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Corporate Governance Advisory Service Programs

IFC has played a pioneering role in the development and promotion of good corporate governance practices in emerging markets as part of its Advisory Services (AS) efforts. Over the past decade, IFC has directly assisted 9,325 companies through its corporate governance AS projects. Since its first large scale corporate governance project in Ukraine in 1998, IFC has implemented 29 corporate governance AS projects in 18 countries. Currently, 15 projects are being implemented covering 20 countries. Key program results achieved since 2000 include adoption of 25 legislative acts, and a total direct investment of $683 million US dollars for assisted clients, of which, $134 million is from IFC, at an approximate total input cost of $16 million.

In 2006, IFC commissioned an external review of its corporate governance AS work by the London-based firm Triple Line Consulting Limited. The objective of this study was to evaluate project design and effectiveness and provide forward-looking guidance on monitoring and evaluation (M&E) for corporate governance AS projects. The study prepared the ground for the internal development of an advanced indicator and logic framework for corporate governance by IFC's corporate governance and results measurement teams. This note summarizes the main findings from the review and expands upon some of the lessons from IFC's corporate governance AS experiences.

LESSONS LEARNED FROM CORPORATE GOVERNANCE AS PROJECTS

"IFC is in a very strong position to be the market leader"

The overall conclusion of the review was that IFC, given its decade of hands-on experience and accumulated know-how, is uniquely positioned for global leadership in the field of corporate governance AS. Corporate governance is one of IFC's core AS products . This work, at its essence, involves the transformation of a company's individual corporate culture including the distribution of powers and authorities amongst its various governance bodies. According to the study, IFC's wealth of experience in this field, coupled with its ability to provide financing, differentiates IFC from other multilateral and bilateral organizations. The IFC brand was considered to be an important success factor and the consultants suggest that this should be further capitalized upon for IFC to cement its leadership position as a global provider of corporate governance AS.

The study looked at three IFC corporate governance AS program models being implemented in the Eastern Europe and Central Asia (EECA), Middle East and North Africa (MENA), and Southeastern Europe (SE) regions. The review noted that the programs in MENA and SE were at early stages of implementation and that it is too soon to draw any conclusions about their ultimate effectiveness, however, the report does comment on the approach used to develop these programs.

IFC'S COMPREHENSIVE APPROACH TO CG AS IS A KEY SUCCESS FACTOR

"IFC has learnt that a comprehensive approach to CG is essential. It is not possible to work on the business case for CG in the absence of an adequate legal framework."

The review looks at the frontier markets of EECA and concludes that the comprehensive approach taken by IFC in Ukraine, Russia, Armenia and Georgia was key to the success of those projects. The projects engaged a variety of stakeholders in order to effect change. The basic elements of project design are (1) direct assistance to companies; 2) awareness raising efforts to educate the entire economy about the benefits of good corporate governance; 3) en-

Monitor shares key findings from in-depth reviews of IFC programs and projects conducted by external evaluators. The reviews address the relevance, efficiency, effectiveness and sustainability of these programs. For more information about the evaluation of IFC programs visit http://www.ifc.org/results.

couraging governments to improve the legislative and regulatory framework to quicken the pace of corporate governance development; and, 4) working with educational institutions to ensure that the next generation of lawyers, investors, CEOs and journalists would have a firm understanding of the value proposition surrounding good corporate governance practices in the modern corporation. The projects also work with appropriate local counterparts such as NGOs and institutes of directors where they exist.

The study noted that there was knowledge sharing across regions on this account, and stated that in rolling out projects in MENA, IFC incorporated lessons from former EECA projects. An example of the benefit of a comprehensive approach is that projects have been able to engage regulators and lawmakers armed with specific information about the practices, prejudices and struggles of corporations. As a result, IFC was able to suggest policy approaches that would encourage good corporate governance practices in the given environment. Another example is the efforts made to transfer knowledge to educational institutions. AS projects were able to use real-life examples of problems faced by company owners and mangers to develop educational materials with a local flavor that have reached some 20,000 students to date.

PROJECTS SHOULD BE LONG TERM TO MAXIMIZE IMPACT

"Results in CG AS take time to be realized. A key lesson has been to ensure that the AS should be long term (i.e. 4-5 years, not 1-2 years). This experience was brought out in both Ukraine and Russia. IFC needs to have the confidence to not just be catalytic in introducing CG TA, but to create a lasting legacy."

The consultants further indicated that another lesson from the EECA region was the need to engage in long-term programs. In EECA, IFC recognized that the cultural change associated with introducing new laws, policies and practices at the heart of corporations is a long-term process with many starts and stops along the way. In a booming economy where investment and credits are widely available (such as China) there is relatively little commitment on the part of owners and managers to improving corporate governance, as the business benefits are blurred by excessive liquidity. In other, less fortunate economies, it may take years to produce the "change of heart" necessary to generate true commitment to the rigors of good governance. In these markets the absence of demand for corporate governance dictates a comprehensive approach over a sustained period. As a case in point, IFC's projects in Russia, Ukraine and Georgia all had sufficient demand and need for additional reforms to require extensions of their original project timelines. Further, the absence of local corporate governance professionals requires IFC to hire and train young professionals who are willing to commit to the corporate governance field. These individuals then go on to develop their own careers, often in the corporate governance field.

The Triple Line report cites the Armenia Corporate Governance Project as being less than fully successful because it did not follow the lesson described above. The effort was a short term and underfunded intervention in a market which was not fully ready to embark on corporate governance reforms. Further, the report states that this lesson should be taken into consideration in MENA and SE where the current three-year projects may be "too short to have any lasting impact."

IFC SHOULD MAINTAIN FLEXIBILITY AND ENSURE THAT IT ADAPTS PROJECTS TO FIT LOCAL CONDITIONS

"In the case of CG [AS], the IFC has in many instances been introducing the concept to the market. Relevance in this case needs to be assessed by some scoping for the specific CG barriers in the country"

IFC has successfully adapted the program model across different regions, but the report highlighted the need for a more formal market needs assessment before designing an intervention. IFC has regularly used needs assessments in planning its corporate governance work, but must do so more consistently especially when planning a first CG project in a new region. These assessments are important to be able to tailor and focus the AS effort to the specific country and market. Understanding the level of maturity of the market, whether credible and capable local consultancies exist and the state of the legal framework should all feed into the design of the AS project.

Good scoping of a country's individual needs and the development of its regulatory framework allows the project designer to provide the appropriate balance of individual company and legislative advisory work as well as determine whether or not it makes sense to try and partner with existing institutions. It also helps prevent IFC AS teams from duplicating the efforts of for-profit entities and other donor funded initiatives in emerging markets.

For example, in the EECA region there has been a greater need for early stage interventions with a comprehensive approach to corporate governance. In MENA, markets and institutions are more mature and therefore the program could risk partnering with a few existing local entities to deliver AS. In the more developed markets of Latin America, IFC has found that, given the generations of private ownership, relatively well developed capital markets and different cultural norms, local conditions do not support the need for a comprehensive model of corporate governance AS such as that deployed in EECA. In these countries, corporate governance consultancies have been developing over the last ten years and IFC employs these nascent providers to work with its investment clients where possible. As a result, IFC does not have corporate governance AS projects in this region.

IFC SHOULD EXAMINE ITS APPROACH TO DELIVERING AS TO DETERMINE WHETHER DIRECT INTERVENTION OR A MARKET FACILITATOR ROLE ACHIEVES MORE SUBSTANTIAL RESULTS

The report recommended that IFC place more emphasis on being a market facilitator rather than directly providing AS to clients to lower the cost of these interventions and develop the local consulting market. The study also recommended that the projects provide direct assistance to fewer clients, but pursue more intensive promotion of success stories to minimize costs and deepen impact. To date, different approaches to delivery have been used in different regions. In EECA, IFC has hired and trained local staff to deliver corporate governance AS directly to clients. In SE, the projects have taken more of a facilitator's approach by attempting to provide AS through local consultancies.

It is important to note that the appropriate deployment of different approaches will depend upon the stage of development of corporate governance policies and practices in the market in question. Only fairly mature equity and debt markets spur real demand for commercial CG services. This is not to say that improving corporate governance is not key in these early stages, just that it takes a back seat to acquiring more basic business skills and may well be poorly understood as a factor of longer term business success and market development. If IFC were to only support local commercial consulting providers, it would be necessary to delay any interventions until fairly late in the spectrum of market development, even to the point where it would not be clear what IFC's value-added would entail.

In mature markets, such as Latin America, where local consultancies exist, a market facilitator role might be feasible, but would not make sense as the market clearly grasps the value of improving corporate governance. In EECA, where no one knew what corporate governance was, let alone was able to provide consultations on even basic business topics, a market facilitator approach would likely be met with failure.

Although a market facilitator approach has been selected in SE, the market there is still developing – local business consultancies exist, but with no expertise or delivery capacity in corporate governance. As a result, project management has been unable to find local consultants able to deliver CG services and has been forced to turn to expensive foreign consultancies which, in turn, requires the project to subsidize a substantial percentage of the costs of assessments, not to mention any follow-on assistance to the project's clients. In turning to foreign consultants, IFC has escalated its cost per client (ranging from $45,000-90,000) and effectively eliminated the possibility of leaving behind trained corporate governance expertise upon project completion.

"All welcomed the professionalism of the IFC advisory services and seminars. Thus, the strength of the IFC brand is perceived as being a very important factor in participating in the [AS] and IFC's stamp of approval was perceived as a key means of attracting investors."

Further supporting the case for direct intervention is that the study recognizes the quality of assistance delivered by dedicated IFC corporate governance staff as a key strength of the projects. Local IFC staff, experts in local laws and traditions as well as international best practice, are ideally suited to persuade and guide companies wanting to pursue improved governance as a path to economic development and investment attractiveness. A key benefit is that working with local staff, providing them with targeted training and access to knowledge, adds to the sustainability of the AS effort, as many project staff go on to become true corporate governance experts and leaders of change for their market. In PEP MENA, IFC is training the staff of the Egyptian Institute of Directors. This approach of training staff members of new and existing institutions and even consultancies may be a good way forward, allowing experts to join the project for a period of time and gain in-depth expertise, and then returning to their previous post at the end of the AS project.

In assessing the motives of Russian banks for working with IFC AS, an important consideration was the chance to improve their image by association with the IFC brand – something one would not see when using the market facilitator approach. The report also indicates that banks themselves cited the valuable practical advice (as IFC has practical experience as compared to advisory firms who have picked up on the corporate governance trend) provided by the inhouse professionals as the first key reason for working with the project. A facilitator approach would, as the study notes, only be appropriate in more developed markets where there is reasonable market demand and sufficient local consulting capacity available. While there are cost savings from adopting this approach , there is a risk of possibly limiting IFC's institutional capacity and its ability to work across regions. In contrast, the direct staffing approach allows for better quality and a more comprehensive approach to AS delivery as the same professional staff advising clients can use their skills and lessons learned from the private sector to advise governments on policy reform, develop case studies and curricula for educational institutions and provide success stories to the media to increase public awareness. In the longer term, this may prove to be more cost-effective. Again, more developed markets will call for a mixed approach, with the most developed markets being fertile ground for an outsourcing approach.

PROGRAMS WOULD BENEFIT FROM GAINING GREATER GOVERNMENT SUPPORT AND ACCEPTANCE

"It is more effective to focus on the advocacy for change in legislation and institutional strengthening rather than on direct support to Government and the legislature."

IFC has experienced both success and failure in directly drafting legislation and has learned a great deal about advocating for change at the legislative and regulatory level. The successful development of corporate governance codes is a case in point. Where IFC has focused on a broad-based consultative process towards the development of a country code, both government and business have readily accepted the code. In MENA IFC has taken just such an approach and in a 2 year period has helped to launch four national CG codes and is working in eight other countries in the region to develop similar CG codes or guidelines for the domestic market. Where

IFC has simply delivered legislation or regulations, the results have been more mixed.

That the Government of Ukraine has failed to pass a modern company law, due to the capture of the legislature by business interests fearful of transparency, demonstrates the peril of pursuing only direct drafting of legislation in countries where the political will to reform is lacking. However, the Ukraine Corporate Governance Project's parallel pursuit of many of the same objectives via cooperation with the securities commission on the development of regulations and through a task force on a corporate governance code demonstrates the need for a flexible approach and the paramount importance of finding an appropriate champion of change in the government.

SUSTAINABILITY AND EXIT STRATEGY

Where IFC has adopted a comprehensive approach to corporate governance, elements of sustainability are inherent in the project design: model corporate documents and practices are used to revise client's CG norms to reflect international best practices; the educational institutions adopting corporate governance curricula educate thousands of students every year on a previously unmentioned topic; journalists receiving corporate governance training use acquired skills to become better business reporters; and amended laws and regulations permanently change the legal framework\

However, much more can be done, especially in the context of the longer term (4-5 years) programs recommended by the study. IFC has been experimenting with a number of exit strategies many with the goal of having an entity survive beyond the life of the project. In the Russia Corporate Governance Project, materials and some staff were handed off to a local NGO, The Independent Director's Association. In Ukraine, project staff in Western Ukraine have founded their own consultancy, the Corporate Development Group. Project professionals have gone on to head institutions, teach at universities and staff major corporations and banks. All of these efforts have experienced some level of success, but it is still too early to draw a final verdict about the longer term sustainability of these initiatives.

Exit strategies need to be planned from the beginning of CG AS projects in order to allow any new or enhanced institutions or consultancies to reach sustainability over the life of the project. It should be noted that legal experts of the type often employed for these projects may not necessarily have the right profile for entrepreneurial activities. Efforts to balance these staffing needs should be taken at the time of project staffing to ensure a good mix of technical skills and the sort of drive that can make start-up institutions a success.

It should be noted that in Europe and North America there are only a handful of credible consultancies that focus only on corporate governance, so it is a challenge for emerging markets to support these consultancies as a stand alone business.

MONITORING AND EVALUATION OF CORPORATE GOVERNANCE AS SHOULD INCLUDE QUALITATIVE ANALYSIS

"There has been too much emphasis by the IFC on the collection of quantitative information from surveys and control groups and insufficient attention given to lesson learning activity and more qualitative assessment."

The report highlighted the need for IFC to engage in more qualitative assessment when undertaking evaluation of corporate governance projects. As a result of recommendations from this study, IFC is devoting time and effort into developing greater forums for lessons learning activity and knowledge sharing. The study notes and recognizes the considerable effort that has already gone into the development of monitoring and evaluation processes for these projects. These efforts include baseline and follow-up impact surveys as well as tracking an extensive set of output, outcome and impact indicators.

CONCLUSION

IFC, in close cooperation with its donor partners and its clients, has already contributed a lasting legacy of improved corporate governance rules and practices in the regions where it has implemented CG advisory services projects. These efforts have contributed to the rapid development of the private sector, especially in Russia and Ukraine, where the entire market has discovered the business benefits of improved corporate governance. The advice of the review has been carefully considered and many recommendations incorporated into our approach, particularly in addressing sustainability of interventions and knowledge sharing. As CG AS, a leading IFC product, is transferred beyond the three regions where it is currently deployed, efforts to improve the measurement and evaluation of these projects will continue apace.

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