A tool to efficiently address investors' problems with government agencies: The Systemic Investment Response Mechanism (SIRM)

- How to avoid nascent investor problems from becoming serious and costly investor-state disputes?
- How to attract new investors through improving investment climate by lowering risk?
- How to facilitate existing investors to remain, reinvest earnings and expand investments?

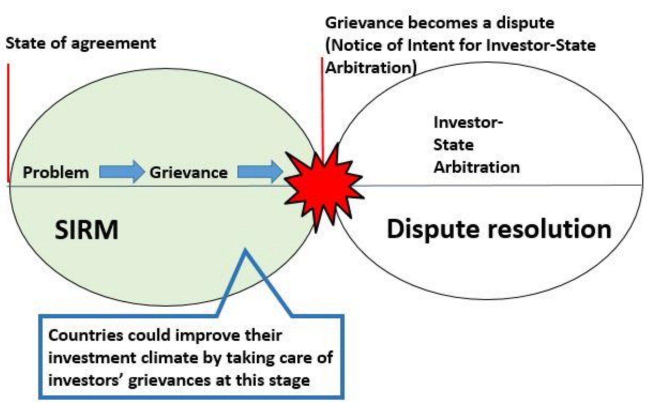
The World Bank Group (WBG) has designed and is rolling out SIRM to put in place systems that identify and resolve investor problems early, before they negatively impact investment levels or escalate to legal disputes.

What is the problem?

Perceptions of political risk from government conduct is a key constraint for investment

More than 25% of investors in the 2013 MIGA-EIU Political Risk Survey indicated that in the previous year political risk caused them to withdraw existing investments or cancel planned projects. When asked about the types of political risk they cared about, it was not terrorism or war that topped the chart, but rather government conduct. This includes things like adverse regulatory changes, breach of contract, or transfer and convertibility restrictions. In addition, risk related to government conduct dissuades new prospective investors.

Minimizing risks at the source is critical not only to attract, retain and expand investments in host countries, but also to prevent potentially costly investor-state disputes.



What is the solution?

The Systemic Investment Response Mechanism (SIRM) helps address this challenge

SIRM is an early warning and tracking mechanism to identify problems that arise from government conduct. This allows governments to respond to investor grievances in a timely and suitable manner --in accordance with the country's laws, regulations and their international investment agreements.

SIRM collects data and identifies patterns on the source of government-generated political risks affecting investments. It quantifies investment retained, expanded or lost as a consequence of addressing (or not) political risks. This provides 'evidence' to advocate for reforms, strengthening the ability of reform-oriented agencies to minimize recurrence of investment-related problems.

Measuring Success: Impact indicators

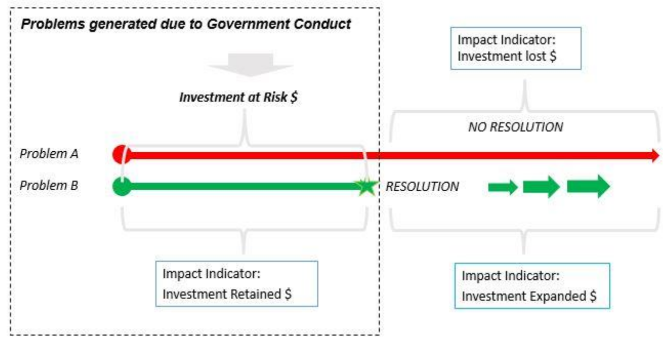
- Investment retained /expanded
- Jobs retained/expanded
- Legal costs avoided
- Investor perceptions improved

How does SIRM work?

There is no one-size-fits all model for SIRM: it is designed to be adapted to the political economy circumstances of each country. Nevertheless, there are several common elements of an effective SIRM:

- **Empowerment of a Lead Agency**: A Lead Agency should be designated with the authority to coordinate SIRM with other national, subnational and sector-specific agencies.
- **Early Alert Mechanism & Tracking Tool**: An early alert mechanism identifies problems as soon as they arise, allowing the Lead Agency to react. A tracking tool monitors the status of a problem, the investment at risk, and investment retained/expanded through its resolution.
- **Problem Solving Methods**: Lead Agency is empowered to use different problem-solving methods as appropriate to find a solution with the agencies involved. Methods can range from exchanges of information, consultation to peer pressure to legal advisory opinions.
- **Political Decision Making**: Sometimes the Lead Agency may not have the political clout to discipline a peer agency. In this case, the problem is elevated to higher political levels (e.g. Ministerial Cabinet or Councils chaired by the President/Prime Minister). Once a higher-level decision is taken, the Lead Agency monitors and tracks resolution, positive or negative, and impact on investment.

SIRM Tracking Tool: What Gets Measured, Gets Done



SIRM Pilots: What is the evidence?

The WBG is testing the SIRM concept through initial pilots in Bosnia & Herzegovina, Dominican Republic and Georgia, as well as more recent pilots in Albania, Colombia, Kyrgyz Republic and Mongolia.

In **Georgia**, the government established a Business Ombudsman (BO) in 2015, transforming a former tax ombudsman agency dating from 2011. The BO is part of the Government and has direct access to the Prime Minister's Cabinet. Its mission is to protect the rights of investors in Georgia. A survey of cases resolved by the BO in 2015 revealed that the 30 companies surveyed represented a total of US$ 1.1 billion in investments, of which US$ 343.4 million was retained in the country as a result of addressing risks at the source.

In **Bosnia & Herzegovina**, the lack of government collaboration in a complex administrative environment had become a serious problem for investors. In 2012 the SIRM pilot started with a "bottom up" approach, focusing on investors at a local level and organizing a collaborative network of agencies that undertook proactive visits to investors. Since 2013, the network visited multiple companies, retaining $15.8 million worth investment. Companies also reported expansion of investment by $41.6 million and 914 new jobs.