



# IMPROVING THE BUSINESS CLIMATE THROUGH INVESTMENT COUNCILS

Over the past decade, the EBRD has supported the establishment of Investment Councils (ICs), which are platforms for public-private dialogue that bring together high-level government officials, representatives of business associations and experts from international financial institutions (IFIs). The ICs are advisory bodies that aim to facilitate dialogue between governments and the private sector and allow them to work together to tackle challenges related to the investment climate, such as improving governance and fighting corruption.



The EBRD supports the secretariats of ICs in Albania, Armenia, Georgia, the Kyrgyz Republic, Moldova and Tajikistan and is working towards establishing similar bodies in Bosnia and Herzegovina and Bulgaria.

The Bank designs and helps to establish secretariats staffed with economic and legal experts. Secretariats organise the annual workplans of ICs; request that meetings are convened; structure the agenda of those meetings; and provide most of the background research on policy proposals discussed and, where appropriate, approved by IC members. These secretariats also monitor the implementation by government ministries of IC policy decisions. Donors make a vital contribution to the work of ICs by funding their secretariats.

#### MAKING A DIFFERENCE

The evidence provided by annual reports suggests that ICs lead to real improvements in the dialogue between the private sector and state authorities. In some cases, they have helped a country to improve its performance in the World Bank's *Doing Business* report<sup>1</sup> which measures business regulations. In recent years, ICs have supported the creation of business-enabling environments, for example by promoting better diagnosis of investment climate problems and improved policy design and by strengthening the position of reformers within governments.

ICs do not replace the activity of any ministry, agency or institution. Instead, they harness private sector expertise to enhance the coordination and prioritisation of government economic policies and promote the use of evidence-based decision-making. An IC can also strengthen the role of the business community and of civil society in monitoring the effectiveness of governance reform.

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These councils are part of a complex jigsaw of institutions, policies and reform initiatives and reflect an important lesson that the EBRD has learned from its long experience: namely that transition is not just about building markets and the private sector. It is also about improving the quality of state and private institutions and ensuring that they work well together. ICs have a vital role to play in this endeavour.

### PUBLIC-PRIVATE DIALOGUE

For real partnership to develop, governments have to be ready to listen to the private sector, think long term and make good policy choices. Businesses are – and should be treated as – active partners in the fight against corruption and in other efforts to improve the investment climate.

Furthermore, consultation with the private sector in the elaboration of national and sector-specific plans is required to ensure inclusive growth and provide economic opportunities for all segments of the population. From environmental protection to health, from agriculture to water and energy supply, many policy areas converge with private operations. Private and public sectors alike benefit from coordinating on frameworks related to these issues. Sustained engagement between officials and businesses also helps to build trust, understanding and mutual cooperation.

### PITFALLS

The challenge for the EBRD – beyond ensuring continued donor support and financial sustainability for ICs – is to translate the dialogue that these councils facilitate into concrete and sustainable improvements to the investment climate. When they perform badly, ICs can not only waste the time and resources of participants but also worsen the problems they seek to solve.

For instance, if not sufficiently transparent and broad-based in its composition, an IC risks becoming a forum from which the authorities can deliver lectures to the private sector on certain issues. Our experience in other countries shows that, if its meetings are poorly planned, an IC can degenerate into a talking shop, which leads to disengagement and loss of credibility, gives strength to reform opponents and slows down the reform process.

Moreover, if these initiatives do not make special efforts to include small and medium-sized enterprises (SMEs) and those from the regions,

they can be dominated by big businesses or by companies based in the capital city. Lastly, councils whose activities are not well coordinated with those of existing institutions and other mechanisms for dialogue can result in a duplication of effort that overburdens and confuses participants.

Nevertheless, provided that ICs take these risks into account and maintain a strong focus on openness to public scrutiny, inclusion and forward-planning, they stand ready to make a real difference to the business environment as well as to wider society in the EBRD's countries of operations.

### Albania

The Investment Council of Albania, inaugurated in April 2015, is chaired by the Minister of Economy and meets six times a year. It represents the flagship project of the work currently carried out by the EBRD in the context of a Memorandum of Understanding on investment climate and good governance signed with Albania in 2014. The IC brings together heads of business associations and chambers of commerce, policy-makers (for example, ministers and heads of government agencies), and senior representatives of the European Union (EU), the EBRD and the World Bank Group.

To date, the Albanian IC has met eight times. Of the 45 recommendations it has issued, seven have been fully implemented, 12 partially implemented and 10 are still under consideration. Most of the implemented recommendations relate to the simplification of tax procedures and tax dispute resolution, as reflected in the latest amendments to the Law on Tax Procedures, approved by parliament





in November 2016. Among other implemented recommendations were amendments to the public consultation process for legislative initiatives. The Albanian IC secretariat is funded by the Italian Cooperation Fund at the EBRD and the Central European Initiative.

### Armenia

In Armenia the IC is known as the Business Support Office (BSO) and was established with EBRD support in 2008. During the first few years of its operations, however, the BSO struggled to establish a clear mandate and operating procedures, and its position within the investment climate in Armenia was somewhat tenuous. In 2011, therefore, the Bank intensified its engagement with the Armenian authorities and business community and succeeded in establishing a clear operational orientation for the BSO that remains in place. The BSO is unique among the ICs the EBRD supports in serving two different platforms: the SME Development Council and the Inspections Reform Coordination Council (IRCC), both of which are chaired by the prime minister.

The BSO serves as part of the secretariat to the SME Development Council and is the primary professional structure underpinning that body's work. The BSO also participates in the IRCC's

support unit, which includes the Ministry of Economy's Inspections Reform Team as well as two experts from the International Finance Corporation (IFC). Within that core unit, the BSO primarily provides expert legal advice on inspections reform proposals. This includes the drafting of primary legislation (such as the new Law on Inspections, which was approved by the National Assembly in 2015). Among recent achievements was the establishment of a new Markets Surveillance Inspection Body for which BSO staff drafted the statute and other foundational documents. The government approved the decision to establish this new body at a meeting of the IRCC. The BSO is funded through the EBRD Shareholder Special Fund (SSF).

### Moldova

The Economic Council under the Prime Minister of Moldova (hereafter referred to as the IC) was launched with EBRD support in early 2013, as part of the Bank's Early Transition Countries Initiative (ETCI), and became operational in late 2013.

The impact and effectiveness of the Moldovan IC have varied over the past three years, as political turbulence and weak economic governance in the country have resulted in frequent changes in the premiership (four prime ministers and two acting

prime ministers in three years). The IC enjoyed strong support under former Prime Minister Iurie Leancă and notable achievements stemming from this period included a dramatic improvement in corporate ownership transparency and a significant streamlining of the bureaucratic obstacles to foreign trade.

In particular, following a strong advocacy effort on the part of the IC, a list of the names of the owners and founders of about 200,000 Moldovan companies was published. This improvement alone saw Moldova climb to third place in the global Open Company Data Index<sup>2</sup> behind Denmark and the United Kingdom.

Other prime ministers, however, held office for shorter periods of time and had limited involvement in the IC. In 2016, serving Prime Minister Pavel Filip placed significant emphasis on the work of the council. It remains to be seen whether the political situation in the country will stabilise enough for the IC to once again deliver concrete improvements to the investment climate. The IC secretariat is funded by the UK Good Governance Fund.

### Georgia

The Investors Council of Georgia (IC) was established in 2015 by the EBRD and the Georgian government after it became apparent that a number of recent reforms had yet to be fully implemented and that other changes to the investment climate were still needed. Furthermore, officials were taking policy decisions on issues that were contentious for the private sector without a sufficient degree of consultation, contributing to a sense of discontent among investors. The IC sought to support a constructive dialogue between the government and the private sector on these issues.

The Georgian IC is chaired by the prime minister and draws its members from the government, the EBRD, other IFIs, and five prominent business associations. Thanks to the efforts of its secretariat, the IC has succeeded in securing the recognition of public officials as well as of businesses and donors. Its work has included providing advice on amendments to the Law on Injunctions; giving assistance to the Revenue Service for an assessment of the regulatory impact of implementing an EU directive on value-added tax (VAT); and judicial reform activities. These saw the IC establish a working group focused on promoting the independence, integrity and reliability of the judicial system. The Georgian IC secretariat is funded by the UK Good Governance Fund.

### Kyrgyz Republic

The EBRD helped establish an IC in the Kyrgyz Republic in 2008 and has been supporting its secretariat ever since. The Bank recently carried out an internal assessment of the activities of this IC and its secretariat among its stakeholders (that is, business associations, other representatives of the private sector, IFIs, donors and the Kyrgyz government). They all agreed that the IC serves an important and, in the Kyrgyz context, unique role as the voice of the private sector, able to raise topical issues at the highest political levels and to take concrete steps to deliver investment climate improvements.

As part of efforts to deepen public-private dialogue, the IC secretariat recently started developing a network of regional ICs and appointed a parliamentary liaison officer. Noteworthy outcomes of the secretariat's work include a new draft law on licensing and permits that received approval from the Investment Council. In 2015, the Kyrgyz

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parliament approved risk-based tax audit reforms that had been initiated by the IC. These reforms significantly reduce the number of tax audits to which businesses can be subject each year and discourage unjustified inspections. The secretariat is funded through the SSF.

### Tajikistan

The EBRD has supported the IC and its secretariat in Tajikistan since their foundation in 2007. The Tajik council differs from other ICs supported by the Bank inasmuch as it is the only IC chaired by the president (four of the other five ICs are chaired by prime ministers and one by the economy minister). Given the strongly centralised nature of the Tajik government, this is seen as an important means of ensuring the IC's high profile and its capacity to shape investment climate reform dialogue.

Positioning the secretariat very close to the Tajik government has, however, affected the perceived independence of the IC among the business community and weakened trust in the council's willingness and capacity to act on behalf of the private sector.

Despite these systemic constraints, the IC secretariat has contributed to the drafting of a wide range of regulatory and legal reforms and monitored their implementation. The secretariat is responsible for the preparation of the government's action plan on improving Tajikistan's indicators in the World Bank *Doing Business* report. The 2017 edition of the report<sup>3</sup> saw Tajikistan strengthen its position by two points, with a dramatic increase of position in the Paying Taxes category, by 33 points, compared with the previous year. The secretariat is funded through the SSF.

## CONCLUSION

Throughout the first 25 years of its existence, the EBRD has witnessed that governments who listen and respond to the concerns of the private sector are more likely to devise sensible prioritisation plans and workable reforms. By providing businesses with a voice and by inviting greater public scrutiny, ICs can make important contributions.

They enhance public and corporate governance, improve the quality of advice that governments receive from the private sector, and promote more evidence-based advocacy. This occurs, however, only as long as these platforms retain their transparent, independent and inclusive nature, which the Bank seeks to strengthen through its engagement.

- 1 <http://www.doingbusiness.org/> (last accessed 20 December 2016).
- 2 <http://registries.opencorporates.com> (last accessed 20 December 2016).
- 3 <http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf> (last accessed 20 December 2016).

