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IFC SmartLessons

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Help Me To Help You: Strategies for Working Effectively with Governments

In development work, we all have heard many words of advice for effective work with governments. But succeeding at policy work is easier said than done. This paper describes how IFC's Georgia Corporate Governance Project was able to support the process of reforms in a fast-paced, challenging political and administrative environment and amid shifting government priorities. The purpose of this SmartLesson is to share some of the challenges faced in our work with government and to provide useful tips for effective policy work.

Background

In 2004, the government in Georgia began undertaking a wave of reforms to help spur the economy by reforming government institutions and making significant changes and amendments to existing laws and regulations. Reforms were carried out at a fast pace, with varied levels of stakeholder participation and with certain shortcomings. The government's reform agenda included many priorities, such as private-sector development and privatization, market deregulation, trade facilitation, tax reform, improvements in the investment climate, and facilitation of European Union (EU) integration. But with such a loaded agenda and a lack of professional and institutional capacity, corporate governance problems were often overlooked. The importance of establishing corporate governance standards in the country was not fully appreciated, although many corporate governance problems were intertwined with the government's reform efforts. For example, protection of shareholder rights was closely related to efforts to improve the investment climate.

The Georgia Corporate Governance Project, similar to many other IFC corporate governance advisory services projects in the region, has been working to improve the legal framework regulating corporate governance in Georgia. In attempting to find the best way to establish

good working relationships with the government and provide effective policy advice, we learned four key lessons.

Lessons Learned

1) Prepare the background and build government awareness before initiating policy work, because people only see what they are prepared to see.

Sometimes policymakers are just not ready to tackle the policy problems for various reasons. They may not see the real problems; they may not have a clear picture; or they may not be prepared to evaluate the situation. In such cases, there is a need for more groundwork.

In our case, for quite some time the project had been suggesting that the Georgian government adopt regulatory norms for protecting minority shareholders. This recommendation was not taken into consideration, however, because the government was not convinced that there was a significant policy problem. There was a need for more awareness work, which the project tackled in several different ways.

In 2004, IFC's Georgia Corporate Governance Project conducted a baseline survey of corporate governance practices. More than 150 Georgian companies completed the survey. Widespread dissemination of the results made

the survey a useful public awareness tool. In addition to other areas for improvement, the survey identified shareholder rights as a major loophole in the legislation. The project team used the survey results as a tool during discussions with the government. The survey helped demonstrate that protection of shareholder rights was an area that needed improvement and helped convince policymakers to adjust their regulatory efforts.

The project also used various global economic indicators, such as the World Bank's Doing Business indicators, the World Economic Forum's Global Competitiveness index, etc., to demonstrate how poor protection of shareholder rights was negatively affecting various rankings on these indices, and how better protection would not only improve some of the economic rankings but would actually help increase investor confidence.

Following this groundwork, the project was able to raise the government's awareness and put the protection of shareholder rights on its agenda.

2) Provide a clear process and guidance on how to implement policy recommendations.

Even if there is political will from the government to take certain policy advice, often there is no process or capacity in place to implement it properly. So therefore advisory projects need to point out the different options for implementing a particular policy, describe best international practices, and indicate the actions that need to be taken—and by whom—in each specific area.

For example, after much discussion, Georgian policymakers were willing to introduce shareholder protection mechanisms, but they did not have a clear plan for what exactly needed to be done. The project helped create a roadmap that included the following elements:

- *Relevant examples from best international practice and different regulatory mechanisms for protection of shareholder rights.*
- *Assessment of how each mechanism would work under local conditions and help in reaching agreement on the mechanism to be applied.*
- *Analysis of the legal framework and identification of the piece of legislation that needed to be amended.*
- *Identification of the group responsible for developing the draft, along with help in drafting the amendments.*

This approach proved to be very useful. The government followed IFC's advice and, for the first time in Georgia's history, decided to introduce a clause protecting minority shareholders from misconduct by management and controlling shareholders.

3) Ensure participation of key government counterparts and encourage public-private dialogue.

Once awareness has been built and there is a will to address the policy issue, it is crucial to choose the right group to steer the process. It is important to include key government counterparts who have the political power to push the reform, so that there are no undue delays and the initiative does not get shot down midway through the process. But it is equally crucial to encourage public-private dialogue and ensure participation of key stakeholders who have the experience and can add value to the decision-making process.



The project's key government counterparts, the State Minister of Reforms Coordination and the then President of the National Bank, discussing reforms.

After the government was convinced of the need to introduce legal amendments to improve protection of shareholder rights, it was decided that a task force would be created and that a related piece of legislation, introducing amendments protecting minority shareholders and regulating conflicts of interest, would be drafted and presented to the parliament. The goal then was to ensure the creation of an effective task force that would include key stakeholders who had first-hand knowledge and experience. The task force was led by the state Minister of Reforms Coordination and included representatives from several ministries, members of parliamentary committees, the Georgian Stock Exchange, a number of nongovernmental organizations (NGOs), and several donor-funded advisory projects staff.

Accomplishing this goal also involved building a meaningful dialogue among the parliamentary groups and their private-sector counterparts early on in the process. The Georgian cabinet at that time, being backed by the majority of parliament members, almost never had a problem adopting legislation. To ensure that all interested parties were informed and satisfied, the project initiated discussions with a number of parliamentary committees to prepare members of parliament and experts for the upcoming hearing on the draft law. The project also convinced the task force to send the initial drafts and receive feedback from private-sector representatives affected by the legislation. This turned out to be an excellent idea. Most suggestions from the interested parties were taken into



Encouraging public-private dialogue helps generate public buy-in.

consideration and contributed to the improved quality of the draft legislation. This also helped to generate public buy-in.

4) Stay responsive to changes, remain flexible, and be ready to modify your strategy to fit new conditions.

In policy work it is important to remain flexible and responsive to the changing government agenda. Frequent shifts in priorities may occur, and the government may adopt a strategy that is in conflict with your policy suggestions. You must remain responsive to changes and be willing to modify your strategy to fit the new demands.

As an example, the project put much effort into supporting the National Bank of Georgia in developing a draft corporate governance regulation for banks. Before the regulation was adopted, the government initiated reforms of the financial sector. The supervisory function for commercial banks was transferred from the National Bank of Georgia to the newly established Financial Supervisory Agency, and the reform became oriented toward less government regulation. But the new agency was not interested in adopting the corporate governance regulation, and the initiative came to a halt. After much discussion, the project team decided that finding interested counterparts in the private sector and helping them develop a voluntary corporate governance code would provide best-practice guidelines for banks to follow while, in the meantime, remaining in line with the government's new agenda. After holding discussions with private-sector and government counterparts, the initiative started moving again, now in modified form. The Association of Banks of Georgia was interested in the initiative and agreed to be the owner of the Corporate Governance Code for Georgian banks. The project helped create a task force for developing the draft code of best practice

with the Association of Banks of Georgia, the Georgian Stock Exchange, and bank representatives. Now that the draft has been developed, it is being discussed by the wider group of Georgian banks.

Conclusion

Through effective application of the lessons discussed in this document—building government awareness before initiating policy work; providing a clear process and guidance for implementation; ensuring participation of key government counterparts; encouraging public-private dialogue; staying responsive to changes and modifying the strategy to fit the new conditions—the project achieved the following results over a two-year period:

- *Amendments to the Law on the Securities Markets regulating conflict of interest were drafted by the project and adopted by parliament (enacted March 2007).*
- *The project's comments regarding the composition of audit committees in banks and remuneration for supervisory board members were reflected in the draft Law on Commercial Banks (enacted March 2008).*
- *A task force on development of a voluntary corporate governance code for commercial banks has been created and the draft Code developed (February 2009).*



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