

Georgia: The Role of the Business Ombudsman in Retaining Investment

As a part of the Investment Climate Reform project in Georgia, the World Bank Group has been assisting the recently established Business Ombudsman office (BO), an institution whose mandate is to resolve disputes between firms and government agencies.

In an effort to contribute to the body of knowledge on how institutions affect decisions made by firms, the research team conducted a pilot for a randomized controlled trial aimed at evaluating the BO in Georgia. However, after trying out several different strategies to engage firms with relevant problems to participate in this impact evaluation, the team concluded that it is currently not feasible to conduct a RCT as we had planned. The main problem making the study infeasible was the difficulties of recruiting firms with problems that are within the scope of the BO's expertise to the study.

Context

A good investment climate and market-supporting government institutions are considered to be fundamental to private sector development. However, there is little empirical evidence on the effect of specific government institutions on firms' perceptions of the business climate, their investment choices, and firm growth. This study aimed to contribute to the body of knowledge on how institutions affect decisions made by firms, by evaluating one specific government institutional innovation, the Business Ombudsman (BO), in Georgia.

Interventions

The research team planned to induce exogenous variation across firms in the usage of the BO's services through a randomized information intervention that targeted firms



Photo : Ahmed Mushfiq Mubarak. Georgia Revenue Service.

that are in the process of submitting an appeal to the Georgia Revenue Service or the Tbilisi Municipality. In order to better understand the value of the services provided by the BO that go beyond the type of services provided by law firms, we planned to randomize firms into two different groups that receive different services from the BO. One group will receive all of BO's services, the "Full Services" treatment, including the informal and formal advocacy the BO does for firms within the government agencies while another group will receive a limited set of services, the "Legal Services" treatment, that does not include advocacy.

Impact Evaluation Design

Using the exogenous variation in usage we look to estimate the effect of the BO's services on three types of outcomes - (i) the direct effect the BO has on the issues that the firms had with the government, (ii) the effect on firms' perception of the business climate, and (iii) the effect on firms' investments, growth and future tax payments. Furthermore, we will use the second layer of randomization of the BO's services to answer which of the BO's activities has the largest impact on these outcomes.

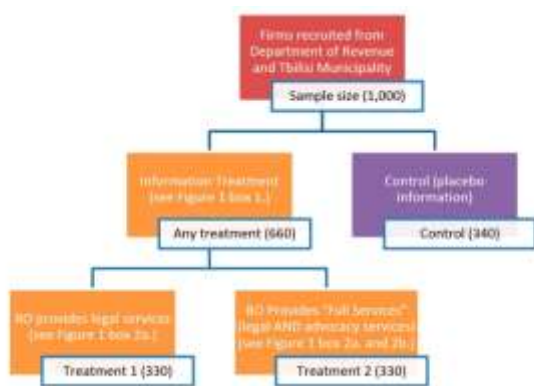


Figure 1. Impact Evaluation Design

Policy Relevance

Improving investor protection is a matter of both improvement in the (“de jure”) legal framework of investor protection guarantees and of (“de facto”) implementation of laws, regulations and contracts. Weaknesses in implementation, in addition to affecting perception of investment climate and therefore, the potential to attract new investments, can have direct costs to countries related to arbitration and litigation. Furthermore, these disputes can affect the retention of existing investment, which is a significant channel for investment in developing countries (estimated to be one third of FDI flows to developing countries).

Lessons Learned

The main finding from the pilot is that the scope of expansion of the BO’s services to a larger number of firms seems to be relatively limited. The sample of firms was in theory one of the best samples to expand the BO’s services to, since firms were engaged in appealing a decision by the Revenue Service. However, they were not interested in the services offered. Out of the 34 treatment firms, 53 percent had knowledge of the BO but had still decided not to use their services. Furthermore, even after having been given additional information about the BO and being directly encouraged to contact them, none of the firms did.

Lessons learned:

1. The population of potential users of the institution has to be identified. Only a small fraction of the overall population has ongoing disputes at any given time and that data on this population is often confidential.
2. It has to be possible to create experimental variation in who is given access to the institution. In the pilot, providing information about the BO was not enough to induce firms to use the BO’s services.
3. It is important to work very closely with the dispute resolution institution to agree on the criteria for accepting cases. The project could have benefited from BO officials screening out cases, firms that are more similar with the study population could have been identified.
4. Lastly, it is important to time the impact evaluation with the political cycle. In this project, during the pilot phase the Ombudsman himself ran as a member of parliament during the elections and was elected, which became problematic as the study was designed assuming that that the BO had considerable influence within the government apparatus.

Materials

[Methodology Note](#)

[Pilot Report](#)

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