

# ICPS newsletter

## Conducting consultations is a safeguard for effective policymaking

*An effective policymaking process depends on conducting consultations and promoting cooperation both within the institution in charge of the policymaking process and between different relevant departments. Moreover, it is crucial to involve all interested parties in the policymaking process, to ensure that their interests are taken into account and to provide policymaking programs with broad support. This was the topic of a training seminar entitled "Conducting Consultations in the Process of Policymaking", given by Professor Paul Brown as part of the ICPS's project "Institutional Capacity to Develop Economic Programs". Among the project outputs will be legal and methodological documents on organising consultations in the process of policymaking*

A process of policymaking that is based on cooperation between different public authorities and involves a wide range of interested parties has several advantages. Such a scheme of policymaking gives the opportunity:

- to take into account the needs of all interested parties;
- to make the process more effective;
- to weaken opposition to policy implementation.

There are three main types of consultations that can be held in the process of policymaking—external, vertical, and horizontal. Political leaders and state officials should possess the skills necessary

for organising all three types of consultations.

**External consultations** are the most important. State officials have the opportunity to become acquainted with new ideas on policymaking that are presented by non-governmental organisations and individual citizens. The assignment for state officials is to transform these ideas into concrete political proposals. It is necessary to organise consultations and discussions with different interested parties, and then to analyse their interests and needs.

To ensure the effectiveness of external consultations, it is important:

- to identify different interested parties as specific social units, each of which has its own history, problems, and interests;
- to organise consultations taking into account interests of all participants;
- to think out a detailed strategy for consultations;
- to involve the public into the design of consultations;
- to understand that different social strata have different opportunities to participate in consultations.

### Stable inflation contributes to reducing "dollarisation" of economy

*The optimal strategy for cutting down the dollarisation of the Ukrainian economy might become ensuring a stable rate of inflation and sending clear signals of exchange rate dynamics. ICPS's senior economist Ruslan Piontkivsky presented his research on this topic at the third annual conference of the Global Development Network, held recently in Rio de Janeiro*

The dollarisation of the economy of a particular country is referred to a situation when its residents keep a share of their savings in the form of foreign currency or foreign-currency-denominated assets. A high level of dollarisation leads to the following negative consequences in the economic situation of a country:

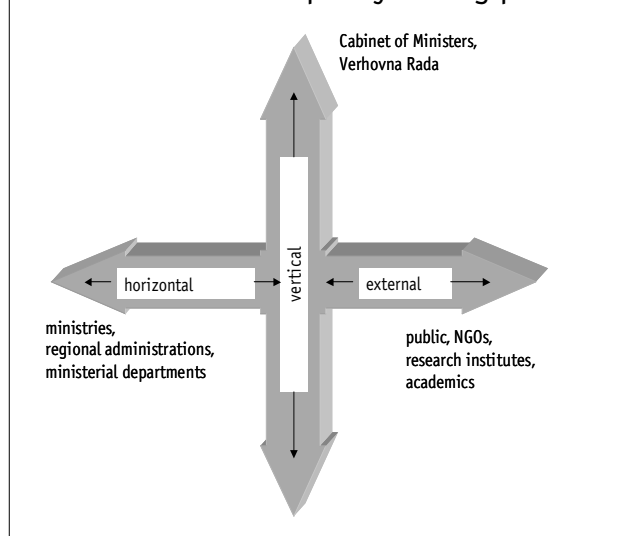
- budget deficit financing becomes more inflationary;
- the risk of a banking system crisis becomes stronger;
- implementing effective monetary policy becomes more difficult.

The main goal of the presented research was to identify the reasons of the dollarisation in transition economies, and to work out policy recommendations on how to minimise the negative consequences of this phenomenon.

On the basis of data for Ukraine, Russia, Poland, and Romania, the author came to the following conclusions:

- Volatility of inflation results in a higher level of dollarisation;
- The rise in expected return on assets denominated in the national currency (for example, bank deposits) leads to a lower level of dollarisation;

### Consultations in the policymaking process



- Predictability of the exchange rate contributes to lower dollarisation.

However, analysis shows that the growth of relative return on assets denominated in national currency does not necessarily change the dollarisation level if at the same time the fluctuation of the inflation rate increases.

Thus, to reduce the dollarisation of the economy it is necessary to work out a whole set of economic instruments. In particular, stimulation of high interest rates cannot be considered as an optimal economic policy in this regard, because it may have negative effects on the real sector of the economy. Besides, there may be a trade-off between ensuring a predictable exchange rate and ensuring stable inflation. The consequences of ensuring a predictable exchange rate by supporting its stability may be a higher volatility of the inflation rate.

Thus, the optimal strategy to reduce the dollarisation of economy consists in ensuring stable inflation under condition that economic agents should receive clear signals on exchange rate dynamics. The experience of Poland (the only transition economy that has reduced the level of dollarisation) confirms the effectiveness of this approach. ■

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Under **vertical consultations**, we mean consultations between officials who are in charge of policymaking and ministers of relevant ministries, members of the Cabinet of Ministers, and deputies of the Verkhovna Rada. Although the decision making itself is the prerogative of the Cabinet of Ministers, the design of policy is a task for professional civil servants. They are in charge of providing the CMU with political recommendations and coordinating the policymaking process.

To make vertical consultations effective, it is necessary:

- to take into account the priorities of governmental activities;
- to present political programs to ministers;
- to design political alternatives besides those proposed by the participants of the policymaking process;
- not to avoid to focus on decision making oriented on elections;
- to defend the interests of the ministries, and to avoid conflicts with other authorities;
- to demonstrate commitment proposed political programs.

Under **horizontal consultations**, we mean communications between officials who are in charge of policymaking and different departments of their ministries, regional authorities, and other ministries.

Horizontal consultations facilitate the coordination of executive activities. To

effectively conduct horizontal consultations, it is necessary:

- to clearly identify problems in order to assign the roles and tasks for different ministries in policymaking; the ministry in charge of a particular policy program should involve other ministries in the process of its design from the very beginning, which will create conditions for further cooperation and ensure that all aspects of the question are taken into account;
- the Secretariat of the CMU must provide administrative support to conducting consultations;
- to establish realistic terms for decision making, because time is needed to hold the consultations;
- to find sources of financing before conducting consultations, which will give the opportunity to work out a realistic working plan and to ensure public involvement. ■

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### *Effective policy is impossible without proper analysis*

State policy on a given issue is a plan of actions oriented at solving a particular problem or providing an effective use of a country's capacities. It is obvious that without identifying policy alternatives and analysing their possible consequences, effective policymaking is impossible. The main tasks for state officials (who should be proficient policy analysts) are to identify the problem, analyse the possible ways of solving it, and find the best solution.

The following criteria exist to assess policy options:

- *effectiveness* (the probability of solving a particular problem with the proposed political program);
- *political feasibility* (whether the proposed program corresponds to public policy priorities, does it have public support and support of particular social strata);
- *administrative feasibility* (does the proposed program correspond to time requirements, and to budget, legal, and institutional capacities);
- *efficiency* (analysis of costs and benefits of the implementation of the proposed program);
- *fairness* (analysis of how the particular program can influence different groups of society and different regions).

## **ICPS publications in 2002**

ICPS is continuing its subscription drive for its publications in 2002. The portfolio of ICPS's regular publications includes:

- *Quarterly Predictions* — a quarterly economic survey presenting regular updated economic development forecasts for Ukraine;
- *New Economic Legislation* — an annual evaluation of changes in economic legislation and the impact of that legislation on the business environment and investment climate in Ukraine;
- *Policy Studies* — a working paper series focusing on key public policy issues;
- *Consumer Confidence* — a quarterly survey of household consumer expectations;

- *Economic Statistics* — a monthly summary of statistical data useful for doing business in Ukraine;
- *ICPS Newsletter* — a weekly bulletin that covers ICPS current research and projects.

Subscribers are entitled to consult the research fellows at ICPS and to participate in seminars and conferences organised by ICPS.

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