

SPECIAL STUDY

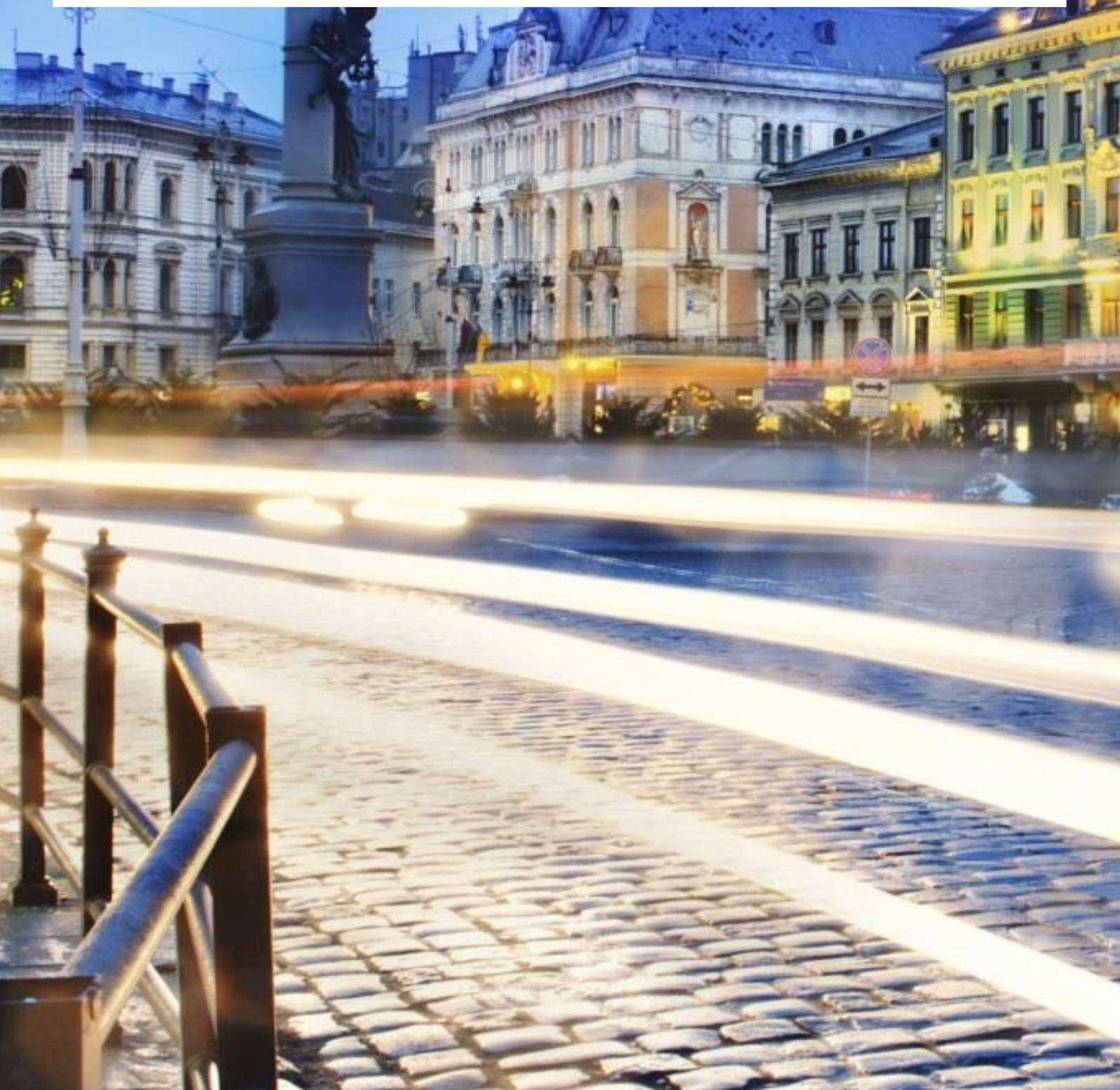
The EBRD's experience with policy dialogue in Ukraine

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EBRD EVALUATION DEPARTMENT



European Bank
for Reconstruction and Development



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Cover photo: City of Lviv

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Abbreviations

CSO	Civil Society Organisation
E2C2	Energy efficiency and climate change
FAO	Food and Agriculture Organization
IFI	International Financial Institution
MSME	Micro, small and medium sized enterprises
ODI	Overseas Development Institute
OECD	Organisation of Economic Cooperation and Development
SBS	EBRD Small Business Services Team
SME	Small and medium sized enterprises
TC	Technical Cooperation

Defined terms

Integrated approach	The fourth Capital Resources Review in 2010 noted the introduction of the integrated approach combining projects, policy dialogue and TC. The integrated approach was introduced in 2009 in part driven by recognition that <i>“most importantly, an approach to policy dialogue driven by individual projects can be somewhat ad hoc in its choice of targets, rather than directed at the most pressing needs and gaps.”</i>
Capital Resources Review	Article 5.3 of the Agreement Establishing the Bank (the ‘Agreement’) stipulates that the Board of Governors shall review the capital stock of the Bank at intervals of not more than five years. This takes account of the transition financing requirements of the region and of the resulting projected portfolio expansion.
E2C2 team	EBRD Energy Efficiency and Climate Change team
Grain Market Working Group	Chaired by the Head of Department of Agricultural Markets, Ministry of Agricultural Policy and Food of Ukraine, and includes grain industry organizations.

Executive summary

The main findings of this evaluation cover the following points:

- A substantial commitment has been made to policy dialogue in Ukraine – policy dialogue now needs to be recognised as a core element of the EBRD’s business practice;
- There have been some significant results, particularly at the output level;
- There are things the EBRD can do to increase the likelihood of achieving desired outcomes and impacts;
- The quantum of resources for policy dialogue has been generally adequate to date but there are now new needs and new skills requirements that will require some additional resources;
- The visibility of the EBRD’s policy dialogue work needs to increase;
- Selectively, the EBRD should become more of an advocate for reform and engage more broadly;
- More attention needs to be given to supporting policy implementation distinct from promoting policy adoption;
- Better internal coordination on policy dialogue is required;
- Rewards for policy dialogue are needed but these should be intrinsic rather than extrinsic;
- Adopting a political economy approach and focus on institutions are essential for success.

The evaluation makes five recommendations, broadly stated but with a wide range of suggested elements/actions from which Management may wish to choose. Recommendations are:

- i) The EBRD should produce a clear statement and guidance on policy dialogue;
- ii) The results focus of the Bank’s policy dialogue in Ukraine should be enhanced;
- iii) Resources gaps should be addressed;
- iv) Some enhancements could be made to the way in which the Bank engages;
- v) Some improvements can be made in the way in which the Bank manages its policy dialogue.

The crisis that has engulfed Ukraine since late 2013 has created an opportunity for reform that did not exist when the field work for this evaluation was carried out. Crises are often seen as providing a window of opportunity for reform. While the EBRD is and should react positively to this window of opportunity in Ukraine, it is essential to heed the lessons from this evaluation – particularly those related to the essential requirement to understand the political economy of reform (in this circumstance, crisis-driven reform) and the distinct challenges posed by policy implementation as opposed to policy adoption.

In responding to the current opportunity to support policy reform in Ukraine, it should be recognised that, despite changed political leadership, those that are likely to be losers from reform and active opponents of that reform are still in place, while the institutions responsible for implementing reform are little changed from what existed pre-crisis.

1. Introduction

This report provides an overview of the findings of an evaluation of the European Bank for Reconstruction and Development's (the EBRD's) experience with policy dialogue in Ukraine. It was carried out by the Bank's independent evaluation department (EvD). The evaluation aims to provide findings and insights to inform future policy dialogue efforts in Ukraine, and in other countries where the experience in Ukraine is considered relevant. It also aims to contribute ideas on how policy dialogue by the Bank might be made more effective as it moves to strengthen this area of its business.

For the purposes of this study policy dialogue is defined as:

Interactions and actions taken by EBRD staff members and/or consultants with or for policy actors in Ukraine for the express purpose of bringing about changes in policies, legal and regulatory frameworks, institutions and practices, perceptions and attitudes in Ukraine for the overall benefit of the country.

The evaluation sought to answer questions on how the EBRD's policy dialogue is:

- conceived, planned and strategized;
- carried out;
- reviewed, monitored and evaluated;
- resourced and incentivised; and,
- is leading to results in terms of outputs, outcomes and impacts.

As can be seen from these questions, the focus of the evaluation was on the process rather than the content of policy dialogue – to put it in colloquial terms, the study sought to assess whether “the EBRD did policy dialogue right” rather than whether it “did the right policy dialogue.”

Ukraine was selected as the sole case study country because: the EBRD has extensive experience of policy dialogue in the country over a long period of time and across many sectors; it was generally seen as a challenging context in which to engage in policy dialogue so the learning was potentially richer; and, as the largest foreign direct investor in the country, the EBRD was seen as having influence.

The study developed a framework for describing and assessing policy dialogue that considered the context in which various policy actors (international and domestic) identify and put policy problems on the agenda for action, develop policy solutions or messages, and take a series of actions that may lead to variety of outputs, outcomes and impacts, some of which may be what was intended and some of which may not. A decision not to act has its own consequences. This evaluation sees the policy process as a highly dynamic one driven principally by a political economy of competing interests and operating within this, a range of domestic institutions and organisations of varying capacity and commitment.

“Political economy approaches are concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time.

Political economy studies recognize that the policy environment is shaped by political, economic, social, cultural and institutional factors¹ – that is they analyse all factors influencing the policy process. Moreover, they seek to move beyond a description of symptoms and to understand the underlying

causes of poor governance and lack of “political will” for sustained change and thus, focus on the underlying institutions and incentives that are governing political action”. (OECD 2005, 2009)¹

The political nature of the policy making process is clear. Perhaps less clear or often overlooked is the critical role played by institutions, with institutions comprising organisations and those that work in them, and the “rules of the game” that guide the ways in which people act. Institutions are seen as conditioning the “initiation, design, implementation and sustainability of ... reforms.”²

Policy dialogue is a poorly documented area in the Bank – most of the information about it resides only in people’s minds. The methodology to extract this knowledge had the following elements:

- One hundred and three face-to-face interviews in London and Ukraine with 134 informants covering the EBRD’s staff members (banking and non-banking), public officials at the central and municipal levels, national and municipal politicians, former senior officials in Ukraine and former EBRD staff, the EBRD’s clients, representatives of a range of international groups and organisations, members and leaders of interest groups, think tank members and academics, representatives of Civil Society Organisations (CSOs), and media representatives – notes were made for each meeting, translated into Ukrainian as needed, and shared with interviewees to correct, amend or add to the record as they saw necessary;
- Preparation of five case studies on areas where the EBRD was extensively engaged in policy dialogue and had been for an extended time – agribusiness grain sub-sector case, energy efficiency and renewable energy, a regional case based on the city of Lviv, financial sector and local currency initiative, and power and energy;
- A staff survey of those engaged in policy dialogue in Ukraine (80 per cent response rate) and a quick survey of Resident Office staff;
- An extensive literature review;
- External peer review.

Limitations of the study include:

- A potential risk was that people may not have been willing to share the tacit knowledge so essential for the evaluation’s success. This potential risk was successfully mitigated through the open, engaged and cooperative approach adopted.
- A frequently cited problem for the evaluation of policy dialogue is that of attribution. How can the changes observed be attributed to the EBRD? However, given the focus of this evaluation on process and learning, attributing results to a particular actor is not so important. For this study it is more important to reveal the process within a particular set of circumstances that produces results than it is to attribute those results to a single actor. Cases were however selected where the EBRD was clearly playing a leading role.
- Conducting an evaluation on policy dialogue in a country widely acknowledged to be suffering from systemic and deep-seated corruption and decision-making often favouring a small and economically powerful elite poses particular problems. This renders much of the process of

¹ Edelmann, D. (2009). *Analysing and managing the political dynamics of sector reforms: A sourcebook on sector-level political economy approaches*. London: ODI.

² Abonyi, G., Bernardo, R., Bolt, R., Duncan, R., and Tang, C. 2013. *Managing Reforms for Development: Political Economy Reforms and Policy-Based Lending Case Studies*. Manila: Asian Development Bank.

policy making and implementation rather opaque. Through adoption of a political economy approach the evaluation was able to take this reality into account.

- To be useful, some degree of generalisation of the findings from a single country and five sector cases is necessary. Four features of the evaluation helped guard against the risk of over-generalising:
 - Triangulation through use of multiple sources of information;
 - Relating findings to the context in which they emerged so that the findings might be more confidently generalised to situations where a similar context exists;
 - Use of informed external peer reviewers;
 - Checking findings against those of other evaluations.
- Aside from the above, the evaluation suffers from the usual problems that occur when operating under time, budget and data availability constraints.

2. The policy context in Ukraine

Readers of this report will of course be aware that the context for policy dialogue in Ukraine has changed dramatically in recent months in ways that few if any foresaw. This major contextual change emphasises a core conclusion of this evaluation – namely, that policy problems and their solutions do not exist in isolation from the context; they are in fact a product of that context. Policy actors who wish to prevail must understand the context and take contextually appropriate actions. Policy messages and actions must be customised to the context.

Some important socio-economic, political and historical contextual considerations for policy dialogue in Ukraine include:

- The legacy of the Soviet era is very much alive in the minds of the older generations who are the most likely to vote, which, coupled with the exodus of young and educated people (see below), gives this group considerable political leverage;
- Historical division lines of borders, language, identity and belonging continue to be important;
- Ukraine's geopolitical location between east and west is extremely important;
- Ukraine has one of the fastest rates of depopulation in the world (due to negative natural growth and migration) with most of those leaving the country being young and educated;
- Reliance on connections is an integral part of Ukrainian society though the recent widespread protest movement revealed a previously hidden well of social capital;
- Language is a major political issue;
- Ukraine has radically changed its constitutional arrangement twice before and is currently doing so again;
- Personalities have considerable leverage over policies due to a weak civil service, political dependence of the judicial system and a lack of consistent civil control over power.

The poor performance of Ukraine's economy and its poor prospects absent reform are an important part of the policy dialogue context:

- Ukraine was hard hit by the financial and economic crisis and its recovery has lagged;

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- There is general consensus that the recovery will be slow and economic performance lacklustre without implementation of an ambitious reform programme.

Ukraine's business climate is poor, both absolutely and relative to the EBRD's other countries of operations. Generally, the trend has been negative or largely unchanged except for significant improvements in the World Bank's Ease of Doing Business ranking (Ukraine moved from 152nd out of 183 countries in 2011 to 112th out of 189 countries in 2014) as a result of the former President's administration adopting this as a performance measure. However, the EBRD's clients and business associations report that this improvement in ranking is yet to be translated into tangible improvements in the ease of doing business – as is common in Ukraine, poor implementation of policy is seen as the cause of this reality. Despite the improvement in ranking, the country still had the fourth worst Ease of Doing Business ranking among the EBRD's countries of operations.

Two other business indexes show little change over the same period despite a significant improvement in Ukraine's ranking on the 2014 Ease of Doing Business survey:

- On the Global Competitiveness Index Ukraine ranked 82nd out of 142 countries in 2011 and 84th out of 148 countries in 2013;
- On the Index of Economic Freedom, Ukraine rated 163rd out of 179 countries in 2011 and 161st out of 177 countries in 2013.

Corruption is a major problem in Ukraine which ranks low among the EBRD's countries of operations on Transparency International's Corruption Perceptions Index (fifth from the bottom). Across all countries, its rank has dropped from a high (lower perception of corruption) in 2006 to a low (higher perception of corruption) over the period 2011 to 2013.

Ukraine is an example of a country "stuck in transition."³ The EBRD's Office of the Chief Economist assesses transition progress annually. For the period 2004 to 2013 for Ukraine it notes:

- There has been very limited progress in transition though not much reversal;
- Weakest areas are governance and enterprise restructuring, competition policy, securities market and non-bank financial institutions, and overall infrastructure reform;
- Relative strengths are small-scale privatisation, price liberalisation, and the trade and foreign exchange system;
- All sector transition scores are at the mid-point or below and progress has been modest or non-existent.

Implementation of laws is problematic in Ukraine. The EBRD's Legal Transition Team assesses the extensiveness and effectiveness of business related laws. Key points on Ukraine are:

- The overall extensiveness of Ukrainian laws scored 74.9 out of 100 in 2011 while effectiveness of those laws was rated at 54.2 out of 100;
- Generally speaking, Ukraine has adopted laws which, in their substance, approach international standards;
- However, the lack of implementation of such laws makes many of them ineffective.

Finally, the regional and global contexts are also important considerations that often influence policy dialogue in the country. The events unfolding since November 2013 are a dramatic illustration of the

³ The EBRD. 2013. [Stuck in Transition?](#) London: The EBRD.

geopolitical significance of Ukraine on the European continent and the traditional dichotomy of its foreign policy between east and west.

The country is integrated in to the global economy and political system through trade, membership of international organisations and commitments made under various international accords. Domestic policies and legal and regulatory frameworks are often the product of support provided by international organisations and Western governments. Ukraine is a member of the World Trade Organisation; an active member of various United Nations institutions, notably on climate change; a participant in the Vienna 2 initiative and, since 2011, a full member of the European Energy Community all of which have a major influence on domestic policies.

3. The EBRD context for policy dialogue

The basic documents for the establishment of the EBRD do not specifically provide for the Bank to be active in policy dialogue although it is not ruled out. This, and the Bank's private rather than public sector focus, perhaps account for the reality that traditionally policy dialogue has principally been seen as the task of other international institutions with a prevailing view that the EBRD's involvement should be modest at best and then linked to transactions. Still today there is a view, strongly held by some that the EBRD should not seek to emulate World Bank or International Finance Corporation in terms of having a major involvement in policy dialogue.

Despite these views, policy dialogue by the EBRD has grown in importance, and significantly so, but in a largely unplanned and uncoordinated manner operating more or less "under the radar."

The evolutionary growth in the importance of policy dialogue as a business tool of the Bank is illustrated by its coverage in successive Capital Resources Reviews. Policy dialogue was mentioned once in 1995, eight times in 2001, 30 times in 2006 and 73 times in 2010. The sole mention in 1995 related to technical cooperation (TC). By 2006, policy dialogue was clearly identified as having an important and direct role in "*implementing international policy goals commensurate with its [the EBRD's] mandate*" rather than only facilitating the financing of projects. A more proactive approach was signalled along with an identified need for greater resources for policy dialogue, specifically in banking teams and in Resident Offices. The fourth Capital Resources Review (CRR4) in 2010 noted the introduction of the integrated approach combining projects, policy dialogue and TC. The resource issue was given even more prominence along with a signalled shift of greater responsibility for policy dialogue to Resident Offices. The need for a more structured approach to policy dialogue delivery was noted along with an increased emphasis on how it could improve the quality and resilience of transition.

The integrated approach was introduced in 2009 in part driven by recognition that "*most importantly, an approach to policy dialogue driven by individual projects can be somewhat ad hoc in its choice of targets, rather than directed at the most pressing needs and gaps.*" Implementation of the integrated approach was reviewed by a task force in 2012. Among other conclusions, it noted that implementation "*has often been hampered by lack of resources, especially to support policy dialogue in-house.*" Specifically, the task force noted a lack of time of banking and support departments; budget constraints (for travel and consultants); and lack of specific knowledge and skills for policy dialogue at the sector/country level (see Annex 9, available on request, for more details on the task force findings and this evaluation's views on those).

Policy dialogue itself was also the subject of investigation in 2012 by another task force. It identified a number of problems/issues it believed needed to be addressed:

- Lack of a systematic approach to prioritising, approving, coordinating and implementing policy dialogue, which was seen as often being reactive, *ad hoc*, and not reflected in country and sector strategies;
- Lack of a review of policy dialogue quality and unclear accountability with the potential for reputational risk and restriction of policy dialogue to senior staff so exacerbating the capacity constraint;
- Insufficient country and sector expertise at the Resident Office level;
- Skills and responsibility mismatch with expertise disbursed over a number of departments;
- Risk of conflicts of interest;
- Lack of aligned incentives;
- Limited follow-up and monitoring;
- Limited impact measurement.

The task force made 16 recommendations it believes would address these deficiencies (see Annex 9, available on request, for more details on the task force findings and this evaluation's views on those).

4. The evidence

Evidence is drawn from four primary sources –103 interviews with 134 informants; five case studies (agribusiness, energy efficiency/renewable energy, financial institutions and local currency initiative, power and energy, and a regional case based on the city of Lviv mostly involving municipal infrastructure); two staff surveys; and a comprehensive literature review.

4.1 Evidence from interviews

The summary which follows indicates the views of the interviewees, which do not necessarily reflect the conclusions of the evaluation but no comment is provided at this point.

4.1.1 *Widely supported views across all groups*

- Continuity in the relationship between the EBRD, on one part, and the government and Ukrainian counterparts on the other, helps;
- International Financial Institution (IFI) coordination to align policy messages increases leverage – but this takes time and effort;
- The benefit of evidence-based analyses to explain to key counterparts the policy issues and possible solutions;
- Need to manage expectations of both the EBRD's departments and counterparts to policy dialogue, particularly in terms of the time possibly needed to achieve results;
- Crucial role played by personalities in Ukrainian politics and business relations;
- Perception of a shift in the EBRD's approach to policy dialogue towards a greater role for policy dialogue not directly attached to projects.

And on areas where improvements can be made:

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- Drawing on its successful investment operations the EBRD should be a thought leader in its areas of competence and experience;
 - The publication of policy dialogue success stories and dissemination of results achieved by policy changes;
 - Internal coordination of policy dialogue efforts between different departments and levels in the organisation;
 - Greater involvement of small and medium sized enterprises (SMEs) and/or their networks in the policy dialogue process.

4.1.2 *Selected views from the EBRD's bankers*

- Flexibility in the way policy dialogue is conducted is essential – the success of policy dialogue does not consist in following a single ideal model;
- The way in which the policy advice is delivered should be nuanced not to alienate Ukrainian counterparts and so lead to future complications in the relationship;
- The use of multiple platforms and formats for conducting policy dialogue is desirable;
- The use of consultants can provide flexibility by allowing for a faster response and greater tailoring to clients' needs, and it can help create a sense that the provision of expertise is not designed to serve the EBRD's pecuniary interests – however, a loss of institutional memory was often identified as a potential problem associated with the use of consultants;
- Although coordinating the efforts of the EBRD and other IFIs is the preferred approach, such coordination can be difficult to achieve, especially between IFIs with different structures and approach to policy dialogue;
- The lack of visibility and promotion of policy dialogue within the EBRD is a problem as is a lack of recognition and reward to those carrying out policy dialogue;
- Some banker interviewees consider that the most effective policy dialogue is project-based and policy priorities should be linked to business constraints;
- Some also consider that the EBRD needs to keep its “uniqueness” by focusing on encouraging the private and public sectors to work together.

4.1.3 *Selected views from non-banking EBRD staff*

- Changing the EBRD's internal approach and mentality towards policy dialogue would encourage the Bank's greater involvement in this activity;
- Policy dialogue involves a high degree of internal coordination, which was identified as an unresolved issue by this group of interviewees;
- Interviewees considered that the EBRD does not provide the technical training and expertise that are required to effectively engage in policy dialogue;
- The EBRD needs to cautiously evaluate costs and benefits of engaging in long-term policy dialogue;
- Staffing and allocation of time and resources should be aligned with potential long-term policy objectives;

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- The current scorecard system was perceived as a short-term incentive which would not contribute to sustained engagement as policy dialogue may take years to bear fruit while signing loan commitments can be achieved in a matter of months;
 - Personalities matter in the Ukrainian context, especially by building trust between the actors involved in the dialogue and sharing expertise;
 - Interviewees acknowledged that the measurement of success of such a broad activity as policy dialogue and attribution of results are very complex issues – they recommended cautiousness and care in assessing progress as attitudes towards a policy initiative may change over time;
 - The creation of the unique structure of the energy efficiency and climate change (E2C2) team with embedded policy and technical experts sets a precedent that other teams could follow;
 - Interviewees from Office of the Chief Economist noted that the EBRD needs to be involved in formulating policy recommendations even in those areas where the Bank does not have specific projects or investments;
 - Interviewees from Legal Transition Team said that the implementation stage is an integral part of all legal transition projects and this step usually includes the provision of assistance in developing or changing existing secondary legislation and capacity building – however, support for implementation is often hindered by a lack of commitment from the beneficiary;
 - Additionally, engaging at lower levels of the administration (where the actual implementation takes place) is sometimes difficult or impractical;
 - The lack of visibility on the implementation stage leads to frequent complaints about the absence of such work after the legislation is adopted.

4.1.4 *Headquarters versus Resident Office perspective*

- Generally the quantum of resources available for policy dialogue (staff time and funds for TC) were seen as sufficient by both headquarters and the Resident Office staff;
- Both headquarters and Resident Office staff noted the absence of policy oriented training, but the Resident Office staff saw themselves as particularly affected by this;
- There was agreement among both groups that there is a need for clearer guidelines on what the EBRD wants to achieve through policy dialogue;
- Staff in the Resident Office and those in headquarters acknowledged the key role played by the head of the Kiev office and staff on the ground in Ukraine in conducting policy dialogue – they also noted that this reality did not appear to be fully reflected in selection criteria for key positions;
- The importance of language fluency was highlighted by Resident Office staff as being essential for effective policy dialogue work as it is very important to understand the nuances that often get lost in translation;
- Resident Office staff noted that hierarchy plays an important place in the business and political relationships in Ukraine and this needs to be taken into account in the conduct of policy dialogue;
- Resident Office staff noted that the appointment of a Lead Regional Economist and Economic Analyst to Kiev will have positive effect on the depth and breadth of policy dialogue if these

appointees effectively connect with various teams and do not seek to operate independently – as an aside, Resident Office staff said they learned about the recruitment of the Kiev-based Lead Regional Economist by reading the job advertisement in *The Economist*, which says something about intra-Bank communication;

- Resident Office interviewees noted that the high-level policy dialogue carried out by the Bank's President, senior vice presidents and managing directors is essential but significant preparatory work is crucial for success from this;
- Resident Office interviewees expressed concerns that sometimes headquarters departments seem to be divorced from the reality of the local environment – they see a tendency towards adoption of what they see as a “purist” approach that does not fit with the reality on the ground, and they sometimes perceive a tension between policy positions and the requirements of deal making;
- Resident Office staff engaged in policy dialogue were particularly concerned that about the lack of visibility, recognition and reward for their work;
- There was a strong view from some Resident Office staff that the Ukrainian Small Business Services (SBS) team, which is seen as being at the forefront of the communication between the Bank and the micro, small, and medium enterprises (MSMEs) is isolated from the mainstream of the Bank's business in Ukraine, including the policy dialogue agenda – interviewees see that the relationships possessed by the SBS team can be better used to support policy dialogue work;
- One interviewee noted that many big and medium companies in Ukraine employ government relation managers to advise on the nature and intensity of engagement necessary to protect or enhance the companies' standings with governmental authorities – it was suggested that the Resident Office could benefit from having this type of position.

4.1.5 *Staff of other international organisations*

- Coordination between donors in Ukraine is significant but it differs depending on the sector and, in some areas, some interviewees considered there is room for improvement;
- IFI coordination and information sharing are necessary as defending joint positions at meetings with the government or other Ukrainian counterparts adds leverage;
- Progress is usually more substantial in specialised sectors, especially where there is a high level of technicality;
- There is a strong need of focusing on the implementation process in Ukraine – the legislation is only the first step since the government tends not to enforce legislation or to make major amendments without much consultation;
- TC is essential for building capacity of the recipient institution;
- Personalities play a major role in success in policy dialogue;
- The EBRD's policy dialogue and long term strategy for Ukraine have changed considerably towards greater dialogue over the long-term – the case of energy efficiency was particularly mentioned;

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- While the EBRD is perceived as an important player in Ukraine and a valuable partner for other international organisations, there is a sense that the Bank does not engage enough and more regular meetings with the EBRD were considered desirable by some interviewees;
 - One interviewee described the EBRD’s policy dialogue in Ukraine as a “piecemeal” approach and questioned the existence of a coherent country strategy supporting the policy agenda.

4.1.6 *Counterparts in the Government, Parliament and other authorities*

- International collaboration and experience are key factors affecting the development of policy in Ukraine;
- Analysing the way relevant sectors function in other countries may help government make better decisions – international organisations are well placed to help on this;
- The EBRD has a reputable brand in Ukraine, one that it does not fully utilise;
- Particularly valued is the Bank’s ability to back up policy changes with significant investment, unlike donors and some other IFIs;
- The EBRD sometimes provides in-depth evidence and analytical background for a specific issue/problem – this type of support addresses an important issue of creating a level playing field for Ukrainian and international counterparts as regards the access to key facts and evidence;
- The role of personalities involved in the process and the commitment of government to reform were highlighted as two factors contributing to the success of policy dialogue;
- The EBRD does not put enough emphasis on the dissemination of the results of its investment experience through its involvement in workshops, networks or other means of communication;
- Maintaining continuity in the relationship between the EBRD/other IFIs and the government is essential to providing a greater level of information with respect to particular sectors;
- The EBRD should provide in-depth analysis of various scenarios rather than only one (preferred) option; it should engage more officials in the government side (including mid-level officials) and build alliances with other like-minded organisations to increase understanding and pressure – this can speed up the process and reduce resistance which is often encountered in Ukraine (as happened in the local currency initiative);
- Strong coalitions are required in order to bring about transition, such coalitions should include politicians, media, non-government organisations and members of the international community.

4.1.7 *Clients of the EBRD*

- The EBRD has a very strong position in Ukraine and a lot of underused potential for influencing the agenda for important areas of reform;
- The Bank should publicise more effectively its investments and successes in the country;
- The EBRD can also be more creative in engaging with other actors (such as leading banks, financial players and IFIs) by introducing innovative ideas to develop specific sectors;
- The EBRD involvement in the country does not always bring about positive results – sometimes the Bank pushes for reforms without having a sufficient understanding of the political realities.

4.1.8 *Others*

- International models and experience and sound research and analysis are key tools which allow interest/lobby groups to unlock the potential of a particular sector;
- There is a general sense that the EBRD is mainly helping big companies while leaving behind SMEs, which have fewer connections to the state but nevertheless constitute an important agent of change in the sphere of regulation and the business environment;
- The importance of the implementation and monitoring phases to ensure that reforms are actually carried out – more effort is needed at the implementation stage with greater engagement of donors and international finance institutions;
- Lobby groups should be “used” by the EBRD to develop its policy dialogue and guide its investment activities in Ukraine;
- International pressure is important to encourage the government to deliver on its promises and commitments;
- The EBRD could improve its impact by showcasing the success of its clients through cases presented to businesses, business clubs and alumni networks;
- There is a need of a more aggressive communication strategy to promote the EBRD’s work. The EBRD could use local think tanks as a platform for delivering and disseminating its publications;
- Engagement with CSOs should be stepped up, particularly in the sectors of great public interest – having more information on the views of a range of CSOs and more regular sharing of information can help inform policy dialogue;
- The public relations and policy advocacy roles should not be separated since both are essential and have to be coordinated if the EBRD wants to attain its policy aims;
- In countries such as Ukraine, all possible communication means and channels (including direct and indirect, traditional and non-traditional) need to be considered on a case-by-case basis;
- Non-traditional media, such as social media, play a growing role in bringing messages into the public domain without issuing officials statements;
- In Ukraine there is little demand for analysis on policy choices and a low willingness by the media to push reform agendas given its lack of freedom;
- The EBRD is externally perceived as doing reasonably well in the publicity game by managing to advance policy positions while not publically lecturing the government;
- The Anticorruption Initiative is seen as the EBRD’s strongest policy initiative and has forced the government to accept that there is a problem with corruption – however, interviewees were sceptical about the results that can be achieved through this initiative.

4.2 **Evidence from case studies**

The evidence from five case studies is presented here. The case studies are more fully expanded on in Annexes 13-17 to this report and each is also separately available as a complete case study (all available on request).

4.2.1 *Agribusiness grain sub-sector case*

Public-private policy dialogue in Ukrainian grain sector is a good example of policy dialogue that has led to early success, one that provides lessons that could be replicated in other sectors in Ukraine as well as in other countries where the EBRD invests. The noteworthy features include:

- Very clear rationale for the dialogue based on problems being faced by existing clients due to inconsistent government policy on the one hand and the global food security dimension on the other hand – the international dimension was particularly important in getting the issue on to the government's agenda and keeping it there;
- Excellent specially commissioned analytical underpinning to the policy dialogue;
- Excellent explicitly developed strategy and tactics for the policy dialogue;
- Bringing in a global centre of technical excellence created a high credibility package of Food and Agriculture Organization (FAO) Investment Centre and the EBRD;
- Clear documentation through memoranda of agreement and minutes of meetings lessened the chances of misunderstandings;
- Effective use of exposure visits to provide decision makers with a vision of what success looks like;
- Early successes helped maintain and build commitment;
- Creation of an alignment of interests between different parties is fundamental for a fruitful policy dialogue;
- Establishing good working relations between key Ukrainian and EBRD interlocutors is essential for achieving desired results – trust was established;
- The Grain Market Working Group and its international status is a key instrument for ensuring transparency and clear and predictable regulations in the grain sector (especially for export);
- The work was launched very successfully with strong commitment of private sector with the EBRD playing the role of facilitator between the public and private sectors;
- Operation a well-targeted public relations campaign helped to build commitment by the Government without alienating it;
- Having equal access to evidence base and high-quality regularly updated information on the Ukrainian grain balance is a crucial factor for success as it allowed evidence-based decision making;
- The existence of a working group consisting of public and private actors and their associations is crucial but does not completely remove the need for other forms of engagement and lobbying on case-by-case basis.

The case demonstrates best practice in a number of respects as illustrated in Table 1.

Table 1: Analysis of the grain sub-sector policy dialogue⁴

Areas of best or	–	Clarity on reason for engaging;
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⁴ Elaborated by the evaluation team

good practice	<ul style="list-style-type: none"> – Robust analytical underpinning for problem identification; – Policy “solutions” subject to validation; – Deliberate process of choosing strategy and tactics; – Resources sufficient and creativity in accessing need resources; – All key actors brought around the table; – Clarity on the EBRD’s role; – Creating an alignment of interests; – Avoiding miscommunication and misunderstandings by putting it in writing; – Moving from political to evidence-based decision-making; – Providing decision-makers with a practical vision of what success looks like; – Increasing the role and stature of local decision-makers; – Effective use of media and multiple communication channels to build a coalition for change; – Keeping the issue on the government’s agenda; – Coordination – fully joined up within the EBRD and highly effective international collaboration; – Flexibility to adjust pace, strategy and tactics; – Early positive results helped build commitment; – Supporting policy implementation as well as policy adoption; – Capturing, using and sharing learning; – Reviewing – regular brainstorming reviews plus annual formal participatory reviews; – Reporting – effective use of story-telling.
Areas where practice was mixed	<ul style="list-style-type: none"> – Clarity on expected results in terms of outputs, outcomes, impacts and based on an explicit and plausible theory of change; – Monitoring – excellent on progress review in terms of outputs but no monitoring of outcomes and impacts.
Areas where practice could improve	<ul style="list-style-type: none"> – Reviewing and reporting on policy dialogue in terms of inputs, actions, outputs, outcomes and impacts; – Increased effort on capturing the value-added from reporting on policy dialogue successes and challenges; – More explicit consideration of corruption in the sector as part of the policy dialogue agenda; – Periodic evaluation built in.

4.2.2 *Lviv regional case*

Unlike the other four cases which are based on sector, this case is multi-sector with a geographic focus (City of Lviv) that is designed to understand the nature and role of policy dialogue at the sub-national level; and to explore how policy problems encountered at the regional level can lead to national level policy dialogue. Findings from the case include:

- Working at the municipal level is not simple given the primacy of national level regulations and legislation, which limit the exercise of authority at the regional level, and a rigid and highly centralised system of control – however, even in centralised country like Ukraine, progress is possible in larger cities that have higher financial capacity and relative freedom of action;
- Working at the regional and municipal levels where leaders are committed to positive change is important as it not only contributes to the success of investment operations, but it also acts as a powerful demonstration to other municipalities, including those that currently do not have pro-reform leadership;

- Working at the regional level can also be a useful entry point to influence national policies. Having relatively powerful allies in different regions and municipalities of Ukraine can add to the EBRD’s national policy dialogue efforts;
- By engaging directly with the cities, the EBRD enhances their capacity in many areas including; strategic thinking and the selection of rational tactics for achieving their objectives; project implementation; and introduction to international standards, particularly in procurement;
- Even if city strategic documents are not explicitly used by the EBRD and other international finance institutions as direct reference points upon which to base their decisions for investing in specific sectors, they should ensure that their investment programmes deliver and are seen to deliver against the city’s strategic objectives and that the TC assistance is targeted at achieving those as well;
- Various EBRD teams are involved in Lviv operations – Municipal and Environmental Infrastructure, SBS, Transport, Property and Energy Efficiency – while each team is working effectively, there is little evidence of a joined up approach;
- There is near universal support outside of the EBRD that the Bank could and should do more by promoting the cases of successful municipal partnerships across the country, demonstrating the effects of introducing transparent and fair procedures and mechanisms in planning and delivering municipal services and in other areas – a failure to adopt this broader view of its role could strengthen the view already held by a few that the EBRD is largely self-serving entity dedicated to developing its own business;
- Further thinking on how to capitalise on the network of like-minded city leaders who are committed to improving municipal services and the quality of life at a local level might be useful for the EBRD’s future strategy of engagement in Ukraine.

Table 2: Analysis of Lviv case policy dialogue⁵

Areas of best or good practice	<ul style="list-style-type: none"> – All key stakeholders involved; – Effective joining with municipal authorities to pursue reforms at the national level; – Decision to engage reportedly captured in an initial cooperation agreement spelling out the rationale for engagement and separate cooperation agreements with individual enterprises (putting it in writing)⁶ – Good analytical underpinning reportedly contained in consultant-prepared study on challenges and opportunities (supporting documentation was not available to verify this); – Building of relationships and trust based on regular communication; – Use of exposure visits to show what success looks like; – Use of an integrated approach (for district heating); – Establishing a local presence via SBS; – Developing local capacity, particularly in procurement, which produced visible positive results; – Effective coordination with other international players.
Areas where practice was mixed	<ul style="list-style-type: none"> – Clarity on expected results from policy dialogue in terms of outputs, outcomes and impact and based on an explicit and plausible theory of change; – Development of a strategy and tactics for policy dialogue that takes into account the political economy and institutional context; – Support for policy implementation and institutional building are key to sustainability of reforms.
Areas where	<ul style="list-style-type: none"> – Having a joined up approach among teams working at the municipal level;

⁵ Elaborated by the evaluation team

⁶ Supporting documentation was not available to verify this.

practice could improve	<ul style="list-style-type: none"> – Having a regional dimension to country strategy; – Visibly supporting a well-articulated and used municipal strategy; – Capturing the learning potential from working at the municipal level; – Formal and joined up approach (both within the EBRD and with the city) to reviewing and reporting on policy dialogue in terms of inputs, actions, outputs, outcomes and impacts; – Capturing the value-added from reporting on policy dialogue successes and challenges; – Capturing the potential for the EBRD to be a thought leader on working at the municipal level; – Building in periodic evaluation.
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4.2.3 *Energy efficiency case study*

This case presents a successful example of policy dialogue – some of the reasons for its success are common to other cases while other reasons are unique:

- Unlike most other areas considered by the evaluation, Ukrainian authorities are generally pro-reform in the area of energy efficiency and renewable energy – as new areas to the country, they did not suffer from any legacy issues, nor, initially at least, did they confront the vested interests, anti-competitive behaviour and integrity concerns that are endemic in the more well-established sectors (although oligarchs have not been slow to recognise new opportunities to establish hegemony within the renewable energy sector in particular, which has now resulted in integrity issues – this development is something the EBRD should perhaps have been more alert to);
- The presence of generally favourable conditions for reform means the government is by and large keen to collaborate with international partners, including the EBRD, on legal, regulatory and institutional changes to obtain finance needed to address the massive challenges posed by energy inefficiency, greenhouse gas emissions and high reliance on imported fuel;
- There is a global and regional dimension to policy dialogue in this area through Ukraine’s participation in various international organisations, accords and fora, which helps ensure that the issues remain on the country’s policy agenda and its desire to reduce its energy dependence on Russia; also part of the regional dimension is Ukraine’s membership of the European Energy Community that brings with it a need to comply with its directives;
- The EBRD has the capacity to mobilise a substantial amount of investment to support energy efficiency and renewable energy provided the legislative and regulatory environment is right – this “carrot” of grant and investment funds is an important factor that likely increases the EBRD’s influence as a policy actor;
- Uniquely within Banking in the EBRD, the E2C2 team has its own policy, technical and finance experts – while this study is not an evaluation of the E2C2 team, it is likely that this large multi-disciplinary internal resource dedicated to the energy efficiency, renewable energy and climate change is an important factor influencing success of the policy dialogue in these areas;
- The E2C2 team in headquarters has its counterpart in the Resident Office. This is headed by a very experienced and well-regarded Ukrainian senior manager whose ability to focus on a clearly defined area is also an important determinant of success;
- To date there has not been any constraint imposed by the availability of TC and grant funding for E2C2 work though the short to medium-term duration of a TC project compared to the long-term needs for policy dialogue (including support to policy implementation) does pose problems caused by the lack of predictability of future TC funds; this is particularly an issue where TC

funds have been used to substitute for regular staff – the uncertainty of continued funding creates difficulties for longer-term planning and for the staff concerned;

- There are some areas that require improvement and refining; while there is good publicity of the EBRD's operations in the sphere there is a need to fine-tune the messages and target different audiences with the customised messages, for example CSOs, in order to increase the demonstration effect of operations and to show empathy to the efforts of Ukrainian counterparts;
- Some improvements are also required in managing the consultants who are doing great job in building capacity of Ukrainian regulatory bodies but sometimes too easily succumb to the demands of the beneficiary to change scope of work without comprehending the real drivers of these changes or analysing their long-term consequences – the case of green tariff legislation is a good example where consultants' efforts, while being positive in general, led to significant changes in the policy context and market configuration which now preclude the EBRD and other international finance institutions from working in large-scale projects due to integrity issues.

Table 3: Analysis of energy efficiency case study⁷

Areas of best or good practice	<ul style="list-style-type: none"> – Existence of robust analytical underpinning and clear understanding of underlying problems; – Messages technically and politically feasible; – Provision of sufficient and highly relevant inputs for the policy dialogue (staff time and technical cooperation) – some concern regarding continuation of quasi-staff positions funded by TC; – Effective coordination within the EBRD – particularly between headquarters and Resident Office with strong teams in both offices; – Speed of reaction, flexibility to react to changing circumstances and preparedness to remain engaged over the long term; – Supporting implementation of policy reforms and institutional development.
Areas where practice was mixed	<ul style="list-style-type: none"> – Clarity on specification of expected results in terms of outputs, outcomes and impacts fully customised the local situation and based on an explicit and plausible theory of change; – Strategy and tactics adopted for policy dialogue to take account of the political economy and institutional context even where the government is pro-reform, particularly in terms of being more alert to the very real prospect of reform reversal, capture or subversion by economically and politically powerful groups; – Need for a joined-up and well-coordinated approach on the part of Ukrainian counterparts; – Potential to fully capture learning opportunities; – Need to adopt a greater advocacy role and to engage with a broader range of stakeholders; – Project review and monitoring to go beyond actions and outputs to consider outcomes and impacts and a more explicit monitoring of the changing political and institutional context and reflecting this in changed strategies and tactics as needed; – Potential to capture a number of benefits from better reporting on the results of policy dialogue.
Areas where practice needs to improve	<ul style="list-style-type: none"> – More effective monitoring of risks to provide early warning of the need for corrective action; – Build in the need for periodic evaluation.

4.2.4 *Financial institutions and local currency initiative case*

Despite the EBRD's high pre-financial crisis scale of operations in the finance sector, until 2008 there was almost no broader policy dialogue between the EBRD and authorities. There was however tactical dialogue linked to operations aimed at facilitating legal/regulatory/institutional changes necessary for specific investment operations (aside from the long-running policy dialogue on the local currency initiative). The International Monetary Fund and World Bank were seen by the EBRD as being responsible

⁷ Elaborated by the evaluation team

for strategic policy dialogue in the sector but the situation has changed dramatically in the aftermath of global financial crisis. Ukraine was one of the hardest hit countries so the EBRD became much more engaged on the policy front as described below:

- Since the onset of the crisis, the EBRD has engaged in a much more sophisticated and complex dialogue in the financial sector covering legislation, institutional changes, opening new markets, creating new products and contributing to the establishment of more sophisticated and developed financial markets;
- Most of this policy dialogue is being led by headquarters teams, particularly Treasury, the Office of the Chief Economist, the Office of the General Counsel (financial team and Legal Transition Team), the Financial Institutions team and recently Local Currency and Capital Markets team;
- The regional and global dimension brought about by the crisis is an important factor in ensuring that the sector remains on the government’s policy agenda;
- The EBRD is well-positioned for strategic advice to Ukrainian authorities on reforms in the financial sector because its recommendations and advice are based on many years of investment experience in country and other countries in the region;
- Having “found its voice” in being part of policy-driven, pro-active or strategic dialogue, and been effective in so doing, the EBRD should not, in the view of this evaluation, revert to the pre-crisis situation of only engaging in transaction-related dialogue if it wishes to help Ukraine realise its transition potential;
- The need to quickly step up policy dialogue in response to the crisis meant that resources needed to be drawn from across the Bank and, in the absence of a designated leader and coordination mechanisms, some problems emerged;
- The lessons from the EBRD’s eight year negotiation on the local currency initiative in Ukraine are important and should be integrated in future initiatives such as:
 - First, is a need in more joined-up approach with like-minded organisations – the parallel dialogue performed by International Finance Corporation and the EBRD with Ukrainian authorities on gaining permission for local currency operations was recognised by both parties as unfortunate and as one that caused many delays and complications to both.
 - Second, the approach to dialogue is very important; despite having high-class expertise in-house and ready availability of experienced and skilled consultants, the EBRD failed to formulate its proposals in more engaging way – a way in which Ukrainian counterparts are offered options rather than a single choice, and where thorough analytical work is done to address counter-arguments presented by opponents of the local currency initiative.
 - Also, the EBRD did not seem to consider the need to prepare the way for high-level meetings or to engage with the mid-level specialists as well as high-ranking officials; some other examples of policy dialogue (such as the Budget Code changes to allow municipal guarantee lending) demonstrated that a more flexible (less purist) and empathetic approach, with a clear presentation of the pros and cons of various options (including showing where the proposed approach has worked elsewhere to deliver tangible benefits) are more effective in convincing Ukrainian counterparts of the

desirability of reforms and their adoption, albeit perhaps with some compromises on both sides.

- The local currency experience also illustrates the EBRD should not assume that Ukrainian counterparts have equal knowledge and understanding of the issue – creating equal access to information and knowledge should be one of the elements of the dialogue – a common vision of the solution cannot be achieved without common vision of the problem;
- Coordination with other IFIs and donors should be an essential part of policy dialogue in the financial sector – coordination was traditionally good but some tensions started to emerge in the recent years when the EBRD left its “comfort zone” of transaction-related dialogue and entered the field of more systemic actions in the area of legislation and regulations; better internal coordination within the EBRD is also a prerequisite for better external coordination;
- Tensions between banking and other teams of the EBRD are also more evident in the financial sector policy dialogue than in others;
- The almost unanimous impression of the stakeholders in Ukraine that the EBRD’s engagement in financial sector policy dialogue hasn’t changed much over the last decade is due to the reality that policy-driven, pro-active or strategic dialogue has not been mainstreamed into the work of the financial institutions team operating in the country;
- The near total absence of a formal process for review, monitoring and evaluation reduces the likelihood of identifying the need for a change in approach and making these changes in a timely manner.

Table 4 Analysis of financial institutions case⁸

Areas of best or good practice	<ul style="list-style-type: none"> – Clarity on reasons for engaging – both in terms of the local currency initiative and then later more broadly as part of a crisis response; – Availability of good analytical underpinning to the policy dialogue and understanding of the problems and their causes.
Areas where practice was mixed	<ul style="list-style-type: none"> – Desirability of developing politically and institutionally feasible solutions through greater engagement with mid-level officials (the advisers to the decision makers) to address counter-arguments and to provide alternatives rather than a single option; – Policy advice should take account of the different interests involved – a political economy approach is essential; – Potential to adopt a more strategic approach of working with allies; – Internal validation of policy messages among the alternatives available is also important, not least to avoid the perception or reality of a conflict of interest; – New broader policy dialogue in the sector by the EBRD in response to the crisis meant there was a need for effective internal coordination as expertise was spread across departments and no leadership or coordination mechanisms existed to avoid mixed messages being transmitted to in-country counterparts; – Generally coordination with other international players was good but the EBRD entry into more general policy dialogue using as a base its practical experience as an investor did cause some problems of mixed messages; – Need to modify approach to try different tactics in light of limited or no progress; – Essential need to support policy implementation and institution building; – Need to realise potential to capture and use learning.
Areas where practice needs to improve	<ul style="list-style-type: none"> – Greater clarity on expected results in terms of outputs, outcomes and impacts that is based on an explicit theory of change linking results to the inputs provided and actions taken; – Clearer identification or risks to results attainment and the potential for perverse results;

⁸ Elaborated by the evaluation team

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- More formal periodic monitoring and reviews of progress in terms of results being achieved;
 - Potential to capture a number of benefits from more formal reporting on the successes and challenges from policy dialogue;
 - Capturing the benefit from building in periodic evaluation.
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4.2.5 *Power and energy sector case study*

This case study represents a rather more limited opportunity for more generalised learning and replication due to the very specific nature of the energy sector and politics in Ukraine. In recent times the experience has tended to favour not engaging rather than engaging. However given the current political and economic crisis in Ukraine there is a clear window of opportunity for the EBRD to push for a comprehensive plan of reforms based on its many years of experience and operational level dialogue. If it chooses to pass through this window of opportunity there are some important findings that need to be considered including:

- Analysis of the 1999-2006 period in the EBRD's power and energy sector policy dialogue suggests that more than in other sectors, awareness of the political economy and hidden agendas/unspoken policy priorities are crucial for choosing the right strategy for engagement;
- A combination of Ukraine's unique geopolitical location, its importance to the European energy security system and the scale of energy intensity of its economy all mean that the power and energy sector is of fundamental importance – one which holds the key for systemic changes in the wider economy – not to engage is probably not an option notwithstanding severe integrity issues in the sector;
- Harnessing the opportunity presented by new reform-minded leaders has significant implications in the long-term perspective – power and energy policy is an area where traditionally progress has been very slow with fundamental reforms taking from five to ten years to become reality;
- The EBRD's tactics of being ready and able to engage proved to be successful at the end of the 1990s to the beginning of the 2000s and it has every chance of replicating this success in the current situation;
- Collaboration with other IFIs and donors in such a major area as the power and energy sector is crucial for building critical resource base (financial and technical) and getting adequate leverage over Government's decisions to reform
- Only a combination of political will and high quality expertise can create a basis for structural changes and dramatic reforms aimed at energy market liberalisation, enhancing energy security and reducing the energy intensity of national production;
- Mid-level managers in the government and consultants will play a crucial role in delivering analysis and advice while committed top-level leaders (in particular the Prime Minister) are pushing the reform agenda and working to ensure political consensus on the most challenging issues;
- In a situation where powerful economic groups control a majority of the sector assets, and the political process and often decision makers in the government, it is crucial to find the areas of engagement that do not infringe Bank's integrity principles but allow it to stay engaged with the key stakeholders in the sector;

- Skill gaps and a lack of professionals in the key decision-making bodies represent a considerable challenge – these could be partially compensated through engagement with centres of expertise and publicly-owned energy companies;
- Joining forces with other IFIs and donors to create international and global platforms that exert greater pressure on country’s leadership to meet commitments made (such as those to the European Energy Community) is another way of engagement in the period of weak political will and inadequate professional capacity of Ukrainian counterparts;
- The EBRD’s bankers working in the sector over more than a decade are a significant asset that merits greater recognition – the Bank’s reputation and respect for its advice expressed so often by local counterparts and other international parties are based on the personal relations and in-depth knowledge of the sector built over many years;
- However, more support is necessary from the Bank’s policy teams, or specialised international organisations on guiding the bankers in political economy of the sector and global economic realities, allowing them to concentrate on their core tasks.

Table 5: Analysis of policy dialogue in power and energy sector case study

Areas of best or good practice	<ul style="list-style-type: none"> – The Energy Policy Task Force was an effective institutional mechanism for bringing together Government counterparts and international organisations and their consultants for developing clear plan of action and concrete steps for reforms in the crisis time of the late 1990s/early 2000s; – Effective coordination of donors’ actions and funding for achieving the maximum effect; – Strong link between the EBRD’s advice and investments that increased counterparts’ commitment to reform; – Availability of stand-alone TC along with the TC projects packaged in the complex investment operations opened opportunities for future investments in other market niches; – Flexibility and an opportunistic approach are crucial for achieving success in highly politicised sector with strong vested-interest economic groups.
Areas where practice was mixed	<ul style="list-style-type: none"> – Long-term engagement in the sector with potentially large investment opportunities is crucial even at the stage where such opportunities look impossible as shown by the experience with the K2R4 project, consistency and patience can deliver positive results – however, the EBRD (and other international parties) stepped away from policy dialogue in the sector; – Long-serving EBRD bankers in headquarters and the Resident Office represent significant institutional memory that could be utilised in a more proactive way for policy dialogue.
Areas where practice needs to improve	<ul style="list-style-type: none"> – Before investing further resources in policy dialogue there is a need to assess the impact of significant package of TC assistance and policy dialogue initiatives that were delivered in Ukraine since the end of 1990s; – The EBRD needs to be more transparent in presenting the results of previous investment projects with public clients in order to contribute to building a greater trust in the EBRD’s actions in the country where the public sector has a history of non-transparency and lack of civil monitoring and control; – Public relations and advocacy are elements that deserve more attention in the Bank’s strategy (for example, a country’s integrated approach for power and energy sector) to generate a better understanding of the significance of power and energy reforms for the Ukrainian people and recognition of potential negative reactions/protests with regard to social and environmental impact of the reforms. – Some good lessons in story telling already exist but they need to be replicated more widely to accommodate the scale of challenge and the level of public interest – Evaluation of policy dialogue initiatives needs to be improved through a range of activities – at country level, sector level and the level of specific investments and TC projects.

4.3 Evidence from surveys

The qualitative evidence from interviews and case studies was supplemented by more quantitative evidence from two surveys – one of those known to have been involved in policy dialogue in Ukraine (mostly over recent years) and a second survey of (mostly) national staff in the Resident Office.

Important points from the first survey include (with full details available in Annex 10 available on request):

- The most significant area of involvement by EBRD staff members was establishing new or amended legal and regulatory frameworks with 34 per cent of respondents saying this was a principal area of involvement (only 5.6 per cent of respondents were members of the Legal Transition Team), followed closely by trying to change government policy at 30 per cent;
- Perhaps surprisingly given the general belief that most policy dialogue is closely linked to projects, more policy dialogue was pitched at the sector and country levels than at the project level despite 58 per cent of respondents being bankers or their equivalent;
- That policy dialogue takes place at multiple levels was reinforced by responses to the question on whether policy dialogue was transaction-related, standalone or both – almost half of responses indicated that policy dialogue involved transaction related and standalone elements while 28 per cent was associated with transactions alone and 23 per cent was solely standalone;
- Policy dialogue takes place with many different types of counterparts and at many levels; in terms of being identified as principal counterparts, ministers or deputy ministers scored highest at 35 per cent, followed by commissions or councils (27 per cent), regional/local authorities (23 per cent) and other international finance institutions (22 per cent);
- Only 16 per cent of respondents indicated that members of parliament or parliamentary commissions were their principal (3 per cent) or significant (13 per cent) actor with whom they engaged;
- Staff of the EBRD played many roles when engaging in policy dialogue – the top roles were negotiator, facilitator, expert, problem solver, advocate and coordinator, followed by the role of influencer and further back by a group of four roles; implementer, planner, research/analyst and adviser;
- Many respondents spend a very significant proportion of their time engaged in policy dialogue – almost half of the respondents spend 30 per cent or more of their time on policy dialogue in Ukraine with a further 21 per cent indicating that the time spent was very variable year-on-year while two per cent had no idea;
- Ninety per cent of respondents strongly agreed (10 per cent) or agreed (80 per cent) with the proposition that the EBRD’s policy dialogue work was generally successful – however 90 per cent rated the effectiveness of the Bank’s policy dialogue (defined as the extent to which results are achieved and the quality of those results) as “*good but with significant potential for improvement.*” Only 10 per cent rated effectiveness as “*excellent with only limited potential for improvement*”;
- Leading areas of relative strength are seen as:
 - Clarity about the desired results from policy dialogue (41 per cent of respondents);
 - Relevance – focus on the right issues (31 per cent);

- Clarity on the problem/opportunity and reasons why it exists (29 per cent);
 - Extent to which the EBRD works with other IFIs (26 per cent);
 - Avoidance of conflict of interest (24 per cent);
 - Adequacy of knowledge and analytical base (24 per cent);
 - These were closely followed by efficiency (23 per cent); based on social, cultural, political and economic context (23 per cent); planning and reflection in country strategies (22 per cent);
 - In each of these areas of relatively higher perceived excellence, a majority still saw the potential for significant improvement.
- The top areas identified as having significant potential for improved performance or where the EBRD needs to start from scratch (those with 75 per cent or greater of responses) are:
- The need to provide support to the implementation of policy through to the end (96 per cent of responses see significant potential for improvement);
 - Staff incentives and rewards for engaging in policy dialogue need to improve (95 per cent see significant potential for improvement of which 37 per cent consider the EBRD is working from a zero base);
 - The extent to which results are achieved and the quality of those results (90 per cent see significant potential for improvement);
 - The adequacy of staff numbers assigned to the policy dialogue task (88 per cent see significant potential for improvement);
 - Staff involved in policy dialogue needing to develop the right skills (84 per cent see significant potential for improvement);
 - The predictability of TC resources for policy dialogue work (81 per cent see significant potential for improvement);
 - The extent to which the EBRD's departments are "joined up" and working together to achieve results from policy dialogue (80 per cent see significant potential for improvement);
 - Adequacy of staff training in skills relevant to policy dialogue (78 per cent see significant potential for improvement of which 50 per cent see that the EBRD is starting from a zero base);
 - Adequacy of progress review and taking corrective action if needed (78 per cent see significant potential for improvement);
 - Efficiency in terms of results achieved in relation to resources expended and time taken (77 per cent see significant potential for improvement);

Important points from the second survey (of Resident Office national staff) include (full details are in annex 14 available on request):

- A quarter of respondents said that the skills and knowledge of those below senior designated staff were fully (eight per cent) or often (17 per cent) used for or in support of policy dialogue while 75 per cent indicated it was sometimes (67 per cent) or never (eight per cent) used – there

is obviously considerable potential to utilise the skills and knowledge of Resident Office local staff to a greater extent according to those staff;

- Three reasons stand out why Resident Office staff of below senior designation are not more engaged in policy dialogue or acting in support of it according to respondents:
 - Lack of channels of communication;
 - Lack of training;
 - No encouragement given by senior designated staff;
- The top two ways in which Resident Office staff saw they could increase their contribution to policy dialogue was for them to act as intermediaries for informal feedback from mid-level officials, CSOs, academia and think tanks; and by carrying out policy analysis.

4.4 Evidence from the literature review

The evaluation conducted a comprehensive literature review to compare others' findings with those of the current study. Selected corroboratory evidence is presented below. Full details are Annex 11 (available on request).

4.4.1 EvD's 2010 evaluation on policy dialogue

- The need for more visible clarity on the objectives of policy dialogue and sequence of reforms;
- More staff should have policy dialogue-related skills;
- Closer coordination among the departments of the EBRD and formation of cross-bank teams.

4.4.2 EvD's 2011 power and energy sector review

- The Bank should consider moving from an *ad hoc* approach to policy dialogue to a more structured one that would be more comprehensive, prioritised and more focussed on supporting implementation;
- Recommended creation of policy dialogue coordinator position;
- The most effective use of resources likely to be a mix of well-coordinated activities targeting institutions and decision-makers at various levels;
- Despite a number of innovative and successful projects, the power and energy team had not developed case studies of good practice.

4.4.3 AusAID 2013 evaluation on policy dialogue

- The need to adopt a standard definition of policy dialogue and a common understanding of the concepts, purpose and expected outcomes of policy dialogue;
- The need to develop within staff a greater understanding of the policy process and wider political economy;
- Political economy analysis should underpin country and sector programmes centred around a politically savvy country situational analysis and supported by an in-depth contextual analysis;

- Policy dialogue should be informed by evidence and that evidence should be locally owned, shared and understood by stakeholders;
- The ability to be fleet, flexible and responsive should be seen as pivotal to effective policy dialogue;
- The need to invest in balancing the negotiating capital of counterparts in government;
- Recruitment of more policy analysts to support policy dialogue;
- Using national staff in policy dialogue to a greater extent.

4.4.4 *World Bank's 2008 evaluation of public sector reform*

- Recognise the political complexity of public sector reforms – be realistic, take into account the context, understand the political environment, prioritise reforms;
- Have a better framework and set of indicators to better assess the achieved results.

5. Findings and recommendations

5.1 Findings

The findings that follow are more, though not exclusively, directed towards planned multi-year policy dialogue initiatives rather than short-term, narrowly-focused and reactive policy dialogue.

5.1.1 *A substantial commitment has been made to policy dialogue in Ukraine*

The evaluation finds that more staff members are dedicating a greater share of their time to policy dialogue in Ukraine, often over many years, than is perhaps widely known. The evaluation did not produce a complete stocktaking of the Bank's policy dialogue in the country but the evidence from the five case studies reveals a very large body of policy dialogue work. The survey confirms the substantial time committed by a number of staff members. Any surprise at the quantum of policy dialogue occurring in Ukraine over many years is a direct result of the low visibility that policy dialogue has in the Bank (more on this below).

The argument that policy dialogue should “retain a link to projects” has largely been overtaken by practice, in Ukraine at least. And so it should be since it has become increasingly clear that the EBRD will not be able to effectively address the “stuck in transition dilemma” and so realise its potential to deliver on its transition mandate unless it embraces a more holistic and comprehensive approach to policy dialogue. The integrated approach is a step in the right direction but it is not enough. In certain sectors in Ukraine, the Bank is already well on the way to a more holistic and integrated approach. The evidence also shows that the more challenging the reform/transition environment, the greater the relative importance policy dialogue should have in the EBRD's product and service mix.

There are two further reasons why the “link to projects” should not be considered a mantra for the EBRD. First, in addition to the strategic necessity for the EBRD to engage in standalone policy dialogue to deliver on its transition mandate, the nature of policy dialogue frequently does not lend itself to a link to projects even where the policy problem and the Bank's decision to engage on the issue emerged from its experience as an investor. This is because the client and the policy dialogue counterparts are likely to be different, rendering a link between policy dialogue and projects more cosmetic than real (a problem often faced by so-called transactional TC in support of policy dialogue). Second, as part of a political process,

policy dialogue may take years to produce desired results, well beyond the life of a typical transaction (for example, tariff reform and opening up local currency lending are two examples) so creating a “link” to a project is simply an artifice.

The evaluation considers that the areas where the EBRD chooses to engage in major policy dialogue are likely to be those where it has considerable experience and expertise as an investor (so it can speak with authority). However, periodically the Bank will want develop new and strategically important business areas. Here, policy dialogue may need to come before projects in order to create the necessary conditions for investment (the areas of energy efficiency, renewable energy currently and the traditional energy sector in the late 1990s to early 2000s are cases in point). However, this should not preclude the EBRD from engaging in policy dialogue on a broader front where the impact may go well beyond its own areas of business focus – the anti-corruption initiative is a good example of this. What is needed is a strong rationale and strategic imperative for the dialogue.

In short, this evaluation considers that policy dialogue should assume its rightful place as one of the tools available to be used in pursuit of the Bank’s mandate to foster transition rather than being seen as only an adjunct to projects – and it should be more visible.

5.1.2 There have been some significant results particularly at the output level

Notwithstanding the difficult context (including governments with limited appetite for reform, powerful self-interested economic elites, endemic corruption, poor rule of law, and large in size but weak in capacity civil service), there have been some significant results from the EBRD’s policy dialogue efforts. However, these results have tended to be skewed towards direct deliverables or outputs. The desired outcomes and impacts have been harder to realise in some cases.

There are many reasons why this is so a number of which rest with the Ukrainian side, which gets to the heart of the issue of engaging in policy dialogue in an unfavourable context. There is a point of view that “it takes two to tango” so there should be a willingness to engage and ideally a “champion for change” before the EBRD engages in policy dialogue. The logical conclusion of this point of view would see the EBRD not engaging in policy dialogue where the need for reform is greatest. This evaluation does not agree. Rather, it concludes that the Bank must stay engaged in policy dialogue even when the context is not favourable; but, importantly, it must adjust its strategy to take account of the challenging context by, for example, playing a greater advocacy role, undertaking analytical work to inform and help build a coalition for change, exposing decision makers to new ways of doing things, and so on. Also, though many factors on the Ukrainian side are obviously outside the direct control of the EBRD, the Bank is not without some influence as discussed in the next section.

A consequence of engaging in policy dialogue in a situation that is not favourable for reform is that outcomes and impacts may be harder and so take longer to achieve. It could be argued that there is a need to accept the achievement of outputs as being all that is realistic until circumstances change – some would say it is better to have the good legislation in place even if it is not currently implemented than not to have it. However, this evaluation has found that there are things the Bank can and should do to address this problem while still ultimately being satisfied with the achievement of outputs until the context changes more in favour of reform.

5.1.3 *There are things the EBRD can do to increase the likelihood of achieving desired outcomes and impacts*

This evaluation shows that the following actions can increase the chances that outputs will lead to achieving outcomes and impacts.

- First, the EBRD can manage for the achievement of outcomes and impacts. There is a tendency to focus on output delivery and assume that the outcomes and impacts will flow by themselves. However, experience shows this cannot be assumed, particularly in challenging contexts where there many forces arraigned against success. Managing for outcome and impact delivery means being sure there is a sound theory of change such that the inputs to be provided and actions taken will plausibly lead the delivering the planned outputs and in turn these will be necessary and sufficient to produce the desired outcomes and contribute to impacts, with successful risk management in place. Effective monitoring and review of all levels of results achievement will allow the Bank to better manage the policy dialogue initiative on the basis of results, including the wider results.
- Second, there is a need to recognise that policy making is above all a political process – it is about the exercise of power to determine “who gets what and when.” Bank staff should not act politically but they must be politically aware and be willing to call on political economy expertise to help craft politically feasible solutions. Seeing policy problems as solely technical problems requiring technical solutions is unlikely to be successful or it may deliver the technical “solution” without realising the benefit that is expected to flow from this.
- Third, there is a need to recognise that outcomes and impacts are achieved through the successful implementation of policy. Quality implementation requires effective institutions. Policy adoption is about producing the outputs (pieces of legislation and regulation for example). Considerable support for policy implementation (which can be even more difficult than policy adoption) will likely be essential in a challenging context. This will often mean working with a different level of people with varying degrees of knowledge, understanding and commitment and it is likely to involve institution building and capacity development, things that require a different set of skills on the part of the Bank and its consultants.
- Fourth, the EBRD should spend more time finding out about, and could demonstrate greater understanding of, the Ukraine point of view on issues where the EBRD decides to engage in policy dialogue; and it should address the counter-arguments in a reasoned and evidence-based manner, including through commissioning and making widely available analytical work designed to address domestic concerns. Related to this, the EBRD should spend more time doing what some of those consulted termed “selling the problem before selling the solution.” There can be a tendency to jump over this step, which is vitally important for getting an issue on the policy agenda – that is, getting agreement that there is a problem that should be addressed, and achieving understanding of the causes and consequences of the problem, what benefits would be derived from solving the problem, what the costs will be and who will bear them.
- Fifth, there could usefully be a more consistent effort to develop policy solutions with Ukrainian policy actors to help ensure that these are feasible to implement within the domestic context even if the policy prescription may lose some of its theoretical purity in the process. There has been a tendency in some cases for policy prescriptions to be presented “ready-made” on a “take it, or leave it” basis, which far from engendering ownership, often leads to automatic rejection or at least an initial negative reaction. Within this, the process of policy dialogue would benefit from

a more multi-strand and less single line and direct approach – important within this is to work more with mid-level officials who carry out the analysis and provide advice to ministers and their deputies.

5.1.4 *The quantum of resources for policy dialogue has been generally adequate but there are skills gaps and new needs*

The evaluation found that the quantum of staff and technical cooperation resources available for policy dialogue in Ukraine has been generally adequate for policy dialogue as conducted. However, doing policy dialogue better will require some modest incremental resources – in terms of staff, TC and budgetary resources. The modest nature of the requirements is predicated upon the EBRD being creative in forming partnerships with recognised centres of policy and technical excellence following the example provided by the collaborative relationship between the EBRD and the FAO Investment Centre. In addition to some increase in the quantum of resources required, there are some qualitative issues, in particular the skills required versus those available. This evaluation considers that the EBRD needs to invest in developing staff skills in policy dialogue. The main points regarding resourcing policy dialogue found by this evaluation are:

- Despite a fairly common refrain that the Bank should dedicate more resources to policy dialogue work, this evaluation finds that, for Ukraine at least, the quantum of resources available has been broadly sufficient, aided by some creativity on the part of directors to use TC funds for quasi-staff positions and the collaborative arrangement with FAO Investment Centre.
- On staff numbers, directors have considerable flexibility in deciding how staff should allocate their time and there are some dedicated policy resources in the Office of the Chief Economist, the Legal Transition Team and the E2C2 team.
- The quantum of TC resources has also proven to be generally adequate though the long timeframe often required for policy dialogue means that multiple approvals may be necessary. While it might be a frustration for the team concerned and it may create some uncertainty regarding the continued availability of resources, the need to return periodically to get approval for a new TC grant is seen as a good thing by this evaluation as it provides an opportunity for a stocktaking of progress and a review of strategy.
- Despite the quantum of staff resources having been generally being adequate for past needs, there is an absence of political economy, civil society engagement, policy analysis, specialised technical expertise, communication, capacity building and institutional development skills that will need to be met if policy dialogue is to be more effective.
- Some incremental resources will be required to improve coordination on policy dialogue within the EBRD and to improve the capture and sharing of knowledge on important policy matters.
- In addition, there are specific skills requirements for staff currently engaged in policy dialogue which are generally not available or planned for, including:
 - Specialised and up-to-date (“cutting edge”) technical skills in the sector concerned;
 - All staff need the personal skills required to be effective in policy dialogue (language, listening, negotiating, communication, and interpersonal relationship skills);
 - All staff involved in policy dialogue should have a basic understanding of what policy is, how it is made and implemented, including an understanding of the political economy dimension to policy making and what is involved in policy implementation);

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- Of absolutely vital importance in the view of this evaluation is the availability of advanced political economy skills and knowledge of the power relationships in the country concerned⁹;
 - If there is a move to support policy implementation, skills will be required in capacity building and institutional development.
- Directors have been adept at filling some of these skills gaps – for example, agribusiness has very effectively used an existing memorandum of agreement with the FAO to gain access to highly specialised and very credible world-leading technical expertise. The EBRD could usefully explore similar agreements with other specialised technical agencies (or exploit agreements it already has in place). Also, some teams (notably agribusiness and energy efficiency and climate change) have used TC projects to fund quasi staff positions. This has the advantage of considerable flexibility in increasing staff resources as needed. However, such flexibility may not be needed where a long-term commitment to engage in policy dialogue in a sector has been made and it creates uncertainty for the staff concerned. Consideration should perhaps be given to converting some of these positions to fixed-term staff positions.
 - The EBRD faces a choice on how to meet some of the skills gaps noted above – whether to recruit in-house technical and policy expertise (as the Energy Efficiency and Climate Change team has done) or whether to outsource. This evaluation considers there is merit in having a certain amount of in-house policy and technical skills that can be supplemented by consultants as needed. For the advanced political economy skills, a position could be created at the Resident Office or the required expertise could be met via a consultant(s) on retainer.
 - As noted above, the EBRD does not provide any training to develop or enhance skills in policy dialogue for those staff carrying it out, nor has any consideration been given to what skills are required. Clearly, there would be benefit from defining a set of skills needed for policy dialogue work on behalf of the Bank, and to establishing a training programme to help staff develop or enhance those skills.
 - The traditional view that policy dialogue is something done by senior bankers and those above them, means that other staff resources that could potentially contribute to policy dialogue work tend to be overlooked. The evaluation considers that the EBRD is not making the best use of its internal resources – for example, national staff of the Resident Office could be used for a range of policy dialogue roles including what might be termed “intelligence gathering” on how the Bank’s policy messages are being received and what the points of contention are; although the evaluation did not look at this specifically, there may be potential to better align the research and analytical work done or commissioned by the Office of the Chief Economist to policy dialogue priorities; the Communications Department might play a greater role in communicating policy messages and working with a different group of domestic policy actors; and, the EBRD could gather information on the staff skills and resources that it has available for contributing to policy dialogue priorities through an inventory of staff skills with a arrangements made for staff with needed skills to be assigned temporarily to support important policy dialogue initiatives.

⁹ Political economy skills include detailed knowledge of the interaction of political and economic processes in a society including those processes that are hidden from normal view and how these impact on policy choices; the distribution of wealth and power between different groups and individuals, what interests each group has and how the competing interests can be managed in a policy process to create an alignment of interests to achieve progress; and understanding of the processes and relationships that create, sustain and transform these relationships over time and how these processes can be used to bring about change.

5.1.5 *The visibility of policy dialogue within the EBRD should increase*

The low visibility of the EBRD's work on policy dialogue is a consequence of the reality that the EBRD was not set up to engage in policy dialogue – that was seen as the task of others. However, policy dialogue has grown in importance over the years in a largely evolutionary manner but it has remained “under the radar”, where it has been free from the constraints of an overarching plan and strategy, coordination, appraisal, high-level approval, monitoring, reporting or other requirements that apply to other business activities of the Bank. This evaluation finds that the approach has served the EBRD, its clients and Ukraine quite well as it has allowed a high degree of flexibility, innovation and customisation, with the resulting policy dialogue delivered in a generally efficient manner by committed staff with a high degree of success (particularly in terms of delivering outputs) considering the context.

However, changes have and are taking place that put this largely informal and low visibility approach under strain such that the potential contribution of policy dialogue to the achievement of the Bank's transition mandate is not fully captured. These changes include:

- More policy dialogue is taking place;
- Across more sectors and areas;
- With increased complexity;
- With more teams and units of the Bank engaged;
- No longer the exclusive preserve of senior staff;
- More frequently jointly with other international finance institutions and donors;
- In a context of stalled or reversal of reform (“Stuck in Transition”) and increasingly in a volatile and uncertain socio/political/economic situation;
- And in a climate of increased demand for information on the results being achieved by the EBRD.

Some of the negative consequences of the low visibility and/or largely informal approach to policy dialogue in the EBRD include:

- There is no agreed definition of policy dialogue in the Bank, or uniform view on what policy dialogue covers, which makes it difficult for the Bank to determine how much of it is taking place and who is doing it. The scope of any definition can be an important contributor to a more “joined up” approach across the EBRD – for example, if the definition includes the analytical underpinning for policy dialogue and policy advocacy, as this evaluation considers should be the case, then research and analysis produced by the Office of the Chief Economist and the role of the Communications Department may become more integrated into the policy dialogue effort of the Bank.
- At best, there is only a vague idea of the quantum of policy dialogue that has and is taking place in the Bank's name.
- There is no information on the aggregate resources given over to policy dialogue.
- There is only fragmentary evidence of the results being produced from the considerable effort and resources expended, and that which exists mostly remains with the team concerned and then mostly in their heads. To the extent that results from policy dialogue are monitored and

reported, these are almost entirely at the level of activities and outputs with little or no recording of outcomes and impacts.

- Almost nothing about policy dialogue is documented or recorded and retained or accessible to others (the exception being where policy dialogue involves TC). There is virtually no institutional memory of policy dialogue in the EBRD aside from that which resides with the staff concerned.
- Though staff members engage in policy dialogue because they believe it is the right thing to do, they consider their efforts often go unrecognised and/or unrewarded. On the contrary, in some cases staff members say they have been actively discouraged from engaging in policy dialogue in order to focus on achieving annual business volume targets.
- Though not always the case, much policy dialogue taking place under the Bank's name is often conceived, planned and carried out by a fairly small group of people often from a single team such that a wider cross-section of experience and knowledge is not brought to bear on what are often very complex problems. This also means the team may be seen as being primarily concerned about serving its own interests thus giving rise to perceptions of conflict of interest.
- Within a particular area of policy dialogue there is generally a strong sense of strategic purpose although this is almost never documented. However, it is not generally evident that there has been a structured process of selecting strategy and tactics from among the alternatives available. At the country level, while policy dialogue is mentioned over 20 times in the 2011-2014 Ukraine country strategy these references are mostly about past, present and future areas of policy dialogue engagement rather than part of a clearly articulated role and strategy for policy dialogue in contributing to the achievement of clearly specified country-level results – the strategic purpose policy dialogue is expected to serve is not clear. Integrated approaches formulated for Ukraine also lack a clearly specified results framework plausibly linking what's to be done in terms of policy dialogue to the achievement of expected outcomes and impacts.
- The absence of any regular documentation of policy dialogue and recording of “what happened, what worked, what didn't and why” means that intra-team, inter-temporal, cross team and cross department learning is negligible in the case of the latter three, and less than it could and should be in the case of intra-team learning.
- Not documenting the results of policy dialogue means that the EBRD is not able to manage the knowledge it has accumulated in more pro-active ways or to “tell the story” of what it is achieving from this increasingly important part of its business activity.
- The knowledge and experience of consultants built up in successive consulting assignments is almost never captured and retained in an accessible form.
- Finally, the lack of visibility of policy dialogue means it is not generally covered in self-evaluations and their validation. No aspect of policy dialogue covered by this evaluation envisaged the value-addition from, or planned for, periodic evaluation.

The above might sound like a fairly serious indictment of the EBRD's policy dialogue work. It should not be taken that way. As stated above, based on the experience in Ukraine, the EBRD has been pretty well served by the approach it has taken to date. However, there are emerging pressures and a number of issues and opportunities that if addressed or captured, could bring wider benefits and increase the chances of “success” from this activity as well as recognition of that success.

Dealing with the lack of visibility will address a number of problems noted above. A number of points can be made on this:

- Obviously, the general awareness of policy dialogue has been increased as a result of creating a Vice President Policy and a new committee, the Strategy and Policy Committee. However, of itself this has not changed the visibility of the Bank’s policy dialogue work. On the contrary, there are concerns at the staff level that this has put in place a new layer of bureaucracy with, as yet, unclear benefits.
- A logical next step in increasing the visibility and profile of the policy dialogue being carried out is via the decisions taken on a policy dialogue stocktaking and recommendations paper being prepared for Management approval and Board discussion. The decisions made here may help determine the extent to which the Bank’s policy dialogue work becomes more visible.
- One way towards greater visibility that has been proposed a number of times by others is for policy dialogue to be incorporated in the corporate and team scorecards. This evaluation does not agree with this proposal because the political nature of policy dialogue means it does not lend itself to neat scorecard measures (see below for more on this).
- Rather, it suggests that visibility can be increased and learning opportunities created through “telling the story” of policy dialogue successes and failures, promoting these through a variety internal channels (including the Intranet, Blueprint, video clips) and celebrating success when it occurs. This evaluation also supports several recommendations made by the policy dialogue task force, namely to support creation of a policy community of practice within the Bank and to create an internal policy blog where quick updates on policy dialogue initiatives can be posted. There are some resource considerations here.
- It is also important to not lose some of the benefits of the current approach such as; the ability to be opportunistic, flexible, innovative and efficient. The costs and benefits of process change need to be considered.

5.1.6 *Selectively, the EBRD should become more of an advocate for reform and good policy*

The EBRD should spend some of its credibility capital by exercising a greater degree of leadership in some areas of policy dialogue – this would see it selectively adopting more of an advocacy role, speaking out more based on its own experience, communicating more on the successes and challenges encountered in its investing activity, and engaging with a broader range of domestic policy actors on a more regular basis including think tanks, academia, media, and CSOs. The EBRD has a wealth of knowledge and experience that mostly lies unused – this should be extracted and packaged in a usable and contextually relevant form. The EBRD flagship and other reports can also be “localised” to the context, perhaps with the help of local centres of expertise such as business schools or think tanks. Of course, this finding has a resource implication.

5.1.7 *The EBRD should engage more broadly*

A particular dimension of the engagement with a wider variety of domestic policy actors in Ukraine is the need identified by a significant number of those consulted in-country for the EBRD to engage more with medium-size businesses – those businesses that are most affected by adverse policies and which have sufficient size and capacity to be able to work for change. Many interviewees in Ukraine noted that the perception of the EBRD is that it works with and supports big business – this negative perception needs to be addressed. Part of the solution is for a more joined up approach in the EBRD, particularly with regards to SBS, which could usefully become more integrated into the mainstream of the EBRD’s business model.

Another part of the solution is to engage with the networks and associations medium-size businesses, which are different from the EBRD's standard association contact points (for example the American Chamber of Commerce and European Business Association).

Related to the previous point, the EBRD could usually engage more with a broader range of CSOs for a number of reasons¹⁰:

- First, these organisations are able to provide another point of view that can help inform policy dialogue initiatives and the strategy and tactics adopted. Listening to their views may also provide early warning of contrarian points of view on certain policy issues;
- Second, greater engagement can help reduce the perception that the EBRD is one of the less transparent IFIs;
- Third, CSOs may be able to play a role in monitoring policy implementation and the outcomes and impacts that policy actions produce (including service delivery at the municipal level, similar to a World Bank initiative).

5.1.8 *The role of coordination with other international players*

It has become generally perceived wisdom that coordination among international players (principally other IFIs and the main donors operating in the country) is desirable from the points of view of avoiding mixed messages (thereby supposedly confusing local counterparts) and as a means of exerting additional leverage for the adoption of reforms.

However, both points of view can be challenged as to their universal applicability. First, it is very doubtful that sustainable reform can be put in place without ownership by those who have to adopt it and those that have to implement it. Ownership comes through believing that the reform is the right thing to do. A unified message from external parties is not likely to be the principal factor engendering that belief. On the contrary, it may produce a negative reaction through a sense of being unduly pressured.

Second, from the point of view of the recipient of the advice, it can be useful to have alternative perspectives as the basis for policy debate. While asymmetry of information and knowledge between local counterparts and international players can be an issue, this should be addressed when it occurs rather than promoting a single unified view.

In any case, it can sometimes be difficult to arrive at a common position on many thorny policy issues given the varying mandates and imperatives that lie behind the international players offering the advice. If the EBRD has a well thought out and supported position on a key policy issue that is different from the views of say the World Bank or the International Monetary Fund there is value in having that presented. This can be preferable to attempting to come up with a single international player position that may involve significant compromises through the need to reach a consensus position. Also, coordination has a cost and the benefits need to be assessed against the costs.

This evaluation is certainly not making a general case against coordination but it is suggesting it should not automatically be assumed to be necessary or value-adding. It also recognises that there is a continuum of coordination from communication to consensual decision-making. A case-by-case approach to determine the appropriate degree of coordination and communication is recommended. The Bank

¹⁰ One problem faced by the evaluation was that the list of civil society organisation contacts provided by the Civil Society Engagement Unit was seriously out of date – this issues needs to be addressed if the EBRD is to reach out more extensively to this sector.

should not be scared of “going it alone” if this is considered necessary and the Bank has the courage of its convictions.

5.1.9 *The need for greater support to policy implementation*

Support for the implementation of policy is just as if not more important than supporting policy adoption. The need for this type of support arises for a number of reasons:

- First, reform almost always makes those who benefit from the *status quo* worse off. In a context such as Ukraine those worse off are generally the economic elites and the politicians that serve their needs. These people can be expected to work assiduously to derail, reverse or capture the reform for their own ends. Continued international involvement is called for to help lessen the chances that these anti-reform efforts will be successful;
- Second, the adoption of policy is an uncertain business – the potential for unintended negative results or even perverse outcomes is very real so further refining of the policy to deal with these will be likely, whereas domestic capacity or the will to do this may be weak;
- Third, the adoption of new legislation and/or regulation normally requires a range of consequential amendments to other legislation and regulation and development of a range of secondary legislation;
- Fourth, those implementing policy are most likely not to have been involved in its adoption and its implementation and so they may lack understanding of why they are required to do things differently and/or do different things – they are likely to need help in this. They are often lower level staff than those with whom the EBRD typically engages over policy adoption.

Support for policy implementation means support for institutional and organisational analysis and change. Ultimately, policy implementation involves people and organisations doing new things, not doing things they used to do, and/or doing things differently. Often this calls for a combination of changed structures and processes, new “rules of the game”, and (most difficult of all) changes in the culture that guides behaviour. There is often no “quick fix” to bring about these changes so there needs to be a willingness to stay engaged for the long haul. It also needs to be recognised that a different set of skills are required to support institutional change for policy implementation than are required to bring about policy change.

This is not to argue that the EBRD itself always needs to be the entity supporting policy implementation. However, a decision by the EBRD to engage in policy dialogue should involve consideration of the support needed for policy implementation and how that support can best be provided – whether by the EBRD itself or by another partner.

5.1.10 *Better internal coordination is required*

A more joined up approach within the EBRD is needed – there are too many players now involved for this not to happen:

- Already identified is the need for SBS to be more integrated – this also applies to the Office of the Chief Economist, Legal Transition Team, Treasury, Communications Department and Office of the Chief Compliance Officer and others;
- The appointment of policy coordinators by some departments is a positive first step. This can be taken further by ensuring all departments engaged in a significant amount of policy dialogue have coordinators and by ensuring that they have adequate time to dedicate to this task.

Creating a network of policy coordinators would be a logical follow-on step as would ensuring coordinators develop policy-related skills;

- This evaluation suggests that every major area of policy dialogue, should have a clearly identified lead department and a reference group comprising representatives from other interested/involved departments and most likely some external members.

5.1.11 *Incentives and rewards need to be intrinsic rather extrinsic*

It has become almost perceived wisdom within the Bank that incentives and rewards for policy dialogue need to be improved if more policy dialogue is to be done and if it is to be done better. Given the bonus culture in the Bank this is usually equated with scorecards and financial rewards. This evaluation takes a contrary view as it notes:

- If financial rewards are the critical element needed to motivate people to do policy dialogue work, and to do it well, people lacking the right motives may be involved;
- That said, staff deserve to be recognised and rewarded for good work on policy dialogue;
- However, given the nature of policy, this evaluation contends that rewards and motivations will tend to be intrinsic rather than extrinsic;
- Of course, directors can and should reward staff members who do good work through the annual performance assessment and it needs to be recognised that for bankers sooner or later, successful policy dialogue work is likely to result in increased annual business volume, the achievement of which has its own financial reward.

5.1.12 *Adopting a political economy approach is essential for success*

Policy dialogue work will almost certainly not fulfil its potential of helping the Bank deliver on its transition impact mandate unless a political economy approach is adopted. This is shorthand for taking a range of factors into consideration. Some of these factors are listed below:

- i) Policy making and policy implementing are part of a political process (coincidentally, the word for policy and politics is the same word in Ukrainian). Treating policy problems as technical problems with technical solutions is unlikely to lead to success, particularly in a context such as Ukraine. At its most basic, policy is about power, the power to decide who gets what, when and how. The costs or “dis-benefits” of reform tend to be borne by “the few” who are often economically and politically powerful since they are the ones who derive benefits from the *status quo* so they agitate strongly against reform whereas the benefits are realised more diffusely by “the many” who tend not to be powerful and who will not benefit hugely individually so they do not agitate in favour of reform. Understanding this and the nature of the competing interests involved, and crafting strategy to take these into account are critical to success;
- ii) Much of the reality regarding the exercise of power and influence is largely hidden from view to avoid involvement of “fair play” or the rule of law. The Bank’s policy actors should never become involved politically but they must be politically aware if they are to prevail. This means they must understand how the system works in practice and to be astute in working within this and with it rather than pretending it does not exist;
- iii) Policy making and implementation is rarely a straight-line with clear cause and effect relationships – as noted above, the potential for negative as well as perverse outcomes is the

norm rather than the exception, and the shortest path to success may not be the most direct one;

- iv) Costs and benefits of reform fall unequally on different interest groups and time periods, often across electoral cycles. Since costs tend to come before benefits it can be hard to maintain political commitment, particularly if an election is looming and the benefits have not yet been realised. This reality leads to the idea of the importance of ensuring “quick wins” in reforms to build and maintain the commitment of politicians;
- v) Fifth, the recent events in Ukraine have rendered a lot of the contextual information provided in this report out of date. This further emphasises the importance of a political economy approach that incorporates constant scanning of the context for policy dialogue and adjusting strategy and tactics in light of understanding the consequences of changes in the context.

A final conclusion and one that is particularly pertinent to Ukraine today is that a crisis often provides an opportunity for far-reaching reform. It is a window of opportunity that the EBRD should seize. However, while a crisis may offer a more favourable context for policy reform adoption, it does nothing to resolve the implementation challenge – in fact, it may make this worse.

5.1.13 Addressing corruption

In late 2012 and throughout the first half of 2013 the EBRD launched and pursued an anti-corruption initiative in Ukraine. This very significant and high profile example of policy dialogue was not included as a case study in the evaluation due to the unfolding story. Nonetheless, several observations can be made:

- Those non- EBRD people interviewed in Ukraine generally praised the EBRD for the initiative, viewing it as an important and necessary stand;
- However, given the context prevailing at the time the interviews were conducted, most did not consider the chances of success great;
- The involvement of the President of the EBRD was certainly successful in getting the initiative on the agenda of the previous government through it being raised with the then-President of Ukraine who directed that action be taken;
- However, senior Ukrainian officials were fairly skilful in delaying and diluting the initiative, which emphasises again the challenge of implementing policy even when there has been success in getting this on the agenda;
- Corruption was not explicitly addressed in any of the evaluation case studies perhaps reflective of the difficulty of confronting these issues when policy dialogue is being led by banking teams that are mindful of the need to not unduly prejudice their ability to do deals.

5.2 Recommendations

Since the evaluation’s evidence base is derived from a single country case, its recommendations apply to policy dialogue in Ukraine although many may have wider applicability. The evaluation makes five recommendations – the first is directed to the Bank generally while the other four tend to focus more on policy dialogue in Ukraine.

Each recommendation consists of two parts – a fairly general statement and a list of suggested elements (in the case of the first recommendation) or possible actions to give effect to the recommendation in the case of the other four recommendations. This has been done to provide Management with flexibility about

how it responds to the recommendation while still providing concrete suggestions emerging from the evaluation. Obviously, there are a large number of suggestions from which Management may wish to draw in addition to coming up with its own responses.

5.2.1 Recommendation 1: The EBRD should produce a clear statement and guidance on policy dialogue

In making this recommendation, the evaluation is aware of that the VP Policy Group is preparing a paper on policy dialogue for Management approval and Board discussion within the first half of 2014. Whether in this paper or subsequently, the evaluation suggests the statement and associated guidance should cover the following elements:

- i) The document should confer legitimacy on policy dialogue by the Bank as an important part of its toolkit in pursuit of transition – it should be acknowledged as a tool in its own right and not just as an adjunct to projects.
- ii) The Bank should aspire to be a thought leader and preferred source of policy advice within the areas of its special competence and not only a transaction-driven institution.
- iii) There should be a definition of policy dialogue that establishes what it is, who does it, with and for whom, and for what purpose. This definition should be encompassing by recognising that policy dialogue is not just the preserve of a few staff – many have a role to play from those carrying out research and analysis in the Office of the Chief Economist to those engaged in outreach in the Communications Department. The political nature of policy making should be noted and the consequential need to adopt a political economy approach acknowledged.
- iv) A typology of policy dialogue should be geared towards identifying what process should be followed for approving, managing, monitoring and reporting on policy dialogue. With this in mind, this evaluation suggests that a two-category typology would be most appropriate – major (generally multi-year, planned and requiring resources beyond staff time) and minor (generally opportunistic, of short duration [less than a year] and not requiring resources beyond staff time).
- v) Guidance should establish the process to be followed for the approval, management, monitoring and reporting on policy dialogue. For minor dialogue, it is suggested the process would be light, more or less as it is now with the addition of an annual report to the Strategy and Policy Committee. Major policy dialogue would have a more formal process. The evaluation does not make specific recommendations on the detail of this but EvD is open to contributing its thoughts on this to Management if asked.

5.2.2 Recommendation 2: The results focus of the Bank's policy dialogue in Ukraine should be enhanced

This recommendation aims to help address the problem that success with delivering planned outputs from policy dialogue (laws, regulation, policy decisions and so on) has not always resulted in the desired outcomes and impacts. The recommendation is also geared towards helping address the reality that results have not always been sustained as a result of: weak political or economic commitment, poor implementation, absence of needed fine-tuning or modification in light of early implementation experience, production of unintended negative or perverse outcomes that need to be addressed, and the ever-present

potential for capture or reversal through the efforts of economically and politically powerful groups acting in their self-interest.

The rationale for the recommendation is that if expected outcomes and impacts are not clearly specified, along with a plausible cause and effect story linking them to planned outputs, then it is unlikely that there will be monitoring of their achievement or effective management directed towards their achievement. The evidence suggests that outcomes and impacts will not take care of themselves only if outputs are successfully delivered. The risks of not achieving outcomes and impacts, most importantly the political economy and institutional risks, need to be both identified and managed.

A greater focus on results, particularly at the outcome and impact level, will help the EBRD “tell the story” of what is being achieved from this important area of activity. Information on results achieved (or not achieved) provides the basis for learning about what works, what does not and why and possession of this information positions the EBRD to be a more effective advocate for replication of the policy dialogue success and for supporting investments with knowledge.

Possible actions:

- i) Introduce a requirement that major areas of policy dialogue (see item [iv] under the recommendation above) should be based on a good analytical underpinning that clearly identifies problems and describes the consequences of those problems in quantitative and qualitative terms (to provide baseline levels of performance and indicators for subsequent monitoring). Immediate and underlying causes of those problems should be identified – importantly, political economy and institutional causes. Such analysis may be done by the EBRD or be commissioned by it, or there may be analysis done by others that is available – the important thing is that it exists and is used.
- ii) Require that major areas of policy dialogue should be guided by a results framework that:
 - o Plausibly links results at the levels of outputs, outcomes and impacts to the inputs to be provided and actions to be carried out;
 - o Identifies the political, technical and institutional risks and the principal assumptions inherent in the implicit or explicit “theory of change” that links outputs, outcomes and impacts to the level below;
 - o Considers the distribution of benefits (the identified positive results) and costs among various societal groups and what their reactions will be to receiving, not receiving or losing benefits;
 - o Considers the expected timing of benefits in relation to the time at which costs will be incurred;
 - o In light of the previous point, seeks to identify “quick wins” and can help build and/or sustain commitment.
- iii) Require a regular monitoring of process (what has worked and what has not), results achievement in terms of outputs, outcomes and impacts), risks, continued validity of assumptions and relevant changes in the context;
- iv) Results reporting both in quantitative terms and, very importantly, in a more qualitative format through storytelling that informs about the process as well as the results (or lack of them).

5.2.3 *Recommendation three: Resource gaps (qualitative/skills and quantitative) should be addressed*

It has been increasingly frequently stated that more resources are needed to support policy dialogue but little has happened to address this need. It is time for more decisive action.

Possible actions:

- i) Consider appointing a government relations and civil society engagement adviser to be based in the Kiev Resident Office. This person would work closely with the Senior Adviser who is responsible for a range of functions including media relations and the Lead Regional Economist expected to be Kiev-based in the near future. The principal purpose of this position is to fill a very important skills gap in terms of political economy expertise and advice to teams carrying out policy dialogue in Ukraine. A secondary, though still important purpose is to provide the resources required for a stepped up outreach programme with civil society and other groups. This has multiple objectives including helping build coalitions for change, seeking input into policy messages, and working collaboratively on monitoring policy outcomes and impacts. The position could be filled by appointing a staff person or contracting in the required expertise.
- ii) Replicate the success of the EBRD-FAO Investment Centre partnership by entering into similar collaborative arrangements with recognised technical centres of excellence.
- iii) In some cases it may make sense to recruit policy experts to the staff (E2C2 has done so), or short-term staff positions but in other cases it may be preferable to contract in this expertise as needed (as the Agribusiness team has) – in the latter case, particular efforts must be made to capture the learning to avoid a loss of institutional memory.
- iv) More extensive use can be made of national staff in the Resident Office for a variety of roles to improve the chances of success from policy dialogue.
- v) Ensure the Communications Department has the resources to play a greater role as member of teams engaged in major policy dialogue initiatives.
- vi) Review the capacity of Office of the Chief Economist to provide a programme of research and analysis relevant to major policy dialogue initiatives.
- vii) Develop a self-maintained inventory of staff skills relevant to policy dialogue and provide the opportunity for people from other parts of the Bank to be part of the proposed policy dialogue reference teams (see Recommendation five, item [iv]).
- viii) Define a set of skills that those who participate in policy dialogue on behalf of the EBRD should possess. Based on this, put in place a programme by the Learning and Development team to develop and enhance skills. As well as in-house courses this could include participation in external courses, sector specialist conferences and work attachments.
- ix) Create learning opportunities such as through the creation of a network of policy coordinators and/or policy dialogue community of practice and in-house policy dialogue blog.
- x) Consider creating a contestable fund for quick approval of policy dialogue-related activities including the costs of conferences and outreach events, commissioned analytical work, publications and so-on.

5.2.4 *Recommendation four: Some enhancements should be made to the way in which the Bank engages with country counterparts*

This recommendation is aimed at addressing a number of issues that Ukrainian counterparts identified as sometimes impeding progress with policy dialogue.

- i) Effort may be required to “sell the problem” before selling the solution – what may be clearly seen as a problem which needs fixing to the EBRD may not be identified as such by the Ukrainian side, or it may not be high up on their policy agenda. Having a good analytical underpinning can be part of selling the problem. The need to “sell the problem” is part of the asymmetry of information and data that often exists between international partners on the one hand and Ukrainian counterparts on the other and which is something the Bank should continually seek to address.
- ii) There could be a more consistent effort to develop policy solutions with Ukrainian policy actors to help ensure that these solutions are feasible to implement within the domestic context. Understanding the counterarguments and whose interests are being served by these is an important part of developing a strategy and set of tactics for policy dialogue. The EBRD should enhance its use of evidence-based analyses to explain to key counterparts the policy issues and possible solutions. Solutions should be customised to the problem in the particular context of the country – any solution needs to be robust and be capable of solving the problem in a way that is acceptable to those that have to approve and implement the solution.
- iii) Providing only one solution or scenario for change can be counterproductive in cases where there is strong opposition to change and many powerful stakeholders are negatively affected by these – the Bank should have a more flexible approach to suggesting policy solutions and demonstrate more empathy and understanding of the counterarguments and be more prepared to address these constructively.
- iv) Having decided to engage in policy dialogue, the EBRD should identify its allies and seek to align these to its cause. A more “campaign-like” approach might be necessary.

5.2.5 *Recommendation five: Some improvements can be made in the way in which the Bank manages its policy dialogue work*

This recommendation and the possible actions are designed to address a number of process issues identified by the evaluation.

- i) There should be an explicit approval process for all policy dialogue, whether major or minor – for major policy dialogue initiatives the Strategy and Policy Committee would be the logical approval authority. Minor policy dialogue is probably most appropriately approved by directors.
- ii) A decision to engage in policy dialogue aimed at bringing about policy change should in all cases constitute a preparedness and capability to support policy implementation, particularly in contexts with weak implementation capacity, and/or weak commitment to reform, and/or where the opponents of reform are economically and politically powerful with a propensity to reverse or capture reform.
- iii) All major policy dialogue initiatives should clearly identify the EBRD leader or leadership team.

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- iv) All major policy dialogue initiatives should have oversight provided by a reference group comprising internal and external members covering technical, policy and political economy expertise – this group to be involved in the decision to engage, strategy and tactic selection, and considering and advising on the results of review, monitoring and reporting.
 - v) The aim of managing the policy dialogue process should be to have a “joined-up” approach on the EBRD side – importantly, this needs to involve all departments with a role to play including the SBS team and the Communications department
 - vi) The initiative shown by some departments in designating policy coordinators should be extended to all departments engaged in policy dialogue with a next step being the formation of a network of policy coordinators.
 - vii) Working at the regional level can also be a useful entry point to influence national policies. Having relatively powerful allies in different regions and municipalities of Ukraine can add to the EBRD’s national policy dialogue efforts. Mobilisation of networks of local leaders could be important factor for strengthening pro-reform lobby at the central level.
 - viii) Coordination with other IFIs and donors can deliver benefits, particularly in highly contested policy areas where reforms are opposed by powerful economic groups and their political agents – open conflicts and disagreements may weaken the international influence. On the other hand, coming up with unified positions may weaken the process of policy debate by reducing consideration of a variety of possible solutions to policy problems.
 - ix) External coordination should be on a broader scale and involve actors other than just international agencies, particularly when the government is not convinced of the need for reform, or there are implementation challenges – there is a wide range of domestic actors with whom the EBRD can engage, including business associations, CSOs, think tanks, academia, and the media, with aim of such engagement being to build a coalition and climate for change.
 - x) In particular, the EBRD should increase its engagement with the networks and associations which medium-size businesses belong to (different from the EBRD’s standard association contact points such as the American Chamber of Commerce and European Business Association).
 - xi) The EBRD should also engage with a broader range of CSOs – it should update its database of CSO contacts in Ukraine on a regular basis and involve their representatives more proactively in its policy dialogue work.
 - xii) Working with the media should be part of the strategy for every major policy dialogue initiative.
 - xiii) Greater visibility to policy dialogue across the board is desirable from a number of standpoints, including acknowledging the good work being done by many staff, often in very difficult circumstances.

6. Sources

Interviews

Interviews were held granted on the basis of preservation of confidentiality. One hundred and three face-to-face interviews in London and Ukraine with 134 informants covering the EBRD's staff members (banking and non-banking), public officials at the central and municipal levels, national and municipal politicians, former senior officials in Ukraine and former EBRD staff, the EBRD's clients, representatives of a range of international groups and organisations, members and leaders of interest groups, think tank members and academics, representatives of CSOs, and media representatives – notes were made for each meeting, translated into Ukrainian as needed, and shared with interviewees to correct, amend or add to the record as they saw necessary.

Staff survey

A staff survey of those engaged in policy dialogue in Ukraine (80 per cent response rate) and a quick survey of Resident Office staff (results available on request in Annex 10).

Literature review

Bilateral agencies and think tanks

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[A collective donor response to corruption](#), OECD-International Law and Policy Institute- Anti-corruption Resource Centre, OECD, Paris, 2012

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[Ukraine-United Nations partnership framework 2012 – 2016](#), United Nations Development Assistance Framework

[UNCTs Engaging in National Policy Dialogue: Lessons from the Field](#), Study by the Consensus Building Institute for the United Nations Development Group (UNDG), 2011

[Tools for Institutional, Political, and Social Analysis of Policy Reform](#). A Sourcebook for Development Practitioners, World Bank, Washington D.C, 2007

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7. EBRD management comments

The special study provides a comprehensive review of the process of carrying out EBRD policy dialogue in a number of key areas in Ukraine. Management values the quality of this inventory as well as the scope and the depth of the analysis provided. The analysis of case studies acknowledges the Bank's strengths and deals honestly and constructively with its weaknesses in the field of policy dialogue activities. Management also acknowledges the inclusive process during the preparation of the special study. Co-operation during its preparation is also evidenced by the joint Management/EvD efforts on policy dialogue stock-taking through the cases of Ukraine and FYR Macedonia, presented to SPCom last year. Management agrees with the five broadly stated recommendations. Management notes that while some of the elements and possible actions suggested under the main recommendations may be of a more generic nature, the case studies contain a wealth of information that Management could and will draw upon. In the suggested elements/possible actions under the recommendations, the study could further prioritise, sharpen its focus and judgment on the EBRD characteristics, such as the private sector focused mandate, niches for engagement and areas where it has leading expertise and adds value, consistently utilising the insights from the findings of the analysis of case studies in Ukraine on key ingredients for success (or failure).

Management considers the report very timely as it is currently working on presenting a new approach to enhanced and structured EBRD policy dialogue. Management notes that a number of proposed study recommendations relate to actions that have already been identified by the Task Force on Policy Dialogue last year and the recent Management policy dialogue stock-taking exercise, as recognised in the report, and are already being implemented. Indeed, the Bank has advanced in planning, structuring, implementing and reviewing the results of its policy dialogue activities over the years, as the study mentions and cites evidence. However, there is a need and scope for improvement and opportunity to enhance this activity to support transition move forward. The paper on the new approach to policy dialogue is intended to address most of the issues raised in the EvD study:

- Recognition of policy dialogue and advice as significant instruments in the Bank's tool-kit to promote transition
- Definition of policy dialogue as well as segmentation by objectives, scope
- Stock-taking of strengths and weaknesses of the current modus operandi for the Bank's policy dialogue activities
- Strategic planning as well as results-driven, efficient approval, feedback, documentation and monitoring procedures
- Appropriate planning instruments, including the role of country and sector strategies as well as strategic initiatives, integrated approaches
- Results management, taking account of the current results frameworks, including transition impact benchmarks for investments, TC results framework, country strategy results framework, key performance indicators of sector strategies, etc.
- Centres of excellence/policy advisory services, improved co-ordination and monitoring of progress with policy dialogue initiatives

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- Resource implications of the new, enhanced approach in terms of staff allocation, training, incentivisation as well as potential additional need for enhancing sector policy advisory capacity at EBRD and related costs.
 - While Management does not comment on all suggested elements/possible actions under the five recommendations as it intends to consider them further in the context of its work on a new approach to enhanced and structured policy dialogue, some specific comments on the study are presented, including elaboration on the points above and Ukraine specific findings and recommendations, and are organised under two main headings as follows:
 - EBRD approach to policy dialogue
 - Success factors ensuring an effective policy dialogue

7.1 EBRD approach to policy dialogue

Management agrees with the finding that policy dialogue and policy advice have become more prominent in EBRD activities, leveraging on EBRD's expertise in specific areas and on EBRD investments. Nevertheless, EBRD's credibility in policy dialogue and policy advice has and still is strongly underpinned by relevant sector investments both as a track record in the region/country and as the commitment to invest further. Therefore the link of policy dialogue to investments is a highly important element of credibility and success and thus needs to be maintained. However, there are some cases when stand-alone policy reform assistance is needed regarding overarching themes, such as investment climate improvement or regional banking sector regulatory issues (e.g. Vienna 2.0). Arguably, the linkage to EBRD investments is still present there as our relationship with private sector counterparts, major sector players, government authorities as has been established and fostered through investments underpins and supports these policy dialogue activities.

Management believes that it is important that the Bank maintains focus in its conduct of policy dialogue in areas it has leading expertise. Notwithstanding the importance of broader policy dialogue, if the policy advice is not focused, prioritised and well managed, it could achieve very little and the Bank could lose the credibility it has achieved. Since its foundation, the Bank has built-up expertise and became a leading player in the field of transition economies in general, exercising leadership in a number of areas such as commercialisation of public infrastructure, sustainable energy financing and others. In the conduct of policy dialogue, selectivity is important to achieve results for institutions like EBRD with limited human resources. Being all things to everyone and including everyone in the process would spread the Bank's resources.

Management regards the demand-driven approach of EBRD as the principal distinction from its peer institutions and a determinant of success, including in the policy dialogue sphere. Whilst the Bank could probably do more to better structure some of its policy dialogue and capitalise on the credibility and reputation it has acquired as a policy advisor, maintaining flexibility in conducting policy dialogue is important to enable utilisation of opportunities and take advantage of the presence of a reform champion/champions, when available. Management has developed procedures through SPCoM for approval of major policy dialogue initiatives and programmes. The proposal for explicit approval process for all policy dialogue-related steps might unduly limit the opportunity for Bank staff to engage in dialogue with counterparts in the context of other activities.

It is however acknowledged that a robust analytical underpinning and clear understanding of underlying problems agreed at the institutional level would render policy dialogue choice and conduct more efficient and effective.

7.2 Success factors ensuring an effective policy dialogue

7.2.1 *Areas of agreement for improvements*

Management notes that under the TC Results Framework, which funds most of the Bank's policy dialogue work, the possible actions related to results focus are already under implementation.

Management agrees with the study's recommendation on the importance of qualitative indicators in monitoring and evaluating policy dialogue achievements to tell the story. In this respect, it would be useful for Operation Leaders and the TC Team if EvD could identify some practical qualitative indicators that could be applied in different circumstances, based on the extensive review of the past TCs supporting policy dialogue in Ukraine (e.g. what worked and what did not). Refer to CS RF as another results management instrument being developed. Insights from the literature review and the experience of other organisations would also be welcome. Furthermore, while analytical underpinnings are provided in the terms of reference for TC, Management agrees there is room to improve the quality and scope of the analysis along the lines being proposed in the study.

Management agrees that better documentation of policy dialogue work is needed, without overburdening the reporting requirements, and believes the TC results monitoring would help. Management fully agrees with EvD about the importance of adopting a political economy perspective and having political economy analysis as part of the Bank's initiation and conduct of a more programmatic policy dialogue, including through the country strategies. Indeed, the discussions are well underway about enhancing the role of the political counsellors in this respect. The strategic themes of latest country strategies, for instance, were deliberated and shaped against political economy analysis.

Management is also in agreement with the assertion that policy dialogue and policy advice are longer term objectives and that achieving the desired outcome require dedication and perseverance beyond the timeline of institutional scorecards, sometimes even beyond the medium term institutional, country or sector strategies. Regular review of progress, adjustment of focus, level of activities and resources to needs and counterparts' receptiveness are well warranted.

7.2.2 *Areas that need further consideration*

Management would need to consider further the study's suggestions on increasing the visibility of policy dialogue and policy advice activities, including with a stepped up involvement of Communications. There may be cases when Communications could play an enhanced role in supporting policy dialogue, as more visibility would allow the Bank to advocate more openly for good policies and support reforms, as has been the case for the Bank's Anti-Corruption Initiative in Ukraine. However, the Bank may sometimes choose to play a quieter role, as more communication would also potentially steal the limelight from those in the government who prefer to take credit for positive reform steps.

The study correctly points out resource implications of a more systematic policy dialogue and enhanced policy advice. Management agrees that effective policy dialogue requires thoroughly experienced well-rounded professionals with on the ground knowledge of country and sector specific issues and challenges acquired through working with businesses and government officials in sector and project work. Management believes that the formation of a team of removed generic experts is unlikely to enhance results. Management also remains to be convinced of the need/appropriateness for and may consider further the costs and benefits of, EvD's suggestions related to hiring government relations officers, expanding policy dialogue activities to civil society organisations as regular part of policy dialogue and establishing an oversight reference group.

8. External peer review

James Sherr *

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4 May 2014

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8.1 Introduction

The Evaluation Department's Special Study on EBRD policy dialogue has been prepared during the most critical moment of Ukraine's 20-year period of independence. When the evaluation began, Ukraine's political system and policy-making institutions were under pressure. Today its statehood is at risk. If Ukraine loses its statehood, *de jure* or merely *de facto*, the EBRD might find that it has no role to play there at all.

But if Ukraine's interim government and elected successors succeed with Western backing in sustaining the country's statehood and reconstituting political legitimacy, the Bank could well be called upon to expand its activity, assistance and presence. In this reviewer's assessment, policy dialogue should be the connecting thread in this enterprise. Ukraine's institutions will be in crisis well after the most immediate threats to the state's sustainability are overcome. The EvD is right to believe that crisis creates 'an opportunity for reform that did not exist' (p iii). As a case in point, during the time of the Bank's 'energy efficiency' project, reform of the energy sector was a matter of national security as well as efficiency. Today, it is a matter of national survival. The Bank should be prepared to re-engage in these conditions, and it should be proactive in doing so. It will find this Study an excellent point of departure.

8.2 Strategic aim

Whilst drawing attention to the exponential growth of policy dialogue as an EBRD business tool, the Study nevertheless notes that it is a 'poorly documented area in the Bank'. More critically, it states that the strategic purpose of policy dialogue is not clear (p 27). The Study provides a definition of policy dialogue as 'interactions and actions...for the express purpose of bringing about changes ...for the overall benefit of [Ukraine]' (p 1). Yet this description of what policy dialogue *is* stops short of defining a strategic aim. The Bank might wish to consider the following:

"to encourage and assist Ukraine in the multi-faceted task of establishing a rules-based and law-governed system in policy-making and in the relationship between business and the state."

The *premise* behind this aim is that an economy based on patron-client relationships and lacking firm property rights, judicial integrity and institutional neutrality will not only be corrupt *per se*, but fail to realise the state's stated objectives, external as well as internal. The *precondition* of the Bank's success is observable progress in changing *institutional cultures*.¹ But as EvD is at pains to note, progress in this area demands an understanding of the institutional context in Ukraine, as well as a lack of illusions about the interests and practices that obstruct change.

8.3 Context

This reviewer finds much to praise and little to fault in the EvD's understanding of the policy environment in Ukraine. But out of this detailed and nuanced evaluation, two conclusions require bold restatement. First, Ukraine's shortcomings are systemic. Second, before the crisis erupted, its economy was losing the ability to produce national wealth and reward for honest work. I would also give emphasis to several points that are recognised in the Study, though sometimes implicitly:

- *The culture of declaration is stronger than the culture of implementation.* This reflects a combination of: a) the Soviet habit of assuming that a change decreed is a change accomplished; b) underestimation of the difficulties of implementation; c) cases where those responsible for making policy have no authority for implementing it; d) cynicism on the part of leaders who use 'reform' and 'state programmes' as a disguise for inaction or regression.² Nevertheless, EvD is right to note that even when unimplemented, changes in legislation and 'policy' have the merit of legitimising internal criticism and provide a benchmark for external evaluation and pressure.
- *Formal institutions are often remote from practical policy-making.* In a rules-based system (as found in any advanced democracy), institutions and their norms are stronger than the individuals inside them. In a patrimonial society (one based on patron-client relationships), it is the opposite. Either they are 'captured' vehicles for personal or sectoral interests or, alternatively, they serve as *pokazuka* (show), disguising real channels of policy deliberation and implementation.³ In either case, it is difficult to sustain standards of professionalism or rightful conduct. Those who seek to do so readily become cynical or demoralised.
- *Rent-seeking is not only an opportunity for the greedy but a means of institutional survival.* In a well-functioning democracy, corruption is confined to corrupt people. In most of the former Soviet Union, it is a necessity for all. As I said in another context, 'if the *militционер* (policeman) is paid a wage inconsistent with life, he will cheat rather than die'. The casualty of rent-seeking is not only trust, but competence. Even in institutions that have high prestige and are of cardinal importance, miserable salary structures limit recruitment to those who are well connected, self-financing, willing to bribe and ignore malpractice.
- *Infirm property rights and contract-enforcing mechanisms (aka 'rule of law') render all reform reversible.* Under Yanukovich, the unwritten law became: 'if you covet somebody else's assets, take them'. *Reyderstvo* (corporate raiding and asset grabbing) became a principle of economic management. Even the representatives of large companies had to spend uneconomical amounts of time on non-business activity. Yet even before Yanukovich came to power, the tax system disenfranchised entrepreneurship and talent, and the regulatory system, like the legal system itself, was a charter of harassment for every power in the land. In these conditions, SMEs have the least security of all and find themselves forced to negotiate and renegotiate terms of entry and protection.⁴

If policy dialogue is to serve its purpose, these ills of the status quo must find their place in it. But they also describe the constraints within which such dialogue takes place. It is not within the Bank's means or, arguably, its remit to challenge all of these conditions directly. But it needs to understand them if it is to 'sell the problem along with the solution', as EvD recommends. By speaking plainly and by practical work, EBRD can also develop a culture of awareness in Ukraine that these systemic failings damage the core interests of the country.

Despite these failings, the Bank should not lose sight of Ukraine's core accomplishments and attributes, which are not directly acknowledged in the Study:

- Ukraine not only established its core state institutions from scratch after 1991, it did so with marked professionalism and on the basis of a clear understanding of the national interest. During the 1990s, Ukraine's progress in most areas was well ahead of the Western expectation;⁵
- Until recent events, there was no ethnic conflict in Ukraine (in stark contrast to its eastern neighbour). Ukraine has received commendation from international organisations (UN, OSCE, PACE) for its ethnic, religious and linguistic tolerance.

Before the current conflict, Ukraine was far from being a failed state. If it emerges from the conflict with an elected government and in one piece, it possibly will be more receptive to EBRD advice, and more keen on implementation, than at any time in the past. In these conditions, *pace* the Study, it is the decision *not* to act that will have consequences.

8.4 Recommendations

The Evaluation Department and the reviewer are of one mind on five points:

- The Bank's expectations must be guided by the realities of power in Ukraine at both national and institutional level;
- The Bank's approach must be guided by the discipline of political economy rather than theory. This reviewer is not alone in ascribing many of the failings of Western advice to Russia in the 1990s to the dominance of theoretical economists;
- The Bank requires augmentation (and better utilisation) of staff with region and country-specific expertise. Generic specialists (e.g. on privatisation, sectoral reform) need an on-site education before offering advice. Until they are bonded with the cultural environment, they will lack credibility and might unwittingly strengthen local prejudice about the irrelevance of Western practice;
- The Bank must not only 'sell the problem' but 'show what success looks like'. The latter tends to be better accomplished by veterans of successful transformation in post-Communist countries than by Western experts who have faced superficially similar challenges (e.g. 1980s privatisations in the UK), though the combination can work well once the participants have bonded. The best tools of instruction are examples of best practice (or even good practice) in Ukraine. For this reason, there is merit in a project-based approach by EBRD, since it can produce examples that others can emulate. It is possible to square the circle between a project-based and a strategic approach by recognising that well-crafted reforms in one sphere can strengthen capacity to overcome inertia and obstruction in others

- The Bank must give priority to enhancing its institutional memory and collective wisdom. Combining country-level with discipline-specific expertise is a long-term process that cannot be transferred on the hoof. Serious thought needs to be given to how the Bank can teach itself, renew its expertise and repeat success.⁶ The results of policy dialogue (and its difficulties) need to be well publicised within the Bank.

The reviewer seconds all other recommendations in the Study but would also add the following.

- Engagement with SMEs should become a priority effort. As others have observed, this is because they offer the greatest potential for long-term innovation and growth. But an equally strong reason is that they are a natural constituency for change along European lines. In contrast to many political and institutional stakeholders (and the principals of most state-protected enterprises) they have a ‘class interest’ that coincides with the rules-based system that the EU represents, and an increasing proportion of them know it. The reviewer has found that they provide a sobering perspective on the discontinuity between official policy and realities on the ground (e.g. harassment, the callousness of bureaucracy, the indifference of higher authority, the impermanence of all rights and rules);
- Offline relationships are vital. Anecdotal information is often the most revealing and reliable. It will be helpful to cultivate relationships with Ukrainians who have been retired for good behaviour (some of them young/middle-aged *emigrés* from big enterprises and state service). They might not be able to influence policy, but have perspective about its continuities and discontinuities, will be frank as to ‘how things work’ and how to change them (e.g. Oleksandr Todichuk, former Head of *Ukrtransnafta*, ditto the Energy Club he founded). Naturally, many also will have hobby horses of their own.

8.5 Concluding note

By widening its ambit and deepening its bank of knowledge, the EBRD will find ample reasons to expand its work and promising, if hidden, constituencies who would like to support it. There are reasons to hope that these constituencies will be more visible and accessible in post-conflict and post-Yanukovich conditions. See Appendix (KSF TF 713) for the report of a task force by one such constituency, the national security establishment, chaired by the reviewer, on fundamental national priorities (April 2013—a bygone era).⁵

ENDNOTES

1 Between 1994 and 2010, a salient example of success was the Ministry of Defence and Armed Forces, whose leadership had a strong interest in change but whose institutions had inherited a sovietised command and administrative culture. By 2008, according to the in-house NATO assessment, the concept of professionalism internalised by Ukraine’s defence leadership and junior officers was approaching greater commonality with NATO officers than with Russian counterparts.

2 Thus the gaping discrepancy between Ukraine’s improved standing in the 2014 EODB Index and realities on the ground.

3 A noteworthy case—doubly noteworthy because it occurred under President Yushchenko—was the ‘resolution’ of the Russia-Ukraine gas crisis in 2006. The National Security and Defence Council and its expert staff (which even under the ‘authoritarian’ Kuchma were used as the key format for inter-departmental coordination) was completely bypassed, and a ‘back of the envelope’ resolution was

negotiated between *Gazprom* and trusted cronies of the President. The same format emerged in the gas dispute of 2008-9.

4 From a different national perspective, but for similar reasons, Arkady Dvorkovich (then Adviser to President Medvedev, now Deputy Prime Minister) frankly stated in 2009 that ‘there is no legal small business in the country’.

5 Paradoxically, this partially reflected, on the part of many architects of this transformation, their seniority in the Soviet system. Unlike Yushchenko’s circle of ‘dear friends’ and Yanukovych’s circle of cronies, these individuals understood institutions, organisation, policy-making, project management and implementation. They also established a talented ‘successor generation’, some of them now side-lined, but others in responsible positions.

6 From his previous work in government, the reviewer noted that success tended to be reinforced when neophytes in embassies were paired with experienced individuals and when the latter returned to HQ posts with similar responsibilities (e.g. from British Embassy Kyiv to Ukraine/East European sections of the FCO or MOD). Otherwise, there was a noticeable and sometimes discordant disconnect between ‘locals’ and HQ).

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