SmartLessons
real experiences, real development

One from Column A; Two from Column B: Using a Flexible Project Model for Corporate Governance Advisory Services Projects

In a restaurant, patrons can select from a variety of food course options under a number of central themes, depending on their tastes. Similarly, designing the optimal corporate governance project involves identifying specific activities that fall under four different umbrellas: companies and banks, educational institutions, enabling environment, and public awareness. The SmartLesson below describes a comprehensive approach to corporate governance projects that allows for standardization and flexibility, with the amount of time and resources spent on each critical area depending on the country and its level of development.

BACKGROUND

What is a project model? Stated simply, it is an approach in which project designs are based on a standard template, featuring a variety of different activities. The weight of each activity—the amount of time and resources spent on it—depends on the contextual needs of a country or region. IFC makes use of the project model approach in our corporate governance advisory services work.

Our corporate governance project model evolved as a result of nearly two decades of hands-on experience, with over 100 staff providing direct assistance to companies, executives, shareholders, regulators, legislators, educators, and nongovernmental organizations in some of the most challenging emerging markets in the world.

Over these years, the model has been tested and refined, resulting in the development of a flexible and adaptable approach to designing donor-funded corporate governance projects.

Starting first in Ukraine and Russia in the early 1990s, following the break-up of the former Soviet Union, efforts soon extended to Armenia. Within five years, corporate governance projects constituted more than one-third of IFC's advisory services portfolio in the Europe and Central Asia region. The first replication of our project model approach in another region was in the Middle East and North Africa, where an ambitious advisory services program was launched in 2002. In 2005, a corporate governance advisory services program started in the Balkan region, covering the former Yugoslav Republic of Macedonia, Albania, Bosnia and Herzegovina, and Serbia, with project management based in Belgrade.

Along the way, we learned some key lessons on how to create the optimal mix of project components.

LESSONS LEARNED

1) Improvements aren't sustainable in a void: take a comprehensive approach when addressing corporate governance gaps to include working with government, educational institutions, and the public.

You can talk all you want to companies about why they need to have independent boards, get their books audited, or hold regular shareholder meetings, but unless there are rules and regulations requiring such activities, it's unlikely that company executives will rush to change. It's not that the business case for better governance isn't there: indeed, our own evidence from our work in Ukraine and Russia draws a direct link between improved financial performance of companies and enhanced corporate governance, compared to companies that did not address their governance gaps. Still, companies need incentives to encourage such changes.

Similarly, if emphasis is placed only on developing corporate governance curricula for educational institutions, there's a risk of creating an "ivory tower" mentality that would not translate well into the day-to-day realities of the business world. And if the public fails to understand the value of better-governed companies, it is unlikely that they will pressure companies to address the issues or call on government officials to enact policies to drive improvements.

Bottom line: The governance arena touches all of these key audiences. Overlooking one or the other could make the overall effort less successful and less sustainable.

"A comprehensive synthesis of project components, incorporating policy advice, work with selected pilot clients to generate demonstration effects and public awareness and dissemination campaigns, helps ensure lasting and far-reaching results," notes an IEG review of our Ukraine projects.[4]

Our project model incorporates this comprehensive approach, based on a standardized template with a variety of key components, including:

- Direct assistance to local companies and banks seeking to improve their corporate governance;
- Advice to regulators, legislators and self-regulatory organizations on corporate governance standards and creation of an environment that incentivizes good governance;
- Curriculum development with educational institutions; and
- Public awareness activities, including media training on corporate governance topics.

> "It is not possible to work on the business case for corporate governance in the absence of an adequate legal framework."
>
> *—Triple Line Consulting, Corporate Governance Project Review*

2) Select the mix of project components based on what stage of market development the target country is in.

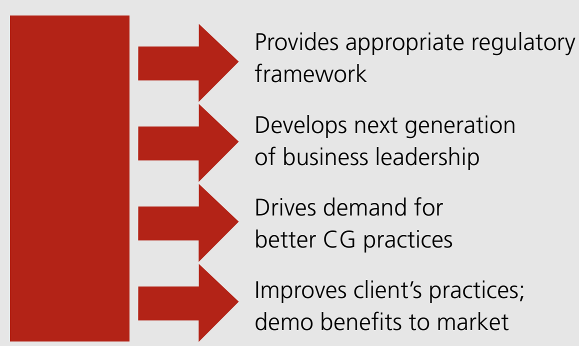
The level of market development and the level of corporate governance awareness go hand in hand. Based on our experience, the earlier the market development stage, the greater the need to focus on creating an enabling environment to set the stage as the private sector begins to grow. So, in countries like Tajikistan, Uzbekistan and the Kyrgyz Republic, the majority of project resources have been devoted to putting modern legal and regulatory frameworks in place. In others, like the Balkan nations, market

CORPORATE GOVERNANCE PROJECT OBJECTIVE AND APPROACH

Objective

Improve corporate governance practices

A programmatic approach to CG in a country or region



Side effect

IFC branded as global leader in corporate governance economies are in a growth mode, and regulatory frameworks already exist. Work here is primarily focused on company-level capacity building.

Still, it is important to note that this is a generality: the level of country-based corporate governance development is not always an indication of company-level awareness or endorsement of the value of corporate governance. While some nations may have regulations, codes, and policies in place, companies may fall well short of best practices or awareness, meaning that the bulk of the project should focus on company-level improvements.

3) Plan a longer time frame for projects in countries with low levels of development.

A two-to-three-year time frame is not long enough, because there is so much work to be done, and because efforts to write new laws and add new regulations can take a long time. When countries are in the early stages of developing market economies, most of the focus is on working with governments, so projects should be a minimum of five years.

As countries progress into the market development and market growth stages, there's increased focus on company-level work, and project durations can be shortened. Still, we have found that it can take up to a full year to adapt corporate governance assessment tools and best practice materials to local language and regulatory requirements before company-level work can begin.

We have also learned that staff in longer projects develop greater expertise and experience, which can be leveraged to help with IFC investment operations.

CONCLUSION

The traditional approach at IFC and the World Bank had been to hire consultants to fly in and handle the TOR /mandate however they chose to handle it. Our approach was different: to design a project

FOUR PILLARS OF IFC'S CORPORATE GOVERNANCE PROJECT WORK
HOW IFC'S ADVICE IS DELIVERED

DESIGNING CORPORATE GOVERNANCE PROJECTS IN TRANSITIONAL AND DEVELOPING COUNTRIES: A TOOLKIT

The Corporate Governance Toolkit provides step-by-step guidance on designing and implementing corporate governance advisory services projects in transitional and developing countries. It addresses all stages of a project life cycle:

- Development stage
- Project start-up
- Work with companies and banks
- Work with educational institutions
- Communications and public relations
- Measuring results of corporate governance projects

The toolbox contains templates and samples of documents, including:

- Project proposals
- Sample press release for project launch
- Sample agendas for company and bank seminars
- Memoranda of Understanding samples for public policy work
- Sample educational curricula, including case studies and tests
- Press articles and success story examples
- Agenda for a press tour
- Baseline survey questionnaire/post-project impact survey questionnaire

based on a standard template and to alter the weight of each activity depending on the contextual needs—the project model. A key factor in this replication approach was a locally engaged staff under the helm of an expatriate specialist project manager.

Through almost two decades of projects, we have tweaked this model, experimenting with format and content. Now, with significant experience, there's a wealth of documented knowledge on which to draw—and we know what works.

The dynamic, flexible nature of the project model allows for a high level of customization, including types of activities and areas of focus as well as duration and scope, while taking into account the development stage of the country or region. It also allows for evolution and change as circumstances change, while encouraging replication of efforts that have a demonstrated record of effectiveness. The recent decision to mainstream IFC's corporate governance methodology into investment operations will undoubtedly result in new iterations of the model, for even greater impact.

ABOUT THE AUTHOR

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