assessment somewhat more systematically, and (iii) to share results with the Donor Community, so that results

should, in due course, lead to more effective synergies and more effective use of increasingly scarce aid resources.

Conclusions

Overall, the TATF program is making favorable progress in supporting the objectives, and providing the benefits, envisaged; it also appears to be well-positioned to support an increasing volume of work projected to be handled over the next few years. With continuing availability of expanded support—as experienced in FY96—an annualized volume of over 100 projects and some US\$12 million in commitments could be reached by FY98—approximately double the operating results reported for FY95. More important than the focus on volume of new commitments and approvals will be efforts to ensure project implementation and to more rigorously demonstrate development impact.

In addition, the “Extending IFC’s Reach” Initiative is likely to further broaden the Corporation’s role in countries where private sector development faces the toughest chal-

we would expect to see continuing growth in TATF activities, including increased involvement in new areas where high-quality technical assistance may be a key factor in promoting private sector development

lenges. It is in these country situations that newer demands for technical assistance and advisory services could arise; and it is precisely in such developmentally challenged environments where TATF resources could be productively utilized.

Given the key role played by technical assistance in promoting private sector development—and given the growing awareness within the Corporation of the synergies that are possible through combining IFC's technical and

regional experience and the resources made available through TATF—including access to specialized technologies and expertise—we would expect to see continuing growth in TATF activities, including increased involvement in new areas where high-quality technical assistance may be a key factor in promoting private sector development on a sustained basis over a longer term horizon.

ANNEX I: TATF SUPPORT FOR IFC'S ENVIRONMENTAL PROGRAM: AN EFFECTIVE PARTNERSHIP FOR SUSTAINABLE DEVELOPMENT

IFC's approach to the environment is to ensure that all IFC projects are environmentally sound and sustainable, and to take a proactive role in developing new ideas and initiatives to catalyze private sector investment in the environment. Through this approach, IFC aims to influence the new paradigm of private sector driven development so that leading private sector companies—especially those active in sensitive natural resources and infrastructure development areas—along with other key players—such as with NGOs, academia, and multilateral financing institutions—can agree on broadly accepted guidelines covering investments in developing countries.

IFC's donor supported Technical Assistance Trust Funds (TATF) play an important role in implementing this approach. Utilizing this resource—in combination with its own unique experience and expertise—IFC can undertake technical assistance (TA) projects aimed at: reviewing and improving environmental regulations; focusing

attention on the environmental aspects/impacts of projects in key industrial and geographic sectors; and reaching important private sector decision-makers. Moreover—given that TA projects assignments are often conducted at the feasibility or environmental impact assessment stages—they can strongly influence the level and direction of additional investments in specific projects and industrial sectors. During FY96, technical assistance projects—supported through IFC's trust fund collaborations with the donor community—made a valuable contribution to the Corporation's overall focus on environment.

Promoting Environmentally Sound Industry Practices

Control of air emissions and liquid effluents is a continuing challenge to sustainable development in most industrial projects. With TATF assistance, IFC was able to conduct feasibility studies, environmental audits, and environmental management plans for pollution control issues linked to key industrial sectors in Eastern Europe,

Asia, and Africa. In the developmentally important cement industry, for example, IFC conducted environmental audits—through TATF support—for privatization of cement plants in Russia and Azerbaijan. In one TA assignment in Russia, the prospective investment was a joint venture involving recently privatized plants comprising one quarter of the total cement production capacity in Russia. Environmental audits were undertaken for selected plant plants by external consultants under IFC coordination, with participation by plant personnel in all phases. The Corrective Action Plans (CAPs) developed can serve as models for establishing CAPs for the company's other facilities. (In addition, the company can benefit in another way, as the proposed improvements will have positive effects on the company's economic efficiency.) In Thailand, where new environmental regulations require more rigorous control over liquid effluents, trust fund support was used to develop options for a zero-discharge system for an existing newsprint mill.

Along with emissions and liquid effluents, management and disposal of solid and hazardous wastes can be a significant factor in promoting sustainable development. In the Moscow region of Russia, IFC is participating in a technical feasibility and market study for municipal solid waste disposal. The study aims at assessing feasibility of developing private sector processing and treatment complexes—with appropriate environmental requirements—for municipal solid wastes. In Kenya, a study focused on identifying options for disposing PCB-contaminated transformers utilized by a producer of soda ash.

In India, IFC's trust funds supported a study of the environmental, technical, and financial feasibility of using rice husks as a primary fuel source to generate electric power. In Indonesia, IFC undertook a study to assess potential for substituting methane produced from pineapple wastes for fossil fuels. These projects offer two benefits: reduction of CO₂ emissions, and power generation for process use.

Small and Medium-Sized Enterprises (SMEs)

In many economies, small and medium sized enterprises (SMEs) are the driving force for eco-

economic development. The production techniques used by SMEs in many sectors, however, can often represent a relatively higher risk to health and the environment than techniques used by larger companies operating in the same sector. TATF has enhanced IFC's ability to promote environmentally sound development of this important segment. Costs to conduct environmental audits and Corrective Action Plans in the SME segment are often relatively higher in proportion to the project size; given that environment is a key input for investment decision-making by developmental institutions and others, SMEs frequently require assistance in this regard. In the Southern Africa region, the Environmental Assistance Fund—with preparatory support through TATF—will help finance up to 50 percent of the cost of an environmental audit or environmental impact assessment for projects under consideration by the Africa Enterprise Fund (AEF). Greater economic and environmental efficiency (eco-efficiency) may also play a useful role in helping SMEs to compete successfully. In Thailand, IFC's trust funds were applied to help develop an effective training program in eco-efficiency for SMEs in the textile sector; the "train-the-trainer" seminar focused on helping participants to identify and evaluate savings

from introducing "eco-efficient" practices in the bleaching and dyeing sector. Another training initiative, also in the Asia Region, helped to enhance skills of managers of Financial Intermediaries in handling liabilities due to environmental risk (see page 29).

Enhancing Access to Environmental Expertise

IFC also works to identify new opportunities for private sector investment projects promoting sound environmental practice. A study to help prepare market strategy for a joint-venture environmental consulting firm in Pakistan was supported by TATF; in the Southern Mediterranean Region, TATF supported a technical assistance project to conduct a market study, feasibility, and business plan for an environmental fund to serve companies in the private sector. Trust funds helped support a feasibility study for a global fund to finance renewable energy and energy efficiency projects.

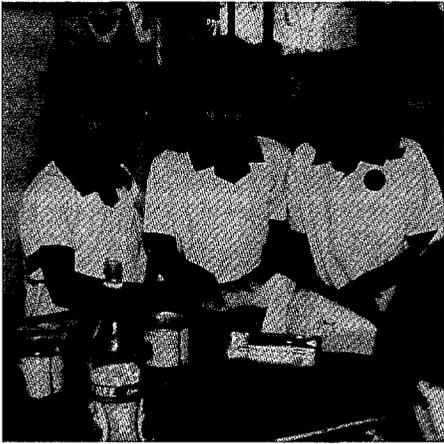
In conclusion, many such opportunities exist for improving the environment through private sector initiatives. Through TATF, the donor community provides valuable support needed to identify and develop them into feasible investment projects that can then be successfully implemented by project sponsors.

ANNEX II: SELECTED TA PROJECTS SUPPORTED THROUGH TATF PROGRAM

SUB-SAHARAN AFRICA

REGION: *Establishment of an Environmental Assistance Fund (EAF) for SMEs in Africa.* Cost to conduct the environmental audits that may be required by IFC—as a precondition for its participation in a business venture—may comprise a major portion of overall project preparatory costs, particularly for SMEs. These relatively smaller firms, that play a critical role in private sector development, may feel constrained to turn to alternative funding sources rather than incur this extra environment related cost. Through donor support, IFC has established a fund to assist SME ventures in Africa; it can help finance (not more than 50%) of the cost to conduct the necessary environmental assessments and audits for investment projects under consideration by the Africa Enterprise Fund (AEF) for IFC participation.

INDIA: *Advisory Services for Industrial Estate Water Supply Project.* In order to resolve water supply problems for a major industrial estate comprising state-owned and private sector companies, authorities have proposed implementation of a private sector BOOT scheme. IFC has been requested to provide technical assessment and advisory services to assure that this is established on a technically and financially sound basis. This assignment involves, in an initial phase, reviewing and assessing the project to determine the critical technical, commercial, and financial steps that are necessary to assure that Government's objectives for the project are achieved; and in a follow-on phase, to coordinating the bidding process, assisting in negotiations and providing advice on other aspects of the transaction.



Pakistan: Private Sector School System

PAKISTAN: *Educational Best Practices—Expert Assistance and Evaluation for Private Sector School System.* As part of its overall efforts to explore innovative business concepts, and to identify opportunities for the Corporation to expand its activities into areas where its orientation and expertise could strengthen its developmental role, IFC has arranged TATF support for appointment of a Pakistan-based education expert to help enhance the curriculum, pedagogy and educational content of a private school system in the process of expansion; this expert will also disseminate to other schools best educational practices drawn from within this system and relevant foreign schools.

INDONESIA: *Conversion of Pineapple Wastes to Methane.* Growing and processing of agricultural products—like pineapple and tapioca—often create waste by-products that can lead to disposal costs and adverse impacts on environment. IFC is undertaking a technical study on treating these by-products as an under-utilized resource, through

application of technology to generate methane from these; the methane produced can be converted to electric power to substitute for fossil fuel energy. This has a complementary benefit through reducing net release of carbon dioxide—that can contribute to the “greenhouse effect”—into the atmosphere.

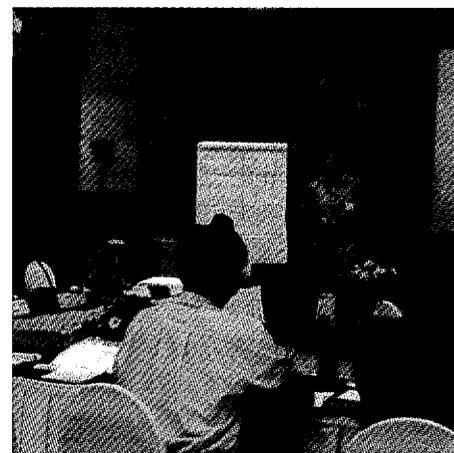
**BALTIC SEA REGION/
NORTHWEST RUSSIA:** *Project Identification and Development Study on Forestry-Related Industries.* IFC conducted—utilizing consultants supported by donor funding—a results oriented study of existing and possible forestry based ventures in the Baltic Sea and North-West Russia regions, where the sector has particular developmental and commercial significance. This “mega” project involved an overview of the forestry segment in the immediate vicinity of prospective investment projects, preliminary market and product analysis, and technical and financial assessments on the viability of specific investment opportunities, and subsequent preparation of information memoranda on the companies to attract marketing and technical partners for these.

PERU: *Assistance on Designing Mutual Funds System.* As part of its program for overall privatization of Peru's economy, the Government requested IFC's assistance on establishing a mutual fund industry that could accommodate the estimated 400,000 small investors expected to participate in Programa de Participacion Ciudadana (PPC); the PPC initiative aims at promoting stock ownership nationwide through offering shares of companies already or soon to be privatized, to employees and the public. Phase One of the advisory assignment—undertaken with support provided through TATF—involves an assessment of Peru's current capital market situation, and is being conducted to develop recommendations on how best to accommodate the small investor. Phases Two and Three would be initiated upon the successful completion of Phase One.

TAJIKISTAN: *Gold Refining Facility—Technical Capabilities Assessment.* As part of its policy to promote mineral extraction and related industries—that can present opportunities for foreign exchange earnings—the Government sought to explore feasibility of bring-

ing an existing gold refining plant, already using up-to-date technology, up to commercially accepted standards of purity, and certification. As sales to international bullion markets could have favorable developmental impact for Tajikistan, IFC arranged for technical experts to assess technical capability of the facility to achieve this, and the likelihood of successful competition on bullion markets.

ASIA REGION: *Training Program on Environmental Risk Management.* In both industrialized regions and countries with developing and transitional economies, unmanaged environmental risk can have substantial impact on medium to long term profitability of financial institutions in emerging markets. IFC has initiated an innovative in-depth training program to assist managers of financial institutions in identifying and handling risks and opportunities related to environmental issues; this program includes IFC-coordinated seminars held in selected countries in the Asia region, and was conducted with assistance of specialists supported through TATF.



Financiers in Thailand learn about environmental risk management



Russian Federation: Power plant gas drilling rig in northwest Tomsk province

CHINA: *Capital Markets Development —Expert Assistance on Strengthening Private Sector Infrastructure.* IFC provided expert assistance—with help of specialists supported through TATF—on converting selected urban credit cooperatives to urban cooperative banks (including training of staff in internationally accepted practices and procedures); in a separate technical assistance project, IFC provided advisory and technical assistance to help the Government to develop strategy for instituting a national legislative and regulatory framework more favorable to development of a capital goods leasing Industry in the private sector. These TA projects build on recent earlier work focused on enhancing key segments of China’s financial infrastructure—for example, IFC has conducted initial phase of an assessment of training needs of Chinese banking professionals working in non-state commercial banks, with an eventual aim to develop banking management skills and familiarity with international standards of practice.

UGANDA: *National Telecom—Advisory Services on Technical, Business and Management*

Factors. IFC is providing technical and preparatory assistance to the state-operated telecommunications utility in Uganda in several key areas, as part of overall preparations for eventual restructuring and privatization of this developmentally important sector. Areas covered include market assessment, expert assistance on legal documentation and procedures, and on change management for the transitional period to private ownership and operation.

RUSSIAN FEDERATION: *Private Sector Power Plant and Facilities.* In order to meet prospective shortfall in generating capacity due to shut-down of nuclear facilities, and to enhance reliability of regional power supply (western Siberia), sponsors proposed construction of a gas-powered generating plant—the first major independent private power plant in Russia. IFC has agreed to provide a range of technical services for the project, utilizing assistance of industry experts supported through the trust funds. Activities include: assistance on overall project development, drafting of project legal documents; formulating financial structure for the venture; iden-

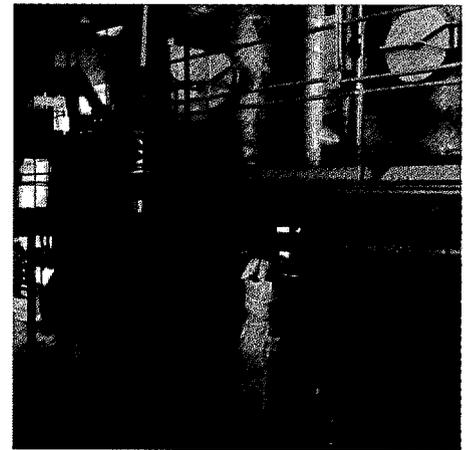
tifying lenders and equity investors; and preparing its technical design.

PAKISTAN: *Advisory Services for Privatizing Regional Electricity Board—Market and Commercial Feasibility Study.* At the request of Government, IFC agreed to undertake a study of market and commercial feasibility for proposed privatization of the first electricity distribution entity chosen by the Government for sale to a strategic investor. TATF has provided support for experts to assist IFC in conducting this advisory assignment, that involves an extended scope of activities—Phase One of this effort comprises performing legal and economic preparatory work, and Phase Two—which is designed to conclude the legal work and to take all remaining steps towards closing the transaction—would be commenced only upon successful completion of the initial phase.

EAST ASIA REGION:
Development of Corporate Bond Indexes for Emerging Economies. This IFC initiative—made feasible through donor funding support—aims at creating a set of indexes for corporate

bonds issued by private sector companies in selected East Asian emerging economies, with special attention to assuring their timeliness, accuracy and impartiality. The intent is to develop a tool that may be widely used by institutional and portfolio investors—in Asia, in particular, and throughout the international community, in general. A successful outcome of this effort could provide a model for comparable indexes for other emerging markets. Initial focus of this initiative are China, Indonesia, Korea, Malaysia, The Philippines, and Thailand.

UKRAINE: *Expert Assistance on Mass Privatization Program.* Drawing on its successful previous experience in the Russian Federation, IFC is assisting Ukraine in a more timely conversion of parts of its industrial sector to private ownership and operation—a complex process with a range of inter-related critical factors. IFC has expanded its activities to cover additional regions of Ukraine, to provide advisory services—utilizing expertise of consultants from donor countries—on such factors as identifying enterprises for privatization, valuation, training of local auditing firms, gathering of



Kharkiv Milk Combine
Kharkiv, Ukraine
IFC's assistance has been focused on agro-industrial enterprises, which represent over 50% of the enterprises being privatized in Ukraine's mass privatization program

key basic data, skills-building for officials, and structured dissemination of public notice to parties potentially at interest. This first phase of the mass privatization underway will be considered ready for subsequent phases when some 50–100 enterprises in each region have been privatized.

ESTONIA: *Feasibility Study for Deep Sea Commercial Port.*

Rehabilitation of the Kunda cement plant (a major regional producer, with a comparative advantage due to the use of locally available shale as fuel) has led to commissioning of a deep water port to service the plant; increasingly, this also is a focal point for shipping of a variety of products such as pulp wood, pressed peat, board plates, coal and granite stone. IFC conducted a feasibility study on further developing this facility—through TATF—including necessary improvements to infrastructure to extend the port’s operating capabilities during severe winter weather conditions.

GLOBAL: *Survey of Investment Opportunities in the Hospital Sector.* IFC is coordinating a study to examine investment

possibilities—initially for IFC with favorable implications on eventual involvement of other international development entities and private investors—in the broadly-defined hospital sector. Supported by TATF, the study includes coverage of some newer forms of hospital structures, such as multiple-hospital organizations, hospital management services, and diagnostic laboratory and other hospital support services, with main focus on identifying countries and types of hospital projects where IFC involvement is likely to be important through successful investments and consequent developmental impact.

MOZAMBIQUE: *Seminar on Reducing Private Sector Transaction Costs.* Growth of private sector can be slowed in countries with developing or transitional economies—even where the political authorities are favorable—by lack of “second-tier” regulatory and policy reforms required to support liberalized economic policy. These comprise seemingly “minor” issues such as, e.g. access to land titles and mandatory registration of fax machines that can, in combination, pose a critical threat

to continued formal private sector development. IFC co-sponsored a seminar—with participation that included Government, representatives from Government of Italy, World Bank Group staff, the private sector and invited experts—on identifying and resolving such “road-blocks.” IFC has been requested by the Government of Mozambique to continue providing this support.

CAMBODIA: *Capital Markets Development—Expert Assistance on Legal and Financial Framework.* Donor country experts assisted IFC’s capital markets development program for Cambodia through: (i) conducting a review of the country’s existing legal framework, including corporate law; foreign investment law; banking law; jurisdiction and court systems; and bankruptcy law; and, in a separate technical assistance assignment, (ii) providing advisory assistance to help Government to identify factors that could impact its plans to privatize financial institutions, and to develop a strategy for privatiz-

ing them and bringing their operations in line with internationally accepted practices.

HUNGARY: *Pumped Storage Power Plant.* Hungary has a power supply system based largely on nuclear energy (about 50%), with many of the plants due to be retired; moreover, there is a continuing short-fall of dependable capacity, and environmental and foreign exchange constraints on alternative power supply options. Some flexibility to improve peak-load capacity can, however, be obtained through pumped hydro, where off-peak energy—at a lower cost—can be used to supply hydropower for quick-response power to help meet daily variations in requirements. Through TATF, IFC supported a study on technical, environmental, legal and economic factors linked to establishing a practical pumped storage hydro-power plant (600 to 900 MW range) that could be rapidly implemented in the private sector.

**SOUTHERN
MEDITERRANEAN REGION:**

Environmental Fund and Management Company. As part of its program to promote environmentally sound private sector development—and to explore possible mechanisms to support this objective—IFC is conducting a market and feasibility study for proposed establishment of an environmental fund for the Mediterranean region, and providing assistance on developing a business plan for this. The technical assistance assignment—that utilizes inputs from consultants supported through TATF funding—focuses on particular environmental concerns; nature of enterprises/management (e.g., new/privatized/industrial); type of industry; and targeted regions.

ALBANIA: *Facilities Survey and Feasibility Study for Crude Oil Export Pipeline.* Enhanced Oil Recovery (EOR) technologies are now in limited use in Albania, but have potential for substantially increasing production capacity of the country's existing oil fields. At the same time, Albania has a shortfall in diesel and gasoline supply—due in part to technical aspects of its crude oil—that has a con-

straining impact on development of this industry segment. Rebuilding and modernization of existing pipeline, storage and related facilities could lead to increased opportunity for exporting Albanian crude—encouraging additional application of EOR, and promoting foreign exchange earnings—and make feasible the importing of some refined products to meet shortfall. IFC conducted—with assistance of experts supported through TATF—an independent facilities survey and feasibility study on implementing the pipeline and facilities modernization proposed.

MOLDOVA: *Fruit and Vegetable Processing Technology Study.* In order to enhance prospects of viability for fruit and vegetable processing operations in Moldova—the bulk of which have now been privatized—technical assistance on basic private sector operations and business practice is required. IFC has undertaken—with inputs by specialists supported through TATF—a focused study covering operational, marketing, accounting and raw material purchasing functions for three selected companies in this agribusiness seg-

ment; study results are being used to develop and present a program for rationalizing product mix, improving operational efficiency and product quality, implementing modern cost accounting principles, and upgrading purchasing procedures and quality control.

KENYA: *Environmentally Sound Disposal of Used Process Equipment.* Soda ash production through use of high-energy electric transformers generates waste oil containing Polychlorinated Bi-Phenyls (PCBs), that can comprise a health hazard. IFC conducted—utilizing specialists supported through TATF—a study of environmentally sound disposal options for managing the company's waste by-products in a cost-effective manner, thereby helping to assure the long-term viability of a company with considerable development significance for the local community.

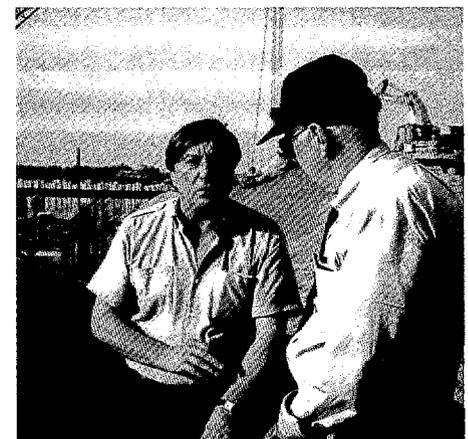
VENEZUELA: *Expert Assistance on Regulatory Framework for Electricity Sector.* While the Government-operated electricity sector in Venezuela has adequate generating capacity, other parts of the system—such as transmission and distri-

bution—are adversely impacted by tariff regulations and cross-subsidies. As part of its program to privatize the sector, reduce resource allocation inefficiencies, and restore overall profitability, Government has requested IFC to provide expertise on managing this process. Accordingly, along with other inputs, IFC arranged through TATF support to bring together representative from a variety of other countries—including Governmental institutions, regulators and electricity companies, and political and technical professionals experienced in assessing and implementing the privatization process, for discussing with Venezuelan officials—in a series of working sessions in Venezuela—the issues involved.

VIETNAM: *Port Project—Technical Facilities and Geology Assessment.* Policy changes and private sector growth are leading to increased need for infrastructure to support this. The required infrastructure can often be developed in a cost-effective manner by rehabilitation, modernization or expansion of existing plant; objective data on condition of existing equipment and structures,



Venezuela: Isla Margarita Power System



Vietnam Port Project

geological suitability, environmental impact, and potential constraints on future operations are of critical importance. In this context, IFC arranged financing to support specialists—through the trust funds—suitable for a technical audit of geological and environmental factors for proposed operating enhancements of an existing port in Baria-Vung Tau province—where IFC has recently made an investment—to serve needs of this industrial area.

GLOBAL: *Study on Sustainable Paper Cycle.* Both in industrialized regions and in countries with developing and transitional economies, paper production is an important commercial segment; moreover, this segment has strong implications on develop-

ment—given the range of subsectors involved, importance of factors like energy requirements, availability of raw materials, environmental impacts, and foreign exchange. In collaboration with a major international group focusing on sustainable development, IFC supported a “mega” technical study to examine key components involved in establishing a sustainable paper cycle. Conducted with participation by consultants supported through donor funding, this included; detailed cost analysis of critical aspects of pulp and paper industries (covering such factors as relative production economics); assessment of bleaching technologies, effluent and emissions controls (that looked at, e.g., pulp production options and bleaching system options); and an overview of potential for contribution of monoculture forestry to establishing a sustainable paper cycle.



FOLLOWING THE BREAKUP OF THE SOVIET UNION, IFC
INITIATED ITS PRIVATIZATION AND CAPITAL MARKETS
EFFORTS IN THE RUSSIAN FEDERATION, AND LATER IN
UKRAINE AND BELARUS, AS THESE NEW GOVERNMENTS
DECIDED TO ESTABLISH MARKET ECONOMIES

3. PROJECT DEVELOPMENT FACILITIES (PDF) AND BUSINESS ADVISORY SERVICES (BAS)

OVERVIEW

Two key events in 1995 were the orderly graduation of the Polish Business Advisory Service (PBAS) into a Polish program (see PBAS statement) and the decision to create a new facility for the Mekong Delta (see Mekong Project Development Facility statement). The IFC Board approved this new facility on May 2, 1996. The PBAS graduation is a successful model of transition from an IFC executed facility to one for which the public and private sectors in the country concerned have accepted responsibility.

By the end of 1995, there were five IFC-executed and donor assisted facilities—APDF, BAS, SPPF, PBAS and AMSCO. These had contributed to the development of over 350 projects, assisted more than 500 companies and helped raise more than US\$350 million of the US\$550 million required for these ventures, with more than 26,000 jobs having been saved or created. Many ventures would not have gone ahead without the facilities; others might have taken

longer or would not have been financed due to a lack of adequate preparation. Almost all of the enterprises that have been assisted are small and medium sized enterprises (SMEs) as defined in the facilities' mandates. For the most part entrepreneurs assisted have been indigenous or other local nationals. A number of entrepreneurs have been women.

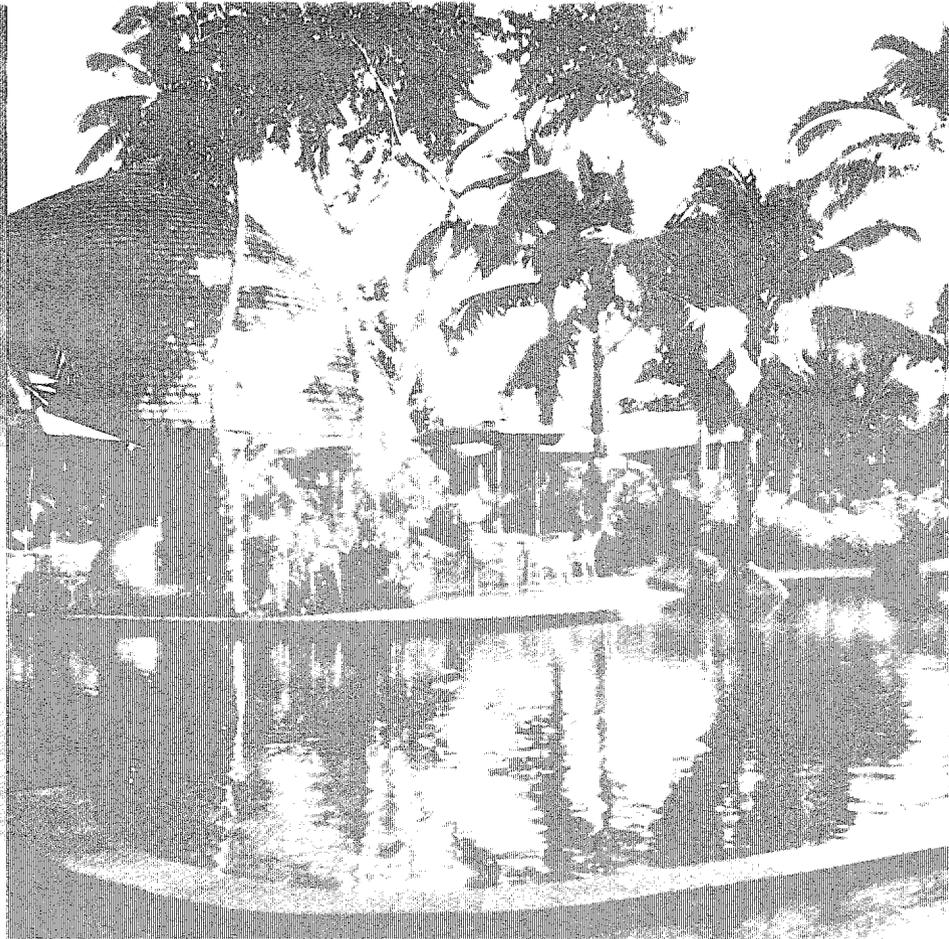
The majority of SME ventures assisted by the facilities appear to be doing significantly better than other comparable enterprises in the same regions.

The facilities have also contributed to development in other ways than directly helping entrepreneurs develop ideas into specific bankable projects and helping them to mobilize funding. Some facilities have moved downstream beyond project assistance to undertake technical assistance assignments that have included diagnostic analyses, strategic business planning, market-related projects, implementation and management assistance to improve operations, training and introduction of

ISO 9000 quality control standards. SPPF has assisted entrepreneurs in organizing, diversifying and expanding their businesses and advises Pacific Island governments on privatization and other issues relating to the development of the private sector in these regions.

Also important has been the number of sponsors who have been dissuaded by the facilities from undertaking investments unlikely to be viable, saving significant resources. We believe the facilities' efforts have also had a demonstration effect, establishing models for local entrepreneurs, bankers and consultants on how to evaluate and structure projects, prepare project reports, arrange financing, and improve management.

A recent UNDP study of eleven AMSCO assisted firms provides a clear indication of significant improvement in economic performance in companies AMSCO had assisted: turnovers, in local currencies more than doubled on average; operating and net profits went from an average loss to a net profit; export earnings more than doubled



THE LE SINALEI PROPOSAL IS FOR A SMALL,
20-ROOM BOUTIQUE HOTEL AT MANINOA ON THE
SOUTH SIDE OF UPOLU. THE DEVELOPMENT BANK
OF WESTERN SAMOA HAS AGREED TO FINANCE THE
PROJECT ... WITH A LOAN OF US\$0.6 MILLION

and balance sheets improved; the average local currency value of annual production per employee increased by 116%; capital efficiencies increased more than 100%; and technology transfer “has been a hallmark of the AMSCO intervention in almost all of the cases under review.”

An independent evaluation of AMSCO done in September 1995 concluded that the impact of its training, “has significantly increased the performance of companies to which training was provided”. For example, “in several companies less down time was reported,” “in others the technical competence of key personnel has improved,” and also “in others the effectiveness of the company was improved through an improved awareness of customer expectations.” The evaluation report stated that “AMSCO’s current training efforts are among the best available in Sub-Saharan Africa.”

All the facilities have recognized the importance of developing local capabilities, and are providing opportunities for

local staff and consultants to develop the skills and gain the experience needed to provide project preparation, financial mobilization, and management services independently of the facilities. There is an increasing level of reliance on local staff and consultants. Benefits that accrue from using local staff and consultants include upgrading of skills, transfer of know-how, lowering costs, and providing knowledge of the country and the language.

ISSUES

For the future several key issues need to be addressed: long-term sustainability; operating costs and fee earnings; and continued donor interest and support.

Long-Term Sustainability

Sustainability and the related issue of graduation have been urgent considerations for BAS and PBAS. BAS has shifted most of its activities to two local affiliates to ensure the facilities longer term sustainability. During 1995, one affiliate achieved operational self-sufficiency. Both affiliates, in an effort to cover their costs without donor subsidy, have

tended to undertake larger projects than BAS was originally intended to support. IFC has maintained some support in the way of quality control, and for both obtaining and processing new fee-earning business.

PBAS' training activities will be integrated with the Polish Foundation for the Promotion and Development of Small and Medium Enterprises (SME Foundation), which was established in late 1994. A number of present PBAS staff and some business consultants trained by PBAS will form a new Polish entity whose services will be picked up by a PBAS successor Consultant Support Fund. These consultants will then also serve as the initial nucleus of a business advisory network that is envisaged by the Polish SME Foundation.

Operating Costs and Fee Earnings

- The facility managers have specifically focussed their efforts to reduce costs per project funded. APDF has cut its project costs by 54% from US\$320,000 to US\$146,000, which in itself is 34% below the target set

for 1995. PBAS costs have been kept down through extensive use of local consultants, local staff and use of low cost expatriate consultant programs such as retired executive corps and that sponsored by India's EXIM Bank. The AMSCO/ATMS project is doing likewise. AMSCO reduced its administrative costs charged to training from 43% to 26%.

- Fee earnings have increased but they still cover only a small percentage of the facilities' total costs. The exceptions are the local BAS affiliates—EDL and ASECA—and the management contract fees collected by AMSCO which cover about 80% of the operating costs of AMSCO. Although APDF fees were slightly higher in 1995 than during 1994, these cover a very small percentage of total costs. The same is true for SPPF, and is also anticipated for the new Mekong Delta Facility. For the foreseeable future, fees charged are unlikely to cover a major share of the costs of these facilities.

All the facilities have recognized the importance of developing local capabilities... Benefits that accrue from using local staff and consultants include upgrading of skills, transfer of know-how, lowering costs, and providing knowledge of the country and the language.

Donor Interest and Support

The existing facilities and the new one for the Mekong Delta region will require continuing donor support for the coming five years, and perhaps longer. The issue is whether donors remain convinced of this proven delivery mechanism and, therefore, are prepared to provide funding over an extended period of time.

APDF is now in its third cycle for which the net funding requirement is US\$35 million. The cycle ends in the year 2000.

The African Training and Management Services Project's Management Development Fund, which supports training activities, will need replenishment over the coming years and beyond. AMSCO is increasing the percentage of training costs covered by client firms from 25% to 50% over the coming three years. It is working closely with existing training institutes and private providers in Africa to enable them to take ownership for some of the ATMS MDF supported training activities.

SPPF has entered its second cycle, and will focus on developing local agents and affiliates to enable more of its services to be provided in the

field. Furthermore, in March 1995, the Board of Directors of IFC approved—on a trial basis—a pilot quasi-equity investment fund (US\$2 million) for the South Pacific region; the fund is targeted at small and medium-sized enterprises. Whilst IFC is responsible for the appraisal and investment decisions of this fund, SPPF has a key role in the identification and preparation of projects, some of which could be candidates for the fund.

In looking ahead, IFC and the donors must consider continuation of support for existing facilities, how best to ensure that facilities focus their efforts towards assisting SMEs, and, on a selective basis, the formation of new facilities, subject to the ability to mobilize adequate financial support. IFC and the donors are asked to assist in many programs; in general, both for IFC and the donor community, these requests come in the context of increasingly tighter budgetary constraints. IFC and the donors must, therefore, work closely to assure continuity of a recognized resource for private sector development, particularly where it is most needed even as alternative support mechanisms are explored, including longer-term regional ownership of these facilities.

THE AFRICA PROJECT DEVELOPMENT FACILITY (APDF)

Development and Growth of APDF Since Inception

The Africa Project Development Facility (APDF) was established in 1986 to help viable small to medium-sized businesses by providing them with independent project advisory assistance. APDF was the result of a joint initiative by the African Development Bank (AfDB), the United Nations Development Programme (UNDP), and the International Finance Corporation (IFC). APDF operated as a UNDP project through May 1996. Since then it has operated as an IFC project with the APDF as its regional sponsor and fifteen other donor countries providing technical assistance.

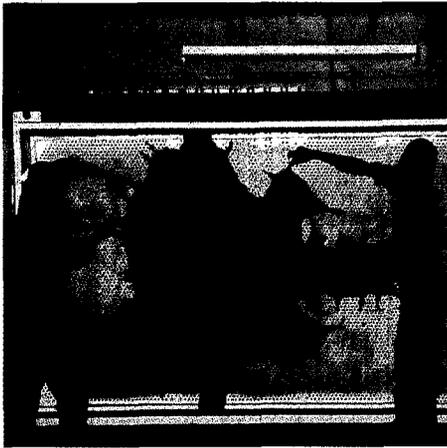
APDF identifies African entrepreneurs and helps them organize, diversify, and expand their businesses. The Facility works with these entrepreneurs throughout the project preparation cycle until the project is implemented. APDF supported projects range in size from US\$0.25 million to

US\$7 million. There has been a special effort to work with women entrepreneurs. With the increasing use of local consultants, APDF will also attain additional cost savings as well as participate in capacity building, one of the Facility's main objectives.

From its start-up in 1986 to December 31, 1995, APDF has completed financial arrangements for 242 projects in 30 countries with an estimated total investment cost of US\$361 million. The Facility helped raise US\$232 million in both equity and loan financing. These 242 projects are expected to create about 18,900 jobs and to have an annual foreign exchange benefit of about US\$138 million. APDF's activities go beyond project preparation. The Facility has undertaken studies on the vanilla market, cut flowers and plastics which benefited a broad range of investors. APDF is now on its third cycle which started on



See APDF 1995 Annual Report for full details of APDF operations.



Top: Cowbird Enterprises, a new facility established with the help of APDF in Zimbabwe for the tanning and export of 4,800 ostrich skins per year.

Bottom: APDF provided advisory services to LEASAFRIC, Ghana's second leasing company.

July 1, 1995 and is expected to end on June 30, 2000. Funding for APDF is done through grants from the three sponsoring agencies and 15 donor countries. Total donor commitments were US\$18.3 million and US\$47.2 million for APDF I and APDF II respectively. As of December 31, 1995, APDF has received firm commitments from donors totaling US\$19.6 million for APDF III. In addition to these grants, the Export-Import Bank of India provides APDF with technical assistance by supporting experts to serve as short-term consultants. APDF also uses the services of developmental institutions such as APSO of Ireland, BESO of the United Kingdom, IESC of the U.S., and CESO of Canada.

FY95 Performance Highlights

For FY95, APDF completed 40 projects, its best output ever. Cost per completed project was US\$148,000, a 54% reduction, and already 33% below the target set for 1995 in the Management Action Plan. This was achieved with a smaller number of investment officers; hence a reduction in salaries and benefits. Since the implementation of the APDF

Management Action Plan in the latter part of 1993, productivity has greatly improved. For 1994 and 1995, APDF completed assistance to 39 and 40 projects respectively, compared to an average of 23 projects per year during the period 1986 to 1993. For the 40 projects in 1995, APDF helped raise about US\$23 million in loan and equity financing or 50% of expected total capital costs of US\$46 million. Significantly, out of a total of 222 consultants retained in 1995, 169 or 76% were Africans reflecting the effective transfer of knowhow to upgrade local skills—a major objective this facility.

Looking Ahead

Over the next year, APDF expects to complete more than 40 projects. The program will work to increase productivity while reducing costs. Expatriate contracts will be gradually replaced by local contracts. As ESSA activities pick up, there will be increasing cooperation between APDF and ESSA. APDF will also work to achieve greater linkage between all facilities working on private sector development in Africa as a way to gather and exchange information and experience and to build on each other's efforts.

AFRICAN TRAINING AND MANAGEMENT SERVICES PROJECT/ AFRICAN MANAGEMENT SERVICES COMPANY (ATMS/AMSCO)

Development and Growth of the Project since Inception

The African Management Services Project was set up in 1989 with IFC, UNDP and AFDB as the project sponsors to provide management training and support to African entrepreneurs. AMSCO was set up as a Dutch company to carry out the training and management support services of the UNDP/ATMS project.

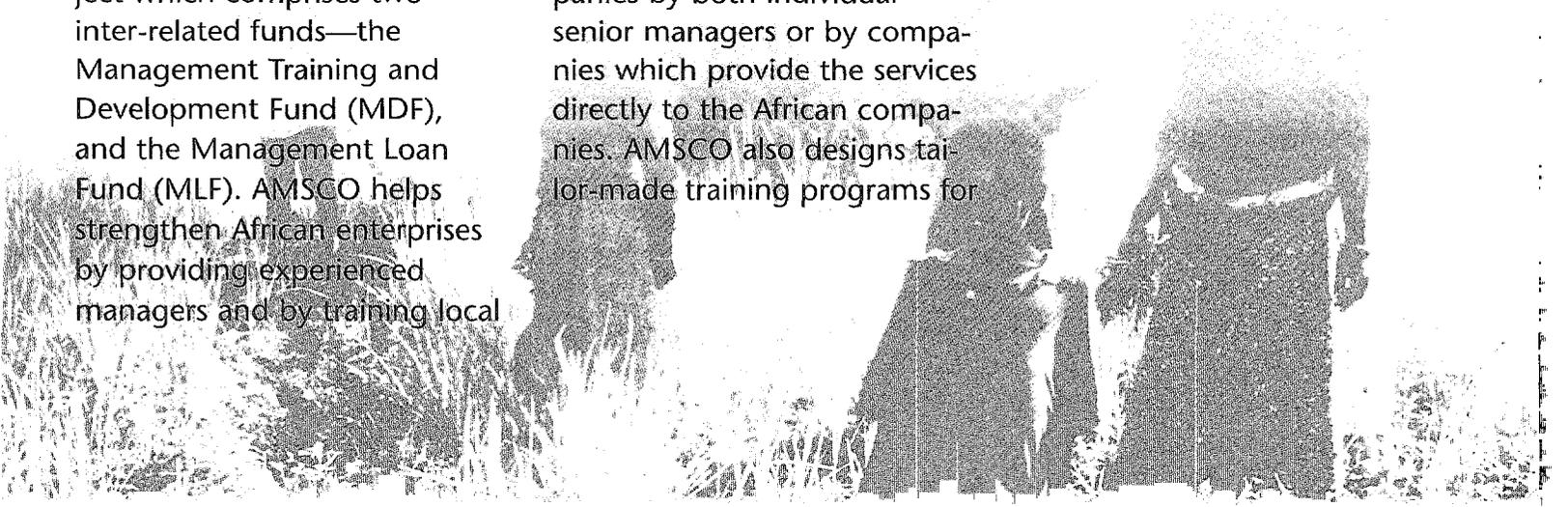
African Training and Management Services (ATMS), a UNDP project, provides management training and management services in Africa; AMSCO, under contract to IFC, executes the ATMS project which comprises two inter-related funds—the Management Training and Development Fund (MDF), and the Management Loan Fund (MLF). AMSCO helps strengthen African enterprises by providing experienced managers and by training local

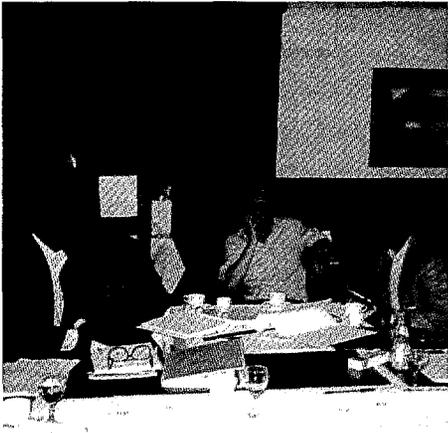
management teams. AFDB, IFC, UNDP and donors from 12 countries have provided funding for this project.

Since its inception the ATMS project has provided management services to over 70 companies throughout Africa. The average number of employees in these private companies was 100. Approximately 6,000 jobs have been created. Through AMSCO, ATMS allows for provision of management services to private and public companies which need a medium term injection of management through a period of expansion, restructuring and pre- and post privatization. The management services are provided to the companies by both individual senior managers or by companies which provide the services directly to the African companies. AMSCO also designs tailor-made training programs for



See the 1995 AMSCO Annual Report for full details of AMSCO operations.





Executive Seminar on Corporate Governance
Venlo, The Netherlands
September 1995

each of the ATMS project clients and implements these training programs over the two to three year periods of its management contracts. These training programs are partly funded by donor funds.

FY 95¹ Performance Highlights

During 1995, AMSCO entered into 18 new projects. AMSCO's portfolio grew during 1995 from 21 to 31 projects under management. AMSCO and APDF have developed close working relations and AMSCO occupies offices in the APDF premises in Harare and Nairobi. Discussions are underway to share office space with IFC and APDF in Accra. AMSCO is currently negotiating contracts in Angola, Cameroon, Ghana, Guinea Bissau, Kenya, Malawi, Mali, Mozambique, Namibia, South Africa, Tanzania, Uganda and Zimbabwe. This should result in a strong portfolio of projects by the end of 1996. 12 new projects were signed in during the first 6 months of

1996. AMSCO organized a regional training seminar in Zimbabwe in June 1996 for 20 senior personnel from ATMS/AMSCO managed companies. Training programs are being designed and carried out in all companies which were under management at the beginning of the year.

Looking Ahead

FY96 Objectives

During 1996 AMSCO anticipates 25 new projects to be contracted by end FY 96. These will replace those projects which will be completed during the year and will increase its overall portfolio. AMSCO expects to continue its efforts to enter into projects involving one or the other of its private and institutional shareholders. During this year, on behalf of the UNDP ATMS project, AMSCO expects to carry out 2 major regional training conferences as well as implement training programs in most of the companies under management. AMSCO also expects to secure sufficient projects in its portfolio to reach the break-even point in FY 97.

1. The AMSCO fiscal year corresponds with the calendar year.

FY 97

In 1997 AMSCO is likely to start off the year with a portfolio of some 45 projects under management. This should allow AMSCO to reach a level of portfolio to make the project sustainable in the medium term.

Plan for the next 3 to 5 years

Demand for ATMS/AMSCO's services has increased dramatically in 1995 and 1996.

Privatizations and the continuing growth of the private sector in Africa should result in an increasing demand for the type of management services offered by AMSCO. Training of local staff should result in local management being able to assume positions previously held by AMSCO personnel.

AMSCO will need to start to expand its own manpower, and this expansion is expected to be mainly in offices in Africa thereby putting AMSCO closer to the client companies. This will allow AMSCO to better provide supervision of its management services and training which is going on in the individual client companies.

CARIBBEAN AND CENTRAL AMERICA BUSINESS ADVISORY SERVICE (BAS)



See BAS Report on Activities
(September 1996) for full details

Development and Growth of the Project Since Inception

The Caribbean and Central America Business Advisory Service, formerly the Caribbean Project Development Facility, was established in 1981 as a UNDP project in which IFC acted as executing agency. BAS is now making its transition to being a local program. It was created as a private sector development initiative in response to the paradox of financial institutions claiming a dearth of "bankable" projects side-by-side with profitable investment opportunities of small and medium scale enterprises being unable to move forward due to lack of financing. BAS' staff was located in IFC's offices in Washington (a branch office was opened in Barbados in 1989), and led by managers seconded by IFC. The cost of these project development services was supported by a combination of multilateral agen-

cies (IFC, IDB, UNDP and CDB), bilateral agencies, governments, and by BAS' clients. BAS began operating as a totally donor-funded organization. In 1992, BAS decentralized its operations by creating two independent organizations owned by the local private sector and supported and coordinated from BAS Washington. The shift to a decentralized organization was driven by considerations of client access, cost and response time.

In 1993, financial support provided by the traditional BAS donors was adversely affected by a combination of reduced budgets in the donor community coupled with a shift towards other recipients. This shift necessitated downsizing of operations and development of a timetable for achieving financial self-sufficiency. A decision was made to permanently close the BAS office in Barbados on December 31, 1993, and to urgently reduce the number of BAS' Washington staff from about nine in November 1993 to two by June 1994. Effective

December 1, 1993, BAS ceased to be a UNDP project and IFC assumed full administrative responsibility for it. Measures were also taken to reduce the operating costs of BAS' two regional companies, Asesoria Empresarial Centraoamericana (ASECA) in Costa Rica, and Enterprise Development Ltd. (EDL) in Trinidad. Given the pressure of becoming financially self-sufficient, BAS began assisting not only small and medium scale enterprises but also larger projects to generate higher fees.

At the end of 1994 EDL and ASECA's operations grew substantially and were near to break-even. 1994 offered a test of how strongly the regional companies were on the road to financial self-reliance.

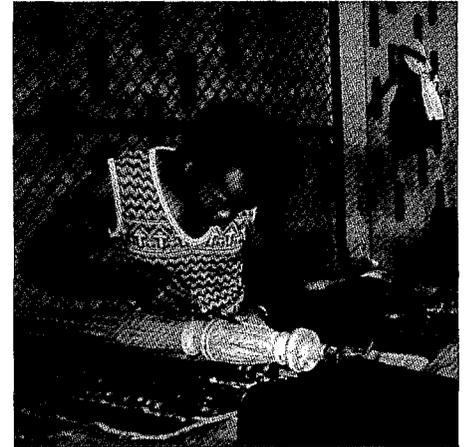
FY95 Performance Highlights

Based on its strong work program in 1995, EDL exceeded its target of achieving operational self-sufficiency by recording a profit of approximately US\$75,000. ASECA incurred a moderate deficit of about US\$100,000. This company is currently operating satisfactorily with a strong pro-

ject pipeline. BAS Washington was also particularly active in the Dominican Republic. As a result of BAS' work, several private commercial banks are likely to obtain much needed hard currency credit lines for on-lending to small and medium scale enterprises. During the year funding commitments and fees accounted for US\$191 million and US\$700,000 respectively.

FY96 Objectives and Activities

BAS' mandate for 1996 is to ensure that both regional companies have strong fee generating project pipelines, and that both achieve sustainable financial self-sufficiency by the end of 1996. In FY96, IFC is continuing to give BAS Washington some budgetary support to enable a small core of Washington based personnel to provide operational back-up to ASECA and EDL.



The BAS helped to secure US\$2.8 million in loan financing to help the MacIntosh Bedding Company, Ltd. expand its furniture division.

Looking Ahead

FY97

By the end of 1997, the regional companies are expected to become moderately profitable. In the meantime, EDL and ASECA are likely to remain moderately dependent on BAS Washington support for both obtaining and processing new fee-earning businesses. IFC will continue to provide BAS Washington some budgetary support in FY97 (although somewhat less than that provided in FY96).

Plan for the next 3 to 5 years

Additional donor funds are needed to supplement the financial support now being provided only by Japan and Mexico, in order for BAS to cover a wider range of countries than at present and to provide assistance to more small and medium scale companies. BAS Washington operations could be expanded if donor contributions increase. A main objective for BAS Washington would be to extend greater coverage to countries such as Haiti, The Dominican Republic, and Jamaica where the regional companies do not operate.

THE MEKONG PROJECT DEVELOPMENT FACILITY (MPDF)

Background

Following the approval of IFC's Board in May 1996, the Mekong Project Development Facility (MPDF) is now being established to foster the development of viable small and medium size private sector enterprises in Vietnam, Cambodia and Laos, particularly by improving their access to investment capital. Some initial activities of the facility are already underway.

During 1995, IFC initiated the preparation of a feasibility study for MPDF, funded by the Australian Government and the European Union through two individual trust funds.

The study recommended setting up MPDF, which should focus on:

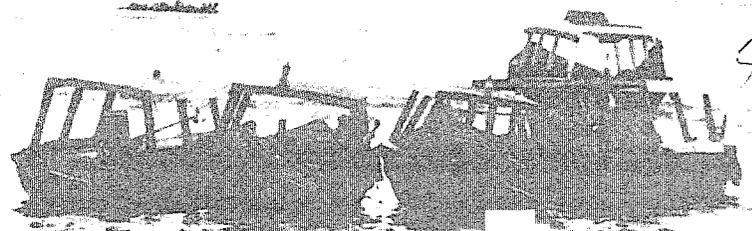
- Providing investment and business planning assistance to private sector companies, to enable them to access long term debt and equity capital.

- Training and institution building for companies, financial institutions and other private sector support agencies and firms, in close collaboration with other donor initiatives in this area; this work should be practical and directly project related.

Structure and Objectives

The Facility will be based in Vietnam and offices will be established initially in Hanoi and Ho Chi Minh City. For the first 2 years, MPDF will act mainly through local organizations in Cambodia and Laos; as private sector business activity expands, fully operational Facility offices could be established in both countries at about the start of the third year. The Facility will be established initially for 5 years; it will be headed by a regional Manager, who will be a senior staff member seconded from IFC. MPDF will ultimately have

MPDF
Mekong Project Development Facility



in the region of 30 staff members, the bulk of which will be locally hired. The Facility will operate three programs:

Program A

MPDF's main activity is to provide assistance to local private sector companies in evaluating, structuring, and preparing projects, and in obtaining finance. This will involve the strengthening of operations and management, and the preparation of feasibility studies. MPDF is expected to support companies requiring investments mostly in the range of US\$0.25 to US\$5 million equivalent. The aim of the Facility is to help grow these companies into larger dynamic firms that can create new jobs, generate foreign exchange earnings and promote development in the region. The work included in Program A will also give a practical grounding to Program B's institution-building objectives.

ACTIVITIES ALREADY UNDERWAY
FOR PROGRAM A

During the past nine months, IFC has been working with several local companies to familiarize itself with the local business environment. As part of this effort IFC based a staff member in the field for over four months. This exercise has been very useful in identifying the types of constraints that MPDF is likely to face. We have found, for example, that significant time is required to collect basic data and to restate internal accounting records to international standards. IFC has also been active in developing a data base of companies that offer potential for direct MPDF assistance; and MPDF held its first seminar with potential MPDF clients in Ho Chi Minh City in July. In a related initiative, MPDF and IFC are sponsoring a Johns Hopkins University research study on "Vietnam's Most Promising Private Companies." Other sponsors include the Asia Foundation, Mobil Oil, Nissho Iwai and the Vietnam Chamber of Commerce and Industry (VCCI).

Program B

MPDF's proposed institution-building and small enterprise development activities have drawn significant interest from a number of parties, including the Government of Vietnam, potential MPDF donors, and IFC's senior management. The Program consists of developing the capacity of support agencies (industry and professional associations, business training programs, and banks) and local private sector firms (consultants and legal and accounting firms) which are involved with the development of SMEs.

ACTIVITIES ALREADY UNDERWAY FOR PROGRAM B

- The development of specific services for small enterprises, including loan project preparation services
- Information sharing and skills development through seminars and workshops
- The development of opportunities for possible cooperation with existing programs, bilateral and multi-lateral initiatives.
- The development of local financial capabilities through training workshops and technical assistance.

Program C

The Facility will work closely with a separate IFC initiative, the Mekong Financing Line (MFL), which is a \$5 million IFC credit line to provide debt and equity financing to SMEs.

A portion of MPDF's time will be devoted to identifying and evaluating possible investments for MFL, generally as part of its work under Program A. On those projects that are suitable candidates for an MFL investment, the MPDF team may devote greater time to structuring the business proposal and investment package to meet some of MFL's investment requirements. MPDF may also have a role in supervising some of the Financing Line's investments. The Financing Line will pay MPDF a fee for these services.

ACTIVITIES ALREADY UNDERWAY FOR PROGRAM C

- The development of a detailed list of Vietnam's most promising small and medium sized private companies, their financing needs and the potential for MPDF and MFL involvement.

Mekong Project Development Facility (MPDF) is now being established to foster the development of viable small and medium size private sector enterprises in Vietnam, Cambodia and Laos, particularly by improving their access to investment capital.



Infrastructure Development in Vietnam

Progress made in Establishing the Facility

The total budget for the Facility is approximately US\$25 million over 5 years, representing an average annual budget of US\$5 million. Commitments in principle made by IFC, Australia, the European Commission, Norway and Switzerland—a total of some US\$16 million. The remaining support required for funding the full five-year program, in the amount of US\$9 million is expected to be funded by other donors who are currently considering the project and by possible follow on contributions from donors who have already made single-year commitments. IFC is highly encouraged by the positive tone of the discussions that have so far taken place with prospective donors. Possible interest by a number of other donors will likewise be sounded out over the coming months.

Given the progress made with IFC's fund-raising efforts, we now project that MPDF will be able to begin operations on or about November 1, 1996. The

facility will begin by opening its Hanoi Office in October or November, with the Ho Chi Minh City Office scheduled to open in January 1997. A Regional Manager has been chosen for the Facility and a search is under way to identify a senior investment officer to be seconded from IFC.

Donor Involvement in MPDF Policy and Operations

Donor and Advisory Boards: MPDF will establish a Donor Board to enable donors to consider and approve operational programs and budgets for the Facility. All donors are encouraged to appoint a representative to the Board. An Advisory Board will also be created to provide guidance to the Facility. Advisory Board members will have business, government or academic backgrounds which will enable them to give solid "hands-on" advice to MPDF and provide them with networking possibilities. The Advisory Board will have representatives from Vietnam, Cambodia and Laos, as well as from foreign countries that are active investors in the region. Nominations by the donors for the Advisory Board will be welcome.

POLISH BUSINESS ADVISORY SERVICE

Development and Growth of the Operation Since Inception

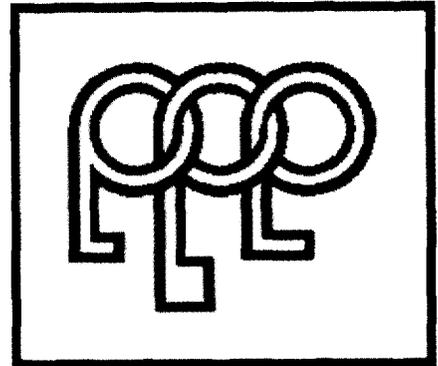
The International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), with considerable financial support from several donor countries, jointly created a business advisory service for Poland in 1991 with a five-year mandate that concluded in 1996. A transition from an IFC-executed facility to local sponsorship of follow-on activities is now being implemented. Officially part of IFC, the operations have been funded by IFC, EBRD, USAID and the governments of ten other countries. Substantial support in kind has been received from the EC-PHARE program, the British Know-How Fund, and Eximbank of India.

The Polish Business Advisory Service, or as it has been known by its Polish name, Miedzynarodowa Pomoc Polskim Przedsiębiorstwom or 3P, has provided financial and technical advisory services for emerging businesses and entrepreneurs. These services

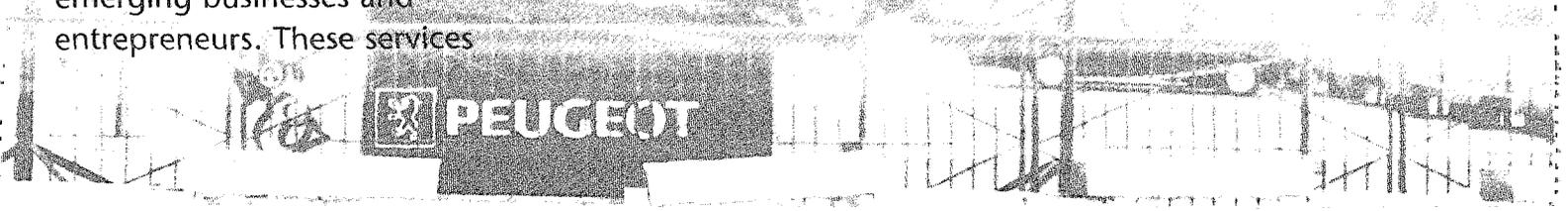
have consisted of the preparation of business plans and investment proposals; in addition, 3P/PBAS has engaged in technical advisory work, investment implementation and operational support. In recognition of the desire to create a wider impact, 3P/PBAS also promoted the development of local business consultants, initially through a workshop program that was presented in all major regional centers of Poland, and recently by introducing into Poland the successful Business Development Utilizing New Technology (BUNT) consultant training and SME support program.

1996 Objectives and Activities

Operationally, 3P/PBAS closed on June 30, 1996. During the first six months of 1996, it is anticipated that 3P/PBAS will have completed 49 assign-



Details of PBAS activities are available in the 1991 through 1996 quarterly reports to donors.



ments. In the area of training, 3P/PBAS completed four POL-BUNT training modules (based on the EUROBUNT concept) which in addition to providing training in diagnostic and problem-solving tools for SME's, also provided supervised on-site advisory assistance to 40 individual enterprises.

Performance Highlights of the Five-year Period

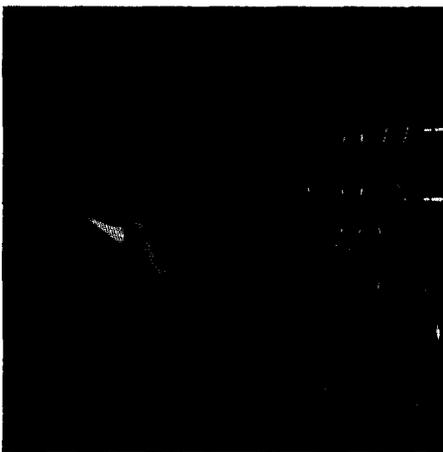
3P/PBAS's performance during the five-year period can be summarized as follows:

- a total of 160 companies were assisted through 183 assignments;
- of these assignments, 29 were financial and helped raise USD 27.5 million equivalent in commitments to fund individual projects or to restructure the balance sheet;
- a total of about 3,000 jobs were either created or salvaged as a result of 3P/PBAS's assignments;
- 3P/PBAS helped introduce to Poland the international quality standard ISO 9000 series and assisted 20 medium companies in being certified;

- 24 medium companies either found or regained foreign markets for their products;
- 12 medium companies were provided with a new management information or accounting system; and,

An increasingly important feature of 3P/PBAS was to involve local consultants, wherever possible, in its work. To provide local consultants with the necessary skills and know-how, workshops for local SME consultants and others with an interest in the SME sector were given in all major industrial centers of Poland. A total of 40 workshops and seminars were offered which were attended by over 1,800 individuals. In this manner, many more companies could be reached with 3P/PBAS's marketing, technical and financial expertise than the limited number of companies directly serviced. Four POL-BUNT training modules were offered training a further 80 prospective consultants.

GoSat. Expansion of one of Poland's Cable TV companies.



In Retrospect

The original premise underlying the establishment of 3P/PBAS remains valid, i.e., the development of a healthy middle sector, owned by local, private entrepreneurs, is essential for the future of the economy of Poland. Development in an orderly fashion of management know-how and experience in a free-market system remains one of the highest priorities in realizing the growth potential and underlying strengths of the medium-scale enterprise sector of Poland. 3P/PBAS made a start: by assisting a large number of companies, it has not only added direct value to the economy during the transformation process, but it has also established models for future consulting and advisory work in Poland.

This is important, for if the transformation process is to be successful, a far larger number of enterprises will have to be reached soon than could ever be reached by 3P/PBAS alone. Also, more of the technical support to promising prospects necessarily will need to be of a longer-term nature.

The most cost-effective way to reach all or a large part of the 7,500 medium enterprises in Poland is to involve other, commercially oriented parties in the process and to make the Polish consulting industry part of the process.

In these areas, 3P/PBAS has provided selected local consultants with the means and the necessary skills to operate within the private, medium-scale enterprise sector and also by providing access for local consulting firms to outside industrial expertise and markets. There is growing evidence, that the "pairing" of Polish consultants with expatriate industry experts has made local consultants more self-assured and more capable of handling assignments on their own.

3P/PBAS has also helped in creating the know-how necessary for advisors and consultants to function in the SME sector. Particularly, the POLBUNT program has received a warm welcome and in large part for this reason, the Polish Foundation for SME Promotion and Development, which was created as the principal vehicle for EU-PHARE support for the SME sector, has requested 3P/PBAS to help establish a follow-up

Development in an orderly fashion of management know-how and experience in a free-market system remains one of the highest priorities in realizing the growth potential and underlying strengths of the medium-scale enterprise sector of Poland. 3P/PBAS made a start...

project. Under the presently contemplated version, a Polish-managed and Polish-owned institution will be created that would organize POLBUNT training modules on a regional basis and then use the thus formed consultants' body to develop regional business networks, a main goal of the Foundation. 3P/PBAS is making part of its surplus funds available for this operation as are several bilateral donors. Also, several donors have indicated their intention in principle to fund individual training modules in cooperation with the new organization.

A second follow-up operation, also to be funded from surplus funds, is a consultant support fund. Despite further growth in the number of business advisors and counselors to the SME sector, there will for some intermediate period be a major shortage of advice to a SME sector. This sector still appears to be struggling to

overcome particularly management deficiencies which are prolonging the transition period to the free market economy. Foreign volunteer programs, such as the executive services organizations from Canada, France, Germany, the Netherlands, the United Kingdom and the United States, are making a significant contribution but are unable to reach more than a fraction of the over 7,500 medium enterprises of Poland.

To help cover this gap, a number of present 3P/PBAS staff and some other business consultants trained by PBAS have indicated an interest in pursuing a career in SME consulting.

To provide a further inducement, the consultant support fund will purchase in advance some of these prospective consultants' time—in effect helping them cover their fixed expenses during a start-up period and freeing up their time for business prospecting—and then make this time available to Caresbac Polska, a small developmental venture capital fund operating in



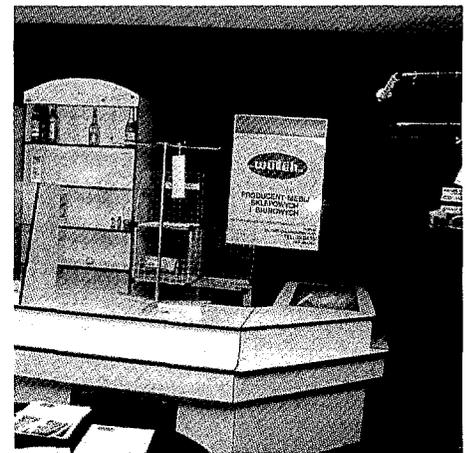
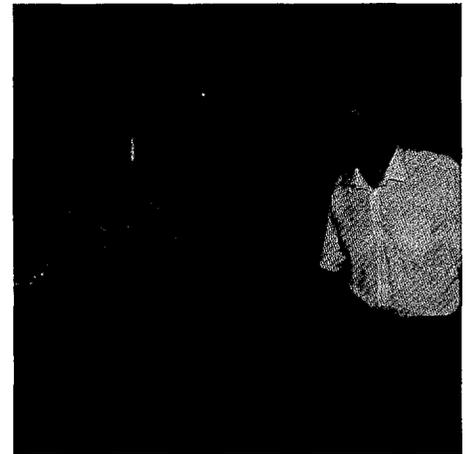
Mech-Go. A small producer of metal machine components, which was helped to regain market share and obtain ISO9000 certification.

Poland in roughly the same business sector as has 3P/PBAS. These consultants will then also serve as the first nucleus of the business advisory network that is envisaged by the Polish SME Foundation.

Conclusion

3P/PBAS has been a successful program responding to the needs of the Polish SME sector during a critical period as the country began its transition to a market economy. Strong donor support made it possi-

ble to implement the 3P/PBAS program of activities, and to carry out a smooth graduation from an IFC executed facility to a local sponsorship of Polish activities. The successor Polish program—a logical follow-up of the originally conceived and IFC managed PBAS—will ensure that services provided by 3P/PBAS will be available for the continuing development of the SME sector of Poland.



Top: Urbanask/Ecovit. A producer of marinated mushrooms and vegetables that was helped to improve the overall efficiency of its operations.
Bottom: Wuteh. A privatized manufacturer of commercial furniture that was helped to increase sales.

SOUTH PACIFIC PROJECT FACILITY (SPPF)



Development and Growth of the Facility Since Inception

The South Pacific Project Facility (SPPF) was set up to address a long-felt need to help entrepreneurs in the South Pacific island countries identify and prepare viable small to medium sized projects. SPPF was established in 1990 for an initial period of five years with a budgeted cost of US\$7 million. The Facility was approved by IFC's Board of Directors in November 1989 and became effective in August 1990. The SPPF regional office in Sydney was established in August 1991. In February 1995 the Board of Directors of IFC approved an extension of the term of SPPF (including an IFC investment of US\$2.2 million)

for a further five years with an expanded mandate to reflect the transition of SPPF from the establishment phase into a consolidation phase.

SPPF provides advisory services to private entrepreneurs in the Pacific island countries, mainly in Fiji, Federated States of Micronesia (FSM), Papua New Guinea, Kiribati, Marshall Islands, Solomon Islands, Tonga, Vanuatu and Western Samoa. These services include helping entrepreneurs prepare market, technical and feasibility studies needed for raising finance for viable small to medium sized projects. SPPF also identifies promising entrepreneurs in the Pacific Islands and assists them in organizing, diversifying and expanding their businesses; it also advises Pacific Island governments on privatization and other issues relating to the development of the private sector in their countries.

See SPPF 1995 Annual Report for full details.



The Facility does not provide project financing; rather, it works with these entrepreneurs during the whole cycle of project preparation until funding is secured. The Facility supports projects with individual total investment costs in the range of US\$0.25 to US\$5.0 million equivalent, but may consider smaller or larger projects depending on the conditions in the host countries.

SPPF is sponsored and managed by the IFC, which also provides overall support in areas including technical, environment, legal and management. The budgeted cost for the next phase of SPPF is US\$10.9 million and Australia, Japan and New Zealand as well as IFC have so far committed funds for this phase.

In 1996 the Asian Development Bank agreed to provide US\$300,000 in funding for the costs of short-term consultants to SPPF, whilst the Export-Import Bank of India also helps support SPPF activities by covering the fees for Indian technical experts selected for short-term technical assistance assignments for SPPF. The Centre for the Development of Industry

(CDI), Brussels, collaborates with SPPF to provide, where feasible and appropriate, technical assistance support to SPPF projects.

SPPF has an Advisory Board consisting of prominent representatives of the private sector, mainly from within the Pacific region. The Advisory Board meets twice yearly to provide SPPF management and staff with a forum to discuss policy and operation matters. The presence of private sector representatives provides SPPF with invaluable and relevant business experience. The Board was reconstituted for the second phase of SPPF, and the Board last met in Sydney in July 1996.

IFC provides the regional manager to the project. The balance of the core staff for the field office have been recruited locally. In addition, SPPF makes extensive use of specialized local and international consultants to complement the skills of the core staff. During 1995, SPPF hired some

47 short-term consultants from 12 countries. As a matter of policy, local consultants are given preference if the needed professional experience is available as a part of SPPF's efforts to assist in the transfer of know-how to the South Pacific region and to upgrade the quality of locally available consultant services.

- received 209 requests for assistance;
- conducted 21 feasibility studies;
- helped 13 projects get technical assistance and obtain funding, which represent investments of US\$7.29 million equivalent.

1995 Objectives and Activities

This was the fifth and last year of the initial 5 year term of the Facility. The primary activity was to continue to build the pipeline of projects through expanding awareness of SPPF and its services in the Pacific Island nations, establishing links with local organizations to act as 'antennae' in sourcing projects and establishing the credibility of the facility in the Pacific Island countries.

These 13 investments are estimated to create about 90 jobs, and at capacity provide a net annual foreign exchange benefit of about US\$2.7 million, which is in line with the original projections for the Facility. The projects have an average cost of US\$1,041,000. During 1995, SPPF staff visited all the Pacific Island countries, to seek out new business opportunities.



SPPF helped a local ginger farmer obtain a term loan facility to finance the construction and equipping of a ginger processing plant.

SPPF reports on a calendar year basis, and during the year ended December 1995, the Facility:

<i>Projects</i>	<i>Phase I Actual</i>	<i>Phase II Projections</i>	
		<i>Total</i>	<i>1996</i>
Number screened	988	625	105
Number of feasibility studies	126	186	26
Projects completed/funded	51	83	11
Project cost	US\$41.75 mill	US\$100 mill	US\$13.5 mill
Funds raised	US\$28.83 mill	US\$60 mill	US\$8 mill
Number of jobs created	986	1500	200
Favorable foreign exchange impact	US\$23.54	US\$75 mill	US\$10 mill

Results of SPPF Phase I

SPPF met all of its performance indicators for Phase I. The cumulative results for SPPF are seen in the table above.

The facility is confident of meeting those projections. One objective for the next year is to screen projects more thoroughly so that a larger proportion of SPPF's efforts are spent on projects which are ultimately followed through to the funding stage.

Plan for the next 3 to 5 years

As the facility is completing its establishment phase and beginning phase II, the objectives will broaden somewhat, while retaining its primary focus on helping private entrepreneurs prepare studies and raise financing. There will be an increased focus on developing the local agents and affiliates to enable more of SPPF's services to be provided in the field. Central to this objective will be a structured program of training and skills transfer. SPPF will also be prepared to carry out a limited number of technical assistance assignments, with a

view to promoting private sector development.

The Board of Directors of IFC in March 1995 also approved a pilot quasi-equity investment facility (the Pacific Island Investment Facility or PIIF) for the Pacific Island nations. The PIIF is targeted at small and medium sized enterprises in the Pacific Island countries which need additional equity or quasi-equity capital. Its

main objective is to complement SPPF, by providing a source of equity capital to strengthen companies' equity base and thus allow the raising of the overall financial plan required. Whilst IFC is responsible for the appraisal and investment decisions of the PIIF, SPPF has a key role in the identification and preparation of projects which are candidates to obtain funding.



COUNTRY: FIJI

PROJECT: FRESPAC LTD. - GINGER PROCESSING

TOTAL PROJECT COST: US\$400,000

4. FOREIGN INVESTMENT ADVISORY SERVICE (FIAS)

Background

FIAS was created in 1985 by IFC to advise developing country governments (now also including the economies in transition of Central and Eastern Europe) on how to enhance their policies, programs and institutions in order to attract more beneficial foreign direct investment (FDI). FIAS is now a joint venture of IFC and IBRD. IFC brings 40 years of experience as an investor in the private sector, providing both loans and equity finance to companies in developing countries, whereas IBRD gives to FIAS the advantages of its extensive experience in promoting the economic growth of developing countries through public lending and policy reform.

FIAS has been helping developing countries eliminate restrictions on FDI, and to build up new regimes that would better facilitate such investment. The impact of FIAS work in over 90 countries is shown in numerous policy changes that have begun to create a more open environment for foreign investors.



These policy changes in many countries have followed, and have been consistent with advice from FIAS.

Advice is given only at the request of a host government, helping it to accomplish their own objectives with respect to FDI. FIAS aims to provide practical advice and concrete proposals that focus on the most important changes needed, and that can be implemented quickly. Findings and recommendations are submitted to governments either in the form of brief written reports, or face-to-face through workshops and informal meetings. FIAS follows up its recommendations by acting as a catalyst, helping governments to implement proposed changes. Over the years, advice of five different types

has been provided to developing country governments.

- Diagnostic studies identify the main problem areas affecting FDI in the country. A wide range of issues have been thrown up by these studies, including some of the macro-policies (e.g., foreign exchange allocations), immigration policies (e.g., rules for bringing in foreign staff), as well as specific investment policies.
- Investment policy studies focus on the specific investment policies that may be influencing the amount and quality of direct investment. Examples of such policies include foreign ownership restrictions, screening requirements and investment incentives. Analysis of policies on backward linkages between foreign investors and local firms is a growing area of interest to developing countries.
- Sector studies identify policies that are impeding direct investment in specific sec-

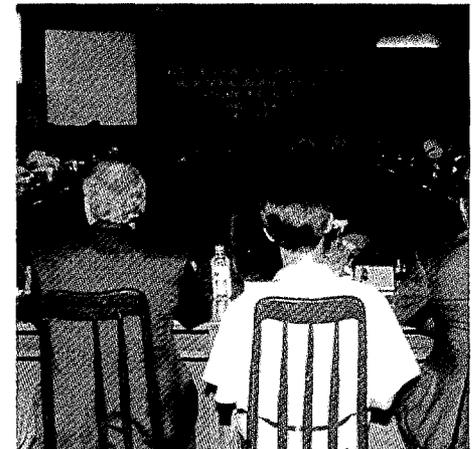
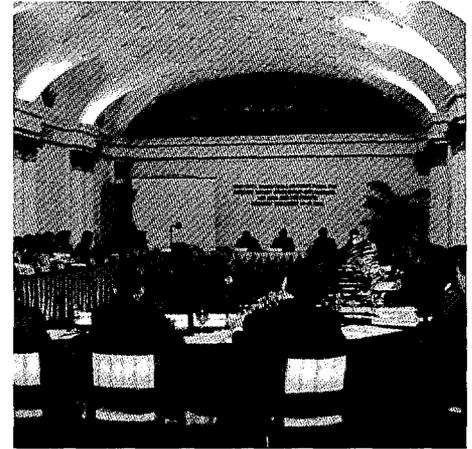
tors. Most recently, FIAS has focused on the policies that affect private FDI in infrastructure sectors.

- Institution building whereby FIAS has been active in helping developing countries create and structure investment promotion agencies, and in reorienting or even dismantling screening agencies. It also has helped countries create programs and institutions to promote backward linkages and to improve FDI data.
- Promotion strategies are developed for countries that have viable investment promotion institutions. At the most general level a promotion strategy will determine the relative importance that should be given to the three main elements of promotion: image building, investor servicing and targeted investment generation.

In addition to advising individual countries, FIAS conducts research to develop new

knowledge, and to disseminate knowledge and experience gained in multi-country conferences.

Thirty one advisory projects were completed during the year, of which 27 dealt with new subjects, and 4 were concerned with finding ways to implement earlier FIAS advice. In addition, FIAS sponsored and ran three major conferences, two focusing on FDI in infrastructure (for 11 countries of Central and Eastern Europe, and 16 countries in Africa) and one dealing with competition and incentives for FDI in Asia (attended by 17 Asian countries). Finally, one Occasional Paper was published (on FDI in privatization) and another was completed and sent to the printer (on policies and programs to encourage backward linkages between foreign investors and local firms).



Top: Roundtable on Competition for Foreign Direct Investment—Implications for Asia and the Pacific in Bangkok
Bottom: Roundtable on the Business Environment for Promoting and Implementing Foreign Direct Investment in Vietnam's Infrastructure held September 1995 in Hanoi

Advice is given at request of a host government in order to attract foreign direct investment. FIAS aims to provide practical advice and concrete proposals focused on the most important changes needed that can be implemented quickly

The advisory program covered a wide range of subjects. General diagnostic studies were carried out in only four countries this year. These were the first FIAS involvements in Marshall Islands, Tonga, Belarus and Georgia. Investment promotion institutions and strategies were the focus in seven countries (Ghana, Philippines, Brazil, Panama, Bolivia, Tunisia, and Sichuan Province of China). The project in Sichuan was something of a new product in that it was the first FIAS project at a provincial level. Another seven advisory projects were in relatively new product areas for FIAS. Two dealt with policies and programs to encourage backward linkages between foreign investors and local firms. FIAS conducted research in this area to establish best practice (reported in a forthcoming Occasional Paper) and held a roundtable for countries in Asia on the subject in 1994. Earlier, backward linkage programs were designed for the Philippines and Thailand. Such a program was designed for Indonesia in FY96, and the policy and institutional imped-

iments to linkages were identified in Mexico along with recommendations for more effective actions.

Two projects (in Namibia and Mozambique) provided detailed descriptions of the processes and approvals that an investor must obtain in order to make an investment. These two projects follow a similar project in Ghana last year. These studies have a big impact on government officials, who often don't know the full range of red tape to which investors are subjected. Another relatively new area is work on FDI in infrastructure. An Asia regional roundtable was held on this subject in 1993. Such a regional roundtable is considered to be the first phase of FIAS work on the subject in a region. Subsequently, FIAS has identified specific policy issues in China and Vietnam. This is the second phase of the work. In China, the third phase of the work was completed in FY96, with assistance in the revision of approval procedures, bidding documents and model contracts. FIAS was the coordinator of this work, with heavy inputs from IFC's Infrastructure, Corporate Planning and Legal departments, and from the Bank and

outside legal consultants. The second phase of the work to identify the issues in Vietnam also was completed in FY96, and the third phase is under discussion. Second phase work was started in the Philippines as well in FY96, and similar requests for assistance were received from Sri Lanka and Nepal. As noted above, two regional roundtables on FDI in infrastructure were held in Europe and Africa in FY96. It is expected that these will lead to country specific work in the future.

Other new features of the program in FY96 included two projects for regional groupings, and one project designed to boost the capacity of a country to collect meaningful data on FDI. The projects for regional groupings included a survey for the Maghreb Union of the desirability and feasibility of harmonizing investment incentives. The second project assisted the countries that touch on the Mekong river basin to develop an approach to attract FDI to the area. This project was done together with the Asian Development Bank. Finally, FIAS helped Indonesia to develop the institutional structure and methods to improve collection of FDI data. This follows earlier work

on the same subject in the Philippines, where recommendations are now being implemented.

Funding

FIAS has been supported by a variety of funding sources over its 11-year history. Of course, IFC and later MIGA and the IBRD have contributed continuing funding. MIGA is no longer a contributor, but IFC and the IBRD covered about 41% of FIAS estimated expenses in FY96. The UNDP has been an important source of funding as well, over time having contributed about one-fourth of all FIAS's funding. UNDP funding has been declining in recent years as its own sources of funding are reduced. Among bilateral donors for special programs, Australia and New Zealand are supporting a FIAS office in Sydney enabling increased FIAS work in the Pacific as well as in Asia. USAID has also been an important source, particularly for FIAS's work in Africa.

The contributions to the general trust fund have been a particularly valuable source of funding for FIAS. These funds are not tied to specific years, projects, regions, or types of expenditure. The trust fund thus gives FIAS an ability to plan and to respond flexibly to demands. Contributions to the Trust Fund have amounted to US\$10.3 million over the 11 years of FIAS's existence (i.e.,

through the end of FY96). This is about 27% of total funds received by FIAS from donors during that period.

FIAS has now basically completed a drive to secure additional contributions to the trust fund to help pay for activities through FY97. The level and funding of FIAS's activities after FY97 are being reviewed with the FIAS Supervisory Committee, and the conclusions will be incorporated in the program starting in FY98.



IFC IS WORKING CLOSELY WITH THE DONOR

COMMUNITY

COMMUNITY IN PROMOTING INVESTMENT AND

PROJECT OR CREDIT SECTOR STUDY

ADVISORY SERVICES TO INVESTMENT AND

SUPPLY, COST AND DISTRIBUTION

INVESTMENT AND

5. PRIVATIZATION ACTIVITIES IN THE FORMER SOVIET UNION (FSU)

Development and Growth of the Program Since Inception

IFC's role in privatization and capital markets assistance to the Former Soviet Union was defined in the fall of 1991, in the context of technical assistance efforts being organized by the World Bank. The World Bank has a comparative advantage in providing advice on national policy, while IFC's comparative advantage, which is based on its transaction expertise, is in designing and implementing replicable model privatization and capital markets programs that could be adopted for widespread use in these countries.

Following the breakup of the Soviet Union in late 1991, IFC initiated its privatization and capital markets efforts in the Russian Federation, and later in Ukraine and Belarus, as the new governments in these countries decided to establish market economies. IFC's assistance in privatization has been successful, both in the privatization of individual enterprises and in the creation of model schemes that have a wide demonstration effect.



IFC's current and previous technical assistance projects were developed according to a set of general principles, including fairness, transparency, simplicity, replicability, widespread public participation, and political support at both the national and regional levels.

Using a regional approach, IFC designed and implemented model programs to privatize the small business and transport sectors in the Russian Federation. In addition, IFC helped implement the Russian Federation Mass Privatization Program and began extensive work in the securities markets that emerged as a result of mass (voucher) privatization in the Russian Federation. Current projects include work on agricultural land privatization, enterprise training, and capital markets development in the Russian Federation; small-scale privatization, mass privatization, post-privatization

support, agricultural land privatization, and pilot large-scale privatizations in Ukraine; and small-scale privatization and post-privatization in Belarus.

IFC's efforts in the Russian Federation, Ukraine and Belarus could not have been carried out without considerable support received by the Corporation from bilateral donors. Total donor commitments to date stand at \$46.8 million equivalent. The two primary donors for IFC's work in the Russian Federation have been the UK Know How Fund and USAID, with support totaling US\$21 million equivalent and US\$9.5 million, respectively. Other countries providing support include Canada, Sweden, Finland and Switzerland. In Ukraine and Belarus, IFC's small-scale privatization work has been supported by USAID (US\$9.3 million to date), while agricultural land privatization, post-privatization and case-by-case pilot privatization activities in Ukraine have been funded by the UK Know How Fund (US\$5.5 million equivalent to date). The mass privatization project has been financed both by the UK Know How Fund (US\$800,000 equivalent to date)

and an IFC Trust Fund established with the Japanese Government (US\$500,000 equivalent to date). In the coming fiscal year, USAID will also support the post-privatization project in Ukraine (see table on page 9).

FY96 Performance Highlights and Objectives

IFC's technical assistance work continues in several key sectors, with approximately 500 long-term IFC consultants resident in the Russian Federation, Ukraine, and Belarus.

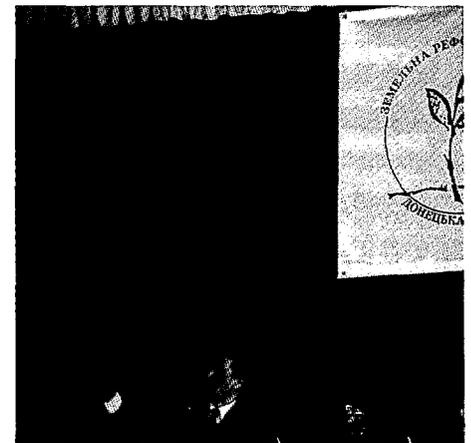
In the Russian Federation, IFC has expanded its involvement in an innovative agricultural land privatization effort. IFC and officials in the Nizhny Novgorod region designed and implemented the first successful model for reorganizing state and collective farms. Begun in late 1993 with USAID support, the model has been adopted as a federally-approved program for agricultural land privatization in the Russian Federation and has expanded with IFC assistance and UK Know How Fund and Canadian support to five additional regions. By the end of the project's third season in May 1996, 174 farms had been privatized.

With technical assistance support from the UK Know How Fund, IFC has initiated a training pro-

gram for medium-sized privatized enterprises in Nizhny Novgorod to help them adjust to a market economy. The program employs IFC specialists and academic trainers to teach Western business methods and business planning techniques. So far, 222 enterprises have received training under the program.

IFC is providing a range of technical assistance in the capital markets area. In particular, IFC is assisting the Russian Federation Securities and Exchange Commission. It has also approved US\$75 million in investments geared towards mobilizing portfolio investment, supporting the banking sector, and helping to build key market institutions. The Corporation is also identifying companies desiring to raise funds through public offerings, with a technical assistance grant from the UK Know How Fund.

In Ukraine, additional support from USAID has allowed IFC to expand its assistance in the area of small-scale privatization, with over 7,500 small enterprises privatized through the program so far. Over 50 full-time IFC consultants assist 22 cities throughout Ukraine in implementing small-scale privatization. IFC has recently begun a new initiative to assist with small-scale privatization in Crimea, which lags



Agricultural land in Ukraine was privatized for the first time using the "Donetsk model" in March 1996 with funding by the UK Know How Fund.



Tractor at the former collective farm "Imeni Kirova," in Russi's Nizhny Novogorod Oblast. The farm, which produces milk, meat and grains, was the 100th farm privatized with IFC's assistance in the province.

behind the rest of Ukraine in the implementation of small-scale privatization.

IFC has also expanded its post-privatization support in Ukraine. During the last fiscal year, with UK Know How Fund support, IFC ran business centers that provided training, business planning consulting and information services in four Ukrainian cities that resulted in over US\$1 million in investment into Ukrainian small businesses.

IFC also assists in Ukraine's mass privatization program. The IFC program is aimed at accelerating the privatization of large enterprises by improving implementation of the process at the local level. IFC's assistance in this area is being financed by the UK Know How Fund in one pilot region of Ukraine. Funding from the Trust Fund established by the Japanese Government is supporting activities in three additional regions.

Recently, IFC has begun an agricultural land privatization project in Ukraine similar to that developed by IFC in the Russian oblast of Nizhny Novgorod. With support provided by the UK Know How Fund, IFC has worked in the pilot region of Donetsk to develop and implement a

model for reorganizing state and collective farms. In March 1996, three collective farms completed the reorganization process, resulting in the creation of 13 new private farming enterprises and 15 family farms, establishing for the first time a working model for land privatization in Ukraine. In Kiev, IFC local legal staff assist the national government in drafting legislation aimed at speeding up and refining the privatization process overall.

IFC is also assisting Ukraine with pilot large-scale enterprise privatizations.

In Belarus, with support from USAID, IFC has expanded its assistance in the area of small-scale privatization. To date, 30 to 50 percent of enterprises have been privatized in IFC-assisted cities. In addition, with support provided by the UK Know How Fund, IFC has opened a post-privatization support project that established a business center in the city of Brest to provide training, consultation and information services to small businesses.

A more complete description of IFC's privatization and capital markets-related technical assistance activities in the Former Soviet Union is provided in the attached Annex.

Strategy

In the coming years, IFC will continue to assist the Russian Federation, Ukraine, and Belarus in key areas of privatization and capital market development.

In the Russian Federation, IFC plans to further expand its agricultural land privatization scheme to other regions in cooperation with the World Bank. IFC will continue to identify and work with companies seeking to carry out public offerings and to raise equity capital. IFC will continue its training for managers of medium and large privatized enterprises. Finally, IFC will continue its institution-building activities for the Russian Federation's emerging capital markets, including the setting up of an independent registrar for large issuers.

In Ukraine, IFC plans to continue its program of assistance to the large-scale mass privatization process at both the regional and national levels. With additional support by the UK Know How Fund, IFC will also expand its program of agricultural land privatization in the Donetsk region in Ukraine. Small-scale privatization will continue until a critical mass of enterprises has been privatized (probably by mid-1997). Government advisory work will continue, with a

focus on refining privatization legislation. Post-privatization activities will continue and expand, with USAID funding, to an additional four cities.

In Belarus, IFC intends to expand its small-scale privatization project to all cities requesting assistance. Given further donor finance, it will also consider opening its post-privatization project in several more cities.

IFC intends to continue its policy of jointly funding technical assistance projects over the next few years. It is anticipated that the UK Know How Fund will remain the largest contributor to IFC's technical assistance activities, in light of its substantial support for the Russian Federation Agricultural Land Privatization project, the Ukraine Agricultural Land Privatization project, the Ukraine Mass Privatization project, and the Belarus Post-Privatization project. In addition to supporting the Ukrainian and Belarussian Small-Scale Privatization projects, USAID has also allocated an additional US\$2 million to fund the Post-Privatization project's operations in Ukraine through Summer 1998. IFC's mass privatization activities in Ukraine are expected to continue with donor support.

IFC will continue to assist the Russian Federation, Ukraine, and Belarus in key areas of privatization and capital market development and, with donor support, intends to continue its policy of jointly funding technical assistance projects over the next few years.

ANNEX: SUMMARY OF PRIVATIZATION ACTIVITIES IN THE FORMER SOVIET UNION

RUSSIAN FEDERATION: Summary of Projects

Agricultural Land Privatization (UK Know How Fund Contribution, US\$17.9 million equivalent; USAID Contribution, US\$1.8 million; and Canadian Government Contribution, US\$1.8 million equivalent): This project, begun in the Nizhny Novgorod region in 1993, had by the end of its third season in May 1996 assisted 174 state and collective farms in distributing their land and property to entitled farm members. More than 850 new private farming enterprises have been created and about 600,000 hectares of land have been privatized with project assistance in Nizhny Novgorod, Rostov, Orel, Ryazan, Volgograd and Kirov. The pilot project, developed by an IFC team in collaboration with the administration of Nizhny Novgorod and Russian legal and agricultural experts, has been endorsed by Prime Minister Chernomyrdin as a farm reorganization model for the Russian Federation. Supporting legislation has been adopted at national and local levels. Over 30,000 manuals on land privatization, developed

by the project, have been distributed to all collective and state farms, as well as local administrations throughout the Russian Federation.

Enterprise Training Program (UK Know How Fund Contribution, US\$500,000 equivalent): For enterprises privatized in the Nizhny Novgorod region, IFC is initiating training programs to assist managers in adopting Western business methods and creating effective business plans. To date, 222 enterprises have sent representatives to the week-long training seminar. Of these enterprises, 78 have returned business plans to the IFC.

Capital Markets Development (UK Know How Fund Contribution, US\$2 million equivalent): The UK Know How Fund contribution was to go to the implementation of two public share offerings for newly-privatized companies. After preparing for an offering for one of the companies, it was decided with the company's shareholder, one of Russia's premier banks, that restructuring to attract a foreign investor to the company was more appropriate than making a public share offering. This change in orientation was met with UK

Know How Fund support. The modified plan is directed at supporting the bank's restructuring of its investment, while implementing corporate governance procedures to address key financial, legal and commercial issues. The exercise will, in addition, contribute to the turn-around of most of Russia's most important manufacturing facilities. Simultaneously with the restructuring, IFC is in the process of selecting a second candidate for a public share offering.

This assignment is expected to demonstrate tangibly to local enterprises how to raise new equity capital through the securities markets and to demonstrate to local brokers what their role should be in assisting enterprises to raise such equity capital. Other objectives include: testing the operational procedures and effectiveness of third-party registrars and brokers in the region; drawing lessons that can be used by federal and regional authorities responsible for rules and regulations governing securities emission and trading; reducing local enterprises' dependence on (expensive and scarce) debt financing by developing equity financing as a viable alternative; and encouraging new portfolio investment by helping establish clearer rules and regulations for share ownership and trading.

Enterprise Support (UK Know How Fund Contribution, US\$390,000 equivalent): In order to increase

investment in privatized Russian Federation enterprises, the UK Know How Fund has provided IFC with technical assistance funding for project specific feasibility studies, as well as a review of the legal and regulatory framework for making investments in post-privatized Russian Federation enterprises. In addition, the IFC and UK Know How Fund have an in-principle agreement for the UK Know How Fund to provide project specific money totaling US\$2.5 million to support IFC's Volga Fund in order to further investment in privatized enterprises.

Mass Privatization (USAID Contribution, US\$3.25 million): Immediately following a series of pilot auctions for large Russian Federation enterprises in December 1992, IFC was asked by the Russian Federation Government to assist in establishing voucher auctions in several regions and to achieve a "demonstration effect" which would inspire privatization in other regions. Resident IFC-managed teams were established in Nizhny Novgorod, Volgograd, Tomsk, Novosibirsk, and Yakutsk. In addition to assisting in the corporatization of the companies to be privatized and in managing the bid reception and processing centers, the team undertook broad-based public relations campaigns in each region.

By June 1994, when the voucher scheme was completed, IFC had assisted in the sale of over 1,100 medium and large enterprises in five regions, collecting nearly six million vouchers.

Trucking Privatization (USAID Contribution, US\$800,000): In early 1993, after working with the Nizhny Novgorod authorities on a privatization scheme, IFC helped disband the regional trucking monopoly and create 42 new medium-sized private companies. In addition, more than 800 trucks were sold to 700 individuals through 22 auctions. IFC produced a manual on trucking privatization for use by officials from other regions. Distributed to all oblast and regional officials throughout the Russian Federation, the manual outlined the principles behind the Nizhny Novgorod truck privatization and provided detailed administrative steps and a full set of working documents. Thanks to support from IBRD at the national policy level, efforts at replication of transport privatization proved successful, with 70 percent of Russian Federation regions adopting all or part of the Nizhny Novgorod model plan.

Small-Scale Privatization (USAID Contribution, US\$3.6 million): Drawing on prior experience in Eastern Europe, IFC initiated work on small-scale privatization in the Russian Federation in late

1991. IFC selected the city of Nizhny Novgorod as a pilot because of strong, reform-minded local leadership. In late January 1991, IFC began implementing a small-scale privatization program in cooperation with Nizhny Novgorod officials. Following the introduction of privatization in Nizhny Novgorod, the Russian Federation authorities asked IFC to prepare a manual based on the Nizhny Novgorod model of small-scale privatization to disseminate to other cities and towns. IFC was then asked by the Russian Federation Government to introduce small-scale privatization in Volgograd, Tomsk, and the closed city of Tomsk-7, followed in April 1993 by support for municipal privatization efforts throughout the Russian Federation. By the end of the process, all regions in the Russian Federation had completed their small-scale privatization programs, with 80 percent of small enterprises privatized.

UKRAINE: Summary of Projects

Agricultural Land Privatization (UK Know How Fund Contribution, US\$4.2 million equivalent): Building on the experience of IFC's land privatization project in the Russian region of Nizhny Novgorod, IFC began a similar pilot project in the Ukrainian region of Donetsk beginning in October 1995. In March 1996, the land and assets of three

collective farms in the region were distributed by auction to the workers and pensioners of these farms, resulting in the formation of 13 new private farm enterprises and 15 private farms. The experience of the pilot program is simultaneously being used to shape the development of national land reform legislation. IFC will also produce and distribute a "how-to" manual based on the Donetsk model so that other regions in the country can replicate the model.

Mass Privatization (UK Know How Fund Contribution, US\$800,000 equivalent; Japanese Trust Fund Contribution, US\$500,000): IFC began its assistance of Ukraine's medium- and large-scale mass privatization program in May 1995. IFC's program involves assisting the regional privatization agencies in developing and preparing a pipeline of enterprises for privatization; designing a regional public relations campaign to strengthen demand for shares of privatized enterprises; and providing policy advice to key national-level privatization officials based on experience in the regions. The project began in the pilot region of Kharkiv, and expanded to two other oblasts in early 1996. It is expected that the project will expand to one additional oblast in late 1996.

Post-Privatization (UK Know How Fund Contribution, US\$1.26 million equivalent): This project was established in November 1994 to

train managers of small-scale privatized enterprises in Western business methods and business planning. A pilot exercise took place in the city of Lugansk, and in the last fiscal year IFC expanded project activities into three more cities: Mariupol, Khmelnitskiy and Cherkasy. These activities reached over 300 small businesses and facilitated their receipt of over \$1 million in investment. IFC has also advised the Ukrainian government on regulatory, legal, and tax reform that could reduce obstacles to small business.

Small-Scale Privatization (USAID Contribution, US\$4.6 million): Beginning work in July 1992 in the city of L'viv, IFC designed a model for small enterprise privatization with appropriate changes to city legislation and procedures. The first small enterprise auction in Ukraine took place with IFC assistance in February 1993. A manual based on the L'viv model was produced and distributed to privatization officials in all Ukrainian cities with populations greater than 20,000. To date, IFC has directly assisted 22 Ukrainian cities in privatizing over 7,500 enterprises, and has worked with the central government in developing a solid legal framework (by drafting numerous decrees, regulations, and methodologies) governing small-scale privatization.

IFC also runs an information campaign at the national and local levels aimed at increasing public awareness of privatization.

BELARUS: Summary of Projects

Post-Privatization (UK Know How Fund Contribution, US\$630,000 equivalent): The IFC Brest Business Center opened in March 1996 and has provided training, consultation and information services to over 60 small businesses. The Center runs a five-day course in business planning and shorter seminars on topics including taxation and marketing research. Consultations are offered on commercial and legal issues, as well as business operations, and round tables are organized with business owners from neighboring countries and foreign experts working in Belarus. The project aims to promote the growth of small businesses in Brest in a sustainable manner and therefore is training a local successor organization to carry on project activities.

Small-Scale Privatization (USAID Contribution, US\$4.7 million): In May 1993, IFC selected Brest as the pilot city for its small-scale privatization program in Belarus. Using an approach similar to that employed in the Russian Federation and Ukraine, Belarus' first open, legal auction of small enterprises was held in September 1993. A manual based on the Brest model was written and distributed to privatization officials in all Belarussian cities and towns with populations greater than 20,000. To date, IFC has directly assisted ten Belarussian cities in privatizing some 700 enterprises through open auction and has worked with the central government in developing numerous decrees, regulations, and methodologies governing small-scale privatization. IFC also runs an information campaign at the national and local levels aimed at increasing public awareness of privatization.



Flanking Mr. Lindbaek are Mr. Ezekiel, Director of Corporate Planning (left), and Mr. Bose, Manager of the TATF Program (right).

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