



STRENGTHENING ECONOMIC GOVERNANCE THROUGH STATE INSTITUTIONAL CAPACITY-BUILDING



Promoting private sector development is at the core of the EBRD's transition mandate. Over time, however, it has become clear that the transition to a market economy is not possible without also improving the quality of public and private sector institutions and ensuring they work well with each other.

This understanding has prompted the Bank to renew its emphasis on institutional capacity-building, in particular through its Investment Climate and Governance Initiative (ICGI), which aims to improve the business environment and quality of economic governance in the EBRD's countries of operations. As a result, in recent years the Bank has been piloting new products in the area of state institutional capacity-building and has achieved some visible results.



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Many teams across the EBRD are involved in different aspects of this work. This ranges from training judges in commercial law, to providing state-of-the-art tools and methods to sectoral regulators, to enhancing environment ministries' ability to utilise global climate change funds. The EBRD's Governance and Political Affairs (GPA) team, however, is specifically tasked with helping to build capacity in state institutions responsible for economic governance.

Given the very large institutional capacity deficits in almost all of the EBRD's countries of operations and the need to make the best use of the Bank's resources, it is essential that GPA experts be highly selective in choosing which projects in this area to support. The team uses four key criteria in making its decision:

1. **Is there a clear, private sector-related need?** All EBRD state institutional capacity-building projects should support the development of the private sector and/or the enhancement of economic governance in a way that is directly relevant to the private sector.
2. **Is the government committed to the project?** It is essential to have strong and unequivocal buy-in at the highest political levels for these projects to be effective and sustainable over the medium and longer terms.
3. **What are the experiences and planned projects of other international financial institutions (IFIs) and bilateral donors in this area?** It is essential to learn from the positive and negative experiences of others and to avoid duplication of other ongoing or planned activities.
4. **Does the EBRD have the expertise required to implement the project?** To be effective, building capacity in state institutions requires a detailed understanding of both the potential institutional roadblocks to reform and the key stakeholders involved.

Once we are satisfied that all of these criteria have been met, the EBRD works closely with the beneficiary to design a technical cooperation (TC) project that delivers substantive impact, is sustainable (typically involving knowledge transfer) and promises to be cost-effective.

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REFORMING THE INSPECTIONS REGIME IN SERBIA

State inspections are among the most frequently cited obstacles to investment across the Bank's countries of operations. Fire, tax and health and safety inspectorates, for example, perform important state functions but in many economies they are seen as burdensome, bureaucratic and opaque. This in turn leads many companies, particularly micro and small enterprises, to remain in the “grey” economy, thereby exacerbating the problems associated with the informal sector and reducing fiscal revenues.

Inspections regimes are extraordinarily complex and constitute a valuable source of rents for the many parties involved. It is therefore often very difficult to reform and streamline state inspection processes and inspectorates, even under highly committed, reform-minded governments. This has certainly been the case in Serbia.

Working closely with a reform-minded minister (Ana Brnabić, who in 2017 became prime minister), the EBRD agreed to provide funding for a Support Division to serve as the technical secretariat to the inter-ministerial Coordination Commission for Inspections Reform and to a number of sectoral working groups. Importantly, the Support Division is mandated to provide technical and legal training for staff in the ministries and agencies represented on the Coordination Commission, including inspectorates. This is an example of how TC projects transfer expertise to local officials and ensure that their effect is long-lasting. This TC project benefited from donor support from the EBRD Shareholder Special Fund.



Through a detailed results framework designed with the Serbian government, the EBRD is able to monitor the output of the Support Division and measure progress in the implementation of reforms against specific milestones and deliverables.

It is worth noting that the work of the Support Division builds on a previous project for the drafting of an inspections law that was funded by the United States Agency for International Aid (USAID). By sharing the lessons learned from that project, USAID provided a valuable example of coordination among donors.

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IMPROVING PUBLIC ADMINISTRATION IN UKRAINE

Ukraine has launched critical reforms in recent years but many have stalled due to the country’s ineffective public administration. As a result, the government has not been able to promote and sustain economic and social development over extended periods of time. In particular, the inadequate framework for investments has created a serious challenge to the resumption of financial flows to the country.

Within the context of Ukraine’s EU-funded Public Administration Reform efforts, the Bank launched a comprehensive reforms architecture project to fill these institutional capacity gaps. Over 150 local experts funded by the EBRD-managed Ukraine Multi-Donor Account (MDA) are temporarily engaged in a number of cross-sectoral Reform Support Teams located in key ministries and agencies. They are responsible for driving sectoral and public administration change.

In addition, a Reforms Delivery Office, which reports to the prime minister, oversees cross-cutting reforms and coordinated delivery of the government action plan. A high-level advisory group provides strategic

guidance to the prime minister on how to implement reforms effectively, based on international best practice. The last piece of the project is the National Reforms Council, which guides and provides endorsement of national reform priorities.

The project has added stimulus to the sectoral reform process inside a number of institutions, accelerated the pace of public administration reform and improved coordination among stakeholders across government. The expectation is that the donor-funded experts will become part of the civil service, as part of the ongoing public administration reform.

STATE OWNERSHIP POLICY IN UKRAINE

Comprehensive reform of the state-owned enterprise (SOE) sector is a priority for the Ukrainian government and the International Monetary Fund has endorsed this goal. Improving the corporate governance of SOEs and creating a well-structured and predictable legal environment for them are required in order to encourage foreign investors to participate in any privatisation these enterprises may undergo.

To support the government in this area, the Bank has conducted an analysis of best international practice concerning the separation of state ownership and regulatory functions in relation to key SOEs. This work, also funded by the Ukraine MDA, will inform a state ownership policy that will detail the manner in which the government exercises direct ownership; government objectives for state ownership; the state's expectations of SOEs; the government's approach to the remuneration of key SOE personnel; the basic framework for the state's administration of its ownership; and the relationship between the board of directors, management and shareholders.

Because of the importance of state ownership and the significant weight of SOEs in the Ukrainian economy, good governance in these enterprises is also expected to have a significant positive influence on the rest of the corporate sector and the economy as a whole. The state ownership policy and its implementation should help to establish practices, behaviours and a business culture that create value for investors and stakeholders and generate trust in the Ukrainian economy and its institutions.

CAPACITY-BUILDING IN COMPETITION AUTHORITIES

The development of sound and effective competition frameworks is fundamental to achieving the Bank's purpose of fostering the transition towards open market economies in the EBRD region. The Bank plays an important role in helping its countries of operations to improve national competition law frameworks and their implementation.

The EBRD's Economics, Policy and Governance (EPG) department and Legal Transition Programme (LTP) have worked on a variety of successful TC projects in the competition policy and law sector focusing on three key areas: building the capacity of national competition authorities; providing judicial training in competition law; and offering support for legislative reforms.

In Serbia, for example, with support from the UK Good Governance Fund, the EBRD has helped the Commission for the Protection of Competition (CPC) to enhance its capacity to use econometrics and interact with regulators. It has also helped the body to strengthen its powers to conduct unannounced inspections of business premises.

Furthermore, the Bank has supported the CPC with the development of its advocacy strategy. Competition

authorities play an important advocacy role, especially in those countries where the culture of competition is still weak and where government intervention interferes with free competition. The project has been successful and the CPC has significantly improved its track record over the last few years, as acknowledged by the European Union in its 2016 accession report. The report noted that, in relation to competition law, the implementation of the legislative framework is improving in Serbia; the CPC's decisions are increasingly upheld by the appeals courts; and competition advocacy activities have intensified.

A new project with the CPC to pursue this capacity building work is now being developed. In addition, the Bank is exploring the possibility of forming a partnership with the CPC to strengthen cooperation between competition authorities in the Western Balkans region. The creation of a common platform would contribute to the harmonisation of competition law and its enforcement across the region.

LEARNING LESSONS

Building capacity in state institutions responsible for economic governance is a relatively new field for the EBRD. The Bank has therefore established a community of practice – an in-house network of experts – to share knowledge and experience in this area across the Bank. This will help to ensure that best practice standards are disseminated across the various EBRD teams engaged in this crucial work and build up a database of successful projects. This will further enhance the Bank's ability to put together innovative, yet robust, new projects that strengthen state institutions and build local capacity to deliver economic reforms.

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¹ Additional EBRD contributors were Olyana Gordiyenko and Anastasia Rodina from the GPA team; Lorenzo Ciari and Bojana Reiner from the Country Economics and Policy team; and Andrea Schwaiger from the Sector Economics and Policy team. All three teams are part of the Bank's Economics, Policy and Governance department.

