

**SPECIAL STUDY**

# **The EBRD's experience with policy dialogue in Ukraine**

## **Annexes**

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**EBRD EVALUATION DEPARTMENT**



**European Bank**  
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## **Annex 1. Information sheet / Approach paper**

Both documents are available at [www.ebrd.com/evaluation](http://www.ebrd.com/evaluation)

Direct links:

[Information Sheet](#)

[Approach Paper](#)

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## Annex 2. The evaluation framework and methodology

### 2.1 Evaluation framework

A framework is necessary to provide a basis against which policy dialogue is evaluated if the intent is to go beyond description to understand what works and why. What is observed can only be explained if it can be understood within a plausible set of cause and effect linkages. Also, if the findings are to act as a source of learning, the experience of Ukraine has to be presented in a contextual manner to allow its relevance for future action to be determined.

However, policy dialogue does not lend itself to neat and tidy models. The reality is much more complicated - what some have termed "the messy reality of policy making." Simple models are largely useless because they cannot adequately capture complexities, and, being based on a concept of rational decision making, they are frequently quite divorced from reality.

The framework used for this study draws inspiration from a number of sources, including the experience of the evaluation team. The model identifies a number of elements of the policy dialogue process that come together at particular points in time, much as in a kaleidoscope, to form a pattern. But give the kaleidoscope a shake and the pattern re-forms, sometimes quite differently. Thus, a key feature of this model is that the alignment of, and interrelationships among the elements is not fixed – rather, it is assumed that they are likely to change, often in unpredictable ways and at unexpected times. The elements of the policy dialogue process recognised by this study are:

- The policy problem, issue or opportunity, being a change to the status quo that someone or some group wishes to bring about

Since this is an evaluation of the EBRD's experience with policy dialogue in Ukraine we are principally concerned with the policy problems, issues and opportunities that are in the focus of the EBRD's activities in the country, which, at the start at least, may not be recognised or shared by other policy actors, in particular, decision makers and their advisers. As one interlocutor observed to the team "you have to sell the problem before you can sell the solution."

- The policy message, being the proposed "solution" (or alternative solutions) to the problem/issue or opportunity

The proposed "solution" to the policy problem should be based on analytical evidence of the causes of the problem with evidence that the "solution" will in fact produce the desired benefits at an acceptable cost, and is the best among a range of available options. However, experience has shown that "solutions" (preconceived views about what is the right action) often seek problems to solve rather than emerging from a thorough analysis of the problem in its context. Policy advocates sometimes go armed with ready-made solutions (privatisation, corporatisation, public private partnerships and so on) without first fully understanding the problem and the constraints and incentives policy decision makers face.

- Policy actors, being the individuals or groups that carry out the policy dialogue, who, for the purposes of this study have been classified according to the following typology based on the roles they play (recognising that at the same or different times an individual or group may play more than one role):



- Decision maker(s), being those with the power and influence to make and implement policy. Since we are concerned with public policy, decision makers will always be in government (central or local) and will be either political figures or officials of the bureaucracy. There may be an individual decision maker (for example, a president or prime minister, deputy minister/head of agency) or group of decision makers (such as a council of ministers or cabinet).
- Adviser(s) from whom decision makers seek guidance before acting (or not acting).
- Advocate(s) for a particular policy position who actively support the status quo or seek to bring about a change in policy. For this study, the EBRD, its staff and consultants acting on its behalf are the main advocates of concern.
- Also important are other advocates such as other international parties with whom the EBRD may coordinate or act jointly. There are also domestic advocates; importantly for this study are the business associations. An important distinction between advocates and the advocacy of interested parties is adopted by this study - namely, that while advocates may act in a self-interested way they are not directly affected by a policy action so their advocacy is usually visible and uses legitimate means. On the other hand, interested parties are directly affected and their advocacy may or may not be visible, and the means they adopt may or may not be legitimate according to generally accepted international "rules of the game" and democratic norms.
- **Interested parties** are those that may be affected positively or negatively by a particular policy action. If they feel under threat, or they seek to gain from policy action they may become advocates themselves or use advocates or other means of influence to support their position. Almost all policy actions involve winners and losers. The latter derive benefits from the status quo which may diminish or disappear in the event of a policy change. Losers are often few in number, and the loss they would suffer may be very significant to them individually. Conversely, the winners are often large in number and the individual gain less significant. Coupled with this, the costs of policy change (borne by the losers) generally occur before the benefits are realised. Further, because of their entrenched position or for other reasons, potential losers are often powerful and influential while would-be winners are often not powerful or influential. These realities mean that potential losers fight hard and effectively to protect their position while the support of potential beneficiaries is often "lukewarm" and not particularly influential.
- **Influencers** whose main role is to help shape public opinion - for the purposes of this study the focus was on the media, expert community and academia.
- The **unorganised public** whose influence may be negligible much of the time but periodically are capable of bringing about major change, including regime change, either electorally or by other means (for example, the Orange Revolution and more recently Maidan); or who sometimes effectively coalesce around a particular issue such that decision makers have to take notice.
- **Policy actions** (or inactions) being the things done by policy actors to bring about or prevent policy change. These are the process steps undertaken (including blocking actions) by policy actors. Sometimes, as in an understanding of policy dialogue as communication, the actions involve discussion, negotiation, bargaining, persuading (by provision of evidence for example),

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and influencing (by offering incentives and rewards, legitimate or not legitimate). The interaction may be direct between advocate and decision maker, or indirect via other advocates, advisers or interested parties, or even less direct via influencers. Another form of indirect communication is where the EBRD facilitates communication among other policy actors (for example the private sector and government). Other types of policy actions may not involve communication at all - for example, the drafting of regulation/legislation and the conduct of research and analysis aimed at providing evidence-based advice.

- **Outcomes** of the policy process being the things that happen (policy results) or do not happen as a result of the interplay among actors and their actions or inaction. Outcomes may be "no change" or various results - intended or unintended, positive or negative.
- The **context** in which the policy dialogue process takes place. This study assumes that the context in which the policy dialogue process occurs is influential, perhaps significantly so, on all the above elements. The study further assumes that the context has both visible and less visible parts - for example, stated and unstated objectives. If these assumptions hold true then understanding what happened in a particular policy dialogue process and relating this to what was going on in the wider environment may aid in understanding why things happened the way they did. When others find themselves in similar contexts facing similar issues, the experiences described in this evaluation may act as a useful source of ideas. It may also provide ideas on how the EBRD might customise its approach for greater effectiveness.

As an alternative, a simple and commonly used model of policy dialogue focuses on various stages of the policy process which, logically, are supposed to take place in a sequential fashion. The stages are agenda setting, policy analysis, policy option selection, policy implementation and policy evaluation with the latter feeding back into a new round of policy making. The various stages of this process frequently occur but often in a haphazard and partial way. This evaluation considers it is important to know where one is in this notionally sequential process as this should influence the selection of policy actions. However, the model itself is too far removed from reality to be useful.

So far, so good, but what takes place in the policy process is more complex than just observing the above elements and considering the stage one is at. For a start, the situation is dynamic. Everything can change unexpectedly and in unexpected ways. Changes in the context may change the nature of the problem, or the problem may stay the same but the preferred solution may change. Policy actors may change through changes in government or changes of personnel within government while the leadership of groups outside of government may also change. Not only may the priorities and belief set change as a result, but different personalities may form quite different interpersonal relationships. The possibly dynamic nature of the policy field of play likely means that a flexible (being prepared to change direction), opportunistic (being prepared to pass through windows of opportunity as they open up) and nimble (acting and reacting fast) approach is often likely to be more successful than a more measured approach.

The policy process, whilst being dynamic, is above all a political process. Policy problems and solutions may be characterised in technical terms but the process of making decisions is a political one - political in the sense of the exercise of power to set and enforce (or not) the "rules of the game" to the benefit/disadvantage of various groups, and to allocate costs and benefits disproportionately. While policy advocates such as the EBRD may focus on the technical dimensions of a policy problem and its solution, this study adopts the view that the Bank's actors need to be very aware of the political dimension to policy making, and to adopt a strategy for success that takes account of political economy factors if they are to prevail.

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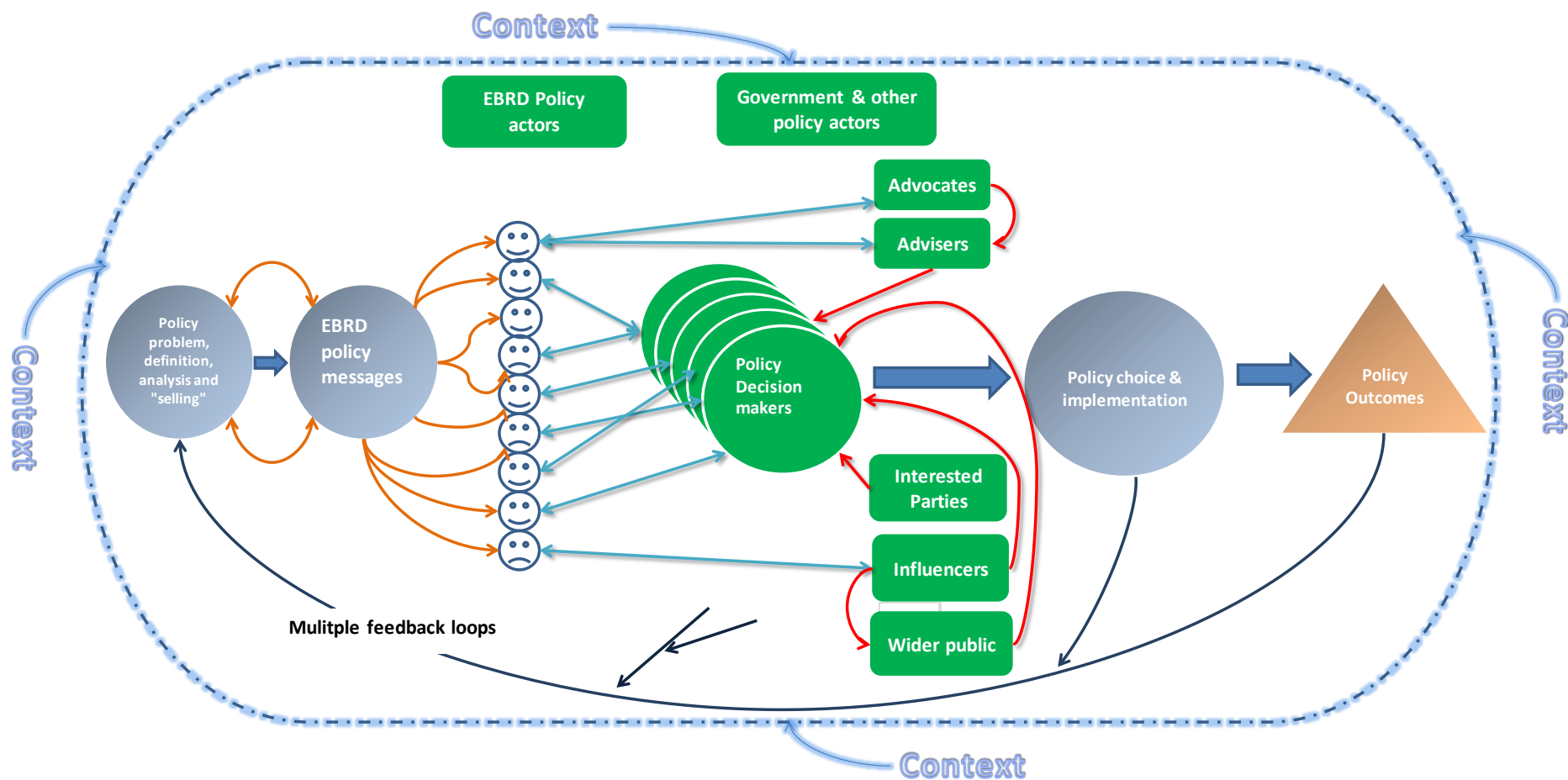
A further complication is that, without effective checks and balances, the exercise of power can become corrupt with the consequence that the visible "playing field" in which policy actors like the EBRD operate is not the only or even the main "game" going on. Stated objectives may not be real objectives and stated commitment may not reflect real commitment. The goodwill of players in these circumstances cannot be assumed. Clearly, the EBRD cannot operate according to the "norms" of this other world but actors must be aware that they exist, and be prepared to take them into account in the approach and strategy they adopt. Even where power is not corrupted, policy actors often "game" to extract maximum benefit for least cost. This study believes that the EBRD needs to be aware of the games being played by others and to play its own game in light of the actions and interests of those it seeks to influence while itself adhering to the highest standards of integrity.

Policy actors are individuals or groups of individuals with common interests. This study considers that understanding what motivates people to act the way they do is essential for understanding the success or lack of it from policy dialogue. Public choice theory opines that people are motivated by self-interest and that to bring about change it is necessary to create an alignment of interests. This study considers that crafting a strategy that aligns interests is an essential component of success. The EBRD recognises the importance of aligning interests when it talks about providing incentives for its staff to dedicate time and effort to policy dialogue. However, it is important to remember that people are motivated by things other than self-interest (such as more altruistic motives) and in non-monetary personal benefits (being seen as a leader, looking good on the international stage, winning, receiving praise and so on). The study considers that an understanding of all motivations is important.

Drawing on the above elements of the policy dialogue process the evaluation framework is illustrated in Figure 2-1 (recognising that any depiction represents a simplification of reality and may imply a predictable structure that does not exist in practice).



Figure 2-1 Framework for the Evaluation of Policy Dialogue in Ukraine



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Aspects not captured in Figure 2-1 include the following:

- The process is dynamic;
- Above all, the policy process is a political process. Policy problems and solutions may be cast in technical terms but at its most basic, policy is about “who gets what, when, and how”. While the EBRD’s policy actors remain apolitical in terms of party politics this evaluation takes the view that they must understand that when they engage in policy dialogue they are part of a political game and that a good understanding of the political economy dimension and adoption of a political economy approach (see Box 1) are essential for success. Conversely, seeing the issue and seeking to address it in purely technical terms may lead to disillusionment, frustration and failure.
- Further, the EBRD is often involved in policy dialogue where the exercise of political power has become corrupted such that it serves self-interest and the interests of a small but economically powerful elite. The evaluation considers that understanding the nature of corruption and the exercise of narrow self-interest in favour of elites, and using this knowledge to craft strategies and select tactics is essential for success in policy dialogue work in such circumstances.
- Even without the corruption of power, legitimate self-interest significantly guides the choices made by policy actors (including the Bank’s). EBRD policy actors need to be aware of the interests of all parties (including their own) and be capable of framing options in a manner that creates an alignment of interests. Internally, the EBRD also needs to ensure the interests of various actors are aligned if it wishes to realise its potential for effective policy dialogue. Alignment is needed between organisational and business objectives on the one hand, and individual staff interests on the other, and among departments.

## **2.2 Evaluation methodology**

The evaluation methodology took account of the fact that policy dialogue is a poorly documented area in the Bank with most of the information residing in staff members’ minds. To get access to this information required establishing a climate of trust and reducing the perceived threat level that sometimes exists with an evaluation. An approach of ongoing engagement and commitment to “no surprises” was successfully followed throughout the study. The main elements of the approach were: a literature review, wide consultation leading to preparation of approach and information paper; case studies, individual consultations and staff surveys, discussed in turn below.

### **2.2.1 Literature review**

The literature review initially focused on three dimensions:

- Conceptual frameworks for understanding the policy process;
- The methodology employed by others to evaluate policy support;
- The findings of these evaluations.

The first two dimensions were used by the team in the formulation of its approach to the evaluation.

The findings of related evaluations (including those by EvD itself) were compared with the findings of the current study to find common areas and areas of difference. The former provide useful validation for this study's findings while the latter led to further reflection to determine the reasons for the variation in findings.

The recent and ongoing high visibility anti-corruption initiative launched by the EBRD in Ukraine created an opportunity for the evaluation team to do a specific literature review on anti-corruption initiatives. This compilation of evidence forms a by-product of the evaluation for use by those working on the initiative.

#### Box 1: What is a political economy approach and why does it matter?

- Why do sector reforms sometimes slow down, stop or reverse despite technically sound policy content?
- What are the political, economic and social forces that drive or block policy change in specific sectors?
- Why do real world politicians often not act like textbook social planners?
- Which opportunities and incentives as well as which constraints and disincentives are reformers facing?
- Why is the 'political will' for sector reforms sometimes strong and sometimes weak?
- And how could development partners best create, strengthen or sustain this political will for sector reforms?

These are some of the questions many development practitioners ask when they seek to better understand and support sector reforms in developing countries. In order to find answers to these key questions, an increasing number of development partners have developed so-called 'political economy' approaches... But what exactly is the difference between the traditional political or economic approaches and these new political economy approaches with regard to the analysis and management of sector reforms? According to the OECD (2009), political economy approaches are **'concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time.'**

Following the OECD definition, political economy studies 'recognize that the policy environment is shaped by political, economic, social, cultural and institutional factors' –that is they analyse *all factors influencing the political process* (OECD 2005). Moreover, they seek 'to move beyond a description of symptoms and to understand the underlying causes of poor governance and lack of "political will" for sustained change' (OECD 2005) and thus, focus on the underlying institutions and incentives that are governing political action.

According to Collinson (2003), political economy analysis is characterised by four guiding principles: 'dynamic (by focusing on change), broad (by connecting changes in one place or group to those in another), longitudinal (by incorporating a historical perspective), and explanatory (by asking why certain people are affected by conflict and crisis in the way that they are)'.

Political economy analysis and management can also be understood as 'change management', which 'includes managing opposition, creating and heralding quick wins, taking advantage of opportune moments, and putting together and maintaining a supportive coalition' (European Commission 2005).

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

### 2.2.2 Wide consultation leading to preparation of approach and information paper

The evaluation started by reviewing relevant literature and consulting widely (in London and Kiev) to inform preparation of an approach over a period of around six weeks. The consultative approach served to gain the willing cooperation of those in whose minds much of the needed information resided.

There was considerable interest and enthusiasm for the evaluation. The team put this down to the fact that those involved in policy dialogue on behalf of the Bank saw the evaluation as an opportunity to make more visible a considerable body of work carried out in often very difficult circumstances; work that many felt was under-valued and certainly insufficiently recognised or rewarded. For others, particularly those in the Vice-President Policy group and members of the policy dialogue task force (see section 3.4), the evaluation was seen as potentially making a useful contribution to strengthening policy dialogue in the Bank.

The approach paper was formally shared with the Audit Committee (to whom EvD reports) and management. A number of colleagues on the management side provided useful comments. In a first for

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EvD, the approach paper was posted on the evaluation pages of the EBRD's external website in English and Ukrainian. A one page information sheet on the study was also prepared and posted in two languages.<sup>1</sup> This external dissemination did not generate any feedback.

### 2.2.3 *Case studies*

An early decision was taken to adopt a case study approach as the core of the evaluation methodology in order to get the needed “rich picture” of qualitative information. The first round of consultations identified ten possible cases. Clearly, this was more than could be handled in the time and resources available, particularly given that depth rather than breadth of investigation was the objective, so five cases were selected using criteria outlined in the approach paper. The five cases are:

- Power and energy utilities reform;
- Agribusiness grain sector reforms;
- Financial sector policy dialogue, including the local currency initiative;
- Energy efficiency and renewables;
- A regional case based on the city of Lviv.

Case studies were elaborated by the evaluation team and then shared with the operations team for verification and additional input.

### 2.2.4 *Individual consultations*

As noted several times already, much of the information needed by the team was not available in the form of documents – rather, it had to be obtained through consultation with the individuals who hold this knowledge. During the information gathering phase the evaluation team's preference was to interview people individually as this removed “group think” and provided a useful means of triangulation. Obtaining multiple perspectives on the same issue provided a much richer picture than would have resulted from group consultations.

Given the importance of interviews for this study a disciplined approach was taken to recording the interviews. Following a standard format, meeting notes were prepared immediately after each interview by one of the evaluation team members. Drafts were shared with other team members who were in the meeting for their input. Translated where necessary, the meeting notes were sent to interviewees for checking, correcting and provision of additional information. Many took the opportunity to provide revisions to the meeting notes and to make additional points.

Those consulted cover the following categories and sub-categories:

- EBRD staff currently involved in policy dialogue in Ukraine – banking and non-banking, and London or resident office based;
- Public officials in Ukraine with whom the EBRD has engaged in policy dialogue – including staff of central agencies, sector departments and municipal government officials;
- Politicians – national and municipal;
- Former senior bureaucrats in Ukraine;

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<sup>1</sup> [The approach paper and information sheet](#)

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- Former EBRD staff members previously involved in policy dialogue in Ukraine on behalf of the Bank;
  - EBRD clients – public and private sector;
  - Members and leaders of interest groups particularly business associations;
  - Academicians;
  - Think tank members;
  - Representatives of civil society organisations;
  - Media representatives.

In total, 103 formal information gathering meetings were held with 134 individuals.

### 2.2.5 *Staff surveys*

In order to complement the largely qualitative information from the case studies, and to broaden the scope of coverage of EBRD staff beyond those involved in the selected case studies, two staff surveys were carried out.

The main survey was directed at those across the Bank who were known to be currently involved in policy dialogue in Ukraine and those who had had significant prior involvement. In carrying out this survey, EvD partnered with the Vice President Policy group which had committed to undertake a pilot policy dialogue stocktaking exercise in two countries – Ukraine and Macedonia. The online questionnaire was administered using Smart-Survey. The survey link was sent in the first instance to directors and heads of divisions/units for onward forwarding to those known to be involved in policy dialogue in Ukraine. This approach was adopted since the evaluation team could not independently fully identify the population. A risk was non-cooperation by directors but the fact that responses were obtained from all teams indicates that this risk did not eventuate. A problem of the approach was that we cannot be certain about the population since forwarding of the link was possible – however, the population was at least 50 persons comprising managing directors, directors, and those to whom they sent the survey.

Forty staff members responded to the survey for a maximum response rate of 80 per cent.

A quick survey of resident office staff was conducted at the time of a presentation by the evaluation team to the office's annual retreat. This explored the participation of national staff in policy dialogue.

### 2.2.6 *Validation of preliminary conclusions and recommendations*

As findings emerged and recommendations were formulated these were shared with some of the informants previously consulted as a test of their validity and utility. The findings were also compared with those of other evaluations of policy dialogue.

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## **Annex 3. The socio-economic and geo-political context in 2013**

### **3.1 Socio-economic, political and historical context in 2013**

Ukraine is a transition country whose path to the market economy and fully fledged democracy remains particularly challenging. It has spent two decades building basic economic and political structures that did not exist before. Its achievements in some areas are sound, while the lack of progress in others is significant. The legacy of the Soviet era is very much still alive in the memories of older generations, and historical division lines continue to be important.

Ukraine's geographical location is extremely important and it is often said to be "a country located on the cross-roads." A positive side to this is the huge potential for Ukraine to capitalise on key north-south and east-west trade routes. The negative side is the continuous geopolitical battles that are being held across Ukrainian territory. Ukrainian society itself is divided along the lines of historical borders and perceptions of national identity and belonging. Over centuries, different regions of modern Ukraine were parts of different empires. This resulted in quite distinct ethnic, cultural, language and religious differences and rather complicated sub-national politics and governance. Despite these differences, Ukraine is now a unitary state and its regions have relatively few powers, with the exception of the Autonomous Republic of Crimea.

Ukraine is experiencing one of the fastest rates of depopulation in the world. Over the last 20 years its population has fallen from 52 to 46 million due to natural negative growth and migration. Those leaving are mostly young and educated, which leaves Ukraine's demographic profile seriously skewed towards older generations, which have the greatest political leverage as they are also the most likely to vote. Their needs, often opposite to those of younger generations, investors and IFIs, usually form the cornerstone of election campaigns and government policies. Understanding this electoral reality is crucial for holding realistic expectations from government stakeholders.

Ukraine traditionally has had high human capital but social capital has remained underdeveloped, especially between non-related individuals, though recent dramatic events had resulted in tectonic shifts in people's perceptions of trust and cooperation, which may produce far-reaching effects far beyond the immediate outcome of the street protests. Reliance on connections is an integral part of Ukrainian society, which is clearly visible at the highest political tier.

Language is a big political issue in Ukraine – since independence there was a reversal of the formerly oppressive policy towards the Ukrainian language. However, between 2010 and 2013 the government's linguistic policy again supported the expansion of the Russian language in political and educational spheres, and in everyday life. This created additional tensions in society and alienated different regions even further.

Over the last decade, Ukraine has twice dramatically changed its constitutional arrangement. From being a presidential-parliamentary republic from 1992, it became a parliamentary-presidential one in 2004 with significant devolution of power to local levels. However, the multitude of power centres that resulted had a negative effect on governance and in 2010 President Yanukovich reversed the process of constitutional reform and returned most of the former presidential functions.

Usually it is essential to have a committed leader to deliver radical policy reforms. In Ukraine it is even more so as personalities have much greater leverage due to the weakness of the civil service; the political dependence of the judicial system; and, a lack of consistent civil control over power. Progress is usually achieved when a reform agenda coincides with the aspirations of the leader and their political/economic



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agenda. Big businesses are often closely intertwined with the government as their fortunes are dependent on their closeness to the political leadership. As part of this power play, reforms are often reversed or amended to such a degree that it is impossible to see the initial purpose or any residual gain.

## 3.2 Policy actors

Ukraine became independent 22 years ago during which time it has gradually built capacity to develop and implement independent socio-economic policies. However, this capacity has many gaps and suffers from a lack of consistency and perseverance compared to more mature economies. In some areas, capacity and performance are better (monetary, fiscal, and trade policies for example) while in others it is less than satisfactory (such as rule of law, competitiveness, innovation, and welfare policies). There are good preconditions for a healthy process: a solid tradition of civil service (albeit tainted by ideological hangovers of Soviet central planning), a high level of human capital, and political pluralism. However, there are significant handicaps that until now have limited progress in policy development and implementation compared to the success of other central and eastern European countries.

This evaluation identifies five key organised groups of policy actors in Ukraine that have the most significant influence on the process of policy development and implementation (in the opinion of authors of this evaluation their place in the list reflects their importance and the power they have to bring about change or to block it).<sup>2</sup> The five groups are: elected politicians, business lobby groups, civil servants, international organisations, and expert organisations.

### 3.2.1 *Elected politicians*

Elected politicians, including the President, members of parliament (Verkhovna Rada), mayors and local/regional councillors – potentially had the greatest leverage as they are not appointed but directly elected and are accountable to voters. In reality though, the political system in place until February 2014 absolved elected politicians from direct responsibility as there was no recourse for changing allegiance or failure to honour commitments made. A system of “closed” lists of political parties that form half of the Verkhovna Rada and all regional/local councils also undermined accountability. The pluralist political system of Ukraine up until the time of writing had positive features but it also brought many problems. Many politicians contested for leadership positions and this often created chaos. A good example is the “Orange Team” that came to power in 2005. Very high expectations were held about its reform-oriented programme, both domestically and internationally. However, a “war of personalities” and a decentralised governance system established after constitutional reform in 2004 led to never-ending conflicts and constant reversal of already-taken decisions. As a result, not much progress was achieved in much needed structural reforms over the period of 2005 to 2009.

The former President (February 2010 to February 2014) had more authoritarian inclinations and very few known aspirations. Many were of the opinion that his main stimulus for pushing for changes in Ukraine was personal economic gain and that his fear of losing power overshadowed many political processes thus prompting major missteps in domestic and international policy. Such a scenario is also seen as creating ideal conditions for relations built on ultimatums by external actors, who are aware of his weaknesses.

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<sup>2</sup> As shown by the Orange Revolution and the current street protests in Ukraine, civil society can be a powerful force in bringing about change both directly (as evidenced by the Orange Revolution and perhaps the current protests) but also indirectly by their influence as voters. However, for the purposes of the EBRD’s role in policy dialogue, civil society is not considered to be among the key organised policy actors. This is not to deny that the EBRD should direct policy messages to civil society, through the media, outreach events or via civil society organisations.

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Locally and regionally elected politicians at the time of writing had relatively little financial independence as the fiscal system of Ukraine was very centralised and discretionary-use resources to fund locally-developed strategies and projects were scarce. However, when consensus was built within and among local/regional politicians, local businesses, community groups and experts, good results could be achieved even in a highly centralised governance system. Examples of successful development of some large and medium cities of Ukraine, including those where the EBRD has projects with local publicly owned companies, illustrate these opportunities.

Despite the importance of elected officials to the policy making process, even with a largely dysfunctional parliament, the EBRD had relatively little contact with this group – only three per cent of survey respondents identified members of parliament or parliamentary commissions as their principal policy dialogue counterpart while a further 13 per cent indicated they had significant engagement with this category of domestic policy actors (see details in Annex 10).

### 3.2.2 *Business lobby groups*

Business lobby groups are either organised in professional associations or are -alone players. Big businesses in Ukraine are owned by a handful of powerful economic actors (oligarchs) who have been intertwined with the government officials and elected politicians. As a general rule, the fortunes of a large company have depended on how close its owner is positioned to the political elite. Control over a group of parliamentarians or a parliamentary committee could secure passage of decisions that protected or expanded the sphere of influence of the economic group. Competitors without a similar level of connections were bound to lose, which is why every strong and ambitious economic group has tended to invest heavily in its presence in politics. It was common to hear that the head of certain agency or even minister “belongs” to one or other economic group and was lobbying for it or against its competitors.

The major protests in Ukraine that began in 2013 were partially caused by the growing inequality of the wealth between the richest and most powerful men and women of the country and the rest of the population. In particular, the ascendance of one particular business group, the so-called “Presidential family,” happened between 2010 and 2013. Its assets were often expanded via obtaining other companies’ assets through raiding and other unfair practices. The growing trend of corporate raiding in Ukraine was one of the most worrying signs that prompted EBRD management to launch an anti-corruption initiative late in 2012 to raise the issue of unfair business practices in Ukraine at the highest level, and to call for urgent reforms to make the economy transparent and truly competitive.

Aside from the non-transparent influence on policy by the largest business groups, there have been various business associations and forums that have had different degrees of influence on policy decisions. Some of them have been effective in specific areas (including sector associations such as the Grain Association, and multi-sector groups such as the American Chamber of Commerce and European Business Association); others have had high status but are ineffective (such as the Domestic and Foreign Investors Advisory Council under the President of Ukraine); some have been affiliated with the government (Union of Industrialists and Entrepreneurs) and some are pocket projects of individual economic groups (including the Association of Taxpayers and Association of Employers).

Many mid-level business associations have remained below the radar of big policy players, including donors and IFIs, despite their critical importance as agents of change. A number of interviewees in Ukraine told the evaluation that the only engine for change in the business sector was what they identified as mid-size companies with the rationale being that large companies were by-and-large comfortable with the status quo or had too much to lose by challenging it while small companies had no resources or ability

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to influence the situation. However, the general perception of the EBRD is that it works mostly with large companies and, to a much lesser (and less well-known) extent with small companies (that lack any influence) through its Small Business Services programme.

### 3.2.3 *The civil service*

The civil service – although being the backbone of the policy process and despite being large in number (in 2013, there were 373,000 civil servants in central and local government agencies, which constitutes 0.8 per cent of the total population), has lacked the professionalism and independence that are crucial for provision of impartial advice, and consistent implementation and monitoring of the progress of specific reforms. Ukraine has made many attempts to reform the civil service and to make it genuinely professional and politically independent. Unfortunately, these reforms were mostly not completed or were reversed part-way and, despite significant resources provided by international organisations and governments, including IFIs, they have yet to achieve the desired effect.

Civil servants have remained dependent on political decisions, their appointment is subject to allegiance to specific political/economic groups, and reshuffles are frequent (down to the heads of departments). Civil servants have lacked motivation, resources and stimuli for effective performance, learning and personal development. Career progression has not been based on merit but on connections and allegiance. Most damagingly, civil servants by large have still adhered to a core principle of Soviet civil service that “you are not providing services to the people who pay your salary you are doing them a favour.” A near total corruption of the civil service where almost every function and responsibility, appointment and promotion has a price tag has been destroying the morale of the service even further. The ability to get illicit rewards attracts unscrupulous people.

In 2013 Ukraine lost the opportunity to obtain €70 million of direct budget support to reform the civil service – the European Union cancelled the funding due to the unwillingness of Ukrainian authorities to approve a law that would ensure independence and professionalism of the civil service.

### 3.2.4 *International organisations*

International organisations, IFIs, and bilateral donors making up the international community have had a significant influence over domestic policies in Ukraine. As the country had to start afresh after gaining independence in 1992, it relied heavily on advice, technical assistance and loans provided by international organisations and donors. The International Monetary Fund, the World Bank, the EBRD, the International Finance Corporation, the European Union, and the United States Agency for International Development are the key players whose advice and support helped to shape many fundamental socio-economic policies. Often this advice led to positive long-term changes but equally, it was often delivered half-heartedly, reversed or ignored. However, Ukraine’s commitments as the member of many international organisations (including the World Trade Organisation, the World Health Organisation and the United Nations), accords (including the International Finance Corporation and the European Energy Community) and initiatives (such as the Vienna Initiative and Chernobyl Shelter Fund) remain a powerful instrument for igniting necessary structural reforms.

### 3.2.5 *Expert organisations*

Expert organisations in the context of this study, including academia, think tanks and various pressure groups. Unlike developed economies, there has been a relative deficit of independent or ideologically clearly determined analytical institutes and think tanks in Ukraine that could provide bold and consistent

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ideas on needed reforms of Ukraine's economy, welfare and state building. They are not altogether absent – there are a number of think tanks and analytical centres in Kiev and large economic centres across Ukraine – but the quality of research and the depth of analysis they are producing, and their footprint in actual policy agendas of governments has to the time of writing been very limited. As such, their influence is more potential than realised.

The reasons are multiple but among the main are (a) lack of committed top professionals; (b) deficit of funding; and (c) low demand for independent policy advice by central and regional/ municipal governments. Ukraine has had no tradition of philanthropy so funding of expert organisations originates either from international organisations, foundations or foreign governments; or from central/ municipal budgets. The latter has had quite limited funding and what they did have was spent on government academic and research institutions whose capacity to deliver high-quality products is very doubtful. Pressure groups and civil society organisations in Ukraine are many, but their influence has been limited, though it has become much more noticeable in the last several years. Human rights activists, ecological and consumer rights protection groups are the most visible. In latest current political crisis, civil society organisations became one of the targets of the government – there have been attempts to significantly limit the scope of their activities, independence and power to speak via adopting some legal changes.

### *3.2.6 Multiple policy actors*

Multiple policy actors in Ukraine engage with each other and create coalitions for achieving specific policy objectives. Some alliances are temporary while others last years. However, the fluidity of administrative changes and quick turnaround of personalities undermine the “institutional memory” and cause disruptions to policy reforms that often take years to mature and come to force (for example, energy policy, nuclear safety, and pension reform among others).

### *3.2.7 Unofficial lobbying*

It is also worth stressing the peculiar nature of Ukrainian political processes. Quite often under the visible motives and actions are those that are unknown and invisible to the wider audience and international partners. Hidden economic interests are the driving force of many reforms and changes. Family connections, regional fraternities or simply bought allegiances are the basis for creating power networks. Since there have been no formalised lobbying mechanisms in the Ukrainian political system, unofficial lobbying has thrived and usually has involved large sums of money or economic assets in exchange for relevant decisions at national, regional and local levels. This reality has made it impossible to make forecasts about the nature and pace of reforms and the alignment of policy actors even in the short term. Given this, detailed political economy knowledge and awareness, patience and flexibility are a must for any partner that is planning to engage in policy dialogue in Ukraine.

## **3.3 Institutions and organisations**

As noted above, Ukraine had by 2013 twice dramatically changed its constitutional arrangement that determines the governance system and institutional environment. From the onset of independence Ukraine was a presidential-parliamentary republic with a strong president responsible for appointing and controlling the activities of a cabinet of ministers. There was a vertical axis of power stretched from the top level at the centre down to regional (oblast), sub-regional (rayon and city) and local (village) tiers. Horizontal linkages among agencies and regions were discouraged.

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One of the results of the Orange Revolution in 2004 was constitutional reform that shifted many powers from the president to parliament and made the government less dependent on one person. However, the many centres of power that emerged after the reform had a bad effect on governance standards and the decision-making process slowed down considerably. Leaders of the same political camp managed to become worst enemies in a matter of months and this made the political system dysfunctional for years. The high hopes of a west-looking and reform-minded president and prime minister evaporated and both external actors and Ukrainian voters demanded a change, or at least greater stability.

In 2010 Victor Yanukovich was elected as president. He reversed the 2004 constitutional reform on the grounds that it was carried out with violations, and he reinstated most of the presidential powers. He quickly restored the centralised system of power and made the government completely dependent on his decisions. In Ukraine, the presidential administration has more powers and levers of influence than the cabinet of ministers. Through his party's (Party of Regions) majority in parliament, President Yanukovich had an almost unlimited ability to initiate policies, though implementation can still be sabotaged by the civil service as it is often the case.

The president had powers to appoint and dismiss the prime minister and deputy, ministers and their deputies, heads of regional (oblasts) and sub-regional (rayons) administrations. He had a strong hold over the judicial system via a system of court appointments, prosecution and security and justice institutions. The decision not to sign an Association Agreement with the European Union in November 2013 clearly demonstrated the extent of presidential power in Ukraine. The president was the sole initiator of development of strategies (though Ukraine has not had a long-term socio-economic development strategy for many years now). He is also the sole initiator of large-scale structural reforms and policies (such as reform of the civil service, local self-government, pension and energy). However, the reforms that he initiated generally were not followed through and were usually forgotten in a matter of months. The parliament elected at the end of 2012 was largely dysfunctional.

In 2011, the president launched large-scale administrative reforms the primary objective of which were to cut the headcount of the civil service, improve productivity, reduce the regulatory burden and move the Ukrainian civil service to European standards. None of these objectives were achieved and despite widely advertised announcements about redundancies, reshuffles, and restructuring of the cabinet structure and lines of authority, little changed and in many cases things became worse. The institutional environment and the regulatory framework, were at the time of writing, the weakest links in the process of increasing the productivity of the Ukrainian economy.

At the time of writing in 2013, state institutions and their employees did not so much support and facilitate economic transformation, as permit it. Fundamental forward-looking spheres of policy – education, science and research have failed to ensure the human capital necessary for sustainable and independent socio-economic development. Bridging social capital remained weak (though this is bound to change after the major protests of 2013/2014) while bonding social capital based on trust in family, friends and connections forms the basis of Ukraine's economic model.

The dramatic challenges that Ukraine faces have divided society. Three crucial ingredients needed for a successful transition – a responsible political establishment, a sound institutional environment enabling private initiative and entrepreneurship, and an active civil society – are absent. At the time of writing in 2013, the president's and his government's actions were reactive rather than proactive. There was no long-term vision for the country's development, either domestically or internationally. The absence of a vision and long-term strategy meant that reforms and actions at the time of writing were short-term and piecemeal. The ambitious reforms that were launched in 2011 were diluted due to popular opposition (for

example, pension reform), or were counter-productive (for example, the new Tax Code), or they lacked a coherent logic and plan of action (such as the ongoing administrative reform).

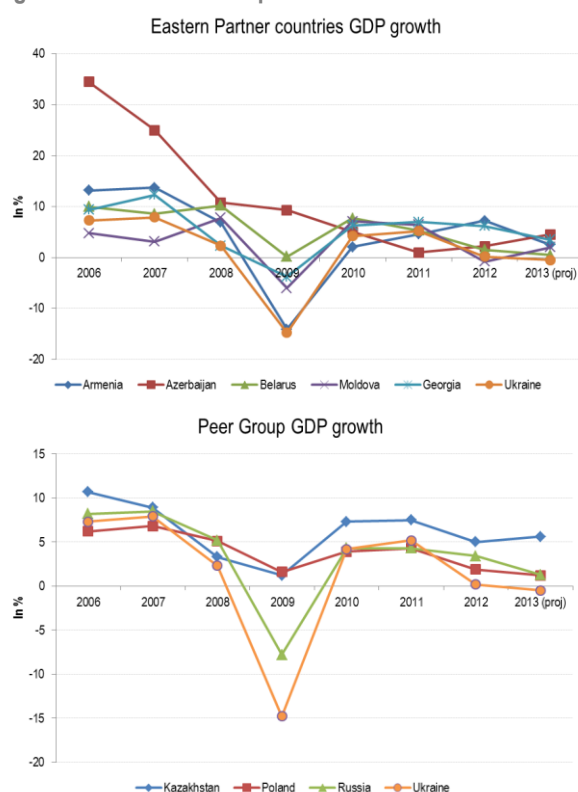
Though it was unable to perform welfare functions as in Soviet times, the Ukrainian state in 2013 continued to behave in paternalistic manner towards its citizens. At the same time, a large proportion of population retained high expectations of social guarantees and support, even though the market economy made such support impossible.

### 3.4 Economic performance

Note: given the turmoil faced by Ukraine since end-2013 any description of current economic performance rapidly becomes dated. Nonetheless, the long-term trends in performance are still instructive from a policy perspective. This annex was finalised in March 2013.

Ukraine was hit hard by the financial and economic crisis and its recovery has generally lagged behind those of other Economic Partner Countries and that of other countries Ukraine considers as its peers (see Figure 3-1).

**Figure 3-1 Ukraine's Comparative Economic Performance**



Source: Elaborated by the EvD team with data from EBRD Transition Reports 2006 – 2013

The EBRD's regional economic prospects report to November 2013 notes that Ukraine's economy had been contracting since the third quarter of 2012, largely as a result of the poor external environment but also as a consequence of its own poor business environment and policy uncertainty. Growth in 2013 was projected by the Bank to be -0.8 per cent though turning positive in the fourth quarter helped in part by a near-record grain harvest. However, the report considered "recovery is likely to be very slow unless the authorities implement much of their ambitious reform agenda." The forecast was for growth of 1.5 per cent

<sup>3</sup> [EBRD. 2013. Regional Economic Prospects in EBRD Countries of Operation: November 2013](#)



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in 2014. The country's exports had been contracting, a situation exacerbated by Russian restrictions on Ukrainian exports designed to put pressure on Ukraine not to sign an association agreement with the European Union. It was reported that Ukraine was among a number of countries where output remained below pre-crisis levels and was one of only three countries where the gap continued to widen.

On 1 November 2013, Standard and Poors lowered its long-term foreign and local currency sovereign credit rating on Ukraine to B- from B with its outlook remaining negative. The main considerations for the downgrade were:<sup>4</sup>

- A view that the government's strategy was increasingly unlikely to secure sufficient foreign currency to meet its elevated external financing needs;
- Constraints posed by political uncertainty, financial sector stress, and weak external liquidity;
- Support for the rating came from the country's relatively low, though rising, level of government debt and a fairly diversified economy;
- Foreign currency reserves held by the National Bank of Ukraine declined 26 per cent year-on-year in September 2013, having declined by 23 per cent during 2012;
- Reserves were projected to continue to decline over the forecast period to below three months of current account payments;
- Officials were increasingly using foreign exchange controls in an effort to boost reserves;
- Under the base case, Ukraine was not expected to commit to broad-based reforms, which makes agreement on a multilateral external financing programme led by the International Monetary Fund unlikely – the programme would likely involve some combination of: fiscal consolidation, making the domestic gas market more market-oriented, accelerating the resolution of non-performing loans in the financial sector, and increasing exchange rate flexibility;
- Devaluation of the hryvnia was considered to be the more likely response, the potential magnitude of which was seen as having increased through the government's support for the exchange rate through depletion of foreign currency reserves – this has since happened;
- Weakness of the banking system was seen as an impediment to monetary policy flexibility;
- Non-performing loans in the banking system were around a very high 40 per cent and could go higher with devaluation since 34 per cent of bank loans were denominated in foreign currency in November 2013;
- Standard and Poors observed if Ukraine signed the association agreement with the European Union at the Vilnius Eastern Partnership Summit on 28-29 November 2013 (which it did not) this would be positive for the country's trade over the long-term but it would likely have short to medium-term negative implications if Russia imposed further trade restrictions (in 2012 Russia accounted for 26 per cent of Ukraine's commodity exports and 39 per cent of services exports);
- Limited prospects for fiscal consolidation were seen;
- Trend growth of 1.8 per cent gross domestic product per capita was forecast;

- There was a one in three chance that ratings could be lowered over the coming 12 months if net foreign currency reserves declined at a sharper and sustained rate than expected at the time.

On 23 November 2013, Ukraine's government suspended the planned signing of the Association Agreement with the European Union. This led to huge protests in the streets of Kiev and other major Ukrainian cities. The reaction to the calls by protesters for Yanukovych to step down turned violent and resulted in loss of life. In mid-January, the adoption of laws criminalising some of the protesters' activities provoked fierce clashes between anti-government protesters and the police.

On 17 January 2014, Russia offered a rescue deal of US\$ 15 billion in direct financing to the Ukrainian government in order to help the country avoid a financial crisis.

On 28 January 2014, Standard & Poor's Rating Services lowered Ukraine's long and short-term foreign currency sovereign credit ratings from B-/B to CCC+/C while the long and short term local currency sovereign credit ratings remained at B-/B.

Apart from the escalating political turmoil, the rationale behind the downgrade was:

- A view that external liquidity was weak. Ukraine's gross external financing needs were projected to reach 155 per cent of current account receipts and usable reserves;
- Depreciation of the Ukrainian hryvnia by about 2.5 per cent in 2014;
- Foreign currency reserves were projected to be of about two months of current account payments and 35 per cent of external short term debt in 2014;
- The change in general government debt was estimated at 6 per cent of GDP, and general government net debt at about 38 per cent of GDP in 2014;
- Weakness of the banking system was still seen as an impediment to monetary policy flexibility; in particular non-performing and restructured loans remained high at 40 per cent of total loans;
- Trend growth is forecasted at 1.8 per cent due to weak external demand for Ukraine's metals and machinery exports and continuous decline in industrial production.

Ukraine's macro-financial stability has been put at risk by the current political crisis. The growing turmoil has been affecting the economy by exerting pressures on the currency and increasing the possibility of capital flight. Liquidity shortages and refinancing risks will immediately arise if the expected support from Russia is interrupted.

On 21 February 2014, Standard & Poor's Rating Services further downgraded the nation's sovereign credit rating to triple C due to the substantial deterioration of the political situation in the country that put at risk the government's capability to service its debts.

Clearly the economic context is not very favourable towards positive outcomes from policy dialogue. Also, there appears to be little if any commitment to reforms that would address the underlying problems facing the country. On the other hand, a crisis often precipitates more reform that is more radical and far-reaching than the evolutionary reform that is the norm in non-crisis situations. The EBRD needs to be ready to act fast if this window of opportunity opens up.

### **3.5 Regional and global context**

The events unfolding in Ukraine since November 2013 are a dramatic illustration of the geopolitical significance of Ukraine on the European continent and the traditional dichotomy in its foreign policy. For

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22 years, a careful balancing act on the edge of Western values and Russian neo-imperial ambitions was ensured by the three first presidents of Ukraine. Despite an inability and sometimes desire to perform dramatic reforms, they were able to accommodate diverse groups of interests and maintain a peaceful and gradual transition from a centrally-planned economy with a repressive political system to a free market model with pluralism of opinions and a diversity of the political landscape. The former president of Ukraine, Victor Yanukovich, for many reasons was unable to follow this tradition. That is why, as of January 2014, the country was close to violent scenarios of development, civil unrest and potential spatial disintegration. Any dramatic changes in Ukraine's course of development will not only have a fundamental impact on its future welfare, competitiveness and security, but also on welfare and security of the continent.

The current political and societal crisis is not a one-off event – it is deeply rooted in the historical context and geopolitical location of Ukraine, which Samuel Huntington once called “the heart of Europe”. Squeezed between Russia to the East, which for centuries had a supreme empire role towards Ukraine, and the European Union to the West (which also includes some former empire powers, like Poland and Hungary), it has to find a way of peaceful co-existence with both.

Unlike Baltic countries that quickly oriented themselves towards Europe and cut all geopolitical links with their Soviet past, or unlike Belarus and some Central Asian republics that remain largely rooted in the Soviet legacy and recognise the supremacy of Russia as their political ally, Ukraine is often somewhere in-between. For many years, it was playing the card of soft blackmail of the West (first of all the European Union and USA) and Russia, counter-playing the fears and ambitions of two blocks for economic or political gains.

President Kuchma was the supreme “dualist” and he often got what he wanted through playing one side off against the other. However, times have changed and neither Russia nor the West are what they were 10 to 20 years ago. There is also tiredness of Ukraine's overplaying its hand in areas such as the energy sector, and in the geo-economics and geopolitics of European continent more generally. Elected in 2010, President Yanukovich returned to the techniques of playing the two sides against each other or trading political changes for economic gains. However, his personal and national positions are very different and the gains from such an approach were marginal at best. At the end of 2013, a fairly soft approach was dropped in favour of more aggressive bargaining with dramatic shifts in the external politics and catastrophic consequences for Ukraine's people.

The current political crisis in Ukraine, which is the most serious since the country gained independence, aggravates the geopolitical and geo-economic rifts which exist on the European continent.

Ukraine integrated into global economy and political system through membership in international organisations and its commitments in the framework of international accords. It gave up its nuclear weapons in 1994 in exchange of the guarantee of security and territorial integrity – the Budapest Memorandum was signed between Ukraine and three guarantor countries (United States, United Kingdom and Russia). Its monetary and macroeconomic policies were shaped under the influence of advice and support provided by the International Monetary Fund, the World Bank, the EBRD and other IFIs. Its welfare reforms, attempts to build rule of law and law enforcement policies are deeply rooted in the European models provided via extensive European Union support. Many achievements in regulatory and competitive policies have been done with the support from the American or British governments. Its trade and economic policies are determined by its obligations in the framework of World Trade Organisation membership, it is active member of UN institutions, including in climate change area. In 2011, Ukraine became a full member of European Energy Community and very slowly but consistently has applied

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European Union directives in energy sector. The list can go on and might include Ukraine's recent joining of Vienna Initiative 2.0.

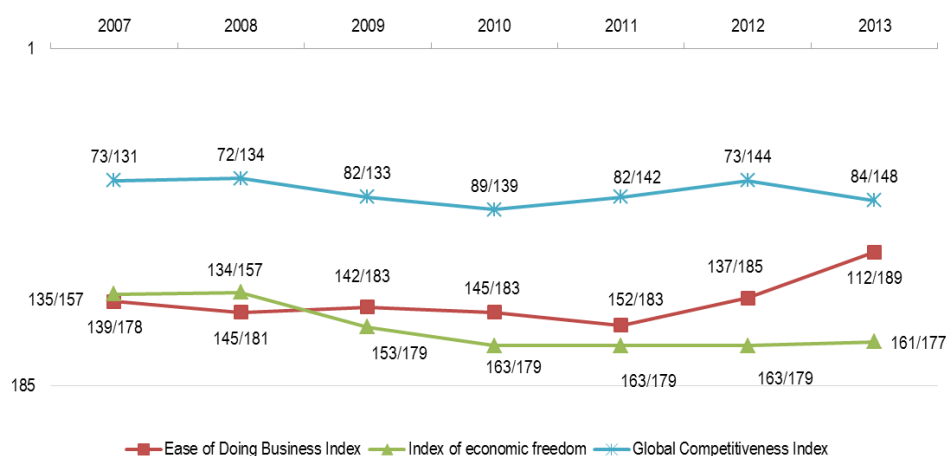
Unlike Russia, the European Union cannot offer big stimuli or exercise leverage on the Ukrainian leadership – it can't offer large amounts of money without strings attached, and it can't switch off the gas flow when the conditions of loans are not met. After deciding not to sign an Association Agreement with the European Union, President Yanukovich almost immediately signed a financial rescue package with Russia totalling US\$15 billion which also includes a temporary reduction in the gas price of 30 per cent. Russia maintains a military presence in Crimea (in Sevastopol) on the basis of a long-term lease of the territory where its fleet is located. It is usually used as an important asset in geopolitical and geo-economic negotiations. For example, the gas deal signed by Presidents Yanukovich and Medvedev in 2010 was called 'gas for fleet' and offered US\$100 temporary discount in gas price in exchange for extending the lease agreement for another 25 years.

The toughness of Russia's approach is not surprising as its leadership traditionally claims that Ukraine is "a country of its sovereign interest" so it persistently undermines any attempts by the West to bring Ukraine under its umbrella. It was successful in creating unfavourable perspectives on the North Atlantic Treaty Organisation in Ukraine in 2008. In November 2013, the President of Ukraine used the Russian trade sanctions as a main reason for refusing to sign the Deep and Comprehensive Free Trade Agreement and Association Agreement with the European Union, which was under preparation for five years. Russia has been consistent in striving to achieve its major objective – namely, to include Ukraine in its Customs Union (along with Belarus and Kazakhstan) and further on, in a comprehensive economic union. An Association Agreement with the European Union is seen by Russia as a direct threat to its ambitions.

## Annex 4. Business climate and corruption in Ukraine

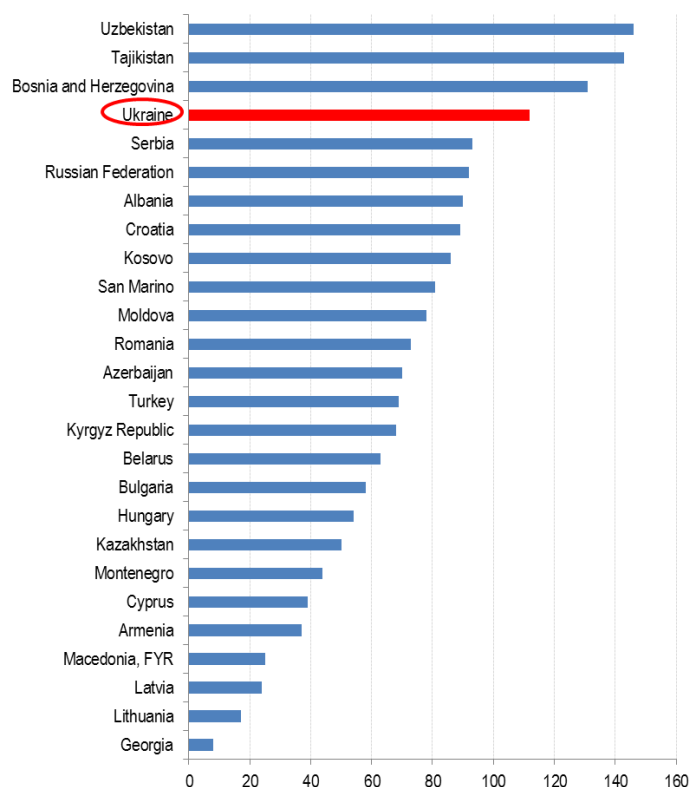
Ukraine's business climate is poor, both absolutely (Figure 4-1) and relative to the EBRD's other countries of operation (Figure 4-2 and Figure 4-3). Generally, the trend has been negative or relatively unchanged although an important exception to this is progress over the last two years in the Ease of Doing Business ranking (see below for further discussion on this).

Figure 4-1: Ukraine's ranking on selected business climate indexes



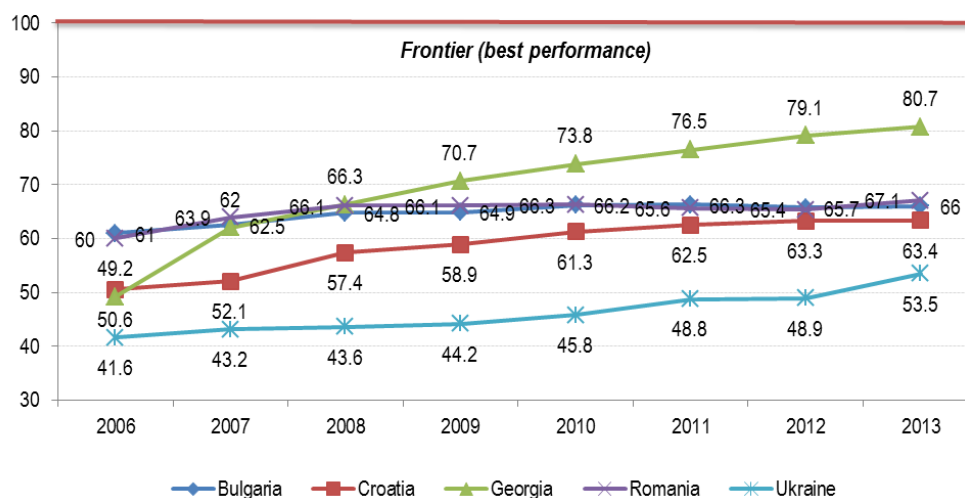
Sources: Elaborated by the EvD team with data from various sources

Figure 4-2: Ukraine's comparative ranking on the ease of doing business index 2014



Source: Elaborated by the EvD team with data from Doing Business 2014

Figure 4-3: Distance to ease of doing business frontier against comparator countries



Source: Elaborated by the EvD team with data from Doing Business 2014

As can be seen in Figure 4-1, Ukraine ranked 152 out of 183 countries on ease of doing business in 2011. In 2012, it improved to rank 137 out of 185 countries with a further improvement to 112 out of 189 countries in 2013. However, Ukraine remained fourth worst among the EBRD's countries of operation (Figure 4-2) albeit improving by one position from the previous year. Since the Doing Business methodology has changed over time, an effective way to compare countries is using the distance to frontier measure.<sup>5</sup> Ukraine's comparative performance on this is shown in Figure 4-3. According to the World Bank International Finance Corporation 2014 report, Ukraine is 4th among the 50 economies narrowing the distance to frontier the most since 2005.

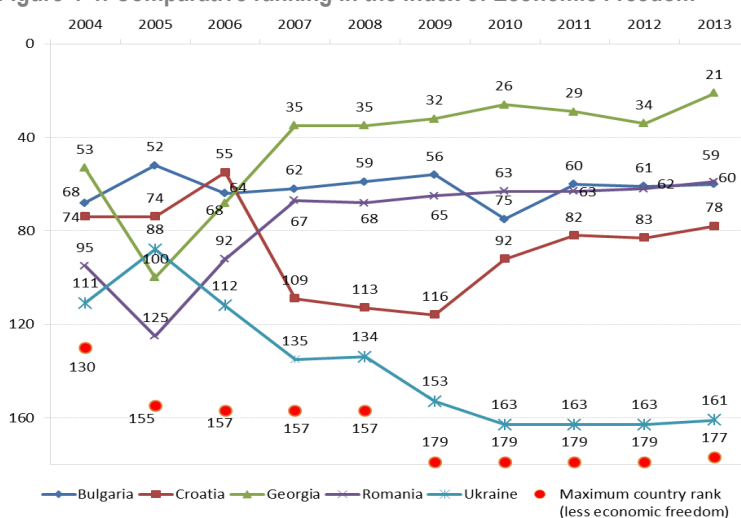
Ukraine's substantial improvement is a direct result of the adoption by the President's administration of the ease of doing business ranking as a measurable indicator for its National Action Plan for 2013 on the Introduction of the Economic Reform Programme Prosperous Society, Competitive Economy, and Effective State 2010 to 2014. This is a good example of "what gets measured gets done." While such progress can only be welcomed, those consulted by this study do not consider that the improvement in ranking has yet been translated into noticeable improvements in the situation faced by business – this as a result of poor or non-implementation of the measures adopted and the existence of other barriers not yet addressed. This reality is symptomatic of a weak commitment and partial approach to reform such that even when some reform measures are adopted, no real change takes place.

<sup>5</sup> The distance to frontier measure "shows the distance of each economy to the "frontier," which represents the highest performance observed on each of the indicators across all economies included in Doing Business since each indicator was included in Doing Business. An economy's distance to frontier is indicated on a scale from 0 to 100, where 0 represents the lowest performance and 100 the frontier. For example, a score of 75 in DB 2012 means an economy was 25 percentage points away from the frontier constructed from the best performances across all economies and across time. A score of 80 in DB 2013 would indicate the economy is improving. In this way the distance to frontier measure complements the yearly ease of doing business ranking, which compares economies with one another at a point in time".



A further illustration of Ukraine's absolute and relative performance is shown by the trends in the Index of Economic Freedom<sup>6</sup> (Figure 4-4).

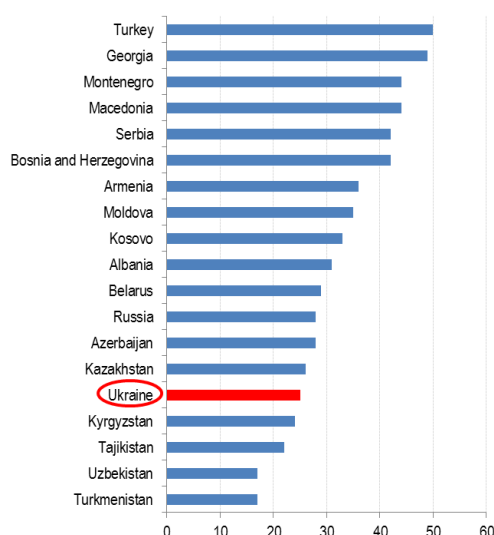
**Figure 4-4: Comparative ranking in the Index of Economic Freedom**



Source: Elaborated by the EvD team with data from the Index of Economic Freedom

In terms of corruption, the Transparency International's Corruption Perception Index shows the degree to which corruption is perceived to exist among public officials and politicians by business people and country analysts. Score ranges between 100 (highly clean) and 0 (highly corrupt). Ukraine ranks low among the EBRD's countries of operation (Figure 4-5) and it has not shown any trend towards improvement (Figure 4-6).

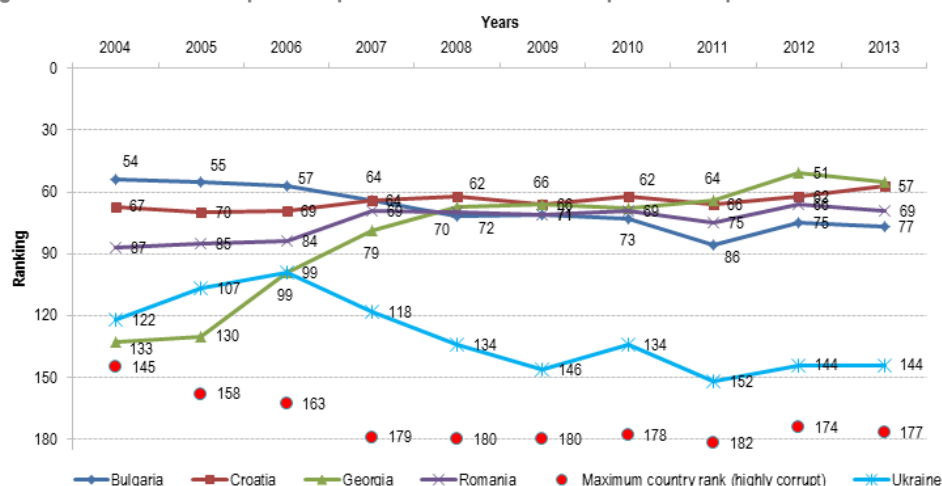
**Figure 4-5 : Corruption Perception Index 2013 (scores)**



Source: Elaborated by the EvD team with data from the Corruption Perception Index 2013

<sup>6</sup> The Index of Economic Freedom is published by the Heritage Foundation in collaboration with the Wall Street Journal. It takes into account 10 components organised into four categories: rule of law, limited government, regulatory efficiency and open markets. The index varies from 0 to 100 (the best). Countries are then classified by groups (i.e. free, mostly free, moderately free, mostly unfree and repressed) according to their rankings. Ukraine is constantly ranking low in this index and it has moved down by 28 positions over the last six years. In 2013, Ukraine ranked 161 out of 177 states scoring 43.6 points out of 100. This moved Ukraine from the category of "mostly unfree" countries to "repressed" countries.

Figure 4-6: Ukraine's comparative performance on the Corruption Perception Index



Source: Elaborated by the EvD team with data from the Corruption Perception Index

The Press Freedom Index is an annual ranking of countries compiled and published by Reporters Without Borders. It measures the state of media freedom throughout the world. It reflects the degree of freedom that journalists, news media and Internet citizens enjoy in each country, and the efforts made by the authorities to respect and ensure respect for this freedom. The positive trend for Ukraine since 2006 came to an end in 2009 when the economy dropped from 90<sup>th</sup> to 131<sup>st</sup> position. This fall occurred since Viktor Yanukovich's election as president in February 2009. In 2012 to 2013, Ukraine's rank suffered as a result of growing government control over the media according to the Press Freedom Index Report.

The situation regarding press freedom significantly deteriorated during protests in 2013 against the government as journalists were among the particularly targeted by the riot police and violent groups associated with them. Almost 200 journalists were assaulted since the end of November 2013 with many suffering grave injuries, beating, unlawful arrests and destruction of equipment.

The performance of Ukraine in terms of business climate and corruption indicates that it is a particularly challenging context in which to engage in policy dialogue aimed at improving the business climate.

## Annex 5. Ukraine's transition status

Given the EBRD's mandate to foster transition in its countries of operation, the Bank's Office of the Chief Economist (Office of the Chief Economist) assesses progress in transition annually. It assigns scores range from 1 (low) to 4+ (high) based on a classification system that was originally developed in 1994.<sup>7</sup> Two financial sector indicators – banking reform and interest rate liberalisation; and securities markets and nonbank financial institutions – were discontinued in 2011 as they have been superseded by the more refined sector-level indicators.

Table 5-1 below shows the transition scores for Ukraine for the period 2004 to 2013. The downgrades compared to previous years are highlighted in red and the upgrades in green. Two significant points are evident in the table:

- There has been very limited progress in transition though not much reversal
- Weakest areas are governance and enterprise restructuring, competition policy, securities market and non-bank financial institutions and overall infrastructure reform.
- Strengths are small-scale privatisation, price liberalisation, and trade and foreign exchange system.

**Table 5-1 Transition Scores for Ukraine**

	Enterprises			Markets and trade			Financial institutions		Infrastructure
	Large-scale privatisation	Small-scale privatisation	Governance and enterprise restructuring	Price liberalisation	Trade and foreign exchange system	Competition policy	Banking reform and interest rate liberalisation	Securities market and non-bank financial institution	
2004	3	4	2	4	3	2+	2+	2+	2
2005	3	4	2	4	3+	2+	3-	2+	2
2006	3	4	2	4	4-	2+	3	2+	2+
2007	3	4	2	4	4-	2+	3	3-	2+
2008	3	4	2	4	4+	2+	3	3-	2+
2009	3	4	2+	4	4	2+	3	3-	2+
2010	3	4	2+	4	4	2+	3	3-	2+
2011	3	4	2+	4	4	2+			
2012	3	4	2+	4	4	2+			
2013	3	4	2+	4	4	2+			

Source: Elaborated by the EvD team from EBRD Transition Reports 2004-2013

Sector transition scores reflect the judgements of Office of the Chief Economist on the progress in transition by sector and the size of the remaining transition gaps or challenges ahead. The scores range from 1 to 4+ and are based on an assessment of the size of the challenges in two areas: market structure as well as market-supporting institutions and policies. Table 5-2 below shows the overall score for each sector.

<sup>7</sup> See methodology notes from the Transition Report 2011.

**Table 5-2: Sector transition scores**

	Corporate Sectors				Energy			Infrastructure				Financial Sectors				
	Agri business	General Industry	Real estate	Telecoms	Natural resources	Sustainable energy	Power	Water & Wastewater	Urban Transport	Roads	Railways	Banking	Insurance & other fin services	MSME Finance	Private Equity	Capital Markets
2010	3-	2+	3-	3-	2-	2+	3	2	3-	3-	2	3-	3-	2	2-	3-
2011	3-	2+	3-	3-	2-	2+	3	2+	3-	3-	2	3-	3-	2	2-	3-
2012	3-	2+	3-	3-	2-	2+	3	2+	3-	3-	2+	3-	2+	2	2	3-
2013	3-	2+	3-	3-	2-	2+	3	2+	3-	3-	2+	3-	2+	2+	2	3-

Source: Elaborated by the EvD team from EBRD Transition Reports 2004-2013

Two features of the sector transition scores stand out:

- All are at the mid-point or below;
- Progress has been modest or non-existent.

Based on the results of the scoring, transition gaps for market structure and institutions are classified as *negligible*, *small*, *medium* or *large* for the period 2010 to 2013 as illustrated in the Table 5-3. Transition gaps are mostly medium to large reflecting a high level of “unfinished business” on the journey to transition.

**Table 5-3 :Transition gaps at the sector level (for market structure and market institutions)**

MS	Corporate Sectors				Energy			Infrastructure				Financial Sectors				
	Agri business	General Industry	Real estate	Telecoms	Natural resources	Sustainable energy	Power	Water & Wastewater	Urban Transport	Roads	Railways	Banking	Insurance & other fin services	MSME Finance	Private Equity	Capital Markets
2010	Medium	Medium	Large	Medium	Large	Large	Medium	Large	Medium	Medium	Large	Medium	Medium	Medium	Large	Large
2011	Medium	Medium	Large	Medium	Large	Large	Medium	Large	Medium	Medium	Large	Medium	Medium	Medium	Large	Large
2012	Medium	Medium	Large	Medium	Large	Large	Large	Large	Medium	Medium	Medium	Medium	Medium	Medium	Medium	Large
2013	Medium	Medium	Large	Medium	Large	Large	Large	Large	Medium	Medium	Medium	Medium	Medium	Medium	Medium	Large
MI	Corporate Sectors				Energy			Infrastructure				Financial Sectors				
	Agri business	General Industry	Real estate	Telecoms	Natural resources	Sustainable energy	Power	Water & Wastewater	Urban Transport	Roads	Railways	Banking	Insurance & other fin services	MSME Finance	Private Equity	Capital Markets
2010	Medium	Large	Medium	Medium	Large	Small	Large	Large	Large	Medium	Large	Medium	Medium	Large	Large	Medium
2011	Medium	Large	Medium	Medium	Large	Small	Large	Large	Large	Medium	Large	Medium	Medium	Large	Large	Medium
2012	Medium	Large	Medium	Medium	Large	Small	Large	Large	Large	Medium	Large	Medium	Medium	Large	Large	Medium
2013	Medium	Large	Medium	Medium	Large	Small	Large	Large	Large	Medium	Large	Medium	Medium	Medium	Large	Medium

Source: Elaborated by the EvD team from EBRD Transition Reports 2004-2013

MS = market structure; MI = market supporting institutions and policies

The Office of the Chief Economist's annual transition report for 2013 *Stuck in Transition?* contains analysis and commentary highly relevant for this evaluation. Significant points include:

- Political polarisation makes the success of reforms less predictable and reformers and civil servants more hesitant. External anchors and international backing can have strong supportive effects, particularly when sought by the reformers. In addition, the background and conviction of leaders play a critical role in determining the success of reforms.
- External shocks, elections, or periods of popular discontent can offer windows of opportunity. During these windows, political and economic institutional reform can become politically feasible and have permanent impact – particularly if used to build supportive constituencies and to strengthen the incentives for further reform. The chances of such reforms succeeding are higher in societies that are less polarised and in which vested interests are less powerful, but they also depend on leadership and external support.

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- Analysis suggests that political institutions are a key determinant of economic reform in transition countries.
  - This Transition Report takes the view that it is not enough to debate which reforms are the most critical in order to revive long-term growth in transition countries. It is also important to understand the political, social and human capital constraints that stand in the way of these reforms. Only then can one hope to find policy levers that might eventually help to relax or circumvent these constraints.

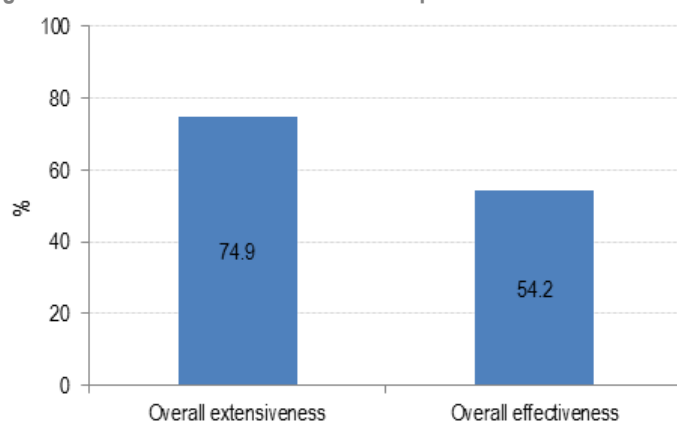
## Annex 6. Ukraine's legal framework for business

In the last several years, Ukraine has introduced important legislative amendments to the civil and commercial codes as well as to laws affecting lending including the Law on Mortgages and the Law on Securing Creditors' Claims.<sup>8</sup> Despite these changes, Ukrainian business legislation has not achieved international standards and important issues remain unaddressed with respect to the implementation of existing laws.

Relying on the most recent data available in the EBRD legal interactive database,<sup>9</sup> the charts below present the assessments of core commercial laws benchmarked against international standards such as the OECD principles of good corporate governance. The assessments evaluate the "extensiveness" and the "effectiveness" of different laws. "Extensiveness" refers to the quality of the "laws on the books" as compared to international standards. "Effectiveness" is a measure of the actual level of implementation of laws by the various stakeholders.

As shown in Figure 6-1, the overall extensiveness of Ukrainian laws scores 74.9 on 100 (the best possible score) while the laws' effectiveness is rated at 54.2. Generally speaking, Ukraine has adopted laws which, in their substance, approach international standards. However, the lack of implementation of such laws makes many of them ineffective.

Figure 6-1: EBRD assessment of core corporate laws in Ukraine



Source: Elaborated by the EvD team from EBRD legal assessments - interactive Web tool

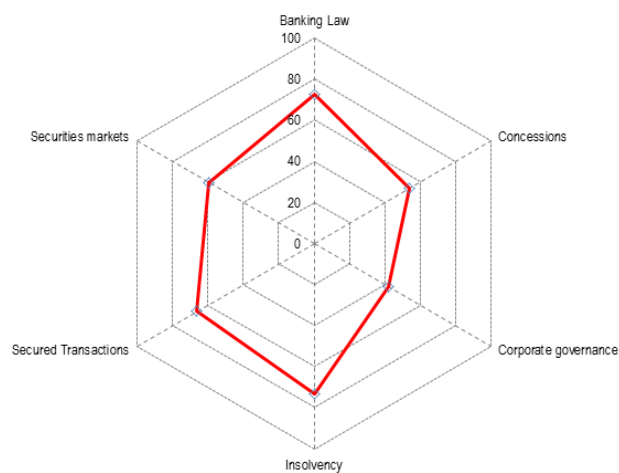
Figure 6-2 illustrates the average scores for the following Ukrainian sectorial laws: banking, concessions, corporate governance, insolvency, secured transactions and securities markets.

<sup>8</sup> For further details see Commercial Laws of Ukraine, March 2011 An Assessment by the EBRD.

<sup>9</sup> See <http://www.ebrd.com/pages/sector/legal/what/interact.shtml>



Figure 6-2: EBRD assessment of selected commercial legislation in Ukraine



Source: Elaborated by the EvD team from EBRD legal assessments - interactive webtool  
The extremity of each axis represents an ideal score in line with international standards.

This evidence on the legal framework for business puts the spotlight on the importance of implementation. This needs to be taken into account when engaging in policy dialogue through a thorough consideration of institutions and requirements for effective policy dialogue.

## Annex 7. The emergence of policy dialogue as an EBRD business tool

### 7.1 The EBRD Basic Documents and Credit Resource Reviews

The Basic Documents of the EBRD<sup>10</sup> do not specifically provide for the Bank to be engaged in policy dialogue. Though Article 2(1) states:

“To fulfil on a long-term basis its purpose of fostering the transition of Central and Eastern European countries towards open market-oriented economies and the promotion of private and entrepreneurial initiative, the Bank shall assist the recipient member countries to implement structural and sectoral economic reforms, including demonopolization, decentralization and privatization, to help their economies become fully integrated into the international economy...”

none of the seven specific measures by which the EBRD was expected to assist its member countries covers policy dialogue. Only the 8<sup>th</sup> measure provides cover for this when it says “to undertake such other activities and provide such other services as may further these functions.”

In an effort to understand how the EBRD’s engagement in policy dialogue has developed, the four Capital Resources Reviews (CRRs) of 1995, 2001, 2006 and 2010 were reviewed for their treatment of policy dialogue with the following results:

**Table 7-1: Treatment of policy dialogue in successive Capital Resources Reviews**

CRR and date	Times policy dialogue is mentioned	Treatment of policy dialogue
CRR1 – 1995	1	– Selective use of technical assistance to contribute to policy dialogue
CRR2 – 2001	8	– Selective use of technical assistance to contribute to policy dialogue
		– Intensification of use of country strategies in policy dialogue
		– Policy dialogue’s role in fostering transition through projects and thereby contributing to demand for EBRD finance
		– Bank to pursue targeted policy dialogue to improve investment climates
		– Increased leverage for policy dialogue from IFI coordination
CRR3 – 2006	30	– Policy dialogue with governments and market players is a valuable instrument in implementing international policy goals commensurate with its mandate
		– More proactive and direct policy dialogue in cooperation with other IFIs required to foster a more favourable business environment in countries at an earlier stage of transition
		– Continue to build up relationships with governments through policy dialogue
		– Pursue use of country strategies in policy dialogue
		– Policy dialogue will require additional resources as it does not involve any recovery

<sup>10</sup> [The Basic Documents of the EBRD](#)

CRR and date	Treatment of policy dialogue	– Treatment of policy dialogue
		– By fostering transition through policy dialogue the Bank can have some influence on the demand for its finance
		– Need to work with other international players in areas such as policy dialogue
		– Possibility of allocating budget funds to policy dialogue
		– Potentially expanded set of TC activities supporting policy dialogue will require additional staffing in banking and support teams and in resident offices
		– Develop analytical tools through economic research to support policy dialogue
CRR4 – 2010	73	– More systematic pursuit of opportunities for policy dialogue
		– Development of an integrated approach combining projects, policy dialogue and technical assistance
		– Increased emphasis on policy dialogue to improve the quality and resilience of transition including institutions, policies and regulations
		– Structured approach to policy dialogue activity by country and sector
		– Launch of Organisational Capacity Building initiative to improve efficiency of delivery in specific areas, including policy dialogue
		– Policy dialogue TC projects not directly linked to investments require dedicated staff to implement them
		– With a more ambitious policy dialogue/reform agenda the need for matching staff resources will become even greater if the EBRD is to ensure quality of implementation
		– Need to ensure there are appropriate resources for policy dialogue as part of an integrated approach – increased resources will be applied to policy dialogue
		– Staff of resident offices will take a greater load in terms of policy dialogue

Sources: Four Capital Resources Review Board papers. The fourth review document is available at

<http://www.ebrd.com/pages/about/policies/capres.shtml>

CRR = Capital Resources Review; EBRD = European Bank for Reconstruction and Development; IFI = international financial institution; TC = technical cooperation

Successive CRRs show increasing attention given to policy dialogue. Initially only mentioned in relation to technical assistance, its role began to broaden to encompass improving investment climates to facilitation EBRD project financing. CRR2 flagged the desirability of international finance institution (IFI) coordination of policy dialogue. By CRR3 policy dialogue was clearly identified as having an important direct role in “implementing international policy goals commensurate with its mandate” rather than only facilitating the financing of projects. A more proactive approach was signalled and for the first time the need for additional resources was noted, specifically in banking and support teams and in resident offices. CRR4 introduced the integrated approach combining projects, policy dialogue and technical assistance. The resource issue was given even more prominence along with a signalled shift of greater responsibility for policy dialogue to resident offices. The need for a more structured approach to policy dialogue delivery was noted along with an increased emphasis on it to improve the quality and resilience of transition.

## 7.2 Institutional arrangements for policy dialogue in EBRD

Policy dialogue has been and to a large extent remains a delegated function with no central planning or coordination. Because, traditionally at least, policy dialogue is often linked to transactions (albeit loosely in some cases), responsibility rests largely with banking teams, which may decide to involve other parts of the Bank, most notably Office of the Chief Economist and the Legal Transition Team of the Office of the General Counsel.

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Increasingly, the Office of the Chief Economist and the Legal Transition team also engage in standalone policy dialogue. The Office of the Chief Economist has a Country Strategy and Policy Division where responsibility for Office of the Chief Economist policy work resides. It also has a research division that carries out analytical work that may be useful for policy dialogue work and it leads on flagship publications such as the EBRD's annual Transition Report.

The Legal Transition Team is organised around three pillars – support to operational initiatives, selectively addressing cross-cutting problems in the business environment, and development of a results framework and integration of its programme into the Bank's broader policy dialogue agenda.<sup>11</sup>

More recently, the Bank has established a Vice-Presidency Policy, within which is a Strategy and Policy Coordination Team comprising six people. It "coordinates the preparation of and ensures cross-departmental buy-in into country, sector and thematic strategies and policy products, supports innovation and prioritisation in the delivery of policy content and monitors implementation." A Strategy and Policy Committee "reviews, prioritises and where necessary mobilises resources for the various strategies, strategic initiatives, other policy initiatives of cross-sector or regional nature and provides management approval under delegated authority from the Executive Committee."

Two other recent developments merit mention. First, a number of departments have established a policy coordinator role in response to a perceived need to ensure that "the left hand knows what the right hand is doing" and to avoid "reinventing the wheel." Generally, these part-time positions, which do not have any formal job descriptions, currently focus on intra-department coordination rather than cross-department coordination though this is changing.

A second development is the appointment, by the Office of the Chief Economist of a Lead Regional Economist and an Economic Analyst to the Kiev office. According to a senior staff member interviewed by the evaluation, the first the Resident Office knew of this development was seeing the job advertisement in The Economist, which was not a good start to a "joined up" effort. In principle, this evaluation sees this as a good move though its success will in large part depend upon the personal relationships developed.

It should be stressed that this evaluation is not an assessment of the institutional arrangements for policy dialogue in the Bank. It is an evaluation of the process and achievements of policy dialogue in Ukraine. However, some of the findings clearly have relevance to policy dialogue across the Bank.

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<sup>11</sup> [EvD published an evaluation of the Legal Transition Programme in 2012](#)

## Annex 8. The EBRD's integrated approach and policy dialogue

In 2009, the EBRD established the so-called integrated approach which was defined as:

“...a coordinated sequence of investment projects and some combination of technical assistance, policy dialogue and cooperation with other stakeholders (where relevant) that together aim at measurable and monitorable sector reform objectives and contribute to addressing important transition challenges with the defined period of time”<sup>12</sup>

The rationale for the introduction of the integrated approach was recognition that the Bank could have achieved greater transition impact if it “had taken into account the interrelationships between projects”.... “where critical mass is important for achieving transition impact.” It was also in recognition of the importance of policy dialogue and “most importantly, an approach to policy dialogue driven by individual projects can be somewhat ad hoc in its choice of targets, rather than directed at the most pressing needs and gaps.”

Adoption of the integrated approach provided further recognition that policy dialogue was a legitimate and important part of the Bank's business model.

In 2012, experience with the integrated approach was reviewed by a staff task force. It found that integrated approaches (of which there had been fewer than expected) had helped deliver greater transition impact at the sector/country level where certain conditions existed (Table 8-1).

**Table 8-1 Task force-identified key success factors for integrated approaches**

Factors affecting success: Task force	Comment by the current evaluation
A strong project pipeline could be identified up front so as to ensure a critical mass of operations to go alongside policy dialogue and technical cooperation (TC) targeting key transition challenges	The findings of this evaluation suggest that each of these “success factors” needs to be rather more nuanced. On the first point, the integrated approach perhaps does not consider sequencing sufficiently. In some cases, energy efficiency and renewable energy for example, policy dialogue and TC necessarily preceded identification of a pipeline of operations because of the complete absence of an enabling legal and regulatory environment.
Focused and realistic objectives had been set	This study would add the importance of selecting tactics best suited to achieving the objectives in the particular context and the importance of regular review of both objectives and tactics.
A receptive and reform-minded government/counterparty could be identified	This evaluation has a more fundamental difference of opinion on this point. While the existence of a reform-minded government is likely to lead to earlier success, the need for EBRD input is probably less. It also raises the question of what to do in more challenging contexts such as Ukraine. This study suggests that an integrated approach is even more important in these contexts, albeit a carefully sequenced one, while also accepting that quick results are less likely.
Strong in house expertise and appropriate time and resources have been invested across the Bank, especially to follow up on TC and policy dialogue activities.	On the this point, the current evaluation makes the case, based on successful Bank experience, that expertise does not always need to be in-house. An alternative, one used by the Agribusiness team, is to enter in to a formal arrangement with a source of technical expertise, in this instance the Investment Centre of the Food and Agriculture Organisation. This

<sup>12</sup> *An integrated approach to EBRD operations*, internal document issued 13 November 2009.

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evaluation also notes that while the need for incremental resources (quantitatively and, less frequently though even more important in this study's view, qualitatively) has been frequently acknowledged, it is yet to be fully addressed. Also, a heavy reliance on TC to fund the necessary technical expertise while being flexible may not provide the needed degree of certainty of resource availability for the frequently long-term engagement necessary for successful policy dialogue.

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On the last point, the task force noted that the implementation of integrated approaches “has often been hampered by lack of resources, especially to support policy dialogue in-house.” Specifically, the task force noted a lack of time by banking and support departments; budget constraints (for travel and consultants); and lack of specific knowledge and skills for policy dialogue at the sector/country level. To address the resource issue the task force recommended that these be secured through the Bank’s budget and TC funds and additional sector experts and consultants be assigned to integrated approaches.

The integrated approach and its review reveal a number of important considerations that should be taken into account in establishing policy dialogue as an important business tool of the Bank.

## Annex 9. Policy dialogue task force recommendations

Policy dialogue was one of a number of Bank activities that was examined by a task force in 2012. The terms of reference for the task force provide further evidence that policy dialogue is a firmly established part of the Bank's business model as it starts by observing "policy dialogue is an important and visible area of the Bank's engagement in its countries of operations." The task force issues paper added the words "to advance its transition objectives."<sup>13</sup>

The terms of reference also clearly identify what were perceived to be issues the task force was required to consider:

- The comparative advantage of the EBRD in policy dialogue and how this could be best leveraged;
- Whether a more formalised prioritisation and accountability mechanism is necessary to ensure quality and consistency;
- Identify mechanisms to prioritise policy dialogue activities and to improving tracking, monitoring and reporting on policy dialogue;
- The need for strengthening skill sets and capacity;
- The incentive structure for policy dialogue;
- The resource implications of any recommendations.

Indeed, the task force did identify these areas as issues concluding that success was affected by a number of factors (Table 9-1).

**Table 9-1 Policy dialogue taskforce-identified factors affecting policy dialogue success**

Factors affecting success: Task force	Comment by the current evaluation
Lack of a systemic approach to prioritising, approving, coordinating and implementing policy dialogue, which is often reactive, ad hoc and not reflected in country and sector strategies.	Being reactive (to windows of opportunity) and <i>ad hoc</i> (selective and flexible) can be the most sensible approach given the nature of the policy process as a political process. However, country-level standalone policy dialogue should be described and justified in country strategies. An integrated approach at the country level is a more appropriate place to detail pre-planned sector-level policy dialogue than in a sector strategy as country context is critical in deciding a strategic approach to policy dialogue. There could be a danger of "a systemic approach to prioritising" become a bureaucratic process of little value-added.
Lack of a clear review of quality and unclear accountability with the potential for reputational risk to the Bank and restriction of activities to senior staff, which exacerbates the capacity limitation.	Agree that there needs to be a (non-bureaucratic) quality review mechanism. This study did not encounter "unclear accountability" where policy dialogue was led by a sector team – here, the issue seems to be one of lack of visibility of the policy dialogue activity. Where multiple departments are involved unclear leadership and accountability were sometimes observed as being problematic. This evaluation supports the view that all major (perhaps defined as multi-year) policy dialogue initiatives should have an identified leader and be supported by a reference group comprising internal and, where value-adding, external members. Frontline policy dialogue does need to be carried out by people of high credibility and skills but this does not necessarily equate to hierarchical seniority though this is important in contexts such as Ukraine. Agree that a number of staff, particularly in the resident office, are underused for policy dialogue.

<sup>13</sup> *Policy dialogue issues paper*, internal document issued 13 November 2012.



<b>Factors affecting success: Task force</b>	<b>Comment by the current evaluation</b>
Insufficient country and sector expertise at the resident office level	There is considerable country expertise at the country level but this is underutilised (see previous point). While there is awareness of political economy factors this knowledge needs to be more effectively used in the policy dialogue activity and it needs to be supplemented by additional country political economy knowledge and expertise to act as a sounding board and source of ideas on how to proceed. Many in banking pointed to a lack of country knowledge on the part of economists in headquarters.
Lack of quick access to TC funds	The issue appears to be a lack of predictability of TC funding for what can be an activity over the medium to long term rather than speed of approval. That said, this evaluation does propose that consideration be given to the establishment of a contestable fund for quick access funds to help the EBRD act quickly when windows of opportunity open up.
Skills and responsibility mismatch with expertise disbursed over a number of departments	This evaluation agrees that there are some significant issues surrounding skills required and available for policy dialogue. While there is an issue regarding the disbursal of skills over a number of departments, the solution to this is seen by this study as a more effective team approach rather than a centralisation of skills. The formation of the reference group flagged above, could be part of a solution to this problem
Risk of conflicts of interest	What the Office of the Chief Economist sees as a conflict of interest is likely seen as a pragmatic response to the reality on the ground by the banking team concerned. This evaluation does not consider that conflict of interest has been a significant problem to date. However, while being in favour of a pragmatic approach to policy dialogue, the evaluation does recognise the potential for conflict of interest and the potentially damaging effect of a perceived conflict of interest. Managing this is another part of the reason for proposing that each major policy dialogue initiative have multi-department and external member reference group.
Lack of aligned incentives	This is a frequently raised issue. However, this evaluation is strongly of the view that policy dialogue does not lend itself to timebound targets. Given this, intrinsic motivations and rewards such as recognition and praise will always be more feasible than extrinsic rewards.
Limited follow-up and monitoring	A lack of follow-up was generally not considered to be a major problem in the evaluation case studies. However, there was a near total absence of formal monitoring and reporting. While not recommending an extensive monitoring system greater visibility of policy dialogue and its period internal scrutiny could both be improved.
Limited impact measurement	This is certainly true. The evaluation suggests a pragmatic way in which this might be best addressed, largely through what it terms "story telling."

The task force made 16 recommendations to address these issues. These along with comments by the current evaluation are presented in Table 9-2.

**Table 9-2: Policy dialogue task force recommendations**

<b>Task force recommendations</b>	<b>Comment by the current evaluation</b>
<u>Recommendations designed to maximise the Bank's unique comparative advantage</u>	
Policy dialogue should retain a link to projects and sectors in which the Bank has expertise.	Evidence from the current evaluation provides for a more nuanced view. It suggests that while much of the policy dialogue work carried out by the EBRD should be in sectors in which the EBRD is active as an investor, or in those where it wishes to be active but constraints currently exist, the reality that much policy dialogue often takes place with a government counterpart that is not the client, and it often requires a medium to long-term engagement beyond the life of a single transaction. Therefore, a link to projects is often neither desirable nor feasible.

## Task force recommendations

## Comment by the current evaluation

However, this evaluation considers that the oft-quoted mantra that the most successful policy dialogue done by the EBRD is linked to projects and that is the way things should remain is based on myth and legend rather than on what actually happens in practice. Also, the evaluation holds firmly to the view that the EBRD can only fulfil its potential to deliver on its mandate to foster transition if it adopts a strategic approach to policy dialogue.

Links to the country of operations need to be strengthened by bringing in policy dialogue specialists from country, sector or other teams as required

The current evaluation supports this recommendation and would add that sometimes specialists should be brought in from outside (particularly those with political economy knowledge and experience) to complement the skills and knowledge available internally. Of course, to action this recommendation the EBRD needs to know what skills it actually has available from its staff – this would require creation of a database of skills. Also, the evaluation sees that the EBRD needs to be more creative in how it goes about accessing needed skills.

Further harness the Bank's comparative advantage derived from being an interface between the public and private sectors

The current evaluation agrees with this recommendation. The grain sub-sector case provides an excellent example of the EBRD facilitating and participating in public-private sector dialogue.

## Recommendations designed to address shortcomings in prioritisation, coordination and governance

Establish a policy dialogue coordination unit and/or dedicated committee to advise and assist in prioritising, designing and monitoring major policy dialogue activities

This recommendation has been acted upon with establishment of a strategy and policy coordination unit that acts as secretariat to a Strategy and Policy Committee. This evaluation believes that the role of this should be "light touch."

## Recommendations aimed at addressing skills mismatches, assigning clearer responsibilities and increasing incentives

Strengthen staff capacity, particularly at the country level, to identify and implement policy dialogue activities

The current evaluation reveals that, despite policy dialogue being an important area of activity for the Bank, and despite the fact that it is more often than not carried out by staff who are not policy experts, the Bank does not make any training available to develop policy skills. Therefore, this study strongly supports this recommendation.

Each major policy dialogue task should provide for clearer responsibilities for leadership, deliverables and budget

Generally, the current evaluation supports for this recommendation. However, it would note that often we are actually talking about greater visibility of these elements rather than it being the case that they don't currently exist. The evaluation also considers that the expression of expected results should go beyond just identifying outputs (deliverables) to also explicitly determine the outcomes and impacts sought.

Incentives and credit should be provided for engaging in policy dialogue

The current evaluation agrees that there are issues about incentives and credit. Again, though it would suggest that a more nuanced response is called for. Many are involved in policy dialogue because they believe it is the right thing to do and because they get satisfaction from the task. Coupled with this, some managers praise staff for a job well done. The current evaluation considers that these intrinsic motivations and rewards are and should remain the main incentives and rewards given the nature of policy dialogue, which may require a long-term effort for not much visible gain for some considerable time. The value of such intrinsic

rewards would be greatly amplified through a much higher level of visibility for policy dialogue work (such as through “telling the story” of specific policy dialogue activities). Trying to provide extrinsic rewards is likely to be problematic though should be within the power of directors to address to some extent through the annual performance appraisal process.

Task force recommendations	Comment by the current evaluation
<u>Recommendations aimed at improving monitoring and reporting on impact</u>	
Establish a better system to track and monitor progress	Once again, the current evaluation considers a more nuanced approach is necessary. Tracking and monitoring progress, and taking corrective action as needed, are essential to maximising the likelihood of successful outcomes from policy dialogue. The case studies for this evaluation show that teams do, informally at least, monitor their progress. Perhaps this recommendation is proposing that a more formal process of tracking and monitoring progress is needed. For standalone policy dialogue using TC, this should happen automatically under the new results-based approach to TC. For policy dialogue linked to projects where this involves TC the same should happen. Work is ongoing to ensure that the achievement of outputs and outcomes is monitored and reported upon. While supporting these developments, the current evaluation strongly advances the idea that “telling the story” of policy dialogue and periodic stocktaking are the most effective way of extracting meaning from the policy dialogue work carried out by the Bank given the complexity of this work, its political nature and the time period involved. Given the emphasis placed by this evaluation on seeing policy dialogue better reflected in country strategies and integrated approaches in terms of the nature, strategic purpose served, and the expected results, tracking and monitoring of progress should also occur at this level. These documents should contain a coherent results framework that would provide a basis for monitoring.
Report regularly to the Executive Committee on policy dialogue achievements	The current evaluation supports this recommendation as a means of giving more visibility to the Bank’s policy dialogue work and the results it is achieving. However, this should significantly be on the basis of “story telling” rather than efforts to produce aggregated numbers.
<u>Recommendations to improve internal and external communication</u>	
Improve internal communication through enhanced use of information technology (better inventory of staff activities and responsibilities, creation of social networks, better video conference facilities)	The current evaluation supports this recommendation which has relevance well beyond the area of policy dialogue. Since many staff bring to the EBRD a wealth of knowledge and experience, an inventory and searchable database of skills and knowledge relevant to policy dialogue (and indeed other areas of the Bank’s activity) would be a very useful resource. This evaluation also supports the use of blogs as a means to capture learning.
Establishment of communities of practice again with enhanced information technology	The creation of a community of practice on policy dialogue is a useful idea that is supported by this evaluation.
Better external communication on where and what type of advice the Bank delivers	The current evaluation has found that a close working relationship with Communications Department and those working on policy dialogue can increase the chances of success from the effort. The Communications Department obviously has a role in giving more visibility to the EBRD’s policy dialogue work.

Source: Compiled by the evaluation team, using the policy dialogue task force report.

The above comments capture the notion that the evaluation team has a strongly held belief that any decisions on the way forward must recognise that policy dialogue is above all a political process with all

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the uncertainties that this involves. As such, this evaluation believes systems, processes and resource allocation should be, or lean towards:

- Non-bureaucratic and non-rigid – systems “fit for purpose”. One size will not fit all types of policy activity; systems should be “light touch”;
- Delegated authority, responsibility and accountability within approved multi-year resource envelopes;
- Monitoring, review and reporting should be verbal and/or by “story telling” rather than numerical report-driven to ensure that discussion and debate takes place with a view to resolving problems and revising strategies and tactics as opposed to sterile one-directional report-based/box ticking communication;
- A focus on ex-post accountability rather than ex-ante approval for individual activities;
- Staff resources should cross organisational boundaries more easily to ensure “joined up” effort.

## Annex 10. Evidence from interviews and surveys

### 10.1 Evidence from interviews

The following sections present the main points raised and discussed during interviews conducted between March and October 2013 by the evaluation team with the EBRD's banking and non-banking staff, members of the Ukrainian government, EBRD clients and members of other groups and organisations (including media, lobby groups, civil society, staff of other IFIs, think tanks and business associations). The breakdown of the interviews is as follows:

- EBRD banking staff: 21 interviews
- EBRD non-banking staff: 25 interviews
- Non-EBRD: 55 interviews
  - 13 interviews with representatives of the government, parliament and local authorities
  - 14 interviews with EBRD clients
  - 11 interviews with members of interest/lobby groups
  - 9 interviews with staff from international organisations
  - 5 interviews with informed observers
- Three interviews with media related people (including with Reuters and the EBRD's Communications department)

These 103 formally documented meetings involved 134 interviewees. Detailed meeting notes (translated into Ukrainian as necessary) were prepared for each of these meetings. These notes were shared with interviewees for them to edit or add to as they saw fit. This produced around 250 pages of meeting notes which have been subject to analysis to produce the findings presented below. The above numbers do not include repeat meetings with the same interviewee or the numerous more informal discussions that took place for which meeting notes were not prepared.

#### Summary

##### **a. Areas of consensus**

- Importance of continuity in the relationship between the EBRD, on one part, and the government and Ukrainian counterparts, on the other.
- Necessity for IFI coordination to align policy messages and increase leverage.
- Use of evidence-based analyses to explain to key counterparts the policy issues and possible solutions.
- Need to manage expectations of both the EBRD's departments and counterparts to policy dialogue.
- Crucial role played by personalities in Ukrainian politics and business relations.
- Perception of the shift in the EBRD's approach to policy dialogue (the EBRD has taken the lead in certain areas, such as the Anticorruption Initiative)

##### **b. Areas where improvements can be made**

- Drawing on the EBRD's successful investment operations for engaging in focused policy dialogue initiatives in the relevant areas.
- The publication of policy dialogue success stories and dissemination of results achieved by the EBRD
- Internal coordination of policy dialogue efforts between different departments and levels in the organisation.
- Greater involvement of small and medium companies and/or their networks in the policy dialogue process.

##### **c. Resources that could contribute to improve the efficiency of policy dialogue**

- Enhance the role of the Resident Office, in particular by providing training and incentives that would encourage staff to carry out policy dialogue in a sustained way.
- Take advantage of the presence of the Small Business Support (Small Business Services) team in Ukraine by promoting its role as mediator between micro, small and medium enterprises and the EBRD and by adopting practices which favour dialogue between these enterprises and public sector.

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Unless otherwise noted, the views expressed are those of the interviewees themselves, which may or may not be supported by the balance of other evidence available.

## **10.2 EBRD banking staff**

The majority of the interviewees agreed on:

- The importance of having strong teamwork on the EBRD side when engaging in policy dialogue with a country.
- The need to establish good working relationships between key Ukrainian counterparts and EBRD interlocutors to achieve desirable results. Interviewees noted that the EBRD should keep good relationships with key counterparts in different sectors and put a human face to these relationships to facilitate policy dialogue.
- The importance of engaging with all interested parties to get their perspective, share all insights and gain their trust.
- The need for, and understanding of, the policy challenges and possible solutions. It is important to work with government counterparts to identify realistic solutions that would fit the Ukrainian reality.
- The importance of flexibility in the way policy dialogue is conducted. According to a majority of interviewees, the success of policy dialogue does not consist of following some sort of ideal single model that should be pursued at any cost. The way in which the policy advice is delivered should be nuanced so as not to alienate Ukrainian counterparts and or lead to future complications in the relationship. The use of multiple platforms and formats for conducting policy dialogue is desirable. The use of consultants can provide flexibility by allowing for a faster response and greater tailoring to clients' needs. The use of consultants also helps to create a sense that the provision of expertise is not designed to serve EBRD pecuniary interests. However, a loss of institutional memory was often identified as a potential problem associated with the use of consultants.
- The role of coordinating with other IFIs/donors and the importance of the presence of EBRD and other IFIs/donors at working groups/events in order to create greater pressure on the government to implement change. Interviewees identified some cases of conflicting messages and diverging agendas between the EBRD and other IFIs or donors. These conflicts did not help in building effective policy dialogue with the government. Advice and recommendations delivered in one voice by several IFIs has a greater effect and higher chance of being acted upon by Ukrainian authorities. Although coordinating the efforts of the EBRD and other IFIs would be the preferred approach, such coordination can be difficult to achieve, especially between IFIs with different structures and approach to policy dialogue (such as those which have in-house advisory services).
- The fact that policy dialogue requires a long term strategy implies that resources should be secured to remove the uncertainty caused by the need to regularly seek approval for new TC funds. Successful results in policy dialogue often come from a continuous engagement with the executive branch, Parliament and individual members of parliament, cities, and think tanks.
- The lack of visibility and promotion of policy dialogue within the EBRD. Policy dialogue is generally not documented except by email. Some bankers engage in policy dialogue on a regular basis but this is rarely documented or contextualised.

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Some interviewees noted that:

- Internal cooperation should be enhanced. The Office of the Chief Economist was described by these interviewees as a group that seeks ideal solutions without trying to fully understand the complexities of the local context. This topic gave rise to different opinions as other teams such as Agribusiness and Municipal and Environmental Infrastructure emphasised the strong cooperation with other EBRD support units including the Legal Transition Team and Office of the Chief Economist. The engagement by other departments into well-established Financial Institution clients' relationships was also mentioned as an issue, one which does not currently have a mechanism for resolution.
- Continuity of involvement by the same people is an important factor which facilitates policy dialogue.
- It is expected that the new Vice President Policy group could further support and enhance the current policy dialogue efforts.
- The most effective policy dialogue is project-based and policy priorities should be linked to business constraints. In general, interviewees considered that policy dialogue is not an abstract concept but it is linked to actual investments. The cumulative effect of several projects may give the leverage required to achieve policy objectives.
- The EBRD needs to keep its "uniqueness" by encouraging the private and public sectors to work together. The EBRD should also avoid becoming an institution that dedicates special resources exclusively to advisory services (like the World Bank or the International Monetary Fund).
- The use of technical assistance can facilitate policy dialogue but it is overly constrained by donors and internal processes.
- The amount of effort devoted to policy dialogue is disproportionately high compared to the recognition of its achievements. In the best case scenario, policy dialogue is rewarded through acknowledgment and praise but bankers are generally not rewarded for the time spent on policy dialogue. This situation puts these bankers at a disadvantage against their colleagues who are not involved in policy dialogue.

In two cases, interviewees indicated that an integrated approach was an important strategic framework for both internal and external purposes. In particular, this strategy contributed to streamline the relationships with key counterparts at the national level. More pragmatically, some observed that the main benefit from an integrated approach was that its existence provided an easier passage through Board approval of transactions than would be the case in the absence of the integrated approach.

Opinions were also obtained on the recent creation of a policy coordinator role by some departments, the purpose of which is currently focused on intra-department rather than cross-department coordination but the role is evolving. As well as providing for needed intra- and cross-department coordination, policy coordinators could play a leading role in capturing knowledge for learning and a network of policy coordinators might form the basis for a policy community of practice.

### **10.3 EBRD non-banking staff**

A majority of interviewees agreed on:

- The importance of good internal and external coordination to carry out successful policy dialogue. It is important to develop IFI coordination and other partners' collaboration to facilitate policy dialogue. Even in cases where the EBRD is arguably the most knowledgeable IFI operating in Ukraine, the Bank should remain humble and accept collaboration with partners.



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Interviewees also mentioned the importance of aligning IFIs' messages to avoid providing contradictory advice to clients. Additionally, policy dialogue involves a high degree of internal coordination, which was identified as an unresolved issue by interviewees.

- The probable benefits of cross-utilising resources and expertise through joint co-ownership (co-ownership) of projects and TC was noted.
- The importance of appropriate skills and resources.

Interviewees often considered that the EBRD does not always provide the technical training and expertise that are required to effectively engage in policy dialogue. Moreover, current resources are perceived as scarce and do not allow to carry out dialogue over a long period. Policy dialogue should be targeted as to its scope and purpose, and the EBRD needs to cautiously evaluate costs and benefits of engaging in long-term policy dialogue. Staffing and allocation of time and resources should be aligned with potential long-term policy objectives.

- The necessity of adapting types of policy dialogue to the relevant sectors.

Representatives from the Office of the Chief Economist qualified the EBRD's policy dialogue as multifaceted. In certain sectors including nuclear safety, policy dialogue is perceived as extensive and consisting of many components that use different instruments of engagement. In the small and medium enterprise sector, policy dialogue is perceived to be focused on the national level and certain regional/local levels where municipal authorities have some leverage on the business environment. One interviewee defined policy dialogue in Ukraine as reactive transaction-enabling process normally triggered by a request from a banking team which has come up against a roadblock in relation to a project. This interviewee estimated that around 60 per cent of policy dialogue work could be classified as opportunistic while 40 per cent could be considered to be planned.

Many interviewees suggested that:

- Changing the EBRD's internal approach and mentality towards policy dialogue would encourage the Bank's involvement in this activity.
- Incentivising senior bankers to engage in policy dialogue would increase the resources allocated to policy dialogue. The current scorecard system was perceived as a short-term incentive which would not contribute to sustain engagement as policy dialogue may take years to bear fruit while signing loan commitments can be achieved in a matter of months. It was perceived that the short-term motivation of an annual bonus overrides the potential for a greater gain that might be achieved in the longer term through policy dialogue.
- Personalities matter in the Ukrainian context, especially by building trust between the actors involved in the dialogue and sharing expertise. Interviewees said that counterparts should recognise that their EBRD interlocutors are committed and properly qualified in their respective areas of expertise.
- There is risk in raising expectations to unrealistic levels and not delivering on such heightened expectations. Interviewees acknowledged that the measurement of success of such broad activity as policy dialogue and attribution of results are very complex issues. Interviewees recommended cautiousness and care in assessing progress as attitudes towards a policy initiative may change over time.
- The EBRD is already actively engaged in policy dialogue in Ukraine and other countries with institutional arrangements and initiatives such as the anti-corruption initiative and the internal creation of special units dedicated to policy dialogue such as E2C2. The creation of the unique

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structure of the E2C2 team set a precedent that other teams could follow. The fact that the E2C2 team possesses sector expertise and uses consultants to do the detailed work and the team's constant engagement with the Bank's clients were perceived as positive factors.

Other insightful comments were made by members of the Office of the Chief Economist and Legal Transition team:

- Interviewees from the Office of the Chief Economist noted that the EBRD needs to be involved in formulating policy recommendations even in those areas where the Bank does not have specific projects or investments.
- From the Office of the Chief Economist's perspective, senior management has always been heavily involved in policy dialogue in the country but it is now more structured in its approach.
- Interviewees from Legal Transition Team said that the implementation stage is an integral part of all legal transition projects and this step usually includes the provision of assistance in developing or changing existing secondary legislation and capacity building. However, implementation is often hindered by a lack of commitment from the beneficiary. Additionally, engaging at lower levels of the administration (where the actual implementation takes place) is sometimes difficult or impractical. The lack of visibility on the implementation stage leads to frequent complaints about the absence of such work after the legislation is adopted.

#### *10.3.1 The resident office versus headquarters perspective*

Most of the interviewees from both the Ukrainian resident office and the London headquarters agreed on the following points:

- There is a lack of resources devoted to policy dialogue in headquarters and the resident office.
- There is a shortage of policy oriented training in headquarters and resident office, but the resident office is particularly affected by this.
- There is need for clearer guidelines on what the EBRD wants to achieve through policy dialogue.
- The head of the Kiev Resident Office and staff on the ground in Ukraine play key roles in conducting policy dialogue and hierarchy takes an important place in the business and political relationships in Ukraine. It is anticipated that arrival of a new economist and analyst to Kiev in early 2014 will have positive effect on the depth and breadth of policy dialogue if they effectively connect with various teams and do not seek to operate independently.

Some interviewees at headquarters considered that:

- Certain headquarters departments, such as the Office of the Chief Economist and Legal Transition team currently lead the policy dialogue process. Interviewees acknowledged the role of the Resident Office in facilitating the process and ensuring that there is consistency of messages communicated and actions taken by the Bank.
- High-level policy dialogue carried out by the Bank's President, senior vice presidents and managing directors is essential but significant preparatory work is crucial for final success.

A majority of interviewees from the resident office:

- Reiterated the need for appropriate training, in particular for senior staff members.
- Recognised that technical expertise has improved thanks to the presence of two lawyers and one economist in Kiev.

- Expressed concerns that some headquarters departments seem to be “distant” from the reality of the transactions’ environment and policy dialogue with Ukrainian counterparts. Several interviewees said that headquarters’ expectations and demands are often unrealistic or undeliverable.

A particular mention was given to the Ukrainian Small Business Services team, which is at the forefront of the communication between the Bank and the micro, small, and medium enterprises. Members of the Small Business Services team continuously receive useful feedback from their clients and this feedback can be better used in the analyses and working documents prepared at headquarters.

An insightful comment was made by an interviewee who said that many big and medium companies employ government relation managers who possess specialised knowledge on the structures and dynamics of the interaction between the private and public sectors. These managers advise on the nature and intensity of engagement necessary to protect or enhance the companies’ standings with governmental authorities. The Resident Office does not currently have this type of position which could prove beneficial for the EBRD’s work on policy dialogue.

## 10.4 Non EBRD

### 10.4.1 *Staff of other international organisations*

Most of the interviewees noted that:

- Coordination between donors in Ukraine is significant but it differs depending on the sector and, in some areas, there is room for improvement. IFI coordination and information sharing are necessary as defending joint positions at meetings with the government or other Ukrainian counterparts adds leverage.
- In some areas, the actions of IFIs/donors are constrained by the vested interests of powerful economic groups. Progress is usually more substantial in specialised sectors, especially where there is a high level of technicality.
- There is a strong need of focusing on the implementation process in Ukraine. The legislation is only the first step since the government tends not to enforce legislation or to make major amendments without much consultation.
- TC is essential for building capacity of the recipient institution and there is usually a strong policy dialogue component associated with technical assistance.
- Personalities play a major role.
- The EBRD’s policy dialogue and long term strategy for Ukraine have considerably changed. An example was mentioned in relation to the Municipal and Environmental Infrastructure sector where the EBRD was not able to engage in long term policy dialogue on energy efficiency questions. The creation of the Energy Efficiency and Climate Change team has provided resources and incentives to engage in longer term initiatives.
- While the EBRD is perceived as an important figure in Ukraine and a valuable partner for other international organisations, there is a sense that the Bank does not engage enough and more regular meetings with the EBRD were considered desirable by some interviewees.

Several interviewees spoke about the EBRD’s flexibility in terms of procedures for investing in a country or establishing trust funds for specific initiatives while other organisations (like the European Commission) are not perceived as being as flexible.

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One interviewee described the EBRD's policy dialogue in Ukraine as "piecemeal" in approach and questioned the existence of a coherent country strategy supporting the policy agenda.

#### 10.4.2 *Counterparts at the government, parliament and other authorities*

Most of the interviewees agreed on the following points:

- International collaboration and international relations experience are key factors affecting the development of strategies for Ukraine. It was recognised that analysing the way relevant sectors function in other countries may help governmental bodies to make adequate decisions.
- The EBRD is generally considered as a reliable partner and interviewees were generally satisfied with the relationships, responsiveness and effectiveness of investments. The EBRD has a reputable brand in Ukraine. The Bank's willingness to get involved in Ukraine's development and its valuable support to improve legislation and regulations were appreciated by the interviewees. It was particularly valued as often after legal and regulatory improvements are made the Bank launches significant investment projects in the sector. It makes the EBRD different from donor organisations and some other IFIs.
- The EBRD sometimes plays a role of objective mediator and (directly or most often through its consultants) provides in-depth evidence and analytical background for the specific issue. This type of support addresses important issue of creating a level playing field for Ukrainian and international counterparts as regards the access to key facts and evidence.
- The role of personalities involved in the process and the commitment of government to reform were highlighted as two factors contributing to the success of policy dialogue.
- Appropriate dissemination of the results of the EBRD's involvement through workshops, networks or other means remains a challenge for the Bank as not enough emphasis is put on this aspect.
- Maintaining continuity in the relationship between the EBRD, other IFIs and the government is essential to providing a greater level of information with respect to particular sectors.
- The EBRD should employ a more flexible and thorough approach while delivering its recommendations and lobbying for their implementation. It should provide in-depth analysis of various scenarios rather than only one (preferred) option; it should engage more officials in the government side (including mid-level officials) and build alliances with other like-minded organisations to increase understanding and pressure. This can speed up the process and reduce resistance which is often encountered in Ukraine (as happened in the local currency initiative).
- Strong coalitions are required in order to bring about transition, such as coalitions including politicians, media, non-government organisations and members of the international community.

A special mention was made of the EBRD's support of the public-private dialogue in grain sector. The unique partnership of the EBRD and Food and Agriculture Organisation is highly commended by the government.

Interviewees from the city of Lviv emphasised the excellent cooperation with the EBRD that has resulted in the introduction of higher standards in different sectors such as infrastructure. While the high degree of bureaucracy associated with working with the EBRD was mentioned by some interviewees, most agreed that the quality of outcomes made it worthwhile. For instance, the EBRD has assisted in setting up procurement standards that help attract international companies to the Ukrainian economy, particularly in

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the road sector. Counterparts in Lviv particularly raised the issue of need to open resident offices of the EBRD in large economic centres of Ukraine with high concentration of bank's operations.

One interviewee said that changes in high level positions in the government (such as a minister) do not necessarily cause disruption in policy dialogue if the execution team remains the same. However, he pointed out that, in the case of the Ukrainian energy sector, frequent changes of staff at the Ministry level were also accompanied by a tendency to appoint unqualified people.

## **10.5 EBRD clients**

Most of the interviewees noted that:

- The EBRD is widely recognised as well-qualified and experienced in certain sectors such as energy efficiency and agribusiness. The Bank provides advisory help and relevant and high standard analyses.
- EBRD engagement in the country is multifaceted as the Bank contributes to economic development and is active in certain markets such as finance. The EBRD uses different instruments including direct loans, equity financing, technical assistance, trade loans and loans to micro and small and medium enterprises via commercial banks, funding and technical assistance channelled via other IFIs like the European Investment Bank.
- The EBRD has a very strong position in Ukraine and a lot of underused potential. The Bank should publicise more effectively its investments and successes in the country. The EBRD can also be more creative in engaging with other actors (such as leading banks, financial players and IFIs) by introducing innovative ideas to develop specific sectors. Nevertheless, clients broadly recognised the EBRD's great involvement in sectors such as the agribusiness, infrastructure, financial and energy sectors. In particular, they recognised the joint efforts made to lobby the government of Ukraine, the National Bank of Ukraine or other state agencies that is seen as both necessary and valuable.
- TC is essential to improve the capabilities of local staff and to support the implementation phase of legislation, regulations or policies.

Some issues were pointed out by a minority of EBRD clients:

- A perception that the EBRD tries to stay away from big reform agendas in certain sectors, such as the regulation of the non-performing loans market, despite the international experience it could provide. However the EBRD's step by step strategy was fully appreciated and was deemed to be necessary in many cases.
- EBRD involvement in the country does not always bring about positive results. The Bank can push for reforms without having an exhaustive understanding of the political realities. IFIs in general need to be careful not to interfere in national political affairs and have more targeted policy dialogue objectives.

City of Lviv clients mentioned that communication with the Resident Office is not always straightforward as there is no continuity in the contact points. The creation of a Resident Office in the city was suggested.

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### 10.5.1 *Interest and lobby groups*

Interest and lobby groups noted that:

- The EBRD is engaged in policy dialogue through its presence on the board of associations such as the American Chamber of Commerce and The Domestic and Foreign Investors Advisory Council under The President of Ukraine. The EBRD helps to develop the American Chamber of Commerce as a key driver of regulatory and investment reforms, and participates in most of Council's working groups. It was also noted that the EBRD works with the European Business Association in Ukraine but more in terms of sharing of information and regular meetings within this body were suggested.
- The role of the EBRD is crucial for providing the needed capital for fixed assets and lobbying the government to make necessary legislative changes. In some cases, the EBRD even provides a “personal security shield” against arbitrary government actions to individual companies and their owners and managers.
- International models and experience together with sound research and analysis are key tools which allow interest and lobby groups to unlock the potential of a particular sector.
- There is a general sense that the EBRD is mainly helping big companies while leaving behind small and mid-sized companies, which have fewer connections to the state but nevertheless constitute an important agent of change in the sphere of regulation and the business environment. Supporting small and medium size companies can be done through sector associations, business schools and business clubs.
- The importance of the implementation and monitoring phases to ensure that reforms are actually carried out. The EBRD can follow the example of other IFIs which use local community service organisations for enhancing skills of public control and monitoring over important public services (for example infrastructure, district heating, water supply, and environmental protection among others).
- Lobby groups should be “used” by the EBRD to develop its policy dialogue and guide its investment activities in Ukraine.
- Consultations should be organised with interest and lobby groups, local stakeholders and community service organisations in order to collect their views and explain properly the kind of investment programme or other initiative that is being planned.

### 10.5.2 *Informed observers*

Informed observers, mainly representatives of research centres, noted that:

- Results from collaborating with other IFIs are mixed. In some cases, significant results were achieved while in other areas resources were spent in vain. More dialogue is needed at the implementation stage, which is crucial for the engagement of donors and IFIs. There is a major role for the national government and relevant ministries (Ministry of Economic Development and Trade is co-ordinating all TC and investments by IFIs and donor agencies) to spread the knowledge about existing investment and TC operations that can benefit specific sectors or territories.
- Strategic vision and clear understanding of what needs to be done are important for creating a more receptive environment for collaboration with IFIs/donors. The EBRD has some significant

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achievements in Ukraine, namely in the municipal infrastructure sector where engagement with Banks's colleagues was effective and led to generation of a pipeline of investment projects in certain regions.

- International pressure is important to encourage the government to deliver on its promises and commitments.
- The EBRD could improve its impact by showcasing the success of its clients through cases presented to businesses, business clubs and alumni networks.
- The manner in which the EBRD delivers its messages could be less technical. Interviewees noted that the EBRD prepares highly technical reports about the transition processes in Ukraine (such as the annual Transition Report), but this is not as widely known and appreciated as it should be. Such reports are therefore of more interest to the academic community than to decision makers.

There is a need of a more aggressive communication strategy to promote the EBRD's work. The EBRD could use local think tanks as a platform for 'delivering' and disseminating its publications. For instance, it was suggested that the EBRD could use its 20<sup>th</sup> anniversary to prepare a sort of sourcebook of ideas and practices from its Ukrainian portfolio that could reach a wider audience than usual.

### 10.5.3 *Media*

The role of media and the importance of communication in developing policy dialogue were recurrent themes during the interviews. The following main points are extracted from these conversations:

- The public relations and policy advocacy roles should not be separated since both are essential and have to be coordinated if the EBRD wants to attain its policy aims.
- The EBRD Communications department is involved in specific policy advocacy campaigns but this can be improved by adding extra bodies which would increase the ability to provide flexible and on-demand support to policy dialogue initiatives. In this context, more events' organisers or facilitators are needed in the Bank.
- In countries such as Ukraine, "all the dark arts" need to be used and all means of communication (including direct and indirect, traditional and non-traditional) need to be considered on a case-by-case basis.
- Non-traditional media, such as social media, plays a growing role in bringing messages into the public domain without issuing officials statements.
- In Ukraine, public opinion concerns the government to a certain extent and there are limits on how unpopular the government can become (as recent events are showing). However, there is little demand for analysis on policy choices and a low willingness by the media to push reform agendas given its lack of freedom.
- The EBRD is externally perceived as doing reasonably well in the publicity game by managing to advance policy positions while not publically lecturing the government. The EBRD's policy advice is valued as it is perceived as specific rather than broad and vague.

The Anticorruption Initiative is seen as the EBRD's strongest policy initiative and has forced the government to accept that there is a problem with corruption. However, interviewees were sceptical about the results that can be achieved through this initiative.



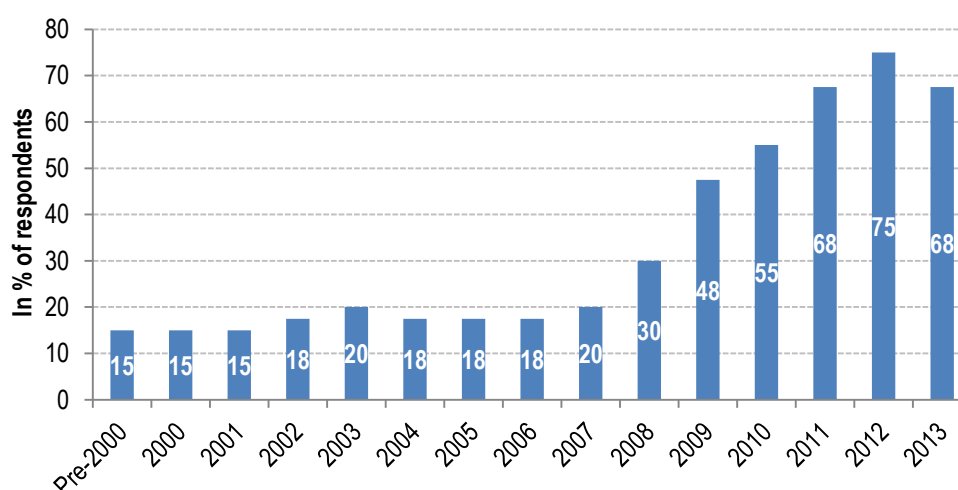
## 10.6 Evidence from surveys

### 10.6.1 EBRD staff survey

#### Many EBRD staff members continue to be involved in policy dialogue in Ukraine

The target population for the survey was those who had recent experience of policy dialogue in Ukraine. Of the 40 respondents, 32 had engaged in policy dialogue in Ukraine over the last three years of whom 24 were engaged in each of the last three years. Taking a five-year horizon, 35 of the 40 respondents had carried out policy dialogue in Ukraine on behalf of the EBRD in this period. Five respondents had been engaged in policy dialogue in Ukraine every year since 2000 and four of those plus one other had been involved pre-2000 as well. The survey has captured a wealth of experience of policy dialogue in Ukraine as shown in Figure 10-1. In addition, up to 50 per cent of respondents had been involved in policy dialogue in other countries in recent years.

Figure 10-1: Percentage of survey respondents engaged in policy dialogue in Ukraine by year



Source: EvD administered survey

Note: The above graph should not be interpreted to conclude that more policy dialogue has taken place in Ukraine in recent years than in the past – although this may be the case, it is not established by this evidence since those engaged in policy dialogue in earlier years may have left the Bank or otherwise not have been covered by the survey.

#### Who is carrying out the policy dialogue?

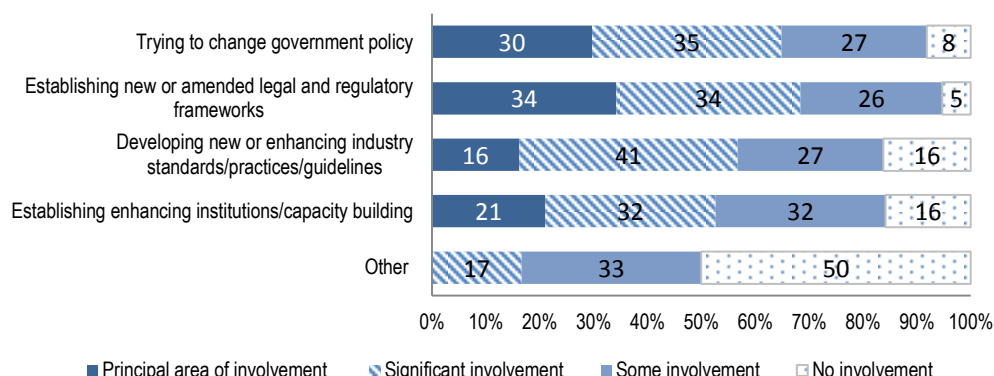
There was a good cross-section of respondents – 58 per cent were bankers or the equivalent of (23 per cent at the senior banker level, 17 per cent were director or above, eight per cent were analysts and 18 per cent classified themselves as “other.” Sixty per cent were headquarters-based when they engaged in policy dialogue in Ukraine, 28 per cent were based in the resident office, while the balance had spent time in both headquarters and the resident office. All sector teams provided at least one response (15 per cent of responses came from Municipal and Environmental Infrastructure, 13 per cent from Energy Efficiency and Climate Change, 11 per cent from Office of the Chief Economist, and nine per cent from each of Agribusiness, Financial Institution’s and “other.”

#### What are the main end purposes or results areas of this policy dialogue?

Responses are illustrated in Figure 10-2. Looking at the principal area of involvement only, the most significant area was establishing new or amended legal and regulatory frameworks with 34 per cent of respondents saying this was a principal area of involvement (only 5.6 per cent of respondents were members of the Legal Transition team). This was followed closely by the trying to change government policy at 30 per cent. Including areas of significant involvement sees these two areas at 68 and 65 per

cent respectively, followed by developing new or enhanced industry standards/practices/ guidelines (57 per cent) and establishing or enhancing institutions/capacity building (53 per cent).

**Figure 10-2: Main Purposes of Policy Dialogue**



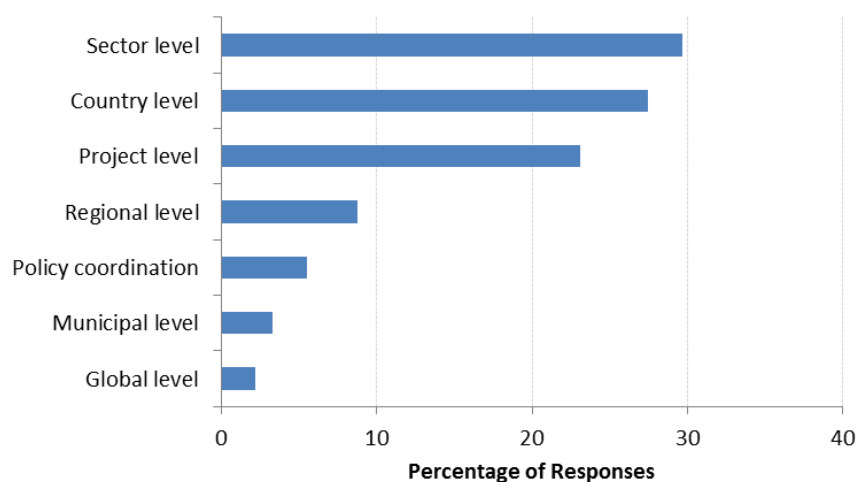
Source: EvD administered survey

Note: Multiple choices were possible

### At what level was policy dialogue pitched?

Perhaps surprisingly given the general belief that most policy dialogue is closely linked to projects, Figure 10-3 shows that more policy dialogue was pitched at the sector and country level than at the project level despite 58 per cent of respondents being bankers or their equivalent. On the other hand, this may not be so surprising in that the reason for getting involved in policy dialogue may lie at the project level but the solution requires efforts at the sector or country level.

**Figure 10-3: Levels at which policy dialogue took place**

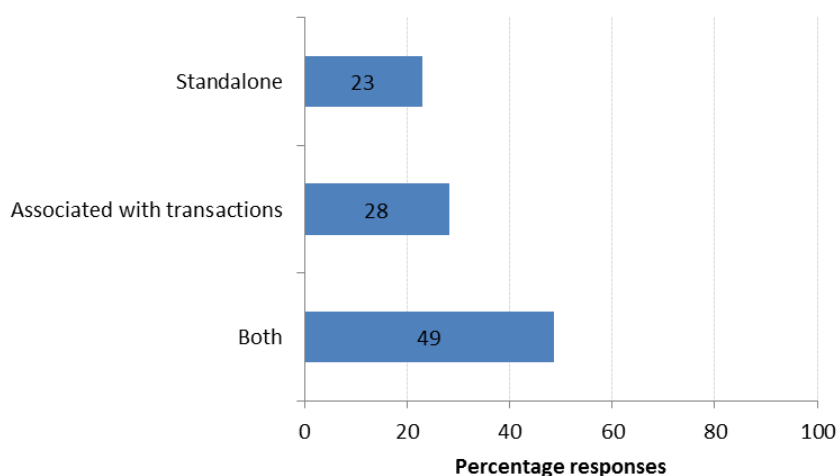


Source: EvD administered survey

Note: multiple choices were possible

That policy dialogue takes place at multiple levels was reinforced by responses to the question on whether policy dialogue was transaction-related, standalone or both (see Figure 10-4). Almost half of responses indicated that policy dialogue involved transaction related and standalone elements while 28 per cent was associated with transactions alone and 23 per cent was standalone.

**Figure 10-4: Standalone versus transaction-related policy dialogue**



Source: EvD administered survey

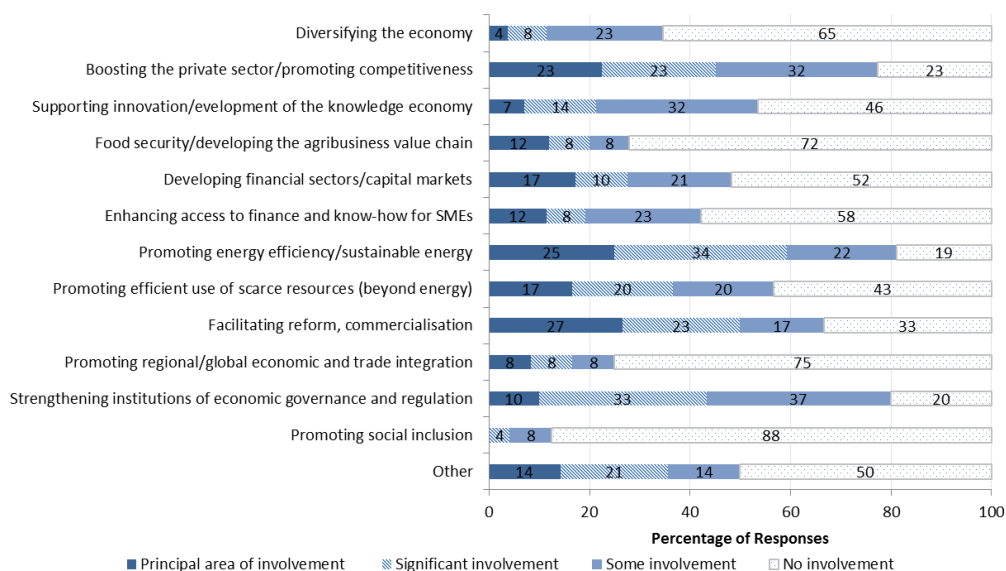
### Which thematic areas predominate in policy dialogue?

Policy dialogue in Ukraine has covered a diverse range of thematic areas as shown in Figure 10-5. In terms of principal area of involvement, the top three were:

- Facilitating reform, commercialisation;
- Promoting energy efficiency/sustainable energy;
- Boosting private sector/promoting competitiveness.

Only 12 per cent of respondents had any involvement in promoting social inclusion.

**Figure 10-5: Policy Dialogue by Thematic Area**



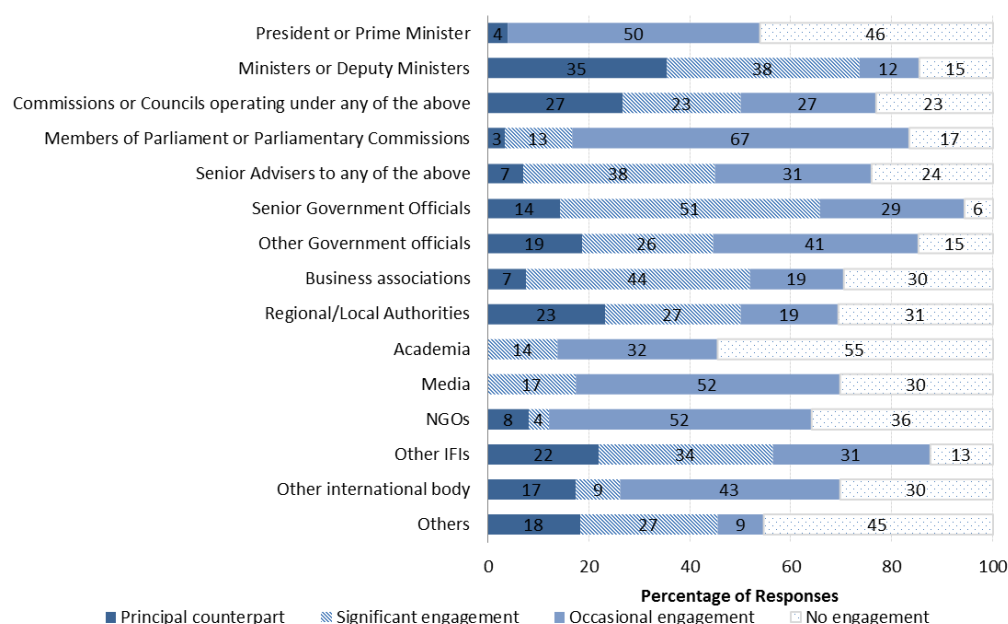
Source: EvD administered survey

Note: This illustrates the spread of thematic areas but is only indicative of the relative importance since there were more respondents in some areas than others

## With whom did policy dialogue take place?

Figure 10-6 shows there are a diverse range of counterparts with whom EBRD staff engages.

**Figure 10-6: Policy dialogue counterparts**



Source: EvD administered survey

The first point to note is that policy dialogue takes place with many different types of counterparts and at many levels.

In terms of being identified as principal counterparts, ministers or deputy ministers scored highest at 35 per cent, followed by commissions or councils (27 per cent), regional/local authorities (23 per cent) and other IFIs (22 per cent). Adding in the category of “significant engagement” sees ministers/deputy ministers remaining as the top counterpart (so-identified by 73 per cent of respondents) followed by senior government officials at 65 per cent. These two counterpart types are then followed by three identified by 50 to 56 per cent of respondents – other IFIs, business associations and regional/local authorities.

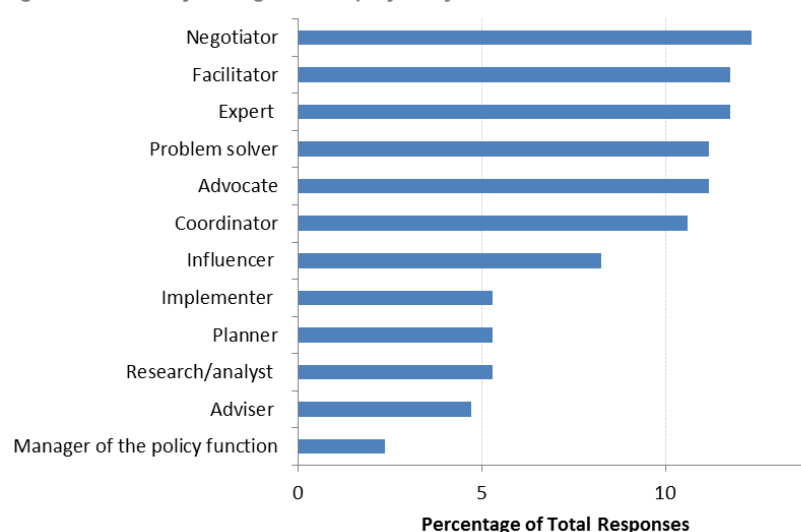
Further analysis of the data shows that EBRD Directors discuss policy dialogue issues mainly with ministers or deputy ministers. The only Managing Director who responded to the question stated that he engages with the president or the prime minister of the country. Senior bankers (and staff in equivalent positions) mainly liaise with senior government officials, ministers or deputy ministers and senior advisers (by order of priority). Bankers (or staff in equivalent positions) generally engage with ministers, senior government officials, business associations and representatives of other IFIs.

Only 16 percent of respondents indicated that members of parliament or parliamentary commissions were their principal (three percent) or significant (13 percent) actor with whom they engaged.

## What roles did EBRD staff play in their policy dialogue work?

In order to better understand the Bank’s policy dialogue work in Ukraine, the evaluation identified 12 roles EBRD staff might play in the policy dialogue process as shown in Figure 10-7.

Figure 10-7: Policy dialogue roles played by EBRD staff



Source: EvD administered survey

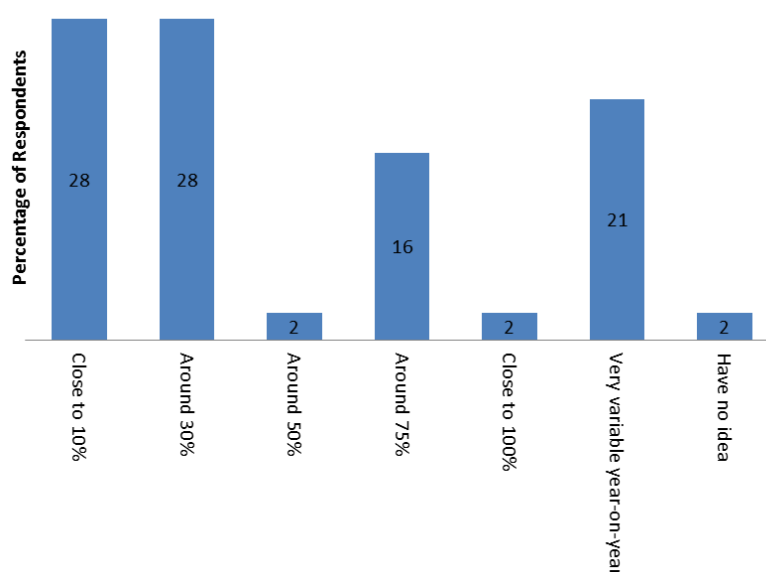
EBRD staff played many roles when engaging in policy dialogue. The top roles were negotiator, facilitator, expert, problem solver, advocate and coordinator. This group was followed the role of influencer and further back by a group of four roles – implementer, planner, research/analyst and adviser. Last, was manager of the policy function.

These roles provide a very useful guide to the skills needed by those engaging in policy dialogue.

#### How much time do EBRD staff who engage in policy dialogue spend on the task?

The answer to this question is that many staff members spend a very significant proportion of their time engaged in policy dialogue as shown in Figure 10-8.

Figure 10-8: Proportion of time spent on policy dialogue



Source: EvD administered survey

Almost half of the respondents spend 30 per cent or more of their time on policy dialogue in Ukraine with a further 21 per cent indicating that the time spent was very variable year-on-year while two per cent had no idea. Put another way and based on 40 person-years being the total potential input, there is a minimum of

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10.5 person-years being spent on policy dialogue in Ukraine each year with an additional but very variable amount being provided by nine other respondents.

### Is the EBRD's policy dialogue work generally successful – strengths and weaknesses?

Ninety per cent of respondents strongly agreed (10 per cent) or agreed (80 per cent) with the proposition that the EBRD's policy dialogue work was generally successful. However, as shown in Figure 10-9(a), 90 per cent of respondents rated the effectiveness of the Bank's policy dialogue (defined as the extent to which results are achieved and the quality of those results) as "good but with significant potential for improvement." Only 10 per cent rated effectiveness as "excellent with only limited potential for improvement." Figures 10-9 & 10-10 (a and b) show the assessment against 20 dimensions of performance.

The most striking feature from the perceptions of performance and potential for improvement is that in all but one area (where the EBRD was seen as not performing at all being training in policy dialogue) a majority, and in most cases a very strong majority, see performance as good but with significant potential for improvement rather than excellent with limited potential for improvement.

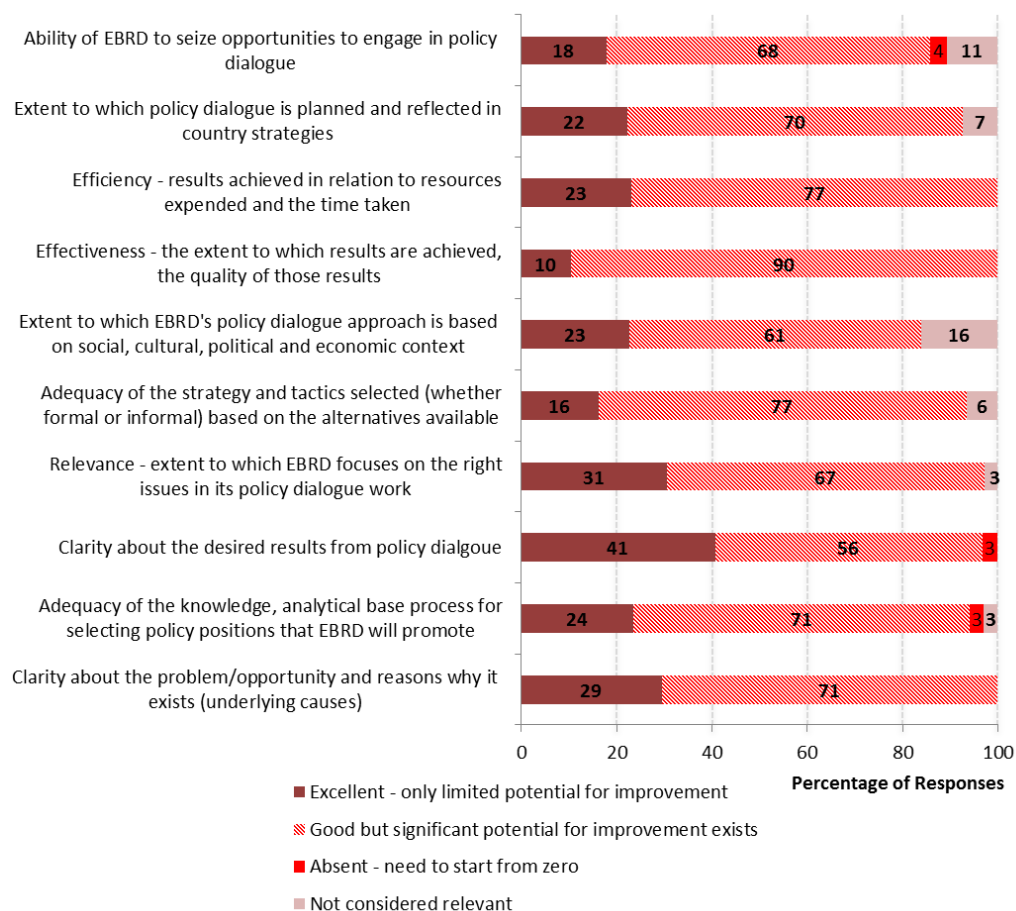
Areas of excellence with limited potential for improvement were identified by a minority in all but one (incentives and rewards) of the 20 dimensions. Leading areas of relative strength are:

- Clarity about the desired results from policy dialogue (41 per cent of respondents);
- Relevance – focus on the right issues (31 per cent);
- Clarity on the problem/opportunity and reasons why it exists (29 per cent);
- Extent to which the EBRD works with other IFIs (26 per cent);
- Avoidance of conflict of interest (24 per cent);
- Adequacy of knowledge and analytical base (24 per cent).

These were closely followed by efficiency (23 per cent); based on social, cultural, political and economic context (23 per cent); planning and reflection in country strategies (22 per cent).

In each of these areas of relatively higher perceived excellence, a majority still saw the potential for significant improvement.

Figure 10-9: Performance and potential for improvement (a)



Source: EvD administered survey

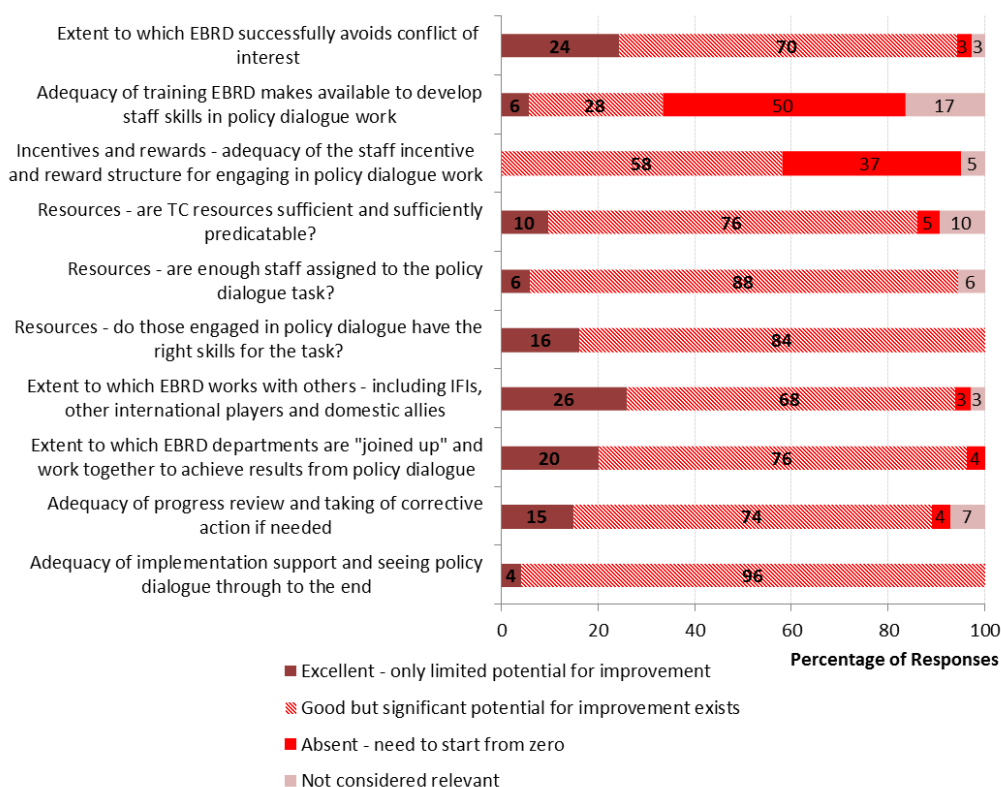
The areas with the greatest potential for improvement are:

- Training to develop skills in policy dialogue – 50 per cent see that the EBRD does nothing in this area;
- Adequacy of the staff incentive and reward structure for engaging in policy dialogue – 37 per cent see the EBRD as doing nothing in this area.

Interestingly, 17 per cent of responses do not consider the adequacy of EBRD training to develop staff skills in policy dialogue to be a relevant consideration while 16 per cent of responses do not see the need for the EBRD's policy dialogue to be based on the social, cultural, political and economic context. The balance of evidence gathered by this evaluation does not support these minority views but it is important to acknowledge that they exist in some quarters.



Figure 10-10: Performance and potential for improvement (b)



Source: EvD administered survey

While there are some differences between the perceptions held by EBRD staff engaged in policy dialogue in Ukraine (and other countries also) and the broader findings of this evaluation, the two have much in common. In particular, there are more staff involved in policy dialogue in Ukraine who are dedicating a much higher proportion of their time to the task than was generally supposed. Despite the difficult context, this work is seen as being significantly successful. The generally low visibility of policy dialogue work and the absence of any reporting on it probably explain why the extent of staff engagement in policy dialogue may come as something of a surprise.

Despite a generally very high proportion of survey respondents considering that the performance of the EBRD's policy dialogue across 20 dimensions is excellent or good, a majority also see a significant potential for improvement across the board. The top areas identified as having significant potential for improved performance or where the EBRD needs to start from scratch are (those with 75 per cent or greater of responses):

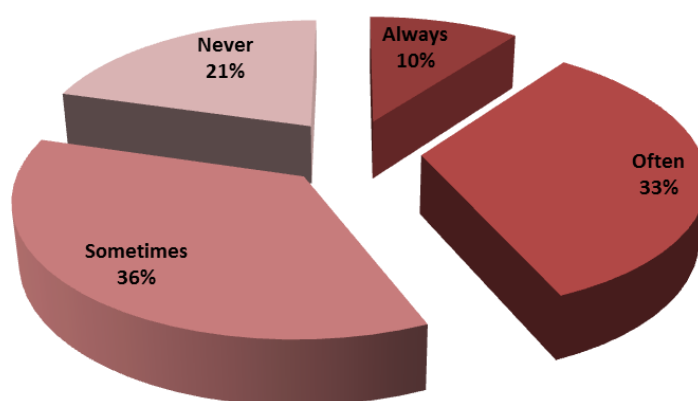
- The need to provide support to the implementation of policy through to the end (96 per cent of responses see significant potential for improvement);
- Staff incentives and rewards for engaging in policy dialogue need to improve (95 per cent see significant potential for improvement of which 37 per cent consider the EBRD is working from a zero base);
- The extent to which results are achieved and the quality of those results (90 per cent see significant potential for improvement);
- The adequacy of staff numbers assigned to the policy dialogue task (88 per cent see significant potential for improvement);
- Staff involved in policy dialogue needing to develop the right skills (84 per cent see significant potential for improvement);

- The predictability of TC resources for policy dialogue work (81 per cent see significant potential for improvement) ;
- The extent to which EBRD departments are “joined up” and working together to achieve results from policy dialogue (80 per cent see significant potential for improvement);
- Adequacy of staff training in skills relevant to policy dialogue (78 percent per cent see significant potential for improvement of which 50 per cent see that the EBRD is starting from a zero base);
- Adequacy of progress review and taking corrective action if needed (78 per cent see significant potential for improvement);
- Efficiency in terms of results achieved in relation to resources expended and time taken (77 per cent see significant potential for improvement).

This provides a very clear priority list for the EBRD to work on.

### What role do consultants play in policy dialogue work?

Figure 10-11: Use of consultants



Source: EvD administered survey

Consultants play a significant role in the delivery of policy dialogue on behalf of EBRD with 43 per cent of responses indicating they were always (10 per cent) or often (33 per cent) used. However, a majority of responses indicated that they were sometimes (36 per cent) or never (21 per cent) used.

The survey did not explore further the roles played by consultants nor what factors influence their use. However, this was addressed in the case studies.

### Resident office quick survey

There is a general belief that policy dialogue as performed by EBRD staff is the exclusive domain of senior staff, being those with the designation “senior” in their job title or above. While 35 per cent of respondents to the general survey reported in the previous section identified themselves as a banker (or equivalent) and a further eight per cent as analysts it was decided to explore the role of banker-level and below staff in the resident office to further understand their role and the potential for this group to increase their contribution.

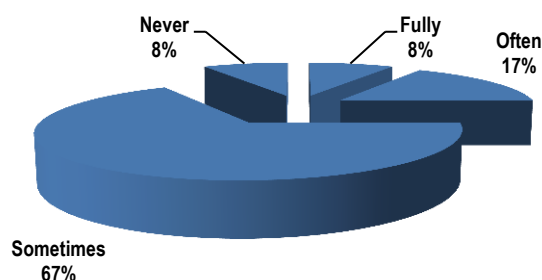
Twenty-four responses were received of which three held a senior designation or above. The conduct of the survey and the use of the word “senior” proved to be contentious among some long-serving resident office banking staff who see themselves as senior in terms of length of service and the role they play even though they do not have the “senior” designation in their job title.

The survey thus revealed an area of wider and apparently longstanding concern – namely, the perceived undervaluing of the knowledge and expertise of Ukrainian resident office staff and their relative

disadvantage in terms of promotion. Of course, the possible under-valuing and under-use of local knowledge and expertise was precisely the area the survey wished to explore but, in so doing, the evaluation team did not wish to condone this if it occurred in practice – on the contrary, the starting position of the evaluation team is that such knowledge should be properly valued and used in the course of policy dialogue.

### Extent to which knowledge and skills of resident office staff below “senior” designation are used

Figure 10-12: Extent of use of skills of resident office staff not designated “Senior” or above



A quarter of respondents said that the skills and knowledge of those below senior designated staff were fully (eight per cent) or often (17 per cent) used for or in support of policy dialogue while 75 per cent indicated it was sometimes (67 per cent) or never (8 per cent) used. There is obviously considerable potential to utilise the skills and knowledge of resident office local staff to a greater extent according to those staff.

### Reasons for lack of engagement

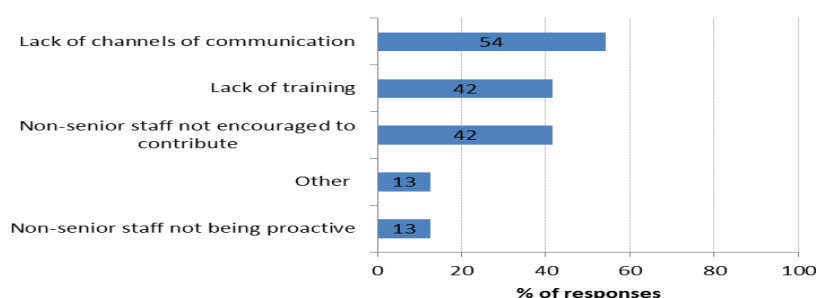
Figure 10-13 illustrates the reasons given by respondents as to why resident office staff of below senior designation are not more engaged in policy dialogue or acting in support of it. Three reasons stand out:

- Lack of channels of communication;
- Lack of training;
- No encouragement given by senior designated staff.

The 13 per cent of other reasons include lack of experience and a lack of time to get involved in policy dialogue. Also, engagement in policy dialogue is not reflected in appraisals of non-senior staff, which reduces the motivation to be involved.

Based on the perceptions of those concerned, the reasons why staff not designated as “senior” or above are not more involved in policy dialogue, whether directly or in a supportive role are quite clear and, considered by this evaluation, quite easy to fix.

Figure 10-13: Reasons for non-engagement of resident office staff below senior designation

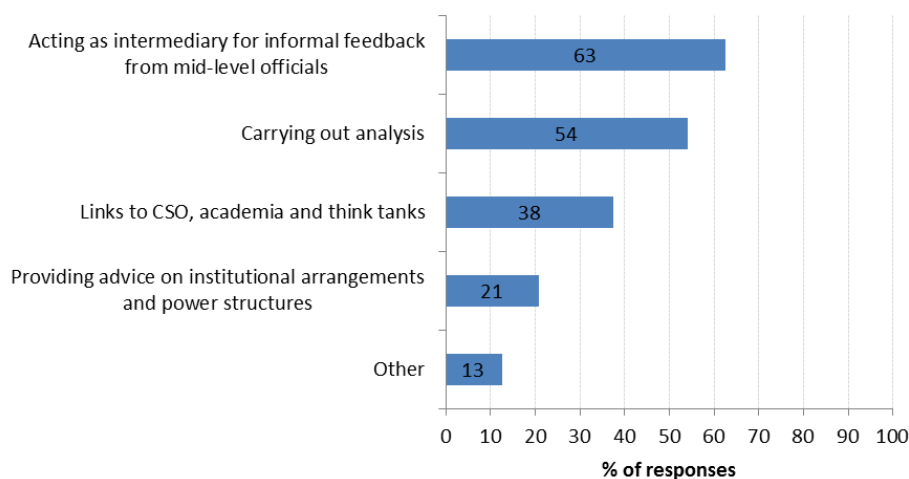


Source: EvD administered survey

### How the involvement and contribution of resident office staff in policy dialogue can be increased

There were similarly clear views on how staff below those designated as “senior” could increase their role in or contribution to policy dialogue as shown in Figure 10-14.

**Figure 10-14: Ways to increase non-senior resident office staff involvement in policy dialogue**



Source: EvD administered survey

Note: multiple answers were possible

The top two choices were for Resident Office staff to act as intermediaries for informal feedback from mid-level officials and carrying out analysis. Since policy dialogue is usually a process of negotiation that involves communication, and so the potential for miscommunication and misunderstandings, this evaluation considers that it is extremely useful to get informal feedback from the “other side” on how the EBRD’s messages are being understood and what the reaction to them is. Local staff members of the resident office with good connections are well placed to fill this role. Similarly, 38 per cent of responses indicated that resident office staff could provide linkages to community service organisations (community service organisations), academia and think tanks.

One respondent provided a list of possible ways to increase contribution by non-senior resident office staff to policy dialogue:

- (i) Encouraging them to participate in the meetings where policy dialogue is happening;
- (ii) Allowing them to attend sector conferences;
- (iii) Facilitating the communication with Office of the Chief Economist;
- (iv) Providing access to all consultants' research and TC project reports done previously on a specific sector and policy advice;
- (v) Having them participate in client meetings in particular sectors.

## Annex 11. Evidence from the literature review

This section outlines the main findings on other evaluations of policy dialogue with the aim of revealing other insights to inform and, where relevant, confirm the findings of the current evaluation. The other evaluative work covered in this section is:

- EvD's 2010 evaluation on policy dialogue;
- Findings from other EvD evaluations – special studies and individual transaction evaluations;
- Findings from evaluations on policy dialogue by others.

### 11.1 EvD 2010 policy dialogue evaluation

The principal lessons and the recommendations of EvD's 2010 evaluation of policy dialogue are shown in Table 11-1 along with any Management response, Audit Committee views and comment by the current evaluation.

**Table 11-1: Lessons and recommendations of the 2010 EvD evaluation of policy dialogue**

2010 Evaluation Lessons & Recommendations	Management Response	Audit Committee Views	Comment by current evaluation
Considered that policy dialogue is more effective when linked to projects. Recommended that policy dialogue continues to focus on sector and project related rather than country-related issues. Continuity of policy dialogue should be maintained. The integrated approach should be pursued wherever practicable. Quality control is essential to ensure policy dialogue is not undertaken solely to advance the commercial interests of the Bank.	Believed the recommendation was "broadly appropriate, but should be qualified." Made the case for "high-level projects enabling policy dialogue...in three key areas of strategic importance: local currency and capital market development; food security and developing the agribusiness value chain; and, energy efficiency and climate change."  "Although they are too new to merit evaluation, one part of the intuition behind the development of the integrated approach – that policy dialogue linked to individual projects was often times ad hoc and ineffective while policy dialogue on the basis of a series of projects and technical assistance would give the Bank more weight – could have been looked at more intensively as a model."	The committee was generally receptive to the recommendation.  Some members considered the study did not fully take into account recent developments such as the integrated approach. The committee expressed support for the integrated approach for policy dialogue.	Problems faced by the EBRD as a financier of projects may well require changes well beyond the level of the project. Such sector or country-wide policy dialogue involving changes to the regulatory or legislative environment (for example) no longer has a direct link to projects so it becomes standalone. Also, such dialogue may be required over many years well beyond the life of a single project. Additionally, the counterparts for policy dialogue will likely not be the client for a transaction – this reinforces the view that it is often not relevant to "attach" policy dialogue to transactions. Further, EvD evaluations show that quite often TC attached to projects for policy dialogue ends up being cancelled as there is no commitment to the reforms proposed. This too calls into question the relevance of linking policy dialogue to projects.  It is becoming more generally accepted in the EBRD that the project-only approach will not achieve the desired level or potential achievement of transition impact. Nor, this evaluation contends, will projects with a bit of policy dialogue on the side.

2010 Evaluation Lessons & Recommendations	Management Response	Audit Committee Views	Comment by current evaluation
	<p>"While the Bank has been most successful with its policy dialogue in cases where this is linked to existing and future projects, there may be cases where the two should remain distinct from each other to underscore the Bank's neutrality."</p>		<p>Of course, there is so-called trouble-shooting policy dialogue aimed at resolving issues affecting the Bank's transactions and here the existence of a link to projects is obvious.</p> <p>While not necessarily having a link to projects, generally one would expect the Bank to engage in policy dialogue in areas where it has business interests or it wishes to develop business interests although even here its policy dialogue may have a much wider influence – most notably the anti-corruption initiative in Ukraine.</p> <p>The findings of this evaluation strongly support the need for continuity in terms of being prepared to stay engaged for the "long haul."</p> <p>Similarly, the findings of the current evaluation support the use of the integrated approach where the solution to the policy problem requires a more holistic set of policy actions and actors.</p> <p>The need for quality assurance (rather than quality control), including checks on possible conflict of interest, is also supported by this evaluation's findings.</p>
<p>Policy dialogue is most successful when the government is committed to reforms. Recommended that policy dialogue should not be attempted in countries that are not interested. However, the EBRD should play a more active, public role in policy debate even if this will imply cooler relations with governments or delays in investments.</p>	None	None	<p>The first statement is self-evident although the findings of the current evaluation would say they policy dialogue is likely to lead success more quickly where the government is already convinced of the need for reforms (energy efficiency and renewable energy being cases in point).</p> <p>The findings of this evaluation <u>do not</u> support the recommendation that policy dialogue should not be attempted in countries that are not interested. Indeed, in the opinion of this evaluation, the Bank's mandate to promote transition impact leaves it no choice but to be engaged. However, this evaluation finds that the way in which the EBRD engages needs to change in relation to the context that exists.</p> <p>Where the context is less favourable this evaluation agrees that the EBRD should play more of an advocacy role although this should not only be in cases where the context is unfavourable. It also needs to reach out to a wider audience to "sell the problem" so as to get it on the government's agenda.</p>

2010 Evaluation Lessons & Recommendations	Management Response	Audit Committee Views	Comment by current evaluation
Probability to succeed in policy dialogue will increase with a stronger coordination among IFIs and other partners. Recommended that there should be strong and continuous coordination of policy dialogue with partners, especially when the sector policy leverage is low.	None	The committee was generally receptive to the recommendation.	The findings of the current evaluation provide qualified support for the finding of the 2010 evaluation although the current evaluation team does not agree that a recommendation on this is necessary. Coordination has a cost – it is generally less efficient as it can take time to reach a consensus or agreement on many matters, but outcomes are sometimes better. Part of developing a strategy for policy dialogue should include determining the extent to which coordination among IFIs and other partners will add value – the conclusion on this may range from simply communicating intentions, through agreeing a division of labour to joint action. Which is most appropriate will depend on the circumstances existing.
Policy dialogue is not usually based on a clear set of strategic objectives and sequence of reforms to achieve them. Recommended that the EBRD should identify what will be main areas and objectives of policy dialogue, and establish a tracking system for policy dialogue achievements: country strategy documents should be better designed to integrate technical cooperation, policy dialogue and project proposals. The Office of the Chief Economist and the Office of the General Counsel should continue to support resident offices and operational staff concerned in the design, execution and tracking of progress made in policy dialogue at the project level.	“The recommendation on the management aspects of policy dialogue correctly notes the absence to date of a clear set of strategic objectives and systematic tracking of progress towards desired policy reforms. The ongoing review of the process and content of the country strategies and updates will take this into account.”	The committee was generally receptive to the recommendation within which there was particular interest in the role of the Stakeholder Relations Department [now within Vice President Policy Group] in playing a coordination role in planning/tracking/monitoring of policy dialogue.	<p>The current evaluation supports the finding on the need for more visible clarity on the objectives of policy dialogue (desired outputs, outcomes and impacts) and the selection of tactics most likely to produce those results. Greater clarity on objectives should include; identification of the strategic purpose being served by the policy dialogue; explicit identification and diagnosis of the problem(s) and its/their underlying causes; an analytical rather than ideological basis to the policy messages; adoption of a consultative and pragmatic approach to generating solutions that will plausibly solve the problems and be implementable.</p> <p>This evaluation finds that there are clear benefits to those engaged in policy dialogue to have their considerable efforts made more visible and therefore recognised and rewarded. Clearly too, there are benefits to the EBRD in knowing what resources are directed to policy dialogue and what the results are of that expenditure. All would benefit from capturing and sharing the learning from policy dialogue.</p> <p>However, this evaluation finds that capturing these benefits will require a variety monitoring and reporting methods. Importantly, it finds that these should not be administratively burdensome and the benefits emanating from them should be less than the costs – specific proposals are outlined elsewhere in this report.</p> <p>The current evaluation agrees that country strategies should reflect the strategic purpose of policy dialogue.</p>
Even when linked to projects, policy dialogue is costly in terms of staff time and skills, and access to the technical assistance resources needed to help design and implement reforms. Recommended that if the Bank is to play a greater policy dialogue role, then more resources should be devoted to it. In particular, there should be more staff with policy-	“The recommendation on resources for policy dialogue is a useful reminder that incentives and resources must be aligned with objectives.” Noted changes in banking and Office of the Chief Economist to “encourage policy specialisation.”	The committee was generally receptive to the recommendation.	<p>The current evaluation did not find a strong case that there is a general shortage of staff engaged in policy dialogue – many staff members are involved and many dedicate a significant amount of time to this activity. Managers have considerable discretion regarding how much time staff spend on policy dialogue so more resources can be made available at managers’ discretion, albeit at the expense of other tasks. However, the evaluation finds there are qualitative deficiencies or shortages in some areas. These, along with ways in which they might effectively be addressed are outlined elsewhere in this report as are ideas of addressing quantitative resource constraints where these exist.</p> <p>The absolute availability of TC also is not a problem but the predictability of its availability can be</p>

2010 Evaluation Lessons & Recommendations	Management Response	Audit Committee Views	Comment by current evaluation
related skills able to complement the EBRD's bankers; more resources should be provided for small technical cooperation grants that could be accessed quickly to respond to policy dialogue demands at the country level.			<p>an issue. The recommendation of the 2010 evaluation to have quick access to small-scale TC grants is supported.</p> <p>The current evaluation does not agree that policy dialogue need be costly, or that it is costly in terms of the far-reaching benefits successful policy dialogue can produce.</p>
The Bank's Resident Offices play a pivotal role in establishing contacts and maintaining the continuity of the Bank's dialogue. Recommended that the Resident Office Director of has to be skilled at policy dialogue and in the larger offices there should be others who also have the skills appropriate for carrying out policy dialogue in their areas of responsibility; the Resident Office should work in close cooperation with other IFIs and partners.	"The role of the resident office is mentioned in the report as one of the many contributors to the Bank's policy dialogue, but this could have been given even greater attention in the body of the report since this is often where much of the day-in/day-out policy dialogue happens."	Caution expressed about overloading Resident Office Director.	<p>The current evaluation generally supports the finding and the recommendation. It also finds that there is an underutilised resource for policy dialogue in the Resident Office. The evaluation also notes the importance of language skills.</p> <p>The evaluation also proposes that the Resident Office should be strengthened by having political economy expertise available.</p>
Close coordination between the operations departments, Office of the Chief Economist and Office of the General Counsel is essential to delivering effective policy dialogue. Recommended that cross-bank teams should be encouraged, particularly when there are complex economic and legal dimensions to reforms; staff should be rewarded for engaging in policy dialogue.	None	None	<p>The need for better intra-EBRD coordination is supported by the current evaluation as is the need for staff to be recognised and rewarded (though it does not consider that monetary rewards are necessarily needed). The recommendation for cross-bank teams, where appropriate, is strongly supported by this evaluation.</p> <p>The current evaluation also sees the need for leadership responsibility to be assigned.</p>



2010 Evaluation Lessons & Recommendations	Management Response	Audit Committee Views	Comment by current evaluation
Other comments from Management and Audit Committee	"Some of the ways the Bank has contributed to transition through its policy dialogue have received only limited treatment in a report of such sweep and ambition."	"Some of the issues raised in the study had provided a good starting point for an on-going and more in depth consideration of the Bank's role in policy dialogue leading to a more strategic approach to this." The country strategy format and content revisions should lead to preparation of an umbrella paper to provide a framework for policy dialogue.	Hopefully, this evaluation addresses the gaps identified.
		The Bank should be modest in its aspirations and focus on core competencies.	This study does not find that modest aspirations are always called for. Also, non-core competencies can be out-sourced.

## 11.2 Findings on policy dialogue from other EvD evaluations

Many other EvD evaluations have produced findings on policy dialogue. It is important to draw on this body of evaluative evidence in order to provide added support (or not as the case may be) to the findings of this evaluation, something that is particularly important as the current evaluation is largely based on the evidence from a single country. Table 11-2 provides a summary of the more salient findings from a selection of EvD special studies along with a comment comparing and contrasting the findings with those of the current evaluation.

**Table 11-2: Relevant findings and recommendations from EvD special studies**

Special Study	Finding/Recommendation <sup>a</sup>	Comment by Current Evaluation
<i>Power and Energy Sector Review</i> <sup>14</sup>	That the Bank considers moving from an <i>ad hoc</i> approach to policy dialogue to a more structured one that would be more comprehensive, prioritised and more focussed	This evaluation supports this conclusion with regards to what is termed proactive policy dialogue by this study. Reactive policy dialogue by its nature will always be opportunistic. This study sees implementation support as essential.

<sup>14</sup> EvD. 2011. *Power and Energy Sector Review*.

Special Study	Finding/Recommendation <sup>a</sup>	Comment by Current Evaluation
	on supporting implementation.	
	<p>Policy dialogue is time-consuming and more resources are required for the Bank to have a wider impact. Either policy dialogue targets should be set for bankers with incentives for meeting them or consideration given to creating a dedicated policy dialogue coordinator position in the power and energy team. However, such a person would need to have diplomatic skills and be politically neutral.</p>	<p>This evaluation considers that by-and-large the quantum of staff resources and TC funding available for policy dialogue are sufficient though the predictability of TC can be a problem given the generally long-term nature of policy dialogue.</p> <p>Qualitatively, there are skills gaps within the EBRD – in particular, technical, analytical and political economy skills. That said, the evaluation is certainly not proposing that these gaps need to be filled by staff – some cases maybe but in others outsourcing is possible as well as greater use of formal arrangements with specialised agencies.</p> <p>This evaluation wonders about the value-added of setting targets and incentives as it does not believe that policy dialogue lends itself to these. Intrinsic rather extrinsic rewards and motivation are likely to be more appropriate.</p> <p>The evaluation supports the idea of policy coordinators, something that some departments have already put in place.</p>
	<p>The role of the Office of the Chief Economist energy economists should be better defined – if their role is to be more proactive rather than simply supportive through diagnostic work for example, it should be better integrated with that of the power and energy team bankers.</p>	<p>Agree with the need for integration of Office of the Chief Economist economists (and others) for a more “joined up” approach to policy dialogue.</p> <p>The current evaluation notes that a Lead Regional Economist has been appointed to be based in Kiev.</p>
	<p>The power and energy integrated approach in Ukraine produced clear benefits including increased leverage in pursuing sector reforms and more focused and better coordinated policy dialogue.</p>	<p>The greater success of policy dialogue in the power and energy sector occurred in the early 2000s before the creation of an integrated approach. On the plus side, the integrated approach forces recognition that policy dialogue frequently needs to be long-term and does not fit into the lifespan of a typical transaction. However, by itself integrating investments, policy dialogue and TC into a more coherent package by the EBRD may not advance reform where the context is not pro-reform.</p>
	<p>As the Bank moves to have a higher proportion of private sector operations in its power and energy sector portfolio, its leverage to ensure policy recommendations of TC reduces – the opportunity to have more standalone policy-related TC demonstrates the need for better planned and more structured policy dialogue.</p>	<p>Agree that a clear and well-informed strategy and set of tactics are needed for policy dialogue. More private sector transactions further decreases the relevance of linking policy dialogue to transactions.</p>
	<p>The most effective use of resources for policy dialogue is likely to be a mix of well-coordinated activities targeting institutions and decision-makers at various levels along with active participation in donor/IFI-led reform support bodies.</p>	<p>Agree that a multi-channel approach targeting a number of policy actors and using a variety of policy actions is required, particularly when the context for success is unfavourable.</p>

Special Study	Finding/Recommendation <sup>a</sup>	Comment by Current Evaluation
	Despite a number of innovative and successful projects, the Power and Energy team has not developed case studies of good practice, which could raise the profile of the team, help generate new business and provide useful lessons for sharing more widely.	Strongly agree – the potential for learning has not been realised to any significant extent – a reality common across all cases studied by the current evaluation. That said, the Power and Energy team did produce an excellent story about a policy dialogue success that was featured in the EBRD's in-house magazine, Blueprint.
<i>Special study: Legal Transition Programme<sup>15</sup></i>	The strongest impacts occurred in those areas where the legal transition team had well-developed in-house expertise and where their efforts could be focused over an extended period.	There are two issues here – the use of in-house experts versus outsourcing for expertise, and the preparedness to remain engaged over the long term. On the latter, the current evaluation strongly agrees. If the EBRD decides to engage in policy dialogue it must be prepared to stay with it for the long-term (subject to periodic review) – importantly, this includes a willingness to support policy implementation. The second issue is more uncertain. The Energy Efficiency case would lend support to the view that in-house expertise contributes to success. On the other hand, the grain sub-sector case shows that there are alternatives to in-house expertise. The current evaluation considers that no one model fits all circumstances.
	The legal transition programme has built a repository of information and experience that can contribute and add value to future projects in the South and Eastern Mediterranean region.	Agree but note that this repository of knowledge must be put in to a usable, accessible form, and used if it is to add value.
	In many cases there was not enough hard evidence to assess the impact of the legal transition programme so there is a need to sharpen the focus on results with more precise and measureable objectives specified in three year action plans with better monitoring and reporting on results achieved.	Agree that clarity of expected results for policy dialogue, whether proactive or reactive, has a number of benefits including; contributes to selecting and adjusting strategy and tactics; making monitoring possible (there is something to monitor); providing a basis for learning; and that the process of agreeing expected results increases the likelihood of success
	The legal transition programme should better structure its collaboration with other organisations, setting specific objectives for such collaboration in three-year action plans.	The current study, particularly the grain sub-sector case study, confirms that structured collaboration with specialised organisations can be an effective and efficient way of accessing needed specialised expertise. However, the desirability and feasibility of this needs to be determined on a case-by-case basis.
<i>Early Transition Country Initiative<sup>16</sup></i>	Policy dialogue and TC are key instruments for tackling transition challenges but they are often not effectively connected to investments nor accompanied by effective performance metrics and monitoring plans.	Generally agree though it needs to be recognised that the long-term nature of much policy dialogue can reduce the relevance of connecting policy dialogue to a single transaction. The integrated approach aims to overcome this problem. Also, sometimes policy dialogue must precede investment.

<sup>15</sup> EvD. 2012. *Legal Transition Programme Review*.

<sup>16</sup> EvD. 2011. *Early Transition Country Initiative (Regional)*.

Special Study	Finding/Recommendation <sup>a</sup>	Comment by Current Evaluation
	Investment Councils were established to serve as a forum for policy dialogue between the public and private sectors. However, a consequence of the design that focuses solely on outputs means nothing can be said about what they are likely to achieve in terms of outcomes and impacts.	Again, this evaluation has also found that clarity on expected results from policy dialogue in terms of outputs, outcomes and impacts is an important contributor to success and learning from the experience.
<i>Special study: Direct Investment Facility</i> <sup>17</sup>	The Early Transition Country Initiative strategy does not articulate a clear approach to policy dialogue, including areas that are important to the Direct Investment Facility, such as institution building, market development and access to finance, which are required if it is to fulfil its wider objectives.	As noted above, the current evaluation found that a well-informed strategy to help in selecting tactics (policy actions and which actors to engage with) is an important factor in success.
<i>Special study: Financial Sector Operations Policy</i> <sup>18</sup>	The Bank should structure policy dialogue to emphasise to governments the benefits that will accrue to all stakeholders from building confidence in a privately owned financial sector.	More generally, the current evaluation found that the presence of a good analytical underpinning for policy dialogue is an important factor contributing to success. As one interviewee said to the team, “before you sell the solution, you have to sell the problem” meaning that you have to get the issue on the government’s agenda if it is not already there. Sound analysis should also outline the benefits of various policy options over and above the status quo position so that policy decision-makers can make informed choices, including being aware of the costs or lost opportunities of not acting. This of course assumes that decision makers want to make evidence-based decisions, something that cannot always be assumed.
	A new financial sector policy should coordinate investment operations with initiatives to develop market supporting institutions and policies. Banking teams should describe the nature of remaining institutional, regulatory and legislative challenges and identify opportunities for policy dialogue initiatives to contribute to the solution of those challenges.	The current evaluation agrees with the principle here, as stated above, that country and sector strategies should articulate the role of policy dialogue and how it will contribute to the achievement of desired outcomes. Also, the current evaluation agrees that policy dialogue should be an integral part of the business model in the financial institutions sector.
	Regular formal consultations with other IFIs are needed to establish common ground on approaches to overcome resistance to privatisation, develop sound prudential supervision and improve governance. A new	As noted above, the current study found that a more nuanced approach is needed to deciding if and how IFI coordination can add value. Nonetheless, the need to avoid contradictory messages is extremely important.

<sup>17</sup> EvD. 2008. *Direct Investment Facility (Regional)*.

<sup>18</sup> EvD. 2007. *Financial Sector Operations Policy*.

Special Study	Finding/Recommendation <sup>a</sup>	Comment by Current Evaluation
	operations policy for the financial sector should set out a strategic approach to the Bank's cooperation with other IFIs.	
	The EBRD has made substantial returns from its financial sector operations and it should consider allocating a portion of the moneys earned to fund technical cooperation initiatives including legal transition and policy dialogue.	This is an interesting recommendation, maybe one that is already being actioned indirectly via contributions of a proportion of retained earnings to the Shareholders' Special Fund.

Source: Study review of EvD reports

a The findings and recommendations have been paraphrased here. The original text is in Annex 9.

Many EvD evaluations of individual transactions and frameworks have produced findings and recommendations on or related to policy dialogue. Obviously, there are limitations on the ability to generalise from a single case. However, when messages are repeated by a number of individual project evaluations it becomes more justified to generalise. Also, the findings of individual project evaluations can be used to support or not the findings of this evaluation. Table 11-3 draws out the more relevant of the findings from individual project evaluations. Again, comment is provided on how these findings support or not those of the current evaluation.

**Table 11-3: Policy dialogue-related findings from EvD project evaluations**

Finding/Recommendation <sup>a</sup>	Comment by current evaluation
The signing of a memorandum of understanding with a high authority in the country may be a way of reducing the risk that institutional reforms carried out as a result of EBRD policy dialogue or TC support may be later abandoned through lack of high-level support.	The current evaluation found that formalising agreements as memoranda of understanding or suchlike is a very useful way of clarifying what has been agreed and who is expected to do what. It may not, however, lessen the risk of reforms being later abandoned.
Lobbying by the EBRD can be effective in convincing a government of the need for improved legislation.	The current evaluation found that there is a role for lobbying by the EBRD and that currently the Bank does not currently realise its potential to be an advocate for reform. The evaluation also considers that if the government is pro-reform there is less need for lobbying. Conversely, the role of lobbying for change (and doing analytical work in support of this) grows as the context for change becomes less favourable.
Clients in Ukraine expect the Bank to make a contribution to the value-added tax refund debate – the Bank should explain the problem based on the experience of its clients while making concerted efforts with other IFIs to get a resolution.	The current evaluation also found that the EBRD's clients consider that the EBRD can be a very effective voice on their behalf. Working together with its clients on areas of policy dialogue of mutual interest can be effective in bringing about change. The EBRD can speak with the authority of a major investor but one who is less self-serving than its clients.

Finding/Recommendation <sup>a</sup>	Comment by current evaluation
While a project approach can be effective in certain situations, it is essential to forge a reform consensus at the sector level, either led by the EBRD alone or, ideally, jointly with other IFIs.	The findings of the current evaluation support the conclusion that a standalone or sector approach to policy dialogue is necessary to achieve transition impact.
Considering the importance of the Bank's role in Ukraine, a stronger engagement in policy dialogue may be desirable even in the environment of on-going political challenges and a lack of decision-making in many areas due to the overall political situation.	The current evaluation strongly supports the view that the tougher the context, the more EBRD needs to be engaged in policy dialogue but that the tactics adopted will need to change in response to the more difficult context.
Where a government is unwilling to liberalise the banking sector, the EBRD will have a limited sector impact via a minority equity stake in a small privately-held commercial bank.	Interesting conclusion on the limits of a project-only approach to fostering transition impact.
In oil-rich countries, oil revenues may reduce dependence on foreign funding sources, making meaningful sector dialogue with the government more difficult.	Again an interesting point regarding the ability of IFIs to "buy a seat" at the policy table. While there may be some truth in this, money cannot buy reform. In circumstances where governments need IFI money they may "go through the motions" of agreeing to reforms they are not in fact committed to and in the end they do not put them in place, or they are adopted only to be reversed later.
Fund performance is likely to be enhanced and opportunities for successful exit increased if simultaneous efforts are made to develop well-functioning local capital markets – the Bank should continue to engage in policy dialogue and legal transition initiatives to encourage local capital market development.	Again an interesting conclusion regarding the limits of a project-only approach and the need to also pursue policy dialogue separate from projects in order to maximise the Bank's contribution to transition impact (and the investment performance of the EBRD's own transaction in this case).
The Bank should take a proactive approach to policy dialogue concerning the transformation of non-bank microfinance organisations to licensed deposit-taking institutions.	Further supports the proposition of this evaluation that proactive policy dialogue should be part of the EBRD's business model.
Achieving a comprehensive and acceptable fair legal framework for foreign and domestic direct investments usually requires a coordinated international effort at the policy level, backed up by strategically monitored individual test cases. The Bank needs to take care that it contributes fully to this process, and that the process itself progresses at an appropriate pace. Securing preferential protection for the Bank in forms perceived as unfair or not fully transparent by other shareholders, lenders and creditors can provoke envy, hostile comment and counter measures (whether warranted or not).	An example of the need for a mechanism to ensure the avoidance of a conflict of interest or perception of conflict of interest.
Management perseverance and creativity is required in pursuing	The current evaluation strongly supports this finding. Starting with a sound strategy and tactics and keeping this under review such that these can

Finding/Recommendation <sup>a</sup>	Comment by current evaluation
required sector reform. The Operations team must carefully monitor the government's commitment to reform. Any developments opposing intended sector reform should be identified and mitigated as soon as possible. For instance, asking for an intensified policy dialogue involving the Bank's Senior Management, or the approval and implementation of standalone TC operations in order to save individual elements of reform.	quickly be changed in response to changes in the context if deemed to be necessary.
To maximise transition impact from large natural resources projects producing substantial royalties for the government, revenues will have to be spent wisely and transparently, especially in support of small and medium enterprises – it is essential to engage in policy dialogue to this end. In this context, there was a lack of coordination among IFIs – more structured and regular policy dialogue among IFIs should take place to improve their impact on macro-economic management and sector reform. The Bank should use TC funding to prepare sector studies. The challenge is to ensure participation and ownership by high-level members of government.	Again, support for the idea of evidence-based policy dialogue, which can be achieved through sector studies or other pieces of analytical work. The importance of IFI coordination is also noted. The current evaluation provides support to the importance of participation and ownership. The current evaluation also strongly advocates for the involvement of political economy expertise.
The EBRD was well placed to contribute to the resolution of disputes over the tariff mechanism – the team acted as an honest broker, which required specific understanding of industry and regulatory issues, and the commitment of substantial team resources.	The importance of the role of the EBRD as honest broker in bringing multiple domestic policy actors together (particularly the public and private sectors) is also a finding of the current evaluation.
In controversial mining projects, early and extensive engagement is necessary – civil society has an important voice in raising issues of concern.	The potentially important role of community service organisations is also a finding of the current evaluation.
In this case, the client [government] was not interested in the sector study. However, the Bank needed it to understand the investment needs of the sector. With more policy dialogue the Bank may have been able to convince the need to establish investment priorities for the sector through the conduct of a sector study.	The current evaluation agrees with the importance of linking analytical work and policy dialogue. Even if the government is not reform-minded, the sector study or analytical work can provide the basis (and excuse) for evidence-based advocacy.
No matter how delicate and confidential policy dialogue is, it should be regularly documented and disclosed to the Bank so that progress can be assessed by relevant stakeholders and	The current study agrees with this finding.

Finding/Recommendation <sup>a</sup>	Comment by current evaluation
corrective actions taken.	
It is important for the operation team to recognise cases where substantial policy work is needed up front so as to structure the transaction accordingly with due attention paid to minimum improvements needed for success.	The current study agrees with this finding. Sometimes policy dialogue is needed before transactions are agreed to create the necessary conditions for them to take place and to be successful. In this case also, the policy dialogue is not directly linked to specific projects – rather, it geared towards creating the conditions for future investments.

Source: Various EvD project evaluations

<sup>a</sup> Where considered necessary, the findings and recommendations stated here have been “generalised” and paraphrased except for those referring to Ukraine. See Annex 9 for the original wording.

### 11.3 AusAID evaluation of policy dialogue

A major and recent Australian Agency for International Development (AusAID) evaluation of its policy dialogue is highly relevant to this evaluation so it is treated separately here.<sup>19</sup> The evaluation started by conducting a review of literature and international practice<sup>20</sup> upon which it developed a “theory of success” as a hypothesis for testing in the evaluation,<sup>21</sup> which used two case study countries (Indonesia and Solomon Islands), interviews at headquarters and in the field posts, a web-based staff survey and commissioned analyses. The main conclusions of the evaluation are shown in Table 11-4.

Before outlining the conclusions and recommendations of the AusAID study it worthwhile outlining the theoretical framework developed by for the evaluation as this aligns well with the framework for this study (see Annex 2).<sup>22</sup> The AusAID evaluation concludes “the theory broadly held up (as a result of the fieldwork and surveys conducted as part of the evaluation) and we are therefore confident that its elements represent important determinants of the effectiveness of policy dialogue.”

The AusAID evaluation identifies the following “building blocks of effective policy dialogue:”

- The extent to which it is clear what is to be achieved through dialogue – clarity of intent;
- The balance of power, knowledge and ownership – negotiating capital;

<sup>19</sup> AusAID. 2013. *Thinking and Working Politically: An Evaluation of Policy Dialogue in AusAID*. Office of Development Effectiveness: Canberra. The full evaluation report and associated documents can be found at <http://www.ode.dfat.gov.au/publications/policy-dialogue.html>.

<sup>20</sup> AusAID. 2011. Review of Literature and International Practice in Policy Dialogue. Office of Development Effectiveness: Canberra available at [http://www.ode.dfat.gov.au/current\\_work/documents/review-policy-dialogue.pdf](http://www.ode.dfat.gov.au/current_work/documents/review-policy-dialogue.pdf).

<sup>21</sup> AusAID. 2011. Theory of Policy Dialogue Success. Office of Development Effectiveness: Canberra available at [http://www.ode.dfat.gov.au/current\\_work/documents/policy-dialogue-eval-working-paper.pdf](http://www.ode.dfat.gov.au/current_work/documents/policy-dialogue-eval-working-paper.pdf).

<sup>22</sup> While the EvD study had early access to the AusAID report and was able to discuss it with the study team leader, the two frameworks, while quite similar were developed independently. For EvD, the AusAID framework provided support that the framework developed for this study was valid.



- The capabilities and characteristics of the actors, or individuals involved – personal characteristics matter;
- The fora used in dialogue: the formal and informal spaces and opportunities to understand each other's values and interests;
- Evidence: the extent to which data and analysis inform dialogue, and who owns it.

The EvD evaluation considers that the views of the AusAID evaluation on why policy dialogue matters also have a strong relevance for the EBRD. Among other considerations, it identifies that:

- Aid needs to be transformational by supporting changes in policies and institutions if it is to have an impact on the level of poverty reduction targeted in the Millennium Development Goals – it states that the goals “will not be achieved simply by the transactional values of aid programmes alone.” The EvD evaluation has gathered evidence to support a contention that the same applies to EBRD in its pursuit of transition.
- The AusAID evaluation identifies a strong business case for policy dialogue on a value for money basis – it considers “while policy dialogue is a modest consumer of aid finance, it has the potential to leverage considerable impact by addressing the drivers of broad-based change, and thus to generate rewards much greater than the sum of its own costs.” Again, the EvD evaluation finds this to be true for the Bank's policy dialogue in Ukraine.

**Table 11-4: Conclusions of the AusAID policy dialogue evaluation**

AusAID evaluation conclusion	Comment by current evaluation
What constitutes policy dialogue is not clearly understood across AusAID	Probably also true in some parts of the EBRD although not tested by the current evaluation. The policy dialogue task force provided a comprehensive definition of policy dialogue based on product and the level at which policy dialogue is carried out. This evaluation developed its own definition based on the process of policy dialogue. The EBRD could benefit from a statement on the role of policy dialogue in the Bank's business model, including an agreed definition and typology.
The importance of policy dialogue should be recognised in the country strategy	The current evaluation agrees with this conclusion though not only to recognise the importance but also outline the strategic purpose to be served with further details usefully provided in an integrated approach.
There is a need to think and work politically given that policy making and policy dialogue are inherently political processes – the evaluation noted that “AusAID is yet to embrace this political economy perspective across its programme cycle	The current evaluation strongly agrees with this conclusion and also observes that the EBRD is yet to adopt a political economy approach.
There are strong benefits to be had from seizing opportunities when they arise	Agreed – The EBRD needs to be flexible to pass through windows of opportunity as they open up, and be ready to change tack at short notice as contextual changes occur.
Based on the AusAID evaluation's survey of AusAID staff their skills and attributes are the most important contributors to policy dialogue success.	The current study concurs that personal skills and attributes are very important in establishing credibility, generating trust, and engaging across multiple levels. However, we note that this conclusion emerged from the survey of AusAID staff so perhaps they would say that. Our own findings point to a number of other factors, including contextual factors, strategy and tactics selected, effectiveness of monitoring and flexibility as being as, if not more important. In an IFI context, the credibility of the institution is equally important, including its ability to “reward” good policies with substantial investment.

The conclusions of the AusAID evaluation, AusAID management response and comment by the current evaluation are shown in Table 11-5. The recommendations were organised into four groups – organisational values and principles, thinking and working politically, allocation and configuration of resources, the skills and credibility of AusAID's people.

**Table 11-5: AusAID policy dialogue recommendations**

AusAID evaluation recommendations	AusAID management response	Comment by current evaluation
Organisational values and principles		
AusAID should adopt a standard definition of policy dialogue and a common understanding of the concepts and purpose of policy dialogue	Agree	Agree. The current evaluation suggests that should be part of a Management paper on the role of policy dialogue in the business model of the EBRD.
AusAID's Executive should provide greater clarity of purpose and direction about its expectations regarding the role, emphasis and expected outcomes of policy dialogue in the Australian aid programme.	Agree	Agree – this should be done as part of the proposed statement of purpose of policy dialogue in the EBRD's business model.
Thinking and working politically – embedding policy dialogue into aid management		
AusAID should support the development of a greater understanding of policy processes in, and the wider political economy of, international development with an emphasis on translating this understanding into practical operational outcomes for staff. <i>Rationale: Much of the theory underpinning good policy dialogue is poorly understood and disseminated within AusAID—particularly the inherently political nature of policymaking and policy implementation. Supporting staff to 'think and work politically' is central to policy dialogue success.</i>	Agree	Strongly agree. The current evaluation advocates that training should be available to staff involved in policy dialogue to enhance their understanding of political economy issues and for political economy experts to be part of reference or advisory groups formed to support major areas of policy dialogue.
Political economy analysis should underpin what AusAID does in constructing its country and sector programs—centred around a politically savvy country situational analysis, and supported by in-depth contextual analysis (such as drivers of change) and sector-focused analysis. <i>Rationale: An understanding of counterparts and the political economy was found to be one of the strongest determinants of overall success of policy dialogue yet also among the weakest areas of AusAID's capacity in policy dialogue.</i>	Agree	Strongly agree. See above.
Policy dialogue should be informed by evidence and that evidence should be locally owned, shared and understood by stakeholders. <i>Rationale: The effective use of evidence in policy dialogue was found to be one of the strongest determinants of the overall success of policy dialogue.</i>	Agree	Strongly agree. The current evaluation shows various examples of how analytical work was commissioned and carried out to provide a strong evidence base for the policy dialogue work that followed. Of course, it must also be recognised that self-interest or an interest in acting in favour of an economic elite may make a decision maker immune to evidence.
The effectiveness of policy dialogue – whether linked to funding or not – and commentaries on the political context should become a standard element of AusAID's quality processes and performance frameworks (at all levels) and evaluations. <i>Rationale: There is no requirement to design and track policy dialogue where it is not linked to funding, which reduces the strategic potential of policy dialogue. Making policy dialogue a core part of aid management practice will be facilitated by ensuring it is integrated into decision-making at the design stage and that performance in policy dialogue is monitored, evaluated and reported on.</i>	Agree	Largely agree, particularly for proactive or planned policy dialogue, which should be reflected in country strategies. However, the nature of policy dialogue does not, the current evaluation suggests, lend itself to numeric targets and timeframes. Given this, policy dialogue does not lend itself inclusion in corporate or team scorecards. Nonetheless, work on policy dialogue should be visible and should be taken into account in performance reviews.
Allocation and configuration of resources – making sure policy dialogue is properly resourced		
Senior managers should enable staff to devote sufficient "space" and time for meaningful policy	Partially agree – we will not prioritise dialogue over other	The current evaluation is more aligned with the AusAID management position. Directors are currently free to decide how much time teams should devote to policy dialogue and

AusAID evaluation recommendations	AusAID management response	Comment by current evaluation
<p>dialogue and relationship building. This would involve prioritising policy dialogue.</p> <p><i>Rationale: Less than one third of all respondents to the staff survey agreed that AusAID provides the time, space and flexibility to work effectively in policy dialogue</i></p>	parts of the programme management process; it is up to managers to decide the appropriate weight for each	the current evaluations considers this to be working well.
<p>The ability to be fleet, flexible and responsive –particularly in making and implementing funding commitments resulting from dialogue – should be seen as pivotal to effective policy dialogue. To achieve this, AusAID should ensure design and approval processes are fit-for-purpose across the types of aid provided, by balancing the risks involved (including the development risks of not being fleet and flexible).</p> <p><i>Rationale: Funding responsiveness was found to be the key driver of policy dialogue success with the most scope for improvement.</i></p>	Agree	Agree. In the EBRD context this mostly concerns the process for getting TC approved and, given the often long-term nature of policy dialogue, the uncertainty regarding continued availability of TC resources to continue or extend policy dialogue work once embarked upon. Given the substantial and, up until now at least, growing TC resources available this has not been a problem but it could become one in the future.
<p>AusAID's programs should invest in balancing the negotiating capital of their counterparts in policy dialogue (for example, by supporting partners' internal policy analyses and capacities to articulate positions and priorities).</p> <p><i>Rationale: Balanced negotiating capital was shown in this evaluation to be important in both theory and practice, but is generally not a focus of AusAID's policy dialogue efforts.</i></p>	Agree	The current evaluation provides examples where this has taken place – for example, strengthening the capacity of a regulator to carry out policy dialogue.
<p>The skills and credibility of AusAID's people – at the heart of securing effective policy dialogue</p> <p>AusAID should increase the technical and policy skills – among both specialist and generalist streams of staff – to enable better policy dialogue. All teams involved in policy dialogue should include (or have access to):</p> <ul style="list-style-type: none"> <li>• Skills – technical specialities, and diplomacy/advocacy, language, cross-cultural communication, partnership and political analysis skills</li> <li>• Capabilities – country experience, political awareness, confidence, flexibility and entrepreneurial capabilities.</li> </ul> <p>This would include hiring more analytical staff to focus on policy dialogue and increasing access to technical support.</p> <p><i>Rationale: The skills and credibility of staff are the most important drivers of success in the policy dialogue process, but are not consistently available for individuals and teams conducting policy dialogue.</i></p>	Partially agree – we do not agree that more analytical staff need to be hired; we believe we can build skills through learning and development activities	Strongly agree. The survey carried out by the current evaluation confirmed that the EBRD does nothing to enhance the skills of staff to engage in policy dialogue. This needs to be addressed if the Bank is to get the best return from the resources expended on policy dialogue. The current evaluation agrees with the types of skills that need to be imparted to those engaging in policy dialogue on behalf of the Bank
<p>The performance of staff according to their position, from First Secretary upwards, should be defined and appraised in part on the basis of their skills and aptitude for, and success in, policy dialogue. Staff should be given suitable recognition for their success in policy dialogue to reinforce the value placed on this by senior staff.</p> <p><i>Rationale: A minority of survey respondents agreed, and a third disagreed, that staff are rewarded for investing in relationship-building and good policy work. Bringing policy dialogue to the front and centre of job descriptions, individual performance plans and performance discussions is important for building up staff skills and reinforcing that policy dialogue is core work.</i></p>	Agree	The current evaluation notes the need for much improved visibility of policy dialogue work and recognition of those who engage in it. It considers that intrinsic rather than extrinsic rewards and motivations are likely to be more appropriate for policy dialogue work.

AusAID evaluation recommendations	AusAID management response	Comment by current evaluation
Professional development in the area of policy dialogue should be available to staff through on-the-job mentoring and training. Outcomes should include understanding the purpose and concepts of policy dialogue, and the political economy of development. <i>Rationale: Lack of technical understanding, knowledge and experience in policy dialogue of staff at Posts was found in the staff survey to be one of the top four factors detracting from good policy dialogue.</i>	Agree	Strongly agree as noted above.
AusAID should build up and make greater use of country expertise and experience. This might include: <ul style="list-style-type: none"> <li>Increasing time in a position to build up deeper country knowledge</li> <li>Enhanced language skills (at minimum one month in-country immersion training, ideally moving to language training equivalent to that undertaken by political officers of the Department of Foreign Affairs and Trade)</li> <li>Utilising national staff in policy dialogue processes to a greater extent.</li> </ul> <i>Rationale: Country knowledge and experience is a major factor in building relationships over the long term that create the opportunities for policy dialogue, and establish AusAID's credibility as a policy partner.</i>	Partially agree – AusAID is already enhancing language skills and considering further enhancements; time in a position is considered appropriate and will not be changed	Strongly agree

Source: Elaborated by EvD based on the findings outlined in the final AusAID report (footnote 35)

Note: Some recommendations and their rationale have been truncated to remove highly AusAID specific detail not considered relevant to the current study. Management comments only provided for areas of partial agreement.

## Findings from evaluations by others on policy dialogue

A limited number of other evaluations of policy dialogue have also been reviewed by the current evaluation as part of the process of confirming (or not) the findings of the current evaluation. Results are shown in Table 11-6, again with comment by the current evaluation.

**Table 11-6: Findings from other evaluations on policy dialogue**

Organisation	Findings	Comment by the current evaluation
Independent Evaluation Office of the International Monetary Fund <sup>23</sup>	Consult country authorities at an early stage, share with them preliminary assessments and engage with local analysts and researchers.	The “consult with country authorities at an early stage” is of course supported by the current evaluation in principle. However, as shown in our case studies, it is essential to have clarity on what the problem is, what the underlying causes are of the problem, the nature of the political economy issues embedded in the problem (understanding who the winners and losers are from the status quo and proposed solution), and what options exist for dealing with the problem along with an understanding of the costs, benefits and risks of each potential solution. All this requires a good analytical underpinning such that policy dialogue is strongly evidence-based. Time may be required to generate this analysis before engaging with the government. Based on a clear

<sup>23</sup>

[IEO. 2013. \*The Role of the International Monetary Fund as Trusted Advisor\*](#)

Organisation	Findings	Comment by the current evaluation
		understanding of the problem, a strategy and tactics for policy dialogue engagement needs to be developed. Following that, time may be needed to generate a consensus among those pro-reform groups with whom the EBRD will be working.
		The current evaluation strongly supports the need to work closely with mid-level officials, and to adopt an empathetic approach that understands the other side's point of view in order to arrive at mutually acceptable solutions. The current evaluation also strongly supports the need to engage with local analysts and researchers, particularly those located in selected think tanks, certain community service organisations, and selected academics.
	Strengthen the continuity of the relationship between the Fund and member countries by developing a medium-term strategy with objectives and incentives for mission chiefs and resident representatives in order to enhance their role of trusted advisors.	The current evaluation has found that personal factors such as empathy, credibility, and communication skills among others are extremely important to success. Given this, and in the absence of such personal characteristics, the current evaluation considers that a medium-term strategy and a set of incentives will <u>not</u> by itself enhance the effectiveness of the head of the Resident Office as a trusted adviser. Trust is something that has to be earned rather than be conferred. That said, the current evaluation does agree that a medium-term strategy for the main areas of concentration of policy dialogue does add value - the most appropriate place to reflect this in the EBRD's case is in the country strategy and sector level integrated approaches. The current evaluation considers that if it is necessary to provide incentives to the head of the Resident Office to enhance their role as trusted adviser, the wrong person has been selected for the job.
	The Fund should develop incentives for staff that make their role as trusted advisors an important part of their performance.	As outlined elsewhere in this report, given the nature of policy dialogue and the sometimes weak relationship between effort and reward in the short-term at least, the current evaluation believes that intrinsic rather extrinsic rewards and motivations are more appropriate.
Evaluation of the European Union's Support to Private Sector Development in Third Countries <sup>24</sup>	Alignment of interests should remain a priority and a policy dialogue should be deployed to ensure that the Commission is on the same track as national authorities.	Recognising and understanding what the interests of various policy actors are, and seeking to align these, are a central part of the political economy approach advocated by the current evaluation. The current evaluation would note that groups such as "national authorities" must not be taken to mean that this is some sort of homogeneous group with a common set of interests. A much more nuanced understanding of interests is needed.
	The report noted that it was difficult to obtain a clear picture of the nature and intensity of policy dialogue.	The current evaluation has demonstrated that it is possible to obtain a reasonably clear picture of the nature and intensity of policy dialogue in Ukraine, but this did require a significant amount of work. Better review, monitoring, reporting and periodic evaluation will help overcome this.
	The report pointed out that there was a lack of guidance on alternative approaches to tackle the problem of misalignment of interests when the government is either not capable or not committed and therefore reforms cannot be based on sustained and thorough policy dialogue.	The current evaluation agrees with this, which is why it advocates full incorporation of a political economy approach into its policy dialogue. It is also the reason for the current evaluation's suggestion that major areas of policy dialogue carried out by the EBRD should draw on the expertise and knowledge of a reference or advisory group, which would be part of periodic stocktaking and review of results, strategy and tactics.

<sup>24</sup>

[European Commission. 2013. \*Evaluation of the European Union's Support to Private Sector Development in Third Countries\*](#)

Organisation	Findings	Comment by the current evaluation
The Independent Evaluation Group of the World Bank <sup>25</sup>	<ul style="list-style-type: none"> <li>• Recognise the political complexity of public sector reforms and the necessary sequence of reforms:</li> <li>• Be realistic: results take time and expectations need to be realistic</li> <li>• Take into account the context: understanding the political environment</li> <li>• Prioritise tasks: basic reforms should be carried out first</li> <li>• Find a balance between policy and investment lending: institutional change needs the support of investment projects and development policy lending may enable policy changes.</li> </ul>	The current evaluation agrees with these points.
	<ul style="list-style-type: none"> <li>• Set priorities for anticorruption efforts for country strategies:</li> <li>• Clearly integrate anticorruption efforts into the overall country strategy. Focus on two points: (i) building country systems that reduce opportunities for unfair practices and (ii) sharing information publicly</li> </ul>	The current evaluation is sympathetic to this finding but further confirmation needs to await its assessment of the EBRD's anti-corruption initiative.
	Provide this area with a better framework and a set of indicators to better assess the achieved results.	The current evaluation provides qualified support for this finding, particularly in terms of planned policy dialogue as reflected in country strategies. However, for all policy dialogue, the current evaluation emphasises the role of storytelling to provide richer picture of what happened and, most importantly, why.
International Finance Corporation of the World Bank Group <sup>26</sup>	When International Finance Corporation Advisory Services, the Investment Climate and Sustainable Business Advisory teams worked together to improve the food safety management system in Ukraine – lessons emerging from the experience included:	

<sup>25</sup> [Independent Evaluation Group. 2008. \*Public Sector Reform: What Works and Why?\*](#)

<sup>26</sup> [International Finance Corporation. 2008. \*Changing Programs to Fit New Strategies: Some Lessons from Ukraine\*](#)

Organisation	Findings	Comment by the current evaluation
	<ul style="list-style-type: none"> <li>• Close collaboration among teams (for example in this case the Investment Climate team and Sustainable Business Advisory team) through the whole process is necessary. An integrated approach across business lines could enhance and preserve this collaboration.</li> </ul>	The current evaluation also found that a “joined up” approach within EBRD is particularly important. Such does not always happen in practice.
	<ul style="list-style-type: none"> <li>• Rigorous industry-specific analyses are essential to identify and assess the impact of all types of regulatory changes affecting the specific industry.</li> </ul>	The current evaluation strongly supports the need for quality analytical work so that policy dialogue is strongly and demonstrably evidence-based, and that all those around the table can agree what the “facts of the situation are.”
	<ul style="list-style-type: none"> <li>• Combine economy-wide reforms with sector-specific initiatives to better achieve results.</li> </ul>	The EBRD has long portrayed itself as being a transaction driven bank and that when it engages in policy dialogue, this is strongly linked to transactions. Many within the EBRD believe this is the way it should stay. However, the current evaluation has found that the image of policy dialogue by the EBRD being almost always linked to transactions is largely a myth. While the motivation for the EBRD to engage in policy dialogue may start and end with its ability (or inability) to invest, much of the policy dialogue work (with regulators, assisting with legislation and regulation, institution building and so on) has economy-wide effects. The current evaluation supports the view that the EBRD needs to engage in policy dialogue that have an economy-wide effects if it is to realise its potential to foster transition impact, and if it is to avoid accusations of operating in its own self-interest.

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## Annex 12. Profiles of the Evaluation Team and Peer Reviewers

### Keith Leonard – Evaluation Team Leader



A New Zealand national, Keith has been a Senior Adviser with the Evaluation Department since early 2012. Prior to this he was a staff member of the Asian Development Bank (ADB) for 10 years – seven years in that bank's independent evaluation department, latterly as Director, and three years heading a regional office. During his time in the ADB's evaluation department Keith evaluated a number of the Bank's policy-based loans and supervised a number of others. He was involved in training operational staff in policy-based lending and results-based management. During his career Keith was at various times a policy adviser in an Office of the Prime Minister, engaged in policy dialogue at various levels from president/prime minister/minister to senior managers, and a political party activist. He has a master's degree in management with a focus on the management of the policy process.

### Olga Mrinksa– Policy Expert

A Ukrainian national now resident in the United Kingdom, Olga is an independent consultant. Recently, she led a case study of the scope and nature of cross-border interactions between border regions of Poland and Ukraine and how they affect economic, social and territorial cohesion of these regions. Prior to becoming a consultant Olga was a research associate with the Institute for Public Policy Research in London and a research director of the Institute for Public Policy Research North based in Newcastle. From 2002 to 2007 she worked for the United Kingdom's Department for International Development based in Kiev where she was deputy manager of the Ukrainian programme of economic policy. She holds a PhD in economic and social geography and master's degree in international investment management.

### Beatriz Perez Timermans - Analyst

A Spanish national, Beatriz is an analyst in the EBRD's Evaluation department in which role she contributes to a number of evaluations being carried out by the department both in terms of general analytical work and with responsibility for defined parts of final evaluation products. Prior to joining the Evaluation department she was an analyst in the Bank's Office of the Chief Economist for two years where she undertook economic analysis and research into issues affecting micro, small and medium enterprises and contributed to the Bank's flagship publication, the annual transition report. Beatriz holds a master's degree in business management and bachelor's degree in business administration.

### George Abonyi – Peer Reviewer

A United States national, George is a visiting professor with the Department of Public Administration and Executive Education Program, Maxwell School, Syracuse University. He also holds senior academic (full time and visiting) and research positions with University of Ottawa; Anderson School of Management, University of California at Los Angeles; Harvard Institute for International Development; and Institute of Southeast Asian Studies, Singapore. He acts as a consultant to a number of governments and is co-author of the Asian Development Bank publication *Toward a political economy approach to policy-based lending*. George holds a PhD in strategic management and policy, a master's degree in economics and system planning and a bachelor's degree in economics and political economy.

### Philip Daltrop – Peer Reviewer

A national of the United Kingdom, Philip has more than 20 years' experience as an international lawyer with ADB, the World Bank, the Inter-American Development Bank, the United Kingdom Foreign and Commonwealth Office and a leading global law firm. In the ADB Philip was variously, Deputy General



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Counsel, Auditor General, and Head of Procurement. Philip holds a master's degree in philosophy, politics and economics and a second master's degree in international human rights law.

James Sherr – Peer Reviewer

A British/United States national, James is an Associate Fellow of the Russia and Eurasia Programme of Chatham House (having been Head of Programme 2008-11), a Senior Associate Fellow of the Institute of Statecraft and a Visiting Fellow of the Razumkov Centre, Kiev. Between 1993 and 2012, he was a member of the Social Studies Faculty of the University of Oxford. From 1995 to 2008, he was a Fellow of the Advanced Research Assessment Group and Conflict Studies Research Centre of the UK Defence Academy. He is the author of *Hard Diplomacy and Soft Coercion: Russia's Influence Abroad* (Chatham House, 2013). He has produced over 100 publications on Russia, Ukraine and European security. Since 1995, Mr Sherr had an intensive advisory role in Ukraine and has worked closely with official bodies and centres of independent expertise in the country.

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**Annex 13. Case study: Grain sector**

[Link](#)

**Annex 14. Case study: City of Lviv**

[Link](#)

**Annex 15. Case study: Energy efficiency**

[Link](#)

**Annex 16. Case study: Financial institutions and the Local Currency and Capital Markets Development Strategic Initiative**

[Link](#)

**Annex 17. Case study: Power and energy**

[Link](#)

**Annex 18. EBRD management comments**

[Link](#)

**Annex 19. External peer review comments**

[Link](#)

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