The Evaluation department (EvD) at the EBRD reports directly to the Board of Directors, and is independent from the Bank’s Management. This independence ensures that EvD can perform two critical functions, reinforcing institutional accountability for the achievement of results; and, providing objective analysis and relevant findings to inform operational choices and to improve performance over time. EvD evaluates the performance of the Bank’s completed projects and programmes relative to objectives. Whilst EvD considers Management’s views in preparing its evaluations, it makes the final decisions about the content of its reports.

This report has been prepared by EvD independently and is circulated under the authority of the Chief Evaluator. The views expressed herein do not necessarily reflect those of EBRD Management or its Board of Directors. Responsible members of the relevant Operations team were invited to comment on this report prior to internal publication. Any comments received will have been considered and incorporated at the discretion of EvD.

EvD’s Special Studies review and evaluate Bank activities at a thematic or sectorial level. They seek to provide an objective assessment of performance, often over time and across multiple operations, and to extract insights from experience that can contribute to improved operational outcomes and institutional performance.

Report was prepared by Olga Mrinska, Associate Director, Senior Evaluation Manager and Alejandra Palma, Principal Evaluation Manager, EvD. Stephanie Crossley, Analyst, provided extensive analytical support, with some inputs provided by Assistant Analysts Natalia Lakshina and Sofia Keenan. External consultants provided inputs for country analysis: Acumen Consulting (Egypt), Fatima Toktosunova (the Kyrgyz Republic), and Gavril Lasku (Albania). Joseph Eichenberger, Chief Evaluator, and Barry Kolodkin, Deputy Chief Evaluator, were internal peer reviewers and Giuseppe Iarossi, Lead Evaluation Officer in Finance and Private Sector Development IEG, was external peer reviewer.
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## Abbreviations

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<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ACN</td>
<td>Anti-Corruption Network</td>
</tr>
<tr>
<td>ASB</td>
<td>Advice for Small Business</td>
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<tr>
<td>BE</td>
<td>Business Environment</td>
</tr>
<tr>
<td>BOI</td>
<td>Business Ombudsman Institution</td>
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<tr>
<td>CGAP</td>
<td>Corporate Governance Action Plans</td>
</tr>
<tr>
<td>COOs</td>
<td>Countries of Operation</td>
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<tr>
<td>CSEU</td>
<td>Civil Society Engagement Unit</td>
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<tr>
<td>CSO</td>
<td>Civil Society Organisation</td>
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<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<tr>
<td>EPG</td>
<td>Economics, Policy &amp; Governance Department</td>
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<tr>
<td>ETF</td>
<td>European Training Foundation</td>
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<tr>
<td>EvD</td>
<td>Evaluation Department</td>
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<tr>
<td>GPA</td>
<td>Governance and Political Affairs Department</td>
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<tr>
<td>HLROM</td>
<td>High Level Reporting Mechanism</td>
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<tr>
<td>IC</td>
<td>Investment Climate</td>
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<tr>
<td>ICGI</td>
<td>Investment Climate and Governance Initiative</td>
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<tr>
<td>IEG</td>
<td>Independent Evaluation Group</td>
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<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
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<tr>
<td>IPP</td>
<td>Investment Policy and Promotion</td>
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<tr>
<td>LTT</td>
<td>Legal Transition Team</td>
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<tr>
<td>MDA</td>
<td>Multi-Donor Account</td>
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<td>MDB</td>
<td>Multilateral Development Bank</td>
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<tr>
<td>MoU</td>
<td>Memorandum of Understanding</td>
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<tr>
<td>OCCO</td>
<td>Office of the Chief Compliance Officer</td>
</tr>
<tr>
<td>OCSE</td>
<td>Organization for Security and Co-operation in Europe</td>
</tr>
<tr>
<td>OE&amp;E</td>
<td>Operational Effectiveness and Efficiency</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OGC</td>
<td>Office of the General Counsel</td>
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<tr>
<td>PPD</td>
<td>Private Public Dialogue</td>
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<td>PPP</td>
<td>Public Private Partnership</td>
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<td>SBI</td>
<td>Small Business Initiative</td>
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<tr>
<td>SME F&amp;D</td>
<td>SME Finance &amp; Development Department</td>
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<tr>
<td>SSF</td>
<td>Shareholder Special Fund</td>
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<tr>
<td>TC</td>
<td>Technical Cooperation</td>
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<tr>
<td>VP3</td>
<td>Vice Presidency on Policy and Partnerships</td>
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<tr>
<td>WB</td>
<td>World Bank</td>
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<td>WBG</td>
<td>World Bank Group</td>
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Executive Summary

Mobilizing private capital has been central to the Bank’s core transition mandate since its founding, and to achieving major recent institutional commitments such as supporting the SDGs, climate resilience, and inclusion. Significantly greater private investment, both domestic and foreign, is in turn critically dependent upon a supportive investment climate, which has long been identified as a strategic and operational priority for the Bank and an area of comparative advantage.

This EvD study identifies the principal objectives and components of the Bank’s work on investment climate (IC) improvement, assesses the effectiveness of design and delivery, and presents findings and conclusions that may contribute to programmatic performance in the future. Its intended scope includes efficiency and resource deployment across multiple work streams and observable contributions toward IC improvements, including analysis of the Investment Climate and Governance Initiative (ICGI) and other initiatives, and case studies. Its principal purpose is to draw out findings relevant to existing and emerging operational and strategic priorities and provide evidence-based insights useful for future programme design and delivery and internal learning.

Main Findings

There are dual operational priorities for IC improvement, which can be in tension

The EBRD engages closely in transaction-driven changes in legislation and institutional capacity in order to enable transactions and protect its interests as an investor. At the same time the EBRD is also intended to be an agent of change with a wider transition mandate and an institutional interest in more systemic, macro-level IC issues. These two roles require fundamentally different approaches to strategy design and deployment of resources. The transaction-driven role requires client commitment: it is demand-driven, opportunistic and technically focussed. By contrast, the change agent role requires wider skills and engagement, including: a broader knowledge of the key issues; preparatory analysis and diagnostic work; engagement with a (committed) government at higher tiers and often inter-agency co-operation; and mobilising networks to effect institutional and behaviour change. These two roles also flow from different relationships with partners – the former often reflects competitive interests while the latter benefits from synergies.

There is no clearly articulated institutional strategy for investment climate

Since the 2013 “Stuck in Transition” report, the Bank has made multiple efforts to strengthen its IC support. This includes new institutional architecture to strengthen policy dialogue, various IC initiatives, a dedicated governance team, and a redefined transition concept which emphasises ‘well-governed’ and ‘competitive’ as key transition qualities. Fourteen current country strategies explicitly prioritise improved investment climate/business environment and a level playing field for investors. These steps reflect implicit recognition of the need for a more systematic response to the deep-seated IC challenges in the COOs. Nevertheless, the Bank has not yet drawn up a more comprehensive strategic vision. The ICGI includes many positive elements but lacks a strategic framework, observable targets and a timeframe to assess performance. It is an initiative with strategic-level aspirations but without an agreed strategy for execution.

Objectives are clearer at country level, and a workable country-level model is in place

In four specific country cases, the Bank’s intended role and operational priorities were grounded in identified challenges and the Bank’s operating context; objectives are clear and inputs relevant to their achievement. MOUs between the EBRD and partner governments on governance and corruption improve the strategic fit of Bank activities and contribute to mutual trust and commitment.
Transaction-specific work is much better supported than wider as multi-year or multi-country efforts

Administrative processes are geared towards transaction-driven engagement and often fail to support longer-term, transformational initiatives. While the Bank has specific IC expertise within various teams, inputs and activities are widely dispersed across different teams both in Headquarters (HQ) and Residential Offices (ROs). The Bank’s field presence is a clear strength – the application of context-specific local knowledge and skills put the Bank ahead of some of its international counterparts. In some instances, particularly in newer countries of operations, the very fact that the Bank is on the ground is a symbol of transition and a transition impact in itself. However, horizontal mobility is limited and blockages to sharing information, especially between HQ and ROs, can lead to gaps or inconsistencies in relations with external partners.

Activities beyond those that are transaction-driven are often short of funding and human resources, and rely exclusively on donor funds; there is no core corporate funding. Financing is demand-driven (often by donors) and often ad hoc. The lack of a structure/support for multi-year or multi-country work should be addressed.

There is considerable scope to leverage other actors’ resources/capabilities

The EBRD currently has limited capacity to do the extensive diagnostic work needed to develop IC strategies and engagement. With transaction-driven engagement dominant, relationships with other IFIs and international organisations are often competitive while wider policy engagement requires collaboration and ‘coopetition’ (collaborative competition). IC support is a natural and largely unexploited area for synergy – particularly in diagnostics and policy dialogue.

There are successful individual IC support activities, but higher effectiveness is only just emerging across work streams, particularly for ICGI

Many specialist policy teams – governance, legal transition, economists, integrity and compliance, civil society, policy hubs in banking – deliver good outputs and outcomes for specific elements of investment climate. Many enable new transactions, while others work to change institutions and behaviours (i.e. business compliance networks). Measuring the former is straightforward, while the latter requires a more elaborate approach, often jointly with local partners. Whilst specific Bank products and initiatives have contributed to improving the IC, others require more time to deliver, particularly where the task is to change the behaviour of public and private stakeholders. Project-by-project assessment, even when compiled as in the ICGI biannual review, is insufficient to understand gradual progress in a complex area. Short timelines, diverse donors, intermittent inputs and activities need more coherent and systematic monitoring and reporting.

It is difficult to establish causal links between activities and specific outcomes

IC support activities have often developed ad hoc and opportunistically, without clear and measurable goals or intended results; monitoring and internal evaluation has focused on inputs, activities, and outputs. The lack of higher-level goals means that there are no metrics and baselines against which progress could be measured in a meaningful and reliable way. EvD drew for this study on internal documents to articulate a proposed theory of change for IC support and believes it is a step forward; country case studies include some results chains. However, poor documentation and/or inconsistent delivery of IC support activities are real obstacles to linking activities to outcomes.

Internal learning from operational experience is limited and inconsistent

Despite recent changes, there is insufficient internal communication and collaboration on IC support. A knowledge management system is only just emerging and remains partial. While cases of successful internal knowledge management and sharing do exist they are more personality-driven than institutionally enabled. Platforms to share lessons and develop new approaches are limited. A hierarchical, siloed approach and a limited corporate culture of sharing still frustrate drawing full value (and competitive advantage) from accumulated experience.
Recommendations

Institutional efforts to strengthen the EBRD’s effectiveness in improving the IC are relatively recent and don’t lend themselves easily to evaluation. Efforts along the following lines would substantially strengthen the Bank’s performance and profile.

1. **Prepare a Strategy on IC Support for Board approval**

The document should contain clear objectives, baseline indicators, timeframe, institutional accountability and other essential elements of a proper strategy. It should provide a framework within which the efforts and contributions of multiple teams will be applied and coordinated, with clarity on priorities, and transparent decision-making and resource allocation. The strategy should both integrate and contribute to the improved country strategy and transition approaches; a three-five year focus on specific COOs/region where IC challenges and opportunities are greatest should be explicitly considered.

2. **Ensure adequate leadership and resourcing for IC as a strategic priority**

If improvements in the IC are identified as a fundamental precondition to achieve Bank-wide objectives, Management should consider core multi-year funding for IC activities. This could be a dedicated funding pool in SSF, covering essential elements of wider policy engagement, such as diagnostics, country strategy content, country presence for the governance cadre, collaboration with other IFIs, confident fundraising activities etc. It could be focussed on selected countries with specific priorities and circumstances. Supplemental project-specific funding could still be available from donors.

3. **Build the basis for improved internal and external cooperation and synergy**

A communication and knowledge management plan should be included in the proposed strategy. This will help to generate case studies and success stories for long-term engagement. The institutionalisation of information flows and purpose-driven knowledge management will help build success stories to convince potential partners/donors of the EBRD’s ability to deliver high-quality results.
Introduction

Supporting IC improvement has been a long-standing EBRD operational objective. As challenges to successful transition persist, the Bank has sought to expand its engagement beyond transaction-focused work to also include more comprehensive efforts across horizontal policy themes. Therefore, the thematic retrospective evaluation of the EBRD’s IC Support Activities presented in this report is timely, relevant and essential for reviewing the progress achieved in the last decade and adapting the Bank’s strategy to the dynamic context in which it operates.

In this study Investment Climate (IC) is defined in its wider meaning as "The institutional, policy and regulatory environment within which companies invest, create jobs, and expand, and the behaviour of public and private agents which influence investment performance". This draws from definitions in the Bank's 1999 Paper on IC and from the IMF and World Bank.¹

The study addresses the following questions:

1. What have been the EBRD’s intended role and operational priorities for IC improvement? Have objectives been clear and realistic/relevant with respect to these and to country challenges and strategic priorities?
2. How efficiently does the Bank use both internal and external resources to design and deliver IC support activities? Are the resources/capabilities of other active players well leveraged?
3. How effective have Bank activities been across the streams of work: legal transition, governance, integrity/anticorruption, and banking? Can causal links to specific outcomes and impact be identified?
4. Is there evidence of an effective internal learning process with regard to IC support and operational experience?

EvD analysed Bank activities at both country and transactions levels, and including specific IC initiatives such as investment councils and business ombudsman instrument. The country level analysis of IC support activities lends itself best to the purpose of establishing connections between the Bank’s inputs and the results. However, it should be noted that the country’s IC policy framework is much wider and its progress is measured against different benchmarks. The Bank’s contributions are limited to several focus areas and the progress made there does not necessarily lead to an overall improvement of the investment climate.

The report includes, but is not limited to, an analysis of the Investment Climate and Governance Initiative (ICGI) launched in 2014, its principles and mechanisms.² It contains four detailed case studies – three at country level (Albania, Egypt, and the Kyrgyz Republic) and one at instrument level – the Business Ombudsman Council in Ukraine. These are attached as Annexes 7-10. With an extended period of retrospective analysis covering a number of crises and opportunities, combined with deep insights into more recent initiatives, their causes and impact (when possible to identify), EvD’s intention was to focus on internal learning and identifying operationally and strategically useful findings that are forward looking and relevant to the Bank’s emerging priorities. EvD used a mixed methods approach in this study, the details of which are presented in Annex 2, Methodology.

Theory of change

Using a range of internal documents, the EvD has developed a representative theory of change (results framework) which underpins the EBRD’s IC support activities. This is presented in Annex 1 as illustrative, not as either a complete picture or exact model. It has been very useful as an aid to mapping the scope of

² ICGI is one of several initiatives launched by the EBRD. Others include Early Transition Countries (ETC), Gender Equality, Small Business Initiative (SBI), Local Currency and Capital Markets Development (LC2) and Green Economy Transition (GET)
evaluation and to reveal key evidence and the processes that drive the Bank’s achievements in improving the COOs’ investment climate.

The Bank’s institutional resources (mainly staff), corporate and donor resources (funding), the commitment of the top management and country teams, in combination with the resources of COOs and other external partners represent the inputs necessary for achieving progress in the area. Activities vary widely at various stages – initiation, development, fundraising, implementation, monitoring and evaluation – and include distinctive activities such as training and capacity building, support in creating and sustaining institutions through injection of human resources and expertise in specific state entities that interface with the private sector, supporting legal changes, mobilising local networks, identifying and integrating lessons into future work etc. These bring operational results/outputs: successfully implemented projects, built capacity and networks/coalitions of likeminded partners, enhanced business processes and structures in public institutions and courts, reduced knowledge and skill gaps, increased number of pro-reform actors and improved internal knowledge management. In the mid-term perspective these deliver the outcomes: a higher quality of regulatory and legal framework; dynamic and persistent reform implementation process; synergies between the Bank’s and countries’ strategic frameworks; increased convergence in views and perspectives on the quality of investment climate, businesses perceive fewer barriers to investments; and completed Bank interventions with a high degree of influence. Increased investment volume is seen as a proxy for impact; a higher quality IC (as perceived by businesses), and smaller transition gaps. There are risks that might undermine change. They range from lack of funding and staff commitment to macroeconomic and security instability. Lack of commitment of local counterparts is the key risk. Assumptions include the right set of skills and knowledge among the Bank’s specialists; relevance of the issue to the Bank’s mandate; its ability to leverage its influence; and the presence of a critical mass of counterparts who are willing to collaborate consistently and continuously.

Timeline and Context
The time period covered by the evaluation is 2005 to 2017. This provides some pre- and post-crisis context against which to understand the many substantial changes since the global financial crisis. In 2010 the Bank refined its transition model, bringing in the quality of economic institutions as a core dimension of successful transition, along with the quality of markets. However, transaction-driven transformations still dominated over support for structural changes. After 2012 the focus shifted further, prompted in part by the 2013 “Stuck in Transition” Report which showed country level transition downgrades outnumbering upgrades, and many significant policy and performance reversals.

A wave of internal institutional changes followed the report. A new Vice Presidency for Policy and Partnerships was created; an Enhanced and Structured Approach to Policy Reform Dialogue was approved in 2015; in 2014 the IC and Governance Initiative (ICGI) was launched and a dedicated team created, which then was integrated with the political counsellors as Governance and Political Affairs (GPA) team in the newly created EPG. The new transition concept introduced in 2016 included two out of six transition qualities directly correlated with the IC support policy framework: well-governed; and competitive.

The EBRD is facing challenges in expanding investment in many COOs. In some cases this is due to positive dynamics (availability of private financing and maturity of the markets), in others to competition from other IFIs that offer cheaper (and less conditional) finance. In many more it reflects regulatory/legal bottlenecks and risk perceptions, including around expanding beyond existing sectors into new areas such as energy efficiency and climate change. The Bank’s commitments to the Sustainable Development Goals reinforce this broader point.

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3 Transition and Transition Impact. A Review of the Concept and Implications for the EBRD, 2009
4 SGWS15-220 (Add 1)
1. The EBRD’s Role in IC Support

1.1. Strategic Framework

The EBRD has not articulated its strategic objectives with respect to improving the IC in its countries of operations. Instead, dimensions of transition impact incorporate aspects of a country’s investment climate. Key documents, including “Enhanced and structured approach to policy reform dialogue” do not define IC or the scope of Bank involvement. However, the need to support IC is frequently cited in Transition Reports and country strategies, is embedded in multiple sector strategies and is the subject of a number of Memoranda of Understanding with COOs (see Chapter 2). Several team scorecards identify IC and business environment objectives and creating well-governed institutions as part of their role and departmental objectives (particularly EPG, OGC, and OCCO).

Only a single definition of IC can be found in Bank documents. A Financial and Operations Committee paper “Implementation of Operational Priorities: Work on the Investment Climate” (1999) defines it as “the quality of institutions, policies and laws, and behaviour of public and private agents, which influence investment performance”. It outlined the principles of building priorities of engagement in a potentially huge area of investment climate. Simultaneously it defined five dimensions of strategic focus in relation to supporting the creation and maintenance of a positive IC (Table 1).

This was closely intertwined with operational objectives and the document stated that “all IC initiatives need to be grounded in its [the EBRD’s] project work and in its experiences as an investor”. It was suggested that to enhance leverage from individual Bank operations and achieve IC objectives systemic policy work should be “clustered” around reform-minded regions and municipalities, and particular sectors for bottom-up effect. A top-down approach to design and delivery was viewed as inconsistent with the Bank’s mandate.

Table 1. Evolution of priorities in the EBRD’s IC support activities

<table>
<thead>
<tr>
<th>1999</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Conditions for development of a sound financial sector;</td>
<td>(i) Public-private dialogue;</td>
</tr>
<tr>
<td>(ii) Administrative and support environment for SMEs;</td>
<td>(ii) Transparency and disclosure;</td>
</tr>
<tr>
<td>(iii) Commercial legislation and its enforcement;</td>
<td>(iii) Business regulation;</td>
</tr>
<tr>
<td>(iv) Legal and regulatory framework for commercial infrastructure;</td>
<td>(iv) Functioning of the judiciary;</td>
</tr>
<tr>
<td>(v) Protection of shareholder and creditor rights.</td>
<td>(v) Dispute resolution;</td>
</tr>
<tr>
<td>(vi) Incentives to reduce corruption.</td>
<td></td>
</tr>
</tbody>
</table>

Underlying principles of Bank’s engagement:
being an affected party (relevance to mandate);
having leverage;
working in a complementary and collaborative way with other institutions; and
having skills and resources for the task.

Source: EvD elaboration based on FOP (1999) and ICGI (2014) documents

With the launch of ICGI in 2014, the Bank redefined the framework for engagement in IC, focusing on the seven dimensions above. These were gradually extended for example in the area of state institutional
capacity building. Table 1 illustrates the 1999-2014 shift in the dimensions of IC engagement, as well as unchanged principles that define the Bank’s activities in this area.9

Further prominence was given to good governance and IC in the new EBRD transition concept (2016) which contains six core transition qualities: well-governed (combination of national/subnational economic governance and corporate governance), competitive, inclusive, resilient, green, and integrated.

The EBRD activities along two transition qualities – competitive and well-governed – contribute the most to Improving the IC and governance standards. Their definitions and structure10 cover most of the policy framework in this sphere, as it is defined and monitored internationally and nationally. According to the revamped Transition Concept “competitiveness” refers variously to a country’s position in international trade, the interaction among firms in a market, the strength of a single firm or its capacity to generate value added. It is also often equated with productivity and innovation, concepts that are closely related but not synonymous. The well-governed quality “…concerns authority, decision-making and accountability in all domains. At its core, governance is about the quality of institutions and the processes that they support.” Both qualities implicitly include changes in the behaviour of key stakeholders that affect investment activities. And this, according to the IC definition, is one of its three core elements, along with a higher quality of economic institutions and a better legal/regulatory framework.

Graphs 1-2 Illustrate EvD’s interpretation of the structure of these two transition qualities. While the entire well-governed quality overlaps the elements of the investment climate, in the competitive quality only some components do, particularly incentives for commercially-sound decision making and a market structure that promotes competition and diversification.

Graph 1-2. Structure of well-governed and competitive transition qualities

![Graph 1-2: Structure of well-governed and competitive transition qualities](source: EvD’s elaboration based on EBRD TI Concept, 2016.)

The EBRD’s delivery mechanisms for these two transition dimensions are very distinctive. Activities along the well-governed quality are mostly delivered by relatively small policy teams with only a marginal presence on the ground. Resources are scarce and mostly donor-driven. Activities along the competitive quality are delivered by a large number of bankers and lawyers who work on investment operations in HQ and ROs across all COOs. Well-resourced at the micro-level, largely through transaction fees, activities aimed at enhancing competitiveness at the macro-level that do not have direct transactional link are less well provisioned.

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9 As presented in a number of internal documents summarised at [http://intranet.ebrd.com/ebrdnet/depts/stake/icg.shtml](http://intranet.ebrd.com/ebrdnet/depts/stake/icg.shtml)
10 Transition Concept Review, 10 November 2016, BDS16-181
It is important to see how the EBRD’s definitions and priorities fit into the wider country strategic framework (see Graph 3). There is an internationally recognised standard for defining the quality of the IC and measuring its improvement – OECD’s “Policy Framework for Investment” (PFI), the core details of which are presented in Box 1. While not binding, this document is a tool for assessing the investment climate, and for designing reforms to improve it. It sets out the main principles and is used across many countries in the world. While not applying the totality of this framework in its own IC improvement activities, the Bank operates in countries which might choose to apply it for their domestic strategic framework. Moreover, the newly redefined EBRD transition concept brings the strategic fit closer to the OECD’s framework.

Box 1: The OECD’s “Policy Framework for Investment” (PFI)

Released in 2015 and endorsed by G20 Trade Ministers the OECD’s “Policy Framework for Investment” is the most comprehensive and systematic policy approach for improving investment conditions. It looks at 12 different policy areas affecting investment: investment policy, investment promotion and facilitation, competition, trade, taxation, corporate governance, finance, infrastructure, developing human resources, policies to promote responsible business conduct and investment in support of green growth, and lastly the broader issues of public governance. These policy areas are widely recognised as underpinning a healthy environment for all investors, from small- and medium-sized firms to multinational enterprises.

The PFI is neither prescriptive nor binding. It emphasises the fundamental principles of rule of law, transparency, non-discrimination and the protection of property rights but leaves to the country concerned the choice of policies, based on its economic circumstances and institutional capabilities. The PFI has been used by close to 30 countries at varying levels of development and across all continents, as a tool for assessing investment and business climates, and for designing reforms to improve them.

1.2. The Dual Role of the EBRD: Combining the Reactive and Proactive

The Bank’s approach to supporting IC improvements is two-pronged: as an interested investor and as an agent of wider reform. As investor the Bank can support positive operational and financial results at the firm level. Individual investments may also deliver wider value regionally, sectorally or industry-wide. Most IC-related activities performed by teams, such as LTT or OCCO, are transaction driven; according to one interviewee “We rarely do things just for the sake of doing. The bankers clearly identify the needs for the intervention – whether at the level of individual client (case of corporate governance) or at the level of sector or entire country (case of cross-cutting initiative).” These activities are mostly funded through TC projects linked to the specific transaction (see Chapter 2 for details).

There has been some success in deregulating markets, and making private and publicly owned companies better-governed and competitive. This capability derives from the Bank’s experience as a long-term large (and sometimes the largest) private sector investor in many COOs. It is also a very visible part of the Bank’s operations, where successes are communicated widely through numerous channels and where the

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12 http://www.oecd.org/investment/pfi.htm
generation of new business is conditional upon the success of the previous projects. Stakeholders interviewed in four case countries appreciated Bank activities in the corporate area but suggested that more could be done, and done differently.

Equally, the Bank has a strong mandate to assist partner governments to open the market economy, which requires structural and systemic reforms that go beyond the interests of one transaction or even sector operations. In the first 10-15 years of its operations the Bank was focused on expanding the private sector and curtailing the role of state. However, over the years it came to realise that “the transition should be about redefining the state as opposed to simply minimising it, and about improving the quality of state and private institutions and ensuring that they work well together.”

The EBRD’s wider policy work – actual systemic IC support, enhancing the governance, transparency and effectiveness of public institutions, changing stakeholder behaviour – is less successful and even less visible. Although causality can’t be shown directly continuous support for investment councils, in some cases for a decade (Kyrgyz) is observed alongside very low governance ratings (3.33 in the Kyrgyz Republic, 5.15 – the EBRD average) and competitive transition quality scores (2.78 in the Kyrgyz Republic, 4.76 - EBRD average). As for visibility, at one of the meetings in the Kyrgyz Republic, one of the international stakeholders expressed initial surprise at the subject of the interview: “I didn’t realise you do something in the area of investment climate!”. By the end of the interview they had a better idea and expressed appreciation of the scope of the EBRD’s engagement.

IC improvement is a huge and very complex area and the EBRD has limited capacity to undertake large-scale interventions. The EBRD is not a policy-based lender and it has little leverage to sustain long-term pressure on decision makers. While well-aware of the principal problems it lacks the tools to address them. The Bank’s three-level filter effectively identifies the key questions: (i) does the Bank have the leverage? (ii) can it collaborate with others to deliver the result? and (iii) does it have the necessary skills/resources?

Bottom-up banking-driven responses to specific IC/legal issues are common; but they have been poorly co-ordinated horizontally. Recognition of the shortcomings has driven interest in improving the Bank’s approach, structure, and tools. Over the last five years the EBRD’s institutional focus on country challenges has sharpened, with a greater emphasis on economic governance and policy engagement. Box 2 illustrates one example of an evolved role.

Box 2. The EBRD’s role in supporting the Business Ombudsman Institution (BOI)

The Bank’s role was essential to launch the BOI in Ukraine – a collective action tool to address bribery solicitation and corrupt practices. The EBRD was the source of the idea and it has since been an enabler, mobilising donor resources and top quality international expertise.

Since its inception the Bank has been responsible for managing the Ukraine Multi-Donor Account (MDA) which finances the BOI’s activities, and the EBRD country director became a chair of the BOI supervisory council. The country director plays an indispensable role in the BOI council by facilitating the process of building a consensus, steering the BOI’s strategic work in the directions that require/deserve its attention, ensuring complementarity with other initiatives supported by donors and IFIs, and ensuring that the BOI’s voice is heard at the highest levels in Government, Parliament and other public institutions.

Internally some suggested that the EBRD’s approach to policy dialogue in general and to IC support in particular has evolved but not for the better. “The Bank is trying too hard to become the World Bank without having commensurate resources and the means to push large-scale reforms politically. The efforts of emulating WB are not very convincing.” For many the EBRD’s niche is bringing private sector companies and government agencies closer, with the aim of identifying key bottlenecks, amending legal and regulatory framework, creating conditions for dynamic growth, and most of all for building mutual trust. There are many cases where the Bank has been effective at this: from grain and dairy sector reforms in

13 EBRD Transition Report 2009 “Transition in Crisis?”, p.96
14 2017, EBRD
15 Ukraine Business Ombudsman Case Report
Ukraine to the cement industry in Egypt. The Bank’s focus is bottom-up, it addresses specific sector problems and this approach looks correct to many people inside the Bank. But being a relatively small player means that resources need to be dedicated to coordinating efforts with other IFIs – something the EBRD is lacking at the moment. “EBRD does not have the luxury of ignoring the value added of others’ work. Unlike WB and IFC we don’t have that many resources for horizontal policy activities so EBRD needs to integrate the results of other’s work”.

The EBRD’s commitment to the SDGs and climate change response mean that it, like many other multilateral and bilateral development institutions, must seek to mobilise incremental capital. The private sector will be the principal source but it requires a beneficial investment climate. Demonstration effects from single projects and discrete legal/regulatory changes may contribute but they do not suffice - a wider change in governance, norms and behaviour is needed, and there is an expectation that the EBRD will play a more prominent transformative role.

1.3. Defining and Responding to a Country’s Needs

The Bank argues the need to focus on IC issues that are most pressing for the specific country, tailoring its interventions to the available expertise and capabilities (people and money). However defining country needs at this level was until recently not a priority for the Bank. Country Strategies were mainly a compilation of existing and prospective/desired investment operations and TC, with limited treatment of related policy dialogue issues. These often had a poor strategic focus, lacking clarity on specific transition challenges and opportunities and, from this, the resulting operational priorities. As a result ex-post evaluation was challenging and a tangible country-wide footprint on the ground not quite visible, especially beyond the direct beneficiaries. Visibility for donors and investment partners was also poor.

The EBRD provides limited resources for country diagnostics. Also, the EBRD does not have an Indicator Based Reform strand of activities such as that of the World Bank Group. This means that while it monitors the progress of achievements in COOs through its transition gap/distance to frontier indicators, and results of enterprise surveys (BEEPS), these are not core determinants of policy reform initiatives and they are loosely linked to project benchmarks.16

The approach to linking needs to EBRD actions as launched in the 1990s was no longer working in the 2010s. The growing disparity between the expected transition impact and actual results on the ground pointed towards the need to concentrate attention on fewer priorities for each country, while acknowledging the diversity of contexts and providing a sound policy framework for grounding these priorities. The revised Transition concept with six transition qualities, combined with the streamlined process of preparing the country diagnostics and the country strategy significantly affects the way in which the EBRD approaches the definition of country needs. The EBRD’s Country Strategy and Results Framework department (CSRF) provides strategic guidance and expert supervision of the entire process. It is not the task of this evaluation to assess the quality of newly redesigned country strategies, and it is too early anyway to do so in a meaningful way. However the experience from the new diagnostics processes, also in some of the cases reviewed for this evaluation (Box 3), points to some improvements, particularly in linkages between the country diagnostics, country strategy and annual reviews of “policy milestones” as identified in the country strategies.

16 The Business Environment and Enterprise Performance Surveys (BEEPS) is part of the Global Enterprise Survey which enables comparison across the globe. It is conducted jointly by the EBRD and the World Bank to learn about the business environment and the main issues affecting it in Eastern Europe and Central Asian countries. BEEPS is different from the Doing Business survey (DB) and delivers data on perceptions about the main barriers from the private companies themselves, combined with some core operational data. DB on the other hand represents the opinions of the law firms based in countries, often in capitals (aka “survey of lawyers”) – it informs about what is in the books, indicators are defined for a particular business, sector and size. BEEPS has a dedicated website, launched during the most recent round, and currently it has almost 2,400 registered users of firm level data. It is a large and costly project, taking approximately 3-4 years per round. It is funded by the EBRD’s SSF and the WB (forthcoming 6th round will be also co-funded by EIB). Its deficiency is that it does not provide more timely data and covers a small sample (15,500 companies in BEEPS V) so it can not be broken down into more detailed sectors beyond manufacturing, retail and other services. The most recent BEEPS V has identified the shadow economy, access to finance and electricity as the three main impediments for businesses in 29 countries where the survey was conducted.
One great advantage of the new approach is that the EBRD communicates a clearer message of its engagement in a particular country – why, how, and for what intended purpose. It is essential for shaping the Bank’s role in a particular country where many other development partners operate, often with more substantial resources. This is important for partner governments and for the EBRD’s shareholders. With an enhanced interactive approach to preparing them, the strategies are more relevant for national strategic documents and are more likely to avoid duplication of tasks, filling in those niches that are particularly suited for the EBRD’s experience and expertise. Country diagnostics and strategy preparation are currently a collaborative effort between bankers and core policy teams, led by the regional economist and involving specialists from LTT, GPA/ICGI, rest of OGC, OCCO, CSEU and others. In-country consultations are an integral part of the process.

Box 3. New country diagnostics format: Egypt

Egypt was the first COO where the Bank employed a new approach to country diagnostics. It is a comprehensive document based on several commissioned studies, which was used not only for the preparation of the first country strategy for Egypt, but also for the IMF structural programme launched in 2016. It was a very time- and effort-consuming exercise, requiring a lot of resources (funded by SEMED Fund) due to the originally wide scope and in part to the fact that Egypt was a new COO. It therefore had no strategy review and the G7 shareholders requested a greater degree of analysis and scrutiny due to the politico-economic situation. The process was led by the regional economist with all policy teams feeding in, and strong leadership by the country management. In parallel Egypt was the first country for which the EBRD prepared a Practical Legal Guide – a much shorter version of the traditional Country Legal Profile. This document includes a chapter on the gaps in legislation and regulations, and its abridged version was used in the country diagnostics. However it was stressed by many Bank colleagues, that EPG and OGC teams spent a lot of time and resources on these two products, which is not sustainable and replicable in all country contexts.

The initial review of the new format country strategies performed by EvD in 2016 identified a number of weaknesses in the new approach. In particular, these were: a lack of discussion about the resources allocated for proposed actions; poor intervention logic with a lack of clear causal links between interventions and results; and an opportunistic approach to defining the strategic directions. For more details please see “Country Strategies – an Initial Review”.

This study included analysis of 32 country strategies approved since the “Stuck in Transition” Report to identify where a poor IC is among the biggest challenges and was identified by the Bank as a strategic priority. Fourteen strategies cited investment climate/business environment improvement as one of the priorities. In the Strategy for Albania (2016) “improving investment climate” is a specific priority – the only case in the current cohort of strategies. Five other country strategies include improvements in the business environment as the priority for the Bank’s support and interventions: Bosnia and Herzegovina (2017), Azerbaijan (2014), Bulgaria (2015), the Kyrgyz Republic (2015) and Tajikistan (2015). Additionally the term “level playing field” is used in the Egypt country strategy (2017) in close association with IC improvement. Other country strategies prioritise the Bank’s contribution to progress in overall reform (Jordan) and in selected sectors where there is reform appetite (Bulgaria).

In all four cases analysed in this evaluation EvD found that the EBRD’s intended role and operational priorities for the IC were grounded on identified challenges to the private sector and took into account the context in which the Bank operates. The Bank’s objectives are clear and the inputs are relevant to their achievement.

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17 Another important strategic documents which is crucial for defining the quality of a country’s IC is the Practical Legal Guide, which substitutes for the long-standing Country Legal Profile documents. Not only it is a much shorter and user friendly document, it also points to key areas of the legal and regulatory environment that require improvement, which are then integrated in the country diagnostics and then in the country strategy. Egypt was the first COO for which the EBRD prepared a Practical Legal Guide in 2016.

18 EvD special study “Country Strategies – an initial review”, May 2016
In 2014 the Bank introduced another strategic framework for interactions at the country level – the Memorandum of Understanding in respect of co-operation in support of the IC and good governance. This instrument is highly distinctive from the country strategy as it is driven by partner government commitment to implement Bank recommendations to improve IC and governance standards, including the area of preventing and combatting corruption. The MoUs are an integral part of the toolkit offered by the Investment Climate and Governance Initiative.

1.4. Investment Climate and Governance Initiative

In 2014 the Boards of Directors and Governors endorsed the Investment Climate and Governance Initiative (ICGI) as a direct response to persistent challenges in the IC in many countries of operations, including those identified in the “Stuck in Transition” Report (2013). Its goal is “...to strengthen its [Bank’s] capacity to foster transition through policy dialogue and national-level initiatives for good governance and a better investment climate.” The ICGI does not have an underpinning Strategic Document or Terms of Reference with a timeframe or results framework. The Board Information Session documents (2014 and 2017), Strategy and Policy Committee papers (2013 and 2017) and Executive committee papers (2014) represent the ICGI’s formal scope. Otherwise it is encapsulated in internal information resources, such as presentations, information sheets or intranet pages. The initial framework document for the ICGI (in the form of a presentation) outlined the principles of ICGI activities (so called PILL): (1) policies – investments alone are not sufficient to get countries “unstuck”; (2) institutions; (3) leadership; and (4) long-term perspective. The evaluation team finds those to be more fundamental elements of a successful intervention which is not transaction-driven but rather leads towards a wide policy transition.

At the time of approval seven dimensions of ICGI were identified to define the scope of the Bank’s engagement in policy dialogue and technical assistance in this area: (i) Public-private dialogue; (ii) Transparency and disclosure; (iii) Business regulation; (iv) Functioning of the judiciary; (v) Dispute resolution; (vi) Procurement policies and practices; (vii) Incentives to reduce corruption. Most of these dimensions are long-standing elements of the EBRD’s specialist teams, such as LTT, OCCO and the Procurement Policy Department (PPD). Here they have been brought together under one roof of the ICGI – to form and offer complex (but not complete) country-level solutions where IC challenges persist. As new activities emerged, also in the framework of four MoUs signed with partner governments, the priority themes evolved and expanded, but they mostly embrace pre-existing streams of work (i.e. competition policy, corporate governance etc.). The most recent internal document (2018) identifies four thematic areas for ICGI core activities:

- Strengthening public-private dialogue;
- Building recourse mechanisms for private sector firms;
- Building capacity in state institutions responsible for economic governance;
- Enhancing transparency in business reporting and streamlining business regulation.

The ICGI is managed by the Governance team in the GPA department (part of EPG). This team is responsible for designing and delivering a range of individually tailored programmes and stand-alone TC projects in selected countries with particularly “sticky” challenges in IC where the government demonstrates leadership and commitment to reforms, with the active engagement of the business community, civil society, other IFIs and international organisations. All ICGI activities and projects are collaborative with other teams. Some of them are led by the experts from the Governance team, while in others they support specialist policy teams (i.e. LTT, OCCO etc.) which have relevant expertise.

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19 Investment Climate and Governance Initiative. Information Summary, January 2015
20 Information Session: ICGI. SGS14-011 (Addendum 1)
21 Intranet link: [https://intranet.ebrd.com/EPG/EPG%20ICGI.pdf](https://intranet.ebrd.com/EPG/EPG%20ICGI.pdf)
22 At the beginning of 2018 the team had six governance councillors, two CCT expert positions and three analysts/associates whose time is shared with the political councillors on 50:50 basis.
The ICGI is the most prominent of the very few IC support activities with a systemic rather than transactional focus. Most elements in the ICGI toolbox target the hardest element in IC definition – the behaviour of public and private stakeholders – and take time to deliver meaningful change.

The Bank’s role in supporting IC improvement in its COOs is important but it is dual. The split, and sometimes tension, between transaction-driven and transformative policy roles is evident. In its capacity of private sector investor the Bank is able to effectively address multiple specific sector issues that unlock more investment opportunities and enhance sector productivity. The commitment of the clients is crucial in this role. However it rarely enables the EBRD to address wider challenges related to the quality of economic institutions or the behaviour of the main stakeholders. It is a proactive transformative role that can influence this, and that’s where the commitment of the partner governments is key. At this stage the EBRD’s role as an agent of change in IC support is strong in only a very few narrow cases. Overall it lacks a strategic framework, specific objectives and timeframe, which makes it challenging to monitor and evaluate systemically, and to adjust to ensure a better strategic fit.

2. Efficiency of EBRD activities in IC support

This chapter reviews IC activities, resources and the mechanisms of implementation. Specific emphasis is placed on horizontal collaboration, the EBRD’s ground presence and the administrative processes supporting delivery. All these have a significant effect on the scope and quality of results delivered at the country level.

The duality of EBRD’s role in IC support results in work along two parallel tracks. One is transaction-driven, for the resolution of specific bottlenecks and challenges in discrete regulatory/legal/institutional areas. The other is transformational and aims at achieving a wider systemic change – it is driven by country needs in changing economic institutions and the behaviour of public and private counterparts. Graph 4 below presents a rough scheme of the balance between the two.

Graph 4. Two tracks of the EBRD’s IC support activities

IC support that is integral to transactions often delivers improved governance standards and greater competitiveness which contribute to a better investment climate. The evaluation team did not do an analysis of this granularity for the entire portfolio as it is not feasible. The analysis was done for three
country case studies and is presented in separate reports (Annexes 7-10). The chapter below concentrates on systemic IC support activities. Due to the limitations of the EBRD’s systems the data is diverse and sometimes incomparable (periods, budgets, number of projects, etc.). When operational evaluations by transition qualities start to become available, the results’ capture will be easier, through monitoring the achievements in the well-governed and competitive transition domains.

2.1. Sources and priorities of funding

EBRD donors often support specific IC efforts in specific countries. Some have a stronger regional orientation or sectoral preferences. In the absence of a Bank strategic document and dedicated monitoring of IC support activities it is impossible to quantify exactly how much is spent on the activities that contribute to IC improvement. Graph 5 pulls together some key figures which were established by EvD through TCRS and other sources. These sources are for four countries analysed in detail and for the specific initiative/team. The numbers could not be summed as they overlap in some instances. Amounts are only for TC relevant for IC support activities and the percentage shows its share of the total TC allocation in this category (see Annex 2 Methodology for details on how “IC relevance” is defined). The total TC allocations spent on areas relevant for IC improvement are at the level of 3%. Some sources, particularly those most recently launched, are 100% dedicated to this issue (MDA, ICGI). Four case reports in Annexes 7-10 include more granulated data for each country and initiative.

Graph 5. TC allocations relevant for the EBRD’s IC support activities, 2005-2017, EUR million and share in total

<table>
<thead>
<tr>
<th>Country</th>
<th>2005-2017 EUR million</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kyrgyz relevant TC</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Egypt relevant TC</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td>Albania relevant TC</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Ukraine MDA</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>EBRD-UK ICG Fund**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICGI*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTT</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total relevant TC</strong></td>
<td>3%</td>
<td></td>
</tr>
</tbody>
</table>

Notes: * from 2014 only; ** from 2015 only
Source: TCRS with EvD computations.

As there is no single strategic theme for IC support in the Bank’s classification of the TC allocations the evaluation team used the closest proxies, which also evolved in recent years. For example, in the Bank’s 2013 Grant Co-financing Strategic Review lacked a “good governance” strategic area, but did present a “legal transition, environment and generic policy dialogue”. Analysis of donor funds shows a shortfall in Western Balkans; a significant shortfall in ETC and EU countries; and a surplus in SEMED and “Other ODA” regions.

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23 With the introduction of new TSRC system, that aims to improve the accountability of the bank’s TC activities, there might be some inconsistencies in the number of operations and budgets from pre-2016 period as they were migrated from other system.
24 relevance defined by EvD, see Methodology for details
Graph 6. SSF’s funding by strategic theme in 2016, million EUR

Legend: 1 - Entrepreneurship & SMEs; 2 - Infrastructure Services and Energy Security; 3 – Sustainable Energy and Resource Efficiency; 4 - Private Sector Competitiveness; 5 - Economic Inclusion & Gender Equality; 6 - Integration & Trade; 7 - Effective Fin. Sector Developed; 8 – Developed Local Currency and Capital Markets; 9 - Good Governance; 10 - Innovation and Knowledge Economy

Source: the EBRD’s 2016 Grant Co-finance Report

Of the ten new strategic themes in the 2016 Grant Co-financing Report three are relevant to IC support activities: good governance; entrepreneurship and SMEs; and private sector competitiveness. The data on SSF’s allocations illustrates that in 2016 6.1% was allocated to entrepreneurship and SMEs (theme 1); 7.4% - to private sector competitiveness (theme 4); and 6.9% - to good governance (theme 9). The allocations for themes 1 and 9 were below the approved amount. Regional analysis shows that in ETC countries the good governance theme was funded at the level of €4.67 million and private sector competitiveness these at the level of €1.17 million; in SEMED - €1.39 million and €1.8 million; and in Western Balkans – €1.2 million and €520,000 respectively (see Graph 6).

A review of the top-two strategic themes for grant use offers an interesting angle of the analysis (see Table 2). It illustrates that in no EBRD regions are good governance or private sector competitiveness themes among top-two grant funded strategic themes. Entrepreneurship and SME feature strongly in Ukraine, SEMED and Turkey. However, unlike the previous two themes, it contains a relatively high proportion of the non-TC grants that are used for blended financial products. Aggregate numbers make it challenging to identify spending for IC-related policy dialogue and support.
Table 2. Grant use by Region/Country and Strategic theme, 2016*

<table>
<thead>
<tr>
<th>Region/country</th>
<th>Total use, million EUR</th>
<th>Use by largest strategic theme, %</th>
<th>Use by second largest strategic theme, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-regional</td>
<td>36</td>
<td>Sustainable Infrastructure and Energy Security - 46</td>
<td>Economic Inclusion &amp; Gender Equality - 12</td>
</tr>
<tr>
<td>ETC (ODA)</td>
<td>129</td>
<td>Sustainable Infrastructure and Energy Security - 51</td>
<td>Green Economy Transition - 32</td>
</tr>
<tr>
<td>SEMED (ODA)</td>
<td>98</td>
<td>Sustainable Infrastructure and Energy Security - 49</td>
<td>Entrepreneurship &amp; SMEs - 27</td>
</tr>
<tr>
<td>Ukraine (ODA)</td>
<td>74</td>
<td>Entrepreneurship &amp; SMEs - 47</td>
<td>Green Economy Transition - 31</td>
</tr>
<tr>
<td>Western Balkans (ODA)</td>
<td>31</td>
<td>Green Economy Transition - 32</td>
<td>Sustainable Infrastructure and Energy Security - 30</td>
</tr>
<tr>
<td>Turkey (ODA)</td>
<td>17</td>
<td>Green Economy Transition - 76</td>
<td>Entrepreneurship &amp; SMEs - 15</td>
</tr>
<tr>
<td>Kazakhstan (ODA)</td>
<td>11</td>
<td>Sustainable Infrastructure and Energy Security - 55</td>
<td>Green Economy Transition - 33</td>
</tr>
<tr>
<td>Non-ODA (EU and Russia)</td>
<td>13</td>
<td>Green Economy Transition - 37</td>
<td>Strong, Resilient and Effective Financial Sector - 25</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>409</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*The two largest strategic themes in terms of volume are listed.

Source: the EBRD’s 2016 Grant Co-finance Report

Most funding for IC related activities comes from donors in the form of special multi-donor accounts, such as Ukraine MDA, SEMED Fund, ETC Fund. There is also one ICGI specific fund – EBRD-UK IC and Governance Fund established in 2015 and fully committed in 2017.

**Box 4. EBRD-UK IC and Governance Fund**

In 2015 the UK Government and the EBRD established an EBRD-UK IC and Governance Fund with a budget of £2.6 million. The partnership is based on the strong strategic fit between the objectives of the Good Governance Fund (GGF) of DFID/FCO and the EBRD’s ICGI, as well as on the clear common regional focus for governance-related policy projects. The Fund allows the Bank to deliver TC projects, training and other expertise to targeted counterparts in countries eligible for funding under the GGF, which include Bosnia and Herzegovina, Georgia, Moldova, Serbia, and Ukraine (via the Ukraine Multi Donor Account). GGF support includes policy work in areas such as corporate governance, fostering public private dialogue, strengthening legal and regulatory frameworks, capacity building of state institutions and supporting privatisation, amongst others. The GGF also supports the EBRD’s flagship Investment Councils in Georgia and Moldova. By the middle of 2017 ten projects had been approved and all money committed.

In Egypt, the SEMED Multi-Donor Account supports the majority of the Bank’s policy work aimed at improving the investment climate. In Albania, a country with EU accession aspirations and a reform agenda driven by the need to bring the national legal and regulatory framework into conformity with that of the EU, the main donors are the EU and some member countries, particularly Italy and its Central Europe Initiative Fund. The entire LTT portfolio is donor-funded, with a large share contributed by the EBRD Shareholder Special Fund (See Annex 3 for the list of LTT projects), but with a multitude of other donors. For example, approximately 40 projects in e-governance and procurement had support from Czech Republic, Slovakia, Austria, Korea, Luxembourg and the Ukraine MDA.

The fundamental lack of certainty on funding affects essentially the full range of IC operations and constitutes an obstacle to strategic planning and multi-year engagement and delivery. For policy teams dealing with governance issues and the regulatory environment, the issue of funding is becoming more of a
challenge. For example, for the last ten years LTT had secured a stream of donor funding relatively easily, but now the prospects are not so clear, including from SSF. The team was urged by some to consider fee-based services for some sectors/countries. Initial indicators suggest it is unlikely that clients will be willing to pay fees. Even in the current model, developing projects in LTT is challenging, as it requires strong commitment from local counterparts and clients. Even if the projects are successful initially it is often challenging to keep the clients engaged. There is a prevailing belief that introduction of fees might undermine EBRD competitiveness compared to other IFIs offering lower rates and fewer conditions.

Building relationships with donors and gaining their trust requires time and effort, both in HQ and locally in ROs. Among the key ingredients of successful projects were: (a) knowing donors’ priorities and (b) making sure they know that they can expect high standards in implementation. As more donor organisations are decentralising their activities and more funding is potentially available in the countries, the role of ROs in fundraising is growing and the importance of close coordination between HQ-based policy teams (most of which have no local presence) and ROs is greater. The EBRD has well-developed relationships and a model of cooperation with the key donors through the London-based Donor Co-financing Department (DCF), that also has a representative office in Brussels. However, as noted repeatedly above, IC support activities require non-transactional TC funds that are difficult to secure. Locally the availability might be greater, as was noted in several COOs visited, thus a greater capacity to secure funding in ROs is required. EvD understands that DCF is working in this area and offers RO colleagues a range of tools and instruments to enhance their capabilities in this domain. More issues related to presence in COOs are presented below.

Fundraising is a substantial claim on staff resources, and fundraising cycles do not always correspond to the cycles of initiatives. Furthermore they differ from country to country, with varied degree of “stability”. For example, over ten years the Kyrgyz investment council had five 2-year rolling programmes and budgets, with the contract being signed every two years with individual consultants. In other countries the contracts are 12-months and the hire/retention of highly skilled and professional staff on the ground is challenging and subject to fierce competition from other international institutions. Staff in HQ feel equally under pressure to raise continuously and invest time in writing proposals to various donors, where the financial outcome is often unpredictable. However, policy commitment remains the same (e.g. implementation of country MoU) and so the Bank’s potential impact is affected.

As governance, compliance, regulatory support and civil society engagement have a more "pre-emptive" rather than reactive nature, the cost-benefit analysis requires revision. At this stage EvD can’t offer the exact cost of up-front advice that, over the years, will deliver substantial savings on conducting due diligence, preparing corporate governance actions plans and their implementation. Pricing the benefit of qualitative institutional change is an internationally recognised challenge. However, not doing so leads to higher operational costs.

2.2. ICGI Flagship instruments and products

This chapter looks into “flagship” governance instruments and activities aimed at fundamental elements of a country’s investment climate. All these are managed by the Governance team in GPA and implemented under the umbrella of ICGI. These instruments have a strong country lead with the country heads/directors being closely engaged in project implementation on the ground, along with HQ specialists, and in some cases consultants (CCT or external).

At the time of evaluation the Governance team is managing a portfolio of 30 TC projects for the amount of €29 million (with eight completed projects the total volume is €30.157 million). The funding is provided by DFID, EU, SSF, and others. The graphs 7 (a) and (b) below illustrate the structure of ICGI’s projects by area of activity and the EBRD’s region of operation.

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26 A full list of projects is provided in Annex 3
27 These are projects where an ICGI team member is the operational leader
The Governance team is leading on a number of “flagship initiatives” - essential tools used for enhancing public sector governance and public-private dialogue in the countries of operation. Particularly these are Governance and Anti-corruption Memoranda of Understanding (MoU) with partner governments, investment councils (strengthening public private dialogue, PPD), and business ombudsman (BOI, recourse mechanism for private sector).

**Governance and Anti-corruption MoUs**

The Governance team is the primary driver of the Memoranda of Understanding (MoU) between the Bank and governments that declare their commitment to finding a systemic solution to problems in the sphere of governance and corruption. As of the middle of 2018 seven such MoUs were signed. Two case reports - Albania and Ukraine - contain details of the projects, activities and their results under the MoU commitments. There are ongoing negotiations with a number of other COOs to prepare and sign similar MoUs. Given that political will and a government’s commitment are the crucial conditions for signing a MoU, the existence of this “contract” between the Bank and the COOs is an indicator of both the scale of the challenges and the readiness of the country partners to take on “uncomfortable” reforms.

The MoUs are the “next level up” from country strategies in terms of commitment, collaboration and alignment of the Bank’s and country’s priorities. While the country strategy contains the Bank’s commitments with respect to investment, TC operations and policy dialogue, the MoU represents a joint commitment of the EBRD and the Government to have an action plan aimed at addressing the issues of inadequate quality of economic governance and anti-corruption safeguarding system. The MoU is the framework for implementing and monitoring a structured range of activities to address the most challenging institutional and governance issues. Delivery of MoU commitments over the 2-3 years period requires a budget of approximately €750,000.

**Investment Councils**

The EBRD as one of the biggest private sector investors in many COOs is involved in a number of initiatives to enhance Public-Private Dialogue (PPD). Sometimes other stakeholders launch and support PPD initiatives with the EBRD taking part and contributing in its strongest operational areas. In several cases the Bank launched and carefully guides PPD initiatives itself, with the donors’ support. These are usually in countries with a challenging politico-economic context, fragmented political elites or a weak/immature
private sector tradition, which in combination with slow transition processes and low economic growth, present themselves as examples of the most “stuck in transition” countries.

At the end of 2017 the Bank supported investment councils in seven counties of operation (see Table 3) with several more in the pipeline. The Bank’s objective is to make these initiatives/instruments self-sustainable, including financially, with in-country buy-in from the start. Evidence from Albania and the Kyrgyz Republic though suggests that it is a challenging task.29

Table 3. Investment councils in COOs supported by the EBRD*

<table>
<thead>
<tr>
<th>Country</th>
<th>Period of activities</th>
<th>Number of TC Projects</th>
<th>Assigned Disbursement Value, EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>2015-present</td>
<td>1</td>
<td>499,100</td>
</tr>
<tr>
<td>Armenia</td>
<td>2008-present</td>
<td>3</td>
<td>1,251,686</td>
</tr>
<tr>
<td>Georgia</td>
<td>2015-present</td>
<td>2</td>
<td>1,151,049</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>2007-present</td>
<td>12</td>
<td>2,890,192</td>
</tr>
<tr>
<td>Moldova</td>
<td>2013-present</td>
<td>1</td>
<td>256,750</td>
</tr>
<tr>
<td>Mongolia</td>
<td>2007-2012</td>
<td>7</td>
<td>275,940</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>2007-present</td>
<td>4</td>
<td>559,789</td>
</tr>
<tr>
<td>Ukraine</td>
<td>2017-present</td>
<td>1</td>
<td>818,100</td>
</tr>
</tbody>
</table>

Source: ICGI documents and TC database
*There were 2 regional TC projects for a total amount of €475,580 to support investment councils in Armenia, Kyrgyz Republic and Tajikistan

PPD platforms are valuable where mutual trust between the government and the private sector is very low. They can help bridge the gap in understanding the problems of the business environment, and build constructive dialogue. Also, these platforms are well-tuned for delivering Bank and donor support aimed at strengthening coalitions and collective actions. The EBRD’s ability to support building and sustaining effective PPD platforms is a key contribution to strengthening the role of the private sector in transition economies and enhancing the quality of governance in public institutions. The Governance team plays the role of the internal secretariat for the EBRD’s Investment Councils Steering Group established in 2015. Its objective is to “coordinate the assessments of the delivery effectiveness of the existing ICs and make recommendations on how the existing ICs’ work can be enhanced”.30 The group brings together representatives of VP3, banking, ASB, and LTT teams who, at their regular meetings, make decisions about the nature and scope of the support needed for a specific investment council. The history of the EBRD’s support to the councils and their secretariats goes back to 2007 and different teams have been responsible for leading on this organisationally, and providing specific expert inputs. Therefore the steering group is a very practical way to ensure the consistency of actions and coordinating activities at HQ level. The Group’s recommendations and endorsement are included in the submissions for approval of TC projects that support IC secretariat activities.

This report offers an analysis of several examples of how the bank mobilised support and continues to nurture PPD platforms in different countries of operation and in varied formats. The Albanian council is one of the newest but one of the most successful, judging by the feedback from the businesses and government. The Kyrgyz council is the oldest, with plenty of lessons and experience to share. It has established procedures and enjoys close relationships with the government. At the same time, feedback from private companies suggests that the council does not quite speak the same language as they do and its ability to engage with other power branches (Parliament) is limited.

The ability of the Bank to effectively support councils is greater where there is strong government commitment to making the business environment investor-friendly. Forcing the instrument in a context not conducive to change is unproductive and ineffective. Moreover, commitment is not a permanent category

29 See Albania case report and the Kyrgyz Republic case report
30 EBRD Investment Councils Steering Group, ToR, February 2015, internal document
and its intensity fluctuates depending on the political cycle and the dynamics of economic development. However, as the data in impact chapter below demonstrates, only a few COOs have seen no absolute improvement in their IC and most have improved some critical elements, while remaining relatively low in the rankings of relative positions.

The holistic use of investment councils as platforms for pushing other Bank reform agendas is a challenging task. On the one hand, the independence of the secretariats and their arm’s-length distance from ROs in the countries ensures neutrality, but on the other hand precludes a more active and productive channelling of the Bank’s expert and technical inputs to the forum representing both government and business sectors. This became apparent during the conference of IC representatives in London in March 2017, when teams such as LTT, CSEU and ASB noted that their engagement with the IC Secretariats supported by the EBRD has a large potential for expansion and very few collaborative initiatives exist so far. However, teams on the ground, particularly the ASB team, noted a great degree of collaboration, including on financing and co-hosting the events. Also, the ASB F&D team is interested in “plugging into” the work of investment councils more actively. It is looking at relevant issues that are important for its clients and trying to integrate them into the investment councils meeting agendas. Sometimes this works well (in case of the Kyrgyz Republic), however the separation between SME and non-SME relevant work is a challenge.

Many noted that the EBRD supports investment councils as more of a facilitator, while it can deliver more contextually meaningful inputs as an investor working in the country. Some recommended that the Bank should focus more effort and resources on this. There are issues of neutrality and conflicts of interest to consider, however more linkages between the secretariat and the EBRD ROs in some countries of operations will benefit rather than harm investment councils. It was even suggested in one case, that locating the IC’s Secretariat at the EBRD’s RO would contribute to its enhanced effectiveness, efficient use of resources, and its status in the eyes of both the business sector and government. It is fair to say that such an institutional setting would not be plausible/advisable for all countries, but in some political economy contexts it might deliver higher results compared to the “totally neutral” setting.

Business Ombudsman

In Ukraine, the Governance team, jointly with OCCO and the country banking team, has pioneered an innovative recourse mechanism for businesses, the Business Ombudsman Institution (BOI) broadly based on the High Level Reporting Mechanism (HLRM) principles initially developed jointly by the OECD and Basel Institute of Governance. The BOI launched in Ukraine in 2015 is the second case globally (along with Colombia) where the principles and standards of HLRM are fully applied and followed through comprehensive governance instruments. Despite a short period of activity, the BOI has achieved substantial results – helping more than 1,400 businesses to resolve disputes and save around UAH 11 billion of otherwise wasted (in fees, fines, and overpaid taxes) money. Simultaneously it contributed to the design of the systemic legal and regulatory changes that should prevent mistreatment of companies by state agencies in the future and improve the IC in specific areas and at the macro level. Structured work with some public authorities via an MoU is accompanied by comprehensive outreach activities in all regions of Ukraine and stand-alone engagements. The BOI case report describes in detail the approach and the results that the EBRD and its partners have managed to achieve in a very short period of time (see Annex 11).

BOI is one of the flagship products of the EBRD’s ICGI and the question of replicability is a core one. While facing growing interest and demand for similar institution in other COOs (currently the EBRD is discussing these opportunities in Albania and the Kyrgyz Republic), the Bank needs to be cautious in managing expectations. For the BOI to be as successful in other contexts as it is in Ukraine, it needs a combination of preconditions and adherence to its basic principles (which are codified and agreed upon internally in the EBRD but not necessarily by external stakeholders). Also the diversity of models that could be developed and used in other countries is an intrinsic element of the design of this instrument.
2.3. Specialist policy teams

Table 4 below summarises the work of core IC policy teams. Most have a long history of engagement, directly supporting operational teams, helping the bankers to improve specific segments of the markets or regulations to unblock specific business areas. However, as country-level engagement is enhanced, their role is becoming more holistic. All these teams collaborate under the umbrella of ICGI and make a valuable contribution (details in Annex 4)

Importantly, all activities connect to Bank resident offices – the frontline of the policy dialogue. These aspects of the Bank’s horizontal policy work are analysed in Chapter 2.4, including findings and recommendations.

Table 4 Core policy teams working in the area of IC

<table>
<thead>
<tr>
<th>Economics, Policy and Governance</th>
<th>Legal Transition Team</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Governance Team inside the Governance and Political Affairs Department is responsible for implementation of ICGI (see Chapter 1.4 above)</td>
<td>• LTT has 16 staff members and is leading the implementation of an extremely large number of TC projects (see Annex 3) in a number of specific policy areas – e-governance, procurement, corporate governance, etc. Project load per expert is extremely high – one senior legal expert is managing projects in 19 countries of operation simultaneously.</td>
</tr>
<tr>
<td>• EPG has a range of teams that are closely involved in identifying transition gaps in the countries and sectors (country economics and sector economics pillar); preparing country diagnostics (led by regional economists); advising on sector policy initiatives (such as the Vienna Initiative); monitoring progress of results.</td>
<td>• There are somewhat diverging views on the Bank’s involvement in supporting the implementation of laws and regulations that it helped to develop. While some believe that the Bank finishes and packs up after the law is adopted, others indicated that the opposite is true. In cases when the EBRD’s legal advice work finishes when the Law is approved, the link between LTT’s “pre-work” and EBRD investments is often loose. LTT colleagues were candid in admitting that in many instances they are unsure of the Bank’s current ability to track the effectiveness of their work ex-post.</td>
</tr>
<tr>
<td>• It is the crucial point of coordinating efforts with the external stakeholders, including other IFIs, finding opportunities to pull resources together and finding appropriate donor funding.</td>
<td>• There is a persistent concern about the internal take up of the advice and recommendations that LTT delivers in its reports and documents.</td>
</tr>
<tr>
<td>• It is leading work on implementing the Knowledge Management Strategy and steering the work of the Communities of Practice (four existing so far), as well as codifying the Bank’s historical activities/achievements that could be used for further work.</td>
<td>• Responsible for the EBRD’s considerable volume of work to support the improvement of the business environment and access to finance for SMEs. Its focus is on providing advisory services to SMEs and building capacity of the consulting markets in COOs.</td>
</tr>
<tr>
<td>• One of the challenges for the EBRD’s SME Finance and Development is to “dissect” the legal and regulatory segment from the overall stream of work aimed at improving the investment climate.</td>
<td>• In 2015 the EBRD launched the Small Business Initiative (SBI) where Pillar 5 (policy dialogue) and some elements of Pillar 4 (Market Development and Sector Development Activities) are directly related to supporting improvements in the COOs’ investment climate. Often activities in these areas are collaborative with other teams, particularly LTT which provides legal advice, where ASB organises public awareness campaign, capacity building and trainings.</td>
</tr>
</tbody>
</table>

OCCO

• Working with other partners across the Bank, OCCO safeguards and promotes the EBRD’s integrity standards and anti-corruption actions, and leads the Bank’s engagement in the reform efforts at international level, and in co-ordination with other IFIs and key international organisations, like OCSE, OECD etc.

• OCCO, along with EPG, CSEU and Procurement Policy Department has launched cooperation with the OECD Anti-Corruption Network for Eastern Europe and Central Asia (OECD/ACN).

• There is a synergy between the GPA and OCCO teams working on harnessing public-private dialogue (PPD) and recourse mechanisms through platforms, including the Business Ombudsman Council. Thanks to some instances of staff mobility from one department to another, there is a meaningful knowledge and skills connection that enables the OCCO and EPG Governance teams to benefit from.

SME Finance and Development

• One of the challenges for the EBRD’s SME Finance and Development department (SME F&D) leading the implementation of the SBI initiative, is to “dissect” the legal and regulatory segment from the overall stream of work aimed at improving the investment climate.

31 In 2015 six priority sectors were identifies for EGP programme sector approach: ICT; pharmaceuticals; retail; agribusiness; automotive; and FMCG.
The recently created governance stream of OCCO (with four staff members) is focusing efforts on pre-emption of corruption rather than reaction, and on nurturing the culture of integrity compliance among local companies.

- Collaboration.

- At the country level there are successful outcomes of meaningful policy work that enables SMEs to invest more and in a wider range of sectors. Its approach is quite distinctive from the rest of the bank due to the fact that it is 100% donor funded and has to comply consistently and continuously with the donors’ requirements and standards.

### Civil Society Engagement Unit

- CSEU is working on building the capacity of civil society institutions to hold governments and businesses to account with regard to the investment projects supported by the Bank, also enhance their capacity to monitor the effectiveness of public policies and actions, propose changes to the existing and new policies, and engage in meaningful policy reform dialogue.

- The EBRD launched the pilot of “Civil Society Capacity Enhancement Framework” in June 2013 and after successful results introduced a fully-fledged programme in December 2016.32 One of the three dimensions of its work is “Good governance and transparency” which has three elements: (a) anticorruption and governance; (b) procurement monitoring; (c) support to business associations.

- The SME F&D team also has a stream of work that is aimed at enhancing the capacity of business associations in several countries. According to SME F&D colleagues they have a slightly different focus compared to the CSEU’s activities.

### Other policy teams

- Among the core teams that contribute to changing one or several dimensions of the IC in the COOs are:
  - The E2C2 department: working on the investment framework for green growth;
  - The Trade Facilitation Programme: contributing to strengthening trade policy; and financing for investment;
  - The Procurement Policy Department: contributing to strengthening public governance; and competition policy
  - Policy hubs at the banking teams: contributing to enhancing the legal and regulatory environment in their respective segments of the market; they are of varied sizes and scope of work;
  - The Office of Chief Economist: guardian of the EBRD’s transition concept, lead on methodology and EBRD-led surveys, such as BEEPS and Life in Transition;
  - The Country Strategy and Results Framework Department: lead on results management across country and sector strategies, preparing strategy concepts and monitoring delivery of strategic priorities in each country, expertise in measuring results at various tiers through the Compendium of Indicators;

Each of these teams has important initiatives and tools that contribute to improving the IC. Two examples below illustrate the depth and breadth of their engagement in two case countries.

### Box 5. Enabling SME access to e-procurement in the Kyrgyz Republic by LTT and SME F&D

This project is an example of multi-party collaboration, where the EBRD is engaged with IFCA, EIB, ADB and WB to open up the public procurement market for Kyrgyz SMEs. With the lead lawyer from LTT and dedicated ASB team on the ground, the TC project (funded from the SSF and Korea) is helping the Kyrgyz Government counterparts to develop relevant legal and regulatory documents and supporting their enforcement and technical implementation. In this particular case the role of the Investment Council (supported by the EBRD) as a platform for engaging with the government and business representatives was crucial. One of the Council’s regular meetings was dedicated to enabling local SMEs to benefit from public procurement through e-platform where LTT presented the positive effect it had on the economies of other COOs (Georgia, Estonia, Ukraine) and secured political commitment for pushing reform forward. As a result Kyrgyz companies will have access to the considerable market for supplying goods and services to publicly funded institutions (from schools to hospitals and the offices of government agencies).

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Box 6. Supporting Albania’s fight against corruption by CSEU

In 2015 the CSEU team launched a TC project “Promoting better governance and IC in Albania” funded by the EBRD’s Shareholders Special Fund (€190,000) and the OSCE Presence in Albania (US$ 220,000). Its objective is to support the Office of the National Coordinator against Corruption in Albania in implementing the National Anti-Corruption Strategy 2015-2020, particularly in relation to preventing corruption and raising awareness through outreach to civil society and citizens. The activities included: development of a training curriculum on anti-corruption and good governance for public officials; a number of trainings delivered across the country; communication plan developed and implemented via multiple media channels; lectures for students in about 30 universities/high schools; development and enactment of an anti-bribery code of conduct for Albanian companies. This project is a part of wider programme of support implemented in the framework of the EBRD-Albania MoU on Cooperation in Support of the IC and Good Governance for a total amount of €1 million.

2.4. Horizontal Internal collaboration

As explained above, various EBRD teams have varied pools of resources for the activities that contribute to improving the COOs’ investment climate. These resources, especially the Bank’s own resources, are modest and widely dispersed. Pulling them together in practice is challenging, as the administrative boundaries and donor arrangements restrict collaboration and flexibility. At the end of the day, performance is assessed against departmental scorecards and recognition for achievements across the matrix are “auxiliary” and light-touch (for example, the EBRD’s annual internal Policy Award for banking teams that excel in policy reform). Over the last two years, with the emergence of the Client Group, joint banking-policy objectives are emerging. But these are early days to establish their effectiveness.

Collaborative actions across horizontal strands are growing, particularly at the RO level and between the country teams and the policy experts in London. However, they are still inadequate for the task, particularly due to the deficit of resources. Frugal budgets should ideally lead to organisational innovations, stronger presence of policy capacity on the ground, where access to donor funds might be easier and daily policy dialogue more intensive. Two boxes below provide some examples.

Box 7. Collaboration on legal issues

Over the last several years there has been an effort to consolidate policy dialogue and investment work streams: bankers and country lawyers have been asked to get more involved in policy dialogue. With the reformed approach to the country law digest, which is making it less bulky and more practical, guiding bankers on how to approach various types of financial deals, the synergy between LTT and the rest of OGC is increasing. According to lawyers working on the deals, a joined-up approach improves the perception of LTT’s work among OGC colleagues and bankers. They are not seen as doing something separate and not that relevant, which is a positive trend.

Egypt was a pilot country for the new format of legal assessment, the Practical Legal Guide, which is intended to substitute the much longer Country Legal Profile document (200-300 pages). The Guide includes a chapter dedicated to the gaps in legislation, which are also included in the country diagnostics document, albeit in an abridged format. The work on both documents has been done in parallel. The Guide suggests the need for policy dialogue with the authorities to close the gaps and improve the legal and regulatory framework.
Box 8. Reaching across the teams for impact in small countries

In the Kyrgyz Republic the work done jointly by the E2C2 team and RO bankers on the energy/environmental standards of buildings resulted in the adoption and enactment of the Law of Energy Performance of Buildings (2012) and secondary legislation (ongoing). A TC project funded by the SSF supported the work of the State Agency of Construction and Architecture, while the Slovak Trust Fund provided resources for capacity building activities (ongoing). The Law is one of the most progressive in the former Soviet Union region and prompted developers and construction companies to change their practices with the aim of reducing energy/resources consumption and costs. An ongoing joint LTT/E2C2 project (funded by the SSF) provides further support in developing secondary legislation and ensuring consistency between the Law on Energy Saving and the Law of Energy Performance of Buildings.

It is not only the EBRD’s internal teams that require enhanced horizontal interaction, but the stakeholders in countries that receive the Bank’s support for IC improvement. In 2016 the ICGI launched the Network of the Investment Council Secretariats, which brings together all seven countries (the number is growing) where the EBRD provides support. The annual conference for Secretariat experts and their core government counterparts is one of the key elements of the network’s activities. The Evaluation team attended one of the conferences (London, April 2017) and the feedback was overwhelmingly positive. The local experts had a chance to learn first-hand of the achievements and challenges faced by councils in different countries, to compare their practices and procedures, and to learn about new ways of solving old problems. Some lessons were very relevant and one-to-one consultations proceeded, while others opened a new perspective, for both new Secretariats and those well-established in their ways. It was also crucial for building closer relationships between the Bank’s policy teams (beyond GPA) and the Secretariats. As noted above, currently Secretariats have a limited role in introducing the issues/initiatives developed by the EBRD experts into council meeting agendas. The Bank’s role is more that of a facilitator and independent honest broker. However, both businesses and government officials noted that the Bank should use this platform better as a means of raising issues/proposing solutions on enhancing the investment climate, that originate from the Bank’s work as an investor. The question of neutrality should be factored in.

2.5. Management and Administrative issues

The EBRD is still at a cross-road in deciding the balance between the resources and results its approach to the policy reform dialogue and capacity building activities should have. IC support activities are policy dialogue intensive. The Bank has directed limited internal resources for this, fundraising is lengthy and requires a lot of up-front effort without the guarantee of a result. There is a need to allocate proportionate resources to IC activities as a core Bank activity if it is justified for growing business in the country and for mobilising more private capital.

But funding is not the only challenge. A recurring issue is how adequate the Bank’s internal administrative systems are for dynamically changing IC support priorities and tasks (co-funding, donor-funded staff, reimbursable services). Many teams highlighted deficiencies in internal procedures and operations that undermine their ability to deliver support. Among them are:

- Multiple changes in internal processes, specifically TC Committee activities (recently transformed into Grant Unit), are disruptive and create more difficulties for OLs managing the projects. There is a particularly low level of comprehension and appreciation of the impact the speed of the internal decision making process might have in the context of volatile politico-economy in some COOs. There is imbalance in knowledge of the complexity and timeline of making political decisions in certain specialised areas between committee members and the expert staff. It creates unnecessary tensions and frustration.

- The challenges are greater for launching innovative projects/initiatives. After securing donor funding, often without the support and assistance of other teams, operational leaders are
confronted with the need to integrate additional conditions and preferences that are not in the donor agreement. The Bank needs to cover these additional demands from its own funding as they are not financed by donors.

- **Reimbursable (fee-based) policy advice** has good potential in the EBRD as the Bank has good expertise in delivering advice/support, equal to and above that of other IFIs. However, the administrative processes in their current form present a challenge. The expertise is largely concentrated in the teams with the smallest headcount that mostly deliver their work programme through external consultants. Internally the Bank is not ready to scale up this stream of work – it does not have the systems or capable/qualified administrative staff to deal with the issues swiftly and properly. LTT had experience of a reimbursable project several years ago in one of the CEE countries. After persuading the client and the donor, preparing/signing the documents and delivering the work, LTT experts had to pay consultants for the work done before receiving reimbursement. The extremely lengthy process ended up with LTT not being paid for this project, although the Bank did receive the money. Despite strong high-level political and internal commitment the administrative processes failed. The lesson is that staff in relevant departments needs to be trained and take responsibility for their actions.

- **Many policy teams** (including LTT and ICGI) lack budget to develop new policy projects or implement TC projects already agreed. Work with donors is time consuming and resources are often overstretched. Administrative tasks could be streamlined if resources were more predictable.

- **Due to limited in-house capacity, delivery is often delayed and stakeholders are affected and sometimes disappointed.** There is a need for management to develop a clear and realistic plan and secure resources for its delivery. Otherwise the Bank will continue to create its own problems, where the high visibility of good work generates a new pipeline, but no new internal resources to manage it.

The Bank is often inconsistent in managing relations with stakeholders on the ground; it lacks a register of missions and meetings. It happens quite often that experts from one team go to a meeting at the Ministry or with another local stakeholder only to discover that the representative of another team has met the same person the day before or the previous week, and half of the questions asked were the same. It does not add to the image of the EBRD as a well organised institution. It also might send confusing messages, as the teams often do not know the context in which their intervention is happening, and sometimes this context is shaped by the EBRD’s actions – but from another domain. In many instances these discrepancies are smoothed by country directors/heads, as they invest time and effort in coordinating the visits and meetings. But it should be noted that they do not always have advance information about country visits. Feedback from several country heads confirmed their frustration at the lack of consideration from some teams in planning their on-the-ground activities. Timely information and requisite coordination with the country team (director) is essential.

A register requests to meet local stakeholders could easily be sent in advance to the country director (meetings with clients and urgent visits should be excluded). HQ policy teams should be encouraged to pull together in organising the meetings and integrate “partner” questions in their meeting agenda, when possible. This will reduce meeting “fatigue” and repetitive inquiries.

### 2.6. Presence on the ground

HQ and RO-based staff fully understand that local presence is essential for success. In some countries, for example in Egypt, it can in itself be considered as having actual transition impact and as enhancing the trust of investors. This finding is in compliance with the findings of previous relevant studies – specifically the EBRD’s Resident Offices (2016) and the EBRD’s Policy Dialogue in Ukraine (2014). Regional economists are now located in hubs to enhance engagement and impact. In some instances they are involved in the work related to PPD and regulatory changes for improving the investment climate. The country heads/directors and bankers on the ground, as well as partner governments, benefit from this
significant intellectual resource; it contributes towards building a closer dialogue and better understanding with the local counterparts. If the Bank is enhancing the governance focus in its operations and engagement with the governments – and it is indeed the case for all four cases analysed in this study – then local presence is essential. In one of the interviews a country director noted that for an equal number of banking operations and TC operations, most of which are related to the well-governed quality, he has the balance of 10+ country based bankers and only one governance staff – a regional economist. Most policy dialogue is done directly by the country director.

There are already several cases of clear positive results delivered by the local presence. In Ukraine, the design and launch of the BOI would have been impossible without a Kiev-based ICGI expert. Pressed by the urgency of responding to the deep structural crisis affecting the entire economy and EBRD clients in particular, the Bank created and staffed a full-time position in Kiev, with high calibre legal skills enabling the swift preparation of all founding documents and a draft law, along with secondary regulations. The senior legal advisor was crucial for launching the appropriate institutional structure and governance standards that are essential for an institution that battles corruption and unethical behaviour. After a two-year fixed posting of an HQ expert, the ICGI has recruited a local governance advisor who is also responsible for governance initiatives and projects in some of the Eastern European countries.

In Albania, a CCT governance adviser at the RO helped the EBRD gain an important role in donor coordination in the sphere of the private sector and investments (the person is now also responsible for ICGI operations in Kosovo and FYR Montenegro, where MoUs with the governments were signed recently). The ICGI’s local presence in Albania has contributed markedly to “hands-on” dialogue and continuous engagement with the government counterparts and other international partners. Equally, the expert has been able to assist bankers with policy engagement activities as required, freeing their time for core operational activities. A localised presence grants greater visibility for ICGI activities where the country head is better informed about the plans and activities. This is not the case in many countries (see the internal coordination chapter).  

Policy dialogue is often challenging due to high turnover on the government side and in some cases on the EBRD side. For example, in Egypt the average tenure for high level officials acting as the EBRD’s counterparts is 12-18 months, while the EBRD’s lead experts for some TC projects have also rotated frequently. Limited human resources limit engagement in policy dialogue and the majority of stakeholders consulted expressed the opinion that they should be enhanced. There is a clear need for more local staff, yet recruitment is challenging and resources are insufficient. Hiring an LTT lawyer in Egypt was a challenge due to the competitiveness of the package, limited duration of the role and the seniority level. In countries like Egypt, engaging in policy dialogue demands a certain level of seniority in order to get access to the right local decision-maker.

The LTT team faces particular challenges related to the lack of a sustained local presence (either through locally engaged lawyers or HQ staff with more time available to visit countries). This opinion was shared by the lawyers and country heads/directors. Additionally, in several instances the clients and partners in the COOs noted the delayed procedures and delivery of results (although they acknowledged the high quality of the results). All LTT lawyers have in-depth sectoral expertise and many years of experience, but they are only a few people and they do not necessarily have local expertise. For example, in corporate governance, one of the flagship streams of work that constitutes half of the scope of the well-governed dimension is led by one senior counsel with two junior specialists supporting. While most TC projects are implemented by external consultants, strategic work, management of projects and feeding the results into framework documents (such as the country corporate governance assessment) requires time and effort. LTT has very few of its “own” lawyers on the ground: a corporate governance lawyer based in Kiev RO (with scaling up to the entire Eastern Europe region) and a two-year legal position for a specialist working on enhancing access to finance in the SEMED region (based in Cairo RO). The presence of OGC lawyers on the ground does help in LTT's work, especially in specific policy areas. But these posts are rare and there is no budget

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33 It is anticipated that the governance expert will be assigned to Bishkek RO in the second half of 2018 for a period of 12 months.
to apply this model across the countries that require it – where IC improvement is one of the Bank’s strategic priorities. Moreover, the new SSF rules will no longer allow teams to fund such policy coordinator types of positions. Simultaneously, an excessive reliance on external consultants does resolve short-term issues regarding the effective delivery of TC projects but it does not contribute to building in-house capacity and institutional knowledge.

In all cases the Bank should enhance coordination with other IFIs with greater resources on the ground. By continuously engaging and coordinating with like-minded institutions, the EBRD helps create a critical mass of parties that support reforms and improve the investment climate. There are instances of duplication of effort and waste of resources and although bigger partner institutions might tolerate this waste, the Bank cannot afford to, thus coordination is critical. Also, the EBRD could strive to play a different role, concentrating on linking the different investors for a greater effect.

2.7. Collaboration with other international organisations in IC support

Aligning interests with other IFIs and donors, and pulling in resources together to address IC challenges is a fundamental principle of engagement. All four cases subjected to in-depth analysis illustrate the scale and depth of collaboration, and its results. There is a clear pattern where the Bank’s transaction-driven IC activities face competition from other IFIs that work in the same areas, and joint actions are challenging (first years of work in Egypt). At the same time, systemic initiatives that aim to address complex problems (the digital society initiative in the Kyrgyz Republic) draw together many partners with similar priorities, and allow productive collaboration and synergies.

In the Kyrgyz Republic the EBRD collaborates with key IFIs and donors engaged in IC improvement. The EU, SECO and, as well as multi-donor funds (ETC Fund) are critical donors for the EBRD’s flagship investment programmes in the KR: SBI (and its predecessors), KyrSEFF, risk-sharing facilities for PFIs, and municipal infrastructure projects. Donors (DFID, SECO, and the EBRD’s own SSF) are crucial sources of continuous funding for the Secretariat of the Investment Council and LTT’s work, which in turn are closely coordinated with the initiatives of other international counterparts. For example, LTT’s work on new procurement legislation and the launch of an e-procurement platform accessible to SMEs (funded by the SSF) is done jointly with the ADB. The WB is providing support for the entire Taza Koom (Smart Society) framework, where the EBRD has recently committed to help the State Committee for Information Technologies and Communications to develop a legal framework for the National Spatial Data Infrastructure and launch the portal where this data will be freely available for businesses and the public.

The EBRD has established good working relations with one of the newest financial institutions working in KR – the Russian Kyrgyz Development Fund (RKDF). Some international partners highly commended the EBRD’s approach to working with the Fund and noted that the Bank made a much bigger effort than others in building a good working relationship with it. There was an opportunity to find complementarity in the EBRD’s and the Fund’s activities. The latter does not offer consultations and advisory services to clients, while the EBRD has built a solid base of local and international advisors, and has a comprehensive delivery system. Most of the Fund’s clients require support with corporate governance, financial reporting, independent audits, quality controls, etc. The EBRD is able to offer them support through its advisory projects.

In Egypt, the EBRD built an effective partnership coalition with the EU, EIB, IMF and AfDB with the objective of reforming the country’s oil and gas industry. Subsidised tariffs and insufficient investments in extractive capacities meant that the sector was in deep crisis. Based on its experience as an investor in similar projects in many countries, the Bank helped the Egyptian government to develop a regulatory framework for the market which prompted its liberalisation. Being clear about the gaps that exist and the design of potential projects that will deliver the most in the local context contributed to the Bank’s highly valued role in this multi-stakeholder process.

Pulling resources and efforts together is particularly evident in a time of great crisis. The EBRD’s rapid response to the structural crises faced by its COOs – all four cases reviewed for this study confirm this.
In the Kyrgyz Republic after 2010 Revolution, the EBRD jointly with other IFIs to develop a Joint Economic Assessment (JEA) that was then used by all stakeholders, including the EBRD, to develop their crisis-response strategies.

After the Ukrainian 2013-14 Revolution the EBRD mobilised its investment activities along the three priorities of the EBRD Ukraine Reform Anchoring and Crisis Response Package (2015), where the commitment was “...when assessing the transition impact potential of investment projects, taking into account the reform conditionalities required and policy support provided by IFI partners working in a joined up effort with EBRD”. The Bank also mobilised €25.5 million for the Ukraine Multi-Donor Account, which it administers.

In Egypt, the EBRD entered the country in 2013 in the midst of the crisis. The EBRD demonstrated its ability to be nimble and play a niche role where others could not deliver. One of the reasons for the successful launch is close coordination with the IMF structural programme for Egypt and collaboration with more established IFIs, when possible and needed.

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**Case studies suggest a sustained and properly financed expert presence and committed dialogue with local stakeholders yields quicker and more consistent achievement of policy goals and higher investment effectiveness.** Many bankers, particularly in ROs, noted the multi-faceted positive effect that locally-based governance advisers working on IC initiatives have on their performance. In the absence of such resources, as is the case in the majority of countries, it is the country directors/heads, regional economists and bankers, that need to follow up on these activities, always on top of their core full-time job.

**A combination of inputs delivers the greatest impact.** Having only dedicated staff (and very few of them) without TC (donor) funding creates “shallow” products and unsustainable structures. On the other hand substantial TC funds combined with a lack of in-house expertise and heavy reliance on external consultants in critical areas like governance, especially corporate governance, has a negative effect on the efficiency and speed of work, although the quality was never put into question (as per the interviews and feedback in the countries of operation). When the two are combined success is more visible and measurable, and the footprint is sustainable.

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34 See cases of BOI in Ukraine and Albania
3. Effectiveness of EBRD support for IC improvements

3.1. Measuring Impact

Evaluating the results of the EBRD’s IC support faces fundamental challenges due to limitations in Bank methods and processes, including benchmarking, monitoring and reporting of non-financial information. While Bank activities have evident effects on some industries and sectors in the countries of operation, strong causal links are difficult to find. Tracing the outcomes and impacts in the country back to the Bank’s inputs is only possible in some cases, mostly in relation to TC projects and policy dialogue. Likewise, it is often impossible to establish meaningful forward-looking result chains. EvD has raised this general issue consistently; for example in 2013 EvD noted in its Evaluability Briefing note that “the evaluability of the anticipated results, especially at outcome and impact level, vis-à-vis real results, remains challenging.” However the EBRD is not alone in this - other IFIs working in the area face similar challenges (see Box 9 below).

Box 9. IC support activities in the World Bank Group – measuring impact

The World Bank Group is substantially more committed to IC improvement, both in terms of financing (Facility for IC Advisory Services (FIAS) budget for 2012-2016 was US$ 148.6 million) and human resources (Trade and Competitiveness Global Practice has about 500 staff). Also the history of engagement is much longer (FIAS was established in 1986).

The IEG’s independent Evaluation of “World Bank Group Support to IC Reforms” in 2015 concluded that “WB was successful in improving the investment climate, however success is mainly measured by number of laws enacted, streamlining of processes and time, or simplistic cost saving for private firms. Impact on investment, jobs, formation and growth is not clear”. Also the WB and the IFC have two distinctive models for IC support work and “…while co-ordination is good comparing to other parts of the Group, it is mostly informal and relaying on personal contacts.”

The situation is improving gradually. The Bank is more active in formulating objectives in specific countries and areas facing particular challenges over a significant period of time. These are presented in country strategies and most recently in MOUs with countries committed to improve their economic governance and reduce corruption. Improvements include: a more consistent and formalised approach to designing and managing policy reform dialogue, the emergence of a results management policy hub, a revised Transition Concept and the launch of the automated transition impact monitoring system (Project Christopher), a streamlined and priorities-driven approach to preparing and reviewing country strategies, including introduction of results framework, and the launch of the Compendium of Indicators. These and other elements are crucial for tracking progress in an area as wide and as complex as IC improvement.

The Operational Effectiveness and Efficiency (OE&E) programme has a dedicated stream of work on enhancing results management. It will take time for results to emerge. Some policy teams are more advanced in constructing results chains. For example, the ASB team as it is funded by donors who demand planning, delivery and reporting on activities driven by a results framework. However the construction of most of the historical “causality chains” captured in this report was possible largely thanks to insights from long-serving EBRD staff, who have institutional memory and can build connections between TC assignments completed long ago and policy dialogue and actual investments, either by the Bank or by other financiers/companies. However, not all activities could be planned and evaluated ex-ante in a very structured way.

Looking back in history we heard of EBRD actions (sometimes taken jointly with other organisations) which delivered a long-term effect. They include: (a) a joint initiative with UNCITRAL on public procurement, including the launch of e-procurement platforms in several countries – Kyrgyz Republic, Tajikistan, Ukraine and Moldova; and (b) supporting some COOs in joining WTO’s Agreement on Government Procurement (GPA) and its transposition in national legislation and implementation practices; (c) reforming the corporate governance of Albanian banks; (d) a Kyrgyz policy framework for energy efficiency in construction and managing buildings.

3.2. Macro-level Achievements

While challenges will always exist with respect to specific Bank contributions to wider IC changes, there is high value in tracking progress in international rankings, increased volume of investments and reduced transition gaps. The economic growth in the Bank’s countries of operations in 2017, although recovered from the global economic crises and regional turbulences, is below the level observed in the early 2000s (see Graph 8). Growth in the EBRD region was higher than the global average growth in the pre-crisis period but has slowed down since 2008 and performs consistently below the global trend and below peers in the emerging segment.37

Graph 8. GDP growth in the EBRD region relative to Global and EU-15 growth, %

![Graph 8](image)


Likewise, the level of capital provision and investments has deteriorated. Many COOs saw a decrease in gross capital formation relative to GDP (Graph 9) and in 2016 its level in most COOs was below the upper middle income countries. Investment in the transition region has dropped from a pre-crisis 30% to 20% (see Graphs 10 (a)&(b)). Savings are declining and capital flows outside the FDI category have shrunk considerably. FDI, although growing in many countries, has decreased relative to the GDP in all regions – in 2005-2007 it was around 7-12% and in 2014-2016 it was around 3-6%.

37 EBRD’s Transition Report 2017-18 “Sustaining Growth”
Graph 9. Gross capital formation, as a % of GDP, 2005-2016

Source: World Bank

Graph 10 (a) & (b). Savings, investment, and capital flows in (a) new EU member states and (b) in rest of the EBRD region, % of GDP, 2000-2016

Source: EBRD Transition Report 2015-16
A number of indicators are used to measure the progress and complexity of the IC improvements. Some of them are the EBRD’s own, others are produced by other organisations and are widely used by the governments of the COOs to measure improvements to the investment climate.\textsuperscript{38} Table 5 presents the EBRD’s assessment of transition qualities in 2017, which includes overall country ranking and scores for the two core qualities relevant for IC – well-governed and competitive (including the Czech Republic but excluding Lebanon and West Bank and Gaza).

The evidence suggests that countries in the Central Europe and Baltic region have achieved substantial progress in these areas, although many, including Romania and Bulgaria and newer COOs such as Greece, have scores below 5 (out of a maximum of 10), so are not even half way towards the best practice. At the other end of spectrum is Central Asia, where three countries sit at the bottom of the ranking and have low well-governed scores and very low competitiveness scores. The EBRD has changed its approach to measuring progress in the transition towards an open market economy and a consistent comparison across the decade is not possible. However, by using the governance and enterprise restructuring indicator as a proxy for the well-governed quality, and the competition policy indicator as a proxy for the competitive quality, we can say that some countries has significantly advanced in those areas while others did not.\textsuperscript{39}

For example, Latvia and Lithuania achieved greater progress in the governance domain than Hungary, which had a better baseline. In Central Asia only Kazakhstan demonstrates some progress in the governance domain, while four other countries achieved none, or even deteriorated, especially in competitiveness. Countries in Eastern Europe and Caucasus achieved little progress, except for Georgia and Belarus, although the latter started from a very low baseline.

Table 5 also shows that the business environment for SMEs is challenging in countries with lower DTF scores. However the 2016-17 Transition Report cited the relative positive performance of COOs in creating a positive business environment for SMEs. In particular it says “transition] gaps are mostly small or medium-sized when it comes to the business environment, which may be surprising given the continued prevalence of informality and corruption, as well as the mixed track record in terms of the enforcement of competition policy. That relatively good performance may be a result of governments focusing more on streamlining administrative processes, for example with the help of one-stop shops or e-government measures, as well as efforts to improve headline indicators in the World Bank’s Doing Business report.”\textsuperscript{40}

\textsuperscript{38} It should be noted that in producing the transition qualities scores for each COO the EBRD uses a wide range of external data, some of which are included in Table 4

\textsuperscript{39} Using 2005 data means that post-2005 COOs are not included. The score for Serbia and Montenegro are the same since the countries were unified at that stage.

\textsuperscript{40} The EBRD’s Transition Report 2016-17, p.98
Table 5. Transition qualities and SME gaps in the EBRD’s countries of operations

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ATQ – EBRD’s assessment of transition qualities, DTF well-governed and competitive - distance to frontier scores, 0-10; SME gaps – EBRD’s SME finance and development gap assessment. Colour coding – EBRD’s arbitrary choice to highlight the leaders (green) and laggards (orange).

4 case countries are highlighted in red.

*EBRD graduated its programme in Czech Republic in 2008

Source: EBRD
Table 6 below summarises a selection of ratings featuring 37 COOs. They have different methodologies and indicators but a similar orientation towards identifying the most competitive and well-governed countries. The relative nature of both ranking and score also distorts the picture of the progress – the maximum level (100 or 10) is usually anchored to the best available practices/top countries that also tend to evolve. Moreover, these are composite indices where specific components have a greater meaning for measuring the quality of the IC than the overall index. An analysis of this granularity is performed in the case study reports (Annexes 7-10).

Looking into the Doing Business rating progress in 2010-2018 most of the EBRD’s COOs increased their DTF score, some quite substantially, even if their relative position remains low.41 Belarus, Ukraine, Kazakhstan and Uzbekistan improved their scores by around 20 points, and 15 others – by more than 10. Georgia is above Estonia in DB 2018 which illustrates its progress in deregulation. However, the EBRD’s assessment of these two countries shows the opposite – Estonia has the highest well-governed DTF score and has the top overall ATQ 2017 ranking, while Georgia is in 15th place. Egypt and Tunisia are two countries where DB has not improved, and even slightly worsened. The WEF competitiveness score is more consistent with the EBRD’s assessment and puts the CEB region in lead and SEMED and Central Asia at the back.

Most top performers in the EBRD ranking have a higher rating for corruption perception – one of the key dimensions of good governance and integrity. Belarus, the Baltic countries, Greece and the Czech Republic achieved the greatest progress. Conversely, Hungary, Turkey and Cyprus have regressed substantially – they lost 10, 9 and 9 points in their CPI score respectively. There are a few exceptions where strong transition performers have a low CPI score (Russia) and vice versa (Tunisia).

41 DB’s methodology was changed in 2015 so the scores might not be totally compatible, however the relative picture is illustrative. Previous methodology differs even further therefore no earlier timeline is plausible for comparison.
### Table 6. Quality of business environments in the EBRD’s COOs through international rankings

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<th>DB DTF score 2018</th>
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<td>59 (+5)</td>
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<td>64.2</td>
<td>38 (-4)</td>
<td>3.9</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>67.71</td>
<td>71.91</td>
<td>43 (+2)</td>
<td>4.5</td>
</tr>
<tr>
<td>Cyprus</td>
<td>66.22</td>
<td>71.63</td>
<td>57 (-9)</td>
<td>4.3</td>
</tr>
<tr>
<td>FYR Macedonia</td>
<td>64.74</td>
<td>81.18</td>
<td>35 (-8)</td>
<td>4.0</td>
</tr>
<tr>
<td>Greece</td>
<td>61.83</td>
<td>80.02</td>
<td>48 (+12)</td>
<td></td>
</tr>
<tr>
<td>Kosovo</td>
<td>56.57</td>
<td>73.49</td>
<td>39 (+5)</td>
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</tr>
<tr>
<td>Montenegro</td>
<td>60.68</td>
<td>73.18</td>
<td>46 (+5)</td>
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</tr>
<tr>
<td>Romania</td>
<td>63.41</td>
<td>72.87</td>
<td>48 (+4)</td>
<td>4.3</td>
</tr>
<tr>
<td>Serbia</td>
<td>57.46</td>
<td>73.13</td>
<td>41 (+2)</td>
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<tr>
<td>Kazakhstan</td>
<td>56.13</td>
<td>75.44</td>
<td>31 (+3)</td>
<td>4.3</td>
</tr>
<tr>
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<td>29 (+5)</td>
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<tr>
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<td>69.03</td>
<td>36 (-)</td>
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</tr>
<tr>
<td>Tajikistan</td>
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<tr>
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<tr>
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<tr>
<td>Egypt</td>
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<td>56.22</td>
<td>32 (-)</td>
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<tr>
<td>Jordan</td>
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<td>48 (-)</td>
<td>4.3</td>
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<tr>
<td>Morocco</td>
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<td>Tunisia</td>
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<td>42 (+1)</td>
<td>3.9</td>
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<td>Russian Federation</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>64.77</td>
<td>69.14</td>
<td>40 (-9)</td>
<td>4.4</td>
</tr>
</tbody>
</table>

**Notes:**
- DB DTF – WB/IFC’s Doing Business distance to frontier score, 0-100; DB DTF above 80; DB DTF above 70; DB DTF below 60.
- TI CPI – Transparency International Corruption perception Index score, 0-100; TI CPI growth by more than 10 positions; TI CPI decline by more than 9 positions.
- GCI – World Economic Forum’s Global Competitiveness Index score, 0-10; GCI below 4.
- Colour coding – EvD’s arbitrary choice to highlight the leaders (green) and laggards (orange/red).
- 4 case countries are highlighted in red.
- Sources: WB/IFC, WEF, TI

### 3.3. Evidence from Four Country Case Studies

In the four countries chosen for in-depth analysis there are observable improvements in the investment climate, both in the Bank’s own observations and as measured by international rankings (DB). Albania and Ukraine are much closer to the EBRD’s average competitive quality score, while well-governed remains
substantially lower, especially for Ukraine. Both Egypt and the Kyrgyz Republic face great challenges in the competitive domain and their well-governed quality, although scoring higher, is still substantially lower than the EBRD average (see Graphs 11 (a) and (b)). After 25 years of engagement in Ukraine, Albania and the Kyrgyz Republic, and ten years of intensive IC support activities in the latter, progress is rather slow and patchy, with some reversals (in the case of the Kyrgyz Republic). There are also no visible signs of progress in Egypt, a newer country, although the engagement period is insufficient, so far, to deliver evidence.

Ukraine is the only country that demonstrates substantial progress in addressing the barriers to business growth, with Albania demonstrating solid progress (see Graph 12). The TI corruption perception score is quite low for all four countries except Albania. The Kyrgyz Republic and Egypt have big gaps in the SME business environment, while Ukraine and Albania have medium. Ukraine, through a range of activities aimed at enhancing government transparency and openness, has substantially improved its position in international rankings of openness.

Graph 11 (a) and (b). Transition Qualities’ Scores in four countries, 2017

Graph 12. Change of DB’s distance to frontier score in four case study countries, 2010-2018

Source: EBRD

Source: World Bank Group
**Long term impact of the EBRD’s work on public procurement reform in Ukraine**

LTT, jointly with PPD, has worked on public procurement reform in Ukraine since 2010.\(^{42}\) The support included assistance in developing new legislation (Public Procurement Law) and regulations that ensured compliance with the WTO GPA standards and requirements; in conducting accession negotiations; in developing implementation tools; and finally in preparing a reporting mechanism to comply with best international practice. This work was implemented by external consultants under the supervision and leadership of an LTT lawyer. There is no in-house capacity to implement projects of this scale but the model used is very effective and delivered good value for money, especially when compared with other, similar donor programmes (EU). The total budget for the TC package for public procurement in Ukraine delivered by the EBRD in 2010-2015 was €750,000. In the same period the EU spent €9 million on harmonising Ukraine’s procurement legislation with EU standards.

Building upon the achievements of the new Public Procurement Law (2014), the EBRD extended its support to launching and sustaining the e-procurement system Prozorro. Triggered by the huge demand for increased transparency and reduced corruption, a coalition of Ukrainian CSOs (led by Transparency International), businesses and Government launched Prozorro, one of the world’s most advanced e-procurement platforms based on block chain technology and the Open Contracting Data Standard. From its launch in 2015 until July 2017, Prozorro saved UAH 21.3 billion (around €770 million) in procurement spending, which is substantial given a total public procurement market of €20 billion. The share of procured value through competitive procedures increased from 25% to 70%; the number of new bidders reached 31,000 and the number of online platforms participating in Prozorro increased from 0 to 20. Also, the EBRD, jointly with TI, is supporting the initiatives aimed at monitoring electronic tenders, filing complaints and ensuring the process is observed by all procuring agencies (27,000 in total). Among them is Dozorro – a citizen monitoring platform, one of the biggest open sources of business intelligence in the country.

The market impacts of Prozorro include: a substantial increase in the share of SMEs having access to public procurement – 80% of all bidders are SMEs and 75% of them won at least one tender. Ukraine has significantly advanced in the international transparency ratings: 31\(^{st}\) position in the Global Open Data Index in 2016 compared to 54\(^{th}\) in 2015; and 62\(^{nd}\) position in the UN’s E-Government Development Index in 2016, which is 25 positions up from 2014. Prozorro received a number of international awards, including the 2016 World Procurement Award, the 2016 and 2017 Davos Awards, and the 2016 Open Government Award.

The model has a strong demonstration effect and its principles are being applied elsewhere. A similar online platform, Prozorro Sales, was launched in 2017 for selling state and communal property and assets. Also the EBRD is now using Prozorro as an e-procurement standard and supports replication in a number of countries, including Moldova, the Kyrgyz Republic and beyond.

**Country level impact in the Kyrgyz Republic**

Transition gaps in the Kyrgyz Republic (KR) remain large, especially along the well-governed and competitive dimensions. The Transition Report 2017-2018 revealed that KR’s levels of performance in the green, inclusive and integrated dimensions were average (compared to all EBRD countries) and above average for resilient. Again, a change in methodology precludes a consistent comparison with the much earlier periods, but Transition indicators from the 2005 TR illustrated success in privatisation (large and small scale), price liberalisation and trade and FOREX system reform, while the infrastructure sector, competition policy, banking and non-banking sector reforms achieved very low scores. Between those two

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control points there is a large amount of work undertaken by the government and international partners, including the EBRD. Therefore the EBRD’s contribution to achieving a better IC (impact) was substantial in the areas where it had expertise to offer, however as the overall improvement is not dramatic, the contribution in absolute terms could not be characterised as very successful.

At the outcomes level the success is more tangible and the EBRD’s contribution is more substantial. The chapter above presented the EBRD’s concentrated and diverse package of activities targeting key constraints for private sector development. The Bank was crucial for improving access to finance by supporting systemic reforms in banking and non-banking sectors (joint work of banking teams and LTT), offering affordable financial products to local companies and gearing them up to address key challenges (high energy intensity, low technical standards, inadequate quality for export markets) (joint work of banking, ASB team and TFP team). The Bank was critical for unlocking the potential for energy efficiency in KR –the adoption of framework law, secondary regulations and built capacity enables thousands of businesses and municipal entities to invest in modern technologies and the best available equipment, and enhance their productivity by reducing losses and waste.

### 3.4. Additional Factors – Client Feedback

Clients often see the EBRD as a reliable presence and partner, staying on through challenges and, in some cases engaging more deeply in the face of a crisis. It commits to financing the projects which nobody else would dare to, and prompts private sector investors to join through syndication and risk sharing. In Egypt one of the clients noted: “EBRD is more effective than IFC on deals. It is more innovative in following the process and minimizes time. The teams are professional.” While one of the international partners said “the EBRD is one of the strongest donors on the technical assistance perspective, along with GIZ and USAID” (who have worked in the country for many years). Stakeholders noted that the EBRD’s strongest role is in providing business development services directly to the clients and building the capacity of SMEs. It was recommended that the Bank should “focus on building the capacity of the local providers of capacity building services”.

Quick mobilisation of resources on the ground in new COOs, as happened in Egypt, was a challenging process, and one not without mistakes, but it delivered results (mostly for the Bank’s operations) in a relatively short period of time. Egypt now has the second largest portfolio of cumulative investments and some sectors of the Egyptian economy have gained a lot of growth (banking, petroleum, solar energy). However, the overall IC in Egypt remains challenging, as estimated through the Bank’s transition matrix and also as shown in international rankings (Egypt is in the 126th position in DB 2017). The Bank’s entry to Egypt during a very difficult time, while others were leaving or scaling down, is highly valued and appreciated. Through its work, the EBRD has been able to build a strong brand in the field. Its presence provides confidence to investors and contributes to the improvement of the investment climate. The Bank’s activities, and internal and external cooperation, have been effective in delivering results across its different work streams.

Likewise, the Bank steps aside when alternative financing from the private sector or other IFIs becomes available, when its additionality is no longer valid. This is a unique feature that greatly contributes to its strong and positive reputation as a financier and policy dialogue partner. For example, the entry of the Russian Kyrgyz Development Fund to the Kyrgyz financial market in 2016 dramatically reduced the cost of credit, which led to a loss of clients. However, the Bank was able to offer complementary advisory services to the Fund’s clients, so a collaborative partnership was established.

The EBRD’s ability to be flexible and manage risks while offering local counterparts the resources and support they need is highly regarded by many stakeholders. The speed of decision-making and ability to adapt to an ever-changing local environment was widely commended as superior to that of other IFIs (although the speed of decision-making and releasing funds in relation to TC attracted some criticism, for example in Albania and the Kyrgyz Republic). The Bank’s strong experience as a private sector financier is the biggest credential noted by government officials. And its ability to talk on a par with the government, to be heard and to nudge for structural changes is the biggest credential mentioned by private sector
counterparts: “The EBRD is the point of reference for the business community, it is a relevant voice among partners”43.

The EBRD’s role in supporting COOs in their drive to improve the IC is shaped by the quality standards and its focus on specific regulatory issues. Local counterparts really appreciate it as they can see concrete outcomes from working with the EBRD in a relatively short period of time. The Bank delivers high quality advice and individually tailored technical support, rooted in its capacity as a private sector investor which directly contributes to the real economy. This is the EBRD’s strong relative competitive advantage vis-à-vis other IFIs - its support makes more sense to local counterparts, especially to private sector companies. It does not have policy conditions but is geared up towards achieving loan objectives/complying with covenants, which often contain regulatory/legal changes and a quality shift in corporate and public governance. Some counterparts expressed the view that the EBRD’s pragmatic approach to policy dialogue and delivering TC projects brings higher benefits to countries in a shorter period of time, which is especially true in a time of crisis. The Bank’s role in the aftermath of many crises (from the Russian crisis in 1998 to the global economic crisis of 2008 to the Ukrainian crisis in 2013-2014) was crucial for supporting the national economies and providing essential financing for local businesses and publicly-owned companies running critical infrastructure.

4. Knowledge management and replication

This evaluation sought insight into the effectiveness of the Bank’s internal learning process regarding IC support, through for example transfer of knowledge from one context to another, and users assessments of value. The overall picture is mixed and inconclusive. The Bank only recently launched the Knowledge Management Initiative. It launched a range of activities and products aimed at cataloguing, codifying knowledge, packaging it in different formats, and sharing with various stakeholders. It also introduced a range of institutional innovations, such as communities of practice and the policy academy, with the objective of facilitating the horizontal flow of information and experiences. For example one of the first communities of practice launched in 2016 is on capacity building of state institutions. It is led by the head of Governance team and includes circa 50 people across the departments and geographies. It is a good beginning, however it requires dynamic continuous engagement and inputs for success, and most of all staff needs to be motivated to take part in these new initiatives.

Wider awareness of the Bank’s role and footprint on IC support is weak. The anecdotal approach is that “if it is not in the results of the google search – it does not exist.” Bank’s activities in the area of improving IC in some countries are substantial and successful, however, it is challenging to find accessible evidence beyond a static story, one that explains how inputs were transformed into sustainable results. For example, the impact chain on procurement work the EBRD has been doing in Ukraine over the last seven years could be found in the EBRD’s own publication (Law in Transition journal). The question is whether this format along with internal donor reporting is sufficient to persuade new donors to support similar activities in other countries, sometimes with the greater institutional and technological challenges. Most of the donors and international partners interviewed during this evaluation suggested that it is not enough. Some were even surprised to learn that the Bank is active in the area (in the country with more than a decade of history of engagement). The EBRD needs to invest more in formatting and communicating its achievements in this area.

Not having a recognised brand in IC support activities could create difficulties in communications with stakeholders in the newer COOs. For example, OGC colleagues noted that for many in SEMED, the EBRD’s brand recognition is based on transactions, not on achievements in policy dialogue. Occasionally, the client’s attitude is “Why do you keep talking about legal changes? You should be making concrete financial proposals like other IFIs do.” The Bank has stricter conditions for financing and more extensive loan covenants, which might be unfamiliar and unwelcome by many. But often it does have a wider policy

43 Interview with business representative in Albania
support activities and can harness the commitment of the public institutions. This duality could be brought together in a more coherent way for achieving higher results and improving brand recognition.

**Heads of resident offices and locally based specialist non-banking staff (lawyers, economists, governance counsellors) are essential actors** who should connect various activities on the ground and make sure they are consistent, not overlapping, deliver a clear message on the Bank’s strategy and demonstrate how this contributes to the improvement of the country’s investment climate. But they can co-ordinate/streamline only if all relevant teams are feeding in information and data, and update country teams on their plans and actions in a timely and consistent manner. There are basic challenges of recording the facts and sharing them; co-ordinating country missions; and having more than once-a-year meetings (current standard practice) between sectoral and regional directors to align the objectives and plans for the period ahead.

**Internal COO learning is varied.** For example, in the Kyrgyz Republic the evidence of internal learning and embedding lessons into future initiatives is strong. However, this legacy is ensured largely due to the presence of long-serving, highly committed local staff, rather than due to effective internal knowledge management instruments. Therefore the knowledge flows are personalised rather than institutionalised.

The learning and replication of models across countries is possible where there is convergence around key issues (Box 10). In Egypt some noted that the experience of large countries, like Russia, might be helpful in designing solutions that recognise the scale of the territory, diversity of regions, and sometimes aim for reducing regional inequalities. More widely, many internal counterparts noted that the experience of post-soviet institutional and governance transformations are mostly irrelevant in SEMED countries, which enjoyed mostly uninterrupted (if only imperfect) existence of private sector and government institutions that regulate it. At the same time, in-depth knowledge and experience in specific market initiatives (financial institutions, local currency, energy, agribusiness, municipal infrastructure) are highly valued.

Some colleagues in SEMED noted that embedding EBRD staff in centrally planned contexts is not always helpful and a fresh look with local knowledge is a must. Hiring new staff, at junior and middle tiers, is essential for understanding the local political economy and adjusting the Bank’s daily activities to the local modus operandi. Also in some contexts, government counterparts are very reluctant to absorb comparisons to other countries, require consistent acknowledgement of the unique local situation, and careful treatment of lessons from elsewhere. Hiring senior staff in country proved to be more challenging in some newer COOs, as at this level the internal knowledge of the Bank’s operations for effective delivery is more important.

**Box 10. Can the EBRD replicate its support to the investment council or business ombudsman in Egypt?**

The crucial factors of council’s success are political buy-in; continuous commitment of business and public stakeholders; formalised procedures (decisions of the council are signed by top government officials and converted into government documents); strong support for transparency and openness; and availability of funding to support its high-quality expert work, which is often lacking. The scale of the economy is often important, as it determines the number of potential beneficiaries and partners. The bigger the country, the higher the chance that the PPD platform will deliver results for a critical mass of economic agents. On the other hand, large scale often means a complicated politeconomy of relations and multitude of vested interests, that keep the economy ineffective and largely in the shadow.

In Egypt the current situation suggests that the model of investment councils supported by the Bank could potentially be replicated. The signing of the MOU establishing the Foreign Investment Council is a good sign of the current interest and commitment to such a platform. On the other hand, establishing a mechanism similar to the Business Ombudsman would be difficult. It requires a level of trust in the mechanism and its professionals, preparedness to full disclosure, enhanced co-ordination of positions among business associations and government agencies and some other conditions. The Egyptian government is historically reluctant to engage with big domestic investors and their associations. Also, a significant share of the industrial production is controlled by the army and thus is mostly outside the national regulatory framework.
Internal learning and using models from other countries is relatively straightforward for many specialised policy teams. For example, many experts in LTT have been working in the EBRD for a considerable period of time. Therefore, launching new projects on factoring regulations in SEMED countries is slightly easier than “pioneering” operations in Europe, as similar regulations were introduced with EBRD support in several countries and the experience is easy to retrieve. For newcomers in the department, a list of all past projects and internal database is a useful source of information. A similar situation could be observed in OCCO.

Lesson learning in the Bank is not always effective. Due to the imperfect documentation and sharing practices, valuable lessons might not be learned. This is also true for the lessons from EvD’s special studies. While management often addresses the challenges identified and offers an action plan for gradual change, many recommendations are not acted upon despite repetition. See Annex 6 for specific EvD’s findings and recommendations from relevant special studies produced recently of which only some have resulted in change.

The EBRD has a wealth of relevant knowledge and skills that could be a source of greater synergy. EBRD has plenty of stories to tell, internally and externally, but it is not good at communicating them. As the Bank is smaller compared to other IFIs, being additional and co-producing is very important. Storytelling requires pulling in together the knowledge and experience of several teams, across banking and policy pillars, and communicating effectively across a range of channels.

There is need to better develop the EBRD’s brand and profile based on its activities and achievements. The evaluation showed that in many areas where its inputs are critical, the Bank is largely invisible. Other IFIs and donors are more resourceful and successful in leveraging their achievements to attract further interest to their work. The EBRD is thus losing vis-à-vis comparable institutions, such as IFC, in attracting resources, although the portfolio and pipeline of projects in the area of IC support is significant.

Findings and conclusions

Private sector activities are at the heart of the Bank’s mandate. The Bank was created to “…foster the transition towards open market-oriented economies and promote private and entrepreneurial initiative in the recipient countries”. While IC improvement is well understood as a vital element of this objective it is not supported by a dedicated work stream or resources, and efforts are dispersed widely across teams and sectors. However, unlike most other IFIs, the EBRD can draw upon a valuable dual perspective on IC issues: as a private sector investor and as an enabler of wider structural reforms in the most challenging and “stuck in transition” countries. The first role is performed well by the banking teams across the countries and sectors, with significant resources made available to address specific regulatory and legal bottlenecks that stand in the way of successful investment operations. The second is being advanced by a cluster of policy teams with specific capacities, but without a clear and agreed strategic context or consistent funding.

The Bank’s dual transaction-driven and broader institutional reform roles may not be complementary and in many instances coordination and synergy is a challenge. This should be corrected if the EBRD wants to meet its wider institutional goals – contributing to achieving SDGs, mitigating climate change and enhancing inclusiveness of economies. These require mobilisation of the substantial private capital. Private investors need good IC to thrive. Stronger IC support work would strengthen both the Bank’s role and its opportunities to become a stronger catalyst of private financing.

IC support by the Bank has long been based on a view that assistance for adoption of legal changes would yield strong advances. In reality, this has not been the case. The EBRD’s IC support activities are fragmented, often opportunistic and transaction-driven; there can be are good specific outcomes/outputs but they are mostly loosely (if at all) connected. In a similar evaluation of the World Bank Group’s IC activities it was noted that success in improving the IC “...is mainly measured by number of laws enacted,
streamlining of processes and time, or simplistic cost saving for private firms. Impact on investment, jobs, formation and growth is not clear”.44 There are clear parallels to the situation in the EBRD.

The IC is extremely complex and challenging; improvements do happen but often are partial, inconsistent, and reversible. Usually the EBRD works in very specific policy areas rather than on broad policy reform – as it lacks the breadth and leverage to nudge change at this level. In economic policy and governance it is less a “surgeon” performing large operations than an “acupuncturist” working with small tools but good knowledge of how to apply them. On larger issues and for larger initiatives the EBRD needs to collaborate actively with other IFIs and donors where can bring inputs that are relevant and valued. This is now not often the case. The Bank’s “organic” transaction-driven IC engagement often leads to competition with others rather than collaboration; and other IFIs tend to avoid cooperation for the same reasons. Wider and more effective policy engagement needs greater cooperation across the institutional system.

Over the years, the EBRD’s institutional response to country challenges has evolved, with a greater emphasis on economic governance and policy engagement. In 2005-2012 the Bank responded to country-specific and systemic challenges, refining its transition model, but largely focusing on transaction-driven transformations, rather than structural changes. Since the “Stuck in Transition Report (2013) noted that “weak political institutions and entrenched interest groups can cause countries to become “stuck” in transition...” and that in order “to revitalize the growth it is important to invigorate reforms and improve economic institutions” the Bank has sought to widen its scope and ambition.

The actions that followed included: a new policy pillar was established, the Enhanced and Structured Approach to Policy Reform Dialogue at the EBRD was approved, and the IC and Governance Initiative was launched as a direct response to persistent challenges in the IC in many countries of operations. A dedicated team was created in 2014 with the mandate of leading the Bank’s activities in seven crucial dimensions. Finally, the new transition concept introduced in 2016 promotes “well-governed” and “competitive” - both with important IC dimensions – as fundamental for successful transition.

IC does not feature as a priority in any prominent strategic themes; it has not been strategically, systematically, or transparently resourced and resource constraints limit activities. There is a gap between strategic ambitions and the realities of day-to-day management. Despite changes in the approach to, and strategy for policy reform dialogue and governance activities, the Bank has not yet changed its operational processes or reallocated resources with a greater emphasis on horizontal types of activities. IC is not part of the Bank’s “fundable core”; it is largely dependent on donors and the commitment of partner governments. Fund raising for policy-related work is time and effort intensive, as the teams need to do a great deal of upfront (often unrecognised) work and it takes time to convince donors, who often prefer to provide TC linked to specific transactions. This is also true for SSF funding, which is tight and transaction-dependent. Even for such flagship products as BEEPS it takes a lot of time and effort to obtain the necessary resources. There is a major difference between the EBRD and other IFIs, such as WB or IFC, which have more dedicated resources to devote to horizontal policy issues. The gaps in horizontal policy provision are as much a matter of corporate priorities as of resource allocation.

EvD was unable to identify how the EBRD defines success in IC support and governance due to the lack of clear objectives or strategy. EvD was able to establish how success is identified for the COOs as the result of the EBRD’s contributions in this area – thanks to the recently revamped Transition Impact Concept, a new approach to country strategies and their monitoring. The Bank aims to contribute to building well-governed markets and economies through its corporate governance and national/subnational economic governance strands of work. Out of 32 country strategies approved since 2012 fourteen have improvement of IC or business environment as a priority. While consistent delivery monitoring and review is only emerging, the evidence from two long-time country cases illustrates the persistence of the challenges in the IC and their recurring prioritisation in the country strategy.

Evaluating impact of the EBRD’s activities in the IC area is challenging. While there is no doubt that selected activities can have distinctive effects, the presence of strong causal links is limited. Only in some

cases is it possible to trace the outcomes and impacts in a country back to the Bank’s inputs. Likewise, it is often impossible to establish meaningful forward-looking results chains. EvD raises this issue continuously. The ongoing Operational Effectiveness and Efficiency (OE&E) programme has a dedicated stream to enhance the results management of Bank activities; however it will take years for effects to emerge. And for many activities aimed at changing the behaviour of key stakeholders – one of the building blocks in IC definition – it will take many years for the results to emerge.

**Feedback from stakeholders in countries with a challenging transition path points to the Bank’s strength in responding to crises.** The EBRD steps in and remains actively engaged in a country during critical times; it knows how to mitigate risks during a crisis; it pushes for the reforms that are essential for unlocking the investment potential of critical industries. This is one of the EBRD’s greatest reputational assets, being respected by all external counterparts.

**The EBRD’s ground presence is central to its operational model and crucial for success.** This is also true for the area of IC and governance. Evidence suggests that where there are locally based experts working specifically on issues related to the IC and governance, the results are tangible and operational efficiency is higher. More localised expertise is necessary if the Bank wants to achieve tangible changes along the well-governed dimension of transition impact in the countries for which it is the priority. However, it is severely constrained by resource limitations (the combined capacity of LTT and EPG in the well-governed transition dimension is modest) except for cases demonstrating the greatest need to respond to deep structural crises. Well-informed country heads are a great asset for maintaining high-quality policy dialogue. However they undertake this in addition to their full-time role in the investment and operational domains. Recent country head appointments suggest a quality change towards greater horizontal policy engagement.

**Internal co-operation, co-ordination and internal knowledge management are improving, but many problems still remain.** Internal knowledge management remains weak with very few active inputs into the system, which therefore limits its outputs. A hierarchical silo outlook and limited corporate culture of sharing still impede the effectiveness and efficiency of available (if only modest) resources. All EBRD interviewees noted that collaboration with other teams is good, however it rarely stretches so far as pooling together financial resources and if it does happen, then it is only at the country level where the country director/head can match and fit the activities of various teams. All central policy teams have their own agenda and approach to allocating TC resources, and others cannot really influence them. EPG has few core resources for policy work and savings from innovations may not be materialising.

**The EBRD has to improve the way it communicates its achievements and successes – communications are not used as proper leverage, but as an auxiliary add-on.** Leveraging the results already achieved and relating successes that have already happened might reduce the need for additional new resources and strengthen the Bank’s position as a leader in establishing and sustaining high standards of economic governance. The EBRD fails at telling stories of its success in a systematic way, often lacking the capacity to describe its role in achieving a long-term impact in COOs. Investment-driven but with a strong policy team backup – the two aspects of Bank activities – are rarely moulded into one story line which could be used to convince the stakeholders, shareholders and donors that the EBRD is doing a good job. Bank’s Client Group in general and Policy and Partnership Group in particular should consider having dedicated communications experts to create and convey the joint-up narrative more clearly.

**Recommendations**

EvD recognises that ongoing institutional changes have dimensions related to the Bank’s IC activities and accomplishments. The following three recommendations are intended to provide guidance at a higher institutional level.

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45 EvD (2016) Special Study on EBRD’s Residential Offices
1. Prepare a Strategy on IC Support for Board approval

The document should contain clear objectives, baseline indicators, timeframe, institutional accountability and other essential elements of a proper strategy. It should provide a framework within which the efforts and contributions of multiple teams will be applied and coordinated, with clarity on priorities, and transparent decision-making and resource allocation. The strategy should both integrate and contribute to the improved country strategy and transition approaches; a three-five year focus on specific COOs/region where IC challenges and opportunities are greatest should be explicitly considered.

2. Ensure adequate leadership and resourcing for IC as a strategic priority

If improvements in the IC are identified as a fundamental precondition to achieve Bank-wide objectives, Management should consider core multi-year funding for IC activities. This could be a dedicated funding pool in SSF, covering essential elements of wider policy engagement, such as diagnostics, country strategy content, country presence for the governance cadre, collaboration with other IFIs, confident fundraising activities etc. It could be focussed on selected countries with specific priorities and circumstances. Supplemental project-specific funding could still be available from donors.

3. Build the basis for improved internal and external cooperation and synergy

A communication and knowledge management plan should be included in the proposed strategy. This will help to generate case studies and success stories for long-term engagement. The institutionalisation of information flows and purpose-driven knowledge management will help build success stories to convince potential partners/donors of the EBRD’s ability to deliver high-quality results.
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