Annex

The EBRD’s impact management system

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How the EBRD achieves impact

Since its foundation in 1991, the Bank has strived to deliver transition impact in its regions. The concept of "transition" is central to the purpose of the EBRD, mandated "to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the countries of its regions of operations committed to and applying the principles of multiparty democracy, pluralism and market economics".[55]

Transformational and lasting changes to markets are achieved through systemic change. With every project, the Bank strives to catalyse behavioural, structural and institutional changes at market level that go beyond the direct effects from any single investment. These targeted and compounding changes result in more sustainable and dynamic markets, wholly transforming economies and changing people's lives for the better.

The EBRD drives transition impact by uniting investment, policy dialogue and advisory services in the pursuit of six complementary transition qualities – competitive, well-governed, green, inclusive, resilient, and integrated – that characterise sustainable, inclusive and well-functioning markets (Box 7).

Box 7

The EBRD's six transition qualities

Competitive economies have dynamic and open markets that promote entrepreneurship, business sophistication, new technologies and productivity growth, as well as institutions that foster private-sector activity.

Well-governed economies have institutions and processes that establish international best practices and standards, promote transparency and accountability and ensure good governance and sustainable operations.

Green economies are sustainable; they preserve the environment and protect the interests of current and future generations.

Inclusive economies ensure fair and full access to labour markets, finance and services, and equal economic opportunity for all population groups.

Resilient economies can grow and withstand economic shocks while avoiding excessive volatility and policy reversals.

Integrated economies consist of geographically interwoven domestic and international markets with low institutional and infrastructure barriers to the movement of goods, services, capital and labour.

55. See EBRD (1990).

The transition qualities are interdependent and mutually reinforcing. A green investment to build a renewable energy facility might be combined with inclusive support to reskill workers previously employed in a coal mine. Finance to make an enterprise more competitive might be accompanied by measures to improve corporate governance, helping to reduce corruption. Targeted support to shelter communities from the impact of economic or external shocks might be complemented by measures to assist the most vulnerable groups affected in times of crisis.

The EBRD engages in three complementary activities to achieve impact. Our business model is anchored in a mutually reinforcing set of strategic activities that unlock behavioural and structural shifts to foster enduring socioeconomic progress:

- **Investments** provide finance and promote innovative ways of doing business, spurring successful new approaches that can be replicated by other players in the market.
- **Policy dialogue** helps create regulatory and institutional environments that enable market economies to flourish for all.
- **Advisory services** develop the technical capacity that enterprises need to grow or to implement necessary changes. They also help to prepare clients for the financing they will receive and equip them to use it to maximum effect.

This holistic combination of activities forms a virtuous circle, allowing policy dialogue and advisory services to facilitate new investment, while investments inform the need for new policies and advice.[56]

56. Policy dialogue and advisory services both fall under the broader category of "technical cooperation". Technical cooperation is the term the Bank uses for any activity to procure expertise to support the preparation or implementation of an investment or non-investment project. This can include activities not directly related to a specific investment, such as legal and regulatory reforms, as well as activities that directly enable investments, such as due diligence and feasibility studies. Technical cooperation is often financed by the Bank's many donors.

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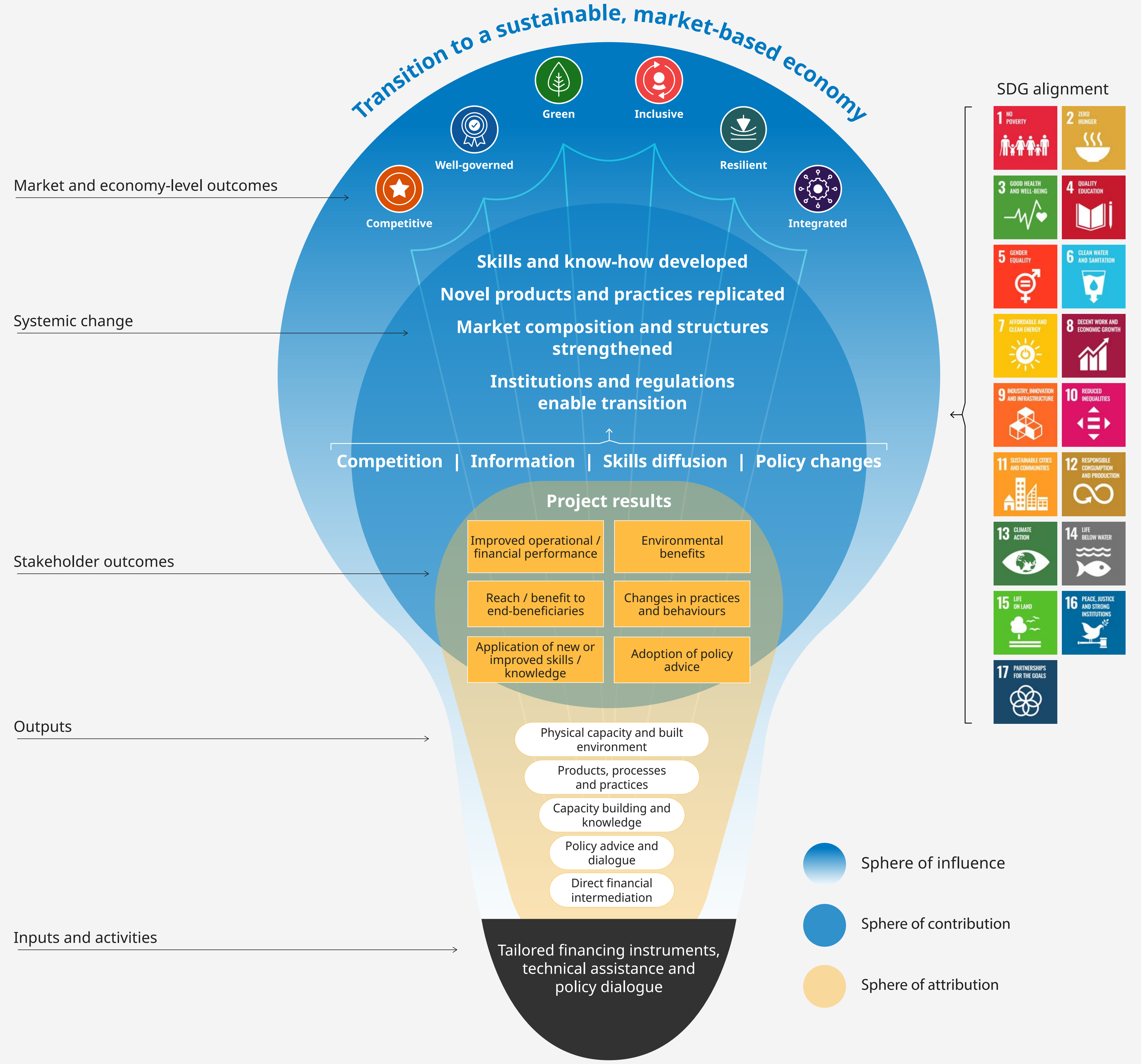
The Bank's unique business model is built on a sophisticated theory of change (Figure 19). Using this framework, the EBRD fosters transition impact through – and measures its success in terms of – the simultaneous and complementary pursuit of the six transition qualities.

The EBRD achieves transition impact through a cascading series of effects that begin with project activities. These activities produce project outputs that result in client and stakeholder outcomes. These in turn contribute to market- and economy-level outcomes that go far beyond any project's direct effects. Such systemic changes to behaviours, structures and institutions influence transitions to more sustainable and dynamic markets, transforming economies and changing lives.

Figure 19. The EBRD's theory of change



The role of policy dialogue

A key aspect of the EBRD's work is its policy support to create an enabling environment for systemic change. Over the years, the Bank has continually examined the role of government (national, regional and local) in the development of markets and in ensuring effective regulation, correcting market failures and enabling healthy competition, entrepreneurship and innovation.

The EBRD's policy dialogue helps shape the legal and regulatory environment in its economies. Regulatory and legal improvements make EBRD economies more conducive to a broad array of investments, bringing about transition impact that is greater than the sum of its individual projects. The role that policy dialogue has played in the reform of state-owned enterprises (SOEs) in Ukraine (Box 8) is an example. The Bank fosters "top-down" policymaking – supporting the introduction of policies that help attract more local and foreign investment (such as from the EBRD and other development partners), that enable joint financing opportunities and that lead to other key outcomes. The EBRD also promotes "bottom-up", evidence-based policymaking, whereby experience is fed back to governments and the investor community to help remove barriers to the further growth of an industry or sector. In this way, policy dialogue enables the EBRD to address market or regulatory barriers across all levels of government and sectors of the economy.

Box 8
The role of policy dialogue in SOE reform in Ukraine

For more than a decade, the EBRD has championed SOE reform in Ukraine, where around 3,000 SOEs account for nearly 10 per cent of GDP and 18 per cent of employment. Their underperformance poses fiscal risks, magnified by the ongoing war. As the largest institutional investor in Ukrainian SOEs, the Bank has helped transform major players such as Ukrainian Railways, Energoatom and Naftogaz.

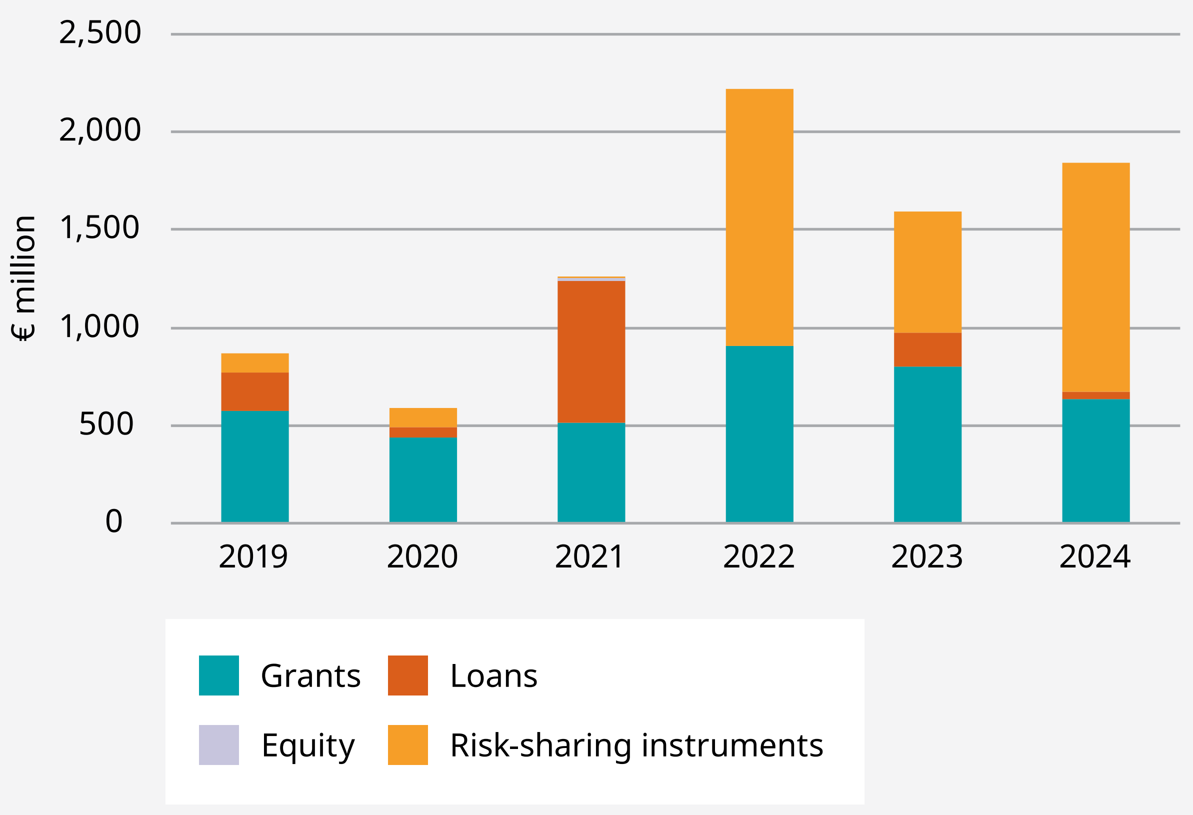
In 2024, three years of technical cooperation and policy dialogue culminated in the landmark passage of Ukraine's SOE Corporate Governance Law (3587-IX). This new law strengthens SOE autonomy, transparency and accountability and aims to align the sector with Organisation for Economic Co-operation and Development (OECD) standards. This milestone was achieved in partnership with G7 countries, the European Union (EU), the International Monetary Fund and the OECD.

In 2025, the EBRD will reinforce Ukraine's progress towards EU accession. Top priorities include putting the state ownership policy into action, reforming board nomination procedures, continuing company-level reforms and building supervisory board capacity within key SOEs. The Bank also aims to help the government address moratoria on SOE insolvency and enforcement. Through these efforts, the EBRD is helping to build investor and donor confidence and reinforce Ukraine's progress on improving SOE governance and efficiency.

The role of donor partnerships

Donor partnerships play an integral role in enhancing impact. The EBRD works closely with numerous donors to achieve greater impact in the economies where it operates. These donors include national governments, the EU, global climate funds and philanthropic organisations that provide various forms of support (Figure 20). With half of the Bank's transactions benefiting from donor support and grant finance, donors play a fundamental role in enabling the EBRD to invest with impact, by reducing transactional risk, improving viability for financing and incentivising new behaviour. With most of the Bank's policy dialogue and advisory projects funded by grants, donors also make a critical contribution to its transition impact by helping to overcome market and institutional failures, promoting capacity building, helping clients to prepare and implement projects and enabling vital policy and regulatory reforms.

Figure 20. Forms of EBRD donor support



Note: Figures include inflows from the EBRD allocated as part of the Bank's net income allocation process.

Donor support has grown significantly in recent years to more than €1 billion annually since 2021. The use of donor funds now extends to most sectors and economies in which the EBRD invests and has been essential in addressing the effects of conflict and natural disasters. The recent growth has been predominantly driven by contributions from large EU programmes and bilateral donors to support Ukraine. Most notably, donors have extended generous guarantees that have facilitated EBRD investments in the country that otherwise could not have been financed and provided critical advisory-service grants to develop policy responses and expertise to make the Ukrainian economy more resilient.

In addition, the Bank is partnering with donors to explore innovative funding structures with high leverage potential and opportunities to facilitate private capital mobilisation. In this context, the Bank has championed a range of concessional instruments. These instruments are deployed alongside the Bank's own capital to structure blended concessional finance transactions. The EBRD adheres to best practices on the use of blended finance, such as the enhanced principles under the Development Finance Institution Working Group on Blended Concessional Finance. Blending to enhance transition impact is part of the Bank's main rationale for using concessional finance.

Impact management framework

The EBRD has embedded transition impact throughout its impact management framework, encompassing everything from its corporate mandate to its project activities. The impact management framework comprises a cycle of planning, design, monitoring and implementation, and reporting and learning that encompasses Bank activities, countries, themes and sectors, and the institution as a whole. The Bank's corporate mandate, strategic directions and medium-term priorities drive its impact management through the Strategic and Capital Framework (SCF).

Impact management targets and goals are oriented to the strategic directions set out in the SCF. Medium-term priorities and strategic directions, developed in line with the Bank's mandate, are set out in the SCF and updated every five years. The strategic directions of the SCF are translated into concrete action by an annual Strategy Implementation Plan, which sets short-term objectives to put the strategy into practice. The plan contains the Bank's corporate scorecard for the coming year, including targets for the transition impact of new projects and the portfolio, investment targets for strategic objectives (including green financing and gender equality) and goals for operational and financial performance.

The EBRD cascades corporate scorecards down to the relevant teams to ensure the Bank remains focused on its mission of achieving transition impact. Country, sector and thematic results frameworks are aligned with corporate priorities, informing assessment and results matrices for EBRD investments, policy dialogue and advisory services.

On an annual basis, the EBRD monitors transition progress within and across the economies in which it operates. This assesses each country's transition towards a sustainable market, in line with the Bank's country strategy. An assessment of transition qualities is used to evaluate progress and determine transition gaps in terms of the six transition qualities in each economy. The Bank uses transition gaps to track and guide where its support is needed most. In addition, the EBRD regularly updates strategies for sectors and thematic areas to ensure that its activities remain relevant to shifting challenges and requirements.

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Managing project impact

The EBRD manages impact with a robust system of checks and balances over the whole lifecycle of an investment (and beyond), including ex-ante assessment, monitoring while the project is active and post-completion evaluation. The process has been streamlined with the development of a single IT ecosystem called Monarch, through which the entire project assessment and monitoring process is conducted. Monarch aims to make transition impact assessment clearer, more objective and transparent.

The Bank assesses the expected transition impact (ETI) of new projects to help ensure that the Bank's investments are channelled to the countries and sectors where they are needed most. Monarch uses a framework called the Transition Objectives Measurement System to calculate the ETI of each new project. A comprehensive standardised questionnaire within Monarch helps the user choose up to two relevant transition qualities, identify more specific transition impact objectives within the chosen transition qualities, and indicate corresponding levels of transition impact ambition. The system then calculates an ETI score. The score is based on the project's transition impact objectives and ambition, weighted against the transition context of the country where the investment is taking place. The transition context is measured by the transition gaps for each of the project's transition qualities in that country. Projects in countries that have transition qualities with larger transition gaps receive higher ETI scores, reflecting their higher relative needs and the potential for greater impact. A project's final ETI score is between 0 and 100. The bulk of projects fall between 60 and 69 and are categorised as having "good" ETI scores. Projects between 70 and 79 are categorised as "strong". The most ambitious projects – categorised as "excellent" – are those with scores of 80 and above. The EBRD's latest Strategy Implementation Plan targets an average ETI score of between 63 and 69 across all new signings to ensure relevance.

During implementation, a project is subject to monitoring through the Bank's Transition Impact Monitoring System (TIMS). Projects are typically monitored once a year until delivery has been completed. The progress of each project is assessed against specific monitoring indicators (a combination of outputs and outcomes) for each transition impact objective. Each indicator is given a delivery rate depending on how much progress has been made against its targets. The delivery rates for each indicator are then averaged at the level of the transition quality and combined to yield the overall delivery rate for the engagement according to a weighted average (75 per cent for the primary quality and 25 per cent for the secondary quality). TIMS can identify specific areas where a project is off track and help to facilitate remedial actions if necessary. The delivery rate feeds into the calculation of a portfolio transition impact (PTI) score, which reflects the project's progress towards achieving its expected transition goals. The latest Strategy Implementation Plan sets an average PTI score target of at least 68 across the portfolio.

Upon completion, projects undergo a final assessment, receiving a sign-off TIMS review, final delivery rate and PTI score. These are used to compare the final delivery on the project's transition impact objectives with the transition impact expectations established at signing.

After completion, projects undergo a self-evaluation to help draw lessons for the future. The EBRD is increasingly focused on understanding the impact of its activities through self-evaluation, which helps management incorporate lessons learned into the way the Bank approaches projects and develops new ideas. As part of a phased rollout that began in 2024, each project will be subject to a mandatory self-evaluation in the form of a summary performance assessment (SPA) that provides a holistic perspective on a project's performance based on its relevance, effectiveness and efficiency, resulting in a summary score. SPAs will be analysed at a sample level to understand the overall performance of investments and yield lessons learned.

Outside the project cycle, the Bank also carries out structured evaluations of thematic issues of immediate operational or strategic relevance, such as its handling of key strategic priorities. The Office of the Chief Economist also conducts impact evaluations using rigorous assessment methods. The topics for such evaluations are demand driven. Their findings are applied to EBRD activities, with results disseminated across the Bank for learning purposes. The objective is to aid decision-making, support business development activities and generate transparent reporting on the EBRD's impact achievements. Separately, the Bank's Independent Evaluation Department (IEvD) conducts special studies on a yearly basis on select projects or groups of projects to provide accountability and make recommendations on how the EBRD's work can improve. The IEvD also evaluates the Bank's SCF and its thematic and country strategies, providing recommendations for future frameworks and strategies. Management responds proactively by developing action plans that are reported to the EBRD Board on an annual basis.