

# Policy dialogue programmes on energy efficiency in transition countries – how to make it a success

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## Abstract

International Financial Institutions have long understood the need to incorporate energy efficiency policy dialogue into their investment activities. Despite this, little work has been done to evaluate the impact of energy efficiency (EE) policy dialogue in transition countries and to draw generic conclusions.

Based on an evaluation of policy results and practical experience gathered in the field by the European Bank of Reconstruction and Development (EBRD) this paper addresses the question: How to achieve strong, long-lasting EE policy outcomes in transition countries? Specifically, the paper presents a conceptual framework that emphasises the following critical elements:

- A systematic approach is required where interventions are planned within the broader strategic context, and implemented at the right place and the right time.
- The importance of high-quality secondary legislation and other implementation procedures (such as technical standards, support tools etc.) to implement primary legislation.
- Enforcement procedures need specific attention in transition countries.
- The need to consider the institutional setting related to energy efficiency to ensure policy longevity.

- The mutual learning process needed in policy development. Only if the donor has learned something new during the process can we assume that the peculiarities of the recipient country have been fully captured.

## Setting the scene

International Financial Institutions have long understood the need to incorporate energy efficiency policy dialogue into their investment activities. This is also the case for the European Bank of Reconstruction and Development (EBRD). EBRD runs a number of programmes aiming at fostering investment into energy efficiency and renewable energy sources in different sectors (housing, industry, transport, municipal infrastructures etc.). These investment facilities are supplemented by policy dialogue programmes that help to establish framework conditions favourable for the intended investments.

Against this background, this paper

- reviews different policy dialogue approaches in transition countries with the aim to put together a common framework
- gives an overview on the the experience gathered by EBRD over many years with respect to policy dialogue programmes in the field of energy efficiency
- derives general principles and key success factors which are specifically relevant for energy efficiency policy dialogue programmes.

## In the search of a common framework for policy dialogue

Policy dialogue programmes are applied in many different fields – from economic aid to social, health, research and gender policies etc. Furthermore, the regional context and the peculiarities of different donors and recipients contribute to variety. The wide variety of policy dialogue programmes may be one of the reasons why a commonly accepted framework for policy dialogue programmes is still missing. During the last 10–15 years we can observe, however, an increasing number of studies and documents that reflect the diversity of policy dialogue in general and its success factors in particular<sup>1</sup>. The following section reviews different approaches and highlights common elements of policy dialogue that are also relevant for policy dialogue programmes in the field of energy efficiency.

### DIFFICULTIES IN DEFINING POLICY DIALOGUE

The difficulty starts with identifying a widely accepted definition of policy dialogue. Among the many different attempts to define policy dialogue, the authors have selected those that underline a few characteristics which seem particularly important in the context of energy efficiency policy in transition countries.

Already in the early eighties the United States Agency of International Development defined policy dialogue as “[...] a mechanism to incorporate the interchange of ideas and information whereby either viewpoints or both can change to bridge the initial differences between the two. [...] the aid recipient comes to view the policy advice as genuinely in the interest of its own economic progress [...]” (USAID, 1982). The first part of the definition highlights the **process of dialogue**, whereas the second part underlines its **result**.

The definition proposed by the United Nations Research Institute for Social Development adds another important element of policy dialogue: **negotiating values**: “Policy dialogue is defined as organised deliberation between two or more actors on the allocation of values that is likely to result in new policies or modification of existing ones” (UNRISD, 1997).

The Australian Office of Development Effectiveness brings together these different aspects in a concise definition: “Policy dialogue is a process of communicating and negotiating values in a landscape of power and imbalances” (AusAID, 2011). Based on this definition, it categorises different types of policy dialogue, based on the advisor’s (donor’s) political agenda and his political distance from the recipient country (Figure 1).

Figure 1 suggests four broad types of policy dialogue considering the communication and negotiation between donor and recipient:

- The **external advisor** is not acting to bring forward its own political agenda and sits politically distant from the recipient. This type of advice is usually called “technical assistance” and provides orientation for political decision making on request of the recipient.

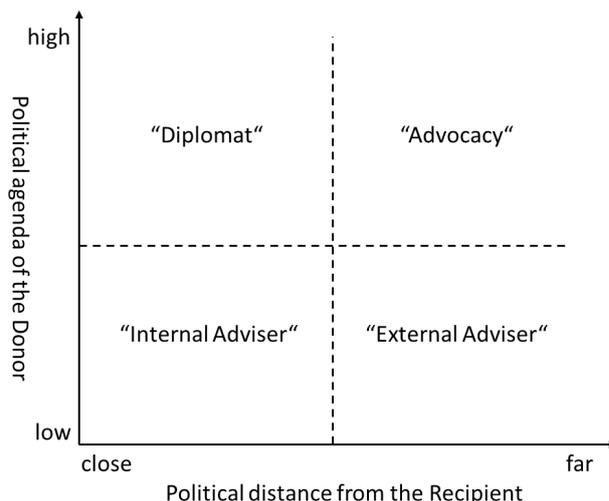


Figure 1. Four types of policy dialogue (source: AusAID, 2011, based on Haldenwang and Alker, 2009).

- The **internal advisor** sits within the recipient government and thus interacts on a frequent basis. The policy agenda is, however, set by the recipient.
- The **diplomat** follows mainly his own national agenda, although he works closely together with the recipient country.
- The **advocacy group** is located far from the recipient and does not align with the recipient’s countries national agenda.

In the context of policy dialogue applied to the field of energy efficiency, the distinction between external and internal advisory is particularly relevant. Only in a few cases does the diplomacy approach apply – most often without the donor’s agenda being made explicit. Advocacy group approach is not widely used by development institutions.

### IMPORTANT ELEMENTS AND GENERIC SUCCESS FACTORS OF POLICY DIALOGUE

The four broad types of policy dialogue as presented above give a first indication on important elements that ensure the impact of policy dialogue programmes. Firstly, it is important that the **donor clarifies his own agenda in the dialogue** and thus the intent of dialogue: The higher the political agenda of the donor, the more important is the degree of influence exerted.

On the other hand, if the political agenda of the donor is low (i.e. at the lower part in Figure 1, which is frequently the case in EE policy dialogue), successful dialogue can be defined in terms of the power symmetry between the donor and the recipient. “Effective policy dialogue may thus also include activities which aim to increase the negotiating capital of the recipient governments. [...] this may mean that a recipient government refusing to agree to a donor driven policy may represent ‘successful’ dialogue” (AusAID, 2011).

Secondly, the **institutional setting** plays a major role on the side of the recipient as well as on the side of the donor. At the side of the recipient, it is important to address the right level of the political system – and the right level depends on the starting conditions in the recipient country. An assessment of case studies of Thomas and Grindle (1994) showed that policy-

1. Just to mention a relevant few studies: AusAID (2011); Whitfield, Fraser (2008); Watson, Pierce (2008); Haldenwang, Alker (2009).

making differs remarkably according to whether the political system is stable and the administration runs in a politics-as-usual mode or whether a crisis provokes policy change. Circumstances of crisis tend to change the dynamics of decision making and policy elites give priority to reform issues, because they have to demonstrate, that they “do something”. In contrast, during politics-as-usual policy reform is less incentivised and tends to happen incrementally.

The incentive structure on the side of the donor organisation is another important element. There exist a few studies (Shirley, 2005; Natsios, 2010; Ostrom et al, 2002) which indicate, that in general donor staff are not rewarded for institutional change as it is difficult to measure. More important are quick results and the subsequent development of new projects. Transformational change and sustainability of results in the recipient country can often be upstaged by the donor organisation’s search for quick, measurable results.

This aspect leads to another important element of policy dialogue: **patience and stamina**. Brien (2011) observes that policy dialogue is “often bound by unrealistic time frames. The usual period of engagement is two to three year project cycles, after which staff move on and development thinking shifts to the next big idea, often buoyed by a success story from somewhere else.” In this context, Bazeley (2011) highlights that policy dialogue is a **continuous, iterative process** which is non-linear and messy. At the same time, he underlines the need for long-term strategies as a basis for delivering change outcomes.

Finally, another important element which is emphasised in many studies and reports (e.g. Brien, 2011, WIEGO, 2013) is the fact that policy dialogue is a dialogue. On the one hand, this includes the importance of listening and understanding, before putting forward a solution. On the other hand, a dialogue requires a certain balance of knowledge and power – Whitfield and Fraser (2008) use the term “negotiating capital”.

#### MEASURING THE IMPACT OF POLICY DIALOGUE

Taking into account the heterogeneity of policy dialogue and the wide range of influencing factors as discussed above it becomes obvious that measuring the impact of policy dialogue represents a particular set of challenges, all of which are directly relevant to energy efficiency policy:

- Attribution problem, which refers to the difficulty to determine the links between policy influencing activities and outputs in terms policy changes. That is to say, that usually policy changes proceed incrementally, they are highly complex and influenced by a multitude of interacting forces and actors (compare Jones, 2011).
- Success of policy dialogue is difficult to define and may change over time during project implementation – policy dialogue is frequently confronted with “moving targets”.
- Policy changes occur over a long period of time (at least in a politics-as-usual scenario without dramatic crisis). These long timeframes do not fit to measurement in the usual project and evaluation cycles.

In practice the challenges mentioned above lead to a situation where very little monitoring of the impact of policy dialogue is done. This refers to policy dialogue programmes in general, and EE policy dialogue in particular, although the

authors suspect that there exists more evaluation work internally at donor organisations which is not published. The few evaluation reports publicly accessible do not share a common framework and are thus hardly comparable<sup>2</sup>. In the field of energy efficiency the authors were able to identify only a very limited amount of studies aiming at identifying the impact of EE policy dialogue: One report with was produced by EBRD to evaluate the success of EE policy dialogue in Ukraine; and one similar report from the International Finance Cooperation regarding the success of the “Russia Residential Energy Efficiency Program” (IFC, 2013).

#### Overview on EE policy dialogue at EBRD

Since its establishment, EBRD has engaged in legal and regulatory assistance in its countries of operations. This policy dialogue has paved the way for privatisations (e.g. legal framework for convertible bonds), established polices and regulatory frameworks for key infrastructure sectors (e.g. telecommunications policy and regulatory framework) and facilitated commercial lending (e.g. secured transactions model law). More recently, EBRD policy dialogue engagement has been expanding to eliminate bottlenecks to account for new and emerging challenges facing the EBRD’s countries of operations (‘the region’).

#### ‘TRANSITION’, THE EBRD AND ENERGY EFFICIENCY

The EBRD’s understanding of what constitutes a country in ‘transition’ has changed over time. The notion of ‘transition’ is enshrined in the EBRD’s Agreement Establishing the Bank (AEB). Article 1 of the AEB spells out that “the purpose of the EBRD shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative” (EBRD, 2013). This unique purpose meant the role of the EBRD was to foster a change in economic systems rather than directly pursuing development outcomes as in other multi-lateral development banks (MDBs). Unfortunately, the AEB did not spell out what ‘transition’ meant in detail, or how the EBRD should measure it.

Global changes in the last quarter century have led the EBRD to revisit the concept of transition. In the light of increased concern over sustainability issues and climate change, inequality and inclusion, and the 2008 financial crisis, the Bank has developed a new interpretation of what ‘transition’ means. The EBRD’s new transition concept, which comes into effect in 2017, argues that a country in transition should have more than just well-functioning markets - it should also be:

1. Competitive
2. Inclusive
3. Well-governed
4. ‘Environmentally friendly’
5. Resilient and
6. Integrated.

2. Compare for example EBRD (2014), IFC (2013), AusAID (2013), Watson, Pierce (2008).

In other words, the revised concept puts the emphasis on the desirable *qualities* of countries in transition. EBRD investment projects are now evaluated on the extent to which they deliver these qualities to support countries in transition.

#### HOW DOES ENERGY EFFICIENCY CONTRIBUTE TO 'TRANSITION'

Energy efficiency has a direct role to play in delivering at least three of the transition qualities listed above. First, energy efficiency delivers improved competitiveness by reducing resource input related production costs and allowing companies to provide products at lower cost to markets.

Second, energy efficiency also delivers improved environmental outcomes by reducing energy related local pollution and CO<sub>2</sub> emissions per unit of activity. However, while there has been an overall decoupling of economic growth from emissions in the EBRD region of operations, progress after 1995 has been uneven across countries. As a result, energy intensity in the EBRD region remains on average over three times higher than in the European Union (EBRD, 2013).

Finally, improved energy efficiency leads to greater economic and environmental resilience. Reduced energy intensity of economic activity reduces a country's exposure to energy supply shocks.

#### TYPICAL STARTING CONDITIONS FOR ENERGY EFFICIENCY POLICY IN TRANSITION COUNTRIES

With regards to energy efficiency policy, in the experience of the authors, transition countries are usually characterised by an unfavourable starting position, consisting of the following elements:

- Poor efficiency-related benchmarks in the energy balance (e.g. high energy intensity in industry; high consumption per capita etc.);
- High energy saving potentials throughout all important energy demand sectors;
- Lack of energy efficiency policy instruments in place;
- Weak and unclear institutional set-up – In some cases it is not even clear which institutions are responsible for which areas of energy efficiency policy;
- Other political priorities;
- Frequently even suspicion of the usefulness of energy efficiency: Does energy efficiency really deliver? Does it really have positive impact on the countries welfare? Or is it just a trick to sell expensive equipment?

In turn, specifically related to energy efficiency policy the authors thus define "transition country" as those countries where many of the hindering characteristics as described above can be observed.

#### WHY EE POLICY DIALOGUE AT EBRD?

The typical starting conditions as described above underline the imperative nature of EE policy dialogue. Experience shows that delivering energy efficiency improvements necessitated the removal of many persistent barriers. And policy dialogue is critical for addressing barriers to energy efficiency, to achieve transformational change in the energy efficiency market and

to scale up energy efficiency investments. That is, the Bank acknowledges the essential role of policies with respect to influencing decision makers' motivation and the implementation of energy efficiency actions. Without such policy change, the logic goes, barriers to energy efficiency persist and investments in more efficient, new technologies tend to be one-off affairs, not leading to the full-scale roll out the Bank is trying to encourage.

The EBRD has adopted a pragmatic energy efficiency operational and financing approach that integrates policy dialogue alongside other core elements of the business:

- project financing of specific energy efficiency or renewable energy investments;
- technical assistance to support project preparation, project implementation and capacity building;
- policy dialogue to support the development of an enabling environment for sustainable energy.

#### EXAMPLES FROM EE POLICY DIALOGUE AT EBRD

Over the past several years, EBRD has been engaged in many energy efficiency policy dialogue activities. These activities cover a diverse range of countries – from Kazakhstan to Morocco – and topics – from Energy Performance of Buildings Directive (EPBD) transposition to Eco-Design and policies for supporting energy efficiency investments in multi-family apartment buildings. The following section illustrates the heterogeneity of activities by presenting a few selected examples.

##### Ukraine residential energy efficiency

Residential buildings in Ukraine use a significant amount of energy. In 2011, the sector's 10 million dwelling units consumed around 289 million MWh accounting for approximately 40 % of the country's total energy use (Worley Parson, 2011). Given the critical need for energy security in the country, improving the energy efficiency of the country's residential building stock is important.

As a result, the EBRD, funded by Austria's Ministry of Finance engaged in a multi-year programme for the transposition of the EPBD directive and associated regulations. To date, the EBRD's work has delivered the following main results:

1. Development of **standards for the calculation of energy performance of buildings** compliant with EPBD, setting the basis for the implementation of the most important EPBD policy instruments (minimum requirements, energy certificates).
2. Development of a **centralised web-based software tool** that is made available to all market actors (designers, architects, energy auditors) and that enables them to calculate energy performance in line with the standards in place.
3. Development of **EPBD-compliant minimum energy performance requirements** for residential buildings: Based on the results of a thorough cost optimality analysis minimum requirements have been defined for heat energy levels and have been incorporated into the new construction norm DNB B 2.6-31.
4. Elaboration of secondary legislation on housing management for multi-family houses (so-called Model Contract).

The first phase of this policy dialogue programme (2012 to 2014) has been comprehensively evaluated by the EBRD's Evaluation Department (see the following section "Evaluation of EBRD's policy dialogue programmes on energy efficiency").

#### **Kazakhstan industrial energy efficiency**

The industrial sector in Kazakhstan is substantially more energy-intensive than those of advanced market economies. As such, Kazakh manufacturers use more energy per unit of output. This energy intensity has an impact on the medium and long-term competitiveness of enterprises and results in a greater environmental footprint, including high GHG emissions (Pierce Atwood, 2013).

As a result of this context, in 2013, the EBRD worked with the (then) Ministry of Industry and New Technology (MINT) to develop the Resource Efficiency Transformation Programme (ResET). The ResET programme aimed to remove key barriers and support the introduction of best international technologies and practices in the area of resource efficiency with a focus on energy efficiency. As with all EBRD work, the ResET Programme policy dialogue was linked closely with EBRD lending, technical assistance and donor co-finance under the Kazakhstan Sustainable Energy Financing Facility.

The policy dialogue work programme identified four priority areas of policy support under ResET:

##### *1. Benchmarking of Largest Energy Consuming Industries and Development of Kazakhstan specific Benchmarks for these Industries.*

The ResET Team completed an energy efficiency benchmarking study of some of Kazakhstan's most energy intensive sectors covering 35 products produced in 31 industrial plants. This benchmarking was carried out in compliance with Kazakhstan legislation. Although "benchmarking" was not listed explicitly in the Law on Energy Saving and Energy Efficiency ("ES&EE Law"), nor in the implementing regulations, there are references to analogous terms, such as: (1) "performance indicators" (Decree No 50/1999 requires industries to set "target energy consumption per unit of product" and work in this area has started in four enterprises); and (2) "Standard for energy consumption" mentioned in Article 9 of the ES & EE Law, which requires approval of this standard. These references can be interpreted as "benchmarks".

##### *2. Capacity Building and Training*

From January–May 2014, the Team engaged in a 'training of trainers' programme. This resulted in a total of 37 city council officials and 6 private sector representatives in Almaty, Astana, Taraz, Kostanay, Karaganda, Akomole, and Atyrau being trained. This included one two-day training session for State Energy Supervision inspectors. Evaluations showed a high degree of satisfaction from the participants. The training materials were submitted to the government for further use.

##### *3. Assessment of the 2012 Law on Energy Saving and Energy Efficiency ("ES & EE Law") and the implementing regulations*

The Team delivered proposed amendments to four key sub-laws enacted in support of the ES&EE Law. All of these amendments were eventually adopted by the government:

- The Resolution on Approved Mechanism of Assessment of Local Government Activities Related to Energy Saving and Increased Energy Efficiency, No. 1047, dated 15 August 2012 ("Resolution No. 1047").
- The Resolution on Approved Template Agreement in the Field of Energy Saving and Increased Energy Efficiency, No. 1116, dated 31 August 2013 ("Resolution No. 1116").
- The Resolution on Approved Rules of Conducting an Expert Evaluation (Expertise) of Energy Saving and Increased Energy, No. 1784, dated 29 December 2012 ("Resolution No. 1784").
- The Resolution on Approved Requirements for Energy Efficiency of Electric Motors, No. 1040, dated 10 August 2012 ("Resolution No. 1040").

The proposed resolutions delivered by the government addressed critical flaws in the existing sub-laws that rendered them less than effective in achieving the goals set forth in the ES&EE Law.

##### *4. Development of an Audit Regulation to address auditing of industries*

The Team delivered a proposed methodology for conducting Industry Energy Audits in Kazakhstan. The purpose was to produce a protocol that will help Kazakh Energy Auditors conduct good-quality audits of industrial sites in a manner that is consistent with recognized international best practices in energy auditing. Ultimately, the aim would be for the Audit to provide an Enterprise and its sites with a prioritized list, or action plan, of cost-effective energy-saving opportunities for it to take forward.

In addition, the team provided recommendations for amendments to the general Decree of the Government of the Republic of Kazakhstan dated February 18, 2013 No. 146 "On approval of the Rules of accreditation in the field of energy saving and energy efficiency" ("Rules of Accreditation") adopted in the implementation of the Law on Energy Saving and Energy Efficiency ("ES & EE Law").

Overall, the ResET policy dialogue was a challenging assignment because of the breadth of issues covered and the short time that was required to deliver the outputs. Two key factors contributed to the success: first the regular reporting and discussions between the EBRD programme leader and MINT, and secondly the regular and on-going project management engagement between the EBRD and the consultant teams.

#### **Western Balkans regional energy efficiency programme**

The Regional Energy Efficiency Programme (REEP) is a 2013 initiative managed by the EBRD and blending policy support to the six Western Balkans governments with loans, technical assistance and incentives to support energy efficiency and renewable energy projects in the public and private sectors. REEP operates both directly and through intermediaries.

A €20 million EU contribution and a further €3 million contribution from the Western Balkans Investment Framework have supported loans in excess of €120 million to date. In 2016, the EU committed a further €30 million to back the launch of REEP Plus – the first regional energy efficiency initiative targeting the residential sector.

The REEP (and subsequent REEP Plus) is a complex programme politically. That is, it covers two EU Directives (EPBD and EED), several Ministries in each country and requires close engagement with the Energy Community Secretariat and the EU. With a total budget for REEP of just EUR2m, this makes for a challenging programme.

Nevertheless, the programme was remarkably effective. In 2016 alone, the REEP policy dialogue led to the following outcomes:

- Serbia: The Ministry of Mining and Energy of the Republic of Serbia enacted the Rulebook on Public Procurement (published in the Official Gazette of RS on 29.12.2015). This Rulebook requires government agencies to consider energy efficiency in their capital purchases. Furthermore, EPBD Rulebook on Inspection of boilers and heating systems was published in the Official Gazette 58/16 of 22 June 2016.
- Croatia: Amendments to regulations relating to inspection of heating and cooling systems and energy audits approved.
- Kosovo and Albania: Parliamentary approval of EPBD law.

Managing a policy dialogue activity across so many countries is not straightforward. One of the key factors contributing to the success of REEP is the cooperation between the EBRD and the Energy Community Secretariat. By working together, it was possible to both support and incentivise country policy development.

#### EVALUATION OF EBRD'S POLICY DIALOGUE PROGRAMMES ON ENERGY EFFICIENCY

Up to now, only limited evaluation work has been done regarding the policy dialogue programmes implemented by EBRD. In 2013, the EBRD's Evaluation Department (EvD) conducted an evaluation of the Bank's energy efficiency policy dialogue experience in Ukraine (EBRD, 2014). The study was an evaluation of process rather than verifying energy savings. In doing so, the EvD study focused on identifying the successes and lessons of the policy dialogue activities in country. Overall, the study concluded that the policy dialogue was successful for several reasons:

1. The policy context in Ukraine prior to 2014 presented **favourable conditions for reform**. The evaluation noted that the Ukrainian government was keen to collaborate with international partners, including the EBRD, to address the massive challenges posed by energy inefficiency, greenhouse gas emissions and high reliance on imported fuel.
2. There was also **regional pressure** on the Ukraine government through the country's participation in various international organisations, accords and fora. These helped to ensure that the issues remained on the country's policy agenda. Key in this regional dimension is Ukraine's membership in the European Energy Community and the need to comply with the relevant EU Directives.
3. The EBRD's **internal capacity and organisation** was identified as another critical element of success. The Energy Efficiency and Climate Change (E2C2) banking team is unique in the EBRD. In addition to the usual finance experts, E2C2

also employed its own policy and technical experts. The evaluation concluded that "it is likely that this large multi-disciplinary internal resource dedicated to energy efficiency [...] is an important factor influencing success of the policy dialogue".

4. The EBRD policy experts also played an active role in helping to **coordinate donor activity** in the energy efficiency policy space. This helped to avoid duplication of effort among donors and also led to several instances of donors (such as USAID, IFC, World Bank, GIZ) combining resources and working together.

The study did identify several areas for marginal improvement. First, while funding has not been a limiting factor to date for the policy dialogue work, it is short-term. This does pose a problem in terms of lack of predictability of future policy assistance for the government. Second, the review praised the consultants for doing an excellent job. However, the review noted that it was important for the EBRD to closely manage the consultants to avoid 'client capture'. In other words, the review noted that sometimes the consultants succumbed "to the demands of the beneficiary to change the scope of work without comprehending the real drivers for these changes or analyzing their long-term consequences". In response, the evaluation suggested that supervising EBRD experts need to "possess or be able to access skills in the area of political economy."

#### Systemic approach towards successful EE policy dialogue

##### ELEMENTS OF A FRAMEWORK FOR EE POLICY DIALOGUE

Based on the theoretical review and the practice experience presented above, the authors put together a framework for EE policy dialogue, consisting of the following elements:

- **Relevance** refers mainly to the policy area and the target defined for the policy dialogue programme. With respect to energy efficiency "relevance" refers to the significance of the sector addressed and the energy saving potential in this sector.
- **Tractability** refers to the likelihood of the policy recommendations being adopted given the socio-political-economic situation in the country.
- **Impact/Effectiveness** expresses the degree to which the defined target is achieved by policy dialogue activities actually implemented.
- **Feasibility** can be seen as a limiting factor to the indicators "Impact/Effectiveness". With regard to policy dialogue on energy efficiency feasibility is limited mainly by the series of unfavourable framework conditions as described above in section "Typical starting conditions for energy efficiency policy in transition countries".
- **Sustainability** refers to the durability of the achieved impact and – in an optimal case – to the activation or strengthening of those forces inside a country that push forward energy efficiency also in the future (after the policy dialogue programme has ended).

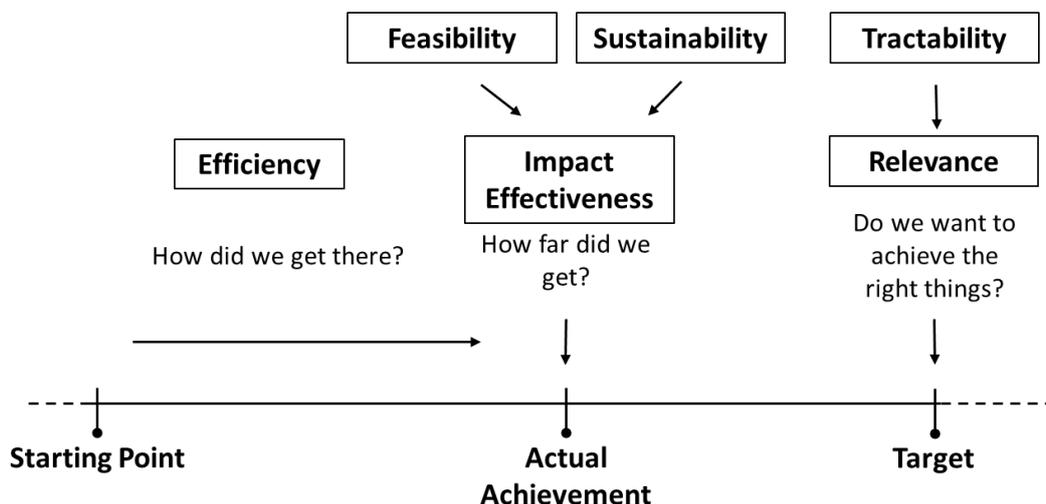


Figure 2. Interlinkage between success criteria for energy efficiency policy dialogue.

- **Efficiency:** This indicator is usually regarded as less important, since it refers (only) to the effort that is required to achieve the target.

We consider the single elements of the framework as useful points of reference, whenever a policy dialogue programme is developed and implemented. Furthermore, the elements may also serve as guiding principles when the impact of policy dialogue is evaluated<sup>3</sup>. Figure 2 shows the framework and the ideal-typical relationship between its elements.

#### CRITICAL SUCCESS FACTORS FOR EFFECTIVE EE POLICY DIALOGUE

In a next step, we can use the framework presented above to classify seven critical success factors for effective EE policy dialogue programmes on, which the authors derived from long-term experience in developing and running such programmes with the aim to push forward energy efficiency policy in transition countries.

##### i. Apply a strategic approach

Relevance and tractability can be only achieved if policy dialogue follows a long-term, systematic approach, in other words, if policy dialogue is built on strategic considerations. In analogy to Quinn (1985a) who defines a few constitutive elements of a strategy in a management context, we believe that strategic EE policy dialogue consists of the following key constituents:

- Instead of pursuing an isolated target (such as implementation of a specific instrument), strategic policy dialogue defines a bundle of coherent targets that altogether lead to an increase of energy efficiency in a given sector.
- The definition of targets is based on a thorough analysis and understanding of the driving forces and barriers that push forward or slow down the implementation of energy saving measures in a given sector. This helps in identifying the

potential points of leverage from where the policy dialogue activities can start.

- Strategic policy dialogue is based on long-term planning, covering at least 3–4 years. Experience from policy dialogue programmes in different transition countries shows that very little can be achieved in a shorter period of time.
- Although defining and pursuing long-term targets, strategic policy dialogue has to avoid inflexibility. This requires adjustments of some of the elements of the strategic approach over time (compare the concept of “incremental strategy” according to Quinn, 1985b).
- In concrete terms, this means that each policy dialogue programme needs to start with an inception phase during which the main strategic elements are identified and defined in a transparent and traceable manner. After maximum two years an interim evaluation and reassessment has to be implemented: What has been achieved so far? Are all elements of the strategic approach still valid? Which elements need to be adjusted?
- A frequent barrier for a long-term strategic approach in policy dialogue is the fact that policy dialogue programmes are reliant on donor money, which usually has a shorter planning period.

##### ii. Take care of implementation on the ground

Success regarding the criterion impact/effectiveness refers to the degree to which the strategy is implemented on the ground. In this context, when assessing the influencing factors that prepare the ground for the implementation of energy saving measures, usually a series of “tiny little things” will show up as important. This means that policy dialogue has to take into account the hidden details that become obvious only in the course project implementation – not uncommonly as a surprise.

Usually important details are not defined in primary legislation but in the succeeding secondary legislation and other implementation procedures (such as technical standards, support

3. Some of the framework elements proposed by the authors are introduced in by IFC (2013) as criteria for the evaluation of a policy dialogue programme in Russia.

tools etc.). Therefore successful policy dialogue programmes do not stop with support in developing primary legislation, but intensify supporting activities when primary legislation is in place and when secondary regulation needs to be elaborated. In many cases, it is even recommended to develop primary legislation and secondary regulation in parallel.

Furthermore, enforcement procedures need specific attention in transition countries. Just to give one example: When supporting the Ukrainian authorities in developing energy performance requirements compliant with EPBD it turned out that energy-related requirements have little relevance for builders of single-family houses because the administrative routines to check compliance are only developed for larger-scale buildings. Therefore, in order to improve the impact of the policy dialogue programme it was important to execute additional activities related to an improvement of enforcement routines.

### iii. Link policy dialogue activities to technical assistance and investment programmes

A key lesson of the EBRD experience with delivering effective policy dialogue is that the policy work needs to be closely linked to technical assistance and investments. The reason for this close link is twofold. First, linking policy to investments ensures that the policy directly addresses the barriers to energy efficiency investment. Second, by developing energy efficiency policy in parallel with financial institutions means that it is possible to launch a complementary financial instrument at the same time a policy is approved. An example of this in action is in Ukraine residential energy efficiency. After several years of energy efficiency policy work on EPBD related regulations and legislation (see above), and in the context of the political changes that occurred in the country in 2014, the EBRD launched the iQ credit line facility to support home owners to invest in energy efficiency.

Linking policy dialogue programmes directly to technical assistance and investment programmes positively influences the achievement of the success indicators impact, sustainability and tractability.

### iv. Improve the organisational anchoring of energy efficiency

A further important factor to ensure sustainability and tractability of a policy dialogue programme on energy efficiency is related to the improvement of the institutional environment. Sometimes, the importance of this aspect is underestimated and institutional strengthening is seen as by-product of delivery of technical advice. It is, however, a common principle of change management that any kind of change requires anchoring at the organisational level (compare for example Doppler and Lauterburg, 2014). As described above, many transition countries are characterised by

- ambiguity of distribution of competences of state authorities, when energy efficiency issues are to be decided, and/or
- weakness of organisations that are dealing with energy efficiency.

In a first step, policy dialogue has to identify the competent authority and key actors in the transition country – frequently this involves more than one authority. This implies questions, such as: Which authorities are invited for active contributions, which ones are just informed from time to time? Which key

actors require formal involvement, which ones should be involved in an informal way?

In a second step, successful policy dialogue programmes actively address the role of local “energy efficiency advocates – such as energy agencies, research institutes, standardisation institutes etc. – and aim at strengthening their position by dedicated activities in the following fields:

- capacity building and training;
- assessment and enhancement of procedural aspects of policy implementation;
- bringing these organisations to fore in events and working groups.

### v. Place energy efficiency topics into a broader context of supporting factors

Feasibility is influenced by a big variety of factors, many of which are not directly related to energy efficiency policy but to the country’s policy context. As described above, many transition countries do not give priority to energy efficiency in their policy agenda – even suspicion of the benefits of energy efficiency is not uncommon.

Therefore it is critical that policy dialogue programmes on energy efficiency make use of supporting factors, such as windows of opportunity, that enhance the ranking of energy efficiency as compared to other policy targets. Just to give one example: The participation in Energy Community forces many countries in the EBRD region to adopt energy efficiency policy instruments. Another example is the repeated experience of sudden energy price increases as a consequence of cutback of cross-subsidies, as happened in Ukraine during the last few years.

Furthermore, policy dialogue programmes have to react on important issues on the policy agenda beyond energy efficiency: e.g. the decentralisation agenda in Ukraine, which is closely connected to administrative procedures for many energy efficiency policy instruments.

### vi. Actively manage the policy dialogue programmes

Energy efficiency policy dialogue programmes are complex, with many ‘moving parts’: government Ministries, State Agencies, consumer organisations, business associations, technical institutes all need to be engaged. In addition, there are often one or more teams of consultants that need to be managed. In order to ensure that the policy dialogue activity proceeds as efficiently as possible, it is critical that the programme manager (or ‘Operations Leader’ (OL) in EBRD speak) is actively engaged. The engagement of the OL needs to be across multiple dimensions including:

- EBRD-government interactions
- Inter-Ministerial interactions
  - Managing the consulting team (guiding interaction with the government; checking deliverables; ensuring regular project management and progress meetings to make sure good relationship between the OL and consultancy team; ensuring collaboration between local project team and international consultants; etc.)
- Donor coordination

Without active engagement across all these areas, a policy dialogue activity is bound to, at best, be less effective, and at worst, potentially fail.

**vii. Hold a dialogue on equal terms**

Finally, successful policy dialogue is a dialogue. This statement is self-evident at a first glance, but in practical implementation of policy dialogue programmes it refers to an over-arching and challenging success factor which addresses the following issues:

- Donors need to listen and understand the specific framework conditions in the recipient country before pursuing a specific solution.
- Donors need to bring recipient countries in a position where they are able to listen and understand – in other words: successful policy dialogue increases the “negotiation capital” of the recipient country bringing forward elaborated decisions, even if these decision differ from the advice given by the donor.
- Good practice examples from other countries are useful points of reference – however, a direct transfer from one country to another is rather an indication of deficient dialogue.
- It is obvious that policy dialogue improves the know-how at the side of the recipient, but at the same time a dialogue initiates a mutual learning experience: Therefore, when evaluating the impact of policy dialogue one of the check-

points should be in which fields the donor organisation has increased its knowledge, too.

Figure 3 summarises the critical success factors as described above and assigns them to the single framework elements.

**Conclusions**

Delivering effective and impactful energy efficiency policy is not straightforward in any country, let alone transition countries. In addition to the usual energy efficiency barrier suspects, energy efficiency policy professionals need to contend with weak institutional structures, low technical capacity and even a general suspicion of energy efficiency. Nevertheless, the experience of the EBRD and the professionals it employs through its policy dialogue programmes shows that energy efficiency policy work can deliver improved outcomes in countries in transition. This was shown in examples as diverse as industrial energy efficiency policy in Kazakhstan to residential energy efficiency in Ukraine and EPBD transposition in the Western Balkans. As a result of this experience it has become clear that expertise in energy efficiency policy development is a necessary but not sufficient condition for the policy development work to be effective. In addition, a broader range of strategic, project management and inter-personal skills are absolutely critical. Thus, we conclude that there are seven ‘critical success factors’ for energy efficiency policy dialogue work in transition countries:

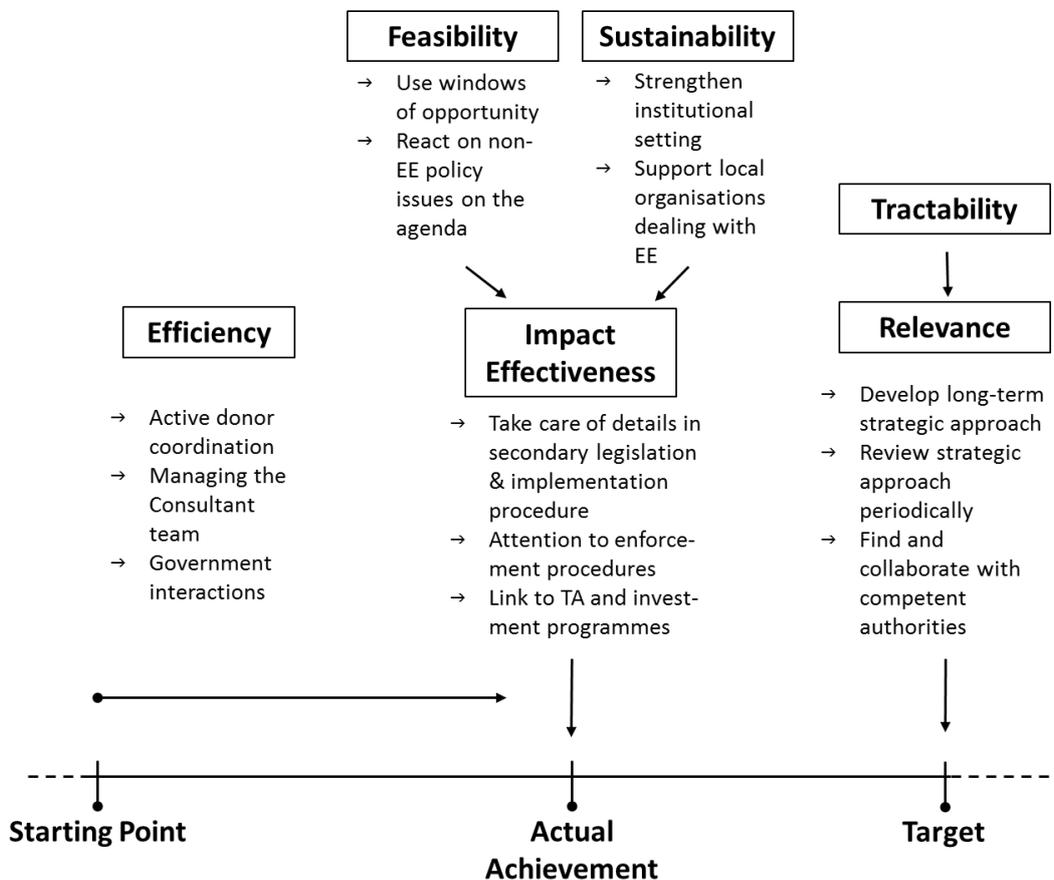


Figure 3. Overview on critical success factors for policy dialogue and how they are linked to success indicators.

- Apply a strategic approach.
- Take care of implementation on the ground.
- Link policy dialogue activities to technical assistance and investment.
- Improve the organisational anchoring of energy efficiency.
- Place energy efficiency topics into a broader context of supporting factors.
- Actively manage the policy dialogue programmes.
- Hold a dialogue on equal terms and ensure mutual learning.
- Taken together, these critical success factors can help to guide energy efficiency policy dialogue work through the complex realities of transition countries.

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