IFC Conflict-Affected Countries
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Private sector development (PSD) is important to economic recovery in conflict-affected countries; and the donor community, including the World Bank Group, has a strong role to play. To date, much of the discussion regarding PSD in conflict-affected countries has centered on work related to infrastructure and the business enabling environment (BEE). However, IFC’s Private Enterprise Partnership for the Middle East and North Africa (PEP-MENA) is piloting interventions in the Value Addition to Firms line in several conflict-affected countries. This note considers the suitability of the application of this particular business line – and specifically firm-level assistance – to further IFC’s mission in these countries by examining tentative lessons drawn from our experience in designing the Afghanistan Horticulture Export Clusters Development project.

Private Sector Development in Conflict-Affected Countries

The economic impact of armed conflict goes well beyond the immediate human loss and destruction of capital. The war fundamentally changes human behavior and economic choices and as a result changes the economic structure in a country. Physical destruction results not only in the obvious loss of capital assets and in a reduced confidence in longer term investment decisions, but also in a loss of trust between economic agents, thus reducing market transactions.

Through this destruction and its far-reaching consequences, war diminishes the potential for economic growth and social development in conflict-affected countries. Following the cessation of violence there is a narrow window of opportunity in these countries when people are open to “buy in” to the reconstruction of the economy. Such a reconstruction requires three elements:

1. Recovery and expansion of the export base;
2. Reorganization of the fiscal sector; and
3. Rebuilding institutions necessary to allow the private sector to revive.¹

The role of the private sector is of crucial importance in this period, as it accounts for the bulk of output and employment. How best to encourage private sector development in conflict-affected countries is a relatively new topic, as PSD strategies have not historically been included in conflict reconstruction efforts; rather, they have been considered “second generation reforms” in these high-risk economies. What is agreed upon, however, is the importance of addressing private sector development issues at an earlier stage in the reform process and better adapting PSD strategies to the specific context of the conflict.

Role of IFC in Conflict-Affected Countries

The World Bank’s role in conflict-affected countries has evolved considerably over the last decade. In FY06, the Bank Group, through research, advisory services, investment, and political risk insurance, supported 35 countries affected by violent conflict. One of IFC’s strategic priorities is strengthening its focus in frontier markets, including many war-torn nations. In frontier countries,

IFC has a key role to play in meeting the financing needs of the private sector as well as in addressing these countries’ broader private sector development issues. While recognizing IFC’s important role in economic reconstruction in conflict-affected countries, there is no definitive answer on how this mission can be best achieved and where IFC could add most value. What is the scope for investment and advisory services? In terms of advisory services, should we focus on BEE interventions, or are there other types of initiatives, such as firm-level assistance, that are relevant? There are many individual experiences, and while it is the situation on the ground that dictates the specific type of engagement, if IFC is to effectively engage in conflict-affected markets, there is a need to learn and share knowledge.

IFC in Afghanistan

Afghanistan’s economy has been devastated by more than 20 years of protracted conflict, and exacerbated by the 1999–2001 nationwide drought. Today, Afghanistan is one of the poorest countries in the world by any measure. The Afghan economy is dominated by agriculture (32 percent of estimated total gross domestic product in 2003), and by opium (35 percent). Other sectors are relatively small, including manufacturing (9 percent—predominantly agricultural processing) and infrastructure (8 percent). It is estimated that 80–90 percent of economic activity occurs in the informal sector.2

Despite Afghanistan’s difficult investment environment, IFC has made several investments, in the First Microfinance Bank and the Serena Hotel, totaling US$13 million. Some additional investments are in progress. While IFC is interested in participating in selective, catalytic investments, in the near term most of its engagement will be in the form of advisory services, deployed via PEP-MENA, with initial focus on strengthening the financial sector and providing value-added to local firms in key sectors, such as agribusiness.

Afghanistan Horticulture Export Clusters Development Project (AHEC)

Given the importance of the recovery of the export base to reconstruction and the dominance of agriculture in the Afghan economy, PEP-MENA is concentrating its efforts on enhancing the competitiveness of local firms in agribusiness products where Afghanistan has a potential competitive advantage. Shindokhani raisins and Afghan pomegranates in Kandahar Province capture the highest value in export markets and have comparative advantages over Indian and other Asian markets, providing an attractive opportunity for growth. To exploit these comparative advantages, however, significant improvements are required; thus, the Afghanistan Horticulture Export Clusters Development initiative is taking a three-tiered approach. The project is:

1. Supporting farmers in improving the quality and quantity of the raisin drying process and pomegranate fruits management, through technology transfer of more efficient drying techniques from lead producer countries;
2. Working with traders to establish or strengthen direct links with farmers to improve quality control; and
3. Helping farmers to understand demand in key export markets, assess their competitive position, and identify potential clients.

Approach Taken and Lessons Learned

IFC “Value-Addition” Projects in Conflict-Affected Countries

Recover export base: The crucial task of recovering the export base is twofold, and includes restoring existing export capacity while adapting to changes in the regional and world economy that have taken place during the years of conflict. Because of the importance of agriculture in Afghanistan, PEP-MENA sought, in dialogue with government,3 key private sector players, and the donor community to identify agricultural products for which the country could have a relatively strong competitive advantage. Raisins were singled out as products which could potentially compete successfully in world markets because of the scale and consistency of production, the relatively nonperishable nature of the product, world market trends, and existing export experience.

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3 Among the government’s core objectives is to “enhance non-opium agricultural production.”
Through value chain analysis, the potential and bottlenecks for export of raisins were analyzed. Initially, PEP-MENA planned to strengthen the competitiveness of sun-dried raisins, which were already being exported to Eastern Europe. It was found, however, that these varieties do not capture a high economic value. Furthermore, their processing factories are not an important stage of the value chain and represent only a small fraction of the value of the raisin. As such, focusing on the improvement of these processing facilities would provide limited impact. Thus, attention was turned to shade-dried raisins, particularly the Shindokhani, which are predominantly grown in the less stable south. Shindokhani capture a significantly higher value, and have potentially attractive export markets in South Asia. The competitive advantage of Afghanistan in these varieties is higher, due to unique climatic conditions; and competition is lower, as production is limited to a few countries. Once it was determined that the security risks of working in the south of Afghanistan could be reasonably mitigated, PEP-MENA decided to focus on those products where it could have the strongest competitive advantage, and therefore have the best potential in recovering its export base.

**Focus on production, not exclusively on bringing to market:** Recovery of the export base in agribusiness includes many challenges: recovery of land; return and retraining of the labor force; recuperation of volume and quality of production; repair of processing facilities; reestablishment of trading and financial linkages; adaptation to new changes in world markets; development of new product lines; and penetration of new export markets.

As PEP-MENA is prevented from investing in capital assets, early project plans focused on providing advisory and training services related to current production and market requirements, as well as linking traders and producers to markets and investors. It soon became clear, however, that the key bottleneck to increased competitiveness lies in production capacity. In conflict-affected countries the production base tends to be destroyed, so interventions that focus on bringing-to-market while ignoring the limited capacity of the production base will find it difficult to achieve significant impact.

It also became apparent that in an environment that is extremely uncertain for investors, investment in new, locally unproven technologies could not be effectively stimulated by advisory and linkage services alone. To allow producers to adopt new technologies in an uncertain business climate, their investments should be economically viable within a short time horizon. Usually this requires some sort of investment incentive or subsidy, shortening the payback period for the investor. While the rationale for a subsidy may be well founded in this particular case, it is still at odds with PEP-MENA's mandate. The project therefore needed to leverage other sources of funds to be able to engage on this level. Thus, PEP-MENA joined forces with IFC's Grassroots Business Initiative, whose financial contribution enabled the project to provide incentives to producers to invest in new raisin drying house technologies.

**Develop successful business models:** The years of conflict have altered the behavior and choices of farmers, traders, and consumers. Limited security has made the time horizon of investments short and potential markets small. Supply chains and markets are extremely fragmented and financing mechanisms unsophisticated. While agribusiness value chains are quite efficient and effective in servicing the needs of local markets in the prevailing security environment, the business model is too fragmented to achieve the volume and quality required in high-value export markets. To successfully engage in these markets, local firms need to adapt their business practices, requiring significant investments in market knowledge and modern production and management practices. To achieve buy-in from local entrepreneurs in economic reconstruction, the development of new business models that can provide a demonstration effect for local firms is important for success.

**Approach to Project Design in Conflict-Affected Countries**

**Importance of social networks / low trust:** Development assistance is never neutral, always having some political impact; however, impacts are more pronounced in conflict-affected countries, “with assistance creating direct and indirect incentives and disincentives for peace.” Thus, it is essential that any engagement in these countries begin with an analysis of the conflict situation in order to understand sources and impacts of conflict, roles played by various actors, and opportunities for aid to contribute to peace and reconstruction.\(^4\) Value chains in a conflict-affected country must be analyzed through a “conflict lens.” Is there a security or conflict reason for

\(^4\) Strategic Framework for Engagement in National PRSs in Conflict-Affected Countries, DFID.
the particular organization of supply chains? Are businesses limited in their choice of suppliers or clients? For example, in Afghan agricultural markets, the protracted conflict explains the lack of direct relationships between farmers, processors, and traders. Goods find their way to end users through an intricate network of local and regional product markets – resulting in a multitude of one-off transactions, due to the security-related limited mobility of economic agents. In conceptualizing the AHEC project, the importance of social networks in a fragmented society was considered and the limited mobility of traders was evaluated. Traders benefiting from the project are drawn from different social networks, and largely drive the selection of farmers, thus ensuring that the participating traders and farmers can actually establish a level of trust required to develop a longer term business relationship, a necessary condition for achieving a more integrated supply chain.

**Quick Wins:** Following armed conflict, there usually is a narrow window of opportunity where entrepreneurs are willing to “buy in” to economic reconstruction efforts and invest in new business opportunities. In addition, it is important that interventions take into account, to the extent possible, the possibility of a flare-up of conflict or instability – a real possibility, as it is estimated that 40 percent of nations recovering from conflict return to violence within five years. Therefore, quick wins are essential to the project, as they allow for the demonstration of tangible results and encourage buy-in from entrepreneurs that have short time horizons and little patience.

Quick wins also are a way of mitigating security risks to the project by limiting the time in which specific deliverables are achieved. The AHEC project is phased in such a way that each discrete period could provide concrete, demonstrable results to entrepreneurs and other stakeholders. Results in early phases would improve buy-in in later phases. The first (3 month) exploratory phase will result in adapted designs for new raisin drying technologies. The second (6 month) phase will result in the establishment of new drying houses, harvesting techniques, and drying technologies. It will also allow traders to test the benefits of new production technologies on the international market place. If successful, subsequent phases will scale up the use of new technologies and solidify access to new markets.

**Working through intermediary organizations:** In general, in projects that aim to provide a demonstration effect, it is important to partner with local intermediary institutions as a mechanism to achieve sustainability and/or scale up of results. In conflict-affected countries, security considerations make it even more important to work through local organizations, as IFC’s security procedures often hinder us from fielding our own staff. In this case, interventions need to be outsourced. Also the need for quick wins directs projects to work with local partners who, because they are on the ground, can move more rapidly into implementation. However, there are important considerations in this regard. Firstly, viable partner organizations may not exist, due to the years of conflict. Secondly, local institutions can be seen as partial to the conflict, adversely affecting the image of the project. Potential intermediary institutions also have to be assessed through the lens of conflict analysis.

The AHEC project contracted an international service provider with significant experience in the intervention area, but did not include at the outset a local partner organization in the project. While a local horticulture traders organization exists in Kandahar, it is a nascent entity whose establishment has been largely donor driven. For this reason it was deemed better to let potential cooperation grow naturally through the initiative of the traders during the project, rather than getting locked in a partnership with an organization that is not yet firmly established.

**Monitoring & evaluation in an unstable environment:** Security in conflict-affected countries can not only seriously limit the project team’s mobility; it can some times cause it to cease altogether. In the case of the AHEC project in Kandahar, UN and IFC security regulations have prevented site visits; consequently, the team’s ability to monitor and evaluate the project’s outputs, outcomes, and impacts are hampered. This is a trade-off that must be accepted if we are to engage in these circumstances, and for which we try to mitigate through nearly daily contact with the implementing partner.

**Cooperation with other donors:** Donor coordination is important in all markets, but conflict-affected countries tend to be exceptionally crowded donor spaces, requiring careful stakeholder relationship management. IFC’s approach in Afghanistan has entailed coordination with a variety of donors, not only to avoid duplication but to maximize individual contributions. We are working

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with the World Bank in Afghanistan, contributing to its Interim Strategy Note for the country as well as sharing private sector development–dedicated staff in Kabul, to ensure that our strategies are aligned. The design of AHEC was coordinated with the Bank’s Horticulture Development Project. Where the Bank project focuses primarily on increasing agricultural production, IFC concentrates on production improvements post-harvest, supply chain management, and access to markets. The Bank project will contribute to the scale-up of new drying technologies in later phases of our project.

The Pivotal Importance of External Risks in Conflict-Affected Countries

**Importance of security:** Not only is there a strong correlation with the willingness of the private sector to invest, but there is also a significant relationship to the ability to provide services. Thus, a deteriorating security situation can severely affect program delivery. We design projects in conflict-affected countries, assuming that staff will be able to travel in a timely and secure manner throughout the project area; however, at the end of the day, this is merely an assumption – and is only as strong as the fragile market to which it refers. Other security implications include our inability – due to the potential risk to our project team and participants’ safety – to publicize these projects until after the fact, which is a real consideration in IFC AS facilities, where a premium is placed on project-related public relations and knowledge sharing.

**Timing:** Reconstruction in a conflict-affected country always requires more time than expected. The Afghan horticulture initiative took 18 months to get off the ground because of a string of political and violent events which delayed the project at multiple stages of development.

**Other:** Finally, externalities unique to the country context can be major obstacles. In Afghanistan, for example, expansion of opiate production and resulting competition for inputs (land, labor, water, and capital) can potentially derail our efforts.

**Conclusion**

In the case of Afghanistan, if IFC was to meet its commitment to help the country develop its private sector, then engaging at the firm level was necessary. Twenty-plus years of conflict had fundamentally altered economic decision-making in the country. Players had adapted to the tenuous security situation, where one only moved in limited geographical space, resulting in one-off transactions and slim profit margins. Thus, the recovery of the export base so essential to economic reconstruction would not be possible without new business models to enable the private sector to achieve quality and scale to export. Drawing upon its experience in a variety of fields – value-chain analysis, linkages, industry knowledge – IFC set out to design an intervention to enhance the performance of local firms in agribusiness products where Afghanistan has a potential competitive advantage. Operating in an unstable environment and with the clock ticking, the objective was to replace the fragmented business models of war so that value would be added beyond the pilot project’s participants.

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8  SmartLessons
When designing and implementing a project in a conflict-affected country, some of the conflict’s more obvious impacts—
damage to infrastructure and energy supplies—are apt to immediately come to mind. However, based on the experiences
with the Kosovo privatization program, there are additional problems related to a conflict’s aftermath that may be over-
looked during a project’s design but which should be addressed, and these form the basis for this SmartLesson paper.

**Background**

This note on Kosovo is timely, given the province’s declaration of independence from Serbia on February 17,
2008. This declaration is the latest chapter in Kosovo’s long history, which includes centuries of close links to
Serbian cultural identity, the conflicts of the 1990s between ethnic Albanians and Serbians, the 1999 NATO
bombings, which ejected Serbian forces from the province, and the subsequent nine years of governance by the
United Nations Interim Administration Mission in Kosovo (UNMIK).¹

Kosovo was the last region of the former Yugoslavia to start privatizing its so-called socially owned enterprises
(SOEs) – commercial, manufacturing, mining, and agricultural business entities analogous to state-owned
enterprises. The Kosovo Trust Agency, established by UNMIK legislation, was charged with selling the ap-
proximately 300 Kosovar SOEs in order to prevent further deterioration of the assets and to promote economic
development. After many stops and starts, the privatization program started in earnest in mid-2004, and most
expected sales have recently been completed.

**Lessons Learned**

**Lesson 1:** An official policy regarding the conflict should be established and incorporated into the
project design and implementation plan.

Every conflict is different, taking into account the histo-

¹ Legal terminology that was appropriate during 2002–2006 and refers to political policies in place by donor countries and the United
Nations during that period is used in this SmartLesson.
donor organizations advocated having the sale proceeds from privatization held in trust, pending a resolution of Kosovo’s status. Additionally, rather than selling ownership of land held by an SOE, a long-term leasehold arrangement was developed. The board of directors of the Kosovo Trust Agency has both Albanian and Serbian representatives, along with a controlling number of international board members, owing to the UNMIK mandate over the province. In order to obtain local tie-in, experts did their best to address local concerns in the design, within the context of the political mandate. For example, a high-level trade union official on the agency’s board of directors was able to successfully lobby donors and UNMIK to ensure that a portion of each sale’s proceeds were allocated to each SOE’s employees. Because ongoing safety concerns made it difficult for Albanians and Serbians to travel to each other’s regions, privatization tender procedures allowed for the submission of bids in both a Serbian majority and an Albanian majority city, and legal claims arising from privatization can be filed both in Pristina and Belgrade.

Policy effect on project implementation

Management should also ensure that the conflict policy is incorporated into the day-to-day implementation of the project. This is because the appearance of taking sides in the conflict can arise even in the most innocuous of implementation actions. Within Kosovo’s privatization program, there were frequent accusations of political decision-making whenever the Kosovo Trust Agency did or did not schedule a company for sale that was based in a Serbian enclave.

All advisory staff should be instructed and reminded to follow the official conflict policy of their employer and donor: remind them that they were hired for their advisory services expertise, not for political expertise. For USAID-funded personnel in Kosovo, our chief of party would brief consultants on the U.S. policy toward the conflict upon their arrival in Kosovo, and remind them when their actions may have come close to violating that policy. Privatization line managers were always open to discussing difficult ethical and policy issues, and the privatization and UNMIK lawyers routinely reviewed privatization-related documentation and actions to ensure compliance with UN Security Council Resolution 1244.

In Kosovo, the privatization agency had field offices throughout the province in both Albanian and Serbian areas. Because there was very little intermingling between the ethnic groups, advisory services experts in these offices were often exposed to only the Albanian or the Serbian perspective of the conflict, rather than to both. Vigilance was necessary to maintain the official policy of neutrality with regard to the conflict, often through the staff’s over-reliance on the agency’s international lawyers to catch actual, perceived, and inadvertent biases during legal reviews of privatization documentation. Some bias still occasionally slipped through: In one extreme example, a letter to the editor from an international advisor printed in the International Herald Tribune, calling for the independence of Kosovo, was a contributing factor in that advisor’s dismissal.

If real or perceived bias is seen by the larger community in everyday project activities, this can undermine trust established with local partners and the public, resulting in a damaged reputation for IFC, a potential weakening of donor resolve, and ultimately jeopardizing the success of a project.

Lesson 2: Because missing information can raise unexpected risks for advisory service goals and IFC reputation, the issue of such information should be addressed during both project design and implementation.

If damage during a conflict has been significant and widespread, a policy should be developed to manage operational and reputation risk resulting from missing information related to key assets and personnel of local project partners and clients. If a client or partner does not have a proper relationship with its key assets and personnel, legal and practical complications will inevitably occur.

When developing such a policy, a pragmatic balance needs to be struck between the reduction of such risks and the risk of operational paralysis; any policy must accept that surprises will inevitably occur and that the risks can only be mitigated rather than eliminated.

Missing critical official information

The 1999 conflict in Kosovo resulted in a large percentage of destroyed or missing government and company records related to land registration, title to assets, and liabilities of the SOEs scheduled for privatization. For
the privatization program, this frequently resulted in uncertainty as to whether there was a legal right to sell certain assets if ownership/registration could not be easily determined. Our advisory services resulted in UNMIK-adopted legislation aimed at establishing a form of eminent domain (government appropriation of private property) over assets of uncertain ownership in order to allow the Kosovo Trust Agency to sell these assets with clear title. Despite this legislation, litigation, human rights complaints, frequent bad press, and ad hoc protests resulted when competing evidence of asset ownership surfaced.

While such factual uncertainties are particularly important for a privatization program, they can also pose a reputation risk for all types of advisory services providers and can undermine the achievement of project goals. In order to mitigate this risk, a policy of due diligence as to the ownership of key assets should be developed – something that might not be necessary in a non-conflict-affected country. When primary information is missing, ownership can often be inferred through court checks, indirect documentary evidence such as tax records, and statements from disinterested parties. A contingency plan should also be developed for when inevitable surprises arise. In case of Kosovo privatization program, there were periods during the tender and sale completion processes during which claims against sale assets were reviewed before proceeding to final sale.

Misrepresentation by people with apparent authority

Another problem encountered during the Kosovo privatization program was the arrival of people who purported to be managers of an enterprise scheduled for privatization but who in fact had no such authority. This can result in embarrassment for the advisory services implementer and put project goals at risk. Therefore, this is another topic worthy of supplemental due diligence in a post-conflict country. Should primary information be missing, asking to see labor books (a type of work-history passport used in some countries) or other indirect evidence such as tax records and interviews with subordinate staff can help increase the level of certainty.

Lesson 3: A policy should be developed regarding who should be excluded as project partners and clients, tailored to balance reputation risk, the need to achieve advisory or investment goals, and the nature of the conflict.

Regular people can get involved in wrongful behavior during a conflict – everything from smuggling and looting to war crimes. Further, in the fog of conflict, and in an ethnically or politically charged environment, current and past accusations against individuals and eventual convictions may not be based on accurate facts.

When designing the Kosovo privatization program, experts struggled over who should be allowed to bid for companies and assets. It was difficult to develop criteria that were pragmatic, even-handed, and politically acceptable to local interests, taking into consideration the repressive tactics of Serbian authorities against Albanians before 1999 and atrocities committed by both ethnic groups in the lead-up to and the aftermath of the NATO intervention. In addition to AML/CFT (anti-money laundering and combating the financing of terrorism) checks similar to what IFC performs- criminal background checks of winning bidders, were carried out. Ultimately, the privatization rules of tender barred people from bidding if they had been convicted of a felony after June 1999. This date reflects the end of major hostilities and the introduction of international administration and NATO control. However, this was not a fully satisfactory exclusionary policy. After each wave of tenders, there was a relief when criminal background checks failed to find legally and morally questionable bidders that were not excluded in the above policy.

2 Likely reasons for these ploys included: to facilitate asset stripping, to operate the enterprise assets for personal profit, and to try to start economic activity for a community using a defunct, abandoned enterprise. In some cases, the purported manager claimed to have been the manager before the mass firings of Albanians started in 1989.
IFC should do its best to develop objective policies on whom it will or will not work with in a conflict-affected country. Such a policy should balance the typical exclusionary rules of IFC and the nature of the conflict. The policy likely needs to have more flexible standards than what might be developed for a non-conflict-affected country; otherwise, it might be too restrictive to achieve project goals.

**Lesson 4: Design and implement a system for preserving project memory.**

In a conflict-affected country, a high turnover of international staff is common, due to the hardships in such a posting and the fact that it is often unsuitable for dependents. The result can be a revolving door of foreign experts and the risk of endless reinvention of the wheel.

This problem was especially acute with the Kosovo privatization program. Some foreign experts would leave 20 lever arch files into a storage room on their last day in the office and say, “All my files are there.” With that act, a year or more of insights, lessons learned, and the work product could become immediately obscured. When new managers or experts would arrive, they would often be eager to “make their mark” and start designing new systems or policies that could directly contradict a preceding policy or result in the throwing out of months of work product. A frustrating example of this was the endless renegotiation of the rules of tender for privatization with all stakeholders every time a new agency manager or expert would arrive.

To ameliorate this, as one of the project members with the longest institutional memory, I began a file memorandum system, explaining in detail the policies that went into the development of key features of the privatization implementation system and how I conducted legal analysis of privatization deals. Admittedly, this represented only a portion of all the policy and implementation work by the agency. It is therefore recommended to have an institutional memory plan from the outset of advisory service operations; this could include requiring consultants to produce such “memory memos” as a contract deliverable.

**Conclusion**

While the conflict in Kosovo was particularly complex and had an unprecedented post-conflict period with its status as a UN protectorate, universal lessons can still be drawn from the advisory services work conducted in furtherance of Kosovo’s privatization program. The lessons summarized above will hopefully be useful for IFC’s work in other conflict-affected countries, or for future IFC work in a newly independent Kosovo.

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Creating Opportunities for Women Entrepreneurs in Conflict–Affected Countries

Mark Blackden, Carmen Niethammer, and Henriette von Kaltenborn-Stachau

In many ways, women pay the socioeconomic price of conflict. Although destruction, displacement, and loss of lives and livelihoods affect men and women alike, conflict often leaves women to carry the double burden of economic and familial responsibility in the absence of men who are imprisoned, disabled, or dead.

Access to reliable information is essential in a fast-changing environment defined by insecurity. Households typically face a multitude of decisions in conflict-affected countries – to invest, to sell assets, to stay in rural areas or move to the city, to leave camps and look for economic opportunities elsewhere. However, prevailing informal (and formal) networks are often male-dominated – with men in key information-sharing positions during conflict – leaving women and female-headed households without a basis for informed decision making and without the possibility of seizing emerging opportunities. Providing women with access to information and with entry points to formal and informal networks are crucial steps toward social and economic inclusion and rebuilding the economy.

Reconstruction can be effective only if women are recognized as valuable economic participants rather than dismissed as a “vulnerable group.” Giving women a stake in the national reconstruction process by investing in their economic participation, including through entrepreneurship, is crucial for effective and sustainable development of the already fragile economies of conflict-affected societies.

Lesson 1: When working with financial institutions in post-conflict countries, seize the opportunity to promote women’s access to finance and help financial institutions to bank on women entrepreneurs profitably. Example: Afghanistan

During conflict, the necessity for women to earn a living contrasts with their limited access to resources such as finance and capital, and often results in an even greater concentration of women in the informal micro-enterprise sector. Women who can no longer rely on steady earnings from the male head of household during hardship often have no choice other than to try to make ends meet by engaging in informal micro-income-generating activities to contribute to household income. The success of female entrepreneurs is essential for post-conflict economic stabilization and revival; yet women entrepreneurs in conflict-affected societies often experience difficulty in accessing finance.

In 2006, IFC’s Gender Program (Gender Entrepreneurship Markets) was asked to help First Microfinance Bank of Afghanistan (FMBA) reach out to underserved segments of the market and to promote women’s empowerment through increased access to financial services. The goal was to accelerate the growth of women in business while generating superior business outcomes for FMBA.
Women in particular have proven to be excellent microfinance clients globally, and reaching out to women microfinance clients in Afghanistan was considered a business opportunity not to be lost.

More women had entered the labor force as a result of the conflict, which would lead to more opportunities to support women’s economic activity. There were also more female-headed households, with estimates of around 16 percent in Kabul, and between 4 percent and 20 percent in three districts of Badakhshan. According to a 2005 World Bank report, 52 percent of women in female-headed households had been working "infrequently in Kabul and elsewhere, sewing, embroidering or washing clothes for others.”

FMBA had a much higher average loan amount than its competitors, but – bucking the norm in microfinance – had the lowest percentage of women clients at 12 percent. Working in partnership with colleagues in financial markets, IFC’s gender team went to Afghanistan to develop a strategy for FMBA to improve outreach to women. FMBA then implemented a group lending product targeted at women – and after only one year it was already able to increase its women’s portfolio to 16 percent. In a recent progress report, the client was particularly proud to report not only that the women market segment was profitable, but that a significant percentage of their loans went to widows to whom FMBA can now provide an opportunity to progress and improve their standard of living.

Lesson 2: Since many new women entrepreneurs enter the informal sector during and after conflict, this requires an early baseline assessment with a gender focus to help the government establish ways to formalize their participation in national reconstruction efforts.

Example: Liberia

In post-conflict Liberia, it was estimated that in 2007, half of all enterprises were completely informal. Given the post-conflict demographics, many households were likely to be surviving through the resourcefulness of women. In such an environment, formalizing a business is a critical step in facilitating business growth and economic development. Company formation is particularly important because the limited liability status of companies encourages risk-taking, and formal structures facilitate access to resources.

In early 2007, at the request of the government, the Foreign Investment Advisory Service (FIAS) of the World Bank Group undertook a survey of barriers to enterprise formalization in Liberia with the intention of exploring ways to address those barriers. One question tackled by the team was whether women and men running informal businesses faced similar or different obstacles to formalizing their business and whether women business owners had different needs. As a result, the team provided gender-specific questions that were included in the survey, and undertook gender analysis of the results.

The gender analysis confirmed that women business owners in Liberia are much more likely than their male counterparts to own completely informal enterprises. This gap persists as the firms mature, and while it varies by region, the gap persists across the country. This informality gap may be impeding business growth, especially among women-owned firms, as completely informal businesses owned by women are less likely to have experienced increased employment over the past year than formal or partially formal firms. Fewer women than men said they are likely to take steps to become formal, and fewer have taken any steps toward formalization to-date.

Following the gender survey, the government realized the need to address unequal treatment of women and men by officials. Women business owners who have tried and failed to formalize, as well as formal or partially formal women business owners who have tried to obtain licenses or permits, were all significantly more likely than their male counterparts to report difficulties in dealing with government officials. In addition, an important role was identified for business associations as a natural conduit for dissemination of information about business formalization: women surveyed were found to be far less likely to be members of business associations, except in the Photo credit: Flickr user Carpet Blogger.

Lesson 2: Since many new women entrepreneurs enter the informal sector during and after conflict, this requires an early baseline assessment with a gender focus to help the government establish ways to formalize their participation in national reconstruction efforts.
central region of the country. These associations should be encouraged to extend memberships to women in their communities. Moreover, women were also found to be more avid users of savings clubs and susus1 than men. It was suggested that targeted outreach and communication to women business owners would bring important benefits.

**Lesson 3: Promote training and business mentoring opportunities that reach women entrepreneurs who are typically limited in their mobility and physical access to markets. Example: Iraq/Jordan**

In conflict areas, personal safety issues affect women’s ability to leave their house and/or business and restrict their mobility – especially at night. Moreover, deteriorating security situations also restrict women’s access to formal networks. As a frontier country where access is difficult, there was a high demand for small and medium enterprise (SME) training in Iraq in 2006, particularly for women SME owner/managers. Much of the current training was directed at the microentrepreneur level. Yet the policies of the interim coalition government to provide women with a quota of the contracts for reconstruction had spawned a number of women-owned SMEs, most of whom had not previously had access to entrepreneurship/management training.

Realizing that it would initially be too risky and difficult to organize training workshops in Iraq, IFC’s Private Enterprise Partnership for the Middle East and North Africa (PEP-MENA) gender team looked for opportuni-

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1 Susu collectors are one of the oldest financial groups in Africa. They provide (for a small fee) an informal means for people to securely save and access their own money, and to gain limited access to credit, a form of microfinance. Adapted from Wikipedia.

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Using IFC’s Business Edge management training methodology, a three-day workshop on “Successful Marketing and Pricing Strategies” was designed to respond to women’s specific training needs. Similar Business Edge workshops had been held in other IFC frontier countries, including Afghanistan and Yemen. In addition to providing participants with best-practice concepts, the workshop provided valuable exposure to the businesswomen’s membership organizations on how to serve as intermediaries for high-quality business training for their members. Based on this exposure, workshop participants established their own businesswomen’s association, the Iraqi Business Women Forum, to serve the needs of women SME owners/managers in Iraq. The forum’s first priority was to lobby for the launch of an on-line portal and SME e-learning dedicated to women SME owners/managers; this was particularly relevant in a conflict-affected environment, where women’s physical mobility is limited.

**Lesson 4: Legal reform initiatives carried out after the end of conflict provide a unique opportunity to ensure that existing gender-discriminatory legislation is revised and that new legislation provides a level playing field for women. Example: Democratic Republic of Congo**

Efficient business enabling environments are good for business women and men, and the benefits are especially large for women. According the 2008 *Doing Business Report*, “countries with higher scores on the ease of doing business have larger shares of women in the ranks of both entrepreneurs and workers.” Giving investment climate advice to governments on how to ensure a level playing field for women and men is thus important from both a business and equity perspective.
Systemic gender discrimination and exclusion from business practices are common features in many countries whether conflict-affected or not. Typically, when it comes to changing legislation that treats businesswomen differently than men, laws in several domains (including personal status codes pertaining to women’s marital, property, and inheritance rights) are affected, which can make legislative reform cumbersome. Such issues can be addressed more easily when a post-conflict government is taking a fresh look at its legislation and is open to innovative ideas on how to improve and optimize legislative procedures and regulations. The end of conflict, and the fluidity of the situation, opens a window to address many societal imbalances.

In 2006, at the request of FIAS colleagues supporting the Government of the Democratic Republic of Congo (DRC) in improving its investment climate, IFC’s gender team confirmed that laws and regulations do affect businesswomen differently than men. For example, in the DRC, where women run only 18 percent of the small businesses, discriminatory provisions in the Family Code require married women to obtain marital authorization to go to court in a civil case, to buy and sell property, or to enter into any obligations, including starting a business. Banks generally require co-signature/approval of husbands if women are to obtain loans. The Family Code also affects the ability of all women to obtain employment, because proof of marital status is required, and this is difficult in a context in which identification papers are largely unavailable. Neighboring Rwanda, by contrast, has no such regulations, and women in that country run more than 41 percent of the small businesses.

In general, starting a business in DRC is difficult, taking 13 procedures and 155 days, costing as much as 5 times annual per capita income. But women face greater obstacles than men because of the marital authorization requirement, even if this requirement is rarely invoked in practice, as the difficult economic situation in DRC, and high levels of male unemployment, generally mean that men do not generally raise objections to their wives working or running businesses. However, it does appear that these provisions are among the obstacles women face in seeking access to finance, and removing them, to close a potential loophole, is therefore an important priority for women.

Having identified legislation that directly discriminates against women, the World Bank Group team has integrated a gender focus into the investment reform advisory work program in DRC. By supporting a rapid gender-focused review of the legal and regulatory obstacles facing business, it will help the government to act on gender-specific legal and regulatory issues through reform measures aimed at improving the business environment for women entrepreneurs. Since the DRC is planning a systematic overhaul of its legal and regulatory framework, this post-conflict environment provides an opportune moment to highlight how legislation can be improved to promote both businesswomen and men equally.

About the Authors

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While there is growing support for microfinance globally, the unmet demand remains enormous - particularly in Africa, and especially in post-conflict and frontier countries. In Liberia, Sierra Leone, the Central African Republic and the Democratic Republic of Congo (DRC), less than 1 percent of the population has access to a bank account. Yet as these countries continue to stabilize, the demand for secure financial services is exploding. The post-conflict nature of these countries magnifies the need for microfinance services, as micro and small enterprises (MSEs) operating at a subsistence level are often the only surviving businesses after a conflict.

**Background**

The access to finance problem in Africa is multidimensional. One dimension of the problem is physical access since bank branch networks in Africa are generally small and concentrated in urban areas. The global average outside of Sub-Saharan Africa is one branch for every 6,500 persons, while it is one branch per 40,000 persons in 35 Sub-Saharan countries. In Liberia and the DRC, there is one branch per 200,000 and 1.8 million persons, respectively.

The spatial density of the branch network in Sub-Saharan Africa is similarly limited, with only six branches per 1,000 square kilometers compared to 34 for countries outside of Sub-Saharan Africa.1

Another dimension of the problem is the type and range of financial services provided to poor populations. Data from Sub-Saharan Africa are sobering. Household surveys show that in 29 countries for which data are available, only 11 percent of households had access to savings accounts, compared to 25 percent in other low- and middle-income countries and 90 percent in industrial countries. In Liberia less than 1 percent of the population has access to deposit accounts, while in the DRC the number is less than 0.5 percent. Not surprisingly, access to credit is even more limited.

**IFC’s Response:**

The Microfinance Program for Africa aims to increase the number of commercially viable microfinance institutions in the region, with a focus on frontier and post-conflict countries.

This is achieved by working with sponsors that have demonstrated expertise in managing microfinance institutions (MFIs) in frontier markets. Key elements of the program include: (i) focusing on greenfielding new MFIs with a strong commercial orientation targeting sustainability in three to five years; (ii) designing strategic IFC lead projects for appropriate early engagement in frontier countries; (iii) engaging with the government and a broad range of stakeholders in the design of a project; and (iv) leveraging advisory funding to make an early stage venture bankable in the medium term.

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1 IMF Regional Economic Outlook Sub-Saharan Africa, May 2006.

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<tr>
<th>Access to Financial Services in 35 Countries in Sub-Saharan Africa</th>
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<tr>
<td><strong>Population with Formal Bank Accounts (%)</strong></td>
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<td>Sub-Saharan Africa</td>
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<td>Low-Income Countries</td>
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<td>Middle-Income Countries</td>
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<td>Without South Africa</td>
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Microfinance Lessons Learned in Post–Conflict Africa

Designing appropriate first response interventions requires early IFC engagement.

In IFC’s Africa microfinance program, the responsibility for early stage project development and scoping is often spearheaded by sponsors and technical partners who propose projects to IFC for funding. However, in frontier and post-conflict countries, where IFC has a strategic priority, the responsibility for early stage project development shifts to IFC. For the Africa microfinance program, the availability of early stage funds from FMTAAS strategic initiative funding was key in supporting our ability to mold a project in the earliest stages of development.

In the aftermath of an armed conflict, the obvious temptation is to follow the “wait and see” approach before entering an uncertain market. While a level of stability and certainty is clearly necessary for a viable intervention, waiting too long to act can be a distinct disadvantage later on.

In October 2006, when IFC first decided to intervene in Liberia, the standard calls for information were made to partners internally at the Consultative Group to Assist the Poor (CGAP) and the larger World Bank Group, as well as externally to partners working in other microfinance projects on the continent. The responses were almost unanimous – no one really knew the situation on the ground, and the only formal study that partially focused on microfinance had been done by the UN over a year before. With strategic initiative funding from the Africa region, the microfinance team fielded one of the first IFC missions to Liberia to draft a feasibility study. This early mission provided information about the market, costs, security, and the degree to which the economy was changing. This information was necessary for IFC to engage with potential co-investors and sponsors on a substantive level.

Acting early can preempt the proliferation of poor practices and also provide significant first-mover advantages. These include the opportunity to shape the sector with appropriate best practice demonstration models and build a strong relationship with key stakeholders. In Liberia, IFC entered the sector in October 2006 when conventional wisdom held that the market was far from ripe for a greenfield commercial microfinance bank. In fact, one of the largest UN military peacekeeping forces in the world was still on the ground during IFC’s feasibility study mission. However, IFC’s early-stage work with the Central Bank of Liberia (CBL) and the government to build confidence and establish the appropriate regulatory and supervisory framework were ultimately crucial in the CBL’s acceptance of the license application and laid the groundwork for a vibrant and sustainable microfinance sector. In fact, by the time AccessBank Liberia’s license application was submitted in early 2008, a provisional license had been granted to UBA (a commercial bank from Nigeria) and there was a line of other banks clamoring to enter the market.

Starting up a new institution in a post-conflict environment will have a tremendous demonstration effect, and as such the institution must embody best practices and the most up-to-date methodology.

This is an incredible opportunity to leapfrog both older methods that have not succeeded and relief programs that are not designed to be sustainable in the long run.

In many cases the first microfinance interventions in post-conflict countries are secondary projects associated with relief programs designed to meet immediate needs of conflict-affected populations. While well-intentioned, these projects often fail to follow industry best practices, have short-term, transitional outlooks, and can leave a weakened commercial attitude and a contaminated credit culture in their wake. For example, in the Central African Republic, microfinance funding has already flowed for several years through multi-sector social development and recovery programs that mix grants with loans and do not focus on sustainability. Specifically, the microfinance group at IFC and in Africa has identified two critical components to address these issues:

1) Work with microfinance sponsors specialized in the creation and early stage management of new MFIs. To do this, the Africa microfinance program has leveraged wholesale microfinance holding companies that IFC has helped to create. While IFC is already invested at the holding company level, IFC Africa will also invest at the subsidiary level in frontier countries. IFC’s dual level of shareholding

2 Funding Mechanism for Technical Assistance and Advisory Services

provides comfort to other investors, signals a clear commitment to the host subsidiary country, and facilitates the relationship with new governments and regulatory bodies. These holding companies have the capacity to provide systems, trainings, and management support, while the local subsidiaries tailor products to the local market and build capacity on the ground. This model allows for both replication and customization, and has proven to be an efficient way to start in a post-conflict environment, where almost everything else is uncertain.

2) Start MFIs as full-fledged banks from the beginning, offering both credit and savings products. Starting as a full-fledged bank affords the new MFI the ability to provide customers with both credit and secure savings. While the role of deposit intermediation to provide funding and support institutional sustainability is generally accepted, in a post-conflict environment this is magnified. Secure savings signals to clients, the entire financial sector, and the larger economy that stability has arrived and affords a burgeoning sector of working poor the ability to save for tomorrow rather than focus solely on immediate survival.

The table on the right highlights ProCredit DRC’s success in deposit intermediation and AccessBank Liberia’s plan to intermediate deposits from the beginning.

**Respect the sovereignty (and power) of local stakeholders.**

In the early stages of nation-building, the involvement of local stakeholders and newly elected politicians is essential. Just as there is a demonstration effect to the market from starting a new best practice institution, the actions of a new government have a demonstration effect on the newly stable local population as well as on the many global stakeholders.

In the case of AccessBank Liberia, the relationship between the timing of the investment and submission of the commercial bank license application was highly scrutinized. Traditionally, one of IFC’s greatest values as a founding shareholder is to support the license application process and bring legitimacy to the start-up bank. While this still holds true in Liberia, timing wise, the government, the Central Bank, and the International Monetary Fund (IMF) all felt strongly that the CBL should confer a provisional license before IFC signs the investment agreement. This sequencing effectively allows the CBL to signal its sovereignty to the market. This was particularly important, given the political pressures surrounding other license applications from neighboring countries with the ability to forgive debt. It is important that IFC’s actions support both the actual and perceived sovereignty of the government in a post-conflict country.

While all microfinance operations in Africa necessitate heavy upfront investment to compensate for a lack of local capacity, post-conflict countries face even greater physical and human capacity constraints. The severe lack of the most basic public infrastructure at the end of a conflict forces all private sector companies – including greenfield microfinance banks – to invest disproportionately in infrastructure to ensure safety and access to power, water, and transport. For example, an IFC microfinance partner estimates that the cost of establishing a branch in post-conflict Africa is $300,000, approximately four times the cost of establishing a branch in Eastern Europe. The cost of compensating for lack of human capacity can be equally daunting as years of conflict have brought education systems to a standstill and few young adults have any significant formal education. The lack of technical skills is often aggravated by social tensions from lingering divisions among communities on either side of the conflict, and extensive training and coaching of local staff are critical to scaling up operations and building local management capacity.

To address these constraints and challenges, greenfield projects are normally accompanied by advisory services package. These advisory services and related funding al-

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<th>ProCredit DRC Results</th>
<th>Access Bank Liberia Comparative Targets</th>
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<tr>
<td>Dec-07</td>
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<td>Average Loan</td>
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<tr>
<td>Deposits</td>
<td>52,750,000</td>
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<tr>
<td># Deposits</td>
<td>44,581</td>
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<tr>
<td>Average Deposit</td>
<td>1,183</td>
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Accept that building from the ground up is expensive – but recognize that the impact is proportionate.
low the introduction, application, and transfer of skills and knowledge necessary to successfully operate a commercially viable MFI. They enable the MFI to internalize appropriate microfinance methodologies, social and environmental standards, internal controls, corporate governance, and so forth. IFC’s microfinance team has designed and structured advisory services agreements for post-conflict projects to recognize that a renovated branch building or a trained loan officer is equally as important as the related output of a loan portfolio and clients they produce. Finally, don’t let “sticker shock” overshadow the potential impact of post-conflict investments. While conditions and costs in countries like Liberia, Sierra Leone, and the DRC are daunting to most, for IFC they represent an opportunity to dramatically increase financial access and support private sector development.

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The idea of “intelligent design”—that humans are simply much too complicated to have evolved through natural selection—has raised much controversy in recent times. The argument is that there must have been some “intelligent designer” that created us all in the beginning. Meanwhile, that it requires intelligent program design to execute programs in conflict-affected countries raises no debate at all. Intelligent design in conflict countries should be planned from the very beginning so that it allows space for the evolution of the program as the surrounding environment of the program changes in conflict. Based on its experience of supporting the microfinance sector in the West Bank and Gaza, PEP-MENA offers practical lessons on designing programs intelligently to make them work in conflict-affected countries where situations change unexpectedly and success may be difficult to measure.

Background

Conflict has been a major cause of poverty in many of the world’s poorest countries in recent decades. In fact, according to the World Bank, 80 percent of the world’s 20 poorest countries have suffered from a major civil war in the last 15 years. Given the private sector’s ability to reduce poverty and promote economic stability, IFC can play an increasingly important role in conflict-affected countries. PEP-MENA has spent 28 percent of its budget on frontier and conflict-affected areas since its inception, while addressing the unique challenges of designing advisory services under such circumstances.

In 2005, IFC was approached to invest in a new microfinance bank, Al Rafah Microfinance Bank (Al Rafah), to be headquartered in Ramallah but to serve the Palestinian people throughout West Bank and Gaza. Following many discussions, IFC agreed to help Al Rafah improve its business plan and conduct a study of supply and demand for microfinance services in West Bank and Gaza to strengthen its strategy and operations.

A competitive bid was conducted and consultants hired in March 2006 to conduct the assignment. At that time, events were relatively quiet in the West Bank and Gaza, though all recognized the simmering uncertainty and ever-present potential for renewed conflict. Violent conflict between Israel and the Palestinian territories did ignite that summer, challenging our ability to continue support to Al Rafah due to border closings and increased danger to staff and consultants.

Lesson 1: Design for Parallel Processing and Partial Wins.

Given that events in conflict-affected countries change quickly and unexpectedly, whenever possible, it is best to design project components and activities that can be accomplished simultaneously and independently. This way, if events prevent one activity, then others can still move forward. As events unfold, the situation may allow for all components to be completed eventually, with the various pieces “stitched together” at the end to create the desired result.

In a more predictable environment, it might have been best to conduct the detailed market assessment before developing the business plan for Al Rafah, but instead we opted for doing them in parallel. In fact, there were three somewhat independent components that to some extent could be conducted simultaneously—the business plan, and independent assessments of the markets in West Bank and in Gaza, which are geographically sepa-
rate and economically quite different.

The notion of “parallel processing” helps ensure that various components can proceed simultaneously, but we also recommend designing “partial wins” into the project plan, in case completing the entire project, as envisaged early, on proves impossible. Even if events prevented the completion of the market assessment, some market data acquired by the consultants in the process would benefit Al Rafah for the business plan exercise.

For our project, collection of market data for the West Bank proceeded on schedule, while data collection for Gaza was considerably delayed due to border closings and changing security risks. The business plan for Al Rafah continued throughout the period of market-data collection. By stitching together the major components of the engagement, which were implemented in parallel and designed as partial wins themselves, IFC was able to complete the assignment successfully. Al Rafah now has a much better business plan, and the microfinance community at large has valuable market data covering the entire micro and small business community in West Bank and Gaza.

Although we have yet to address them, monitoring and evaluation plans also need to be designed carefully and considered in light of ongoing or potential conflicts. Project outcome and impact indicators may need to focus more on shorter-term indicators, since results of conflict may prevent the capture of relevant longer-term data, negate their usefulness, or reduce attribution to IFC inputs. Likewise, additional indicators may be warranted in certain circumstances to account for partial wins and other intermediary achievements.

**Lesson 2: Design Multiple Strategies to Accomplish Goals.**

In conflict environments, it is important to be flexible to adapt to unforeseen circumstances and unfolding events. Such flexibility needs to be designed into project implementation from the start to allow multiple ways of accomplishing the same goal, to ensure you can react quickly as the situation demands.

Capturing data in West Bank and Gaza presented different challenges. Although the original plan was for the consultant to collect data and conduct focus groups with microfinance clients in both regions, border closings and increased violence in Gaza prevented consultant staff from entering Gaza at all. Fortunately, the need for local consultant support was foreseen and a reputable consultant firm based in Gaza was sub-contracted to collect the necessary data. The IFC consultant trained the local firm via videoconference and remotely monitored the data collection.

Another illustration of the need for back-up strategies occurred when one of the previously identified villages was bombed, preventing its use in the sample for Gaza. An alternate village with similar socio-economic characteristics (population, economic profile, proximity to the border, and ethnic background) had already been identified. Therefore, when the village originally identified for the survey was destroyed, the consultants immediately surveyed the second village without risking any further delay to the process.

The ability to rely on videoconferencing, Internet, and phone connections clearly is advantageous when mobility is restricted, which is often the case in conflict situations. However, it is wise to avoid becoming too dependent upon them, since communications systems are often adversely affected when conflicts ignite. (In some countries, these systems simply may not exist.) It has been beneficial that IFC has offices halfway between Jerusalem and Ramallah (in an area not affected by closures) and in Amman, Jordan, which are relatively close to Al Rafah’s headquarters in Ramallah. Face-to-face discussions between Al Rafah staff and the external consultants could take place in either location if the consultants were prevented from traveling to Ramallah. In fact, this came to pass once, when a consultant was denied entry into Israel and had to hold a meeting with Al Rafah in Amman. Again, considering options to fall back on during implementation in conflict-affected countries is critical to ensuring successful advisory services engagements.
Lesson 3: Design to Account for Instability and Changing Security Situations.

Each conflict-affected country presents unique operating-environment and security challenges that need to be considered in the design of the project. The changing environment in West Bank and Gaza contributed to significant delays, which in this case exceeded our expectations even after providing for an implementation time line that was longer than would have been necessary in a more stable, predictable environment. Also, it was necessary to adjust the makeup of the consultant team when specific individuals were denied access, which increased the need for close and constant communication between the transaction leader, consultants, and IFC staff in the field to ensure everyone’s safety.

In conflict-affected countries, the task leader needs to monitor the situation constantly and carefully. Consistent communication with consultants, often on a daily basis, allowed IFC staff to track developments and react quickly. Designing clear and active roles for locally based IFC staff was critical, since the transaction leader was located in Cairo. Lastly, it increases effectiveness if you identify consultants who are experienced in working in conflict-affected areas and use local consultants. In this project, our consultant had extensive experience in West Bank and Gaza, with staff living nearby and relationships with local consulting firms. As with any advisory assignment, a crucial success element is designing effective terms of reference for the consultants. However, when working in conflict-affected countries, one may need to establish or weight selection criteria differently in order to give greater emphasis to the consultants’ ability to react quickly, to provide back-up staffing, and to navigate particularly unstable political environments and physical threats.

Lesson 4: Design in Local Partners

Designing projects to include local partners ensures their support and assistance when implementation gets particularly challenging, which can easily happen in conflict areas. With this in mind, the market study project was undertaken with the Palestinian Network for Small and Micro Finance, which not only partially funded the study but also provided invaluable support during mapping for field interviews. The network’s knowledge of West Bank and Gaza cities, villages, and camps was crucial to identifying alternatives when previously selected locations could not be used for the field survey. In addition, various local microfinance institutions reviewed the initial survey results and provided valuable comments based on their experience in the market, which contributed significantly to the quality of the final market study.

Conclusion

Although working successfully in conflict-affected countries is difficult, it is not impossible. Intelligent design of advisory services up-front will help mitigate exogenous project risks and help ensure that IFC achieves its developmental goals, even in countries where conflict is ongoing or imminent.

In the case of West Bank and Gaza, IFC was able to complete the engagement successfully. Al Rafah Microfinance Bank has been operational for two years now and is an important player in the market, serving the financial needs of Palestinians.

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Building a Business Enabling Environment in Southern Sudan: Securing Business Registration Early in the Transition from War to Peace

Catherine K. Masinde, Kobina E. Daniel, and Sarah Kitakule

Great expectations: In a post-conflict environment, especially early in the transition from war to peace, everyone is under pressure to deliver immediate results. Politicians are under pressure to quickly deliver the dividends of the cessation of war by providing services, opportunities to earn a living, and security. International organizations like IFC are under pressure to show that its presence and its advisory services really do make a difference. All of these imperatives will often be expressed very clearly by both the politicians and the public.

Conflict in Brief: Southern Sudan is a region of Sudan, with its capital in Juba, comprising ten of that country’s provinces. The Sudanese government agreed to give autonomy to the region in the Comprehensive Peace Agreement signed on January 9, 2005, tentatively bringing an end to the Second Sudanese Civil War. The Southern Sudanese people predominantly practice traditional indigenous beliefs and Christianity. To the north lies the predominantly Arab and Muslim region directly under the control of the central government.

In January 2005, when the regional Government of Southern Sudan (GoSS) came into being and the conflict ended, the overall environment was politically and economically uncertain, capacity to deliver services to the investors was extremely low where it existed, and the structures of government were fragile where they existed. In the absence of tax revenues, failure to ensure sustainable oil revenue transfers from Khartoum to finance reconstruction and development was a real threat to the fragile peace.

Today, with IFC support, Southern Sudan has been able to attract and register up to 1,600 new businesses, more than half of which in the construction and services sectors. All in just 18 months!

Business registration as a quick win/early result in a post-conflict environment

Where did we start: Because of the urgency of the diagnostic, the team used the FIAS mini-diagnostic methodology as a starting point. This instrument, created for application in conflict-affected and post-conflict environments, is designed to rapidly assess the constraints to investment, identify areas of leverage, and provide solutions, together with action plans, for immediate implementation. It was successfully used in Sierra Leone, Rwanda, and Liberia.

1 The project described here was originally initiated through internal demand from the national Ministry of Finance and Economy of Sudan and the Africa Private Sector Development (PSD) unit, for a PSD Project under the Multi-donor Trust Fund (MDTF). However, in December 2005, the new Southern Sudanese Minister of Commerce, Trade and Supply also requested World Bank Group/Foreign Investment Advisory Service help in attracting investors back to Southern Sudan.

Following the diagnostics, it became evident that some strategic activities needed to be implemented as soon as possible. One such activity identified for immediate implementation was the reestablishment of business registration. This activity was chosen by the team on the basis of four criteria: (i) it was a priority action that would encourage new investments into Southern Sudan – i.e., a fundamental investment climate building block which is also a quick win; (ii) it was feasible within the institutional and political environment – the GoSS was keen that any changes should not open the region up to “foreigners” without direct benefits to the Southern Sudanese people; (iii) it would be achievable within a short time – 2 years was the benchmark at the time; and (iv) it provided solutions which offer a more holistic strategy to cater for a number of constraints.

Calming fears: We then had to take this recommendation to the GoSS and convince them to implement it. This was no easy task. In December of 2005, the new GoSS stopped accepting business registrations made in Khartoum (the capital of Sudan) and would not permit business registrations in their region. They did this for various reasons, mainly because there was a latent fear that many of the new businesses being registered in Khartoum were owned by northerners or foreigners, and that these were largely speculative at the time.

In Southern Sudan, there was, and still is, a deep-rooted mistrust of “outsiders,” leading to archaic thinking about laws, institutions, processes, etc. For example, the growing phobia for “foreigners” flew in the face of the very objective of the government – that foreign capital was a key element of the reconstruction process. Furthermore with both capacity and knowledge limited, coming out of 50 years of war, market principles are not necessarily the easiest concept to grasp or embrace. This was the challenge the team faced then and still does now. One approach, which worked, was to gradually coach key interlocutors to accept basic principles of a market economy, while reassuring them that they would not lose their region to foreign interests. For example, a very early draft of the investment law was quite specific that investors would be screened through the Investment Promotion Agency to eliminate unwanted investors. An initial unofficial draft also proposed a 25 percent equity participation of Southern Sudanese in all investments.

By the end of the mini-diagnostic in March 2006, the team was convinced that reestablishing business registration could yield big returns, and that suspension of company registration constituted perhaps one of the most critical negative signals to potential new investors at that time. We were aware that many investors had identified profitable projects in the region and were waiting for some signal from the government that Southern Sudan was open for business. The diagnostic process had also generated open discussion among stakeholders, such as the newly established Chamber of Commerce of Southern Sudan, about fundamental constraints in the investment climate, and the inability to register a business was identified as a major constraint that the government had to address.

We used the opportunity of our dialogue with the Minister of Legal and Constitutional Affairs on reviewing and adapting the region's mercantile laws to raise the issue of the suspension of business registration, and we encouraged him to persuade the government to have it reestablished. We also argued that if investors did not register, they would operate in the informal sector, which was already the case, and that this would deny them revenue (at this time, Southern Sudan did not have a tax collection system, but various constituencies such as the Business Registry itself had an interest in a functioning revenue collection system).

In effect, the dialogue on reviewing the legal and regulatory framework leveraged the reopening of the business registry.

The GoSS approved the re-establishment of business registration. A director of registry was appointed. However, due to capacity constraints, registration did not start until September 2006. The Minister also requested that FIAS work with his ministry to design a project focused on strengthening the registration process and building a robust infrastructure to support it.3

Lessons Learned

In the process of achieving our goal, many lessons were learned about what it takes to secure early results that keep stakeholders committed to the long road of developing a vibrant economy where everyone in the region can enjoy its dividends.

3 By December 2007, 1,090 companies had registered with the GoSS registry (currently there are 1,600). Some 65 percent of the businesses registered were in construction, and 25 percent are in services.

SmartLessons 25
Lesson 1: Efforts to establish or improve the process and infrastructure for business registration must be an integral part of the broader effort to reform the legal and regulatory environment for investment and create the right climate for business.

When the GoSS reestablished business registration, it did so as part of a broader effort to create business-friendly laws and a business-friendly environment. Had it done otherwise and just announced that investors could now register their businesses in Juba, investors could have been suspicious and doubted the government’s commitment to the private sector; given their history and past action of unilaterally suspending the process. They were a regional government coming out of a long war with a national government they regarded as predatory and extractive of their natural resources, they were suspicious of outsiders, they were experiencing difficulties understanding and embracing market principles, and it is likely that they viewed early investors as speculators.

The approach of reestablishing business registration within the systematic effort by government to establish a legal framework for investment was a signal to local and foreign firms that Southern Sudan was open for business and committed to supporting investors. Investors responded to the signal and, as we see, in just 18 months a significant number of them registered at the company registry in Juba.

We also adopted a “do what is feasible and doable” approach when it came to making a decision about what type of registration system we would put in place. Paper was regarded as a quick-win solution and electronic was seen as more foundational. We looked at the physical infrastructure constraints and the lack of human resources with technology skills and opted for a paper system because it could be easily operated despite the constraints.

Lesson 2: Start with what is feasible and doable.

This lesson applies to all aspects of the project from how you sequence to achieve results, or being practical when choosing solutions. For example, it was impossible to start registration at the time we received government approval because the GoSS wanted companies looking to operate in Southern Sudan to register there and not in Khartoum. However, there was no registry in Juba, and no staff, just a Director; and as noted earlier, he was appointed at the time of the diagnostic. On the other hand, the legal review side of the program had much greater traction, given the pressure on the Minister for Legal Affairs to develop a new legal framework for Southern Sudan as quickly as possible. The team chose to use this traction as the ‘thin end of the wedge’ while at the same time maintaining dialogue with the Director of the Registry as he recruited his staff. Involving him in the legal review meant that he was kept within the loop of the overall reform. It was only after he had recruited two assistants and they had all received training and coaching from the consultant that business registration was restarted. The capacity building continued, and in January 2007 the team began formal dialogue with the ministry on a comprehensive project for a business registry. The project was launched in June 2007.

Lesson 3: Short-term consultants implementing early reforms of this kind must be based on the ground and have local or regional experience.

Finding good people to work in this challenging environment for any length of time was difficult. The team hired an experienced short-term consultant from the region to reestablish the business registration process and implement the registry project. She had run the Law Reform Commission in Uganda, was a recognized law reform expert in East Africa, and was a person whom the Sudanese trusted. All of these were key success factors for the Southern Sudanese. Most importantly, she was on the ground on an ongoing basis.
One advantage of having an experienced presence on the ground was that we were able to provide not only technical support to the registry project but also coaching and on-the-spot training to staff, including registry staff—a more intense engagement than the usual FIAS engagement with the client. This has made a crucial difference because the project has been hampered by the perennial problem of severe capacity constraints.

**What should be done going forward to increase business registration?**

**Client/user engagement and communication strategy:** The focus to date has been internal—getting the registration process operational and strengthening the business registry. The project has not yet turned its attention to considering external issues like how it works with the private sector (e.g., the Chamber of Commerce) to improve on the registration process and infrastructure or how the registry markets business registration to businesses operating in the informal sector. A communication strategy that informs, educates, and markets the registry and its services to the private sector is an important way of tackling these issues.

**Expand to secondary cities:** The registry project should be expanded to cover other towns as soon as feasible. At the moment, access to towns outside of Juba, or the rural areas, is significantly limited by poor or non-existent infrastructure. This has limited the extent to which a comprehensive assessment of the investment climate in the whole of Southern Sudan is possible.

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Wish You Were Here—Promoting Tourism in Conflict-Affected Countries: Lessons from WorldHotel-Link

John McKenzie

What do Cambodia, Fiji, The Gambia, Aceh, Lebanon, Lao PDR, Pakistan, Sri Lanka and Vanuatu all have in common? All have recently been touched by conflict, chaos, and suffering; all are places with extraordinary cultural and natural assets; and all of them are Worldhotel-link (www.whl.travel) destinations.

Destination growing at a rate above the world average and an increase of at least 100,000 arrivals

<table>
<thead>
<tr>
<th>Destination</th>
<th>Int'l Tourism Arrivals 000s</th>
<th>Avg. Annual Growth %</th>
<th>Abs. Increase (000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World 2004</td>
<td>763,917</td>
<td>3.9</td>
<td>224,352</td>
</tr>
<tr>
<td>Africa 2004</td>
<td>33,436</td>
<td>5.7</td>
<td>13,125</td>
</tr>
<tr>
<td>Angola 2004</td>
<td>194</td>
<td>40.7</td>
<td>185</td>
</tr>
<tr>
<td>Algeria 2004</td>
<td>1,234</td>
<td>10.1</td>
<td>714</td>
</tr>
<tr>
<td>Asia/Pacific 2004</td>
<td>153,103</td>
<td>6.5</td>
<td>66,124</td>
</tr>
<tr>
<td>Lao PDR 2004</td>
<td>1,055</td>
<td>19.0</td>
<td>835</td>
</tr>
<tr>
<td>Middle East 2004</td>
<td>36,272</td>
<td>16.5</td>
<td>21,972</td>
</tr>
<tr>
<td>Yemen 2004</td>
<td>274</td>
<td>18.2</td>
<td>213</td>
</tr>
<tr>
<td>Lebanon 2004</td>
<td>1,278</td>
<td>12.3</td>
<td>828</td>
</tr>
</tbody>
</table>

These places would like travelers to see just what they are missing. Increasingly, countries that were previously war-torn or simply off-limits to adventurers are trying to woo the curious with catchy slogans and promises of unspoiled coastlines, and, more often than not, to showcase the recent conflicts that put them in the news. And they are succeeding: growing numbers of travelers are seeking out an experience that’s more than a vacation. They are looking for a chance to touch history, discover remote areas, and be physically and emotionally challenged. Lonely Planet, which now includes Afghanistan and Timor-Leste in its range of guides for the first time, also sees an overall trend toward “tougher destinations.”

According to the UN World Tourism Organization (see table above) global tourism grew by over 3.9 percent a year over the period from 1995 to 2005, with conflict-affected countries like Angola (over 40 percent a year), Cambodia (over 19 percent a year), and Yemen (18 percent a year) among the strongest performers.

Tourism can provide early opportunities in countries emerging from conflict and provide much-needed hard currency and jobs. Our challenge is how to harness this traveler interest in a way that kick-starts local business initiatives and maximizes local benefits. The key factor here is enabling local accommodation and activity providers to sell directly to travelers before they arrive at their destination, rather than allowing their spending to be captured offshore by international tour operators.

www.whl.travel: A new approach to marketing developing destinations

An innovative project that pioneered Internet marketing for smaller hotels and guest houses in the Mekong Region became the first International Finance Corporation advisory services initiative to spin off as a private enterprise in 2006. By March 2008, WHL was operating in 55 countries and 115 destinations around the world, with around 2,800 hotels and guesthouses online.

WHL established its first destination Web site for conflict-affected Siem Reap, Cambodia, in 2003 as part of a Mekong Private Sector Development Facility advisory services project. Further sites were set up in Cambodia, then in Vietnam and Lao PDR, providing market access to small-and-medium-scale accommodation providers who lacked information technology (IT) skills, English-language capability, or adequate business culture to deal directly with offshore independent traveler customers.

Although parallels with Expedia, Orbitz, and Hostelworld can be drawn, www.whl.travel is different be-
cause it has been designed specifically for the developing world.

WHL operates as a franchisor with a global platform offering technology development and support, applying consistent standards of content and service, providing Web marketing, hosting, online payment gateways, etc. WHL franchisees are private local inbound tour operators in each destination who are responsible for collecting and managing content for the Web sites and interfacing with the accommodation and travel service suppliers they list (and who speak limited English) and travelers who want to book and purchase.

In order to qualify as franchisees, the local inbound tour operators must already have an established track record in the travel industry. In this way, WHL is an added online marketing component, adding value to an existing business at marginal cost.

WHL derives its revenues as an application service provider, charging its franchisee marketplace operators a monthly fee (up to $400 a month, based on performance). The marketplace operators in turn earn revenues from commissions on room nights and tours booked by travelers (usually 10–20 percent of sales).

On March 31, 2006, WHL was spun off from IFC to a team of consultants that implemented the project under an intellectual property (IP) licensing arrangement worth $700,000. The transaction underwent full scrutiny by the World Bank Group Office of Ethics, legal department staff, and senior management.

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WHL activities in conflict-affected countries

In some conflict-affected countries (Lebanon, Pakistan), WHL has been able to sign up marketplace operator (MPO) franchisees on a fully commercial basis. In others, local private tour operators have required incentives to set up their marketplaces. With IFC support, WHL has already established destination marketplaces in Cambodia, Fiji, The Gambia, Aceh, Lao PDR, Sri Lanka, and Vanuatu, and has new destination marketplaces under construction in Bosnia and Herzegovina, Nepal, the Solomon Islands, and Timor-Leste. The approach has been to support local MPOs by providing them with a subsidy equivalent to around 40 percent of WHL destination Web marketplace set-up costs, equivalent to between $15,000 and $20,000 per destination.

Overall, IFC facilities in East Asia and the Pacific, Africa, and Southern Europe have already used www.whl.travel as a market access tool in their tourism development work in 40 frontier destinations. WHL is different from most advisory projects, as it offers an in-the-box solution which can be rolled out quickly and cost effectively to obtain rapid results. As WHL comes with the system and technology ready-built and the distribution and demand side in place, the main task is setting up the local marketplace, involving collection of marketing content and digital photos and uploading them on the Web site. Although there are some issues involved in achieving this (as discussed below), this project is relatively simple and quick compared with many other advisory service projects in conflict-affected countries.

Of course each conflict-affected country is different, ranging from pre-existing tourism destinations like Fiji, to complete newcomers like Aceh. In all cases, however, WHL has addressed several consistent needs:

- Communicating a “back-to-business” story to travelers in an attractive and honest way. WHL creates a positive image of the destination post-conflict and attracts strong media attention (see article on Aceh at www.whl.travel).
- Introducing the Internet as a marketing tool – a previously unused or poorly used channel in conflict-affected countries.
- Driving the uptake of sustainable tourism practices. WHL offers local accommodation and tour products directly to international travelers, and conducts its transactions in a trustworthy way.
- Delivering pro-poor outcomes by creating ongoing employment opportunities and generating badly needed income for locals in the tourism industry at a time when they most need it.
Insights from the field…

Implementing WHL e-marketplaces in conflict-affected countries follows a typical process:

- IFC undertakes scoping work in-country, which may include industry meetings with a cross-section of service providers, tourism boards, and associations, plus online research (if existent) for travel statistics, available tourism products, potential MPOs, etc.
- Based on market research, IFC decides to pursue tourism sector development and to use WHL as a market access solution for local accommodation and travel service providers. The team obtains internal feedback and approvals.
- IFC contracts WHL.
- IFC places advertisements in local media, calling for expressions of interest (EOIs) from potential MPOs.
- WHL prepares a destination marketplace business plan – including financials and recommendations.
- IFC and WHL appoint an MPO, using a scoring mechanism based on criteria specified in the EOI.
- Agreements are executed between IFC and the MPO, and between the MPO and WHL.
- A destination Web site template is created; this involves content preparation by the MPO (collection of existing content and photos where available from tourism boards and hotels, and generation of new content and photo templates where necessary). Content is edited and uploaded by WHL.
- A training visit by WHL is conducted in-country with the appointed MPO, including an introduction, practical instruction in the use of the WHL content management and booking system, and site visits to service providers to collect and load additional Web site content.

Once PDS approvals are obtained (in line with usual norms), a destination marketplace can be established within 3 months.

But there may be challenges ...

Some examples we have recently experienced include:

- Lack of resources and funds and risk aversion among potential MPOs – This is offset by IFC’s willingness to offer subsidy in support start-ups, plus WHL’s plug-and-play approach enabling the MPO to achieve rapid results.
- English-language capability – In some remote areas, potential MPOs speak little or no English. In Aceh, for example, some English-language training came as part of the IFC support package.
- Lack of digital content – Smaller hotels rarely have digital content, and this requires physically going to each site to take digital images and collect the necessary information, a factor common in all countries. This means a significant effort on the part of both MPOs and WHL to generate and edit content. In some cases, IFC has hired a local media consultant to help.
- Internet, power, and communications – These are often in a poor state of repair or development. In Aceh, during power cuts it was necessary to drive around town to find an available Internet connection to complete training and content loading.
- Internal travel – Getting around is a problem that is common to all conflict-affected countries, especially outside the commercial districts. At times, security can be an added issue. There are few solutions here.
- Post-conflict distortion of the market – In places like Aceh, Timor-Leste, and the Solomon Islands, for instance, peacekeepers, nongovernmental organizations, and donor agency staff flood the market and book available accommodations, particularly in the mid- to top-end range. This provides good income for the property owners initially, and it takes additional effort to convince these properties to see past these periods of high occupancy and promote themselves on the local destination site for the medium term. IFC and WHL have held meetings with some of these agencies to get their commitment to use the local site to arrange their future bookings, with some success.

Results are good…

All of the IFC-supported e-marketplaces are on track to achieve or are already exceeding their business plan targets. Examples of sites at different stages of development:

Siem Reap (Cambodia) – The first WHL site, today it has average hotel and tour booking revenues of around US$25,000 per month, providing the MPO an income...
from commissions on sales of US$2,500 per month.

**Vanuatu** – Launched around 30 months ago, it has average hotel and tour booking revenues of around US$13,000 per month, generating the MPO an income from commissions of US$2,000 per month.

**Aceh** (Indonesia) – Launched around 18 months ago, it has average hotel and tour booking revenues of around US$1,200 per month, providing the MPO an income from commissions of US$200.00 per month and growing. Note: Aceh initially suffered from a lack of accommodations and tour products; however, this situation is gradually changing, with new hotels being built, and tour and activity products being added over time.

The bottom line is for a relatively small investment; with IFC support, WHL is able to rapidly deploy a local “business in a box” in each destination, creating an instant impact with long-term results.

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**Going forward**

Experience from the implementations carried out to date show a need and an opportunity for value adding and building local capacity by including services such as:

- Professional digital content collection, which service providers can use for the destination site as well as for other media to promote their properties. Because of the absence of digital content, such an approach was taken in Luang Prabang, Laos, with excellent results; the main issue here is budget, as this option may add $20,000 per destination to overall costs.
- Budget permitting, there are also opportunities for providing business management and hospitality training linked to WHL’s market access, as demonstrated by pilots in Cambodia and Laos.
- WHL provides a useful convening point for conducting destination level BEE work in the tourism area.

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**About the Author**

**John McKenzie**, Principal Operations Officer, managed the start-up and eventual spin-off of WHL. He is now part of the IFC Business Edge team based in MENA, Cairo.

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Peace Through Prosperity: Private Sector Development in Post–Conflict Countries

Oumar Seck

The Small and Medium Enterprise Entrepreneurship Development Initiative is the flagship program of IFC Advisory Services in the region – PEP-Africa. It implements innovative and pragmatic approaches to developing the SME sector by providing: (i) SME life-cycle solutions (startups, growth through access to finance and business system support, and access to export and local subcontracting markets on a selective basis); (ii) industry-specific solutions; and (iii) a wholesale approach to SME development through capacity building of intermediaries and by leveraging their outreach capacity.

Launched in July 2005, SME EDI is a partnership between IFC, the African Development Bank, and the governments of Denmark, the Netherlands, and Norway. It focuses on three strategic pillars: business enabling environment, support to SME sector intermediaries, and direct assistance to SMEs and entrepreneurs. Unlike other IFC programs, this program is run from eight regional offices, which allow it some flexibility in terms of human resources and funding so that it can respond rapidly to the various demands for advisory services interventions for developing SMEs across the region.

Based on SME EDI’s experiences in conflict-affected countries, this note aims to share the following lessons:

1. Defining private sector development needs
2. Planning, originating, and structuring advisory services
3. Proactively managing the performance of advisory services

SME EDI in Conflict-affected Countries

SME EDI is active in most conflict-affected countries (as defined by the World Bank) in Africa. Its objective is to deliver programs to help revive enterprises that have been destroyed by conflict. It also creates new enterprises by supporting sponsors that are ready to invest in new ventures and helps rebuild the SME support infrastructure, business membership organizations, consulting markets, and SME support institutions. It equips business membership organizations with skills to advocate for a better business enabling environment and to broker business development services for members, while managing their organizations in a sustainable manner. The initiative also provides access to finance support SMEs to enable them to increase their revenues through investment readiness support. Other important support functions of SME EDI are to help SMEs access export and local subcontracting markets, adopt new technologies, and improve their productivity, competitiveness, and profitability.

What does it take to work in conflict-affected countries? Lessons learned from SME EDI:

1. Understand conflict-affected countries

From the private sector development perspective, conflict-affected countries should be assessed on – i) investment climate and business enabling environment; ii) key industrial sectors; iii) large businesses and micro, small, and medium enterprises; and iv) entrepreneurs and investors. Conflict-affected countries in Africa differ in
size, population, the scale of conflict, and overall impact on businesses. Therefore, it is important to understand these diverse issues to be able to customize programs to the specific needs of individual countries.

2. Define private sector development needs

While the stakeholders in conflict-affected countries are similar to those in non-conflict countries, their needs, motivations, and expectations can be different. Setting the right targets and outreach strategies for originating and delivering private sector development activities can be a stabilizing factor in the peace process.

The profile and advisory services needs of key stakeholders in conflict-affected countries from a private sector development perspective are indicated in the matrix at the end of this lesson.

3. Implement proactive project performance management

To manage project performance proactively, special attention should be given to the process. This includes various aspects of projects such as origination, approval, procurement of services, supervision, monitoring and evaluation, documentation, and knowledge management. In particular, project origination should consider equity issues regarding geographic and regional location, gender, age groups, and other social parameters that could have a destabilizing effect in the peace process. The service procurement process should be flexible enough to accommodate the weak local supply capacity. This can be achieved through training and a partnership between local and outside suppliers.

What does good performance in conflict-affected countries mean?

(i) Quick wins and visible effects: It is crucial to rebuild existing high-potential businesses and support investment-ready sponsors in their efforts to start new ventures. This will enable a quick project turnaround and win the support of the government and clients. In Guinea-Bissau, SME EDI helped two high-potential small businesses raise financing to get them back into production. One of them, AFRIPECHE, a fish processing company with 200 employees before the conflict, needed $1 million. In Burundi, SME EDI worked with the Association of Women Entrepreneurs (AFAB – Association des Femmes d’Affaires du Burundi) as part of integrated support for building the capacities of business membership organizations. This meant training them on entrepreneurship development and business startups. Some 105 women entrepreneurs were trained in basic business skills. Ten high potential SMEs that were members of business membership organizations also received support to help them access financing to start or expand their businesses.

(ii) Supporting high-potential sectors: In Guinea-Bissau, SME EDI is working with the cashew nut sector, which has promising potential for growth, a high level of employment, and exports. About 85 percent of the population relies on the sale of cashews for their livelihoods, and it is the source of 92 percent of the country’s foreign exchange resources.

(iii) Creating viable start-ups, supporting growth, access to export, and local subcontracting markets for SMEs: In Burundi, access to the premium coffee export-market through international certification support is being considered for key coffee producers and exporters.

(iv) Meeting outreach, equity, and sustainability objectives: To ensure a broader outreach in Guinea-Bissau, we have identified 35 cooperatives with 875 producers from different provinces and ethnic groups that could benefit from our support.

4. Work on key levels of private sector development:

To yield meaningful results and make a lasting impact in severely affected countries, advisory services should not only offer direct support to SMEs but also aim at restoring and improving the depleted support environment and infrastructure through the business enabling environment at the levels of industry, SME, and entrepreneurs and investors. In less severely affected countries, private sector development programs can be more targeted and localized (i.e., focused on selected levels and regions only).1

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1 Severely-affected countries are those where a country-wide, long-term civil war situation or deeply-rooted political and social tensions have led to the destruction of physical and social infrastructure, non-functioning institutions, significant loss of life and exodus of human resources, and disruption of the private sector. Somewhat-affected countries include those where social-political unrest has resulted in localized destruction of the physical infrastructure and assets of businesses, as well as disruption of institutions and the social fabric, but where the country’s institutional, industrial, social, and knowledge capital still remain intact.
5. **Integrate access to finance and capacity building:**

Structured investment readiness support to SMEs gives confidence to financial institutions to consider working with the SMEs. On the other hand, capacity building equips SMEs and entrepreneurs with an understanding of what it takes to access finance to support business startups and growth. It also helps them realize the recurring working capital needs for dynamic SMEs.

6. **Offer structured access to market support:**

Existing and potential SMEs need to learn about international standards to prepare themselves for the export market and build their capacity. Hence there should be support and training to help SMEs learn about the export processes and how to manage logistics. The need for local content development in conflict-affected countries also dictates that structured local linkage projects be launched in close collaboration with large businesses such as those in the oil, gas and mining, hospitality, and retail sectors that are friendly to subcontracting. In Angola, SME EDI is offering advisory support to a local incubation unit, in partnership with Chevron. It is also negotiating the implementation of a structured business linkage program in the oil sector to increase local content.

7. **Maximize outreach, efficiency, and sustainability by partnering with intermediaries:**

SMEs can maximize their outreach, minimize search and needs assessment costs, and stay demand-driven by fostering partnership with existing MSME sector intermediaries (business membership organizations, NGOs, SME support institutions, microenterprise support institutions, SME-friendly financial institutions, and large businesses that welcome subcontracting).

SME EDI, jointly with BMOs, offers support services to clusters of SMEs. This helps restore BMOs’ images, while transferring project and business development services management skills.

8. **Understand and address key challenges in business development services delivery.**

These are the key challenges and the means of addressing them:

   i. **Limited entrepreneurial ambition and weak entrepreneurial culture.** This could be addressed through training on entrepreneurship skills and risk-backing schemes, dedicated business premises support, and easing startups and business operation procedures.

   ii. **Weak supply capacity for business development services.** To strengthen supply capacity, SME EDI structured and delivered a comprehensive capacity building program for consultants in Angola, Burundi, and Guinea-Bissau. The program was built around three key modules: i) typology and delivery process of business development services; ii) alternative business models for consulting firms and project management processes and tools; and iii) knowledge areas and tools on basic and advanced business development services.

   iii. **Limited ability of project beneficiaries to contribute financially.** Pricing of advisory services should be structured to accommodate this specific challenge in most conflict-affected countries.

   iv. **Limited availability of term and specialized finance, and weak capacity of most financial institutions to manage SME financing programs.** Programs that integrate both wholesale financing and capacity building of intermediaries, such as the Africa MSME Finance Program, should be considered for most countries.

   v. **Limited government capacity to plan and manage private sector development programs.** Comprehensive capacity building of government staff on performance-based private sector development strategy, policy, and program and project management should be considered.
<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Key Weaknesses/Challenges</th>
<th>Advisory Services Needs</th>
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</thead>
</table>
| Private Consultants              | • Availability of qualified SMEs consultants  
• Ability of SMEs to deliver basic business development services  
• Limited awareness and/or capacity to deliver advanced business development services  
• Absence of dynamic private consultants associations capable of promoting continuous learning | • Training on design of business models, proposal writing, marketing and pricing services, and project management tools  
• Training on basic and advanced business development services, knowledge, and tools  
• Capacity building of the consultants association |
| Government                       | • Macroeconomic instability, perception of high political and social risks and overall investment and business risks  
• Lack of basic and strategic infrastructure  
• Lack of private sector development program planning and supervision  
• Lack of industrial development strategy and the respective tools  
• Poor design and management of performance-based private sector development intermediaries  
• Difficulty of doing business  
• Limited public-private sector dialogue | • Macroeconomic stabilization  
• Infrastructure rebuilding programs  
• Private sector development policy and program management  
• Project management skills  
• Governance and performance-based management of private sector development organizations  
• Investment Climate Assessment and Doing Business related reforms  
• Institutionalization of performance-driven public-private dialogue |
| MSME Support Institutions         | • No practice of performance-based MSME development strategies or tools  
• Limited availability of business development service knowledge tools  
• Poor project management tools  
• Limited capacity for sustainable financial and operational management  
• Limited understanding of international standards conformance systems affecting exports | • Performance-based capacity building of MSME support institutions  
• Knowledge sharing on best practice in project management processes and tools  
• Enhancing trade and export capacity |
| Investment and Export Promotion Institutions | | |
| Standard/Conformance Institutions | | |
| Business Membership Organizations | • Poor image and governance system  
• Lack of expertise to manage financial and operational issues in a sustainable manner  
• Limited advocacy capacity  
• Inability to facilitate members’ access to business development services | • Improvement in governance system  
• Building capacity to address sustainability issues  
• Enhancing advocacy and business development services capacity to facilitate access for members of business membership organizations |
| Financial Institutions           | • Inability to structure access to finance strategies, programs, and products for SMEs  
• Limited access to financing facilities for SMEs  
• Limited knowledge of best practices in management tools/systems for financial institutions  
• Inability to leverage investment readiness/advisory services for SMEs to make them bankable | • Knowledge sharing on best practices in SMEs lending and financial institutions’ management  
• Building linkages and partnerships with financial institutions  
• Building capacity of SMEs to enable them to access finance |
| SMEs | • Contraction in demand  
• Destroyed or stolen assets  
• Disruption of factors market (e.g., skilled labor, capital, business premises)  
• Debt recovery problems  
• Inability to meet potential demands  
• Fiscal harassment  
• Weak business environment and limited access to relevant business development services | • Capitalization and reconstruction financing  
• Capacity building to access market and finance support  
• Business enabling environment support (e.g., debt recovery, factors market strengthening)  
• Tax system simplification, time-bound tax holidays |
|---|---|
| Microenterprises and Informal Businesses | • Contraction in demand and limited access to market  
• Limited access to finance  
• Unfavorable perception of doing business in formal sector as a result of high cost from tax, administrative processes, and reporting | • Microfinance support  
• Survey-driven reforms  
• Targeted capacity-building support for high-potential microenterprises |
| Investors and Entrepreneurs | • Perception of relatively high risk  
• Absence of risk-backing mechanisms  
• Limited entrepreneurship skills and appetite | • Risk-backing facilities (e.g., guarantee, equity participation, incubation services)  
• Entrepreneurship and start up skills training  
• Investors’ facilitation services |

**About the Author**

Oumar Seck joined IFC in December 2005 as Program Manager, IFC PEP-Africa’s SME Entrepreneurship Development Initiative. He has extensive experience in banking and finance, industry and private sector development, and engineering.

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This paper examines the challenges to setting up a multifaceted program in a conflict-affected country, particularly in relation to the Strategic Directions for the World Bank Group and IFC’s strategic priority to strengthen its focus in frontier markets. Integral to that is whether we did the right thing at the right time, and how an advisory services program operates when the level of conflict escalates.

I. Timor-Leste: From post-conflict and transition to conflict

The 1999 crisis in Timor-Leste had resulted in the destruction of over 70 percent of the country’s infrastructure (homes, irrigation, water supplies, schools, government buildings, banks, stores of all kinds, and nearly all of the country’s electricity grid), the collapse of the public administration, depletion of human capital in key sectors and the displacement of over one quarter of the population, and potential internal divisions (including between those who had supported independence and those who had supported autonomy; between returning exiles and those who had stayed in the country; and historical tensions within the pro-independence movement). But by 2006 it was generally thought the immediate threat of reverting into conflict had decreased. World Bank analysis from late 2005 was that Timor-Leste was making progress in the uphill struggle of establishing effective state systems and services against a legacy of institutional failure and underdevelopment. However, a crisis within the army, where nearly a third of the armed forces protested against alleged discrimination based on place of origin, quickly resulted in a serious crisis in May 2006. The national police disintegrated, and international security forces were called in to restore order. In an instant, Timor-Leste moved from the post-conflict and transition phase to that of crisis.

Advisory services activities were suddenly placed in a conflict setting, and this warranted a different approach to risk and to potential clients, both public and private sector. There was considerable uncertainty over when Timor-Leste might again be open for business for private sector development (PSD) operations. Within IFC there was a discussion as to whether conditions allowed for an engagement, considering the security and the risks posed to IFC activities. On the positive side, the interim Prime Minister then took control of the situation, signaling his strong commitment to private sector-led growth and an improvement in the investment climate. At the same time, the strategy calling for a strengthening of engagement in frontier and fragile states was being developed. In mid-August 2006, the office finally opened, and the “real” work could begin.
Many of the common characteristics of conflict-affected countries apply to Timor-Leste, including limited capacity in the public administration, but also in the private sector, characterized by weak business associations and lack of basic infrastructure. Also, Timor-Leste is small in size and population, with few good investment options in the private sector.

So what did we do? First, we closely assessed the market. It is hard work, takes time and patience, particularly in an environment where data are scarce or non-existent and, if available, generally of poor quality. But the exercise proved vital to get the necessary understanding of the donor-heavy environment and the potential clients to work with. Finally, the decision was taken that IFC could best support PSD in Timor-Leste at that time in the areas of Business Enabling Environment (BEE) and Access to Finance.

II. Business Enabling Environment

From IFC there was a broad consensus that the PSD agenda should focus on one or two activities that could deliver tangible results in the near term and so help rebuild confidence. Economic viability, investments, and employment will depend heavily on the enabling environment for business. Of particular interest was providing assistance on the Doing Business indicators, which would support the government’s intention to improve the business environment. The country ranked 168th out of 178 in the 2008 Doing Business report. The government views the Doing Business report as an international measure of success (or lack thereof). The team saw its indicators as something on which to hinge reform initiatives.

The country team took the approach of marketing the Doing Business report locally in order to increase awareness of the indicators. A roundtable discussion that included key members of government (including the Prime Minister), public administrators, and the business community was held in November 2006, initiating the process. The country team was able to engage the Doing Business team to write critical pieces for government, notably a Doing Business Reform Advisory Memo focusing on concrete, Timor-Leste-specific reform recommendations linked to each of the ten Doing Business indicators. Parts of the memo have been incorporated into the government’s National Priorities for 2008.

Lesson: BEE activities are a good starting point for an early IFC engagement in fragile states. As these states are normally characterized by a low ranking in the Doing Business report, this offers an opportunity to achieve tangible results in the near term, and provides the basis for other future reforms.

Lesson: The Doing Business report, and its global ranking of indicators, is an ideal tool to hinge reform discussions with the government and the private sector. It gives a practical guide to how and where to reform, which eases often-overlapping issues. Collaborate closely with the Doing Business team and produce a Reform Advisory Memo with country-specific reform ideas, launch it through the proper champion within the government, follow up, and define areas for concrete IFC engagement. Governments in fragile states are under pressure to show results to the public fairly quickly. Hence, they value hands-on recommendations for reform. Nevertheless, it is not an easy task to identify the right champion within the government – or even if one has the right champion, the political circumstances might not allow reform steps to materialize right away. The lesson here is to stay engaged, regularly come back, look for other options in this operationally fluid environment, and be patient.

The Better Business Initiative (BBI)

We thought about a way to tie in the private sector to help the reform process along, and we came up with the Public-Private Dialogue. Getting experienced IFC people on board to help design a tailored country program was the first step. Halfway into the process, there were national elections, and we chose to wait until after the elections before starting the final IFC approval process. Fortunately, there were no more stumbling blocks, and the process is now underway.

The Timor-Leste BBI works through two primary structures: working groups (currently one on administrative barriers, as the BBI is still in its initial stage; more will come as per private sector demand, most likely on access to financial services and tourism) and a bi-annual forum. IFC acts as the Secretariat for the BBI and is responsible for overall coordination and facilitation. The Ministry of Economy and Development coordinates and ensures government participation. The BBI Forum is chaired by the Prime Minister, thus providing an opportunity for the working groups to inform top-level government officials.
about what they have achieved in their regular meetings and to identify issues that remain unresolved. The BBI specifically tries to engage women entrepreneurs, as this group has been neglected in the past. About 60 percent of the participants at the recent private sector working group meeting were women, which is encouraging.

**Lesson:** A structured dialogue such as the BBI is an extremely useful mechanism in a conflict-affected environment like Timor-Leste. The basic premise is to focus on resolving issues and on results. In the process, when a climate is created that inspires leveled discussions across a broad range of stakeholders, trust is built and that is a result in itself.

**Lesson:** Work can start even if the public side is not 100 percent ready. Do not await the optimal setting. Weak institutions and security risk brings it a more fluid political environment, and a new government is no guarantee for sustainable buy-in from the public side. Work with the private sector, start looking at priorities, and do research on actual procedures to back up the discussions. Engage with the public sector when possible. You build trust and engagement among your necessary clients by showing commitment and results.

**III. Access to Finance**

We are monitoring potential Access to Finance activities closely. An in-depth financial sector diagnostic using an IFC template was put together to ensure that the basics of an assessment tool is in place if and when options arise. It is also valuable in its own right as an information kit.

The financial sector is small, with branches of foreign banks and a few microfinance institutions (MFIs) that have been gradually increasing lending. Donors provided short-term support to MFIs, but most of them have pulled out. There is liquidity in the system but little lending (partly attributable to a poor credit culture with high levels of non repayment). A few MFIs survived the crisis in 2006 with portfolios more or less intact. Banks are not making capital available to MFIs for on-lending because of a lack of security in terms of a judiciary, property legislation, and such. There is a need for secured transactions, and a large unmet demand for savings.

Regional initiatives for the small markets of the Pacific are being developed, and that may be an option for Timor-Leste. The diagnostic work and institutional knowledge built in the country office will then come in handy.

**Lesson:** A comprehensive sector diagnostic helps identify the actors and define the areas of potential engagement. Put together at an early stage, it can be used when the timing is right.

**IV. Conclusion**

There was a sound rationale for engagement back in 2006. Engaging in Timor-Leste, as in any fragile state, is inherently risky; weak institutions undermine effectiveness, and vulnerability to conflict increases the risk that gains made will be reversed. With the country starting at such a low baseline for PSD, the development impact could be high on the margin. High unemployment and high population growth and conflict create a clear case for efforts to improve the environment for business.

So did we do the right thing at the right time in this conflict-affected environment? Overall, the answer should be yes. It was right to start PSD activities even right after the crisis when the country was open for business again. We need to be mindful of the fact that the operational context is fluid, and IFC cannot afford to wait for all traces of conflict to disappear. It was also right to focus on one or two activities, with Doing Business/BEE being the dominant area of engagement. And it was right to first closely assess the market and the donor-heavy envi-
vironment to define IFC’s comparative advantage without “tipping on others’ toes.” But there are also a few broader institutional/corporate lessons to draw from the process of establishing a new IFC office and designing a country program in a small and conflict-affected country.

**Lesson:** The country team provides the field presence critically needed for long-term partnerships and a country-specific approach. Having a Fragile State or CAC Rapid Response Team available as a strong institutional backup to assist the country team with the design of program activities along IFC’s core competencies and comparative advantage in fragile states could go a long way toward speeding up the delivery of results and also mitigate the reputational and fiduciary risks of engaging in fragile environments. Ideally, a Rapid Response Team would consist of various business experts with specific knowledge of engagement in these difficult environments, coordinated by a country coordinator and the country team on the ground. At the immediate start of operations, a smaller field presence might be adequate, but a strong institutional backup would be beneficial to ensure appropriate and relevant programmatic responses. The field presence can be gradually increased with the increase in project activities.

**Lesson:** Internally it might also be worthwhile to look further into options to increase flexibility in IFC’s operating procedures and reduce the time to review and comment on the approval processes, especially when dealing with fragile states.

**Lesson:** Investment officers need incentives to work on deals that may be smaller in volume, higher in risk, and large in development impact, which may often be the case in fragile and small markets. The IFC East Asia and Pacific Region has made an important strategic move in adding to the Advisory Services Pacific team an investment officer who focuses specifically on the small countries in the Pacific; this is definitely a worthwhile step to consider for other fragile-state engagements.

**Lesson:** Engage early on, as early as possible, in tandem with the World Bank, but with a clear division of mandates. Also, co-location with the World Bank country office is the ideal set-up for optimizing coordination and security planning as well as minimizing costs.

**Lesson:** Last but not least: Be patient, and do not expect “miracles” in these environments. Things take a long time to materialize. Stay engaged.

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**About the Authors**

Rainer Venghaus joined the World Bank Group in 1999 as Advisor to the German Executive Director in the Board of Directors. In February 2006 he joined IFC as Country Coordinator to support private sector development in Timor-Leste.


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CULTURE, WAR, AND COTTON—SOUTH TAJIKISTAN COTTON LENDING PROJECT

Stephen Wright, Adham Ergasev and Rolf Behrndt

Tajikistan is the poorest country of the former Soviet Union, and it has many extreme challenges, including unique circumstances regarding the cotton sector. After the devastating civil war that ended in 1997, the cotton sector was in ruins. Cotton is the third largest export, after aluminum and electricity, providing a great deal of hard currency and employing approximately 75 percent of the rural population. The financial sector was non-existent, and the Government was not equipped to handle the financing needs of the cotton sector.

Cotton farmers were in need of production financing, cotton gins were in need of processing financing, and cotton traders were in need of trade financing. Left to their own devices and without access to financing, it was not clear if and how the sector would recover, raising questions about lasting social content. This paper illustrates how our project had to deal with the void that was left after the civil war and Soviet era, and emergence of an entrepreneurial financing opportunity contributing to the economic revival that is vital in post-conflict countries.

Creating a credit culture

During Soviet times, state banks did not have international-level policy and procedures regarding lending. It was common practice to write off debts every 5-7 years. These types of practices created a system of dependence. This was not a credit culture with emphasis on efficiency; therefore the climate was already set for the so-called “Investors” — a group of private financiers who began to offer financing to cotton farmers mainly as a way of ensuring supply to the cotton gins that they owned or controlled.

The Asian Bank of Development estimates that the current indebtedness of Tajik farmers is over US$450 million, with an estimated US$150 million required annually to finance cotton production in Tajikistan.

In spite of all the obvious barriers and the devastation that the prolonged civil war caused to Tajikistan’s economy, we believed it was possible to create a credit culture where it did not exist before and to have a positive impact on the livelihoods of extremely poor itinerant farmers. As in many post-conflict countries, persevering and adapting the approach flexibly to the experience are further keys to success.

Lesson 1: Properly assessing the context is the first and prerequisite step toward finding a solution. Understanding the social context of cotton farmers was necessary for coming up with an alternative method for financing them.

It was crucial to find a way to bypass the “Investors” in Tajikistan that had arisen in the post-conflict void of a malfunctioning financial system. There were no other options open to farmers, and therefore most of them began to take cotton production loans from the Investors. When a farmer entered into an agreement with an Investor he was also required to buy all inputs, which many times included fuel, from the Investor. When it was time to harvest, the cotton farmers were told by the Investor which cotton gin to use for processing the seed cotton (raw cotton). What began to develop was a system that locked the farmer into a continual cycle of debt. The farmer fell into debt because his crop was not able to pay off the Investor, and therefore debts began to roll over year after year.

There are many reasons why farmers were not able to pay off their debt; these included poor yields, drastically inflated input prices and low reported output by the cotton gin, and a very poor quality of cotton produced by the gin. In the end, a low-quality, low-yield crop and debt were rolled over to the next year.
Many of the cotton gins had government connection, with some ministers and governors having a direct interest or even owning many of the gins. The local governors have a keen interest in maximizing the supply of seed cotton for gins in their region because of tax revenues. The governors discourage farmers (often using police) from transporting seed cotton to a gin outside their region. Most governors dictate to farmers the amount of cotton they are to plant each year. Usually about 70 percent of a farmer’s field is used for cotton. A recent presidential decree gives farmers the freedom to grow what they want, but this decree is widely ignored. In spite of all the obstacles, cotton continues to be appealing to farmers because world prices and demand are high.

Lesson 2: The first attempt at a solution needs to be pilot-tested. In our case, IFC set up a farmer’s cooperative to provide extension services and financing as a pilot.

IFC first set up a project in northern Tajikistan for the establishment of a cooperative called SugdAgroServe (SAS). The project had two objectives: first, to provide technical extension services to cotton farmers to improve their production methods and increase productivity, and second, to establish a method to finance cotton farming. Cotton, it must be noted, is traditionally shunned by most banks and bankers, as it is a risky crop with long gestation periods even in a classically risky agricultural sector.

Government controls that were intended to protect the cotton farmers have been distorted over the years to simply protect the interest of the cotton gins. Prominent government officials with ties to the cotton gins have resisted reform in the sector. The output of most cotton gins is below gins in other Central Asian countries; for example, the output of cotton gins in Kyrgyzstan is 3 to 5 percent higher than in Tajikistan, even though they have the same equipment as in Tajikistan. One of the reasons for this low output of Tajik gins is nontransparent sales of the cotton fiber. Some cotton gins report a low output in order to pay less to the farmers.

How can these enormous problems be addressed?

| Cultural eyes, cultural sensitivities are vital for a project manager attempting to implement a strategy. Understanding the history and attitudes of the Tajiks is a prerequisite to success. Most of us are ill-equipped for quickly grasping the subtleties which can be very important to a project’s impact.

Throwing your hands up in frustration is a daily temptation, or simply saying it is impossible to work here, but these are not the actions needed to be effective and to make a difference. Patience and perseverance are not only virtues but many times are the difference between failure and success.

Before I came to Tajikistan I worked in Ukraine in rural financing, and I remember how a local businessman related his experience of the differences between what we say and what is heard. He said: When a person asks you for money and you answer maybe or I’ll think about it, what the person heard was “YES.” If you answer I’m not sure, what the person heard was “YES.” If you answer no, absolutely not, no way, what the person heard was “Ask again tomorrow.” So I find myself challenged constantly with this task even in Tajikistan. What does this person or staff member mean that just said yes to my request? Do they really mean yes? Do they mean sometime in the near future? Or do they mean they will think about it? Expectations can be a long way off from reality.

Stephen Wright
Operations Officer, Tajikistan
1) The project developed a specific lending methodology tailored to Tajikistan. IFC believed that the lending methodology component could be transferred to banks and other financial institutions in Tajikistan. This new lending technology could be justified by the fact that the operations of SAS had been stabilized, currently financing about $1 million in cotton loans.

2) Through SAS’s lending operations, IFC was more able to demonstrate that if farmers can be freed from their cycle of debt with Investors (delinked), they have a much better chance of success or even just survival.

**Lesson 3: Scale up the successful pilot through partner financial institutions.** IFC established a second project, the South Tajikistan Cotton Lending Project (STCLP), in April 2007 to focus solely on the financing of cotton farming, using interested local commercial banks as financial intermediaries to achieve better outreach. The main objective of the STCLP is to help farmers access credit through local banks. Banks would give farmers seasonal credit, and farmers would be free to buy inputs, farm, and send their seed cotton to gins of their choice.

Despite enormous difficulties, the adapted and revised solution appears to be working well. The lending technology is a contrast from previous systems, which relied solely on character lending or on collateral-based lending. A new system was developing that included in-depth farm analysis and client creditworthiness. The right questions needed to be asked. What is the farm’s ability to be a good farm and produce yields high enough to lead to a profit? What is the farmer’s true indebtedness? Also, a nontraditional way of gathering credit information was being developed. It became necessary to identify all stakeholders with an interest in a farmer’s crop. Stakeholders included government agencies (tax, pension, and water), input suppliers, other investors or lenders in the area, competing farms, cotton gins, cotton traders, etc. Gathering information from all the stakeholders and analyzing the information became part of the normal credit process.

By introducing the developed lending methodology in commercial banks as financial intermediaries, lending to cotton farmers, previously shunned by banks in Tajikistan, is now picking up in the partner banks of STCLP.

For an example, let’s look at the two local banks, currently clients of the STCLP – TojikSodirotbonk (TSB), and First MicroFinance Bank. Both were apprehensive when initially approached by IFC to participate in the STCLP; having no experience in cotton lending, and believing the sector to be in big trouble, they did not want to be dragged into the problem of trying to resolve

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I first started working with Steve at SugdAgroServe. At the beginning it was really a struggle! The farmers did not want to understand what a loan was about. The SAS board was hesitant to take action. Only when we finally took the worst defaulters to court, did people really understand that we were serious.

This year we have had a special struggle – electricity blackouts, and that in the middle of one of the worst winters ever in Tajikistan. IFC had given us the option to remain in Dushanbe until conditions were back to normal again. But how could we leave? Winter is the peak season for farmers looking for finance. If we left, we would lose most of the potential to do lending. So we stayed, disbursed in different regions in southern Tajikistan, and spent our evenings around a coal oven attempting to keep warm. Steve and Rolf agreed to buy satellite telephones so we could stay in touch with one another, in the worst case of a complete electricity shutdown. This gave us the moral support we needed, and we continued working with the banks and farmers.

*Adkham Ergashev*

*Associate Operations Officer, Tajikistan*
the farmers’ debt. IFC was able to convince the banks that the methodology existed along with the expertise to implement this approach.

IFC introduced its lending product to the banks: cotton loans tailored to small- and medium-size collective farms known as Dehkan farms, and to the cotton production cycle, which would provide alternative sources of financing to “Investors.” IFC also provided the credit risk tools for assessing Dehkan farms and conducting proper due diligence. To ensure successful implementation, IFC consultants are stationed in branch offices in cotton-growing regions, with several offices in remote locations. Local consultants in the field provide training and supervision to bank loan officers on location, as opposed to holding seminars at bank headquarters periodically. This model gives loan officers and local staff the confidence and capacity to expand the cotton lending portfolio.

One of TSB’s clients is the “MMM” farm in southern Tajikistan. Nasirullo Babagulov, the general manager, must drive more than an hour to reach the nearest bank in Kurgan-Tyube. Jointly owned by its 44 members, MMM Farm is unique among other Dehkan farms in the region. Not only does it count 34 women among its owners, but it is one of the few farms that has remained free from debt to “Investors” since its establishment in 2005.

“Investors are the main cause of cotton farmers’ debts,” Babagulov says. Tajikistan’s Investors are often the sole source of financing available to Dehkan farms like MMM, financing inputs such as seed and fertilizer for high prices, then purchasing the outputs for low prices. The in-depth training allowed TSB’s loan officers to assess MMM Farm’s request for a loan and approve $16,500 to finance inputs and harvesting costs.

The cotton lending portfolio of small- and medium-size farms has grown from being virtually nonexistent last year to over $2.5 million in March 2008, financing over 3,000 hectares of land. The bank is satisfied and is looking to expand by opening new branches in other regions to give farmers easier access to credit. While this is still small in comparison with the overall needs of the sector, an important step has been made to provide transparent and fair financing for cotton farmers, a prerequisite for evolving out of the post-conflict situation.

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IFC in Conflict–Affected Countries

One of the strategic priorities of IFC is strengthening the focus on frontier markets—markets which include many nations affected by war. IFC has a key role to play in meeting financing needs of the private sector, as well as in addressing these countries’ broader private sector development issues. The issues range from the investment climate to sectoral constraints to private investment.

Although each conflict–affected country is unique in the causes and consequences of its conflict, they all confront similar problems, including lack of government institutional capacity, weak and balkanized business associations, corruption and a climate of mistrust, high levels of informality, and lack of basic infrastructure. In the long term, IFC sees the potential for large scale investments in certain conflict–affected countries. In the more immediate term through its advisory services work in areas such as institution building, business environment and supporting small and medium enterprises, IFC is adding value beyond just financing.