

Legal
Transition
Programme

12

A sound and effective legal system plays a fundamental role in the transformation of the institutions and societies of transition countries. The EBRD's Legal Transition Programme (LTP) is designed to improve the investment climate in the Bank's countries of operations by helping create an investor-friendly, transparent and predictable legal environment.

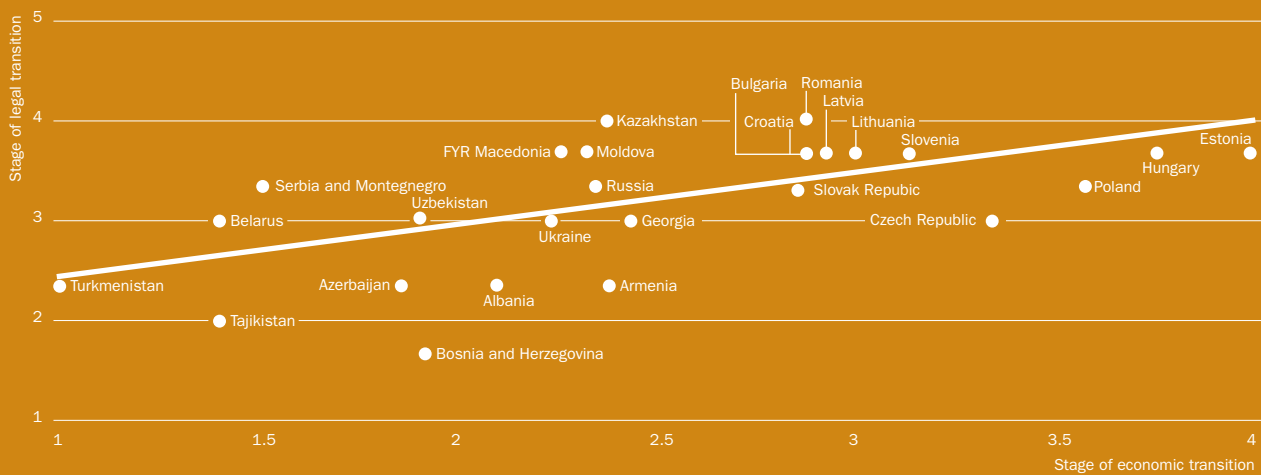
The link between the transition from command to market economy and the development of a market-enhancing legal system is now well established. According to annual studies conducted by the EBRD, there exists a positive correlation between the state of legal transition and the state of economic transition throughout the Bank's countries of operations. As can be seen from the upward-sloping line on the graph on page 73, an increase in a country's legal transition indicators supports a corresponding increase in that country's economic transition indicators. The graph vividly highlights the fact that progress in economic transition must be accompanied by improvements in the

development of commercial laws and implementing institutions if the transition process is to be successful and sustainable.

The Bank has centred the LTP around four kinds of activities: (i) international standard setting; (ii) legal transition assessments, including the EBRD's annual Legal Indicator Survey; (iii) country specific legal reform projects; and (iv) outreach, including publication of the Bank's legal journal, *Law in transition*. The LTP focuses on the creation, implementation and strengthening of effective legal institutions in five legal sectors that are most relevant to the Bank's investment operations and where the Bank has accumulated the most practical expertise. These sectors are: (i) bankruptcy, (ii) capital markets and corporate governance, (iii) concessions, (iv) secured transactions, and (v) telecommunications regulatory reform. The implementation of LTP is funded primarily through (and therefore is entirely dependent on) grant funding provided by donors.

Economic transition depends on a sound, market-enhancing legal system.

Legal and economic transition



Source: EBRD Legal Indicator Survey 2001 (commercial laws only); *Transition Report 2001*, Table 2.2.

Note: Indicators along axes range from 1 (little progress) to 4/5 (substantial progress).

Secured transactions, Slovak Republic

Since 2000 the EBRD has assisted the Slovak Republic in improving its secured transactions legal framework. This comprehensive project covers all phases of the reform, from drafting the new law to implementing and monitoring the results. With EBRD technical assistance, the Civil Code's provisions on security instruments have been amended. A legislative package was adopted by the Slovak parliament in August 2002, together with the implementing decrees on registration procedure and registration fees. This was followed by the creation of an electronic registry for secured transactions over movable assets. The registration system, operated by the Slovak Chamber of Notaries, became operational on 1 January 2003. Promotion of the new system to the general public and specialised audiences is taking place. The whole secured transactions system has gained recognition both in the Slovak Republic and internationally. The EBRD will monitor the functioning of the new law and the registry during 2003. The new regime is expected to have a high impact on lending practices in the country, in particular by allowing SMEs to have better access to finance. This project was funded by the United Kingdom's Department for International Development.

Donor-funded LTP projects - main achievements in 2002

Below is a summary of the main donor-funded projects of the LTP by focus area, undertaken or completed during 2002.

Focus area	Beneficiary country	Project	Donor
Bankruptcy	Regional	The EBRD has started its Regional Insolvency Law Assessment Project to gauge the legal reform status of insolvency laws in the Bank's countries of operations.	Taipei China
Bankruptcy	Poland	The EBRD has undertaken a project to help the Polish government reform its outdated bankruptcy legislation. The project aims to assist Poland draft a new Bankruptcy Law by taking into consideration sound international standards. Implementation will include promoting a good understanding and application of the new Law.	Taipei China
Bankruptcy	Czech Republic, Slovak Republic	The EBRD continued to implement its project to assist in developing legislation to strengthen the enforceability of close-out netting for over-the-counter derivatives contracts where a counterpart to such contracts is bankrupt. A similar project was successfully completed in Hungary in 2001 and another began in the Slovak Republic at the beginning of 2002. The projects in the Czech Republic and Hungary are funded by the UK. The Slovak Republic project is funded by Taipei China. There are plans to undertake similar projects in other EU accession countries, where additional donor funding will be needed.	UK, Taipei China
Capital Markets and Corporate Governance	Regional	The EBRD successfully completed a project to assist the Inter-Parliamentary Assembly (IPA) of the Commonwealth of Independent States (CIS) to develop model securities legislation. A CIS Model Securities Law has been drafted and adopted by the IPA as a result of the project.	The Netherlands
Capital Markets and Corporate Governance	Regional	The EBRD completed the first phase of the Corporate Governance Regional Assessment Project, which gauges the status of corporate governance related laws and regulations in the EBRD's countries of operations. The project represents an important EBRD initiative to better understand legal developments in the countries where it operates. Through the project, the Bank is hoping to encourage, influence and provide guidance to governments, policy makers and those in charge of promoting new legislation for existing and future development of corporate governance-related legal reforms in the region. The EBRD plans to make the assessment results available through the Bank's web site.	UK
Capital Markets and Corporate Governance	Russia	The EBRD is assisting Russia improve its legal and regulatory framework governing the bond markets. The project aims to establish a clear regulatory regime in Russia, under which foreign issuers with good credit ratings would be able to issue rouble bonds in a cost-efficient way. The Securities Market Law was amended at the end of 2002.	EU
Capital Markets and Corporate Governance	Russia	The EBRD has assisted the Federal Commission for the Securities Market of Russia to develop a Corporate Governance Code, which was officially unveiled in 2002. The Corporate Governance Code is broadly based on the OECD Principles of Corporate Governance.	Japan
Capital Markets and Corporate Governance	Russia	The EBRD has assisted the Institute of Corporate Law and Corporate Governance, a Russian NGO, to develop a methodology for a corporate governance rating system and to apply this system to a number of companies in Russia. As a result of this project, a corporate governance rating methodology has been developed and over 40 companies have been evaluated.	Japan

Focus area	Beneficiary country	Project	Donor
Capital Markets and Corporate Governance	Uzbekistan	The EBRD has assisted Uzbekistan in creating comprehensive and modern leasing legislation, so that financial and non-financial leasing transactions (other than those involving real estate) can be properly regulated. Major reform recommendations made under the project were incorporated into amendments to the relevant Uzbek legislation in late 2002 by the Uzbek parliament.	Japan
Concessions	Lithuania	The EBRD has assisted Lithuania in revising concession law. A draft law was prepared for the Lithuanian government at the end of 2002.	UK
Secured Transactions	Hungary	The EBRD is assisting Hungary to implement the new Civil Code provisions on charges, and is reviewing the existing charges registration system. The impact of the legal regime on users towards credit access will also be examined. A new enforcement decree has been finalised by the Ministry of Justice after consultation. While a draft Practical Guide (aimed at encouraging further use of the system) is being prepared, additional follow-up will take place in 2003.	UK, Greece
Secured Transactions	Serbia and Montenegro	The EBRD is assisting Serbia and Montenegro in developing a modern legal framework on secured transactions and appropriate implementing institutions that will support sophisticated credit transactions. A draft law has been approved by the Serbian government and is now before the parliament.	UK, Balkans Regional Special Fund
Secured Transactions	Slovak Republic	The EBRD is assisting the Slovak Republic in improving the Slovak secured transactions legal framework (see case study on page 73).	UK
Telecom	Bosnia and Herzegovina	The EBRD continued to provide assistance to both state and entity level authorities regarding the adoption of a modern telecommunications regulatory framework. Significant assistance is being given to interconnection and universal service, and a new state level telecommunications framework law has been imposed by the High Representative.	EU
Telecom	Kazakhstan	EBRD assistance has enabled Kazakhstan to develop a modern and comprehensive sector strategy. In 2002 the EBRD continued to implement this project by providing detailed technical assistance to Kazakhstan with the adoption of a modern legal and regulatory framework, together with the development of financial and technical tools to implement this new framework.	EU
Telecom	Russia	Throughout 2002 the EBRD has provided the Russian government with comprehensive comments and advice on the forthcoming amendment to the 1995 Federal Communications Law. Upon adoption of this amendment (expected during the first part of 2003), the EBRD will continue to provide significant assistance in the form of a second phase addressing the adoption of legislative and regulatory instruments necessary to implement and underpin the modern regulatory framework envisaged in the amendment.	Canada (Phase I) US (Phase II)
Legal Indicator Survey 2002	Regional	Since 1997 the EBRD has prepared detailed analytical assessments of legal transition in a number of commercial and financial sectors in the Bank's countries of operations. These assessments focus on the extensiveness of the law as well as the effectiveness of its implementation. The survey is based on the perceptions of lawyers practising in the region.	US, Taipei China
<i>Law in transition</i> , Spring 2002	Regional	Twice a year, the EBRD publishes <i>Law in transition</i> , the Bank's legal journal. The journal provides insight into the progress of legal reform in a number of commercial and financial sectors, and provides assessments based on the EBRD's Legal Indicator Survey.	The Netherlands

Pipeline projects

The Bank has developed a pipeline of new projects where grant funding will be needed in 2003:

Beneficiary country	Project	Estimated budget
Regional	Bankruptcy specialist for Legal Transition Team (two years)	€400,000
Regional	Regional concession law assessment	€95,330
Regional	Regional capital markets legislation assessment	€95,330
Regional	Secured transactions regional survey	€50,000
Regional	Legal Indicator Survey 2003	€78,265
Regional	Standard-setting for the creation of charges registers	€150,000
Regional	Regional Central Asia telecommunications regulatory seminar and training programme	€500,000
Albania	Albania telecommunications regulatory development project	€350,000
Croatia	Concession law development	€150,000
Hungary	Concessions framework law	€200,000
Kazakhstan	Telecommunications regulatory development - Phase IV	€600,000
Moldova	Improving leasing transaction related legislation	€100,000
Poland	Poland telecommunications regulatory development project	€300,000
Russia	Concessions framework law	€170,000
Russia	Pledge of bank account reform	€400,000
Russia	Toll road law development	€330,000
Russia	Ratification and implementation of the Cape Town Convention on security interests on mobile equipment and the Aircraft Protocol	€250,000
Serbia and Montenegro	Secured transactions law reform and implementation - follow-up	€150,000