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EvD produces thematic or sectoral level evaluation reports in the form of Special Studies. These provide valuable insights to strengthen operational outcomes and institutional performance; they focus on larger issues for which a transactions lens is unsuitable and generate more widely applicable findings for a wider audience. The larger scope of these studies facilitates the use of innovative and robust evaluation methods. This study forms one of six such studies scheduled for EvD's 2010 Work Programme.

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Contents

Abbreviations	iv
1. Introduction	1
2. An overview of policy dialogue at the EBRD	2
2.1 Types of policy dialogue	2
2.2 How policy dialogue is conducted in the EBRD	4
2.3 The main focus of the EBRD policy dialogue in recent years.....	5
2.4 Evaluating policy dialogue: findings to date	7
2.5 Evaluability of policy dialogue	8
3. High, international and country level policy dialogue.....	9
3.1 High level policy dialogue.....	9
3.2 International level policy dialogue	10
3.3 Country level policy dialogue.....	12
4. Sector and project level policy dialogue	17
4.1 Policy dialogue on motorways in Hungary.....	17
4.2 The Romania mortgage reform case.....	18
4.3 Policy dialogue on energy sector reforms in Bulgaria	19
5. Key findings, lessons and recommendations	20
5.1 Key findings.....	20
5.2 Lessons and recommendations	21
Annex 1. Staff survey on policy dialogue activities	
Annex 2. Summary of technical cooperation work as an instrument for policy dialogue	
2.1. List of TCs in relation to policy dialogue	
Annex 3. Policy dialogue related lessons from earlier EvD reports	
3.1. Lessons extracted from Special Studies	
3.2. Lessons extracted from OPERs	

Abbreviations

ATC	Assessment of Transition Challenges
BCR	Banca Commerciale Romana
BEEP	Business Environment and Enterprise Performance Survey
CEE	Central and eastern europe
EvD	EBRD Evaluation department
IFI	International Financial Institution
LITS	Life in Transition Survey
LTT	Legal Transition Team
MSME	Micro, small and medium size enterprises
OCCO	Office of the Chief Compliance Officer

1. Introduction

Policy dialogue is one of the EBRD's major instruments for assisting its countries of operations to achieve their transition objectives. It is a two-way process in which the EBRD interacts with government officials, partners and other stakeholders of the countries of operations to provide information and advice to foster improvement in the policy and regulatory setting. The Evaluation Department's (EvD) 2010 work programme incorporates an evaluation special study to review the concept and practice of policy dialogue in the EBRD, concentrating primarily on performance in recent years. The work on this study started in the second quarter of 2010. The main goal of the study is to derive findings, lessons and recommendations to help the EBRD improve its policy dialogue in the years to come.

Policy dialogue responsibilities are rarely assigned to specific officers within the EBRD but are undertaken, at different times and in varying degrees of intensity, by the EBRD's Board, President, management and staff. In some cases, policy dialogue is undertaken by inter-disciplinary teams, while in others, individual managers or members of staff manage the dialogue. Policy dialogue takes place at many different levels. Most often, it takes place in the context of the preparation or implementation of specific investment operations. But it can also be separate, as when it addresses broader issues of sector, country and regional policy matters, including those affecting the investment climate. Policy dialogue was crucial in the early stages of the transition process, and is again coming to play a more important role as the transition process proceeds. Under the Bank's new business model in the fourth Capital Resources Review (CRR4) period and beyond, greater synergies between policy dialogue, multi-year investment programmes and technical cooperation will be fostered to increase the EBRD's transition impact in countries of operations.

The evaluation was undertaken in three phases. In the first phase, an inventory of EBRD policy dialogue was undertaken by reviewing corporate documents, conducting a staff survey, and by interviewing a large group of present and former Bank directors and managers. In the second phase, a series of case studies were prepared. In consultation with management, cases were selected in which policy dialogue was perceived to have made an important contribution to reform at a regional, country, sector or project level. In the third phase, the results of the policy dialogue inventory, interviews, case studies and earlier work by the Evaluation Department were synthesised and summarised. The evaluation evidence was examined to identify common performance determinants, and forward oriented lessons were drawn and used to derive relevant recommendations for the EBRD.

Policy dialogue is a new area of service to be evaluated, both in the EBRD and in the evaluation community as whole. Since much of the information on policy dialogue is contained in the institutional memory of Bank management and staff, a high degree of cooperation was maintained between the EvD and management throughout this exercise. At the initial stage, the EvD organised a workshop with management to discuss a draft approach paper and the scope of the study. While respecting the EvD's independence, management has cooperated with the EvD in responding to interview requests, in the design and conduct of a staff survey on policy dialogue (see Appendix 1), in identifying appropriate country and sector case studies, and in facilitating the field work. A joint reference group comprised of senior managers from the Office of the Chief Economist (OCE) and the Banking Departments has provided feedback on the findings of the evaluation exercise, as it proceeded.

The findings and recommendations of this study should be interpreted with caution. It is especially difficult to isolate and attribute reform to EBRD policy dialogue alone. In practice, EBRD policy dialogue is typically combined with other services (loans, technical cooperation and so on) of the Bank and other development partners, and with interventions of a large number of government bodies and other stakeholders. For this reason, this special evaluation did not formally rate policy dialogue performance. Second, this special evaluation derives performance determinants and lessons from a relatively small number of case study experiences, and in particular, from those that were identified, a-priori, by EBRD management, as “good practice” examples. Average policy dialogue experience is likely to differ from that of the perceived good practice cases. Lastly, the near absence of recorded objectives or results of EBRD policy dialogue implies that the findings of this exercise rely heavily on the institutional memory of key bank and country stakeholders, and cannot be readily confirmed by written sources.

This report is divided into five chapters. Chapter 2 discusses the role, concept and scope of policy dialogue in the EBRD, summarising, among other things, the findings of interviews and a staff survey undertaken for this exercise. Chapter 3 reviews high-level policy dialogue as well as international- and country-level policy dialogue. Chapters 4–6 focus on policy dialogue at a sector and project level, drawing on four case studies. Chapter 7 summarises the key findings and lessons, and makes recommendations.

2. An overview of policy dialogue at the EBRD

Policy dialogue is a broad concept. In essence, it is a dialogue about policies between the EBRD and its countries of operations that is intended to further the EBRD’s transition objectives in those countries. Policy dialogue takes two main forms. The first is project facilitation, which is dialogue about policies that facilitate the implementation of the EBRD’s on-going or proposed investment operations. The second, environment enabling, is dialogue about policies that improve the operation of the economy beyond the confines of particular projects.

EBRD management identified a need to strengthen the prominence and conduct of policy dialogue in its 2009 report ‘Fighting the Crisis, Promoting the Recovery and Fostering Transition’. Here, the following assessment of the Bank’s policy dialogue performance is made:

“The challenge is to maintain its strength and focus as a transaction-oriented bank while at the same time developing its technical assistance/advisory and policy dialogue capacity... On policy dialogue, the Bank would need to dedicate significant additional resources to conducting sustained dialogue with relevant country authorities. Currently policy dialogue tends to be fragmented because many teams do not have the means or the incentives to engage seriously in the type of dialogue that would lead to regulatory or institutional change. Greater coordination would be needed across teams within the Bank, as well as with other IFIs and donors. ... It is important that policy dialogue initiatives remain firmly linked to existing or potential projects, as this is where EBRD can have the most leverage”.¹

2.1 Types of policy dialogue

EBRD’s policy dialogue is conducted at the project, sector, country and international levels. At the project level, policy dialogue generally concerns reforms that are necessary to make particular projects viable. This could include measures specific to a particular project, such as setting tariffs, giving market

¹ EBRD Board of Governors (2009) Proceedings of the Eighteenth Annual General Meetings, Appendix entitled Fighting the Crisis, Promoting the Recovery and Fostering Transition (p.130), London.

guarantees, the treatment of profits tax and fund utilisation agreements. It could also pertain to legal and regulatory changes that have wider sector implications, such as establishing the legal and regulatory framework for a new financial instrument or establishing new rules for granting concessions or contracting out public services. At the sector level, policy dialogue primarily focuses on improvements in the private sector enabling environment (that is, tariffs, licensing, service requirements), corporate governance, or on reforms that realign the roles of the private and public sector in a particular sector (that is, concessions, public–private partnerships). The EBRD's work on mortgage laws in Romania, as well as projects in the Hungarian road sector and the policy dialogue for reforming the Bulgarian energy sector, are examples that are described in Chapter 4. Country-level policy reform focuses on issues that cut across sectors, such as the investment climate. Again, there are specific cases presented for Russia, Ukraine and Tajikistan in Chapter 3 of this report. In the international arena, the EBRD participates in policy dialogue aimed at addressing key regional and global challenges, such as the food crisis of the last few years and the adverse effects of the global financial crisis.

The vast majority of EBRD policy dialogue is of the project facilitation type. Policy makers have an incentive to accept EBRD's policy advice because it is linked to real investments. Investment opportunities are market driven and the project facilitation policy dialogue process is to a certain extent following that. It is thus serving both sides of the EBRD's transition mandate – the commercial “investment” side by the incentive that bankers have to deliver new investments, and the “policy” side responding to the perceived need for transition reforms as in the case of environment enabling policy dialogue. The Bank must be aware that at times the commercial investment side can use the “policy” side to its advantage and it is important that both areas stay at arm's-length from each other. A certain distance is important in order to prevent its operating staff from conflicts of interests and to maintain EBRD's neutral reputation.

The intensity and character of policy dialogue vary from country to country. In some countries, policy dialogue is quite extensive, and in others it is not. In a number of countries it is accompanied by technical cooperation and a series of investment operations. There can be important synergies between technical cooperation (TC) support and policy dialogue. There are good practice examples of cases in which EBRD TC has supported the development of model laws that have served as standards against which member countries have harmonised (see Appendix 2). Various factors affect the EBRD's opportunities to undertake effective policy dialogue, including the relative volume of the EBRD's portfolio in a country, client relations, the EBRD's credibility with the authorities, the degree to which other partners have taken the lead in dialogue, and the sensitivity of the matters at hand. Furthermore, the nature of the transition challenges often has a direct bearing on the Bank's ability to engage in policy dialogue. First-generation transition challenges, such as opening commercial sectors to private participation, may present rather unambiguous policy choices, whereas second- or third-generation policy challenges, such as the establishment of appropriate financial market regulatory regimes, may be far less clear-cut. In countries pursuing EU accession, policy dialogue is facilitated by the desire of the member countries to pursue EU standards. In other cases, client considerations (that is, desire to pursue a new investment) may have more influence on the policy dialogue agenda.

2.2 How policy dialogue is conducted in the EBRD²

2.2.1 *The more general policy dialogue approach*

EBRD policy dialogue is often undertaken with senior officials in core government ministries (for example, representatives of the Finance Ministry, the Economy Ministry and the Central Bank) but may also be undertaken with representatives of line ministries and agencies, regional governments, municipal authorities, state enterprise heads, regulatory authorities, senior company representatives, utility company representatives, and through public fora and investor conferences. Often policy dialogue is conducted across several offices of the government at once. In some instances, policy dialogue at times extends to parliamentary committees, working groups and taskforces that are preparing legislation in particular areas. In selected cases, policy dialogue is also conducted at the highest levels of the member countries.

Policy dialogue in the EBRD is most often undertaken by a team of EBRD officials, supplemented by specialised consultants if needed. In the case of individual projects, policy dialogue is often undertaken by a mix of the operational leaders, senior bankers and Resident Office (RO) staff. Country directors and sector directors are also involved in policy dialogue on sensitive matters. For major, high-profile projects, the President, Managing Directors and senior bankers are all involved in the policy dialogue. International- and country-level policy dialogue is undertaken mainly by the President, senior management and, for countries, the heads of the Resident Offices. Policy dialogue is informed by a range of analysis, experience and information sources. The EBRD's own analysis in the Transition Report, sector and country strategy reports and other policy papers indicates the main direction for policy reform. In addition, the Legal Transition Team's (LTT) analysis, EBRD technical cooperation operations,³ company reports, consultants' advice, World Bank studies and government reports are often useful. Lastly, the experience of EBRD staff is critical.

EBRD policy dialogue is often coordinated with that of other partners, especially other international financial institutions, such as the IMF, the World Bank, European Union, European Investment Bank, Asian Development Bank and the IFC. But on policy matters related to sectors in specific countries, the EBRD has also coordinated closely with a number of bilateral donors (that is, USAID, JICA, the Dutch government, SECO and others). It also coordinates policy advice on the investment climate with private investors. EBRD's policy discussions with country authorities build not only on its direct experience of financing projects and deep sector and country knowledge, but also on the results of benchmarking exercises and relevant surveys.

2.2.2 *OCE initiatives and surveys*

The Bank's Office of the Chief Economist (OCE) monitors economic progress in all the countries of operations and each year publishes its analysis in the Transition Report. Periodic surveys are also used to document areas in need of reform, including the Business Environment and Enterprise Performance Survey (BEEPS) and the Life in Transition Survey (LiTS), which are conducted regularly and jointly with the World Bank.⁴ A promising tool for the setting of policy directions is OCE's assessment of transition challenges (ATC), which aims to identify policy and market structure gaps in each sector. As to practical policy dialogue initiatives, OCE is particularly active in the Bank's response to the recent international

² As mentioned in the Introduction, a sample survey of EBRD staff was undertaken to identify important cases of policy dialogue undertaken in the last five years. The results of the survey are reported in Appendix 1.

³ In Appendix 2 an overview is presented of the technical cooperation operations done by the Bank as an instrument of policy dialogue.

⁴ The BEEPS was conducted jointly with the World Bank in 1999, 2002, 2004 (in mature market economies), 2005 and 2009. The LiTs was conducted also jointly with the World Bank in 2006 and 2009.

financial crisis, as well as the following areas: local currency lending, energy efficiency/ climate change, and food security (see Chapter 3).

2.2.3 *OGC legal support and involvement of OCCO*

Sector policy reforms often involve reform of the business laws and legal systems in EBRD countries of operations. Assessment work is at the core of the policy dialogue work that the LTT is able to undertake. To underpin policy dialogue on legal reform, a series of Legal Indicator Surveys (LIS) was undertaken.⁵ In addition, the guiding policy principles for corporate governance have been summarised in a series of widely distributed publications, including a Corporate Governance Sector Update. Lastly, the Anti-Corruption Report and its update elaborated by the Bank's Office of the Chief Compliance Officer (OCCO) is to be mentioned here.

2.3 **The main focus of the EBRD policy dialogue in recent years**

2.3.1 *International level policy dialogue*

There have been relatively few cases of policy dialogue at the international level in the sense of the EBRD discussing policies with a group of countries. The EBRD has participated in regional policy discussions in south-eastern Europe and central Asia. In 2008 it responded to the rise in food prices by bringing together agricultural policy makers and the private sector to search for policy solutions. Following the financial crisis, the EBRD has participated in policy dialogue aimed at stabilising the financial systems in the EBRD's operating region within the framework of the Joint IFI Action Plan and the Vienna Initiative.

The EBRD cooperated closely with other partners, especially other international financial institutions (IFIs), in almost all these cases. There were many other situations in which the EBRD worked with other partners (for example, the Early Transition Countries Initiative, Climate Investment Funds, the West Balkan Investment Framework and the Northern Dimension Environmental Partnership). However, these were all co-financing instruments in which the EBRD lent to individual countries and conducted policy dialogue, to the extent that there was any, with countries separately. The LTT's efforts at standard setting also play an important role in the policy dialogue at an international level.

2.3.2 *Country level policy dialogue*

The focus of the policy dialogue at the country level has been on improving the legal, regulatory and administrative environment in which the private sector operates – in other words, the investment climate. The impetus for raising a particular policy issue with the authorities may have come from the experience of a client of the EBRD, for example the problem of unpaid VAT refunds in Ukraine. Or it may have come from the EBRD's own analysis of transition gaps, which subsequently became part of the strategy for the country. In some cases the authorities have themselves approached the EBRD requesting policy advice.

Most of the policy dialogue at country level takes place in meetings and written exchanges between EBRD staff and management, from the President and Board down on the one hand and country representatives on the other hand. However, the EBRD also works through business associations, especially associations of foreign investors such as American Chambers of Commerce and European Business Associations, in which the EBRD is a member. It has also been an active participant in foreign investors councils set up by

⁵ The survey include the laws and regulations affecting secured transactions (2003), insolvency (2004 and 2009), concessions (2006), securities markets (2007), corporate governance (2008), telecommunications (2008) and mortgages (2008).

governments, such as the Foreign Investors Advisory Council (FIAC) in Russia. It took the initiative a few years ago to help governments in early transition countries (ETC) countries set up investors' councils that include domestic as well as foreign investors. The EBRD also contributes to the policy dialogue at country level through its publications, such as the aforementioned Transition Report and BEEPS, and other public activities such as speeches and participation in conferences.

2.3.3 *Sector and project level policy dialogue*

The EBRD's sector- and project-level policy dialogue covers an immense array of policy reform topics. Priorities for sector- and project-level policy dialogue are country specific and are, in effect, set by the bankers involved in developing new transactions. To a lesser degree, broad policy dialogue priorities may also be listed in country strategy papers. Policy dialogue priorities that are pursued at the sector and project level are generally linked to the operational priorities set for particular sectors, as specified in the Bank's sector policies and its regional and thematic initiatives. While Bank-wide sector policies serve to identify areas of policy reform focus, both for particular countries and in country groups, the degree to which these are actually applied varies considerably from country to country depending on country circumstance, the interest in and ability of bankers to engage in policy dialogue, and the degree to which policy dialogue is required to sustain existing investments and make new projects happen. Recent EBRD sector policy dialogue has addressed issues that included:

- Agribusiness sector: warehouse receipt systems and enabling agribusiness policies
- Financial Institutions: corporate governance standards setting, bank privatisation, deposit insurance, developing efficient remittance channels, strengthening of financial market oversight, implementation of Basel II accord, mortgage programmes and legislation, bankruptcy and secured transaction institutions and microfinance policy
- Transport sector: privatisation, separation of public sector regulatory and operational functions, sector legal framework (that is, railway law), concessions, public-private partnerships, tariff setting, resettlements and regulatory oversight
- Energy and Natural Resources sector: unbundling, privatisation and introduction of private sector participation, utility company restructuring, competent and regulatory oversight, power trade (including third party access in gas), tariff setting, support for renewable energy and energy efficiency, carbon trading, health and environmental standards and policy and nuclear decommissioning
- Industrial sector: fostering competition by policies aimed at liberalising product and factor markets
- Telecommunications sector: liberalisation, tariff reform, information technology access and establishing of a regulatory authority
- Municipal and Environmental Infrastructure sector: decentralisation and commercialisation issues, tariff policy, public service contracts, competitive procurement, public-private partnerships, municipal borrowing and technical standards (such as water metering)
- MSME sector: collateral law and registries, microfinance law, pledge law, microfinance institutions and the business setting affecting MSMEs.

Environmental policy considerations have also been the subject of policy dialogue in a number of projects, cutting across various sectors, and included: (i) issues related to the application of appropriate

environmental standards, environmental impact assessments, and improving safety regulations, as well as (ii) issues related to remediation and rehabilitation of legacy pollution.

2.4 Evaluating policy dialogue: findings to date

2.4.1 *Management's assessment*

The effectiveness of sector policy dialogue has been assessed as a part of the EBRD's Transition Impact Retrospective (TIR) Reports of 2001, 2005 and 2009. The various TIRs identified significant Bank contributions to successful policy dialogue in several sectors of various countries. The TIR finds that policy dialogue was intimately linked to advisory services in legal reform, which contributed to improved legal frameworks and harmonised national legislation with international standards of best practices. Recent examples included support for EBRD core principles for a mortgage law in a number of countries of operations, preparation of a policy brief on corporate governance of banks in Eurasia and development of a set of core principles for power sector regulation. A number of legal technical cooperation projects also had important policy dialogue components (see Appendix 2 for details).

2.4.2 *Policy dialogue in EvD reports*

EvD evaluations of EBRD projects and sector- and country-level support have drawn a number of lessons regarding policy dialogue:

- A Special Study on financial sector operations recommended integrating policy dialogue and TC initiatives in the design of investment operations where possible. When developing financial sector framework facilities, it was suggested to describe the precise nature of remaining institutional, regulatory and legislative challenges and respective ways to tackle them.
- An evaluation of EBRD support to the MEI sector found that policy dialogue, at both the national and local levels, was essential to addressing wider reform aspects, such as tariff policy, legal and institutional constraints and to building commitment to necessary reform. It underscored the important role ROs play, because of their knowledge of the local situation in the countries of operations. It suggested that the Bank should develop more structured action plans on policy dialogue in the different countries of operations, linked to the country strategies.
- A special evaluation of the property sector concluded that what had been done so far in policy dialogue and technical cooperation had little impact on the state of the property sector in many countries with large remaining transition challenges.
- EvD country strategy evaluations have pointed to the need to focus policy dialogue more (that is, reduce the number of objectives) and to establish a common formal framework among donors and local counterparts to operate policy dialogue more efficiently.⁶

EvD project evaluations (summarised in Appendix 3) contain a number of common policy dialogue lessons, including:

- Leverage: A larger pipeline of projects may be needed to provide the Bank with sufficient leverage to build an effective policy dialogue (Thessaloniki-Skopje Crude Oil Pipeline, 2003).

⁶ EvD (called PED at the time), Country Strategy Evaluations of Croatia and Azerbaijan (2004 and 2005).

- Timing: Carry out the policy dialogue ahead of the project (Belarus SME Credit Line, 2006). Resuming policy dialogue during the project implementation period may be necessary after major political changes (Serbia Municipal Infrastructure Reconstruction Programme, 2008).
- Corruption: Policy dialogue tends to be ineffective in the face of widespread corruption at the governmental level (AES Telasi, Georgia 2004), and the potential influence on a government through policy dialogue is in reverse proportion to that government's reputation for integrity (Extractive Industries/Power Sector Review).
- Resident mission and staff role: The Resident Office could provide the headquarters' operation team with a more realistic and pragmatic view and practical advice on how to prepare and maximise the Bank's policy dialogue with the counterparts early on (Sofia District Heating Rehabilitation, Bulgaria 2005).
- Senior management involvement: Politically "charged" operations require Bank senior management's particular attention (Warsaw Metro, 2006).
- IFI coordination: Tightly collaborate with other IFIs when the sector policy leverage is low (Prioritisation of Investment Needs in Power Generation and Transmission in Azerbaijan, 2007).
- Progress tracking: No matter how delicate and confidential the policy dialogue is, it should be regularly documented and disclosed in one way or another, so that its progress can be assessed by the relevant stakeholders on its content and timing, and corrective actions can be taken (Belarus SME Credit Line, 2006).

2.5 Evaluability of policy dialogue

Assessing the performance of EBRD policy dialogue is hampered by the lack of a well-defined system for planning, monitoring and reporting on progress in this area. Recent country strategies include a section on policy dialogue, but these identify just a few of the many areas in which policy dialogue may be undertaken. With few exceptions, country strategies are silent on past achievements, goals and objectives of policy dialogue, partnership arrangements, or the links between such dialogue, projects under preparation and technical cooperation activities. Progress is tracked for policy dialogue in the EBRD's financial sector operations in the annual Financial Intermediaries Report. That report provides a brief review of the status of dialogue in the financial sector and identifies future areas in which dialogue will focus. For the other sectors, progress in policy dialogue is not centrally monitored or reported on. In terms of external progress reports, fairly scant attention is paid to the EBRD's performance in policy dialogue. A review of EBRD Annual Reports in 2005-09 found that EBRD policy dialogue was cited as an important contribution of the Bank, but with few specific examples.

Several reasons have been advanced for a dearth of formal systems for planning, tracking and reporting on progress in policy dialogue. Unlike Bank investments, there is very little incentive to plan and track performance since policy dialogue, as an EBRD service, does not generate specific financial returns. In addition, since policy dialogue may be linked to the preparation of investments, it is the investments that are planned, tracked and reported on, rather than the services associated with bringing them to fruition. Furthermore, the EBRD's contribution to reform may be difficult to isolate and attribute given the many factors (and stakeholders) that combine to influence the process of policy change.

Key issues

Forging synergies between policy dialogue and project preparation is one of the defining characteristics of policy dialogue in the EBRD. While this ensures that policy dialogue is practical and grounded in the discipline of getting new projects going, it also causes the process to be somewhat ad hoc and motivated by project approvals, rather than by fostering policy reforms in general. The EBRD's bankers take the lead in policy dialogue, assisted in some cases by its economists and legal experts. There is relatively few staff that devotes most of their time to policy dialogue, and fewer staff who have been formally trained in policy analysis and fostering policy reform. The EBRD's knowledge products, surveys, and corporate reports feed into the policy dialogue process, although the extent to which this broader knowledge base is drawn on is not tracked within the institution.

Policy dialogue is discussed, in general terms, in EBRD corporate and country strategies, but it is not formally planned, monitored, tracked or reported on. The informality of the policy dialogue process facilitates calibrating the dialogue to windows of opportunity, as these emerge, but it also weakens opportunities for institutional accountability, learning and quality control.

During the time of this evaluation, in summer 2010, the EBRD has introduced an important addition to its support for policy dialogue. The post of a Vice President, Operational Policies (VP-OP) was established, to be supported by a newly created "Stakeholder Relations Department" (SRD). This department comprises the Official Co-Financing Unit (OCU), the Civil Society Engagement Unit and the political counsellors formerly located at the Bank's OCE.

3. High, international and country level policy dialogue

3.1 High level policy dialogue

High-level policy dialogue is the discussion about policy issues between country authorities and the top levels of the EBRD, especially the President. The First Vice President, the Chief Economist, other senior managers and the Executive Board also conduct high-level policy dialogue. The President is the focal point of high-level policy dialogue. Past Presidents have spent up to a quarter of their time visiting countries of operations. They also met visiting ministers and other country officials at annual meetings, EBRD Headquarters and elsewhere. While some of their activities during country visits were representational (maintaining the profile of the EBRD and showing support for the country), they also had substantive discussions about policy issues with the country leadership.

Different Presidents had different priorities. Mr de Larosière stuck mainly to project and sectoral issues, in part because he was focusing the mission of the EBRD following the broader approach of Mr Attali and he had doubts about the effectiveness of policy dialogue unconnected to the EBRD's operations. His successors spent somewhat more time on country-level policy dialogue. Mr Köhler placed emphasis on trying to improve the investment climate, for small and medium-sized enterprises (SMEs) as much as for foreign investors, to speed up the transition. Mr Lemierre steered a middle course between focusing on the policy issues in the projects and sectors of concern to the EBRD and discussing policies relating to the general investment climate. He was aware that the credibility and influence of the EBRD depended on project financing and that there were limits to how much could be achieved through unrelated policy dialogue. Mr Mirow has continued to pursue high-level policy dialogue, including at the international level, as when he played an active role in the creation of the joint IFI Action Plan and the Vienna Initiative (see

page 13). He has also created the position of the VP-OP mentioned before and restructured the OCE with a view to enhance the structure of policy dialogue objectives and its outcomes.

Many countries of operations, especially those further to the east, have hierarchical political systems in which the president or prime minister makes all the decisions. It is important for the EBRD President to have a policy dialogue with the top person in such countries. Although an agreement with the top person can still be blocked by the bureaucracy and vested interests, there is much less chance of this than would be the case if there was no such agreement and the policy dialogue took place at a lower level. The character of the dialogue matters. As international experience suggests, preaching does not work. The President, other senior management and the EBRD Board have to persuade their counterparts that a particular policy reform is in the country's interests. It is easier to do this if there is trust between them. A good example of this was the relationship between Mr Lemierre and President Nazarbaev. Building a trusting relationship takes time and continuity but should be an important part of the President's job.

The President cannot possibly handle all the high-level policy dialogue and personal relationships on his own. Other senior management, especially the First Vice President, the Chief Economist, the Vice President for Operational Policies, other Vice Presidents and country Managing Directors share the tasks. Some former senior officials from countries of operations now on the EBRD staff have used their understanding of the region to establish especially effective relations with their counterparts. The EBRD Board should also raise policy issues during the Board Consultation Visits in order to supplement efforts of management and staff when pushing certain issues. The President is a member of the Foreign Investors Advisory Councils in Russia and Kazakhstan and attends the meetings; in the latter case he is the co-chair with President Nazarbaev. While his attendance at Council meetings may be more representational than substantive, it is important for the EBRD's credibility and that of the FIAC, as well as for opening doors to relevant country representatives.

Public speeches and media appearances by senior EBRD staff, especially the head of the RO, can contribute to the policy dialogue by influencing the public debate. On occasions the EBRD may have been insufficiently forthright in order to avoid offending host governments and consequently jeopardising potential investment operations. Each situation must be assessed individually, but the risk of causing offence should not always be the dominant consideration. Nevertheless, it may well be advisable for institutions engaging in policy dialogue to stay in the background at times. Understandably, governments targeted by policy dialogue are usually sensitive about being publicly subjected to undue pressure.

3.2 International level policy dialogue

Especially since the end of hostilities in the former Yugoslavia, the EBRD has encouraged countries in south-eastern Europe to cooperate in order to increase cross-border trade and investment and strengthen electricity and transport networks. Most recently, the President met the prime ministers of six countries in the region during the annual meeting in Zagreb this year to talk about regional cooperation. But, although the EBRD participated in various groups under the Stability Pact for south-eastern Europe, it was not involved in much policy dialogue at the regional level. There were, however, some policy issues associated with EBRD investments in electricity interconnections between countries in the Balkans. As part of an EU-led initiative to create a single electricity market in the region, the EBRD provided technical assistance and gave policy advice about cross-border harmonisation of tariffs and technical standards.

Similarly, the EBRD's participation in the Central Asia Regional Economic Cooperation (CAREC), whose aim is to improve economic cooperation between Central Asian countries, also did not involve much policy

dialogue. In 2003 it prepared a project to modernise the regional electricity system to facilitate trade between Uzbekistan and Tajikistan, but the project did not go ahead because of the absence of a sovereign guarantee. More recently, as part of CAREC's transport infrastructure plan, the EBRD co-financed with the World Bank the road from Osh to Kyrgyz Republic's border with Tajikistan, and hopes to co-finance a road in Tajikistan to the Uzbekistan border.⁷

As food prices rose after the mid-2000s, the EBRD brought together agricultural policy makers and the private sector to search for policy solutions. The President made major policy addresses at the EBRD-FAO conference on fighting food price inflation in 2008, the Agribusiness Forum in Moscow in 2008, and the EBRD Agribusiness Forum in Ukraine in 2008, and the World Grain Forum in St Petersburg in 2009. Although it is certainly not attributable to the EBRD efforts alone, a positive result of the latter event was for example that the Russian government could be persuaded not to initiate a "grain OPEC". It is also believed that the Bank's engagement in Ukraine contributed to a better budgeting of the Agricultural Ministry on VAT receipts, possibly being the first steps in changes of the VAT legislation.

The policy dialogue aimed at stabilising the financial systems of some member countries after the crisis was quite extensive, as is illustrated in Figure 1.

Figure 1 Policy dialogue in the context of the 2008-09 international financial crisis

Note should be taken that the EBRD played a leading role in international cooperation with other IFIs and governments through the Vienna Initiative and the Joint IFI Action Plan.

IFI Joint Action Plan

In February 2009 the largest multilateral lenders in central and eastern Europe – the EBRD, the EIB Group, and the World Bank Group – pledged to provide up to €24.5 billion over two years to assist the banks and to provide through the banks support to the real economy, in particular to small and mid-size enterprises adversely affected by the global economic crisis. This initiative complemented actions by the IMF, EU and national governments. Under the Joint IFI Action Plan banking groups were invited to discuss business plans for their subsidiaries and their need for funds to support lending to the real economy. Support from the IFIs was meant to contribute to the financial sector's need for capital and liquidity through complementing financing from parent banks and home and host countries.

The Vienna Initiative (VI)

Launched in parallel to the Joint Action Plan and supplementing the individual crisis response schemes of the EBRD, EIB and World Bank, the VI brought together the EU-based cross-border banking groups, the IMF, the European Commission, the ECB (as observer), and the home and host country regulatory and fiscal authorities. The aim of the VI was to see the large bank groups with systemic presence in a number of the EBRD's countries of operations being committed to maintain their exposure and keep their subsidiaries well capitalised. Overall, it appears as if both, the VI as well as the Joint Action Plan, were timely and well received by the countries affected. As a part of the international crisis response, they are likely to have helped to restore confidence in the central and eastern Europe (CEE) financial systems and prevent the economic downturn from becoming a financial and currency crisis as well. Moreover, the united front as well as the actual finance contributed to increased confidence.*

*A number of unintended positive externalities are described, including the provision of a framework to inter-lock incentives with parent bank support linked to IMF programmes, the private-public sector coordination that allowed for concerted shifts toward monetary easing and others. See the Special Study on EBRD's Response to the 2008-2009 crisis (CS/AU/10-50), Appendix 2.

⁷ In this context, the EBRD-ADB project on the Almaty-Bishkek road rehabilitation is worth mentioning. A joint evaluation has been conducted as part of EvD's 2008 Work Programme and recommended further policy dialogue measures of the two IFIs as follow-up (see PE08-415).

This selective review of policy dialogue at the international level suggests that there could be reason to try it more often. One has to bear in mind however, that the EBRD's main business is projects and nearly all potential projects are within individual countries. Cross-border projects, where they exist, are much more difficult to arrange and are therefore less attractive. In addition, in both Central Asia and the Caucasus, rivalries and conflicts between neighbouring countries complicate attempts at policy dialogue at the regional level.

3.3 Country level policy dialogue

In the following, three countries are reviewed with regard to the policy dialogue measures conducted by the EBRD. As mentioned before, the country cases have been selected in consultation with management. The cases reflect either the huge role that the country is playing in the Bank's business activities (Russia and Ukraine), or the difficult circumstances at an early stage of transition (Tajikistan).

3.3.1 *Russia*

The latest Country Strategy Paper (December 2009) makes no reference to policy dialogue aimed at improving the general investment climate in either the section on the implementation of the previous strategy or that on the future strategy. Nevertheless, dialogue on the investment climate does take place in various contexts.

First, senior management of the EBRD raise investment climate issues in meetings with senior federal, regional and local government officials. The President, the First Vice President, the Chief Economist and the Managing Director for Russia all visit Russia at least twice a year and also meet Russian officials elsewhere; since earlier this year the Managing Director for Russia has been based in Moscow. Perhaps more than is the case in other countries in the region, the federal authorities in Russia are more receptive to EBRD-provided advice when it is connected to investment operations. Some regional and local governments are very interested in improving the investment climate and are open to advice about ways of doing so. The EBRD has advised interested governments on what needs to be done to attract foreign investment, for example by simplifying set up procedures, reaching out to foreign companies and, above all, curbing corruption. There have been some successes as a result, the best example being the region of Kaluga, which has attracted investments from major foreign companies. The EBRD's advice no doubt carried more weight because there was a reasonable expectation that the EBRD itself would invest in companies in the region if the investment climate improved.

Second, the EBRD's participation in the Foreign Investors Advisory Council (FIAC) provides opportunities for policy dialogue about the investment climate. The President has been attending the annual meetings of the FIAC since 1995 and EBRD staff participate in some of its working groups, especially those on energy efficiency, financial institutions and capital markets, public-private partnerships (PPPs) in transportation and the image of Russia (the last two ceased to exist in this form after a recent reorganisation). The working groups produce detailed recommendations on legislative, regulatory and administrative reforms, many of which are accepted by the authorities. Most of the recommendations reflect problems experienced by particular companies, especially in the taxation, legislation and regulation fields. The EBRD also makes points arising from the specific concerns of some of its clients but it is not seen as having a vested interest, unlike some of the other foreign investors. In both the FIAC itself and its working groups, the EBRD is respected by the government and private sector participants for its broad view of the investment climate in general and in specific sectors. While the annual meeting of the FIAC may be a formality from which little policy reform results directly, it is an essential part of a structure in which the EBRD's policy dialogue has a modest impact, especially at the sector level.

Third, the EBRD discusses improvements in the investment climate with business associations and individual businesspeople. It shares views with the two largest business associations, the Union of Industrialists and Entrepreneurs (RSPP) and Delovaya Rossia, and makes its views known in various fora on the investment climate. It helps to add weight to the views of the private sector in meetings with the government. Senior EBRD management have developed relationships with some of the top businesspeople in Russia. These allow a two-way exchange of views. As some of the businesspeople have good connections at high levels in the federal and regional governments, the EBRD's views on the investment climate filter through to the top and perhaps have more impact than when expressed directly by the EBRD itself.

Lastly, the EBRD influences the investment climate through publications, surveys and other public activities. The Transition Report is presented at an open meeting in Moscow attended mostly by academics and analysts and some use is made of it and BEEPS in the government. It is expected that the studies that the EBRD has been conducting since 2009 of the investment climate in the regions and how to improve it are likely to be helpful.

What has been the impact of the EBRD's policy dialogue on the general investment climate in Russia? Its advice to regional governments that wanted to improve the investment climate contributed to important reforms in some regions. It has also offered advice that has improved specific legislation, for example the Law on Investment in Strategic Industries, and regulations. And it has used its authority and the powers of persuasion of its top people to augment the influence of those inside and outside government who wanted to improve the investment climate. However, overall, given the ability of the Russian authorities, especially at federal level, to carry out their own policy analysis and the many others also seeking improvements in the investment climate, the contribution of the EBRD seems to have been modest.

Some of the policy dialogue on sectoral issues has fairly widespread consequences for the economy. This is especially true of issues in the regulated public sector: transport, municipal and environmental infrastructure (MEI) and power. In transport, the EBRD has made a significant contribution to the legislative framework for PPPs and concessions. It has provided legal advice, analyses of experience in other countries, assistance in disseminating best practice experience and feedback on specific projects under preparation, including the Orlovsky tunnel and Pulkovo airport. In MEI, the EBRD advised on competitive tendering for leases of municipal assets, the principles of fair contractual relations and tariff methodology, among other things. In the power sector, the EBRD advised on the restructuring of the sector following the break-up of RAO UES, tariff methodology, energy efficiency and regulation of natural monopolies, among other things.

The policy dialogue on these sectoral issues involved many parts of the EBRD, including the Legal Transition Team (especially for the PPP and concessions legislative framework), the sector teams, the Office of the Chief Economist and the Russia team. Consultants were hired to provide specialist knowledge. A critical role was played by the Director for Infrastructure and Energy for Russia, who was based in Moscow. Much of her time was spent on policy dialogue issues: interacting with Russian counterparts in the government and Duma, and advising on the policy dialogue that others in the EBRD were engaged in. Others in the Resident Office (RO) were also actively engaged in the policy dialogue in these sectors. For example, the Legal Transition Team had one person in the RO working mostly on PPPs and concessions. The amount of time spent by the RO on policy dialogue was exceptional but proved to be justified by the amount of important work that could be done in Russia.

This sector policy dialogue was driven to a large extent by the need to create a suitable legal and institutional environment for investments by the EBRD in the infrastructure and energy field. Both the Russian side and the EBRD wanted such investments and were therefore willing to engage in a

productive policy dialogue. There was a less obvious link between the general investment climate policy dialogue and future EBRD investment operations, although some regional governments such as that in Kaluga were well aware of it.

3.3.2 *Ukraine*

Most of the elements of the policy dialogue that the EBRD has in Russia have counterparts in Ukraine. As in Russia, the country-level policy dialogue is conducted mainly by senior management. The latest Country Strategy Paper (September 2007) did not refer to policy dialogue aimed at improving the general investment climate. The same channels as in Russia are employed for the dialogue about general investment climate issues: direct contacts with government officials, participation in investor's councils and business association events, and publications, surveys and other public activities. There are, however, a few key differences.

Senior EBRD management spends less time on Ukraine than Russia. The President has recently visited Ukraine and generally keeps a sequence of once a year or more. The Managing Director for Ukraine, who is based in London, is also responsible for other countries whereas the Managing Director for Russia is not. This does not necessarily mean that there is less time for country-level policy dialogue in Ukraine because the investment operations there are much less than in Russia. But there is inevitably less continuity in the personal relationships at senior level. The head of the RO in Ukraine deals with most of the policy dialogue on general investment climate issues.

The FIAC has been dysfunctional in recent years because of the rivalry between the previous President and Prime Minister. Encouraged by the EBRD, the government has set up a new Foreign and Domestic Investors Advisory Council, which will start work late in 2010. Despite the absence of an effective FIAC, the EBRD has made its voice heard through business associations, conferences and other public activities.

The EBRD has not had a significant impact on the general investment climate. But Ukraine is not an easy country in which the EBRD or any international institution can bring about improvements in the investment climate through policy dialogue. There has been little appetite for major reforms and, even when the advice is formally accepted, sometimes it is deliberately not implemented. Moreover, there are serious governance problems and vested interests that have undermined attempts at reform. Ukraine might have provided a test of whether a higher public profile by the EBRD might have helped to improve the investment climate because the previous head of the RO was very visible in conferences and the media. Although improvements in the investment climate did not follow, it is fair to note that such changes take a long time, during which the consistency and continuity of the policy dialogue are important.

The EBRD has had some success in improving specific elements of the investment climate. For example, it repeatedly told the government about the difficulties exporters faced because of delays in the payment of VAT refunds. The government eventually issued bonds to cover the unpaid refunds. The EBRD alone cannot claim credit for this – the strong financial leverage of the IMF played a critical role – but its persistence in raising the issue added to the pressure for the government to act.

The Transition Report and BEEPS do not have a significant direct impact on the government, which is actually the case for other countries as well. It is unusual for Ukraine's lagging performance on some transition indicators to be used as an argument for speeding up reforms. More attention is paid to Doing Business and the World Economic Forum's Competitiveness Index, perhaps because Ukraine now wants to compare itself with a wider range of emerging market countries. There may be some indirect influence on policy through the advice of academics and others who are themselves aware of the EBRD's analysis.

There has been some noticeable policy dialogue at the country level, and even more at the sector level. There are recent and current cases in the financial sector, including the local currency initiative, the power sector (tariffs and electricity market reform) and energy efficiency, with fairly widespread consequences for the economy. The gas transit system merits some discussion because of the unusual degree of coordination with international and European institutions.

In 2008 following the disruption of Russian gas supplies to Europe and prompted by the EBRD, the European Commission (EC) brought together the EBRD, EIB, World Bank and IMF to draw up a plan for modernising the gas transit system in Ukraine. The participants agreed to develop policy advice in different areas, including a new Gas Law to liberalise the sector (EC), social safety nets (World Bank), raising gas prices to import parity level (IMF) and restructuring Naftogaz by unbundling, creating separate cost centres and increasing transparency (EBRD). They undertook to lend US\$ 1.5 to 2 billion in total to modernise the gas transit infrastructure if certain conditions were met. They signed an agreement with the Prime Minister in the summer of 2009 but few conditions were met on the Ukrainian side, mainly because of the pressures arising from the build-up to the presidential election in early 2010. Since the election the programme has been revived and some major conditions have been met, notably the enactment of a Gas Law and, as a precondition for the IMF loan, a major increase in gas prices.

This appears as one of the best recent examples of the potential benefits of coordination among international and European institutions; however its final results still remain to be seen. By acting together the involved institutions brought a range of expertise to the Ukrainians in order to increase the incentive for Ukraine to undertake the complex set of reforms that are needed in the sector. From the EBRD's point of view, there is now a greater likelihood that the restructuring of Naftogaz, which EBRD has been advocating for years so that it could lend to the sector, will go ahead.

3.3.3 *Tajikistan*

Nearly all of the policy dialogue about the general investment climate is conducted by the RO, especially its head. The President visited Tajikistan in 2001 and 2005 and the Managing Director for Tajikistan (and other countries) has visited every two years or so although they also meet senior government officials elsewhere. The latest Country Strategy Paper (February 2009) for Tajikistan mentions the improvement of the investment climate as one of the goals of the policy dialogue, unlike those for Russia and Ukraine.

The overall impact of the EBRD on the investment climate through its policy dialogue with government officials appears not to be significant. Weak capacity, poor governance and vested interests seriously limit the government's ability and willingness to improve the investment climate other than in modest ways. Moreover, the EBRD, in common with other IFIs, does not emphasise the problems of major corruption and predatory attacks by government on successful companies, although it is active in defending its own clients. Yet it is these that create the most serious difficulties for investors.

Paradoxically, the government has welcomed the advice of the EBRD on the investment climate, considering it more focused than that of other IFIs, and would like more. But providing advice that is then ignored is not a good use of the EBRD's resources.

Some of the policy dialogue on general investment climate issues is conducted indirectly through the EBRD's participation in the Donors' Coordination Council and the Principals Group (comprising some ambassadors and heads of IFI offices). The EBRD was also instrumental in creating the "Consultative Council on the Investment Climate" ("the Council"), which brings together domestic investors with government officials in regular meetings chaired by the President. It was set up in 2008 as part of the

EBRD initiative to create such councils in all ETCs. The EBRD funds its secretariat and has represented the IFIs on the Council (this position rotates among the IFIs).

The Council has made a good start, especially through its 200 days plan, launched in June 2009, for improving aspects of the legislative and regulatory environment, reducing administrative barriers, licences and inspections, and simplifying business start-up and other procedures. Some of these reforms were implemented but others were bogged down in the bureaucracy amid opposition from vested interests. The secretariat is weak and will continue to need support from donors and IFIs, including the EBRD. The private sector participants are reluctant to criticise the government because of fear of retribution and the government tries to head off criticism in advance. But these difficulties can be overcome to some extent. At this stage the EBRD's initiative to improve the policy dialogue through the Consultative Council should be regarded as a partial success; however its activities in other parts of the region⁸ might prove to be more successful in the medium run.

Policy dialogue on sectoral issues has been most active in the power, municipal water supply, microfinance, agricultural, telecommunications and aviation sectors. The Tajikistan Agricultural Financing Facility (TAFF) appears to have been very successful, not least because of the policy dialogue on agricultural credit and agricultural sector restructuring, and is a model for reforms in other countries. The LTT's advice on a new telecommunications law should also be mentioned. It was a good piece of work that went nowhere because vested interests obstructed it.

3.3.4 *Considerations on country level policy dialogue*

At the heart of the question of the EBRD's policy dialogue at country level is the dichotomy between its transition mandate and its investment operations. At the project level, the requirements of sound banking, transition impact and additionality are designed to bring the two elements together. At the bank-wide level, the emphasis is on investment operations as revealed by the incentives for the staff and the weight placed by the Board on achieving a certain volume of lending. Policy dialogue that supports lending generally receives higher priority than policy dialogue that does not. This is reflected in the limited staff time and skills available for non-project-related, including much of the country-level, policy dialogue.

The dichotomy also has consequences for the credibility of the EBRD's policy advice and the influence it has. Governments in countries of operations are primarily interested in the EBRD's financial contributions. Country-level policy advice unconnected to lending operations does not receive the same attention as policy advice linked to lending. In other words, the EBRD has to be especially persuasive to convince governments that they should make reforms to improve the investment climate.

The effectiveness of policy dialogue at the country level is difficult to assess because the impact, if any, may not be immediate. Also, others may be offering the same advice and it is difficult to determine the EBRD's unique contribution. Compared with the World Bank, the EBRD does not have as much detailed knowledge of policy issues in its ROs. However, its advice on general investment climate issues is perceived to be realistic and balanced.

The effectiveness of policy dialogue depends not only on the EBRD's contribution but also on the responsiveness of the government. The EBRD's efforts have less success in countries and regions where the government is reluctant to take advice from outside parties, where there is little inclination to reform or where reforms are blocked by the bureaucracy or vested interests. The limited resources that the EBRD can devote to policy dialogue at the country level have very little impact in these cases. On the other

⁸ This concept of consultative councils is employed by the EBRD in several countries, including the Kyrgyz Republic, Moldova, Georgia and others.

hand, reform-minded governments are interested in receiving specific advice from the EBRD about how to improve the investment climate in particular areas, not just general encouragement to make improvements. Again, the impact of the EBRD is limited to the extent that the people giving advice are often generalists rather than specialists. In those cases where it does provide expert advice, the Bank can enhance its influence. Also, the policy dialogue of the President and other high-level staff can sometimes make a difference, especially by persuading the government at the highest level to do difficult things that will improve the investment climate. In practice, the EBRD does play a useful role in the policy dialogue at the country level in reform-minded countries and regions.

There is no strategy for policy dialogue at the country level. In practice, policy issues are raised with the government if a current or potential client of the EBRD has a problem or if some initiative of the government, a new law for example, is likely to have negative consequences for investors. The EBRD also supports business and investor associations when they raise legitimate issues about the investment climate. While such a reactive mode is satisfactory so long as the EBRD does not devote many resources to policy dialogue at the country level, a more structured and strategic approach would be necessary if the policy dialogue were to be stepped up significantly.

Policy dialogue is more likely to be successful when the IFIs and other partners act together. In this case, each partner gains greater leverage and policy reform can take place on a broad front, as may occur in the Ukraine gas transit sector. It is also important to avoid IFIs giving conflicting advice, which is sometimes used by the government as an excuse for delaying reforms.

4. Sector and project level policy dialogue

This chapter presents three cases of sector/project-level policy dialogue that were selected by the Banking Department of the EBRD as being interesting cases where serious policy dialogue measures occurred or are still on-going. The cases cover support for private sector participation in the development of motorways in Hungary, development of mortgage lending in Romania and support for recent energy sector reforms in Bulgaria. A fourth case that was reviewed by the Evaluation Team is the support to mortgage reform in Moldova, which is presented separately in the Appendices to this report.

4.1 Policy dialogue on motorways in Hungary

Hungary has been a pioneer in the development of privately financed motorway projects in central and eastern Europe. It still remains the only EBRD country of operations where successful motorway public-private partnerships (PPPs) have been implemented based on open and transparent tender procedures. Major segments of Hungary's motorways have been financed commercially, releasing government and EU resources for other uses. The commercial roadways have been built to a high standard, and private concessionaires and the government have become much more active in maintaining the motorways, enforcing road safety requirements and ensuring that over-loaded trucks are detected and do not use the motorways.

Institutional capacity to design and monitor PPP motorway projects has been built within the government. Availability fees have been paid on a regular basis, to the satisfaction of the government, the motorway concessionaire and the commercial financiers. Policy dialogue was conducted between EBRD staff from the Transport Sector and the RO, as well as the Hungarian Ministry of Transport, which has a PPP unit, and the Ministry of Finance. EBRD policy dialogue has helped to foster the use of open and transparent motorway PPPs, and to stabilise the situation when the projects faced unanticipated threats. It has been conducted in a manner described as professional and neutral, in the sense that it led the parties to make

the right decisions, rather than dictating that they do so. Efforts were made to reform the overall legal framework for PPPs, but with limited success. Moreover, while PPP reforms facilitated major EBRD motorway projects, limited attention was accorded to the quasi-fiscal implications that these projects had on Hungary's strained public finances.

Key lessons from EBRD's policy dialogue in the motorway sector of Hungary include:

- (i) importance of solid government commitment and a clear understanding of the government's long-term road development objectives
- (ii) the importance of providing continuous policy dialogue with up-to-date practical (rather than textbook) advice to solve problems as they arise, in both good times and bad
- (iii) the need for the EBRD to have a meaningful stake in the sector through financing a series of projects so that the government and other stakeholders appreciate that the EBRD has a stake in policy outcomes
- (iv) the importance of holding regular meetings, and on-the-ground monitoring of project progress to inform policy dialogue
- (v) that the seeds of improved policy can be found in the process of rescuing a project that needed major restructuring (that is, the M5)
- (vi) that one should not under-estimate policy reform challenges and the degree to which key interlocutors in the government may change.

4.2 The Romania mortgage reform case

As of end-2001, the Romanian mortgage market was severely underdeveloped, with mortgage loans representing less than 0.5 per cent of Romania's GDP.⁹ The mortgage market was mainly served by foreign-owned banks that were able to access long-term funding from their parent banks. Competition among the banks was limited, and so was the local bank's risk appetite for mortgage lending. Apart from a general shortage of long-term resources and macroeconomic instability at the time, the EBRD discovered that the costs of entering into mortgages would be unnecessarily high, which was caused by a lack of standard borrower agreements. This situation requested active policy dialogue measures for rectification.

In 2002 a team of consultants elaborated the "Mortgage Loans Minimal Standards Manual" (the "Manual") for operations to be supported by the EBRD. The Manual covered both "minimum" and "best practices" for a wide range of aspects related to the mortgage process and documentation. The EBRD was also successful in reaching an agreement with Banca Commerciale Romana (BCR) to apply the Manual to all new mortgage loans.¹⁰ In addition, training on mortgage policies and practices were incorporated into the EBRD training programme for senior officials from Romanian banks and mortgage companies at the Joint Vienna Institute and presentations held at the European Mortgage Foundation meetings.

Recognising the need for a more adequate legal framework, EBRD representatives from the FI department and the RO participated actively in an industry-wide Mortgage Task Force in Romania. The Task Force included representatives from USAID and IFC, major commercial banks, specialised mortgage companies and the association of private mortgage companies. Until 2004 a series of new laws were

⁹ Compared with an average of about 35% of GDP in the EU.

¹⁰ In the frame of the EBRD-provided SME mortgage credit line in the amount of €50 million, Romania: Banca Comerciala Romana Mortgage Loan. Loan BDS02-112.

developed on mortgages, securitisation and special purpose vehicles.¹¹ Within the EBRD, the analytical basis for mortgage market development was constantly updated. A regional survey of mortgage laws and legislation was undertaken by the EBRD's OGC in 2007.¹² Similarly, the Manual (list of minimum standards for mortgage loans) was revised in 2007 and another revised version is to be issued in 2010.

Apparently, the policy dialogue based on solid partner coordination, use of minimum-standard manuals, training programmes and a series of demonstration projects has paid off. Romania's local banks are now actively involved in providing mortgage products; the share of mortgage loans to GDP rose from near-zero at the start of the decade to approximately five per cent in 2006; mortgages are now offered in local currency; and there are standard mortgage products and specialised mortgage companies that are preparing to securitise mortgages.

Key lessons from the policy dialogue on the Romanian mortgage legislation and good practice standards include:

- (i) the importance of working in collaboration with other partners and local stakeholders on developing a sound legal basis for new financial market instruments
- (ii) the regular updating and application of EBRD "minimum standards" as an analytic instrument for focusing dialogue on mortgage practice with local financial institutions and the government
- (iii) that positive synergies can be obtained between policy dialogue, training and projects that demonstrate the application of improved standards.

4.3 Policy dialogue on energy sector reforms in Bulgaria

The EBRD has been engaged in policy dialogue for nearly two decades in the power sector in Bulgaria. The focus has shifted over time, starting with the separation of tasks in respect of energy policy as opposed to energy management and supply services, and the creation of an independent energy regulator. The latter was introduced by the 1999 Energy and Energy Efficiency Law. Technical assistance was, for example, implemented by the EBRD for establishing independent power producers in 1999 and for privatising distribution companies in 2002.

In 2003 the new Energy Law was adopted, and in 2004 a new Energy Efficiency Law was adopted. During this period, the EBRD supported the development of the new legislation, provided feedback on the new energy strategy, and simultaneously provided concrete project support with pioneering investments.¹³ In the last five to six years, the EBRD was encouraging energy conservation and use of renewable energy resources.

Important achievements are visible in the commercialisation of the power authority, the unbundled generation, transmission and distribution facilities, and privatisation. Although, there is widespread recognition of the merits of private participation in the power sector public concerns have been raised over higher tariffs, governance deficiencies and weak financial performance of the largest state power

¹¹ And, after extensive discussion in the parliamentary committees, approved and published in 2006: Mortgage Banks Law no. 33/2006, Mortgage Bond Law no. 32/2006, and Securitisation Law no. 31/2006 and amendments to the Mortgage Lending Law no. 190/1999.

¹² EBRD (2008) *Mortgages in transition economies: the legal framework for mortgages and mortgage securities*. London.

¹³ Noteworthy EBRD investments included the 2002 €41 million investment in upgrading NEK's transmission network, financing for the first public-private partnership in the power sector, with the 2003 Maritza East 3 joint venture private generation investment (€112 million), the first cross-border project in south-eastern Europe in the form of the 2004 high-voltage interconnection with FYR Macedonia (€41 million), and in 2005, the privatisation of distribution companies with its equity stake of €17 million in the E.ON distribution company.

companies. Consideration is being given to re-organisation and financial restructuring to boost scale and scope economies of energy providers.

Again it appears as if the combination of policy dialogue and investments has worked well: knowing that there are high-impact projects waiting in the wings has helped to strengthen the hand of sector reformers and has served to demonstrate to the public that reforms do pay off. The EBRD's added-value was further seen in adopting a holistic approach to sector reform, and that it was tenacious in its advocacy for improvements in the sector policy, legal and regulatory framework. Considerable progress has been made in greening Bulgaria's energy sector policies. Policy reforms aimed at encouraging energy conservation have resulted in two highly successful credit programmes, which have supported thousands of enterprise and household conservation projects. Policy dialogue in the renewable energy area has resulted in tariffs that were suitable for model hydro and wind-farm investments, and have established environmental standards suitable for renewable energy investments. The conclusion of a Sustainable Energy Action Plan with the government in 2009 lays out clearly priorities for reform, and EBRD support, in the years to come.

Key lessons from EBRD policy dialogue in Bulgaria's power sector include:

- (i) policy dialogue aimed at realising investments has paid off in terms of a large portfolio of innovative projects
- (ii) focusing policy dialogue on improving the investment environment to encourage entry of foreign investors has contributed to boosting competition and innovation
- (iii) good policy dialogue requires multi-stakeholder cooperation within the EBRD. Cooperation between the energy group and the OCE on regulatory matters has enhanced the EBRD's reputation as an able and qualified source of impartial advice
- (iv) where possible, sector policy dialogue should be focused on identifying win-win solutions – nowhere was this truer than in the area of identifying interventions to mitigate the closure of Kozloduy
- (v) the Bank needs to be clear on the objectives of the policy dialogue work, with the example of the renewable energy action plans one model for identifying goals, objectives and performance milestones for policy dialogue. Performance should be monitored and individuals assessed in terms of their contribution to multi-stakeholder teams working in this area.

5. Key findings, lessons and recommendations

The conclusions in this chapter draw on the policy dialogue inventory, the interviews conducted during the study, the case studies in Chapters 3 to 6 and earlier work by the Evaluation department.

5.1 Key findings

Policy dialogue is central to the EBRD's mandate and is an integral part of Bank operations. The Bank primarily engages in policy dialogue to make new projects happen, rather than to advance the transition more generally.

The different departments of the EBRD all play a role in policy dialogue. Operations staff take the lead in policy dialogue related to projects and sector reform. OGC staff are often involved in policy dialogue on matters of legal transition. OCE staff provide support in analysing reform requirements and options and in engaging in dialogue on country-wide and regional matters. Senior bank management play a role in policy dialogue at the highest levels, both for important or controversial projects and for policy issues that affect the investment climate as a whole.

Most policy dialogue is intertwined with the EBRD's investment operations. Policy reform is pursued in order to enable investments to proceed. Vice versa, investments demonstrate the importance of good governance and market-oriented enabling environments to competitiveness and improved service delivery. The EBRD's investment operations also serve to expand the influence of EBRD's policy dialogue by bringing well-managed foreign investors into regular contact with government authorities in the member countries.

Involvement in policy dialogue is far greater in some sectors than in others and in some member countries than in others. A government's desire to foster reforms, the feasibility of addressing particular transition gaps, the extent to which other partners are already involved in policy dialogue and the potential for policy dialogue to lead to new investment operations all influence the extent to which the EBRD is likely to be involved in policy dialogue. Other factors more internal to the EBRD also play a role, including the skills, resources and incentives staff have to engage in policy dialogue.

In some countries and sectors, the Bank actively cooperates in policy dialogue with other partners, especially IFIs and private investors, and in others cooperation is far more limited.

There is very little formal design, monitoring or reporting on EBRD's policy dialogue. Coverage of policy dialogue in country strategy papers is limited at best. Project documents also devote very little attention to the policy dialogue that may well have been essential to making these projects a reality. Corporate publications tend to describe the role of policy dialogue as important or influential without describing what exactly the Bank has done in this area. Absent a well-functioning system for planning, tracking and reporting on policy dialogue, performance is difficult to assess.

There is relatively little recognition or reward within the EBRD for effective policy dialogue. Operations staff are primarily recognised and rewarded for securing new investments. Time spent on policy dialogue, over and above that required making new projects feasible, is considered counter-productive. Resources for technical cooperation are limited, and the time required to design and supervise technical cooperation operations is often viewed as crowding out new project development.

There is a strong sense that the Bank could obtain greater transition impact from its operations if it improved the intensity and effectiveness of its policy dialogue. To this end the Bank has introduced the integrated approach in which a series of projects is combined with policy dialogue.

5.2 Lessons and recommendations

5.2.1 *Linking policy dialogue and projects*

Policy dialogue is most effective when it is linked to projects. Dialogue about policies to improve the general investment climate has less impact. Policy dialogue is more effective when it is part of a long-term relationship with the authorities, with on-going support for policy reform and institutional change, than when it is sporadic (stop-start). It should include practical problem-solving advice and be linked to training where necessary. Policy dialogue can be time-consuming but the importance of launching projects should not be a reason for paying less attention to it. Nor should policies that are discriminatory or non-transparent be accepted just because they make projects feasible.

Recommendation

Policy dialogue should continue to focus on sectoral and project-related issues rather than country-related issues. It should be aimed at making the EBRD's investments viable while at the same time improving market mechanisms and institutions. Continuity of policy dialogue should be maintained to help sustain

reform momentum, particularly when reforms are spread out over time or are vulnerable to changes in the political context. The integrated approach, combining policy reforms with a series of investments, should be pursued wherever practicable, especially in the public regulated sector. As it was noted before, the EBRD's commercial investment side as well as its "policy" side should be kept at arm's-length. Quality control is, therefore, essential to ensure that policy dialogue is pursued in ways that are designed to foster transition, and is not undertaken solely to advance the commercial interests of the Bank.

5.2.2 *Government ownership of reforms*

Policy dialogue is most successful when the government is committed to reforms. In some cases, the EBRD can strengthen ownership through persuading the leadership of the importance of reforms or by influencing the public debate.

Recommendation

A more active policy dialogue should not be attempted in countries that are not interested, but the EBRD should make realistic efforts to reduce the resistance to reforms. There should be a willingness to play a more active, public role in the policy debate even if it sometimes means cooler relations with governments or delays in investment operations.

5.2.3 *Coordination with partners*

The EBRD's leverage and the chances of triggering significant reforms are increased if its policy dialogue is coordinated with other partners, especially other IFIs, donors and private investors. Coordination is also necessary to avoid giving conflicting advice that could be used as an excuse for delaying reforms.

Recommendation

There should be strong and continuous coordination of policy dialogue with partners, especially when the sector policy leverage is low. This does not imply any dependence on other IFIs but should ensure that the policy dialogue is to be conceived and implemented as a collaborative effort where each IFI can act according to its comparative advantage (private sector development and the investment climate in the EBRD's case).

5.2.4 *Resources for policy dialogue*

Even when it is linked to projects, policy dialogue is a costly service in terms of staff time and skills, and access to the technical assistance resources needed to help design and implement reforms. Bank staff are under tremendous pressure to deliver an ever-growing lending programme, and non-remunerated services tend to suffer.

Recommendation

If the Bank is to play a greater policy dialogue role, then more resources should be devoted to it. In particular there should be more staff with policy-related skills able to complement the EBRD's bankers. There would have to be more engagement at both high levels and lower levels with governments including, in the larger countries, regional and local governments. In addition, more resources should be provided for small technical cooperation grants that could be accessed (at low cost) to respond quickly to policy dialogue demands at the country level.

5.2.5 *The management of policy dialogue*

Policy dialogue is not usually based on a clear set of strategic objectives and sequence of reforms to achieve them. Nor is there yet systematic tracking of progress towards the desired policy reforms. To enhance the management aspects of policy dialogue, as was mentioned in Chapter 2, the post of Vice President Operational Policies was established, which became host to the newly established Stakeholder Relations Department (SRD), headed by a corporate director.

Recommendation

The EBRD should identify what will be the main areas and objectives of policy dialogue, and establish a tracking system for policy dialogue achievements. Country strategy documents should be better designed to integrate technical cooperation, policy dialogue and project proposals in one set of fully consistent and mutually supportive activities. OCE and OGC (through its LTT) should continue to support the Resident Offices and operational staff concerned in the design, execution and tracking of progress made in policy dialogue at the project level. Apart from OCE, the new SRD could play an important coordinating and monitoring role and provide the Board with reports on the status of policy dialogue. This could, for example, be done in the context of new country strategies and the country strategy updates and would signal, among other things, the degree of a country's commitment to meeting major transition gaps and establishing and enforcing the rule of law per the Agreement.

5.2.6 *Resident Offices*

Policy dialogue is typically conducted on a day-to-day basis with a great variety of government and private sector interlocutors. The Bank's Resident Offices play a pivotal role in establishing contacts and maintaining the continuity of the Bank's dialogue.

Recommendation

The Resident Office director should be skilled and adept at policy dialogue. In the larger country offices, there should be others who also have skills appropriate for carrying out policy dialogue in their areas of responsibility. They might include economists and lawyers who would complement the bankers. The Resident Office should operate in close cooperation with other IFIs and partners.

5.2.7 *Policy dialogue staff at Headquarters*

The skills of bankers and the incentives they face make them less suited to policy dialogue than to securing agreement on investment activities. Yet they are the people with the most knowledge of the circumstances surrounding investments. Other staff, especially economists and lawyers, have a broader perspective on the policy reforms that are required. Close coordination between the operations departments, OCE and the OGC is essential to delivering effective policy dialogue.

Recommendation

Cross-bank teams should be encouraged, particularly when there are complex economic and legal dimensions to reforms. Staff performance, including that of policy-oriented teams, should be judged on the degree to which they have added value to the policy dialogue process by introducing new knowledge, strengthening reform champions, encouraging adoption of good practices and standards, and helping to build a consensus for change. Staff should be rewarded for engaging in policy dialogue, even if the payoffs are neither immediate nor universally positive.

Special Study
Policy dialogue, Regional

Annex 1. Staff survey on policy dialogue activities

The extent to which the EBRD engages in policy dialogue is not known with any certainty. Much of the policy dialogue takes place in connection with project preparation, as part of high-level management visits, or at the sidelines of conferences and special meetings. A staff survey was undertaken to help identify the range of issues and perceived effectiveness of policy dialogue, both at the project level and with respect to broader sector, country-level and international issues.

A staff survey was prepared to gather information on range, focus, bank staff, government interlocutors and perceived effectiveness of various policy dialogue activities. Examining all of the EBRD projects to identify policy dialogue components would have been infeasible given the time and resources available for the evaluation. Consequently, managers were asked to provide responses on policy dialogue for a selective sample of approximately 100 projects that were undertaken during the past five years. These were to be projects that had significant associated policy dialogue to illustrate the range of policy dialogue issues addressed by the EBRD. These were to be divided among the different departments of the Bank as follows:

<i>Project area</i>	<i># projects</i>
Country	
Russia	5
Ukraine	5
Kazakhstan	3
Hungary	3
Poland	3
Region	
Early transition countries	3
South-Eastern Europe	3
Sector	
Financial Institutions	20
Municipal and Environmental Infrastructure	10
Power and Energy	10
Transport	10
Agribusiness	10
Natural Resources	5
Property	5
Telecommunications	5
Total	100

Short answers to the following questions from project managers were requested:

1. Please provide the number of the project and/or project(s) title.
2. What policy dialogue issues were addressed?
3. How important was policy dialogue as a part of this operation?
4. Who undertook the policy dialogue from the EBRD side? (e.g. Managing Director, OL, etc.)
5. Who were the main policy dialogue counterparts (government agencies, non-government bodies)?

Policy dialogue, Regional

6. What, if any, were the most important sources of information used to support policy dialogue? (see below)
7. Was policy dialogue undertaken in cooperation with other development partners? If so, which partners?
8. Was policy dialogue linked to EBRD technical cooperation support?
9. How do you perceive the effectiveness of the EBRD's policy dialogue related to this project?
10. How important do you perceive the effect on transition of this policy dialogue?

In addition, a selected sample of representatives from the Office of the Chief Economist, the President's Office, and the Office of the General Counsel were asked to describe the range of policy dialogue activities whose remit went beyond individual projects. The questions posed in this sample survey were as follows:

1. What broader policy dialogue issues were addressed from 2006 to the present? (e.g. regulatory issues, climate change, environment, trade issues, tariff reform, broader economic issues, investment climate, sector specific issues)
2. In which countries (or groups of countries) did this policy dialogue take place?
3. Who undertook the policy dialogue from the EBRD side? (e.g. Managing Director, OL, etc.)
4. Who were the main policy dialogue counterparts (government agencies, non-government bodies)?
5. What informed your policy dialogue? (see below)
6. Was policy dialogue on broader issues undertaken in cooperation with other development partners? If so, which partners?
7. Was policy dialogue linked to EBRD technical cooperation support or the Legal Transition team?
8. How effective do you perceive the EBRD's policy dialogue was in this area?
9. What do you perceive the effect on transition was of policy dialogue in this area?

The surveys were distributed in May 2010 and the responses collected in June and July of 2010. The responses from both surveys have been tabulated and are reported in the attached table below.

The responses illustrate the wide range of areas in which the EBRD has been engaged in policy dialogue, from regulatory matters in particular sectors of single regions to matters of international coordination in addressing matters of global concern. In about half of the cases, policy dialogue was undertaken by individual investment officers. In others it was undertaken with cooperation across departments within the Bank. While policy dialogue was often informed by government and development partner analysis, other development partners were involved in about half of the project-related policy dialogue cases. With few exceptions, staff were of the view that policy dialogue, in these cases, made an effective contribution to reform.

Special Study
Policy dialogue, Regional

Number/title of project	Policy dialogue issues addressed	How important was policy dialogue as part of this operation ¹⁴
Pulp Mill	The Bank assisted the Client in a dialogue with the government authorities on issues related to the marketing of wood and also provided TC for "Assistance to Forest Sector Reform".	Supply is a critical success factor and the Bank's support had a positive impact on other sector players. The TC assignment triggered comprehensive reforms in the whole forest sector.
Road Rehabilitation	Road sector funding	Key element of the Project
Road Rehabilitation Project OpId 37671	Procurement issues, road sector financing reform	Very important
Road Sector Financing	Road sector financing and privatisation of road maintenance	Very important
Road Maintenance Development project	Road maintenance management and financing	Very important
Railways Rollingstock	Railway restructuring	Very important
Roads Tolling	Road tolling	Important
Road Upgrade	Resettlement	Very important
Regional and Local Road Project	Securing long-term funding for maintenance of regional and local roads. Introducing private sector contractors into regional and local road maintenance market. Performance-based contracts.	Policy dialogue was a moderately important part of the operation, with contributions distributed across a number of IFIs.
Rail Infrastructure Emergency Rehab Project	Policy dialogue has concentrated on the strategy for the newly separated stand-alone national rail infrastructure manager.	The policy dialogue formed part of the project preparation.

¹⁴ Comments in this column are made by the EBRD staff and do not necessarily reflect the views of the Evaluation Team

Special Study
Policy dialogue, Regional

Number/title of project	Policy dialogue issues addressed	How important was policy dialogue as part of this operation ¹⁴
RZD	Railway sector reform	Crucial
Agricultural Financial Facility	The country's agricultural policy, banking sector policy, and cotton debt resolution.	Very important as the success of the finance facility heavily depends on above-mentioned policy issues.
Investors Council	Improvement of investment climate	Very important as it has contributed country's business environment
Steel Project	Safety	Moderately
Cement project	Environmental standards	Essential to achieve the EBRD's target IRR.
Health Sector Project	Health sector reform	Essential to the success of the project both commercially and from a transition standpoint.
Brick Factory	Dialogue with the government authorities to receive permits required for purchase of publicly owned land necessary for the investment.	The Bank's support was very important to receive necessary permits with (only) minor delays and proceed with the project. The project could not have happened without these permits.
Grain Sector – EBRD President's Presence at World Grain Forum in St Petersburg in 2009	Infrastructure development; regulatory regime; private sector involvement.	This forum provided an important opportunity not only to address key issues but also to establish and deepen relations between the authorities and the business community.
EBRD-FAO Conference on Fighting Food Price Inflation – 2008	Encouraging governments to limit interventions that would distort domestic markets or disadvantage producers and traders, and instead facilitate investment along the entire agricultural value chain. Promoting ambitious government policies, implying improved use of state budgets.	This dialogue helped overcome the lack of communication and effective contact between private sector companies and related authorities in the agricultural sectors across the transition region.

Special Study
Policy dialogue, Regional

Number/title of project	Policy dialogue issues addressed	How important was policy dialogue as part of this operation ¹⁴
EBRD Agribusiness Forum Ukraine – Kiev May 2008	Ukrainian agricultural potential and the role of Ukraine in solving the global food inflation problem.	The Forum was attended by President Mirow and high level Ukrainian officials (e.g. Minister for Agriculture), as well as many private enterprises (e.g. Bank client Astarta).
Agribusiness Forum in Moscow 2008 – EBRD, FAO and Russian Ministry of Agriculture joined forces to boost public-private cooperation	How public-private cooperation can promote investment in Russia's agribusiness sector. How public-private investments could help remove bottlenecks in the food chain. How to educate and attract the skilled human capital the agricultural sector needs.	EBRD President Thomas Mirow spoke at the conference. The conference heard the views of representatives of the Russian Ministry of Agriculture, major industry players, the banking sector and several of the EBRD's key private agribusiness clients.
Grain Study – The public and private sectors in the sustainable development of the grain sector – 2008	Government policies in the grain sector of Ukraine Identification of public priorities for investments	The study noted improvement of the government, closer coordination of efforts of the government and private investors could greatly hasten the growth in gross, economic and social indicators in the sectors related to grain production.
Warehouse Receipt Programme TC	The policy dialogue was initiated to enable the creation of a more stable market for agricultural commodities via a Warehouse Receipts systems.	The introduction of warehouse receipts aims to increase the amount of financing, using agricultural commodities, using the warehouse receipts as its security instrument.
Agricultural Finance Framework – Warehouse Receipt Programme – Module 1	Initial feasibility study into the development of a WHR structural framework to address the constraints to a functioning warehouse receipts system, to support the implementation of necessary reforms, and to facilitate country-wide implementation of the warehouse receipts system.	Given the complexities of the current legal and regulatory framework in Tajikistan, a TC assignment is crucial to assess and recommend a road map towards establishing the warehouse receipts system.
Wood Processing	Liberalisation of forestry and wood processing sector	The importance was high to make sure the economic IRR for the project

Special Study
Policy dialogue, Regional

Number/title of project	Policy dialogue issues addressed	How important was policy dialogue as part of this operation ¹⁴
		is positive.
Cement Equity project	Tax harassment property rights privatisation certificate Golden share AID Environment	Critical
FLAG Infrastructure Project	(1) the need for an entity like FLAG and the role that the government and the Bank should play; (2) the most appropriate legal structure of the entity and its corporate governance rules; (3) implementing sound banking principles when supporting the medium and smaller size municipalities.	The policy dialogue was very important during the design and the preparation phases as it helped the government decide on their strategy to support municipalities in their efforts to absorb EU structural funds.
Water Sector Reform	Water sector reform to create operationally and financially sustainable water supply operations in Georgia	The projects were already ongoing when the water sector reform was launched. Policy dialogue was essential to maintain smooth implementation fo the projects.
Water Sector Reform	KMK transformation into a water sector regulator, commercialisation of water companies, sector reform	Important, as the sector is not sustainable at the moment. To secure successful projects we need to carry out the sector reform in parallel.
Public Transport operation	Performance-based contracting/commercialisation of public transport operations/management/regulation	Very important. Team needed to rework traditional PSC approach taken in Central Europe to adapt to Russian legal framework.
Public Transport Operation	Performance-based contracting/commercialisation of public transport operations/management/regulation	Very important. Team needed to reassess the operational costs and KPIs previously agreed, and then include a new clause requiring operational plan reductions or tariff increases in the event of non-payment of the full support payments by the City und er the new PSC formula.
County Roads Project	Performance-based management and maintenance of roads (PMMR)	Important. This was the first example of PMMR used by the Bank at the

Special Study
Policy dialogue, Regional

Number/title of project	Policy dialogue issues addressed	How important was policy dialogue as part of this operation ¹⁴
		sub-sovereign level.
Pre-Equity Financing	Competitive tendering of leases; fair and balanced terms of concession and lease agreements in municipal sector; application of concession law to municipal sector; tariff regulation; disclosure of information by municipal operators.	Very important
Tunnel & Road Project	Enhancement of bankability of concessions	Very important
Housing Sector Reform	Housing sector reform (including regulations on Housing Associations and clear division responsibilities between utilities, building owner/manager and residents).	Important
District Heating	Cost recovery through tariffs (including: two-tier tariffs, tariffs based on actual consumption, not norms)	Very important
District Heat	Concept of Heat Metering and Regulation	Very important
	Conceptual separation of heat source and transportation/distribution	Important
	Municipal lending policies and regulations	Very important
	Municipal budgeting	Important
Water Project	Cost recovery through tariffs (including: two-tier tariffs, tariffs based on actual consumption, not norms); metering of water consumption; municipal lending policies and regulations; municipal budgeting;	Very important

Policy dialogue, Regional

Number/title of project	Policy dialogue issues addressed	How important was policy dialogue as part of this operation ¹⁴
	Housing sector reform (including regulations on Housing Associations and clear division responsibilities between utilities, building owner/manager and residents).	Important
Shopping Mall	Help with Sponsor's lobbying on the issue of integration of the Project's road into local network.	Minor importance
Energy Efficiency	Dialogue at macro level to raise national standards of energy efficiency.	Moderate Importance
Gas Storage	Acceleration of the gas market reform (including third party access to the UGS, setting up a separate gas trading company with improved access of for the third party to gas trading).	Moderate
Gas Project	Acceleration of the energy sector reforms including company's unbundling and introduction of the tariff levels to ensure cost recovery; disconnection of non-payers; offering of 50% of the new UGS capacity to commercial users once the new storage is operational.	Important
Oil Field Pollution	Remediation and rehabilitation of legacy pollution in oil fields.	Important
Mining Project		Important
Mining Project	Permitting (including environmental)	Moderate
Forest Products	Export tariffs dialogue.	This dialogue has led to the Russian government understanding that creating an enabling investment climate in the Russian forest sector is a

Special Study
Policy dialogue, Regional

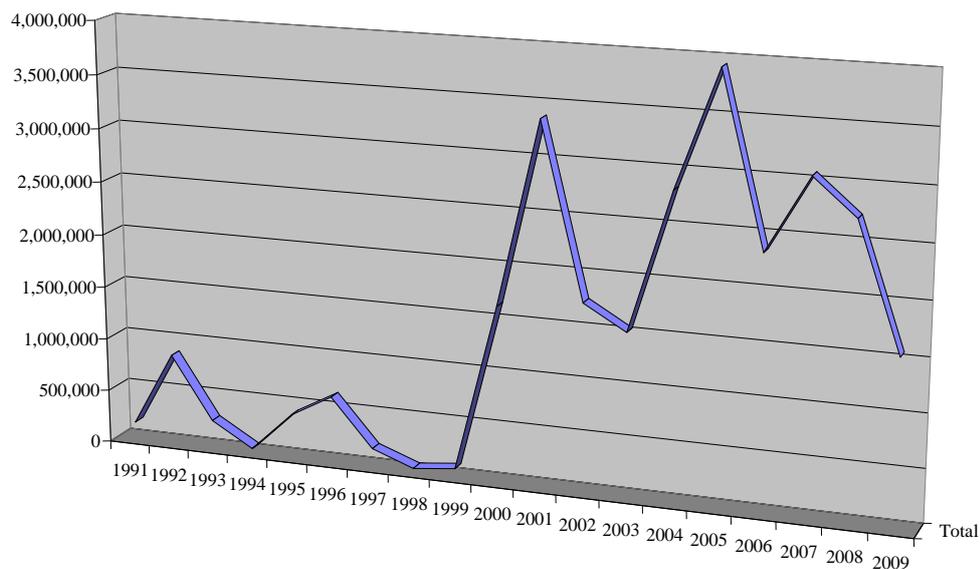
Number/title of project	Policy dialogue issues addressed	How important was policy dialogue as part of this operation ¹⁴
		challenging process, which must involve private, federal and regional stakeholders.
Wood Processing Project	Bank's support in relations with authorities.	Since this operation envisages the EBRD participation in the form of the portage equity, the Bank's role as a shareholder was crucial for the Project.
Forest Roads Study	Forest infrastructure improvements.	In 2008 the Bank (in cooperation with the regional government) initiated the forest roads study aimed at developing a demonstration project in forest infrastructure sector for the EBRD financing..
Telecoms	The allocation through the tender of frequencies to the WiMAX operators. The dialogue was to make sure the spectrum allocation process was fair, open transparent and that all parties were duly considered.	The dialogue was important but not successful.

Annex 2. Summary of technical cooperation work as an instrument for policy dialogue

This Annex is to provide an overview on the degree to which the Bank has used technical cooperation (TC) work for pursuing its policy dialogue. It can be seen that over the EBRD's lifetime, some 210 assignments were carried out that focused on legal transition, privatisation issues, sector-related work and empirical research activities in the countries of operations. In total, €27.7 million were committed for these assignments, which equals something between 2-4 per cent of the Bank's total TC commitments (in either number of committed amounts) in the period 1992–2009.¹⁵ The entirety of these assignments is in the following referred to as the "PD-TC portfolio".

As can be seen by the annual analysis presented in Graph 1 below, the flow of TC funds started as early as the EBRD establishment in 1991. This, however, was on a very low level and almost a decade was needed to come to significant and continuous commitment streams. The period between 2000 and 2005 reflects the higher PD needs of the Western Balkans and Central Asia early transition regions, which moved into the focus of EBRD operations.¹⁶ The downturn that appears to have happened since 2007 might be reflecting the global financial crisis and a consequent concentration of TC work on 'crisis response' measures.

Total €committed per year for policy dialogue-related TC assignments



The majority of the PD-TC portfolio (68 per cent) was directly committed through and financed by donors. The lion's share was here taken by Japan (€6 million), followed by the European Union (€2.6 million), Switzerland, UK and Canada (each with approximately €1.8 million). Nonetheless, the recent years saw a steep increase in the use of special TC funds for such assignments, namely the Early Transition Country Fund (ETCF) and the Bank's Shareholder Special Fund (SSF).

¹⁵ As of 30 May 2009, the Bank's total cumulative TC commitments have amounted to €1.44 billion among 5,348 individual assignments (see Joint PCR Assessment and Review (PE08-409S)).

¹⁶ Such a development was, for example, confirmed during the Bank's AGM 2006, in the Proceedings of the 15th Annual Meeting of the Board of Governors, page 89: "When expanding east and south, we see a need for the Bank to strengthen its efforts regarding policy dialogue on governance and legal issues."

Special Study
Policy dialogue, Regional

As noted above, countries in an earlier stage of transition are more likely to be involved in policy dialogue measures. The eight countries included in the Early Transition Countries Initiative (ETCI) for example account for 34 per cent of the entire PD-TC portfolio. The largest individual beneficiaries are either Central Asian (Kyrgyz Republic and Kazakhstan) or Balkan countries (Albania, Serbia). Russia has, as so often, a special role: it is not only attracting projects for 'itself', but also assignments that seek for a wider impact on other Commonwealth of Independent States (CIS) members at the same time, as is the case with the CIS Model law projects (see Figure 2 below).

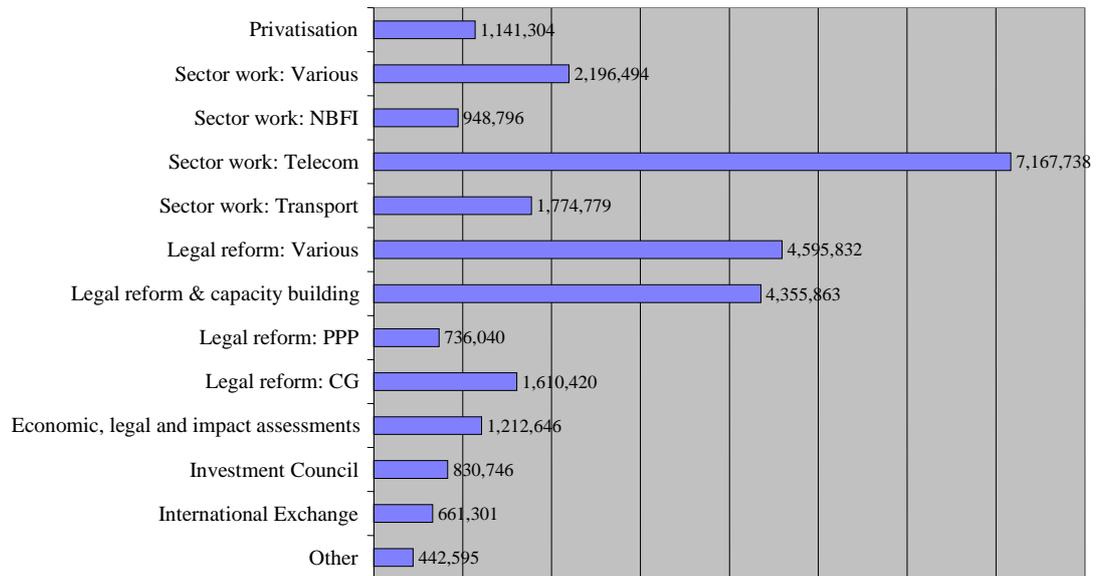
Figure 2 Policy dialogue through TC projects with IPA CIS

Since 1994 the members of the Commonwealth of Independent States (CIS) have pursued a process of harmonisation of commercial legislation, supported by the Inter-Parliamentary Assembly of the CIS (IPA CIS). One of the key tools in this process is the drafting and approval of so-called "Model Laws" by the IPA CIS, with the view that they be implemented in the national legislation of individual member states. In 2002 the Secretary General of the IPA CIS sent a letter to the EBRD General Counsel, requesting technical assistance with respect to the elaboration of an Investor Protection Model Law, as well as on a Bank Insolvency and Liquidation Model Law. With the help of Dutch TC funds, the Bank has contracted consultants for these tasks. An assessment of the project completion report of the Investor Protection Model Law concluded on a Successful rating, as far as the handling of the TC assignment and the outputs of the Consultant are concerned. The real success of the exercise, however, would depend on the outcome of these assignments, that is to which degree the Member Countries of IPA CIS have actually adjusted their domestic legislation in line with the Model Laws. Given the significant transition impact potential that is carried by projects of that kind, the Evaluation Team recommended the Legal Transition Team (LTT) to conduct an impact assessment, possibly by launching an additional TC assignment. Even better, such would be built into the project design from the outset, including the required additional resources (please compare with the Joint PCR Assessment and Review 2008, PE08-409S).

It is not surprising that the overwhelming majority of the PD-TC portfolio was not related to an investment project. Indeed as little as 22 cases, with a total commitment of €4.3 million, have seen a direct link between policy dialogue on a higher level and an ongoing Bank investment project carried out in such sectors as Transport, Municipal and Environmental Infrastructure (MEI), and Energy Efficiency. For the non-investment related TC assignments, the lion's share was implemented by the Bank's Legal Transition Team (LTT), being followed by the Business Group for Turkey, Eastern Europe and Central Asia (TEECA).¹⁷ Among the big chunk of projects implemented for legal reform, capacity-building and sector reform, it is interesting to look more specifically at the individual areas that were targeted. This is illustrated by the following graph:

¹⁷ The former SEECA Group has recently seen the addition of Turkey; its PD-TC portfolio has focused on staff support for the Foreign Investment Councils.

Policy dialogue through TC: main areas (€committed)



It can be seen that the telecom sector has received special attention in TC work, not by number of assignments, but by committing the highest euro amount in total for addressing various aspects of the regulatory framework, policy and strategy. This intensive usage of TC assignments is fully in line with the recommendations given within EvD's Telecommunication Sector Study 2006¹⁸ (see Figure 3).

Figure 3 Lessons on policy dialogue TC within the Telecom Sector Study

- Sector policy dialogue cannot be ignored even in cases of successful transactions [...] It is [thus] important for the Bank to continue a close sector dialogue with the Governments.
- The Bank should consider an intensification of TC in order to be more actively involved in providing guidance regarding an appropriate sequencing of sector reform steps taking into account the specific circumstances of each country.
- Considering the remaining challenges in the early/intermediate transition countries' sector environment the Review Team believes that the Bank should allocate more resources to the Legal Transition Team (LTT).
- The Bank may wish to intensify TC efforts in particular to countries receptive to sector reform dialogue.

¹⁸ PE05-324S, page 19 ff.

2.1. List of TCs in relation to policy dialogue

Commitment number	Commitment name	Country	€ commit.	Banking team
ALB1-02-07-01PS	Privatisation adviser for Tirana Hotel	Albania	40,258	Not specified
AUS-2000-12-03	Tajikistan State Air (TSA) Air Navigation Systems	Tajikistan	66,000	BG/Op. Teams/Transport
BRSF-2001-03-02	Privatisation Legal Adviser	Serbia	15,319	GC/General Counsel/Legal Transition
BRSF-2002-01-01	Secured Transactions Law Reform and Implementation	Serbia	14,874	GC/General Counsel/Legal Transition
BRSF-2002-03-04F	Secured Transactions Law Reform and Implementation	Serbia	50,072	GC/General Counsel/Legal Transition
BRSF-2002-09-07	Croatian Tourism Privatisation Framework	Croatia	75,240	Specialised Industries
BRSF-2003-10-03	Moldova: Improving Leasing Transactions Related Legislation	Moldova	90,241	GC/General Counsel/Legal Transition
CA3F-2002-09-07	CIS Model Legislation – Bank Insolvency and Liquidation Model Law	Regional	170,838	GC/General Counsel/Legal Transition
CA3F-2005-06-01	Kyrgyz Republic: Telecom Regs Universal Access	Kyrgyz Republic	199,845	GC/General Counsel/Legal Transition
CA3F-2006-06-01	State Accumulation Pension Fund ("SAPF") Pre-Privatisation: Institution Building Programme	Kazakhstan	345,000	RO/Almaty (Kazakhstan)
CACS-2004-10-01F	Insolvency Law Reform in Georgia	Georgia	224,637	GC/General Counsel/Legal Transition
CACS-2004-11-02	Strengthening of the Georgian Insurance State Supervision Service (GISSS)	Georgia	173,397	RO/Tbilisi (Georgia)
CACS-2005-01-01	Policy Dialogue and Support in	Georgia	134,962	BG/Op.

Special Study
Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
	the Georgian Wine Sector			Teams/Agribusiness
CACS-2005-01-02F	Secured Transactions Law Reform in Georgia – Phase 1	Georgia	68,275	GC/General Counsel/Legal Transition
CACS-2005-10-05F	Secured Transactions Law Reform – Phase 2	Georgia	91,445	GC/General Counsel/Legal Transition
CAIB-2003-04-01	Uzbekistan Telecommunications Regulatory Development Programme	Uzbekistan	456,702	GC/General Counsel/Legal Transition
CAN-2000-05-03	Ukraine Telecommunications Regulatory Development Project	Ukraine	158,050	GC/General Counsel/Legal Transition
CAN-2001-12-02	Russian Law – Telecommunications Legal Technical Assistance	Russia	86,702	GC/General Counsel/Legal Transition
CAS2-2003-05-01F	Standard-setting for Registers (Balkans)	Regional	106,061	GC/General Counsel/Legal Transition
CATC-2008-03-04	Grain Sector Review and Policy Options in Ukraine	Ukraine	65,054	BG/Op. Teams/Agribusiness
CATC-2008-09-08	RAIPON Conference with UN: IP and Private Sector – International Good Practice	Russia	13,978	PA/ Environment and Sustainability
DEN-2001-05-05	Financial Advisory Assistance to the State Municipal Water and Wastewater Company, Vodokanal Zaporizhzhia	Ukraine	72,175	BG/Op. Teams/Infrastructure Transaction Structuring & Execution Support
EBSF-2008-07-04	Kyrgyz Republic Judicial Capacity Building – Phase III	Kyrgyz Republic	294,470	GC/General Counsel/Legal Transition
EBSF-2008-10-41	Serbia – Reform of Law on Business Entities	Serbia	150,000	GC/General Counsel/Legal Transition
EBSF-2008-10-41	Serbia – Reform of Law on Business Entities	Serbia	150,000	GC/General Counsel/Legal Transition
EBSF-2008-11-61	Randomised Impact Evaluation of Mortgage Law Reform in Moldova	Moldova	13,457	GC/General Counsel/Legal Transition
EBSF-2008-11-62	Randomised Impact evaluation	Moldova	134,000	GC/General

Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
	Of Mortgage Law Reform			Counsel/Legal Transition
EBSF-2008-12-66	Kazakhstan: Review of Public Consultations on EE Laws	Kazakhstan	8,744	BG/Op. Teams/Energy Efficiency and Climate Change
EBSF-2009-01-06	Kazakhstan: Support Government in Developing EE Law	Kazakhstan	300,000	BG/Op. Teams/Energy Efficiency and Climate Change
EBSF-2009-05-61	Assistance to ASR for Implementation of the New Law on Roads	FYR Macedonia	750,000	RO/Skopje (FYR Macedonia)
EBSF-2009-06-86	Assistance to the Government of Kazakhstan for the Drafting of Secondary Legislation Implementing the Renewable Energy Law	Kazakhstan	73,879	BG/Op. Teams/Energy Efficiency and Climate Change
EBSF-2009-12-184	Kazakhstan: Support Government in Developing EE Law	Kazakhstan	64,800	BG/Op. Teams/Energy Efficiency and Climate Change
EBSF-2009-12-195	EBRD-FAO Commodity Warehouse Law Reform in Russia	Russia	366,217	GC/General Counsel/Legal Transition
EBSF-2010-03-34	Mongolia State Bank: Provision of Interim Management (CFO)	Mongolia	66,120	BG/Op. Teams/Financial InstitutionsA
EBSF-2010-03-36	Mongolia State Bank: Provision of Interim Management (CEO)	Mongolia	92,760	BG/Op. Teams/Financial InstitutionsA
EC-1992-07-32	State railways restructuring	Bulgaria	583,455	BG/Op. Teams/Transport
ECAL-2007-12-01	Albania Telecom Regulatory Development Programme (Albania III)	Albania	780,780	GC/General Counsel/Legal Transition
ECP99-2001-01-76	Slovenia Concessions Law Reform	Slovenia	196,304	GC/General Counsel/Legal Transition
ECT2000-2003-08-03	Legal & Regulatory Reform Related to Issuance of Debt Securities in Russia by Foreign Issuers	Russia	106,245	GC/General Counsel/Legal Transition

Special Study
Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
ECT99-2000-06-42	Georgia: Telecommunications Regulatory Development Programme	Georgia	113,943	GC/General Counsel/Legal Transition
ECT99-2001-01-77	Legal & Regulatory Reform Related to the Issuance of Debt Securities in Russia by Foreign Issuers	Russia	406,960	GC/General Counsel/Legal Transition
ECT99-2001-12-99	Telecommunications Regulatory Development Programme	Georgia	7,165	GC/General Counsel/Legal Transition
ECT99-2002-10-02	Kazakhstan Telecommunications Regulatory Development Programme Phase III	Kazakhstan	355,921	GC/General Counsel/Legal Transition
EM12-2007-11-05	Russia: IFRS Audit of Financial Statements of the Volzhski Vodokanal	Russia	48,000	BG/Op. Teams/Municipal & Environmental Infrastructure
ETCF-2004-12-08	Judicial Training Programme / Phase I (Action Plan)	Kyrgyz Republic	100,000	GC/General Counsel/Legal Transition
ETCF-2005-05-18	Judicial Capacity Building	Georgia	95,000	GC/General Counsel/Legal Transition
ETCF-2005-05-18	Judicial Capacity Building	Georgia	95,000	GC/General Counsel/Legal Transition
ETCF-2005-10-28	Technical Assistance to Ministry of Environment – Georgia	Georgia	250,000	PA/ Environment and Sustainability
ETCF-2005-10-29	Kyrgyz Republic: Reform of Investors' Protection Legislation (Phase I)	Kyrgyz Republic	70,537	GC/General Counsel/Legal Transition
ETCF-2005-11-35	Judicial Capacity Building – Phase II	Kyrgyz Republic	700,000	GC/General Counsel/Legal Transition
ETCF-2006-05-20F	Interconnect & Costing (Kyrgyzstan II)	Kyrgyz Republic	450,000	GC/General Counsel/Legal Transition
ETCF-2007-01-01	Corporate Governance in the Banking Sector in Eurasia	REGIONAL	80,146	GC/General Counsel/Legal Transition
ETCF-2007-01-02	Investment Council in Kyrgyz Republic – Head of Secretariat	Kyrgyz Republic	43,888	BG/Op. Teams TEECCA

Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
ETCF-2007-02-03	Reform of Investor Protection Legislation in the Kyrgyz Republic (Phase II)	Kyrgyz Republic	408,200	GC/General Counsel/Legal Transition
ETCF-2007-02-19	Kyrgyz Republic: Executive Assistant to the Head of the Investment Council Secretariat	Kyrgyz Republic	13,800	BG/Op. Teams TEECCA
ETCF-2007-04-21	Kyrgyz Republic: Economic/Financial Experts to the Investment Council – Rafkat Hasanov	Kyrgyz Republic	27,995	BG/Op. Teams TEECCA
ETCF-2007-04-22	Kyrgyz Republic: Legal Expert to Investment Council – Shakeev Tolkun	Kyrgyz Republic	17,370	BG/Op. Teams TEECCA
ETCF-2007-04-23	Kyrgyz Republic: Economic/Financial Expert to the Investment Council – Talant Bekmambetov	Kyrgyz Republic	11,200	BG/Op. Teams TEECCA
ETCF-2007-04-24	Kyrgyz Republic: Investment Council in Selected ETCs – Misc Items	Kyrgyz Republic	72,784	BG/Op. Teams TEECCA
ETCF-2007-05-26F	Armenia: Investment Council Framework	Armenia	202,626	BG/Op. Teams TEECCA
ETCF-2007-07-36	Mongolia: Investment Council – Head of Secretariat	Mongolia	38,006	BG/Op. Teams TEECCA
ETCF-2007-08-37	Investment Council in Mongolia: Executive Assistant to the Head of the Secretariat	Mongolia	6,751	BG/Op. Teams TEECCA
ETCF-2007-08-39	Kyrgyzstan Communications Law Revision	Kyrgyz Republic	239,137	GC/General Counsel/Legal Transition
ETCF-2007-09-42	Investment Council in Mongolia – Miscellaneous	Mongolia	36,529	BG/Op. Teams TEECCA
ETCF-2007-10-44	Georgia: Business Support Council – Senior Consultant	Georgia	77,042	BG/Op. Teams TEECCA
ETCF-2007-10-45F	Tajikistan – Investment Council in Selected ETCs	Tajikistan	176,947	BG/Op. Teams TEECCA

Special Study
Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
ETCF-2007-11-50	Georgia: Investment Council – Miscellaneous Expenses	Georgia	37,680	BG/Op. Teams TEECCA
ETCF-2007-12-52	Investment Council in Selected ETCs – Georgia – PA for Senior Consultant	Georgia	13,016	BG/Op. Teams TEECCA
ETCF-2008-03-08	Armenia – Development and Implementation of Corporate Governance Code	Armenia	180,000	GC/General Counsel/Legal Transition
ETCF-2008-03-12	Ulaanbaatar City Clean Air Initiative – Phase I	Mongolia	300,000	GC/General Counsel/Legal Transition
ETCF-2008-07-22	Mongolia: Secretariat to the Investment Council – Legal Expert	Mongolia	15,532	BG/Op. Teams TEECCA
ETCF-2008-07-24	Investment Council in Mongolia: Economic/Financial Consultant	Mongolia	15,536	BG/Op. Teams TEECCA
ETCF-2008-08-28	Investment Council in Kyrgyz Republic – Economic/Financial Expert	Kyrgyz Republic	3,400	BG/Op. Teams TEECCA
ETCF-2008-08-29	Investment Council in Mongolia: Economic/Financial Consultant	Mongolia	11,719	BG/Op. Teams TEECCA
ETCF-2008-12-44	Investment Council in Mongolia: Economic/Financial Consultant	Mongolia	8,923	BG/Op. Teams TEECCA
FRA-1996-02-01	Motorways and Railways Concession Law	Romania	44,685	Transport, Storage
FRB-2000-06-02	Ukraine Telecommunications Regulatory Development Project	Ukraine	75,635	GC/General Counsel/Legal Transition
FRB-2000-10-05	Law in Transition Autumn 2000 – Secured Transactions (earmarked portion – Balkans)	Regional	94,682	GC/General Counsel/Legal Transition
FRB-2003-05-01	Securities Markets Regulatory Sector Assessment	Regional	83,000	GC/General Counsel/Legal Transition
FRB-2003-07-01	Legal Technical Assistance – Concession Assessment	Regional	95,330	GC/General Counsel/Legal Transition
FRB-2006-06-03	BiH-Preparation of a State	BiH	178,789	BG/Op. Teams/Transport

Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
	Transport Strategy			
GER-1996-06-02	Foreign Investment Protection Law	Azerbaijan	32,267	GC/General Counsel/Legal Transition
GER2-2008-04-02	CIS Model Company Law Development	Regional	195,000	GC/General Counsel/Legal Transition
GERK-1996-03-03	Assistance in Developing a Mortgage Law for Russia	Russia	31,161	GC/General Counsel/Legal Transition
GERK-2000-01-02	District Heating Policy Adviser	Bulgaria	48,813	BG/Op. Teams/Energy Efficiency and Climate Change
GRE-2001-09-03	Secured Transactions: Institution Building in Hungary	Hungary	5,680	GC/General Counsel/Legal Transition
GRE-2006-06-01	Advisory Support to the Albanian Securities Commission on Drafting the New Law on Bonds	Albania	160,000	GC/General Counsel/Legal Transition
HOL-1996-08-12	Law Reform – Bankruptcy Legislation	Azerbaijan	11,723	GC/General Counsel/Legal Transition
HOL-2002-09-06	CIS Model Legislation – Investor Protection Law	Regional	166,210	GC/General Counsel/Legal Transition
HOL-2004-03-04	Administrative Barriers to Investment in Sakhalin Oblast	Russia	58,028	GC/General Counsel/Legal Transition
ICTF-2004-08-01	ICT Policy Reform and Rural Comm Infrastructure Seminar (ETC)	Regional	17,243	GC/General Counsel/Legal Transition
IRL-2006-01-01	Kazakhstan Telecommunications Regulatory Development IV	Kazakhstan	80,300	GC/General Counsel/Legal Transition
ITA-2004-11-08	LTT Corporate Governance and Capital Markets Specialist	Regional	300,660	GC/General Counsel/Legal Transition
ITA-2005-02-01	KAP – Institution Building in Environmental Authorities	Montenegro	185,166	BG/Op. Teams TEECCA
ITA-2008-05-06	Assistance to the Russian Ministry of Economic Development and Trade (MEDT) on Corporate Governance	Russia	49,950	GC/General Counsel/Legal Transition

Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
ITA-2008-09-12	RIA on the Draft Law on Corporate and Municipal Bonds	Albania	12,111	GC/General Counsel/Legal Transition
ITA-2008-09-13	RIA on the Draft Law on Corporate and Municipal Bonds	Albania	24,707	GC/General Counsel/Legal Transition
ITA-2008-11-16	RIA on the Draft Law on Corporate and Municipal Bonds	Albania	12,361	GC/General Counsel/Legal Transition
JAP-1991-06-01	Economic Law Reform Colloquy	Regional	169,935	BG/Op. Teams/Property and Tourism
JAP-1992-01-10	Environmental assessment – Legislation and Policy	Regional	53,055	BG/Op. Teams/Municipal & Environmental Infrastructure
JAP-1992-12-36	Review of the Real Estate Law and Registration of Real Estate Transactions	Russia	17,530	GC/General Counsel/Legal Transition
JAP-1992-12-37	St. Petersburg Privatisation Programme – Legal Advice	Russia	109,600	BG/Op. Teams/Early Stage Equity
JAP-1992-12-38	St. Petersburg Privatisation Programme – Accounting Advice	Russia	103,750	BG/Op. Teams/Early Stage Equity
JAP-1993-08-39	Model Law on Secured Transactions – (Phase II)	Regional	234,392	GC/General Counsel/Legal Transition
JAP-1993-10-50	Privatisation Advisory Programme – Competition Policy, Law and Restructuring	FYR of Macedonia	41,370	BG/Op. Teams/Bulgaria/Alba./FYR of Maced./Slov./Armen./Georgia
JAP-1995-06-18	Law Reform and Training Technical Co-operation Programme (Phase II)	Regional	265,296	GC/General Counsel/Legal Transition
JAP-1995-12-33	Law Reform and Training Programme II	Regional	155,287	GC/General Counsel/Legal Transition
JAP-1996-05-12	Implementation of Commercial Laws – International Commercial Arbitration Law	Kyrgyz Republic	5,791	GC/General Counsel/Legal Transition

Special Study
Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
JAP-1996-07-16	ANS Procurement Arrangements – Azerbaijan Airlines – State Concern for Civil Aviation (AZAL)	Azerbaijan	217,849	BG/Op. Teams/Central Asia HQ
JAP-1996-07-19	Implementation of Commercial Laws – International Commercial Arbitration Law and Bankruptcy Law	Kyrgyz Republic	14,200	GC/General Counsel/Legal Transition
JAP-1996-09-22	Law Reform and Training Programme III	Regional	276,156	GC/General Counsel/Legal Transition
JAP-1997-07-21	Law Reform and Training Programme III	Regional	187,060	GC/General Counsel/Legal Transition
JAP-2000-01-01F	Secured Transactions Survey	Regional	49,169	GC/General Counsel/Legal Transition
JAP-2000-03-06	Tajiktelecom: Regulatory Development Programme	Tajikistan	269,759	BG/Op. Teams/Telecommunications, Informatics and Media
JAP-2000-03-07	Kazakhstan Telecommunications Regulatory Development Programme – Phase 1	Kazakhstan	192,883	GC/General Counsel/Legal Transition
JAP-2000-11-19	Corporate Governance Ratings Project	Russia	188,169	GC/General Counsel/Legal Transition
JAP-2001-03-04	Uzbekistan Leasing Law Project	Uzbekistan	59,264	GC/General Counsel/Legal Transition
JAP-2001-04-05	Central Asian Conference	Regional	110,304	Not specified
JAP-2001-04-06	Corporate Governance Code Development	Russia	585,550	BG/Op. Teams/Financial InstitutionsA
JAP-2001-05-10	Law in Transition – Spring 2001	Regional	45,535	GC/General Counsel/Legal Transition
JAP-2001-09-20	Legal Indicator Survey 2001	Regional	29,968	GC/General Counsel/Legal Transition
JAP-2003-05-02	Legal Transition Assessments, Outreach & Int. Standards – Law in Transition Spring 2003	Regional	51,445	GC/General Counsel/Legal Transition
JAP-2004-07-04	ICT Policy Reform and Rural	Regional	173,057	GC/General

Special Study
Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
	Comm Infrastructure Seminar (ETC) – Tokyo			Counsel/Legal Transition
JAP-2004-11-10	Kazakhstan: Infrastructure Development Project	Network Regulatory	Kazakhstan 896,649	GC/General Counsel/Legal Transition
JAP-2005-11-15	Judicial Capacity Building – Phase II	Kyrgyz Republic	700,000	GC/General Counsel/Legal Transition
JAP-2007-06-29F	Kazakhstan VI – Competition Framework (Telecom Focus)	Development	Kazakhstan 248,588	GC/General Counsel/Legal Transition
JAP-2008-06-18	Kazakhstan V – Institution Building and Regulatory Authority Advisory	Communications	Kazakhstan 498,425	GC/General Counsel/Legal Transition
KORU-2008-05-04	Tajikistan Communications Sector Technical and Regulatory Development – Phase 1	Cooperation –	Tajikistan 160,000	GC/General Counsel/Legal Transition
MONF-2001-11-04	Assessment of Current Legal Framework on Corporate Governance and Secured Transactions		Mongolia 21,058	GC/General Counsel/Legal Transition
MONF-2002-07-05	Mongolia Corporate Governance Assessment		Mongolia 6,612	GC/General Counsel/Legal Transition
MONF-2003-05-02	Improving Corporate Governance Legal Framework and Practice in Mongolia		Mongolia 198,276	GC/General Counsel/Legal Transition
MONF-2005-07-05F	Mongolia: Improving Secured Transactions Regime (Phase 1)		Mongolia 180,000	GC/General Counsel/Legal Transition
MONF-2005-09-07	Mongolia: Telecommunications Regulatory Development Programme		Mongolia 749,995	GC/General Counsel/Legal Transition
NLT-2000-01-01	Law in Transition – Spring 2000		Regional 47,273	GC/General Counsel/Legal Transition
NLT-2001-10-08	Institutional Environment Building in Natural	for	Kazakhstan 40,000	Not specified

Special Study
Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
	Resources			
NLT-2001-12-09	Legal Transition Assessments, Outreach and International Standard Setting – Law in Transition Spring 2002	Regional	53,477	GC/General Counsel/Legal Transition
SCRF-2004-11-01F	Mortgage Registration in Azerbaijan	Azerbaijan	65,777	GC/General Counsel/Legal Transition
SCRF-2004-12-02	Mortgage Transactions Reform in Moldova – Exploratory Project	Moldova	61,518	RO/Vladivostok RUSSIA
SCRF-2005-05-01F	Insolvency Regulator Capacity Building in Serbia	Serbia	301,488	GC/General Counsel/Legal Transition
SCRF-2006-01-01F	SECO/EBRD Technical Cooperation Fund Concerning Secured Transactions and Creditors Rights – General, Non-procurement-related Work	Regional	205,500	GC/General Counsel/Legal Transition
SCRF-2006-01-02F	Mortgage Law and Mortgage Securitisation in Moldova Phase 2	Moldova	245,093	GC/General Counsel/Legal Transition
SCRF-2006-04-05F	Insolvency Regulator Capacity Building in Russia	Russia	275,440	GC/General Counsel/Legal Transition
SCRF-2007-02-01F	Mortgage Law and Mortgage Securitisation in Moldova – Phase II – Tranche 2	Moldova	122,344	GC/General Counsel/Legal Transition
SCRF-2008-02-01F	Insolvency Regulator Capacity Building	Russia	174,993	GC/General Counsel/Legal Transition
SPA-2002-09-01	Croatian Tourism Privatisation Framework	Croatia	271,951	Specialised Industries
SPA-2006-07-02	Hungary: Legal Assistance Regarding PPP Issues	Hungary	210,000	GC/General Counsel/Legal Transition
SWE2-2005-04-01	Latvia: Concessions/PPP Development advice	Latvia	49,900	GC/General Counsel/Legal Transition
SWI-2001-12-13	Administrative Barriers to Investment in Perm	Russia	96,076	CE/Chief Economist

Special Study
Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
SWI-2001-12-14	Administrative Barriers to Investment in Kaliningrad	Russia	90,401	CE/Chief Economist
SWI-2003-06-01	Banking Sector Legislation Assessment	Regional	92,000	GC/General Counsel/Legal Transition
SWI-2006-01-01	International Banking Conference – Dushanbe 16-17 June 2005	Tajikistan	25,000	RO/Tashkent (Uzbekistan)
SWI-2006-06-07	Judicial Capacity Building – Phase II	Kyrgyz Republic	161,000	GC/General Counsel/Legal Transition
TAI-2000-07-03	Kazakhstan Telecommunications Regulatory Development Programme – Phase II	Kazakhstan	197,218	GC/General Counsel/Legal Transition
TAI-2001-08-06	Legal Transition Assessments, Outreach & Int. Standard Setting – Law in Transition Autumn 2001 and 2002	Regional	45,088	GC/General Counsel/Legal Transition
TAI-2001-11-09	Poland: Implementing Insolvency Legal Reform	Poland	198,525	GC/General Counsel/Legal Transition
TAI-2002-03-08	Legal Sector Assessment for Insolvency Laws	Regional	94,482	GC/General Counsel/Legal Transition
TAI-2002-08-16	Legal Indicator Survey 2002	Regional	63,101	GC/General Counsel/Legal Transition
TAI-2003-10-06	Request for Lawyer Funding through Taiwan TC Funds – Relocation Costs (tied portion)	Regional	16,171	GC/General Counsel/Legal Transition
TAI-2004-01-01	Policy Options for the Ukrainian Sunflower Sector Round of Discussions Between Ukrainian Sunflower Growers and Crushers	Ukraine	56,692	BG/Op. Teams/Agribusiness
TAI-2004-02-03	Law in Transition (Spring 2004) Issue	Regional	65,846	GC/General Counsel/Legal Transition
TAI-2004-05-06	LTT Resources Extension	Regional	3,943	GC/General Counsel/Legal Transition
TAI-2004-09-12	Legal Transition Assessments, Outreach & Int. Standards (2004-	Regional	82,296	GC/General Counsel/Legal Transition

Special Study
Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
	2006)			
TCS-1998-03-02	Conference on building stable, market-oriented financial systems in Central and Eastern Europe and the Commonwealth of Independent States	Regional	44,400	CE/Chief Economist
TCS-1999-05-01	Y2K Awareness in the Power Sector	Regional	11,964	BG/Op. Teams/Power and Energy
TCS-2001-10-02	Institutional Building for Environment in Natural Resources	Kazakhstan	57,560	Not specified
TCS-2002-07-03	Legal Transition Assessments, Outreach and International Standard Setting – Law in Transition Autumn 2002	Regional	43,375	GC/General Counsel/Legal Transition
TCS-2003-05-01	Securities Markets Regulatory Sector Assessment	Regional	12,330	GC/General Counsel/Legal Transition
TCS-2004-06-03	Legal Transition Assessments, Outreach & Int. Standards Setting – Law in Transition (Autumn 2004)	Regional	8,921	GC/General Counsel/Legal Transition
UKC-1994-09-09	Review of Draft Law on Privatisation of State-owned Enterprises	Slovenia	24,136	GC/General Counsel/Legal Transition
UKC-1994-10-10	Review of Foreign Investment Law	Slovenia	24,196	GC/General Counsel/Legal Transition
UKD-1999-07-15	Legal Transition Programme 1998-1999	Regional	75,783	GC/General Counsel/Legal Transition
UKD-2001-08-14	West Kazakhstan Institutional Building Project	Kazakhstan	85,562	Not specified
UKD-2001-10-15	Legal Advisory Services to Azerbaijan in Connection with Drafting Securities Market-related Primary Laws	Azerbaijan	48,895	GC/General Counsel/Legal Transition

Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
UKD-2001-11-18	Legal Transition Assessments, Outreach and International Standard Setting – Corporate Governance Legal Sector Assessment	Regional	29,297	GC/General Counsel/Legal Transition
UKD-2003-12-03	Ispat-Karmet Steelworks IHSA	Kazakhstan	47,181	BG/Op. Teams General Industry
UKD-2006-06-03	Development of a Code of Conduct for Companies Recruiting Migrant Workers for Work in Russia	Russia	5,718	PA/ Environment and Sustainability
UKD-2006-06-04	Development of a Code of Conduct for Companies Recruiting Migrant Workers for Work in Russia	Russia	7,995	PA/ Environment and Sustainability
UKD-2006-06-05	Development of a Code of Conduct for Companies Recruiting Migrant Workers for Work in Russia	Russia	2,366	PA/ Environment and Sustainability
UKD-2007-04-03	Development of a Code of Conduct for Companies Recruiting Migrant Workers for Work in Russia	Russia	1,405	PA/ Environment and Sustainability
UKE-2000-01-01F	Secured Transactions Regional Survey	Regional	95,478	GC/General Counsel/Legal Transition
UKE-2000-02-02	Development of International Insolvency Principles	Regional	19,065	GC/General Counsel/Legal Transition
UKE-2000-03-06	Kosovo Telecommunications Emergency Legal and Regulatory Programme	Serbia	33,242	GC/General Counsel/Legal Transition
UKE-2001-01-03	Hungarian Financial Supervision (HFSA) – Supervision Assistance	Hungary	100,000	Not specified
UKE-2001-03-10	Legal Advisory Services to Hungary in Connection with Drafting a New Comprehensive Securities Act	Hungary	49,684	GC/General Counsel/Legal Transition

Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
UKE-2001-04-12F	Secured Transactions Legislative Reform and Implementation	Slovak Republic	224,546	GC/General Counsel/Legal Transition
UKE-2001-05-17F	Secured Transactions: Institution Building Project	Hungary	138,316	GC/General Counsel/Legal Transition
UKE-2001-07-22	Privatisation Legal Adviser	Serbia	64,681	GC/General Counsel/Legal Transition
UKE-2001-07-24	Lithuania Concessions Law Development	Lithuania	184,506	GC/General Counsel/Legal Transition
UKE-2001-10-26F	Secured Transactions Law Reform and Implementation	Serbia	95,376	GC/General Counsel/Legal Transition
UKE-2001-10-27	Legal Transition Assessments, Outreach and International Standard Setting – Corporate Governance Legal	Regional	56,486	GC/General Counsel/Legal Transition
UKE-2002-03-03	Anti-Corruption workshop	Czech Republic	9,439	CE/Chief Economist
UKE-2002-07-08F	Secured Transactions Legislative Reform Phase II	Slovak Republic	153,984	GC/General Counsel/Legal Transition
UKF-2001-03-05	Privatisation Legal Adviser	Serbia	50,000	GC/General Counsel/Legal Transition
UKF-2002-03-02F	Secured Transactions Law Reform and Implementation	Serbia	18,009	GC/General Counsel/Legal Transition
UKF-2003-05-01	Standard-setting for Charges Registers (Balkans)	Regional	56,152	GC/General Counsel/Legal Transition
UKF-2003-07-02	Legal Indicator Survey 2003	Regional	20,025	GC/General Counsel/Legal Transition
UKF-2003-07-05	Legal Indicator Survey 2003	Regional	11,851	GC/General Counsel/Legal Transition
UKF-2003-10-10	Legal Transition Assessments, Outreach & Int. Standards	Regional	40,061	GC/General Counsel/Legal Transition
UKF-2003-11-14	Assistance in Developing Labour Standards Due Diligence and Monitoring Procedures for EBRD Operations	Regional	48,580	PA/ Environment and Sustainability

Policy dialogue, Regional

Commitment number	Commitment name	Country	€ commit.	Banking team
UKF-2004-08-09	Standard-setting for Charges Registers (Balkans)	Regional	30,199	GC/General Counsel/Legal Transition
UKF-2006-06-02	Review and Assessment of Pledge Registration Systems	Regional	6,172	GC/General Counsel/Legal Transition
USA-2001-08-03	Legal Indicator Survey 2001 (LIS)	Regional	23,251	GC/General Counsel/Legal Transition
USA-2002-05-02	Legal Indicator Survey 2002	Regional	20,188	GC/General Counsel/Legal Transition
USSP-2002-11-15F	Policy Dialogue Under the US/EBRD SME Financing Facility	Regional	205,255	BG/Op. Teams/Financial InstitutionsA
USTD-2004-02-01	Kosovo Telecommunications Regulatory Project	Kosovo	196,905	GC/General Counsel/Legal Transition
USTD-2004-02-02	Republic of Serbia Telecommunications Regulatory Development Project	Serbia	365,099	GC/General Counsel/Legal Transition
WB01-2004-10-01	Central Asia Telecom Development Conference – Almaty	Regional	17,946	GC/General Counsel/Legal Transition
WEBF-2007-10-20F	Republic of Montenegro: Communications Sector – Interconnection and Costing	Montenegro	354,795	GC/General Counsel/Legal Transition
WEBF-2008-03-07F	Serbia – Insolvency Capacity Building (Phase II)	Serbia	151,000	GC/General Counsel/Legal Transition
WEBF-2008-03-08	Presentation to SEE Public Officials on Energy and Environment Law and Policy	Montenegro	80,000	RO/Podgorica (Montenegro)
	TOTAL	210	27,674,553	

Annex 3. Policy dialogue related lessons from earlier EvD reports

3.1. Lessons extracted from Special Studies

3.1.1. (2007) Financial Sector Operation's Policy

Maintaining regular dialogue with different government departments and regulatory bodies is a useful tool in the process of educating legislators and administrators in good practice and business standards. It may not be possible for the Bank to ensure full transparency of operations of local institutions in an environment that generally does not welcome such transparency. Nevertheless the present case demonstrates the value of frequent, ongoing contact and dialogue, both formal and informal, with the authorities. The use of opportunities for dialogue to convey messages about sound governance and business conduct is a potent catalyst in the transition process.

Lengthy policy dialogue may be required at senior levels of government to overcome local political objections to the privatisation of entities that are regarded as having strategic importance. In the present case senior management of the EBRD have engaged in high-level discussions on the privatisation of the client bank with senior government figures over a number of years. Through a steady process of policy dialogue the Bank can foster the privatisation of a strategically important company in stages in such a way as to secure government commitment to the process while minimising political repercussions.

The EBRD's success depends on successful reform programmes by the countries of operations. It is important to acknowledge the primacy of sound, country-led reform programmes to the ability of the EBRD to carry out its mission. A number of countries of operations have not yet taken the concrete steps in financial sector reform that would allow the EBRD to assist the transition process successfully through investment operations. In such cases, otherwise promising EBRD projects may have limited transition impact because of the lack of adequate sector reforms, which only the country authorities can undertake.

Carry the policy dialogue ahead of the project. In difficult business environments, it appears more effective to front load the technical assistance for the policy dialogue before starting an operation, in addition to developing it while the operation is being implemented.

3.1.2. (2006) - Project Completion Report Assessment - PCRA

Creating levers to enforce compliance by governments. Despite obtaining written commitments from the government confirming its intention to implement reforms, actions by individuals can frustrate and delay progress. Greater consideration should be given to including reimbursable penalties if progress is not made as it was envisaged and agreed. The policy dialogue with the local authorities during project preparation should include adequate and realistic penalties.

3.1.3. (2006) Telecommunication Sector Study

Sector policy dialogue cannot be ignored even in cases of successful transactions. It is important for the Bank to continue a close sector dialogue with the government, particularly when it is involved in both a

Policy dialogue, Regional

fixed line and a mobile operator, and the Bank's influence can be expected to be greater. The key objectives should be to provide assistance for ensuring a properly functioning telecommunications sector

3.1.4. *(2005) Project Completion Report Assessment - PCRA*

Greater consideration should be given to including reimbursable penalties if progress is not made as envisaged and agreed. Despite obtaining written commitments from the government confirming its intention to implement reforms, actions by individuals can frustrate and delay progress. The policy dialogue with the local authorities during project preparation should include adequate and realistic penalties.

3.1.5. *(2004) Extractive Industries/ Power Sector Review*

Potential influence on a government through policy dialogue is in reverse proportion to that government's reputation for integrity, so temper transition expectations accordingly, especially where policy objectives run counter to the personal interests of key officials.

To exert greater leverage in a policy dialogue, break a large project into a series of smaller projects (or smaller disbursements) where moving ahead is made conditional upon satisfactory resolution of outstanding issues.

3.1.6. *(2003) Energy Efficiency Technical Cooperation in Russia*

Demo projects in selected wealthy municipalities may not be easily repeated in other less credit-worthy regions unless a policy dialogue leads to sector reform and tariff revisions. Policy/sector reform aspects cannot be neglected while targeting a bottom-up approach from a demo project in a specific municipality.

3.2. **Lessons extracted from OPERs**

3.2.7. *Refinery Rehabilitation (Uzbekistan)*

Petroleum sector reform process. Explicit project covenants linked to policy reform are essential when the Bank endeavours to advance the privatisation of the large state-owned energy monopolies. An active policy dialogue in close coordination with the other IFIs is also important.

3.2.8. *Insurance/Pension Co-investment Facility (Regional)*

Policy dialogue must be entered into parallel but distinct from investment activity. The main transition achievements in the pension and insurance industry are dependent on the attitudes of government and the population at large. Obstacles to these achievements are similarly located. The EBRD's involvement in the economic and legislative debate surrounding pension reforms is a responsibility that cannot be effectively shouldered by individual industry investments and hard-pressed operational staff.

Policy dialogue, Regional

3.2.9. Port Reconstruction (Kazakhstan)

Timely and decisive monitoring effectiveness is essential. Confining post-implementation project monitoring requirements to credit risk rather than extending to a wider context of project objectives (including transition objectives) deprives the Bank of the ability to react in a timely way to short-term project disturbances that may carry the potential for detrimental effects on transition and longer term credit risk. It is advisable that in cases of sovereign lending or in case of a government guarantee, closer monitoring of important transition and environmental objectives takes place. Certain outcomes of this monitoring process can contribute to and support the Bank's policy dialogue efforts.

3.2.10. Technical Assistance to Gas Company (Uzbekistan)

Reaching the critical level of policy leverage. In early transition economies, the social, political and economic context should be properly assessed so that Bank resources are not tied up in slow reforming sectors, endangering the longer term benefits of technical assistance. An active policy dialogue in close coordination with the other IFIs is also important to reach the critical level of policy leverage that will trigger reforms

3.2.11. Port Project (Azerbaijan)

Considering of Cross-border Project Inter-relations. The same as discussed in the context of evaluation work for the above-mentioned Port projects, this evaluation also concludes that opportunities for project synergism and regional policy dialogue were missed.

3.2.12. Bank Equity (Hungary)

The Bank should lead policy dialogue at government level to seek to remove opportunities for the state to interfere in the operation of the market. The issue to the state of a single special share with extraordinary rights may threaten the free operation of the company concerned and of the market. In fact, the sale by the state (in this case of its remaining minority holding of issued ordinary shares achieved) less in terms of completing the privatisation process than relinquishing the Special Share rights would have achieved.

3.2.13. SME Line of Credit (Georgia)

The Bank should continue to enhance the level of sector skills and experience in Resident Offices (ROs), especially in early and intermediate transition countries. Sector skills, combined with local knowledge and proximity to the environment can improve monitoring, assist business relationships and facilitate policy dialogue with the authorities

3.2.14. Crude Oil Pipeline (Regional)

Policy dialogue versus integrity. The Bank should consider as a rule of thumb that its potential influence on a government through policy dialogue is in reverse proportion to said government's integrity reputation. There should not be too-high expectations to obtain changes in policies, regardless of written statements, when the personal interests of government officials are adversely affected by the intended changes.

A single project, large as it may be, is unlikely to create sufficient leverage to build an effective policy dialogue. The Bank is in a far better position to exercise adequate pressure on a government if the pipeline of potential visible projects is significant and if moving ahead with such projects is made

Policy dialogue, Regional

conditional upon satisfactory resolution of outstanding issues. This was not the case for the project under review.

3.2.15. *Ports Commercialisation (Romania)*

When reforms are gradually implemented, a sector policy dialogue must be constantly carried to maintain the momentum of implementation. When full re-bidding on all existing stevedoring contracts via competitive tendering is constrained by past ownership arrangements, and another "second best" approach solution is taken to introduce competition among stevedoring companies, it matters to monitor closely the process and pursue a policy dialogue to help generate an impact close to what was expected in the first place.

3.2.16. *Water Supply and Sewerage Services Development Programme (Poland)*

Cooperation between the municipal government and the utility company in a municipal and environmental infrastructure (MEI) project. The Bank's visible presence and timely intervention can reduce tension between the municipal government and the utility company. The Bank's policy dialogue, if conducted wisely, could be valuable in a critical situation.

3.2.17. *Electricity Supply (Georgia)*

Policy dialogue is ineffective in the face of widespread corruption at governmental level. The project suffered from ongoing government interference on one hand and lack of government support to eradicate corruption on the other hand. Noticeably, the Sponsor insisted on handling directly such issues with the appropriate ministerial contacts or government agencies. The outcome was negative but it is difficult to assess whether the Bank would have scored better.

3.2.18. *Agricultural Commodity Programme (Russia)*

Focus on demonstration effect of project at approval. It may be preferable to focus on demonstration effect at project appraisal stage since fulfilment of such an objective is strongly correlated to the project itself while the impact on institutional changes is a function of the outcome of policy dialogue, more remotely related to the project. In this case, the disappointing scoring on legal and institutional framework cast an undeserved shadow on the successful overall performance of the project

Good demonstration effect can enhance policy dialogue. Policy dialogue can be significantly enhanced through the demonstration effect of successful projects, which also better justifies the cost involved in time spent on carrying it out. This is however a one-way proposition and the outcome of policy dialogue results from many other factors, often independent from the project itself.

3.2.19. *District Heating Rehabilitation (Bulgaria)*

Inadequate project design could significantly reduce the collective leverage of lenders on transition impact. Tuning a multi-party project in the midst of implementation is difficult when project objectives are not coherent. Under the Project, the project stakeholders are currently not in tune in respect of which path to follow towards privatisation of the district heating company. This is caused by inherent design inadequacies and weak policy dialogue. The key lesson is that a project with various stakeholders in the municipality and environmental infrastructure sector should be designed from the outset to avoid

Policy dialogue, Regional

inconsistencies among the interests of parties concerned and if possible synthesise these interest into an agreed action plan.

The importance of the Resident Office's input to a realistic policy dialogue in project design. A public sector project needs to adapt to frequent changes of political climate in the country or/and the municipality. Misjudging the counterpart's signal could cost an unrealisable commitment throughout the project implementation period. The RO could provide the Headquarter's operation team with a more realistic and pragmatic view and practical advice on how to pave and maximise the Bank's policy dialogue with the counterparts early on. This could help the Headquarter's operation team avoid a "policy monologue", which might affect the project implementation later on.

3.2.20. Private Sector Road Network Management (Poland)

Continuity in Bank policy dialogue to improve project success. A continuous policy dialogue is essential when the public administration that implements a technical cooperation (TC) project on institutional reforms is likely to be subject to political interference. To ensure that high-ranked civil servant policy decisions remain in favour the project, the Bank should maintain regular contact with the stakeholders at all key levels of the administration and the government.

3.2.21. SME Credit Line (Belarus)

Carry the policy dialogue ahead of the project. In difficult business environments, it appears more effective to front load the technical assistance for the policy dialogue before starting an operation, in addition to developing it while the operation is being implemented.

Regularly document progress in policy dialogue. No matter how delicate and confidential the policy dialogue is, it should be regularly documented and disclosed in one way or another, so that its progress can be assessed by the relevant stakeholders on its content and timing, and corrective actions can be taken.

3.2.22. TC Support for a Metro Project (Poland)

Politically "charged" operations require the Bank senior management's particular attention.

As is well known, governmental elections, in general, while a natural and desirable phenomena in democracies, can jeopardise operation continuity. Conducive political framework conditions, and their stability, are important influential factors for the outcome and impact of operations. Therefore, operations of politically high visibility (such as major infrastructure investments in capitals) require special oversight by the Bank's most senior management who, in a sense, should "shadow", albeit not interfering with, normal monitoring activities at working levels. Such "shadowing" allows timely and decisive high level "management-by-exception" interventions at crucial junctions, since staff of Bank Resident Offices occasionally can't muster sufficient leverage and weight.

Policy dialogue, Regional

3.2.23. Municipal Environmental Loan Facility (Romania)

Large sequential sector facilities in MEI provide opportunities for successful policy dialogue by constantly improving the implementation process. Feedback from project implementation (via Lessons Learned) is the most useful input for sequential phases of long-term sector programmes.

3.2.24. Bank Equity (Georgia)

The value of the Bank's additionality should be reflected if possible in adjustment of the share price in equity purchases. As in this case, a discount to net asset value takes some account of the value of EBRD attributes. Such attributes may include, for example, political risk comfort, policy dialogue with the authorities, maintaining shareholder cohesion and support in attracting fresh capital or in searching for a strategic investor.

3.2.25. Working Capital Facility (Ukraine)

The Bank, hearing the experiences of foreign direct investors, should strive for a tangible result from the government in respect of the VAT refund debate. A generic approach seems to have limited effect on problem solving in a stalemate political issue. Closer cooperation with the World Bank, which has provided the country with a Programmatic Adjustment Loan for tax reforms and administrative transparency, could be considered to tackle the problem in a serious manner. The Bank's possible success in a policy dialogue respectively could strengthen the Bank's additionality, generate positive and visible transition impact and increase further the presence in the local agribusiness sector.

3.2.26. Office Development Project (Azerbaijan)

The Bank should consider adopting a more structured approach to policy dialogue with the authorities regarding legal and institutional reforms in the property sector and more broadly. The Bank should consider focusing on the remaining transition challenges in Market-supporting Institutions and Policies, especially fostering privatisation and private management of public sector-controlled real estate and radical reform of the legal and institutional frameworks for property markets. The core of the policy dialogue could address the authorities' commitment to bring about transition to a market economy in the property sector and the removal of policies that are inconsistent with the economic dimensions of Article 1. A first step could be for the Bank and the country authority to issue a joint statement about the state of transition in the property sector in order to avoid a "dialogue of the deaf." Further commitment to sector reform could be signalled by the setting of milestones, ratified at the highest level of the country authority, for implementing the needed reforms in the sector.

3.2.27. Private Road Network Management (Poland)

Continuity in Bank policy dialogue to improve project success. A continuous policy dialogue is essential when the public administration that implements a TC project on institutional reforms is likely to be subject to political interference. To ensure that the Prime Minister, the Minister and high-ranked civil servant policy decisions remain in favour the project, the Bank should maintain regular contact with the stakeholders at all key levels of the administration and the government.

Policy dialogue, Regional

3.2.28. Prioritisation of Investment Needs in Power Generation and Transmission (Azerbaijan)

Tightly collaborate with other IFIs when the sector policy leverage is low. It is essential that the Bank works close together with other IFIs, in particular in those circumstances where the leverage with the local authorities in a sector like power generation and transmission, is low. This does not imply any dependence from other IFIs but should ensure that the policy dialogue is to be conceived and implemented as a collaborative effort where each IFI can act according to its comparative advantage.

After completion of a sector-level Bank TC operation, select the right set of conditions for follow-on Bank loans when sector reform is at stake. When TC needs to be complemented by sector reforms such as in Power Generation and Transmission in some Central Asian countries, or when a list of reforms has been identified in an EBRD TC operation (as part of possible sector intervention by other IFIs), the Bank should pursue intensive policy dialogue at the highest level to ensure that the follow-on investment includes enforceable conditions.

3.2.29. Small Business Programme (Central Asia)

Better coordination among IFIs in the financial sector, including micro finance, is essential. The loosely-united policy dialogues and fragmented messages from international financial institutions might diminish the effectiveness of the assistance for each other. Sometimes the assistance could weaken policy dialogue brought by other IFIs in an indirect manner. The international financial institutions may need to be generally tuned in aims and goals toward the country and the recipient government. Future joint evaluation sharing operational results with other IFIs is essential to enhance future project selection, formulation and implementation.

The challenge of policy dialogue in microfinance in an early transition environment. Limitations on policy dialogue can occur in actual project implementations when the operational aspect is impeded by an unexpected issue. In this project, the degree of scarcity of cash could not be anticipated prior to the Programme, therefore a strong policy dialogue upfront was not fully realised. The restrictive environment surrounding cash emerged only after micro and small enterprise (MSE) lending under the credit line began. Remedial measures were difficult due to unclear accountability on the counterparts.

Initial policy dialogue for the implementation of a microfinance programme with the highest authority could create transition potential despite inadequacy of detailed arrangements. A long implementation of the technical cooperation process and the investment to bring new norms required flexibility, articulation, perseverance and enduring determination not to be enclosed in the prevailing system. In this project, the presidential decree at the beginning, despite certain inadequacy in detailed arrangements, secured the Programme for delivering new norms to a certain extent.

3.2.30. Telecoms – GSM loan (Kazakhstan)

Enhancing transition impact through the EBRD engaging in the overall sector reform in close cooperation with other IFIs. When the Bank continues its TC efforts and policy dialogue for full sector reform in sectors such as telecommunications and energy, the local government can be persuaded that liberalisation will be best for transition and development. This process can be strengthened when adequate coordination takes place with other IFIs.

3.2.31. *Oil and Gas Project (Azerbaijan)*

The use of TC funding in opening up the oil and gas industry to private sector investments. The policy dialogue with the government, possibly supported by a TC operation, should continue in parallel with the project. The focus should be development of scenarios for the commercialisation/privatisation of the State Oil Company, or of parts thereof. The spin-off and privatisation of some of some of the State Oil Company's own joint ventures with foreign companies may become the basis for developing a stronger private oil support industry in the country. This could become a first step for an increasing privatisation also in the oil and gas sector of the economy.

Strengthening and documenting the Bank's sector dialogue with an oil producing country. The Bank should, in close cooperation with the multilateral development bank (MDB) community, develop a TC focus, which could serve as background inputs for the strategy dialogue on the oil and gas sector with the government. This policy dialogue should be documented in order to allow later evaluation and readjustments. In this context targets should be set and a monitoring process should secure compliance with the targets and benchmarks set.

3.2.32. *Airport TC Support (Kazakhstan)*

Management should show perseverance and creativity in pursuing required sector reform. The Operation Team (OT) must carefully monitor the government's commitment to reform. Any developments opposing intended sector reform should be identified and mitigated as soon as possible. For example, asking for an intensified policy dialogue involving the Bank's senior management, or the approval of stand-alone TC operations in order to "save" individual elements of reform.

3.2.33. *Real Estate (Regional)*

The Bank should consider adopting a more structured approach to policy dialogue with the authorities of 14 countries that received ratings of Large in all three categories of remaining transition challenges where the Bank's project finance model has proved difficult to apply successfully. The Bank should consider focusing on the remaining transition challenges in Market-supporting Institutions and Policies, especially fostering privatisation and private management of public sector-controlled real estate and reform of the legal and institutional frameworks for property markets. The Bank, through the Legal Transition Unit, could conduct assessments and outreach programmes, supported selectively by targeted TC, to strengthen the policy dialogue.

The Legal Transition Unit's role could be extended to plan, coordinate and monitor progress on the policy dialogue on behalf of the Bank in those countries with important challenges. The policy dialogue activities could be reviewed annually by management and the status of policy dialogue reported to the Board on a country-by-country basis and as part of each country strategy assessment of progress on reforms. Such progress would signal, among other things, the degree of a country's commitment to establishing and enforcing the rule of law per the Agreement.

Through the Legal Transition Unit and in cooperation with the Property sector team, the core of the policy dialogue with the 14 countries could address the authorities' commitment to bring about transition to a

Policy dialogue, Regional

market economy in the property sector, through concrete steps in sector reform, and the removal of policies that are inconsistent with the transition.

3.2.34. Municipal Infrastructure Reconstruction Programme (Serbia)

Resuming policy dialogue during the project implementation period may be necessary after major political changes. The best timing for policy dialogue with the government is always prior to the investment. Once the physical works started in municipal infrastructure projects, the Bank's leverage reduces over time. When the politics change at the central and local government level, it would be very difficult to pursue the original objectives for sector reforms even though technical cooperation is provided. Periodic follow-ups of sector reforms at proper level may be needed during project implementations.

3.2.35. Brewery Plant (Belarus)

Industrial experience by the Bank's specialist team can be useful for encouraging the government to improve the quality of crucial raw materials produced by government-owned companies. Sector dialogue with a focus to improve malt quality could be helpful to all beer producers in the country. The Bank, with its focus to also improve sector framework and enhance product quality and competition in the upstream sector, may be able to seek a government dialogue with a view to assist in a review of barley and malt production standards and how these could be improved in the interest of all local beer producers.

3.2.36. Transmission Network (Russia)

The Bank should demonstrate a clearer linkage to sector policy dialogue in the design and structuring of a project operation. The project design may need to consider a better balance between providing budgetary financing for a government-owned company in the electricity sector and the efforts towards transition progress, which may be linked through conditionality in disbursements or via conditionality in the design of a longer term TC operation that would complement the financing of infrastructure solutions.

3.2.37. Equity/Debt Co-Investment Facility (Regional)

Sector policy dialogue is a crucial ingredient for successful agribusiness operations by the Bank and this activity cannot be delegated to other IFIs. The sector policy dialogue is challenging and time consuming in a large country of operation with different reform agendas by the various political parties and industrialists. While a project-by-project approach can be effective in certain situations, it is essential to forge also a reform consensus at the sector policy level either by the EBRD alone or ideally jointly with other IFIs. The Bank's clients alone are often not able to successfully push for sector reforms such as VAT reimbursement system reform, or a timetable for the abolition of the moratorium on agricultural land sales.

3.2.38. Securitisation of Consumer Loans (Russia)

Policy dialogue and the EBRD's consumer lending policy. The upcoming Financial Sector Strategy should address the consumer finance sector in light of the 2001 consumer finance workshop policy and this case. Should the strategy propose more engagement with the sector, it should require well-defined, professional assessment of the adequacy of the regulatory environment for each candidate country, and of the practices of candidate business partners and sponsors. It should provide for staff training in the sector risks and take other appropriate steps as determined by management. Requirements for policy dialogue should be specific, with targeted objectives, interlocutors, delivery dates, and identified resources.

Policy dialogue, Regional

3.2.39. EBRD Collaboration with International Banking Groups (Regional)

The Bank should continue working with international banking groups and national authorities to raise standards in the financial sector. As seen in the present case, the Bank has used its cooperation with an international group to assist the development of new banking products in individual countries. In a number of countries, the Bank has simultaneously engaged in policy dialogue with the authorities to put in place appropriate legislation, regulation and standards for particular sub-sectors. By continuing these efforts the Bank can help partner banks and end-borrowers work through the crisis while sustaining transition achievements to date.

3.2.40. Steel Project (FYR Macedonia)

Political comfort and promised policy dialogue. The EBRD's investment in a project might contribute an intangible and uncertain level of political comfort. The Bank's relationships with the national and neighbouring governments might discourage actions that could adversely affect a project. A sponsor might reasonably judge that associating the EBRD to a project would not increase political risk and might help to reduce it. The Bank, however, should avoid invoking policy dialogue in board documents as a source of political comfort unless it is prepared to be specific about the identity of the interlocutors, the subjects and objectives of the dialogue, and the likelihood of success.

3.2.41. Generating Company (Russia)

Electricity sector progress is not a simple linear development and needs constant attention and leveraging of the EBRD's exposure at a high level. The EBRD has engaged early on in the electricity sector reform in this country and may need to review how its relatively large sector and country exposure can facilitate a leveraging of its special status in the context of a sector dialogue with the highest levels. This may require a new focus of TC operations in preparation of more fine tuned policy dialogue based on recent positive and negative sector trends. While Bank debt and equity investments in the electricity sector have risen sharply, TC operations should also be used more to contribute to sector transition issues.

The Bank should use its influence to broker optimal outcomes with regard to important electricity sector framework issues. The Bank should take a more proactive role in crucial areas that may affect the economics of all generators. The Bank should continue to identify the key political decisions that drive the value of strategic investments supported by the Bank and engage at an early stage with the government and industry representatives in a policy dialogue that supports the balanced and open discussions and timely making of these decisions.

3.2.42. Rail Reconstruction Project Technical Cooperation (Serbia), 2009

Technical cooperation to assist in the sector reforms could serve as a policy dialogue tool. In this case, the lengthy report finalisation facilitated the exchange of views, the mutual understanding and the counterpart's commitment to the direction of the sector in the future. This technical cooperation for the first-time borrower suggested that the interactions between the international consultants and the state-owned borrower enterprise, and the government agencies in the report preparation process could enhance the understanding of the Bank's aim and policy dialogue.