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SmartLessons

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One IFC in Practice: The Example of the Azerbaijan Corporate Governance Project

The Azerbaijan Corporate Governance Project (ACGP) worked to improve corporate governance practices in Azerbaijani companies and commercial banks, and to strengthen the relevant regulatory framework for corporate governance. The project achieved strong development impact and is an example of how the work that the advisory services business lines do can lead to an investment opportunity for IFC. It is also an excellent example of the strength in leveraging global-local partnerships, and of a collaborative use of different advisory services products. Covering the full spectrum of corporate governance services offered by IFC, in many ways the model of joint work under this project has been used in designing and implementing future corporate governance projects. Every success comes through overcoming certain challenges, and this project was no exception. We were working in a situation where one donor funded two separate corporate governance projects in one country. In this SmartLesson we share the lessons that we learned in finding solutions in order to work together efficiently, including several parts of IFC working with one particular client company.

Background

From 2005 and 2011 the Azerbaijan Corporate Governance Project worked to improve corporate governance (CG) practices in Azerbaijani companies and commercial banks in order to help them enhance their operations and increase their ability to attract financing and investment. The project, which was funded by the Swiss State Secretariat for Economic Affairs (SECO), involved over 600 companies and banks receiving advisory services or training on corporate governance. The project team organized 230 training events attended by over 2,500 individuals. Seven laws and codes were adopted to improve the legislative environment for corporate governance in Azerbaijan. As a result of these interventions, the country's position on the "Doing Business" ranking for investor protection improved from 110 in 2008 to 18 in 2009.

After working with the project team, many companies improved their corporate governance

practices, including better protection for shareholders and improved board practices and supervision. These improvements helped facilitate investments of \$138 million (with IFC investing \$27.7 million) in client companies.

The project was a strong example of teamwork and partnership. The core project team on the ground was the Sustainable Business Advisory (SBA) business line CG staff, who worked closely with the Global Corporate Governance Forum and the Corporate Governance Unit on delivering CG training and expertise on such things as partner capacity building and CG Code development. The project also worked closely with other Business Lines: Investment Climate on legislative reform, and Access to Finance (A2F) on work with client banks in the area of risk and control. The project cooperated closely with the World Bank CG team on the preparation and follow-up to the Report on the Observance of



"It will be amazing to use Forum's training resources for our newly established Georgian Institute of Directors. We are certainly going to use the materials in our future training programs." *Kakhaber Kuchava (second from the left), CEO, Georgian Institute of Directors*

Standards and Codes. The project translated the CG materials of OECD, and also cooperated with them and other donor providers in the country to deliver seminars and workshops on CG. Toward the end of the project, the team collaborated with exit partners who will ensure sustainability in provision of CG services and continued improvement in the legislative environment in the country.

A project of this size, which involved various teams working on different aspects of the project, serves as a learning experience for the teams involved, and outlined below are a few of the lessons learned.

Lessons Learned

Lesson 1: Complementary and collaborative advisory services for clients could have a great impact on the project outcome.

In 2009, Turan Bank was chosen as a pilot client by the Azerbaijan Corporate Governance Project. In order to align its corporate governance system with international best practices, IFC Corporate Governance staff assisted the bank in introducing a number of reforms. These included: the development and adoption of new internal documents to govern and guide practices; the clarification of management and supervisory responsibilities; the establishment of a Corporate Governance Officer position; and the adoption of a succession plan and a dividend policy.

"With IFC's support, we achieved significant results. IFC's CG methodology engaged not only top management, but all Turan Bank's employees. IFC does a great job in increasing awareness and improving understanding through its tailored workshops and meetings. Personally, I see that employees are much more informed and willing to implement better practices."

Nazim Sadigov,
Chairman of Turan Bank's Management Board

Building on its successful collaboration with ACGP, Turan Bank joined IFC's Risk Management Project being implemented by the Access to Finance business line, and also funded by SECO. This project was designed to help banks in the Eastern Europe and Central Asia region recover from the financial crisis by building their internal capacity and advising them on how to better manage risk. The team from A2F worked with Turan Bank to help better manage non-performing loans and credit risk, and then built on this to improve the bank's services to SMEs.

All the advisory services work was complementary: The A2F advice strengthened the operational activities of the bank, while the corporate governance team looked at the supervisory level. The two teams collaborated in sharing their understanding of the bank's operations, increasing efficiency in implementation, and ensuring that both sides of the equation – governance and operations – were improved consistently.

Combining forces of two different IFC products enabled IFC to have a much greater impact on the performance of the bank than if only one part of the advisory work had been conducted.

Lesson 2: Advisory services can provide an entry point for an IFC investment.

It is in IFC's interest to reduce the risk of investments by improving the governance and management of investee companies. Improving the corporate governance of these companies allows IFC to work in higher risk environments, reduce the investment risk, as well as add value and potentially improve the performance of the client.

When the corporate governance project began working with Turan Bank in 2009, there was no expectation that the bank would become an IFC client. It turned out to be a strong example of the fact that well-designed and well-timed advisory services can provide an entry point for investment by both finding potential new clients and building the capacity of those prospects to a level where they are able to meet IFC standards and access investment.

The advisory teams participated in the loan decision meeting, where the determination of the bank to implement the advisory recommendations, and the resulting improvements, were noted as key reasons the bank was being considered for a loan. In June 2011, IFC extended a \$7 million loan to help Turan Bank increase lending to micro and small entrepreneurs across Azerbaijan, enabling the bank to diversify services and expand operations, especially in underserved rural areas.

"Turan Bank's partnership with IFC to date and the bank's commitment to strengthening its corporate governance and risk management practices are key factors that led IFC to provide this loan. This financing will help Turan Bank to increase outreach to micro and small businesses, which is part of IFC's financial markets strategy in Azerbaijan."

Ed Strawderman,
IFC Senior Manager



"It was very useful for me to share other countries' experience of monitoring and implementing corporate governance codes." *Bolormaa Jalbaa, Financial Regulatory Commission, Mongolia*

The support from the different advisory services products strengthened Turan Bank's corporate governance and risk management structures and turned it into a prospective client for IFC investment.

Lesson 3: Leverage global knowledge to build local capacity.

Leveraging global knowledge resources and integrating them into a country or regional project expands the depth of the project activities, better responding to clients' needs and maximizing project's impact and cost-benefit. In 2009, IFC's Washington-based Global Corporate Governance Forum (the Forum) was funded by SECO to help build institutional capacity and support the development of corporate governance framework in Azerbaijan. Activities were focused on improving the enabling environment in the country: working with the government on the promotion of good CG standards, and with institutions that train directors to ensure a supply of well-qualified external directors. The Forum worked to align areas of cooperation with ACGP, which was already operating in the country, to ensure that the two initiatives fully complemented each other, thus expanding the depth of project activities and avoiding duplication of effort.

The Azerbaijan CG project was already working with a number of local partners as part of its exit strategy, and had organized training workshops and joint CG assessments of clients. Building on this, the cooperation with the Forum and use of its global knowledge resources allowed the local partners to hone their skills further and get access to good international corporate governance practices.

The Forum supported the development of Azerbaijan's corporate governance code through:

- International peer review of the code;
- Workshops on CG code development and implementation;
- A launch event for the code;
- Preparation of a corporate governance scorecard.

In practical terms, the Forum provided international expertise through its global knowledge tools, by designing the structure of the training events and workshops and recommending trainers and speakers. The Forum was able to leverage its network of international, regional, and local institutions, as well as the Private Sector Advisory Group (PSAG), composed of global private-sector leaders. ACGP coordinated the work on the ground, as the project had better knowledge and understanding of the local environment and stakeholders.

The toolkit on "Developing CG Codes of Best Practices" was used to organize a regional workshop on "Developing and Implementing Corporate Governance Codes of Best Practices for Companies and Financial Institutions" in Azerbaijan on February 8-9, 2011. Participants at this workshop were able to learn from the Forum's materials, PSAG members, experts, and twenty-two participants from eight countries in the ECA region.

A new tool to help assess companies' and banks' governance practices was introduced at the workshop – the CG Scorecard. In order to advance the implementation of the CG Code in Azerbaijan, a CG Scorecard, based on the national Code, was prepared by the Ministry of Economic Development and peer-reviewed by IFC and PSAG members.

The toolkit on "Building Director Training Organizations" was instrumental in supporting the project's efforts in building capacity of local director training institutions in Azerbaijan which can deliver corporate governance training programs and services on a sustainable basis. The new regional ECA CG project, which started in January 2012, is continuing this work.

IFC helped local training organizations build a cadre of professional trainers through a training-of-trainers program based on the Forum's Board Leadership Training Resources. The training allowed participants to improve the training and knowledge skills needed to lead director education programs for companies and banks. For this training, the Forum's Governing Banks supplement and Training Skills Guide were adapted and translated into Russian so they could be a useful resource for their own future training programs. The training program was attended by participants from Georgia, Kazakhstan, Mongolia, Tajikistan, Turkey, and Ukraine, thus creating a network of trainers from different countries in the region from which they could derive specific skill sets, as needed.

Two factors are essential components in enhancing corporate governance practices: improvement in the markets in which companies and banks operate, and the strengthening of local capacity.

Lesson 4: If you have budgets from different sources of funds, integrate them from the start and be clear who is responsible for covering which activities.

Every success comes through overcoming certain challenges. How could we make the reporting of two projects to the same donor efficient? While the donor may be content with providing two separate pots of money for project work in the same country, it makes both internal and donor reporting complicated. In the future, it would be better to agree with the donor in advance on one standard reporting template and consider unifying the donor funds for just one project.

Both the Forum and ACGP received funding from SECO. The donor was very content with the fact that the two facilities worked together and complemented each other, but still they had to present separate donor reports to the same donor every six months for joint work.

During this process it was important to ensure ongoing internal communication and exchange of notes between the Forum and ACGP, to guarantee clear and coordinated donor reporting. Donor representatives at the local and headquarters level were invited to participate in events and workshops and were engaged through ongoing and intensive communication. Donors are not just compliance officers; they would like to understand the value proposition of the program they fund.

What is the best way to deal with different sources of funds? The Forum's funding for Azerbaijan was received one and a half years before the end of ACGP, which presented challenges as to how to integrate the new funding and activities into the IFC systems.

Three approaches were explored: 1) amending the current Azerbaijan Project implementation plan by adding the Forum activities; 2) creating an additional project focused only on the new activities and funding; and 3) integrating the activities into the new regional ECA CG project.

A combination of the first and third options was used. Many of the activities were closely aligned with the Azerbaijan Project's objectives, so it was easy to integrate the new deliverables, which provided greater depth and additionality to the existing project. At the same time, the

remaining activities were incorporated into the regional ECA CG project, which was designed in close coordination with the Forum to ensure all objectives, funds, and indicators were aligned.

Conclusion

Working as One IFC allows a flexible response to client demand and brings additional depth and expertise to project work. The key to success is to take the time in the beginning to discuss all aspects of the cooperation and find the most suitable approach, and not to forget to keep the communication ongoing.



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