Investment Climate and Governance Initiative

April 2015

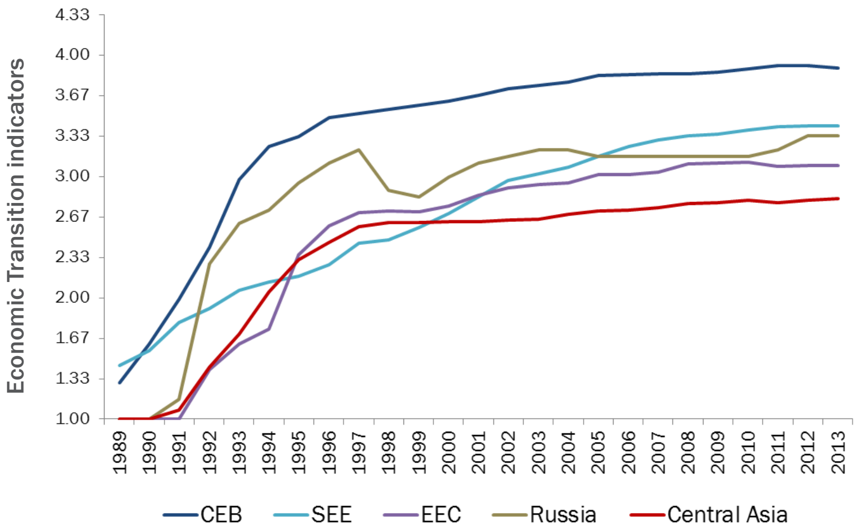
Background

While the EBRD's delivery in recent years has been strong, the pace of transition to open-market economies that promote entrepreneurship in the region has slowed signicantly, leaving some countries now 'stuck in transition'.

This loss of momentum is clearly visible in areas such as the rule of law, control of corruption, regulatory quality, and government effectiveness. Surveys of enterprises clearly show the impact of weak governance and a poor investment climate on business development and foreign investment. Less advanced recipient countries rank at the bottom of global league tables on business environment and corruption, which affects investor perceptions and slows growth.

Given that successful reforms require good governance institutions, inclusiveness and robust economic structures, the Bank has embarked on a programme to strengthen its capacity to foster transition through policy dialogue and national-level initiatives for good governance and a better investment climate. In January 2014, the EBRD's Board of Governors approved an initiative to help re-invigorate transition in these countries - the Investment Climate and Governance Initiative (ICGI).

Average of 6 country-level transition indicators



What is the ICGI?

The ICGI is designed to increase the impact of the Bank's policy dialogue initiatives on governance and the investment climate by taking a more strategic approach to their development. The initiative plays to one of the Bank's strengths: the interface between the public and private sectors. The ICGI uses tailored country programmes to strengthen public-private dialogue, for example through investment councils and business ombudsmen. It aims to enhance transparency in business reporting, and to streamline business regulation in order to reduce the administrative burden on firms. The judiciary will also be strengthened, particularly commercial courts, through the development of alternative mechanisms for disputes resolution.

The initiative draws together work already carried out by various teams from across the EBRD, as well as designing new, country- specific policies. In this respect it's a true 'One Bank' initiative, drawing on expertise in Banking, OCE, OGC, OCCO, EAPA and others, bringing together many of our existing tools and instruments under one roof so that the whole will be greater than the sum of the parts. In addition, the ICGI engages strong institutional partners that have relevant expertise, such as the European Union, other international financial institutions and intergovernmental organisations, civil society and the business community.

Key Interventions

- Efficiency of legal framework in settling disputes
- Effectiveness of anti-monopoly policy
- Number of procedures and days to start a business
- Burden of customs procedures
- Credit registry coverage
- Registering property
- Resolving insolvency
- Strength of auditing and reporting standards
- Receiving inspections
- Efficacy of corporate boards
- Transparency of public procurement
- Addressing firms' complaints

How does it work?

Once the ICGI team has identified and assessed countries suitable for engagement, it initiates dialogue with local authorities to determine how to put a programme into effect. Programmes are developed only where there is strong demand for EBRD engagement and evident political will to introduce reforms that can improve the investment climate and economic governance.

After the EBRD and the host government have agreed on a set of specific interventions to improve the investment climate and foster good governance, as well as a timeframe for their implementation lasting approximately two years, the parties sign an agreement and the interventions can begin. Progress on the initiative will be evaluated through tools for monitoring and reporting as well as through the results matrixes of the single technical cooperation projects and surveys such as the Business Environment adn Enterprise Performance Survey (BEEPS).

Four ICGI country programmes are being implemented in 2015: Albania, Moldova, Serbia and Ukraine. During the course of the year, other country programmes may be developed based on those aforementioned criteria in Kyrgyz Republic, Kazakhstan and Tunisia.

Donor funding

The ICGI's work is intensive with regard to policy and technical assistance and donor support is therefore crucial. Funding is needed to establish investment councils and business reporting institutions. It is also required in order to undertake legal transition work, assist in reforms to procurement and regulatory frameworks, carry out dianostics and monitor implementation.

The cost of a full-scale country programme ranges from €3M to €6M. Funding can be provided for either the whole ICGI through a multi-donor fund, for a specific country programme, or to support an individual component of a programme.

ICGI Country Programmes

Albania

- ICGI 'pilot' country, MoU signed February 2014
- Investment Council, will begin functioning Q1 2015
- Civil society anti-corruption capacity enhancement project in partnership with OSCE, under implemention
- Establishing a consumer credit bureau, in preparation
- Corporate governance through banks, in preparation

Ukraine

- MoU signed May 2014 ("Anti-Corruption Initiative")
- Business Ombudsman appointed January 2015, operational Q2 2015
- Full ICGI programme to be developed H1 2015, in coordination with the National Reform Council and the National Investment Council

Moldova

- MoU signed with PM Leanca October 2014

1. Strenghten Economic Council
2. Introduce Business Ombudsman
3. Establish banking share registry
4. Strenghten ADR and arbitration
5. Support procurement reform
6. Judicial capacity-building
7. Corporate governance in SOEs
8. Support the Competition Commission
9. Strenghten business associations

Serbia

- LoI signed November 2014, MoU planned Q1 2015

1. Debt resolution and bankruptcy
2. Strenghtening Corporate governance
3. Support for the Privatisation Agency
4. Public Procurement
5. Regional Business Registry
6. Inspection reform coordination
7. Alternative Dispute Resolution
8. Support for the Competition Commission

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