THEMATIC EVALUATION

Review of the EBRD Energy Sector Strategy – MANAGEMENT COMMENTS

April 2018

EBRD EVALUATION DEPARTMENT

European Bank
for Reconstruction and Development

EvD "Review of the EBRD Energy Sector Strategy (2014-2018)"

Management Comments

Executive Summary

- Management would like to thank EvD for the Energy Sector Strategy review. Management welcomes the findings that a wide range of generally high quality and relevant operations have been delivered under the Energy Sector Strategy.
- Management also finds many of the conclusions and recommendations on the nature of sector strategies helpful. Sector strategies are approved by the Board and their purpose is defined in key documents of the Bank, including the Capital Resources Review (CRR). They are also referenced in the Public Information Policy (PIP). The position of sector strategies in the results architecture of the Bank was presented at FOPC in 2014. Management takes this opportunity to clarify the remaining misunderstanding on the nature, role and position of sector strategies, in particular on the type of commitments and related accountability they set.
- The purpose of the Bank's sector strategies is "to guide its activities" and "provide a broad operational framework for the various sector teams of the Bank"[1]. Sector strategies, called 'sector operations policies' until 2010, help to define, and where necessary regulate, how the Bank expects to achieve transition impact in a given sector.
- Sector strategies are not designed and cannot be accountability tools for the Bank's transition results. The Bank's results architecture, anchored on the updated transition concept, identifies three key levels of accountability: 1) Institution (Corporate Scorecard); 2) Country (Country Strategy Results Framework); 3) Activities (with results frameworks setting objectives and results).[2]
- Sector strategies outline the approach on how the Bank will achieve transition impact in a sector across the relevant transition qualities for the identified strategic directions/focus areas, which in turn reflect sector developments and transition challenges in the region. What transition results/outcomes the Bank is expected to achieve is defined in country strategies for the strategic priorities and objectives that reflect specific challenges and opportunities in that country context. Management believes that the systematic assessment and recognition of alignment with country strategy priority objectives introduced as part of the transition impact assessment for investment projects will further strengthen the crucial role of country strategies in the Bank's results architecture. The Performance Monitoring Framework (PMF) in sector strategies focuses on the type of activities the Bank would use to achieve transition in the sector for the identified focus areas.
- Management will reflect the recommendations in ongoing refinement of the template for sector strategies, in particular in the context of the recent update to the Bank's transition concept and strengthened results architecture with country strategies playing the prominent role. Given their role, Management does not consider sector strategies to be the appropriate document in which to detail required operational resources and set performance or results targets. The upcoming energy sector strategy will use the refined template.
- Management would like to emphasise that the study could focus more and outline the key lessons from the activities of the Bank in key areas in the energy sector during the past strategy period (what worked and what did not?). Management believes that lessons from the past drawn from the analysis in the study would be an important value-added of an evaluation of the past strategy and a useful input into the new energy strategy. This is particularly important as EvD is undertaking studies for other sector strategies, such as transport and property and tourism sectors.

[1] Capital Resources Review 4: 2011-15, Appendix 2, A2.5 Policy and Strategy Framework (BDS10-020 (F))
[2] The Architecture of Transition Impact Results Frameworks in the Bank (CS/FO/14-27)

- In line with the purpose of sector strategies outlined above, Management does not agree with the statement in Section 2.2 of the Report stating that “the ESS emphasises that a core purpose is to prioritise activities in the sector”. This would be misleading and the quotes used in this section to support such statement are perhaps selective. The ESS is ambivalent about prioritisation and the discussion of prioritization is almost entirely confined to Section 5.11, which tries to emphasise that real prioritisation happens at the Country Strategy level.
- Management would like to note its reservations about the methodology applied in Section 4.2.1 to map activities against country strategy priorities which could be misleading and the results presented, with regards to the projects with the energy efficiency components, could be misinterpreted. The Bank has signed a number of projects with the energy efficiency components during the review period, but this is not easily noticeable since such projects have been selectively presented across all seven ESS themes in Table 4, within Section 4.2.1.
- Management would like to reiterate some issues raised and suggestions made in the preliminary comments to the draft study. Management notes a number of issues with the data used to summarise our activities (Section 4): (1) inconsistent data periods (Dec 2013-2016 or Dec 2013-April 2017) with no clear basis for choosing one or the other and (2) no account taken of the projects signed after April 2017, hence the study covers only three years (2014-2016) out of five of the strategy period (effectively only 60% of the Strategy period is assessed). Management suggested to EvD to (1) either include figures for the whole period 2013-2017 or provide a warning in the study that because it only assessed a part of the strategy period limited conclusions can be drawn. In effect conclusions drawn from the study are weaker than if 2017 were included and to a certain degree could be considered as misleading since large scale projects with a long lead period to Board approval are disregarded (e.g. EUR 0.4bn TANAP and EUR 0.5bn Egypt solar portfolio). Management have inputted data for 2017 to provide more insights and show greater representative trends for some of the key sections of Section 4.3. The results are presented in the Annex 1.

Management’s response to recommendations is provided below.

Study’s Recommendations:

Recommendation 1: The Bank should clearly establish the purpose and standing of sector strategic documents of this kind in its wider strategic, operational and results architecture, including linkages to Country Strategies, other strategic documents, and new transition elements. Documents should provide the basis for mutual Board and Management understanding as to the nature of the commitments and undertakings they represent.

Management agrees with the recommendation. The purpose of sector strategies is defined in key documents of the Bank, including the CRR. It is also referenced in the most recent PIP. They require public consultation, in accordance with the PIP, and board approval. The position of sector strategies in the results architecture of the Bank was explained at FOPC in 2014. Nevertheless, Management notes that misunderstandings remain on the nature, role and position of sector strategies, in particular on the type of commitments and related accountability they set. Management takes this opportunity to further clarify the nature of sector strategies and their relationship with other components of the Bank’s strategic and operational and results architecture, including the link to country strategies:

- The Bank “develops Sector Strategies or Policies for its operations in the key business sectors in which it promotes transition.” The purpose of the Bank’s sector strategies is “to guide its activities” and “provide a broad operational framework for the various sector teams of the Bank”.[3] In this respect, these papers, which were before 2010 called ‘sector operations policies’, help to define, and where necessary regulate, how the Bank expects to achieve transition impact in a given sector. This also helps for positioning the Bank externally to communicate its value added and establish effective partnerships with other players including country authorities, private sector, other IFIs, and donors.

[3] Capital Resources Review 4: 2011-15, Appendix 2, A2.5 Policy and Strategy Framework (BDS10-020 (F))

- The EBRD results framework architecture has been strengthened in recent years, providing clearer linkages to the updated transition concept and enhancing accountability structures. This revised results architecture presented at FOPC in September 2014, operates at three levels:[4]

  1. *Institutional level:* The EBRD corporate scorecard aligns annual objectives with medium term goals, sets incentives and tracks institutional performance;
  2. *Country level:* Country Strategy Results Frameworks (CSRFs) link/align objectives and strategic focus from the institutional to country level and finally to activity level;
  3. *Activity level:* Projects and TC results frameworks are the key building blocks for achieving results.

- Management believes that sector strategies complement this architecture, using consistent objectives anchored on the updated transition concept across countries in given sector. They set broad strategic directions in the sector across the region outlining the approach of the Bank's support in the sector to achieve transition objectives consistent with the updated transition concept. They provide sufficient guidance for the process of defining and prioritising objectives at the three levels noted above, including the Country Strategy, and approaches for operationalising these objectives in a given sector.

- Sector strategies are not designed and cannot be accountability tools on Bank's transition results, given the broad coverage of a wide range of countries with different challenges. As explained above, sector strategies outline the approach on *how* the Bank will achieve transition impact in a sector across the relevant transition qualities for the identified strategic directions/focus areas that reflect sector developments and transition challenges in the region. *What* transition results/outcomes the Bank is expected to achieve is defined in country strategies for the strategic priorities and objectives that reflect specific challenges and opportunities in that country context. The PMF for each sector strategy hence focuses on the type of activities the Bank would use to achieve transition in the sector for the identified focus areas.

Recommendation 2: The new energy sector strategic document should encompass all energy related activities and instruments irrespective of their organisational implementing units. It should present strategic-level objectives for operations providing the basis for selectivity and sufficient to report on and assess sector level delivery performance. Such objectives could include, e.g. relative end-of period shares for private and public operations; GET-relevant metrics; specific sub-sector trends; use of specific instruments; commercialisation/privatisation accomplishments; and/or, policy dialogue priorities.

Recommendation 3: The scope of the new energy sector strategic document should include critical elements now omitted.

- Commit to sector-level diagnostics/analysis from which sector-level challenges and objectives will be derived;
- Review operational experience under the current ESS identifying lessons and how they will be incorporated in the new sector strategic document;
- Present institutional resources required to implement the energy sector strategic document - human, financial, donor resources as well as how actual performance data will be collected to corroborate estimates at approval;
- Identify targeted areas for engagement with other public institutions, including analysis of EBRD's added value;
- Produce a time-bound reporting plan to provide the Board with an adequate overview of ESS implementation at the sector level across relevant business groups.

[4] The Architecture of Transition Impact Results Frameworks in the Bank (CS/FO/14-27)

- *Management partially agrees with these two recommendations.* Management agrees that sector strategies should be comprehensive, covering all sector related activities and instruments, irrespective of their organisational implementing units. Management also agrees that sector strategies should provide sufficient guidance for operationalising sector objectives, and PMFs with selected sector-level output performance measures that help to track delivery performance. For the identified strategic directions, the PMF sets sector objectives, based on the transition concept, and provide the basis for tracking progress through specification of output level indicators. Considerations will be given to further improve the PMF to better reflect specific activities and instruments the Bank envisages employing as relevant and appropriate in a given context, including specific instruments and types of policy dialogue engagements for the focus areas. These would allow the Bank to track delivery performance on a number of dimensions such as the share of private sector operations, sub-sector trends, and use of specific instruments.

- Management does not consider sector strategies to be the appropriate document in which to detail required operational resources or results targets are set. Given the private sector focus of the Bank and to preserve its agile operational approach it is not possible to set specific results targets at the strategy level. Resource allocation and performance targets are considered more appropriately specified in other Bank papers such as the Strategic and Capital Framework or Strategy Implementation Plan.

- Management believes that sector strategies perform the function of a management tool in the Bank's results architecture; supporting the planning, design, implementation and monitoring of operations in a given sector and, through the PMF, a reference point for sector learning linked to the Bank's transition concept. Formal accountability for sector operations is driven through the activity, country and institutional level accountability tools within the Bank's results architecture where performance and results targets will be set. Consistent with the Bank's overall results framework architecture, higher level results are measured, monitored and reported at the country level as part of the CSRF. These results can be used to illustrate and discuss performance at the sector strategy level, for the purposes of demonstrating sector progress and drawing lessons. The implementation of the previous strategy is part of the new sector strategy and reports on investments and policy activities and results in a sector/sub-sector are prepared either as part of operational frameworks or ad-hoc reporting requests. Quarterly performance reports include reporting on progress and highlights on results by transition quality. In addition, progress with delivery on country strategy priorities is reported on annual basis through the country strategy delivery reviews.

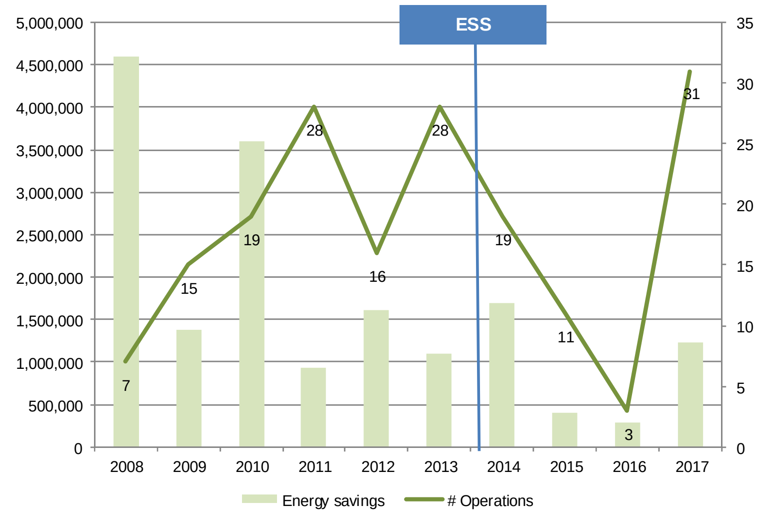
- The template of sector strategies has evolved over time, including in response to the updating of the Country Strategy template. The most recent Mining Strategy adopts a revised template which, as acknowledged in the Review, includes additional areas of content. Management proposes to further streamline and enhance that template. The key components of content of sector strategies that will be reflected in the upcoming energy strategy, and in line with EvD recommendation 3, are:
    - Implementation of previous strategy – experience and lessons learned;
    - Sector context and transition challenges;
    - Proposed strategic directions - focus areas;
    - EBRD position via-s-vis other IFIs and partners; and
    - PMFs (with specification of focus areas and activities)

Recommendation 4: The Bank should clarify its approach to hydrocarbons (coal, oil, gas – on both demand and supply sides), including methodology for screening criteria; this would improve transparency with respect to complementary institutional priorities (such as under the Green Economy Transition Approach) as well as with practices in comparator institutions.

Management agrees with this recommendation. The upcoming Energy Sector Strategy will seek to clarify its approach to hydrocarbons, including methodology for screening criteria.

ANNEX 1

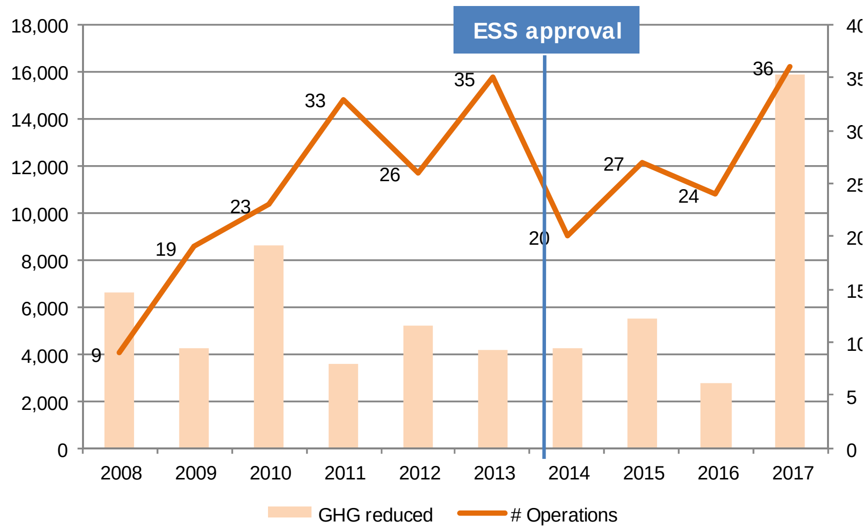
Figure 1: Trend of primary energy savings (toe/year) from EBRD's supply-side energy operations



Source: EBRD's Energy Efficiency and Climate Change team

- The ESS Evaluation report notes on p. 31 a marked decline in energy savings during the analysed period of 2008-2016. However, it is important to note that this trend has reversed in 2017. In 2017, 31 projects with recorded energy savings were approved, representing total energy savings of 1.3 billion toe per year, or a 4.4x increase on 2016.
- The type of operations has changed over the past few years, namely move from very large and energy intensive projects (i.e. coal and upstream oil and gas projects) with savings between 2008 and 2010 to low carbon projects in more recent years, with energy savings derived mainly from private renewable energy projects. The 2017 data demonstrates significant improvement to the trend, in particular since the Bank signed projects in the newest region, SEMED, particularly Egypt and Jordan.

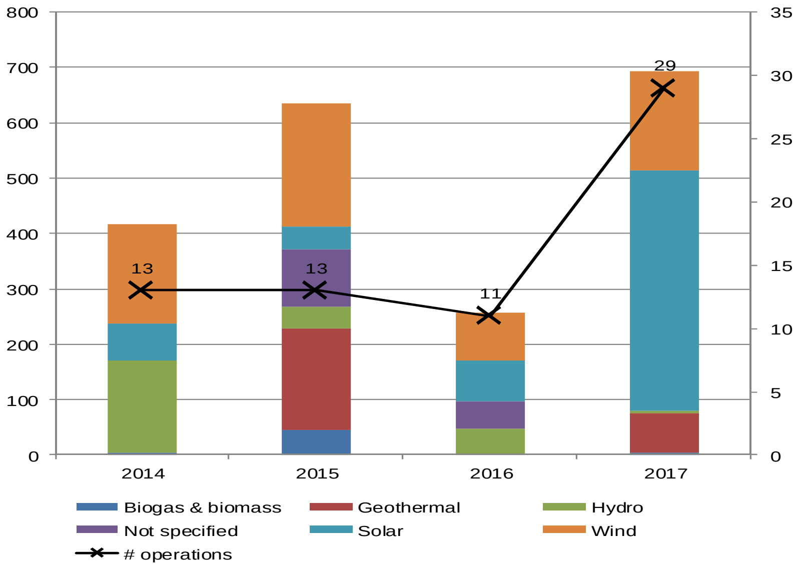
Figure 2: GHG reduced (kt CO2 per year) from EBRD's operations approved between 2008 and 2017



Source: EBRD Energy Efficiency and Climate Change team

- The trend in the GHG reduction improved significantly in 2017. In 2017, 36 projects were signed, representing total GHG reductions of 16m t/CO2 per year, a 5.8x increase on 2016.
- In 2017, the project with the highest expected CO2 emission reduction was the Southern Gas Corridor in Azerbaijan, with a contribution of 13m t/CO2 per year. Other projects with significant contributions included Dolovo Wind Farm in Serbia (0.4m t/CO2 per year) and EGAS Energy Efficiency Project in Egypt (0.25m t/CO2 per year).

Figure 3: EBRD's renewable energy investments (€ million) by year of Board approval (2014-2017)



Source: EvD elaboration of DTM data

- The investments in renewable energy declined in 2016, due to adverse changes in the renewable energy regulation in several of the Bank's countries of operation. The trend in the renewable energy investments improved in 2017, with a record 29 renewable energy operations approved by the Bank. Solar was the emerging technology in 2017, with operations approved predominantly in Egypt and Jordan.