

## **EvD Special Study - EBRD's Experience with Policy Dialogue in Ukraine Management Comments**

The special study provides a comprehensive review of the process of carrying out EBRD policy dialogue in a number of key areas in Ukraine. Management values the quality of this inventory as well as the scope and the depth of the analysis provided. The analysis of case studies acknowledges the Bank's strengths and deals honestly and constructively with its weaknesses in the field of policy dialogue activities. Management also acknowledges the inclusive process during the preparation of the special study. Co-operation during its preparation is also evidenced by the joint Management/EvD efforts on policy dialogue stock-taking through the cases of Ukraine and FYR Macedonia, presented to SPCoM last year.

Management agrees with the five broadly stated recommendations. Management notes that while some of the elements and possible actions suggested under the main recommendations may be of a more generic nature, the case studies contain a wealth of information that Management could and will draw upon. In the suggested elements/possible actions under the recommendations, the study could further prioritise, sharpen its focus and judgment on the EBRD characteristics, such as the private sector focused mandate, niches for engagement and areas where it has leading expertise and adds value, consistently utilising the insights from the findings of the analysis of case studies in Ukraine on key ingredients for success (or failure).

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

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

While Management does not comment on all suggested elements/possible actions under the five recommendations as it intends to consider them further in the context of its work on a new approach to enhanced and structured policy dialogue, some specific comments on the study are presented, including elaboration on the points above and Ukraine specific findings and recommendations, and are organised under two main headings as follows:

- EBRD approach to policy dialogue
- Success factors ensuring an effective policy dialogue

### **1. EBRD approach to policy dialogue**

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

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

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

## **2. Success factors ensuring an effective policy dialogue**

### **2.1 Areas of agreement for improvements**

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

Management agrees with the study's recommendation on the importance of qualitative indicators in monitoring and evaluating policy dialogue achievements to tell the story. In this respect, it would be useful for Operation Leaders and the TC Team if EvD could identify some practical qualitative indicators that could be applied in different circumstances, based on the extensive review of the past TCs supporting policy dialogue in Ukraine (e.g. what worked and what did not). Refer to CS RF as another results management instrument being developed. Insights from the literature review and the experience of other organisations would also be welcome. Furthermore, while analytical underpinnings are provided in the terms of reference for TC, Management agrees there is room to improve the quality and scope of the analysis along the lines being proposed in the study. Management agrees that better documentation of policy dialogue work is needed, without overburdening the reporting requirements, and believes the TC results monitoring would help.

Management fully agrees with EvD about the importance of adopting a political economy perspective and having political economy analysis as part of the Bank's initiation and conduct of a more programmatic policy dialogue, including through the country strategies. Indeed, the discussions are well underway about enhancing the role of the political counsellors in this respect. The strategic themes of latest country strategies, for instance, were deliberated and shaped against political economy analysis.

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

## ***2.2. Areas that need further consideration***

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

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