

## **EVD SPECIAL STUDY: POLICY DIALOGUE EVALUATION MANAGEMENT COMMENT**

### **Overall View**

Management welcomes the EvD Special Study on Policy Dialogue. The report captures the various levels on which policy dialogue is conducted by different individuals and departments and recognises the importance of policy dialogue as a complementary instrument to the Bank's investment and technical cooperation projects. The methodological approach – based on a survey of relevant Bank staff and senior management, extensive interviews with stakeholders, and the use of case studies – was appropriate, and has resulted in a report that provides useful insights. The decision by EvD not to rate policy dialogue performance seems the right one, given the difficulties in impact measurement and attribution and the reliance on only a handful of case studies on which to base an assessment. The recommendations are well worth consideration, although there are some areas where further elaboration would have been helpful.

### **General Comments**

1. Policy dialogue is a difficult and broad topic to tackle, and some of ways the Bank has contributed to transition through its policy dialogue have received only limited treatment in a report of such sweep and ambition. The EvD study has touched on some relevant examples of policy dialogue of various types – project supporting vs. project-enabling, policy dialogue at the project, sector, country and international levels – which gives a sense of the wide range and multiplicity of actors involved in policy dialogue. The study briefly examines the Bank's new, better coordinated and more intensive involvement with other IFIs, governments and central banks, the EU institutions and international banks in the context of the global financial crisis and its impact on financial systems in the transition region. A deeper focus on the lessons of the crisis and the Bank's crisis response, in connection with the present and future role of policy dialogue, would have afforded an opportunity to describe a shift towards integrated policy dialogue with other IFIs and within the Bank amongst Banking, OCE, Treasury and other departments.

2. The report mentions the importance of arms-length policy dialogue in some circumstances. This form of project enabling policy dialogue is most appropriate in cases where policy advice provided in direct support of existing projects could raise concerns of a potential conflict of interest. While the Bank has been most successful with its policy dialogue in cases where this is linked to existing and future projects, there may be cases where the two should remain distinct from each other to underscore the Bank's neutrality. This could have been commented on more expansively in the study.

3. The Bank has decided to reinforce its business model in the CRR4 period with the selective application of an integrated approach to projects, technical cooperation and policy dialogue. Although these are too new to merit evaluation, one part of the intuition behind the development of the integrated approach – that policy dialogue linked to individual projects was often times ad hoc and ineffective while policy

dialogue on the basis of a series of projects and technical assistance would give the Bank more weight – could have been looked at more intensively as a model.

4. The main interface with the authorities in countries of operations is the resident office (RO) and in particular the RO head. The role of the RO is mentioned in the report as one of the many contributors to the Bank’s policy dialogue, but this could have been given even greater attention in the body of the report since this is often where much of the day-in/day-out policy dialogue happens. One of the recommendations in section 5.2 picks up this point.

### **Specific Comments**

1. The report acknowledges in section 2.5 the introduction of important source of additional support to policy dialogue with the post of VP Operational Policies and the creation of the Stakeholder Relations Department. It could have also noted the fact the Organisational Capacity Building exercise in 2009/2010 has introduced changes to the matrix structure within the Banking department and within the Office of the Chief Economist that are likely to lead to improvements in how the Bank conducts policy dialogue. For example, OCE has put in place a new structure which specifically covers three major policy initiatives on local currency and local capital market development, energy efficiency and climate change, and food security, and it has strengthened its policy expertise in other sectors in which the Bank operates.

2. The statement in section 4.1 on policy dialogue on motorways in Hungary that this is on the “only EBRD country of operations where successful motorway public-private partnerships (PPPs) have been implemented based on open and transparent tender procedures” is too narrow. The R1 motorway in Slovakia is another case that could have been mentioned.

3. The statement in section 5.1 on key findings that “there is relatively little recognition or reward within the EBRD for effective policy dialogue” and that “time spent on policy dialogue, over and above that required making new projects feasible, is considered counter-productive” has some merit but could have been more nuanced. The Banking department’s evaluation matrix of sector and country teams, and within it of individual bankers, recognises the importance of policy dialogue. Further, as noted above, for RO heads policy dialogue is an important part of their terms of reference and a key criterion against which they are recruited and appraised by managers.

### **Comments on Recommendations**

1. The first recommendation, on linking policy dialogue to projects, including through use of an integrated approach, is broadly appropriate, but should be qualified. The study notes that there may be occasions where this could raise a risk of lobbying or undermining perceptions of EBRD’s neutrality, and that policy advice should be offered on an arms-length basis. In addition, as the crisis has shown, high-level project enabling policy dialogue, which is less directly linked to existing projects, could be enhanced in respect of three key areas of strategic importance to the Bank: local currency and local capital market development; food security and developing the agribusiness value chain; and energy efficiency and climate change.

2. The recommendation on resources for policy dialogue is a useful reminder that incentives and resources must be aligned with objectives. Within the Banking department and OCE there have been recent organisational changes to encourage policy specialisation and a recruitment of experienced staff with policy-related skills. This is especially the case in OCE for the three initiatives noted above, and also for sectors within the recently-formed Industry, Commerce and Agribusiness business group.

3. The recommendation on the management aspects of policy dialogue correctly notes the absence to date of a clear set of strategic objectives and systematic tracking of progress towards desired policy reforms. The ongoing review of the process and content of the country strategies and country strategy updates will take this into account. These documents will be modified to provide annual reporting on policy dialogue priorities, including in the legal and regulatory sphere, and updates on how the Bank is addressing these. The Stakeholder Relations Department, OCE and Banking will share responsibility for producing the country strategies and the country strategy updates, and accordingly will undertake to enhance tracking and reporting of policy dialogue efforts. In addition, analysis of the contribution of policy dialogue to sector-wide reform in connection with projects, as contained in the Transition Impact Retrospective, will be provided more regularly by OCE. Benchmarks linked to policy dialogue, part of the Transition Impact Monitoring System (TIMS), will make this possible.