

SPECIAL STUDY

The EBRD's experience with policy dialogue in Ukraine

Case study – power & energy

May 2014

EBRD EVALUATION DEPARTMENT



European Bank
for Reconstruction and Development



The Evaluation Department (EvD) at the EBRD evaluates the performance of the Bank's completed projects and programmes relative to objectives in order to perform two critical functions: reinforcing institutional accountability for the achievement of results; and, providing objective analysis and relevant findings to inform operational choices and to improve performance over time. EvD reports directly to the Board of Directors, and is independent from the Bank's Management. Whilst EvD considers Management's views in preparing its evaluations, it makes the final decisions about the content of its reports.

This report has been prepared by EvD and is circulated under the authority of the Chief Evaluator. The views expressed herein do not necessarily reflect those of EBRD Management or its Board of Directors. Responsible members of the relevant Operations team were invited to comment on this report prior to internal publication. Any comments received will have been considered and incorporated at the discretion of EvD.

Nothing in this document shall be construed as a waiver, renunciation or modification by the [Bank] of any immunities, privileges and exemptions of the EBRD accorded under the Agreement Establishing the European Bank for Reconstruction and Development, international convention or any applicable law.

Report prepared by Keith Leonard, Senior Advisor, Olga Mrinska, Consultant, and Beatriz Perez-Timmermans, Analyst, EBRD Evaluation department.

© European Bank for Reconstruction and Development, 2014

One Exchange Square

London EC2A 2JN

United Kingdom

Web site: www.ebrd.com

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, without the written permission of the copyright holder. Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature.

Photograph received from Client company: UkrHydroEnerg

© UkrHydroEnerg

Contents

<i>Abbreviations</i>	
<i>Defined terms</i>	
<i>Executive summary</i>	
The policy problems and the results chain	7
1. Introduction	16
2. Context for policy dialogue	16
2.1 International context	
2.2 Ukrainian context – markets, governance, institutions	
2.3 The EBRD’s strategy in power and energy sector	
3. Policy process	28
3.1 Conception, planning and strategy	
3.2 Carrying out the policy dialogue	
3.3 Achieving results	
3.4 Reviewing, reporting and evaluation	
3.5 Resourcing	
4. Conclusions	36
Sources	38
Annex 1: Structure of Ukraine energy market	39
Annex 2: Timeline of policy dialogue in Power and Energy Sector (1999 to 2006).....	40

Abbreviations

EvD	Evaluation department
EBRD	European Bank for Reconstruction and Development
ENTSO-E	European Network of Transmission System Operators for Electricity
EU	European Union
EEC	European Energy Community
EIB	European Investment Bank
IFI	International financial institution
IMF	International Monetary Fund
NERC	National Energy Market Regulatory Commission

Defined terms

oblenergo	regional energy distribution company
-----------	--------------------------------------

Executive summary

In 2013 the Evaluation department (EvD), at the request of Board members and the President, conducted a study of the European Bank for Reconstruction and Development's (EBRD) experience with policy dialogue in Ukraine. An early decision was taken to adopt a case study approach as the core evaluation methodology in order to get the needed "rich picture" of qualitative information. Early consultations with EBRD policy actors identified ten possible cases of which five were selected using criteria to ensure their relevance to the Ukrainian context and other countries in which the EBRD invests. These criteria included amongst others, whether there was an international dimension beyond the interests of the EBRD and Ukraine, volume of operations and degree of outcome success so far. The area of power and energy emerged from this selection process as a key topic for a case study. This case study was prepared by the Evaluation team and then shared with the EBRD power and energy team and non-Banking departments for verification and additional input.

This case study presents an example of a policy dialogue initiative in the power and energy sector that brought about significant progress in stimulating reforms in one of the most complex, politicised and corrupt sectors of Ukraine's economy. It does not analyse the whole range of the EBRD's policy dialogue initiatives and activities that took place in this sector over the years. It instead concentrates on the limited period of time from 1999 to 2006 when significant success was achieved in creating an institutional arrangement that enabled donor co-ordination and created an effective channel of communication between the government of Ukraine, international financial institutions (IFIs) and donors.

The reason for looking so far back and at this specific period of time is because of the specific features of power and energy sector and the time it takes to make complex and politically sensitive reforms in the sphere that has strong counterbalancing forces. It was repeated many times during interviews with EBRD colleagues and local stakeholders that in this sector, unlike in any other sector of EBRD engagement in Ukraine, it takes a long time for reforms to be developed, approved and implemented. It takes even longer to feel the impact of these reforms. Many significant initiatives launched from 1998 to 1999 were finalised only recently (for example legislation on the Wholesale Energy Market approved in late 2013) or are still not completed (for example Ukraine's Energy Strategy 2030).

The case study provides some very good lessons though the relevance of these to other countries may be limited by the very specific nature of the Ukrainian context. One of the most significant lessons to highlight is that in certain sectors it is difficult to link a reform agenda to specific investment projects since their timeframes are challenging to synchronise, results are delivered with considerable delays and personalities and institutional arrangements frequently change. Also conditionality is not always effective when the gain of the reform is large but dispersed among multiple agents with no influence (for example energy consumers) while the loss is disproportionately large for a limited number of very powerful stakeholders that have strong lobbying capacity (for example oligarchic groups).

Findings

1. Policy dialogue in the Ukrainian power and energy sector delivered significant results in the early 2000s due to a combination of political will, professional competence, drive for reforms from Ukrainian side, successful institutional arrangement that provided an effective channel for communication between the government, IFIs and donors, and the readiness of

international investors to enter this previously “unbankable” sector. Experience of co-founding and co-chairing the Ukrainian Energy Sector Task Force placed the EBRD in the position of trusted advisor and investor such that the Bank’s calls for reforms were closely linked to an ability to invest significant resources to enhance the performance of the power and energy sector.

2. The EBRD has very strong reputation as trusted partner, investor, and team player able to use its unique selling points in a well-orchestrated manner along with the other important international stakeholders. All major counterparts in the country highly appreciate the level of professionalism and flexibility of the EBRD and they commended it for its ability to remain within the areas of its strongest competence and ability to contribute to reforms.
3. Assessment of the effectiveness of policy dialogue in Ukraine’s power and energy sector is focussed on the early 2000s whereas achievements in the longer-term are more mixed and at the moment the EBRD has more limitations than opportunities for working in the sector, especially in the private sector. The reality of Ukraine’s power and energy sector does not leave much space for investing in the private initiatives due to integrity concerns. The same powerful economic groups that control a significant share of Ukraine’s power and energy sector have a strong leverage on the reform agenda, pace of reforms, content of legislation and strategic priorities, senior appointments and resource allocation. The EBRD along with other IFIs and donors (especially the EU) tries to provide a counterweight to well-resourced but hidden opposition forces that stand to lose a lot from reforms aimed at making Ukraine’s power and energy sector truly competitive and transparent.
4. Analysis of the EBRD’s policy dialogue with Ukrainian authorities in the power and energy sector from 1999 to 2006 in suggests that in this sector more than any other, awareness of the political economy. Knowledge of hidden agendas and unspoken policy priorities are crucial for choosing right strategy for engagement. The combination of Ukraine’s unique geopolitical location, its importance to the European energy security system and the scale of energy intensity within its economy means that the power and energy sector is fundamental and holds the key to systemic changes in the wider economy. Not to engage in power and energy operations and policy dialogue in some shape or form due to integrity concerns is not really an option given the strategic priorities of the EBRD.
5. Harnessing the opportunity presented by reform-minded leaders has significant implications in the long-term perspective. Power and energy policy is the area where traditionally progress is not achieved quickly and fundamental reforms take five to ten years to become a reality. The EBRD’s tactics of being an opportunistic partner proved to be successful in the late 1990s and early 2000s and it the opportunity to replicate this success in the current Ukrainian context.
6. Collaboration with other IFIs and donors in the vast area of power and energy is crucial for building a critical resource base (financial and expert) and getting adequate leverage over the government’s decisions to reform. A change of strategy by just one or two major international stakeholders could significantly undermine the process of reforms or stall it altogether.
7. Only a combination of political will and high quality expertise can create the basis for structural changes and major reforms aimed at energy market liberalisation, enhancing energy security and reducing the energy intensity of national production. Mid-level

managers in the government and hired consultants play crucial role in delivering tactical tasks while committed top-level leaders (such as the Prime Minister) are pushing the reform agenda and ensure political consensus on the most challenging issues.

8. In a situation where powerful economic groups control a majority of the sector assets, political process and often decision makers in the government, it is crucial to find the areas of possible engagement that do not infringe on the Bank's integrity principles but allow it to stay tuned and engaged with the key stakeholders in the sector. Skill gaps and lack of professionals in the key decision making bodies represent considerable challenges at certain stages and could be partially compensated through engagement with the civic centres of expertise and publicly owned energy companies which have significant expertise. Joining up forces with other IFIs and donors and creating international and global platforms that exert greater pressure on the country's leadership to meet the commitments (in the same way as for example the European Energy Community has done) is another way of engagement in the period of weak political will and inadequate professional capacity of Ukrainian counterparts.
9. The EBRD's bankers working on country strategies and delivery of projects over the long period of time represent significant assets that require greater recognition. The EBRD's reputation and respect for its advice expressed so often by local counterparts and IFIs are based on personal relations and in-depth knowledge of the sector built over the years. However more support is necessary from policy teams of the Bank, or specialised international organisations for guiding the bankers in the political process and global economic realities, allowing them to concentrate on their core tasks. Policy dialogue is an integral part of bankers' responsibilities in the sectors with significant exposure to public clients. It should be better reflected in the assessment of personal performance.

The policy problems and the results chain

Policy challenges 1999-2006

- The power and energy sector of Ukraine at the time was experiencing extreme challenges related to inefficient use of energy and financial resources; lack of liquidity and massive non-payment by consumers in all major sectors; governance arrangements that did not allow generation, transmission and distribution elements of the system to function effectively and profitably;
- Due to a lack of liquidity, sector operators were not able to invest in major reconstruction and upgrade of the generation and transmission facilities, or in improvement of safety standards;
- Private ownership in the sector was almost non-existent and the small segment of the distribution market that was privatised from 1997 to 1998 functioned on the basis of non-transparent mechanisms;
- A lack of strategic vision for development of Ukraine's energy sector, imperfect legislation, a poor regulatory base with problematic enforcement; and absence of a strong independent energy market regulator;
- Strong economic power groups remain in control of most of the sector's capacities which limits the ability of the EBRD and other IFIs to engage in private sector investment projects due to integrity concerns;
- Inadequate tariffs for power and energy that are highly subsidised; high political sensitivity and popular concern on the tariff question; inability of politicians to risk their political reputation for introducing meaningful reforms that are based on transparent and market-oriented principles;
- Ukraine continues to suffer from very high energy intensity (three times greater than the European Union average) as a result of dated technologies and equipment, and low culture of energy efficiency and energy saving. It makes it highly dependent on critical imports of energy resources;
- Dependence of Ukraine's power and energy sector infrastructure on the networks created among the former USSR republics with limited integration into European energy systems that could help to diversify energy supplies flows and open new markets.

What happened

Conception, planning and strategy

Deciding to engage	<p>Initial engagement in power and energy sector policy dialogue was stimulated by preparation of a large scale project in the nuclear energy sector (K2R4), which envisaged prolonged consultations with key government agencies and market players. Though the actual project could not be implemented, at least in its initial form, the project created a platform for the EBRD to engage with the government, which enabled it to become a strong and trusted adviser for Ukrainian authorities and reliable counterpart for other international organisations and foreign governments (for example G7) working in the sector. Preparation of a Fuel Purchase Loan Facility, which was approved by the EBRD Board in 2000, expanded the range of issues discussed with the government.</p> <p>The biggest motivation for engaging in policy dialogue in the power and energy sector is to make it “bankable” – create conditions and a regulatory framework that are attractive for strategic investors, liberalise the market and make it more competitive, choice-based and strategically oriented. In 1998 fee collection represented only six per cent of the total costs of the energy sector.</p> <p>Another factor that played a significant role in policy dialogue engagement was the EBRD’s reputation in Ukraine’s nuclear safety sector which was gained through effective management of the Nuclear Safety Account and Chernobyl Shelter Fund launched by G7, IFIs and donors for assisting Ukraine in decommissioning the Chernobyl power station and enhancing its overall nuclear safety. The EBRD is a trusted advisor with a good track record of delivered policy and regulatory reforms in this area.</p>	<p>👍👍¹ (clarity about why engaging)</p>
Identifying the problems	<p>Initial problems were identified while preparing the K2R4 and Fuel Purchase Loan Facility from 1999 to 2000. However the process of problem identification jointly with the government became possible after launching a coordination mechanism in 1999. An Energy Sector Task Force was launched jointly by the government and the EBRD, which included high-level representatives of the government, including the Prime Minister and his deputies, Minister of Energy, heads of the market regulator, public companies administering generation facilities, and all key IFIs, donors and their consultants.</p> <p>Problems were also identified in the process of preparing further projects with public companies responsible for generation and transmission, and projects with the national regulator. Ukraine’s commitments in energy efficiency and climate change areas, the process of joining European Energy Community in 2010 and ENTSO-E brought about new challenges related to the need of implementing a wide range of EU’s directives and regulations in power and energy sector.</p>	<p>👍👍 (the problems facing the sector were quite self-evident; the working group helped provide an understanding of the underlying causes)</p>
Selecting and validating the policy messages	<p>At the active stage of the Energy Sector Task Force’s work the messages were developed jointly by the government and international partners, including the EBRD, that were presenting the views of potential strategic investors who wanted to see the sector open for business. A range of highly-qualified consultants and professionals, both in-house and contracted, was involved in the process to ensure the adequacy of messages from the technical and expert point of view.</p> <p>The EBRD’s messages on the one hand were driven by corporate strategy and priorities in power and energy sector, and by transition objectives. On the other hand they derived from the needs of specific investment projects that were often formulated in close coordination with other IFIs and donors. And from 1999 to 2000 in particular, the EBRD’s messages were shaped by the process of preparing K2R4 and the Fuel Purchase Loan Facility. Many conditionalities integrated in the projects were met by the government that developed and actively implemented a programme of reforms in the sector from 1999 to 2004.</p> <p>Later on the EBRD joined the efforts with the EU (and EIB) in helping Ukraine to integrate into European Energy Community and other international framework agreements and systems that were crucial for its energy security (for example</p>	<p>👍👍 (the messages need to be technically and contextually valid as well as politically aware)</p>

¹ The various elements of the policy process as reflected in the each case study are characterised as follows:

- 👎 = not or only weakly demonstrated
- 👍👎 = mixed performance
- 👍 = possible good practice
- 👍👍 = possible best practice

The word “possible” is used as practice should be guided by the context so the practices should not automatically be considered good and replicated without thinking about the context.

ENTSO-E). From 2005 onwards the EBRD's policy messages were congruent with Ukraine's commitments in the framework of Memorandum of Understanding in the energy sector signed with the EU in 2005.

Many stakeholders highly esteemed the EBRD's flexibility, ability to listen and willingness to integrate new developments into its strategy of engagement. They also recognised the limitations of the EBRD to provide financing in the sector with high integrity risks.

Clarity on results

Outputs are traditionally most clearly expressed and demonstrated across a range of initiatives and projects. Their outcomes and particularly impact in the long-term are less well articulated. In many cases impact might be evident from the conversations, assumptions made in the consecutive documents and practical steps at the next stages of the policy dialogue. But there is no systemic approach to planning those outcomes and impact in the structured manner.

Strong political forces influencing the sector, fluid institutional arrangements and frequent changes of personalities undermine clarity and this means the EBRD has to return again and again to a "base level" of negotiations with the government and agree the same results with a different group of stakeholders. The EBRD has a very good understanding of the strong influence of power groups that usually play discrete game against major reforms. However the EBRD cannot engage with those groups directly due to integrity principles and thus cannot influence them directly. Indirect influence mechanisms are used often, including engagement with the wider circles of stakeholders in private and community sectors, but it takes longer to have a desirable effect, if it is possible at all.


(expected results are clearly spelled out in terms of outputs, outcomes and impacts based on a theory of change plausibly able to address underlying problems and their causes)

Strategy and tactics

The EBRD's strategy in the power and energy sector of Ukraine did not exist in a clearly articulated form until 2010 when an Integrated Approach in Ukraine's Power Sector was approved. However even before this, the EBRD's strategy consisted of an extensive menu of past and future investment operations, technical cooperation (TC) projects and policy initiatives. It lacked, visibly at least, a comprehensive analysis of the past experience, linkages and impact that the various operations had on the policy process. It also lacked a clearly stated coherent vision of the future priorities and mechanisms for their achievement in the context of Ukrainian political realities and trends in development of Ukraine's power and energy sector. There is a clear understanding in the EBRD that the strategic approach to the sector needs to be improved while preparing the next generation Integrated Approach.

The tactics of the EBRD in the sector were more successful as these were always based on joining forces with other IFIs/donors and coordinating efforts with the government. The active period of the Task Force proved that there could be effective institutional mechanism for such coordination, if sufficient political will existed on the Ukrainian side.


(strategy and tactics must take account the political economy context even where the government is genuinely pro-reform)

Carrying out the dialogue

Main inputs provided by EBRD

- Support and co-leadership of the Energy Sector Task Force, including in-house expertise and consultants;
- Stand-alone TC projects;
- Policy dialogue in the framework of specific investment projects, especially with public sector clients, and in support of establishing a legal and regulatory base;
- Joint TC initiatives and hybrid financial initiatives that combine lending facility with grants/concessional funding (jointly with the EU other international actors);
- Ongoing daily dialogue maintained by RO staff with mid-level managers of key stakeholders.


(provision of a comprehensive set of inputs, including acting as a facilitator to bring all parties around the table)

Actors and roles

Key actors in the sector are listed in Table 5. The Power and Energy Utilities team of the EBRD is the key actor in this sector. It performs multiple roles – from advocate and expert to decision maker and interested party (which does reveal some potential for conflict of interest). The Power and Energy Utilities team continuity ensures high level of expertise and local knowledge that adds value to the EBRD's advice and contributes to building mutual trust over considerable period of time. The EBRD's Board plays crucial role as decision maker for various investment projects and large TC projects/investment facilities. The EBRD's Energy Efficiency and Climate Change team, the Office of the Chief Economist and the Legal Transition team play important roles of


(multiple actors with strong political will that established effective institutional coordination mechanism at the time of

	<p>advisers and experts in specific initiatives and activities.</p> <p>The Ukraine government is the key decision maker and interested party, albeit a challenging one. In the years which are analysed in this case study there was a strong political will and prompt decisions that resulted in a significantly improved legal and regulatory framework and stronger institutional capacity. Later on this political will expired and the brain-drain in key government agencies resulted in less effective actions and protracted decisions by the government.</p> <p>IFIs and donors, especially the G7 governments, the World Bank, the IMF, the EU, the EIB and others – traditionally played important roles as decision makers (in provision of financial support), advisers, advocates, and interested parties who invest in the sector.</p> <p>Ukrainian powerful economic groups are highly interested parties that directly or more often indirectly influence strategic directions of the sector, decision making, implementation and resource allocation. Effective counteractions are required for neutralising some negative impacts these groups have on the most critical elements of the sector.</p> <p>Though less important at the time of the case study timeframe, Ukrainian civil society organisations and pressure groups are now gaining more influence in the energy sector. Sector associations are often used by business groups to promote their interests. Genuine pressure groups, often with environmental objectives, are closely following the work of the EBRD in the sector and often protest against its methods, the nature of investments and what they perceive as a lack of transparency in the Bank’s decision-making. Energy safety and safety of the nuclear sector of Ukraine are especially important areas of their activities. The EBRD has limited exposure to those organisations and for the moment has no strategy for systemic engagement with civil society organisations active in the sector, something which should be improved in the future.</p>	<p>critical reforms; EBRD should now broaden its base for policy dialogue through reaching out to CSOs)</p>
Actions	<p>Detailed actions during the period from 1999 to 2006 are described in Annex 2 of this case study report. They included extensive consultations with the government and public sector companies, IFIs and donors working in the sector, development of joint financial instruments, providing advice and technical cooperation in the policy reform process, both stand-alone and integrated into the investment operations. Initiating and leading a major institutional coordination mechanism in the sector was one of the most crucial steps performed by the Bank. Development and approval of a range of investment operations, as well as conditions for disbursement of funds, was coordinated with the policy dialogue process which usually included several international partners.</p> <p>The current focus of the Power and Energy Utilities team includes corporatisation of energy generation companies, and Ukrenergo (energy transmission operator); reform of the wholesale market; Ukraine’s integration into ENTSO-E; meeting its obligations in the framework of European Energy Community; and further tariff reforms.</p>	<p>👍👍 (a comprehensive set of actions that plausibly will produce the desired results)</p>
Coordinating	<p>The Energy Sector Task Force is one of the best cases of an institutionalised coordination mechanism that brought together all important decision makers in the sector: government, regulator, state controlled companies, IFIs and donors. Joint leadership of the groups by the Ukrainian government and the EBRD over long period of time, strict formal arrangements on reporting, monitoring, discussing and recording emerging issues ensured consistency of actions and their high impact on the situation of the power and energy sector. Acknowledging the existence of specific problems helped to pull together Ukrainian and international expertise in the format of working groups that delivered concrete results and proposals.</p> <p>Coordination was successful beyond the framework of the Task Force when delivering specific policy initiatives that were contributing to meeting Ukraine’s obligations in the framework of international agreements.</p> <p>Internal coordination between the Power and Energy Utilities team and Energy Efficiency and Climate Change team, the Office of the Chief Economist and the Legal Transition team could be improved. Some improvements are needed in joining forces with policy experts while planning and delivering complex investment projects in the fluid political context of Ukraine.</p>	<p>👍👍 (joining with others to speak with a single voice, better coordination on the government side needed)</p>
Flexibility and reacting to	<p>The EBRD’s efforts in the sector are highly regarded by local stakeholders because of the Bank’s flexibility and ability to react relatively quickly to changes</p>	<p>👍</p>

events	<p>in the environment and context. This is particularly important in the power and energy sector as the situation has been very fluid over the last 15 years during which time the EBRD experienced prolonged periods of one-way dialogue when there was no commitment and political will by the government to tackle problems in a meaningful way. On the other hand, the EBRD is constrained in terms of who it can talk to by its corporate priorities and principles of engagement which rule out large segments of Ukraine's power and energy sector due to integrity concerns.</p> <p>This combination of rigidity and flexibility created quite a specific profile of the EBRD's activities in Ukraine which is very much skewed towards the public sector and multiple investment projects with the same clients in the public sector. While there are clear limits on the opportunities for attractive private sector projects, this reality does allow the Bank to integrate policy conditions into its projects for public sector clients (investment and TC) aimed at enhancing the overall legal and regulatory framework, which in the future might create more opportunities for private investments.</p>	(speed of reaction, willingness to try new ideas, staying informed and being prepared to remain engaged over the long term are important given the very fluid policy and legal environment in Ukraine)
---------------	--	--

Results achieved

Outputs and outcomes	<p><u>Outputs</u></p> <ul style="list-style-type: none"> • A number of laws and regulatory acts have been approved and are in the process of implementation, in particular in the areas of the wholesale electricity market, tariff regulations, unbundling of generation, transmission and distribution stages of the energy cycle, payment discipline and removal of barter schemes on electricity market; privatisation of distribution companies, ongoing work in the energy efficiency and renewable energy; • The national Energy Market Regulatory Commission (NERC), gained more autonomy and improved its capacity; • Six oblenergoes (regional distribution companies) were privatised in 2001 on the basis of new system of transparent criteria and clear conditions, which resulted in foreign strategic investors entering the market; • Further stages of privatisation of oblenergoes took distribution largely away from public sector, though there are integrity concerns with regard to current owners; <p><u>Outcomes</u></p> <ul style="list-style-type: none"> • Clear payment policy standards and enforcement procedures delivered 100 per cent payment rates by the end of 2001 in the sector which for years was suffering from lack of liquidity; • The National Energy Regulatory Commission's capacity is improved and its ability to develop and implement independent policy in electricity market regulation is significantly enhanced, though it requires further improvements and support in implementation; • Good partnership relations established with key government agencies and parliament. Further policy dialogue initiatives on important regulatory and legal changes are possible on the condition that core ministries and agencies reinstate the level of professionalism and commitment that was lost in the beginning of 2010; • Track record of well-functioning institutional mechanism that can deliver effective coordination of efforts by the government and IFIs/donors working in the sector; good model for potential replication of the dialogue when legal and regulatory changes are happening in parallel with the preparation of large-scale investment projects aimed at rejuvenating Ukraine's power and energy sector and integrating it into European energy system; • Increased energy security and safety due to significant investments in generation and transmission capacities; • Gradual reduction in conventional energy consumption, especially from imported sources, due to enhanced energy efficiency in generation and transmission of the energy. 	
Supporting policy adoption and implementation	<p>In the wide range of initiatives and TC projects provided by the EBRD over the years in power and energy sector, including during the time of activities of the task force operation, there was a significant proportion of policy advice and support for implementation. This is particularly true for activities with the regulator and public energy companies that are responsible for sector regulations.</p> <p>However, implementation generally remains weak across the sector and the enforcement of legislation and regulation is poor (this is not a unique problem to</p>	<p>👉</p> <p>(Consistent and long-term dialogue with some key agencies is</p>

the power and energy sector but it is very prominent in the sector). One of the major causal factors of this is the low capacity of the key ministry to develop and implement high quality policies, including a lack of expertise, and ongoing politically-motivated reshuffles that do not bring true experts to the middle and top levels of management. This is a challenge that is outside of the EBRD's ability to influence so it can only "wait and see" and continue engaging with those few experts that are working in other institutions of the power and energy sector. In Ukraine's power and energy sector it might take up to ten years to get approval of crucial legislation or a strategic framework and even longer to get effective implementation. Frequent amendments, even reversals, are stalling the process or levelling-off the positive effect from the advice and support provided by the EBRD and other internationals. Disillusionment forces some IFIs/ donors to withdraw or limit their support thus increasing the fragility of consensus and resource base that is largely formed from grants and loans provided by international stakeholders. Consistency and patience that was demonstrated by the EBRD over the years might pay off in the long-term perspective. Ukrainian stakeholders are very positive about the fact that the EBRD was staying engaged in the sector even in the most difficult times. This can only enhance the chances that the Bank will play a crucial role in any future "active phase" of reform. That said, the significant influence of politics on energy policy makes any predictions very open to uncertainty.

often necessary to bring about change and further engagement in implementation is often necessary for sustainability)

Evidence of learning

Learning is present in policy dialogue in the sector through the continuity of staff who have witnessed the multiple ups and downs of the policy engagement process and can adequately assess the level of support, resources and role needed from the EBRD given the specific combination of the political will, ability to implement reforms, expert capacity and counteracting forces in the private sector.



(previous experience is integrated in the design of new operations and initiatives but more visible capturing of learning and greater engagement with a wider group of stakeholders would add value)

There is broad agreement that experience of Energy Sector Task Force was very successful and the EBRD's leadership in the process of its work was critical. Replication is possible in a situation of a similar level of political will and commitment by the senior leadership. However what is missing is the detailed analysis of the past experience, demonstration of the positive effect a joined-up approach could bring to the entire sector, and the power of a coordination mechanism between independent and committed Government and international players, that can counteract powerful economic groups.

Learning is crucial for multiple operations with the same clients or beneficiaries (usually public companies or government agencies) and over the years the EBRD managed to design the next stages of support/funding in a way that effectively took account of past achievements and challenges. There is a degree of misunderstanding from stakeholders that are "further away" from the epicentre of engagement as to the necessity of such continuous engagement and approval of multiple projects to the same stakeholders. However, the nature of power and energy sector reforms and the complexity of the policy process in Ukraine requires long-term engagement and ability to invest in the policy dialogue upfront in order to harness investment opportunities in five or even ten years' time. To reverse such scepticism bankers need to invest more time and effort (possibly with the support from the Office of the Chief Economist) in developing a set of illustrations from the past experience that confirm the need for long-term engagement for achieving sustainable transition effect.

Reviewing, monitoring, reporting and evaluation

Reviewing

Review of policy dialogue was taking place as part of the process of the Task Force operations over a five to six year period. Detailed minutes of meetings provided confirmation of actions and initiatives, allowing decisions to be taken that are congruent with the strategic priorities of the Task Force and the sector in general.



(periodic review of policy dialogue is essential, even during time when the context is unfavourable, to verify that the approach and tactics are appropriate to the

The low key dialogue in the years when there was no intensive direct dialogue with the government authorities needs better visibility as maintaining good working relationships with the core stakeholders ensures that the EBRD stays "in the loop", and that the Bank acknowledges the importance of the reforms in the power and energy sector and its readiness to invest and engage in the dialogue when the demand for reforms and political will are right and clearly expressed.

<p>Monitoring</p>	<p>In common with other cases, the evaluation did not find any evidence of formal monitoring of policy dialogue, particularly in terms of monitoring progress against a hierarchy of expected outputs, outcomes and impacts that are linked together based on a set of cause and effect relationships or theory of change.</p> <p>Formal monitoring should take place regularly in order to assess the changing context and emerging risks for policy reforms.</p> <p>Monitoring should be better integrated into the planning and implementation cycles of country strategies, integrated approach documents, complex investment and TC projects. Its results should provide information on the progress in the policy dialogue process, including early warnings about emerging risks or new windows of opportunity for policy reforms.</p>	<p>circumstances)</p> <p></p> <p>(structured monitoring of progress pays big dividends in terms of improved management of the policy process and enhanced ability to tell the story of progress and challenges)</p>
<p>Reporting</p>	<p>Reporting in the framework of individual investment and TC projects is satisfactory for capturing the effectiveness of inputs against outputs, however there is no evidence of analysis of outcomes and impact various EBRD initiatives have on the sector and wider economy.</p> <p>Multiple projects with the same clients in public sector often have similar conditionalities and terms. There needs to be a better approach to explaining to the wider public and pressure groups the reasons for disbursing large amounts of investments when clients have not met all requirements in the framework of past investment projects. There is a need for a better public communication strategy to capture the concerns and deliver the EBRD's core message of importance to support strategic energy facilities in Ukraine for the energy security reasons that go beyond national context.</p>	<p> </p> <p>(reporting should cover all levels of results so that the broader strategic purpose of the policy dialogue is not lost sight of, and learning is formally captured, communication about results is important)</p>
<p>Evaluation</p>	<p>Despite a significant history of engagement there was no systemic evaluation of the impact of the policy dialogue initiatives and significant amount of TC provided in Ukraine's power and energy sector over the years. Evaluation is needed for assessing the effectiveness of the EBRD's approach in the past and for designing a strategy for deploying resources (in-house and contracted) in the future as more systemic reforms and investments are needed in the sector for it to achieve profitability and European standards of energy security.</p> <p>No policy dialogue initiative studied by the evaluation made any provision for independent evaluation or external review. Given the complexity of most policy dialogue initiatives, their frequently long duration, the "tunnel vision" that can develop through close involvement of a long period, and the importance of learning, periodic evaluation can add significant value and should be provided for.</p>	<p></p> <p>(independent evaluation of policy dialogue initiatives should be built in the country strategy planning and implementation cycle, Integrated Approach documents and significant policy initiatives)</p>

Resourcing and rewards

<p>Sufficiency of resources and skills available</p>	<p>Over the years the EBRD invested significant resources in TC projects and policy dialogue in Ukraine's power and energy sector – significantly more than in other countries or sectors. Between 2007 and 2013 the EBRD disbursed €22 million for TC in the sector.</p> <p>There is a team of highly qualified and experienced power and energy bankers who have been working in the country for around 15 years. This is a valuable EBRD resource of unique institutional memory and experience. The reputation of the Bank is in no small part based on the reputation and expertise its staff over the many years of engagement with Ukrainian stakeholders. The bankers require more support from the policy experts (especially economists) who should ensure that long-term political economy factors are taken into account while developing policy dialogue initiatives. Such support might be especially needed in the periods of low level engagement when there is no active dialogue phase with the</p>	<p> </p> <p>(diversified sources of funding and very strong skill base with good knowledge of local context, analytical and political economy skills needed)</p>
---	---	--

government officials but the conversation needs to be maintained for the sake of long-term transition objectives and accumulating relevant proposals and initiatives for when the time is right and the window of opportunity for real reforms emerges.

**Incentives
and rewards**

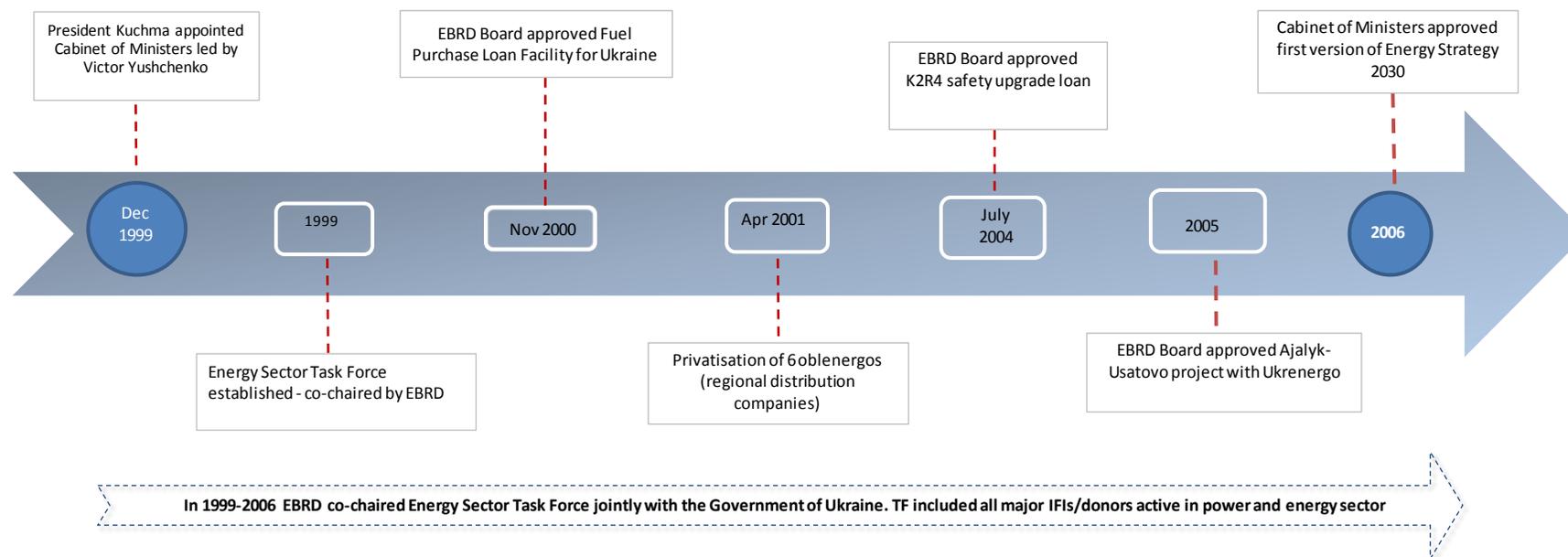
Bankers are insufficiently recognised for their contribution to the policy dialogue. As in other sectors there are few financial incentives and rewards for performing well in policy dialogue, as most of the performance reward is based on delivering investment objectives.

A large proportion of bankers' time might be spent on the policy dialogue that does not deliver investment outcomes for three to five years. Motivation needs to be enhanced to ensure that EBRD staff is able to deliver high quality results not only in the short-term but also in the long-term.



(visibility of policy dialogue work is important for the purposes of recognition and reward, learning and independent review)

Summary timeline



1. Introduction

The power and energy sector is one of the most crucial areas of the EBRD's work in Ukraine with a long history of policy dialogue and transactions. As of March 2014, 24 per cent of the entire EBRD portfolio in Ukraine was in the power and energy sector. The EBRD along with the World Bank (the World Bank), European Investment Bank (EIB), European Commission, other IFIs and donors provides some of the crucial support and investments that contribute towards energy security and stability in Ukraine, modernisation of its power and energy infrastructure, reforms in legislation and regulations, corporate management culture and governance, strategic planning and reorientation towards alternative energy sources. Power and energy is also one of the crucial sectors of Ukraine's national economy as the country consumes significant amounts of energy for its own needs and for producing goods for export. Ukraine is one of the most energy intensive economies in the world and requires transformation and reform to reverse this negative trend and to decrease its dependency on energy import which is one of the challenges of national security. These are the reasons why power and energy sector was selected as one of the case studies for this evaluation.

The modest resources of current evaluation do not allow for the complex analysis of the whole policy area, as it is vast and complex, and the EBRD's engagement spans for almost two decades. Moreover there are other evaluations which look specifically at the effectiveness of the EBRD's operations in this sector, also in Ukraine.²

That is why this specific case is focusing on a limited period of time in the past from 1999 to the mid-2000s, when intensive multilateral policy dialogue between Ukrainian authorities and international stakeholders, co-ordinated by the EBRD, brought about crucial changes and created a foundation for further reforms in the sector. We are particularly interested in institutional arrangements and the donor co-ordination mechanism that enabled creation of the effective forum of high-level officials, donors, IFIs and experts who made crucial decisions in the sector and followed up their implementation.

Our analysis is based on a modest volume of evidence, which includes project documents, EBRD strategic documents and communications, interviews with EBRD staff and Ukrainian officials that were engaged in the policy dialogue at a time. EvD's team had no opportunity to meet with the representatives of a key government agency – Ministry of Energy and Coal Industry – due to objective reasons, though it had a chance to talk to other government sources with long-term history of engagement in policy dialogue with the EBRD.

2. Context for policy dialogue

As mentioned above, the power and energy sector power and energy sector is an extremely important sphere of Ukraine's national economy. It has great potential for reforms and for generating energy and financial savings that could increase not only effectiveness of this sector but competitiveness of the entire economy. It makes the sector particularly attractive for international initiatives and large-scale investment projects, including those by IFIs. This is also a sector which is deeply integrated into international markets, especially European, as Ukraine is an integral member of the continental system of energy security. This

² See for example the EBRD Evaluation department's Power and Energy Sector Review 2011 with special case dedicated to Ukraine

role is even more important today as it was in the 1990s when structural reforms in the sector kicked off with the support from IFIs and international organisations.

To comprehend the scale of the challenges, progress in reforms up to date and prospects for future activities, also in the light of the EBRD's engagement in the country, it is important to consider the context in which the sector activities are performed. There are three crucial elements:

- i) International context
- ii) Ukrainian context – markets, governance and institutions;
- iii) EBRD strategy and tactics in the area.

2.1 International context

Ukraine is closely integrated within international structures that are aimed at strengthening energy security and enhancing competitiveness of economies via more efficient and safe use of energy. In the separate case study we analyse in detail all aspects related to Ukraine's commitments and actions in the spheres of energy efficiency, climate change and renewable energy. That is why in this case study we will consider more "conventional" aspects of the sector's development and its international aspects.³

Ukraine's location and Soviet legacy determines the specifics of its power and energy sector which is critically dependent on east-west movement of energy sources, spatial arrangement of energy generation capacities and transmission lines, distribution companies, infrastructure for end users and tariff systems. For the first several years of independence Ukraine was dealing with challenging tasks of establishing its own autonomous energy system, which gradually became less dependent on former Soviet republics and more integrated with the European energy systems. Nuclear safety was traditionally significant element in Ukrainian energy policy due to the consequences of Chernobyl catastrophe in 1986, ageing of other nuclear reactors and the need to enhance their safety and extent lifecycle for safe decommissioning. Ukraine is closely integrated into international nuclear safety structures and platforms and is one of the biggest recipients of international assistance, technical and financial, launched by G7 countries with support from a number of IFIs and managed by the EBRD. This case study does not consider in any detail the nuclear sector of Ukraine's power and energy sector.

February 2010 became a milestone in the history of Ukraine's power and energy sector – Ukraine became a member of the European Energy Community. This step was crucial for Ukraine's integration into continental energy security system and stimulated launch of complex and challenging reforms in the spheres of energy generation, transmission, distribution, energy use, safety, energy efficiency and environmental impact. Over the last three years Ukraine was making some progress, albeit slow, in energy sector reform, including complying with a number of EU Directives in the energy sector. Ukraine's legal, regulatory and institutional frameworks have to become congruent with the European standards. Specific measures should be implemented to: improve the efficiency of energy use; introduce higher standards of sustainability, safety and diversity; and increase the growth of energy from renewable sources in the total energy production of Ukraine (up to 10 per cent by 2020).

It should be noted that the western segment of Ukraine's energy distribution network is integrated into ENTSO-E (European Network of Transmission System Operators for Electricity) and there are plans for further integration of other elements of the system after substantial upgrades of distribution infrastructure, which are being funded by a number of IFIs.

³ See Case Study Report ["The EBRD's Experience with Policy Dialogue in Ukraine: Energy Efficiency"](#)

2.2 Ukrainian context – markets, governance, institutions⁴

2.2.1 Markets

The power and energy sector of Ukraine has undergone significant changes since the collapse of the Soviet Union including creation of a national self-sufficient system of generation, transmission and distribution of energy from scratch. Up until the mid-1990s Ukraine's energy sector was in a very difficult situation with lack of financial resources and fuel leading to regular blackouts that had negative consequences for country's economy and energy security. The process of reforms was painful and finally led to unbundling of capacities in these three components, establishment of independent regulator, improvements in pay collections through eliminating barter schemes, debt restructuring and privatisation of some regional energy companies (*oblenergo*). In parallel, a significant stream of reforms was ongoing in the nuclear sector with specific emphasis on enhancing its safety and managing the grave consequences of the 1986 Chernobyl catastrophe. These reforms were performed in close collaboration with international organisations, IFIs, foreign government agencies and donors.

Today Ukraine's power and energy sector is one of the most significant elements of its resource and energy intensive national economy. It provides a large share of its gross production (a quarter of all industrial production is in power and energy sector) and foreign trade (in 2013, 29 per cent of all imports to Ukraine were mineral products, and gas import alone accounted for 15 per cent of total imports). Overall energy intensity of domestic production is three times higher than EU average and consequently requires significant volumes of energy resources. Ukraine spends five to six per cent of its GDP on gas, and 80 per cent of all energy resources are imported. At the same time Ukraine has huge potential for increasing the share of local energy and heat production, especially from renewable energy sources. For example in 2013 Ukraine doubled its production of electricity from renewable energy sources up to 0.64 per cent of total production output.⁵

From 1990, Ukraine significantly reduced its consumption of energy resources due to a severe systemic crisis and reduction in industrial production, and recently through modernisation of industrial capacities and some communal infrastructure. Ukraine's primary energy consumption per capita dropped from 4.7 toe per capita in 1992 to 2.9 toe per capita in 2012. Ukraine has reduced its electricity consumption in average by 1.5 per cent a year since 2000. Reduction in natural gas consumption from 1990 to 1998 reached 40 per cent and after some stabilisation period since 2005 it is decreasing in average by five per cent annually. Ukraine also reduced its oil consumption six-fold from 1990 to 2000.⁶

Despite this positive dynamic much still needs to be done as Ukraine remains one of the largest consumers of energy resources per capita. Greenhouse gas emissions are also high despite a significant drop from the base level of 1990 (by more than half). Ukraine GDP emission intensity is three times higher than average level of European members of OECD.⁷

Graph 1 illustrates the structure of energy generation in Ukraine in 2012 and 2013 relative to the structure of incomes from generation. State-owned nuclear generation facilities along with mostly privatised thermal generation facilities are two key sources of energy and provide 44.27 per cent and 40.34 per cent of total generated energy respectively. The role of renewable sources is increasing, also in the structure of

⁴ We do not analyse in detail components of the sector related to energy efficiency, climate change and renewables as it is presented in another case of this evaluation (Energy Efficiency Case report); neither do we analyse nuclear safety aspects or natural resources (gas) sub-sector where EBRD is active over considerable length of time.

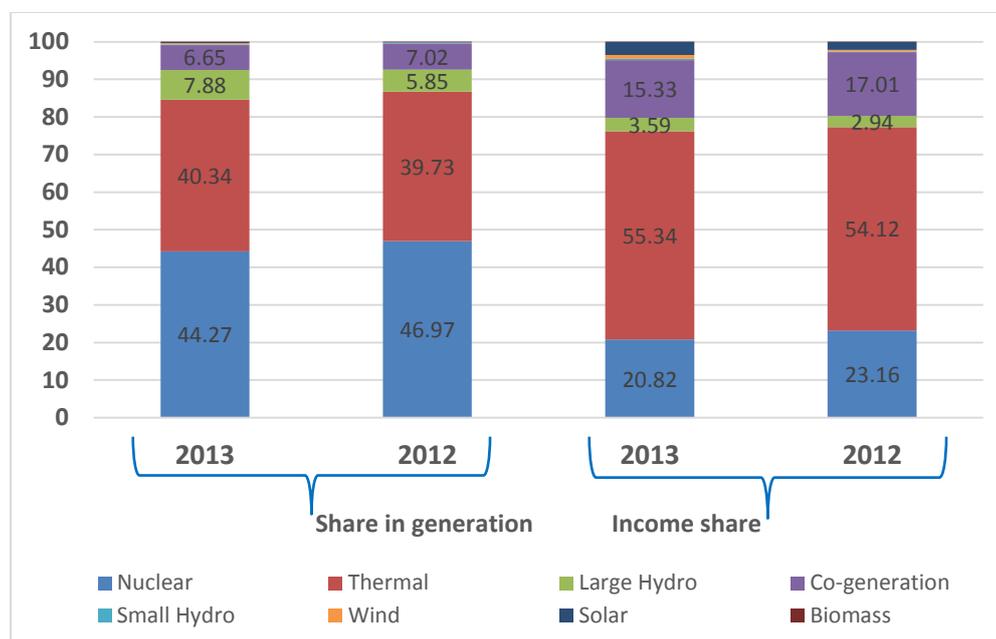
⁵ Ministry of Energy and Coal Industry data

⁶ Data from <https://estore.enerdata.net/ukraine-energy.html>

⁷ The Demand for Greenhouse Gas Emissions Reduction Investments: An investors' Marginal Abatement Cost Curve for Ukraine (2012) Report by NERA/Bloomberg/Global Carbon for EBRD

income due to high rates of green energy tariffs, particularly for solar energy (its share in incomes in 2013 reached 3.5 per cent of total, which is ten times higher than its share in production output).

Figure 1 Structure of energy generation in Ukraine by type, 2012-2013 (per cent)



It's evident that the income share of major energy sources does not correspond to the output structure due to the differences in tariffs. According to NERC the tariffs for different types of electricity produced in Ukraine as of December 2013 were as following:

Table 1 Tariffs for various types of energy generated in Ukraine

Traditional	Renewable (average tariff 1.9 UAH)
Nuclear – 0.22 UAH	Small hydro – 1.2 UAH
Thermal (coal, gas, oil) – 0.62 UAH	Wind – 1.2 UAH
Large hydro – 0.22 UAH	Solar – 4.98 UAH
	Biomass – 1.34 UAH
	Cogeneration – 1 UAH

Source: NERC, 2014

The current system of tariffs in Ukraine though it follows international best practice (with for example higher green tariffs) is dependent on the political situation and is influenced by powerful economic groups. Large difference in tariffs between state-owned large hydropower and nuclear power stations⁸ compared to private thermal power stations could be explained not as much by cost-benefit analysis but by the lobbying power of major Ukrainian corporations that own 80 per cent of thermal generation facilities. Likewise extremely high tariffs for solar energy is the result of strong lobbying activity by economic group that until recently held a monopoly over the market.

Ukraine's power and energy sector is among the sectors of the Ukrainian economy with the highest concentration of oligarchic groups that own a significant share of generation and distribution capacities (transmission company Ukrenergo, the EBRD's client since 2005, remains in state ownership). They also

⁸ Currently tariffs for nuclear and large hydropower electricity do not take into account resources necessary for investments, safety upgrade and decommission, thus they are not reimbursing total costs and preclude state-owned generation capacities from becoming profitable.

have direct or indirect leverage over government decisions (through appointments), parliament and often professional associations/lobby groups. Possessing significant financial resources these groups can influence legislation and regulations in a way that benefits their companies or creates conditions for acquiring new assets and capacities at below market price.

Due to strict integrity principles that define the EBRD's decision to engage in a particular sector or deal with a concrete company, the Bank cannot take part in investment projects jointly with the companies that are owned, even partially, by Ukrainian oligarchic groups. It significantly restricts investment opportunities in the private generation sector (apart from smaller-scale renewable energy generation projects) and distribution sector, which is highly commercialised and controlled by the same oligarchic groups. Therefore since the mid-2000s the EBRD has mainly invested in public sector projects and most of its operations in Ukraine's power and energy sector are sovereign guaranteed. This makes policy dialogue a more important and prominent component of investment operations as engagement with public clients provides opportunities for introducing direct conditionality where requirements for legal and regulatory reforms and changes in corporate structures are conditions for release of investments. In many large-scale public sector projects the EBRD has partners among other IFIs and donors, in particular the World Bank, EIB and Energy Community.

Tariff regulation remains one of the crucial areas of reform and subject of intensive policy dialogue with international organisations and IFIs. Current consumer energy tariffs prohibit creation of a fully competitive energy market attractive for international private investors without strong political lobbying power. If tariffs for the corporate sector are comparable to those in the EU,⁹ retail tariffs for population are highly subsidised and cover only 60 per cent of the total cost.

Despite tariffs being heavily subsidised they are still considerable relative to the level of incomes of Ukrainians. For most people the share of energy and fuel constitutes a considerable share of household budget (according to texty.org.ua, 45 per cent of the minimum wage in Ukraine is spent on communal services that include electricity, heating, water and maintenance services) and is anything but cheap.

Among the challenges related to generation, transmission and distribution of energy in Ukraine are:¹⁰

- Extreme depreciation of equipment and technologies of many core facilities, especially coal-fired units (up to 80 per cent);
- Wear-down of power lines and transformer lines;
- Need for comprehensive upgrade of safety for most of Ukraine's nuclear units, large hydropower units;
- Lack of investment resources for upgrades, mostly caused by irrational tariff policies, ineffective corporate structures, strong role of vested interests;
- Incomplete liberalisation and partial reforms in the sector;
- Inconsistency in decision making and implementation, low level of professionalism and capacity of core government agencies, frequent reshuffles of high and mid-level management.

2.2.2 Governance

The scheme in Annex 1 presents the Ukraine's energy market system and its key stakeholders.

⁹ Industrial companies are paying 1.03 UAH/Kilowatt hours which is compatible with 1.02 UAH/Kilowatt hours in the EU for mid-scale industrial companies.

¹⁰ The EBRD's energy strategy for Ukraine

Overall the power and energy sector institutional structure and governance system is extensive and fragmented. The key government agency that is responsible for this sector is the Ministry of Energy and Coal Industry which over the years went through multiple transformations, changes of leadership and expert teams. There are government agencies that are managing generation capacities in specific sectors that are in state ownership (for example Energoatom and Ukrhydroenergo, four thermal generation companies significant shares of which are owned by private sector), transmission infrastructure (Ukrenergo), independent regulator NERC, and regulators in specific sectors (for example the State Inspection of Nuclear Energy Regulation). There is a whole separate block of government agencies responsible for energy efficiency and climate change, some of them are subordinated to other ministries and do not have direct links with the Ministry of Energy and Coal Industry. Co-ordination links among all those agencies are very weak and there is no single co-ordination platform for decision making at the level of the Cabinet of Ministers.

Despite this fragmentation the core responsibilities for the power and energy sector policies are placed on the Ministry of Energy and Coal Industry. The evaluation team had no opportunity to meet with the current management of the Ministry¹¹ however we met several former high-level officials (deputy ministers) with a good understanding of the sector and high technical skills. They, along with EBRD colleagues and representatives of other IFIs and donors, agreed that currently the level of professionalism and expertise in the Ministry is very low and that most staff members, including top-level officials, do not have the relevant background for managing such a sophisticated and technical sphere. Frequent reshuffles that affect even the heads of ministry departments are disruptive for normal process of decision making, policy implementation, monitoring and evaluation.

The structure of Ukraine's energy market and its key institutions is presented in Annex 1 of this report.

2.2.3 *Strategy and legislation*

Ukraine still does not have an approved energy strategy – a core framework document that determines strategic long-term directions of development of the power and energy sector. A first text of the strategy was developed back in 2001 and was being partially implemented up until 2004. Since then the document underwent significant changes, grew in size and in the number of priorities. The latest version of the draft Energy Strategy 2030 was prepared in the middle of 2013 and IFIs, other international organisations and the non-governmental sector provided their comments to the document. The major concerns were related to the multitude of priorities that will be difficult to follow in an environment of constrained resources, strong orientation on conventional energy resources, weak role of the renewable sector and energy efficiency measures.

As mentioned before, Ukraine made significant progress in many areas of power and energy legislation and regulation in the first half of the decade beginning in the year 2000. They were mainly in the areas of addressing the liquidity problems, debt restructuring, unbundling generation, transmission and distribution capacities, tariff regulation, increased autonomy of regulator, safety, privatisation of some segments of the sector, albeit with limited transparency, especially at the later stages.

Not so significant was progress in developing legislation for the wholesale energy market that would enable direct contracts between the producers and consumers – it took more than 15 years to develop and approve the law (which came into force at the beginning of 2014). Consistent lobbying of powerful economic groups skewed some provisions of the law in favour of specific segments of the energy market

¹¹ As of February 2014

at the expense of others. Further amendments are to be expected soon. Currently legal and regulatory work is concentrated on:

- further liberalisation of the energy market,
- full cost recovery through increased tariffs,
- investments in renewable energy sources and generation capacities that are less dependent on imported fuels and
- further enhancement of the autonomy of market regulator.

The EBRD makes significant contribution to the legal process, especially in the components of tariff regulations, transmission infrastructure and renewable energy.

2.3 The EBRD's strategy in power and energy sector

As noted above, despite the EBRD's strategic focus on supporting the private sector in its countries of operation, in Ukraine's power and energy sector the opportunities for working with a sound and uncompromised private sector are very few. That is why most of the EBRD's operations in the country until recently were with public sector clients under sovereign guarantee. This makes the Ukrainian example very distinctive from other countries in the region and the EBRD's experience of engagement in policy dialogue not quite suitable for replication elsewhere. However it is useful for planning further actions in Ukraine, analysis of available expertise in the EBRD (quality and quantity) that is crucial for developing and maintaining relationships in a challenging environment such as Ukraine. This case is also a useful illustration for the Bank of the need to having persistent long-term policy dialogue, sometimes in "latent" form, often without short-term policy gains or investment gains. The timeframe of such dialogue is often non-congruent with the timeframes of investment operations. However its outcomes, when finally achieved, have a deep systemic effect for the sector and often for the whole national economy.

For the EBRD, the power and energy sector is one of the systemic areas of engagement where transition impact has a wide and complex effect on the entire economy, its competitiveness and energy efficiency. In Ukraine's portfolio share of power and energy sector is 24 per cent (as of March 2014), however its activities related to energy efficiency and climate change are spreading across other sectors, in particular industry, agriculture, municipal infrastructure and transport, and the SBS programme.

Until 2010 the EBRD had no strategic document that would articulate the Bank's complex approach to addressing challenges in Ukraine's power and energy sector and outline core priorities for investment operations, technical co-operation and policy dialogue. Intensive work in the sector was launched in 1998 when Ukraine was going through painful but not very effective transformations related to formation of energy security system. At the time the EBRD's priorities were identified in Bank-wide strategies,¹² country strategies and complex financial initiatives and projects with public sector clients that envisaged a significant reform agenda. A brief outline of the EBRD's priorities in the power and energy sector in various country strategies from 1997 till now is presented in Table 2 below.

¹² The EBRD approved its recent Energy Strategy in December 2013 and previously in 2006,

Table 2 The EBRD's priorities in Ukraine's power and energy sector, 1997-2014¹³

Period	Investments and TC projects	Policy dialogue
1997-2001 (with updates)	<ul style="list-style-type: none"> • Renovation of the thermal power generation capacity that supports the programme for closure of the Chernobyl nuclear power plant agreed under the Memorandum of Understanding; • Strengthening the gas metering capacity to improve cost recovery and lead to energy conservation and efficiency; • District heating projects, including the refurbishment of the heat generation, distribution and control systems for end-users; • Creation of companies providing energy services to clients in the public and private sector (ESCOs - Energy Service Companies); • Financing for energy-saving programmes for a few financially viable large state-owned companies; • Examining the feasibility of a demand-side management programme to improve energy efficiency at customers' facilities. 	<p>Development, approval and implementation of legislation in the sphere of financial liquidity of the sector, full cost recovery, restructuring of consumers' debts, ban of barter operations, preparation of regional distribution companies for privatisation, creation of autonomous national regulator, establishing clear and transparent tariff system – all components that are aimed at increasing the investment attractiveness of power and energy sector. Since 1999 a significant proportion of policy dialogue was performed through the Energy Sector Task Force which was co-chaired by the EBRD.</p>
2002-2006	<ul style="list-style-type: none"> • Projects that promote privatisation, sector reform and energy efficiency; Post-privatisation support and efficiency improvements, in particular for two power distribution companies that were privatised in 2001; Private investment and better environmental performance; • Grid rehabilitation, incl. financing various improvements to efficiency at the transmission level, including competitive aspects of the market. 	<p>The EBRD continued to co-chair an Energy Sector Task Force jointly with the Government. All major donors and IFIs that are working in power and energy sector are participating in TF activities and condition their support for the sector (via loans or grants) on the realisation of key recommendations that emerge from Task Force discussions.</p>
2007-2010	<ul style="list-style-type: none"> • Enlarge investments in energy efficiency across industrial sectors; • Provide implementation support to energy efficiency projects – in particular energy management training – to ensure that investments do take place and facilitate the transfer of skills to enhance the sustainability of activities; • Finance small and medium energy efficiency and renewable energy projects via local banks with dedicated credit lines; • Work with institutions in the financial sector to develop and implement mechanisms to finance energy efficiency in the residential sector, including use of technical assistance and grant co-financing; encourage the government to restart the privatisation process and stand ready to provide pre and post privatization finance to 	<ul style="list-style-type: none"> • Accelerate policy dialogue in the area of energy efficiency; providing support to the National Agency for Efficient Use of Energy Resources and the Parliamentary Committee for Fuel and Energy Complex, which are developing energy efficiency and renewable energy legislation, in particular on small hydro and "green energy tariffs"; • Enhance dialogue with donors by participating in the Donor Government Working Group on Energy Savings and Renewables; • Facilitate the purchase of carbon credits by clients participating in the framework of the Netherlands EBRD Carbon Fund and the Multilateral Carbon Credit Fund. • Work with the Ministry for Fuel and Energy and the Ministry of Environmental Protection to develop institutional capacity for approving the sale of carbon credits and assist clients, particularly in the power and municipal infrastructure sectors, to identify and prepare

¹³ Table is based on information from the EBRD's country strategies for Ukraine; planning cycles might not be consistent due to updates and amendments of the initial documents

	<p>companies in the sector.</p> <ul style="list-style-type: none"> • Finance upgrades to distribution in state-owned companies (until privatisation is restarted), in order to improve efficiency, quality, security of supply and corporate governance. Where state entities are financially solvent, provide financing on a non-sovereign basis, to reward sound financial practices and achieve a strong demonstration effect; • Promote renewable projects as an alternative to fossil-based projects and will engage in policy dialogue and consider TC funding to help introduce renewable related tariff structures to support such projects; • Support private sector involvement in power distribution and generation, focusing on projects aimed at the improvement of efficiency in conversion, and distribution of energy, the quality of energy services and corporate governance; • Promote international standards of nuclear safety in Ukraine 	<p>carbon credit transactions.</p> <ul style="list-style-type: none"> • Engage in a policy dialogue with the government and coordinate with other donors and IFIs to promote the necessary structural and regulatory reforms consistent with the transition goals.
2011-2014	<ul style="list-style-type: none"> • Promote the diversification of sources of energy; • Improve energy security and energy efficiency; • Develop renewable energy; • Safety upgrades in the nuclear sector; • Develop electricity transmission networks to integrate Ukraine in the European energy market; • Modernise Ukraine's gas transportation and distribution system; • Safety of the nuclear power stations. 	<ul style="list-style-type: none"> • Promote privatisations of non-strategic state enterprises as well as corporatisation and further commercialisation of the key remaining state enterprises; • Promote reform of the wholesale electricity market leading to the replacement of the single, buyer market with a bilateral contracting market • Enhance tariff reform moving towards full cost recovery; • Strengthen the independence of the sector regulator NERC and the corporatisation of Ukrenergo; • Work with other IFIs and the EU to enact critical structural reforms and improved transparency, governance and restructuring.

The dynamics of recent volume of operations in power and energy sector is presented in Table 3.

Table 3 The EBRD's operations in power and energy sector

	2010	2011	2012	2013	March 2014	per cent of total, March 2014
Number of projects	10	15	18	23	23	13
Volume, million €	474	745	794	1,105	1,100	24

Source: The EBRD, 2014

Separately Table 4 below provides snapshot of all TC projects provided in Ukraine's power and energy sector as it was presented in the Integrated Approach document.

Table 4 The EBRD's Projects of technical co-operation in Ukraine's power and energy sector

Title	Amount, €	Contract start	Period (months)	EU NIF Approval	Status¹⁴
Sector-wide TC assignments					
Wholesale Electricity Market reform implementation support	1,500,000	Q4-2013	24	Approved in Sep 2009	To be tendered
Marginal Carbon Abatement Cost Curves (Regional study for Ukraine, Turkey, Kazakhstan)	935,000		7	N/A	Completed
Capacity Strengthening for Power Network Planning and Operation for Wind Power Integration	400,000	Q3-2012	9	Approved in Sep 2009	In progress
Ukraine Nuclear Power Plant Safety Upgrade Program/Ecological Assessment.	300,000	2011	12	N/A	Completed
Transmission related TC assignments					
ESIA & Technical Due Diligence: Zaporizhzhia-Kahovska	500,000	2010	10	Approved in 2009	Completed
Feasibility Study/ESIA/Procurement assistance - 750 kV Novo Kakhovska - Prymorska - Khmelnytska Line	2,100,000	Q2-2012	18		In progress
PIU support consultancy: 750 kV Zaporizhzhia - Kakhovska Line	2,000,000	Q2-2011	30		In progress
Lender's engineer: 750 kV Zaporizhzhia - Kakhovska Line	300,000	Q2-2013	30		To be tendered
ESIA and Technical Feasibility: 330 kV Novo Odesskaya - Artsyz Line	700,000	Q3-2011	36		In progress
PIU support consultancy: 330 kV Novo Odesskaya - Artsyz Line	1,400,000	Q2-2014	20		To be tendered
Lender's engineer: 330 kV Novo Odesskaya - Artsyz Line	200,000	Expected Q2-2013	30		Approved in 2010
Ukrenergo Corporate Sustainable Development	800,000	2009	24	Approved 2009	Completed
Generation related TC assignments					
PIU support consultancy: Ukhidroenergo	2,000,000	Q4-2010	84	Approved in Sep 2009	In progress
Kakhovka Hydropower Plant Capacity Expansion - Project Preparation	1,000,000	Q4-2010	12		In progress

¹⁴ As of 2010 when Integrated Approach to Reform of Ukrainian Power Sector was approved

Lender's Engineer: Ukrhydroenergo	600,000	Q2-2013	84		To be tendered
Renewable TC assignments					
Ukraine Renewable Energy Project Pipeline Preparation	199,000	Feb-09	4 months	N/A	Completed
Renewable Energy Development Framework -Phase 1	195,000	Dec-07	9 months	N/A	Completed
Renewable Energy Development Framework -Phase 2	400,000	Apr-09	11 months	N/A	Completed
Ukraine Renewable Energy Direct Lending Facility - Project Support Unit	4,312,871	Q3 2010	30 months	N/A	Under implementatio n
Ukraine Renewable Energy Direct Lending Facility - Regulatory Support	1,333,069	Q3 2010	30 months	N/A	Under implementatio n
Ukraine Renewable Energy Direct Lending Facility - Strategic Environmental Review	784,158	Q3 2010	12 months	N/A	Completed
Total	21,959,098				

In 2010 as a response to growing need for better co-ordination of various operations and policy dialogue in the power and energy sector the EBRD developed and approved the Integrated Approach to Reform of Ukrainian Energy Sector for 2010 to 2014. The document is mainly designed as internal document that pulls together various elements of the EBRD's work in the sector – investments, TC project and policy dialogue. It does not provide comprehensive analysis of past experience and future strategic priorities for policy dialogue in the power and energy sector. However it is step in the right direction as the Integrated Approach provides a framework for the whole Power and Energy Utility team's programme in Ukraine and provides necessary links among various operations thus improving potential transition impact scores for repetitive initiatives, and approval and funds' allocation to the same recipients and clients, which are quite a few in the sector. There is a clear and shared understanding of the long-term nature of engagement in the power and energy sector and specifics of the sector comparing to other areas of the EBRD's operations in Ukraine.

In the Integrated Approach to Reform of the Ukrainian Power Sector 2010 to 2014 the following transition objectives were identified:

- Commercialization and efficiency improvement of the transmission network;
- Improvement in the performance and carbon footprint of generation.

These objectives are translated into more specific transition goals.

For transition and system operation these are:

- i) Improved efficiency of the operation of the energy sector utilities (rehabilitation, loss reductions, interconnections to maximise system efficiency);

-
- ii) Increased commercialisation and transparency of the sector, by improving financial discipline and promoting best international practices in governance and business conduct of its clients;
 - iii) Corporatisation of Ukrenergo, to strengthen its corporate identity with the financial community, and to improve its governance and build its institutional capacity;
 - iv) Tariff reform, by moving towards a full cost recovery and the introduction of incentives mechanisms, based on best international practice, with the concomitant improvement to safety net structure, to assure the poor are not left behind;
 - v) Strengthened financial and administrative independence of the sector's regulator, the NERC.

For generation the goals are:

- i) Implementation of planned reforms of the wholesale electricity market that would gradually replace the single-buyer wholesale electricity market with a bilateral contracting market and other market segments such as a balancing mechanism and a market for ancillary services;
- ii) Resumption of the privatisation of generation to allow entry of foreign strategic investors in the sector and increase competition;
- iii) Improvement in the efficiency and environmental performance (to EU standards) of Ukraine's thermal generation through attracting best available techniques. Gradual decarbonisation of energy generation through rehabilitation of existing capacity and support for new, low and no carbon generation;
- iv) Development of renewable energy, facilitated by implementation of the new support system through promoting legislative changes and institution building;
- v) Participation in international carbon markets and monetisation of carbon credits. Support for participation in climate finance instruments (GEF, CTF).
- vi) Since nuclear safety remains an area that requires improvement, which improvement has been set as an objective in an MOU signed with the EU, the Bank will consider financing nuclear safety upgrades in line with the EBRD's Energy Policy.

The motivation of the banking team to have an integrated approach for the power sector was in finding the grounds for engagement, reasons to launch investment and TC projects in the situation when there is no firm government commitment for significant structural reforms. As there were many cases where the EBRD had to withdraw from a potential project or not even engage in their planning, there was a need to work out why it was happening. Generally, this has to do with the unfavourable policy context. Therefore, it was necessary to resolve this negative situation before thinking of doing investment projects in the sector.

There is an understanding of the limitations of current Integrated Approach document – it was among the first integrated approach documents produced in the bank. EBRD experts are envisaging that the next generation of power and energy sector integrated approaches will be significantly improved and will result in a more comprehensive strategy and tactics of operations in the sector taking into account its specifics, country context, global trends and past experience of the bank in the country, including in the sphere of policy dialogue.

3. Policy process

Observations about the policy process in the power and energy sector follow the conceptual framework developed for this evaluation. The framework considers policy problem identification, selecting and selling policy messages, policy actors taking actions that lead to policy choice and implementation, which in turn give rise to identifiable policy outcomes. The observations and conclusions are structured along the following lines:

- Conception, planning and strategy;
- Carrying out policy dialogue;
- Achieving results;
- Reviewing reporting and evaluation;
- Resourcing and rewards.

Findings have been derived largely on the basis of interviews held with key policy actors in power and energy sector and informed observers, and a review of key documents in the sector. A detailed timeframe of actions by the EBRD and Ukrainian counterparts is presented in the Annex 2 of this report.

3.1 Conception, planning and strategy

Under this area we consider (1) the reasons why the EBRD decided to engage in policy dialogue and whether there was clarity on this; (2) how the problems that became the focus of the dialogue were decided upon as meriting attention; (3) how the “solutions” to the problems, which became the policy messages the EBRD advocated, were chosen as being the “right” option and how these messages were validated; (4) whether there was clarity regarding expected results; (5) whether and how strategy and tactics were decided upon.

The EBRD’s initial motivation to engage in power and energy sector policy dialogue emerged in the process of preparing the K2R4 loan which was initially aimed at investing into completion of the construction of new blocks at Rivnenska and Khmelnitska nuclear power stations. In 1999 the EBRD started preparation of this project which had to contribute to substituting energy generation capacity after decommissioning of the Chernobyl nuclear plant. However due to the Bank’s strict internal regulations it proved to be impossible to approve this loan as at the stage the sector was struggling to collect payments for generated energy. Without reforms in the distribution segment, ban of barter operations and improvement of fee collection, which at the time was only around six per cent of total costs, the sector wasn’t “bankable”.

So the project had to be reshaped to target enhancement of the safety standards at Rivnenska and Khmelnitska stations after the construction of power blocks was completed by Energoatom using Ukraine’s own resources.

Long negotiations with the Ukrainian government, Energoatom, NERC and other players in the process of preparing K2R4 loan opened the door for the EBRD to policy dialogue in the sector, along with the IMF, the World Bank and the EU. At the end of the day, through improved fee collections and corporate governance, Energoatom managed to complete construction of the nuclear power blocks with their own money, albeit with delays. Ukrainian counterparts stated that this negative experience caused both a disappointment in the EBRD’s ability to mobilise the investments for the sector, but also a deep

appreciation of the readiness to invest in Ukraine's power and energy sector, convincing investors of the attractiveness of the sector including large-scale and complicated strategic segments such as nuclear energy.

The Energy Sector Task Force, which included representatives of the Ukrainian government (co-chair), the EBRD (co-chair), G7 government agencies, the World Bank, and others, was established in 1999. It was initiated by the newly appointed Ukrainian government which had the strong backing of the Prime Minister at the time (and his personal participation in initial meetings), his deputies and high-level officials. The task force became a major driver of reforms and remained so up until 2004.

Later on, after the task force "fizzled out", government partners (after frequent reshuffles) became less committed, some international partners whose support was critical, also became less engaged. From that time and especially from 2005, when Ukraine and the EU signed a Memorandum of Understanding on Energy, the trigger for the EBRD's policy dialogue with the government became Ukraine's petition to become part of the European Energy Community (EEC). EEC is an international organisation dealing with pan-European energy policy established in October 2005 in Athens. From then on the EBRD supported Ukraine's integration in the Energy Community and in the European Network of Transmission System Operators for Electricity (ENTSO-E), assisting it in meeting its membership commitments.¹⁵

The EBRD's activities with regard to ENTSO-E seek to achieve the physical connection of Ukraine's national transmission systems into the European system in order to create the regional energy market. The EBRD's involvement in the transmission sub-sector has been partly directed at reducing domestic losses and increasing efficiency and partly at overcoming technical barriers to allow energy to flow across borders. It invested in a number of projects aimed at enhancing transmission network, its rehabilitation and upgrade, increasing its capacity. The strategy in this subsector was to "load" conditionality in the investment projects with Ukrenergo, the national transmission company, which included corporate reforms, enhanced transparency and new legislation for an open and fair electricity market. According to EBRD colleagues and some Ukrainian counterparts the progress in achieving reforms by this method has been slow.

The EBRD was a real driver behind the work of the Energy Sector Task Force and provided significant resources to kick-start it and keep it running until 2006. But it was a team player as well as the leader, it provided inputs into formulation of the priorities for reforms, concrete actions and resources needed for their implementation – jointly with other IFIs and donors, some of which had a greater resource base and expertise (such as the World Bank and USAID in particular). It was also a "co-production" of ideas jointly with top officials of the Ukrainian government, who were taking very active part in the work of the task force, especially in the period of 1999 to 2004.

Validation of proposed ideas was a "living process" as many stakeholders around the table would discuss them at regular meetings, provide their arguments and counter-arguments, various options and scenarios. Issues that required deeper analysis or more detailed recommendations and solutions were studied by expert groups created in the framework of the task force.

Such decision-making processes and selecting of priorities was extremely effective as on the one hand the government could test its legislative and regulatory proposals with the potential investors or organisations that represent their interests. On the other hand IFIs and other international stakeholders could receive continuous updates on the trend of reforms, their challenges and achievements, and

¹⁵ Currently, the Parties to Treaty establishing Energy Community are the European Union and nine Contracting Parties from the South East Europe and Black Sea region.

realities of the Ukrainian economy and power and energy sector that make certain assumptions about potential investments being wrong or incorrect. They also had very clear understandings of the challenges and limitations of the government and could plan their support strategies accordingly.

According to a number of interviewees all parties of the Energy Sector Task Force were very satisfied with this modus operandi until the time when the commitment of the government's side started to diminish in 2004 and then completely disappeared around 2006. From then on IFIs and donors developed bilateral mechanisms of collaboration with the government, some of them stepped away entirely from the sector while others united around specific issues and pulled resources together on a project-by-project basis.

3.2 Carrying out the policy dialogue

In this chapter we consider (1) main inputs provided by the EBRD; (2) core actors and their roles in the process; (3) main actions and the way they were co-ordinated with other stakeholders; (4) The EBRD's flexibility in reacting to changing policy context and emerging risks.

The Power and Energy Utilities team has led very intensive policy dialogue with the Ukrainian counterparts from 1999 to 2006. It involved both direct contact with the government counterparts in the framework of preparation and implementation of investment projects (such as K2R4, the Fuel Loan Facility and several projects aimed at enhancing transmission capacities) and collegial instruments, which were implemented jointly with other IFIs and international stakeholders. The greatest interest for the evaluation team is the latter form of policy dialogue.

As mentioned above the Energy Sector Task Force had a very good start based on the strong commitments of all parties, especially the government. Key stakeholders that engaged in the process are presented in Table 5. Additionally the scheme in Annex 1 illustrates the system of the Ukraine's energy market and relationships among key stakeholders.

The task force had regular meetings, at least two to three times a year. According to evidence made available to the EvD team between its launch and the end of 2002, the task force had twenty meetings in Kyiv (either in EBRD offices or government offices).¹⁶ All key Ukrainian stakeholders active in the power and energy sector took part in the meetings, which are often chaired by the Prime Minister or Vice Prime Minister of Ukraine responsible for energy policy. Among the core group of Ukrainian stakeholders were representatives of the Cabinet of Ministers, parliament, ministries of energy, economy, finance, the State Property Fund, NERC and the public company, Energomarket. International counterparts along with the private sector consultants representing both the government and donors/IFIs took active part in all meetings allowing for crucial decisions to be made, follow-up on their execution to happen, and for control over effectiveness, review and changes to the approach if necessary.

Presence of experts ensured the discussions were professional and well informed. At the same time thematic working groups were established by the task force as the need emerged to address specific challenges facing sector at the time (for example non-payments and poor collections, conditions for privatisation of oblennergos, independence of NERC and tariff regulation).

¹⁶ Evaluation team has no details of the meetings that took place from 2003 onwards.

Table 5 Principal actors in power and energy sector in Ukraine

Government of Ukraine	Private Sector/Publicly owned companies	IFIs/donors	Expert and analytical organisations
Ministry of Energy And Coal Industry Ministry of Economic Development and Trade Ministry of Finance parliament (in particular Power and Energy Complex Committee) National Energy Regulatory Commission (NERC) State Property Fund (responsible for privatisation) Energoynok (monopolist market operator)	Energoatom (nuclear generation and safety) Ukrenergo (transmission) Ukrhydropower (large hydro generation) Six regional thermal generation companies Oblenergos (regional energy distribution companies) USELF clients (small scale renewable generation)	EBRD World Bank IMF European Union European Investment Bank European Energy Community USAID (in the past) Nordic Investment Bank Private sector consultants working on the behalf of donors of Government	International Energy Agency Energy Charter OECD

When the task force was launched in 1999, Ukraine’s energy sector was in a very bad shape and on the brink of bankruptcy. Counterparts from the Ukrainian government were very eager to learn how to address the urgent challenges such as non-payments, debt, barter transactions, poor liquidity and fuel deficits. Donors and IFIs were also interested in addressing these issues in order to make the sector “bankable” and attractive for strategic investors. They were playing a role of the “sound board” for the government when it was planning major policy reforms – to get feedback as for the potential impact of the changes on investment attractiveness of the sector and how realistic the new standards and regulations are for potential strategic investors. By 2001 crucial pieces of legislation on the electricity market were adopted and a ‘civilised’ energy market established with a clear tariff system and 100 per cent payment collection (as opposed to six per cent in 1998). Financial procedures became more transparent with a clear split of income between generating and distribution companies. Task force efforts were also directed at preparing the Concept for the Wholesale Energy Market reform, which was to cover the period from 2009 to 2014.

In parallel, substantial policy dialogue activities were ongoing in the sphere of privatisation. Six regional energy companies (oblenergo) were privatised in 2001 on a largely transparent basis and their financial and overall performance improved dramatically since then. The tariff system has also been improved significantly, with national regulator NERC gaining relative autonomy in performing its duties. The EBRD provided TC funding for both of these strands in the anticipation of opening large market segments for private investors, including the EBRD itself. Consultants contracted by the EBRD played a crucial role in supporting the government agencies and regulators in both developing and implementing new policies, and in enhancing their capacity and improving skills and qualifications of their staff. However since the early 2000s there was no further significant progress in this area.

Policy dialogue was performed in the process of preparation and implementation of the K2R4 loan and Fuel Loan Facility and proved to be very successful. In the framework of the latter the government met all loan conditionalities and proved to be very determined in resolving the liquidity problem in the sector.

The task force was very active until 2004 and then gradually both the Ukrainian government and IFIs lost interest and diverged to other priorities. The EBRD’s resident office in Kiev was still trying to maintain the dialogue in the framework of the Task Force and called a number of meetings between 2005 and 2006, with the idea of gradually transferring its ownership to the government. However it did not meet an

appropriate level of enthusiasm from other parties so by 2007 the dialogue in the framework of task force completely ceased to exist.

EBRD colleagues suggested that both the changes in the World Bank country office leadership and USAID completely abstaining from any contact with the central government of Ukraine were significant negative factors that affected the course of reforms. In the early days of the task force consultants funded principally by USAID did a lot of analytical work, drafting of legislation/regulation and preparing state companies for privatisation. They played an important role in keeping things moving and motivating Ukrainian counterparts, which was crucial for success, though of course EBRD bankers also had to be very competent and gradually “learn their sectors” to limit total reliance on the consultants and enhance the Bank’s expert capacity and eventually its institutional memory.

When USAID lost interest in the power and energy sector policy dialogue the funding for consultants ceased. The EU wanted to substitute USAID and started to play a bigger role in the policy dialogue but the petering out of the task ultimately saw less consultant effort, or certainly less coordinated effort. Also the members of the task force at the time agreed that frequent changes in the government that led to “skills deficit” on the government side was crucial factor undermining the depth and breadth of policy dialogue.

After the task force ceased to exist, the EBRD’s Power and Energy Utilities team was maintaining policy dialogue in the framework of individual projects and loan conditionalities stipulating certain sector reforms, however it was not closely co-ordinated with the government’s priorities or the priorities of some IFIs. The World Bank significantly reduced its portfolio in the sector but there are areas where the two banks are still collaborating, like the Ukrhydroenergo project aimed at rehabilitation of capacities of Ukraine’s large hydro power stations. Also EBRD was instrumental in bringing the EIB and the Nordic Investment Bank into the sector. The former is not very active in the policy dialogue per se, but the fact that the EIB was co-financing some of the EBRD projects did help in terms of strengthening the “voice”.

In many cases the government counterparts simply did not have the strategy and their actions were predominantly ad-hoc, caused by strong pressure of powerful lobby groups who owned large assets in Ukraine’s power and energy sector or had plans to acquire such assets. Over the years the EBRD was regularly invited by the Ukrainian government to contribute to formulation of policy strategies in the energy sector, in particular Ukraine’s Energy Strategy 2030. The question of the usefulness of such consultations and the degree to which those recommendations were taken on board in many cases was questionable.

3.3 Achieving results

In the power and energy sector the EBRD’s efforts concentrated on in-depth structural reforms aimed at opening up the sector for investment opportunities and creating conditions for new competitive markets and profitable companies. Given its strategic objectives and limited resources the Bank usually joins forces with other IFIs and donors who have significant resource bases and expertise for helping Ukraine to reform its power and energy sector and meet its international obligations, for example as a member of European Energy Community.

The World Bank, the IMF and the EU all have strategic framework agreements with the Ukrainian government that stipulate the needs for structural reforms in energy sector, reforms in the institutions, legislation, governance standards and regulations. The EBRD has traditionally focussed on developing private sector operators, increasing competitiveness of the sector and its profitability. However due to the specifics of the Ukrainian power and energy sector, as described earlier, the engagement with private sector was very limited and mostly impossible which forced the EBRD to shift its focus to public sector

investments closely related to policy dialogue initiatives, legal work and TC projects aimed at strengthening capacity of government agencies and public companies.

The outcomes of these efforts were mixed. Significant progress was achieved in the early 2000s, especially at the time of the active phase of work of the Energy Sector Task Force. Major reforms at the time included introduction of a strict payment collection discipline in the sector, frameworks for sector debt restructuring, privatisation of six oblenegos in 2001 and preparation of a concept for reform of the wholesale energy market for the period of 2009 to 2014. Later on some serious reforms were introduced to tariff regulations that introduced:

- green tariffs
- enhanced governance standards for the national regulator NERC
- reform of Ukrenergo, a public company controlling energy transmission.

The latter is still in the process of completing its corporatisation, which was the condition for all three loans provided by the EBRD to Ukrenergo.¹⁷ The first deal with Ukrenergo was signed in 2005 for about €25 million and it took about four years to find a common ground and convince the client to cooperate. The second and third transactions with Ukrenergo were signed in 2008 and 2010 respectively for larger amounts. Then it was Ukrenergo which was pushing for reforms in order to make deals with the EBRD.

Further market reforms have been pursued by Ukrainian authorities slowly and in many areas they have stalled or even stagnated. Even after accessing the European Energy Community in 2010 and taking on many commitments in legal and regulatory sphere the Ukrainian government did not achieve significant progress in changing the fundamental principles of the power and energy sector. It remains overregulated, non-transparent, corrupt and overcomplicated. Entry of serious international players on the market in such conditions is unlikely.

For example until now Ukraine has not completed its Energy Strategy 2030 which was in the process of “update and refinement” since 2006, when it was initially approved by the Cabinet of Ministers. Also legislation governing the wholesale energy market was only endorsed by parliament in December 2013 which was designed to create conditions for shifting the energy market model of Ukraine from a single buyer (public company Energorynok) to direct bilateral contracts between market operators. There has however been some criticism from international stakeholders that the legislation will result in a strong bias towards certain segments of the market.

It should be noted that in both cases –preparation of the energy strategy and the wholesale energy market legislation – the lengthy development process, in which the EBRD was involved to a different degree at different stages, was co-ordinated and controlled by powerful economic groups. It was done either through professional associations, lawyers, members of parliament and think tanks. Vested interests in the power and energy sector are huge and several economic groups own the majority of private sector assets. As these groups are in the list of companies with which the EBRD cannot have business projects due to integrity reasons it is only subsectors controlled by publicly owned companies (nuclear, hydro, transmission) and smaller scale renewable energy projects where the EBRD can perform its investment operations.

Such dominance of the public sector in the portfolio is challenging as requires a great deal of resources and guidance, TC and advice. But on the other hand it provides more direct leverage for policy change through direct dialogue with decision makers and responsible regulators. Legal and regulatory “conditions”

¹⁷ Cabinet of Ministers of Ukraine finally agreed the corporatisation of Ukrenergo in August 2013.

are more naturally embedded into the deals and the chances to achieve the desired outcome are higher than when working directly with private companies.

The evaluation team received mixed feedback on the effectiveness of the EBRD's conditionality. Some Ukrainian counterparts doubted its effectiveness, while others commended it, especially compared to that of other IFIs. One interviewee noted that *"preaching when you do not put anything on the table is almost impossible"*. The EBRD's credibility comes from its investments that are key to its engagement in policy dialogue. So in a way, dominance of public sector investments provide the EBRD with the mandate for intensive policy dialogue and pressure for structural sector reforms which otherwise would be challenging.

It was also observed that over the years the EBRD has spent a lot of money on technical assistance and consultants in Ukraine, often prior to launching investment operations, which may help account for the level of success achieved from conditions. For the EBRD it should be very helpful to have a thorough assessment of the impact of the wide range of TC projects and policy dialogue initiatives in Ukraine over the years prior to committing significant new funds. It will help to understand what works and what does not work in the country context, and how the approach should be shifted in order to achieve greater progress in a strategic area such as power and energy.

In the power and energy sector, linking reform objectives to the individual projects have proven not to be entirely effective. As it is stated in Integrated Approach document:

"Some reform covenants have not been met and many benchmarks not achieved. Policy dialogue and technical cooperation linked to an unpredictable pipeline of ad-hoc projects could not provide the stability and the long term perspective needed to support the momentum of sector reforms. It also does not provide a solid anchor for effective co-operation with other IFIs and donors. The Bank has had too little leverage with the project-by-project approach in a large and complex sector which has enormous challenges."¹⁸

It needs to be recognised, especially in the power and energy sector that policy dialogue can take a lot of time. In the period of very active collaborative policy dialogue at the end of 1990s-beginning of 2000s the EBRD's Power and Energy Utilities team was spending about equal time on policy dialogue and projects. Political will or "holding to ransom" was needed and still is, given the complexity of challenges and strength of vested interests. Strong coordination of efforts with core IFIs, donors and local stakeholders directly or indirectly engaged in the policy dialogue is absolutely essential if the political will is absent. As at the end of 2013, political will of Ukrainian leadership is "light." Continuity of power and energy utility team members, their immense experience and knowledge, and institutional memory is playing a considerable role in the maintaining the Bank's high reputation even at the periods of time when there is no significant investment activity.

3.4 Reviewing, reporting and evaluation

Currently there is no comprehensive analysis of the progress and impact achieved through a range of policy dialogue initiatives and special TC projects in the legal and regulatory spheres of the Ukrainian power and energy sector. No comprehensive evaluation was performed in the context of the country strategy, integrated approach for Ukraine's energy sector, or individual policy initiatives. In 2011 however, EvD conducted the special study "[Power and Energy Sector Review](#)", which included Ukraine as one of the case studies.

¹⁸ Integrated Approach to Reform in the Ukrainian Energy Sector, 2010

There is no tradition of regular reporting and evaluation of the outcomes and impact of policy dialogue initiatives, and all attention is concentrated on assessing the outputs (laws, regulations, institutional changes), that makes the process of a policy dialogue evaluation very challenging.

EBRD colleagues themselves acknowledge the lack of in-depth assessment of previous efforts in policy dialogue, which were substantial, that in a way infringes on any significant resource allocation for the sector. Formal review and reporting exist only for stand-alone TC projects and the access to those through the EBRD IT system is quite poor. Review of ad-hoc initiatives is non-existent and most staff knowledge is not documented. The current evaluation therefore had to rely heavily on interviews with EBRD staff and Ukrainian counterparts that at the time were engaged in the Energy Sector Task Force. For the wider group of interested parties this knowledge will remain closed.

Such a situation is very negative especially as there are some very positive experiences and progress made as a result of past EBRD initiatives. Similar initiatives could be designed in the future in order to harness political will of country leadership and get together all major international players interested in the power and energy sector. Having a clear successful story to tell from the past could help greatly in establishing similar institutional mechanisms in the future and to enhance the level of trust of Ukrainian stakeholders towards proposed initiatives and reforms. Past successes might help to increase the confidence that using a similar process in the future might work well.

3.5 Resourcing

Over the years the EBRD invested a significant amount of resources in technical co-operation and policy dialogue in Ukraine. In-house expertise complimented by contracted consultants for specific tasks ensured that the EBRD's advice and recommendations were of highest quality and relevance, as noticed by the majority of interviewees in Ukraine. Financial resources over the years were provided by various donors, including a significant amount by the EU through its various funds and facilities. The EBRD's Shareholders' Fund was used for a number of projects as well.

In general there continues to be no deficit of resources for policy dialogue in this area. The Ukrainian power and energy sector received one of the most generous packages of TC over the years, compared with other countries and sectors. The challenge remains, however, of assessing the effectiveness and efficiency of TC funding in the areas of developing policy framework and supporting the implementation mechanisms. Lack of such assessment in fact precludes the Bank from making more TC funding available to ongoing and future initiatives. It is becoming more difficult for the Power and Energy Utilities team to gain approval of standalone TC projects. The area with the greatest funding opportunities is legislation, as demonstrated by the legal transition team's access to a significant amount of earmarked resources. The Power and Energy Utilities team could benefit from more active collaborative work in the sector.

The Power and Energy Utilities team is one of the most active users of the expertise and resources of Energy and Efficiency and Climate Change team, which is a natural partner for bankers in the power and energy sector. A variety of facilities and schemes were established in the sphere of energy efficiency and renewables in Ukraine, details of which could be found in a separate case study on energy efficiency performed in the framework of this evaluation study.

The EBRD's Power and Energy Utilities team provides specialist ongoing staff and resources to deal with the Ukrainian power and energy sector and is a great asset for conducting effective policy dialogue. Good relationships established over the years with key agencies (for example the ministry, regulator, parliament and state companies), other IFIs and donors are the result of intensive daily work of local staff and regular visits by bankers from London Headquarters.

The EBRD's Office of the Chief Economist and Legal Transition team also playing important role in the process. However compared to other sectors analysed in the framework of this evaluation, the partnership between bankers and policy teams is less effective. In particular there is a degree of dissatisfaction about the insufficient support provided by the economists to the bankers. The former are concentrating their efforts on the transition objectives methodology and assessments, and do not provide sufficient support in assessing the country and sector context, their dynamics and suggestions relevant for investment operations. Bankers expect more value added to their work through in-depth expertise. An example of the World Bank was given as an effective model of collaboration between the economists and bankers.

On the other hand EBRD bankers across the sectors, including the Power and Energy Utilities team, expressed their reservations about the ongoing structural changes in the Bank that are aimed at strengthening the policy dialogue component of Bank's operations through expanding the role of the Vice Presidency Policy. The concern is about additional level of bureaucracy that might complicate the current approval process for TC projects and policy dialogue initiatives even further.

Improvement that is really necessary in the EBRD's approach to allocating resources in the area of policy dialogue is more engagement at implementation stage. This was highlighted by both EBRD experts and local counterparts that benefited from legal and regulatory support but need further assistance at the initial stage of the actual reform implementation. There is an understanding of such a need by bankers, but the balance needs to be defined between "letting go" for capable organisations and "staying engaged" for those that require further practical support. Assessment of the previous periods of engagement in the power and energy sector policy review might be very useful factor for the EBRD's future decisions to provide financial support at implementation stage.

4. Conclusions

Policy dialogue in the power and energy sector of Ukraine delivered significant results in the early 2000s due to a combination of political will, professional competence, drive for reforms from Ukrainian side, successful institutional arrangement that provided effective channel for communication between the government and IFIs/donors, and the readiness of international investors to enter this previously "unbankable" sector. Experience of co-founding and co-chairing the Energy Sector Task Force placed the EBRD in the position of trusted advisor and investor such that the Bank's calls for reforms were closely linked to an ability to invest significant resources to enhance the performance of the power and energy sector.

The EBRD has a very strong reputation as trusted partner, investor and team player which can use its unique selling points in a well-orchestrated manner along with other important international stakeholders. All major counterparts in the country highly appreciate the level of professionalism and flexibility of the EBRD and they commended it for its ability to remain within the areas of its strongest competence and ability to contribute to reforms.

Assessment of the effectiveness of policy dialogue in Ukraine's power and energy sector is based on a selected period of time in the early part of the 2000s whereas the achievements in the longer-term are more mixed and at the moment the EBRD has more limitations than opportunities for working in the sector, especially its private component. The reality of Ukraine's power and energy sector does not leave much space for investing in the private initiatives due to integrity concerns. The same powerful economic groups that control the significant share of Ukraine's power and energy sector have a strong leverage on the reform agenda, pace of reforms, content of legislation and strategic priorities, senior appointments and

resource allocation. The EBRD, along with other IFIs and donors (especially the EU) tries to provide a counterweight to well-resourced but hidden opposition forces that stand to lose a lot from reforms aimed at making Ukraine's power and energy sector truly competitive and transparent.

Analysis of the EBRD's policy dialogue with Ukrainian authorities in the power and energy sector in the period from 1999 to 2006 suggests that in this sector more than any other, awareness of the political economy and hidden agendas/unspoken policy priorities are crucial for choosing right strategy for engagement. The combination of Ukraine's unique geopolitical location, its importance for the European energy security system and the scale of energy intensity within its economy means that the power and energy sector is fundamental and holds the key for systemic changes in the wider economy. Not to engage in power and energy operations and policy dialogue in some shape or form due to integrity concerns is not really an option given the strategic priorities of the EBRD.

Harnessing the opportunity presented by reform-minded leaders has significant implications for the long-term. Power and energy policy is the area where traditionally progress is not achieved quickly and fundamental reforms take five to ten years to become a reality. The EBRD's tactics of being an opportunistic partner proved to be successful at the end of the 1990s and beginning of the 2000s and it has all chances to replicate this success in the current Ukrainian context.

Collaboration with other IFIs and donors in such a vast area as power and energy sector is crucial for building a critical resource base (financial and expert) and getting adequate leverage over the government's decisions to reform. A change of strategy by just one or two major international stakeholders could significantly undermine the process of reforms or stall it altogether.

Only a combination of political will and high quality expertise can create the basis for structural changes and major reforms aimed at energy market liberalisation, enhancing energy security and reducing the energy intensity of national production. Mid-level managers in the government and hired consultants play a crucial role in delivering tactical tasks while committed top-level leaders (such as the Prime Minister) are pushing the reform agenda and ensure political consensus on the most challenging issues.

In a situation where powerful economic groups control a majority of the sector's assets, political processes and often decision makers in the government, it is crucial to find the areas of possible engagement that do not infringe on the Bank's integrity principles but allow it to stay tuned and engaged with the key stakeholders in the sector. Skill gaps and lack of professionals within key decision making bodies represent a considerable challenge at certain stages and could be partially compensated through engagement with the civic centres of expertise and publicly owned energy companies which have significant expertise. Joining up forces with other IFIs and donors and creating international and global platforms that exert greater pressure on country's leadership to meet the commitments (for example 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 on the EBRD country strategy for Ukraine and delivery of projects over the long period of time represent significant assets that require greater recognition. The EBRD's reputation and respect for its advice expressed so often by local counterparts and IFIs are based on personal relations and in-depth knowledge of the sector built over the years. More support, however, is necessary from EBRD policy teams, or specialised international organisations for guiding EBRD bankers in the political process and global economic realities, allowing them to concentrate on their core tasks. Policy dialogue is an integral part of bankers' responsibilities in the sectors with significant exposure to public clients. It should be better reflected in the assessment of personal performance.

Sources

EBRD [The Demand for Greenhouse Gas Emissions Reduction Investments: An investors' Marginal Abatement Cost Curve for Ukraine \(2012\) Report by NERA/Bloomberg/Global Carbon for EBRD](#)

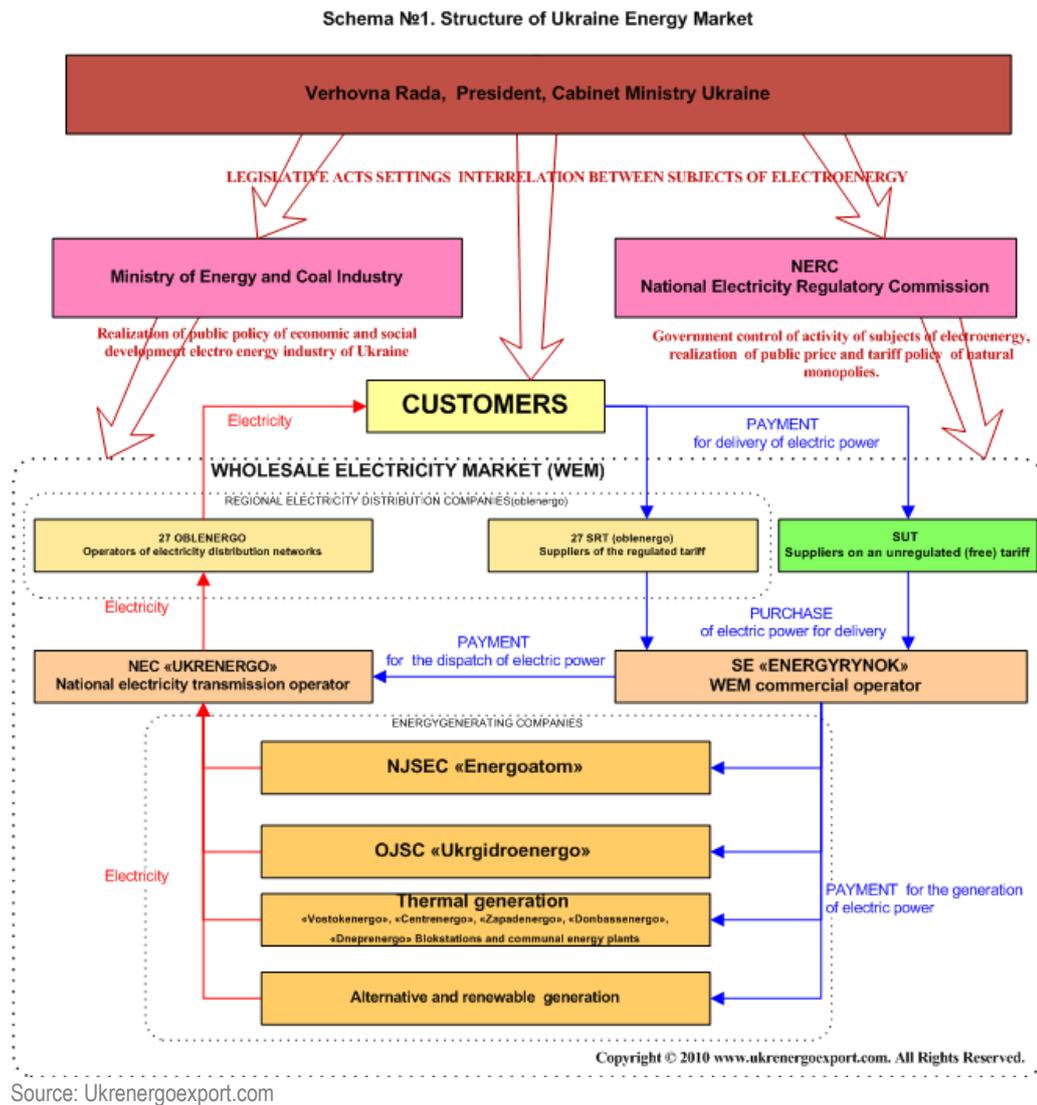
EBRD [EvD's Power and Energy Sector Review 2011](#)

EBRD Case Study ["The EBRD's Experience with Policy Dialogue in Ukraine: Energy Efficiency"](#)

EBRD Energy Strategy 2013, 2006

EBRD the Integrated Approach to Reform of Ukrainian Power Sector, 2010

Annex 1: Structure of Ukraine energy market



Annex 2: Timeline of policy dialogue in Power and Energy Sector (1999 to 2006)

		Context (policy problems/opportunities and proposed policy solutions)	Ukraine actors (positions and roles)	EBRD actors (positions and roles - decision maker, adviser, expert/analyst, advocate, interested party, influencers, and unorganised public)	Other actors (positions and roles)	Inputs and Actions (Merge policy events)	Outputs	Outcomes
1999	December	For many years Ukraine was suffering from the lack of strong leadership in performing structural economic reforms that would reorient the centrally planned economy towards the principles and standards of the market economy.	President Leonid Kuchma - decision maker, parliament - decision maker			President Leonid Kuchma appointed new government led by Victor Yushchenko	Tenth cabinet of independent Ukraine though existed only for a short period of time (one and a half year) managed to achieve significant results in the reform of the economy in general and power and energy sector in particular. A number of important laws and regulations were approved, privatisation process launched, liquidity of sector improved. Political will and strong personal interest of the leadership created a positive environment conducive to major reforms. This cabinet was also very positive about collaboration with IFIs and international donor organisations, resulting in several donor co-ordination groups, one of them in the power and energy sector which was co-chaired by the EBRD.	Reforms performed from 1999 to 2001 became fundamental for many further policy changes and improvements in the power and energy sector. In 1999 Ukraine for the first time since independence experienced growth of GDP. Other macroeconomic indicators also started to improve. Further cabinets were also reform-minded and committed to changes in the sector up until 2006.

		<p>The Ukrainian government lacked capacity and financial resources for launching large scale reforms in the power and energy sector. On the other hand IFIs and donors which had plans for significant investments and grants in the sector lacked a co-ordination platform and direct channel of communication with the Ukrainian government for ensuring that reforms are contributing towards liberalisation of the energy sector, raising its attractiveness for private sector investors.</p>	<p>Prime Minister Victor Yushchenko, Vice Prime Ministers, Minister of Energy, senior managers of MinEconomy, NERC, state company Energorynok, State Property Fund - decision makers, experts, interested party</p>	<p>First Vice President of the EBRD Charles Frank - decision maker, Power and Energy Utilities team - Louis Borgo, Olga Yeriomina; the EBRD Country Director Andrew Seton and Deputy Country Director William Franks - experts, advisers, advocates</p>	<p>The IMF, the World Bank, USAID, the EU - decision makers, interested party, advocates, private sector consultants - interested party, experts and advisers</p>	<p>The EBRD jointly with the Ukrainian government establishes a Task Force for Energy Sector Reforms which also included representatives of all major IFIs and donors that are working in the power and energy sector.</p>	<p>Institutional mechanism for co-ordinating the actions of the government and core international partners working in Ukraine's power and energy sector was created. Meetings, decisions taken at these meetings, further decisions by the government, IFIs and donors were crucial for conducting some essential reforms in the sector.</p>	<p>Task force activities had a positive impact on the work of the government and all involved IFIs and donors. In many ways it simplified the process of preparing major investment projects and technical assistance programs. Their terms of references and conditions could be formulated during the meetings and agreed by all major parties. Division of labour between core parties meant that there was no duplication of efforts and synergy effect was achieved in many cases where resources and expertise were pulled together from different sources.</p>
1999-2006		<p>Ongoing reforms in the power and energy sector required continuous advise and support from international partners. An institutional platform for co-ordinating efforts was needed for many years.</p>	<p>Prime Minister and Vice Prime Ministers, Minister of Energy, senior managers of MinEconomy, NERC, State company Energorynok, State Property Fund - decision makers, experts, interested party</p>	<p>First Vice President of the EBRD - decision maker, Power and Energy Utilities team - Louis Borgo, Olga Yeriomina; the EBRD Country Director and Deputy Country Director - experts, advisers, advocates</p>	<p>The IMF, the World Bank, USAID, the EU - decision makers, interested party, advocates, private sector consultants - interested party, experts and advisers</p>	<p>Regular meetings of the task force during 1999 and 2006 at least two to three times a year with especially productive period between 1999 and 2002r. During this period major power and energy sector reforms took place and the first round of privatisation of regional distribution companies carried out.</p>	<p>Unified position of the Ukrainian government and IFIs and donors as for necessary reform agenda, allowed to discuss details of implementation, technical details with the involvement of experts from both private and public sectors. Important laws and regulations were adopted that significantly improved liquidity of the sector, removed chronic underpayments and barter operations, enhanced capacity of the regulator, created conditions for privatisation of the first group of regional distribution companies, rules and principles for end users,</p>	<p>Due to high commitments of all parties and systemic work of the task force significant progress was achieved at advancing Ukraine's power and energy sector to a new level - where it could be "bankable", attract foreign and domestic investors. Systemic changes that were introduced allowed implementation of a wide range of investment projects by IFIs and private investors, and release of a significant amount of grant funding to the sector. These funds were conditional to progress achieved in the framework of the task force's work.</p>

							including cut off for non-payments.	
2000	June	The government led by Victor Yushchenko had a mandate for comprehensive reforms in key sectors, including the energy sector. Lack of a strategic vision and tactics of reform was undermining the attempts to address legal, regulatory and administrative challenges in the power and energy sector. A programme document was needed for identifying the priorities and plan of actions to achieve them. Support by international partners was crucial at the moment of great financial deficit.	The Prime Minister of Ukraine, top leadership of the cabinet of Ministers - decision makers	The Power and Energy Utilities team and country director - decision maker, adviser, advocate, interested party	The IMF, the World Bank, USAID, the EU, private sector consultants	The Ukrainian government presented at the meeting of Energy Sector Task Force its programme of reforms in the power and energy sector that summarised its key actions aimed at improving the liquidity, market resilience, competitiveness of its specific elements (distribution in particular), privatisation and strengthening of the independent regulator.	Programme of reforms in the power and energy sector provided details on priorities and a plan of actions, and necessary resources. All key international partners which were involved in the task force's work approved of the government's programme and committed their support.	The programme enhanced the predictability in the sector's development, provided evidence of the government's commitments to reform the power and energy sector that was suffering from long-term structural problems. Many of the actions that were implemented were in congruence with the conditions of the loans provided to the Ukrainian government by the EBRD, the World Bank and other IFIs and donors in the sector. The Ukrainian government became a reliable partner that delivered on its part of the agreement with the IFIs and prepared its strategy. IFIs were able to use this as a basis for coordinating efforts aimed at increasing the capacity of the government to address the problems, develop and implement legislation and regulations, allocate resources (including loans), sustain results and create conditions for market relationships in the power and energy sector.
	October	Many years of an unsustainable strategy in the power and energy sector led to a critical level of development of its infrastructure, that lacked resources for maintaining basic functions of generation and distribution elements of the system due to extremely low levels of payments for energy. Lack of finances meant that generation companies often lacked necessary fuel for producing necessary volumes of energy that led to systemic blackouts. The Ukrainian government was in real need of	Minister of Energy - decision maker and beneficiary, four energy generation companies - beneficiary	The EBRD's Board - decision maker, Power and Energy Utilities team - expert and adviser		The EBRD approved a one-year working capital Fuel Purchase Loan Facility for US\$ 100 million for the benefit of four state-owned electric power generation companies (Gencos) in Ukraine to purchase seasonal fuel. The loan was disbursed directly to fuel suppliers who had	Gencoes had enough money to purchase necessary volumes of fuel. The Ministry of Energy had to make a range of legal and regulatory decisions that improved market conditions and tightened payment discipline that had positive effect in the long-term horizon.	Negotiations between the EBRD and the Ukrainian government in the process of preparing the Fuel Loan Facility were very effective and led to building mutual trust and respect. It was one of the factors that enabled creation of an Energy Sector task force which from the start was co-chaired by the EBRD. By the end of 1999 it became one of the most trusted advisers which also had resources to invest in Ukraine's challenging power and energy sector, which at the time was not attractive for private sector investors.

		finances to purchase imported fuel.				been selected through a process of open and competitive tender following the Bank's procurement policies and rules.		
2001	April	Necessary conditions were created for a transparent and effective process of privatisation of oblenergoes. After significant efforts by the Ukrainian government to improve payment discipline and unbundling generation and distribution facilities the subsector of distribution became attractive for private investors.	Cabinet of Ministers - decision maker, State Property Fund - decision maker	The EBRD Power and Energy Utilities team - advisor, interested party	Private sector consultants representing seller (the Ukrainian government) and buyers	The Ukrainian government successfully organises the process of privatisation of six regional distribution companies (oblenergo) based on the proposals and advice provided by the task force's members.	For the first time in Ukraine's history large strategic foreign investors entered the power and energy sector and committed to the improvement of six companies in one of the crucial components of the sector. Strict criteria for selection and procedures for ensuring that investors meet their promises are established as a result of the task force's work.	This wave of privatisation of oblenergoes paved the way for further privatisation in the sector, albeit on less transparent conditions, which led to the current situation when the majority of assets are controlled by Ukrainian oligarchic groups. Despite overall positive effects for the economy integrity concerns restrained the EBRD and many other international counterparts from engaging in this subsector of the power and energy sector.
2004		Safety standards of Ukraine's nuclear stations are among the most important issues of the country's energy policy and pan-European energy security.	Energoatom - beneficiary, cabinet of Ministers - decision maker	The EBRD Board - decision maker, power and energy utility team - expert and adviser	International consultants - advisers, experts, interested party	The EBRD approved €34.36 million (US\$42 million) loan for the K2R4 post-start-up safety modernisation programme. In parallel the European Commission provided a loan of US\$83 million .	The loan will finance the post start-up safety modernisation programme for both units. Significant donor funds have been provided by the European Commission to provide direct and indirect assistance to the achievement of improvement in nuclear safety in Ukraine and the preparation of this loan.	The Bank's involvement helped to ensure that two units meet internationally recognised levels of safety and set a benchmark for the upgrading of other existing units at Ukrainian nuclear power stations. Long-term productive dialogue with Energoatom and national regulators had systemic effect on the entire sector and led to further investments in the sector, in particular a large Nuclear Safety loan for €300 million approved in 2013.

2005		Ukraine after signing a Memorandum of Understanding with the EU in energy sector in 2005 started its path towards integrating with European energy systems, including transmission lines, that need to be substantially upgraded and expanded before integrating into the European network.	Ukrenergo - beneficiary, Cabinet of Ministers - decision maker	The EBRD Board - decision maker, Power and Energy Utilities team - expert and adviser	International consultants - advisers, experts, interested party	The EBRD approved a €26 million loan for the construction of the 330 kV Ajalyk-Usatovo line.	This project initiated the Bank's support to the EU integration strategy of Ukraine in the power and energy sector.	The project launched a significant impulse for the energy transmission sector reform in the context of an incremental reform programme with Ukrenergo, in areas such as market transparency, energy efficiency, regionalisation and integration into ENTSO-E, tariff reform, and de-bottlenecking. The project became first in a range of investments to Ukrenergo, that enabled the bank to play a crucial role in the transformation of a state transmission company and the entire energy transmission sector.
2006	March	Lack of a strategic vision of development of the power and energy sector in Ukraine is undermining the country's energy security and competitiveness. There is a need to develop and implement a strategy that determines the few priorities that require significant efforts and support by the Ukrainian government. The strategy needs to take into account the local context of energy provision and energy intensity of the national economy, global trends and Ukraine's commitments in the framework of global and international accords and institutional frameworks. The latter include targets for reducing green house gas emissions, increase of renewable energy share in the total generation, reduction in energy demand and integration into European continental energy systems.	Cabinet of Ministers of Ukraine - decision maker			First version of Ukraine's Energy Strategy 2030 was adopted by the Cabinet of Ministers.	The strategy was based on the assumption that due to limited conventional energy resources Ukraine has to rely on critical energy imports from undiversified sources. That is why the strategy highlights the importance of energy efficiency and energy conservation, promotion of domestic energy production, in particular from renewable energy sources.	The first version of the strategy was brief and developed by the experts in the Ministry of Energy with participation of experts from other relevant government agencies. It sent a positive signal to domestic market operators and international stakeholders that the Ukrainian government has a strategy for addressing challenges in the power and energy sector. On the other hand the process of implementation was quickly hijacked by strong economic groups and no significant progress was achieved. Instead gradual improvements led to the development of the new version which is still not completed (beginning of 2014).