

## Management Comments

### EvD EBRD Green Cities Programme (2016-2021)

#### Overarching comments

- Management welcomes EvD's interim evaluation of the Green Cities Programme (GrCP) and finds the report to be well-balanced overall in addressing the key evaluation questions and highlighting the Bank's achievements to date on one of its flagship programmes, and the most effective framework in the Bank.
- Management is happy to note the recognition of the GrCP's overall relevance and alignment with strategic priorities, significant additionality, its agility and adaptiveness in responding to compounding, global crises (i.e. the Covid-19 pandemic, and war in Ukraine). Management welcomes the recognition of the work undertaken to respond to these crises and how best to support the Cities in the GrC network. As mentioned, we hope to see GrC and the GCAP spearheading the support to Ukrainian cities and relevant cities in neighbouring countries, similar to the work done with the City of Khmelnytskyi and the City of Walbrzych (Poland) (section 4.2.5).
- This report correctly notes the GCAP is a key tool and driver of the GrCP's additionality, and validates the efforts of the cross-departmental Green Cities team and its wider outreach both inside and outside of the Bank.
- With respect to the finding that there is insufficient GET investments stemming from GrCP (section 4), Management would like to point out that the average size of municipal projects (ABI) is proportionately smaller than other SIG sectors, leading to this perception of insufficient GET derived from GrCP investments. It is however important to consider the strong additionality and catalytic effect of GrCP in many instances. For example, GrCP was responsible for re-invigorating EBRD financing in several cities, including Tbilisi, Tirana, Yerevan, Ganja and Sarajevo. Prior to the GrCP, there had been no EBRD municipal investment in any of these cities – in some cases for more than a decade. GrCP stimulated new business in these cities. In addition, Management note the comments regarding the GET share of GrCF and municipal projects. In this regard, it is important to note that GrCF projects aim to deliver a more comprehensive approach and higher green ambition than standard municipal projects.
- Management is pleased to note EvD's statement that the Green Cities programme is better designed and executed compared with other IFI efforts on this theme. On the same topic, the report acknowledges correctly that the level of monitoring is superior to other frameworks (section 6). The GrCP has built a monitoring regime that balances technical elegance with pragmatism, tractability and resourcing requirements. Any changes to the monitoring approach to measure causality between the GrCP and wider city level outcomes will also need to consider the need for this balance.
- Regarding non-transactional policy work, Management is currently working on measures to offer cities that align with the strategic priorities of the Bank. For example, Management is assisting cities with their climate governance and additional green strategic planning in priority areas identified by the city, such as electric vehicle roll-out and circular economy.

- Management welcomes the recognition and the importance and value-added of the GrCP, including its demonstrative effect. Management appreciates particularly the importance of stakeholder engagement, the Green Cities Officer (GCO) network and knowledge sharing, recognising that while these are not recognised formally in the monitoring they are a significant contributor to incentivising cities to scale- up climate action.
- Management notes the four recommendations that relate to 1) strengthening the catalytic function of the Programme and synergies across sectors; 2) clarifying ambition in providing support to cities in financial mobilisation through Green Finance Roadmaps and municipal/ green bonds and setting necessary target; 3) enhancing localisation of approach to GCAP development and implementation; and 4) strengthening the transition monitoring framework. While Management agrees in principle with these recommendations it only partly agrees with the specificity of recommended actions as per details provided below.

## Recommendations

### Recommendation 1- Agree.

- **Recommendation 1.** *Strengthen the catalytic function of the Programme and synergies across sectors to derive maximum value from the prioritisation exercise through deepening GCAP implementation with follow-on investments, including in energy sector, and accompanying policy action. Policy action implementation requires non-transactional TC funding while its tracking requires framework-level benchmark, which is currently absent.*

This is indeed Management's intention and work is on-going to increase the number of follow-on investments, and integrate more energy projects under the Framework. In addition, Management notes that delivery of policy does not always require non-transactional TCs, and this work could be integrated as part of follow-on projects, for which indeed dedicated resources would be needed.

Regarding follow-on investments, Management would like to further emphasise that the GrCP was designed with two principles in mind:

- a) **Pragmatism:** As defined by the FW eligibility criteria, a 'follow-on' investment must address a priority environmental challenge (PEC) identified in the GCAP. These challenges are identified halfway through the GCAP development – with the completion of the GCAP baseline. Thus, once PECs are identified, follow-on investments can be approved and signed. This means that the follow-on projects can proceed and the Bank can support its clients' needs, while the GCAP is being completed.
- b) **Broad impact:** The aim of the GrCP is to promote investment in sustainable infrastructure and climate action, regardless of how the investment is financed. As a result, Management considers it entirely appropriate to count projects financed by other financial institutions outside the framework as follow-on investments. Furthermore, we have evidence of GCAPs being used by the cities to implement GCAP actions with other FIs as well as EBRD; to date, this includes 16 CAPEX investments and 2 policy actions in Ulaanbaatar, 5 CAPEX investments and 3 policy actions in Batumi, and further investments in Tirana, Sofia, Sarajevo and Yerevan.

### Recommendation 2- Partly Agree

- **Recommendation 2.** *In the next extension of the Framework brought to the Board for approval, GrCP should clarify the ambition in providing support to cities in financial mobilisation through Green Finance Roadmaps and municipal/ green bonds. If the experience of GrCF2 implementation shows that its objectives in this area are not attainable for contextual reasons, this should be specified. If the ambition of GrCF2 is still in place for the future of the Programme, support to cities in financial mobilisation should be enhanced. This should be supported by articulating framework-level targets on this aspect of the Programme, to facilitate future accountability.*

Management **agrees** on the first part of the recommendation:

*'In the next extension of the Framework brought to the Board for approval, GrCP should clarify the ambition in providing support to cities in financial mobilisation through Green Finance Roadmaps and municipal/ green bonds. If the experience of GrCF2 implementation shows that its objectives in this area are not attainable for contextual reasons, this should be specified. If*

*the ambition of GrCF2 is still in place for the future of the Programme, support to cities in financial mobilisation should be enhanced.'*

Management has already taken actions to enhance the use of capital market instruments, such as financing the Agadir municipal bond (as mentioned above), providing assistance to develop Green Finance Roadmaps and the creation of the Green Cities Framework 2 – Window III, providing access to InvestEU first loss guarantee (change approved in December 2022).

Considering the specific context of the city and country the programme operates in (as described below), Management only partly **agrees** on the last part of the recommendation:

*'This should be supported by articulating framework-level targets on this aspect of the Programme, to facilitate future accountability.'*

Management takes note of the call for more focus on Municipal Bonds and Capital Market Road Maps. However, Management respectfully notes that there are often market constraints such as the particular capital market context for any given COOs where the GrCP, as well as a city's size and capacity. It is important to note that financial mobilisation using Green Finance Roadmaps and the use of capital markets for municipal bond issuances depends on a level of maturity that many of the municipalities currently lack due to the incipient nature of capital markets more generally in the COO in question. Establishing a Framework-level target would be difficult to deliver, and may inadvertently steer the programme's focus toward only the most developed COOs. Notwithstanding such wider constraints, Management take careful note of this recommendation and will indeed continue to explore Green Finance opportunities wherever possible.

### **Recommendation 3- Partly Agree**

- **Recommendation 3.** *Enhance localisation of approach to GCAP development and implementation through optimised use of RO-based in-house expertise (bankers and climate strategy and delivery specialists) and consultants, including local consultants; and through tailored continuous capacity building actions matching city's initial and developing capabilities and needs.*

Management **agrees** on the benefits of 'localisation'. Management **partly agrees** on the need to 'enhance' the localisation. Whilst the need to embed the programme in the local context is well-noted, GrCP already works closely with RO-based colleagues (mainly as leading city relations, known as the 'City Lead') and local consultants in the GCAP development process; in addition, a large number of RO-based staff already contribute a proportion of their time as part of the GrCP team and have duties as banking O/Ls outside of the GrCP.

### **Recommendation 4- Partly agree**

- **Recommendation 4.** *To enable the Programme to translate its implementation and delivery into credible narratives of successful Green transition, substantial improvement in its transition monitoring and reporting will be needed. This in the first instance means to deliver on the Programme's existing commitments under the current transition monitoring framework to provide adequate reporting on the Bank's transition mandate. In the next steps, the Programme should consider strengthening the transition monitoring framework in line with its increased ambition from GrCF2.*

Management agrees with the importance of ensuring there is adequate transition monitoring for the framework and takes careful note of the call for more ambition on monitoring and reporting.

While of course open to discussion and reflection on the transition monitoring, Management respectively offers the following considerations regarding the comments made in the report on this important aspect:

- With regard to climate adaptation, this aspect is captured within the green quality only to avoid any double counting. It is true that climate adaptation is not monitored in an explicit way and it is therefore difficult to use the TI monitoring approach to communicate success or failure in promoting climate adaptation.
- Regarding the monitoring and reporting being commensurate with the size of the GrCP, the most critical indicator in Management view is 1.5, which seeks to identify how often green cities successfully have addressed critical environmental challenges – i.e. making a critical environmental indicator labelled as ‘red’ at the initial diagnostics, at the beginning of the GCAP development, into a yellow or green (less critical) indicator verified at the end of the 5-year period of a GCAP (e.g., air quality going from red to yellow/green over a 5-year period). To date, it has not been possible to collect sufficiently robust data on this; it is therefore difficult to accurately report on the success (or lack thereof) of this indicator 1.5. Nevertheless, Management agrees with the ambition to monitor environmental outcomes across all cities in this manner, an effort that goes beyond any other comparable IFI-led green urban programmes (as acknowledged by the report earlier).
- With respect to GCAP level monitoring vs. TI indicators, it is important to note that the monitoring of GCAP implementation goes beyond TI indicators.
- Regarding secondary-TQ options with no framework-level targets, the monitoring of the GrCP is challenging. EvD states that the reporting architecture is based on a two-level approach (FW and sub-ops level), while Management would like to recall that the GrCP seeks to report on three levels: sub-operational level, City level and FW level. Management may consider additional options related to this via the ongoing ‘*Theory of Change*’ exercise for TQs. As part of an earlier EvD report, Management has already committed to improving FW-level indicators.

In addition to the above points, Management would like to highlight **three key challenges** to improving monitoring and reporting beyond what is being done today. First, experience with developing more than 30 GCAPs has shown that cities face significant data availability issues. There is a high cost and complexity for clients that must be carefully considered. Second, Management considers that there are attribution limits with respect to the outcomes stemming from GCAP implementation. By attempting to track city-wide environmental outcomes, one may risk overstating the effect a GCAP will have in the medium to long-term future to affect deep environmental changes across the entire city. Other influences beyond the control of the Municipality, such as national-level infrastructure investment or major industrial investments by the private sector in the nearby region, may well exert negative environmental pressures beyond a municipality’s direct control. As such, Management’s view is that assessing such broader city-wide outcomes and EBRD’s attribution to them cannot be done as part of monitoring framework (which can only focus on outputs and direct outcomes) but for ex-post impact assessments, using relevant evaluation methods. Finally, any significant changes to the implementation of GCAPs will necessitate increased resourcing (including for deeper dive assessments), which would require careful consideration in a resource constrained environment.

In conclusion, Management:

- agrees with the need for adequate framework monitoring,
- partly agrees that a strengthened monitoring framework can be used to credibly assess higher level outcomes and transition impact. Management will carry out the ongoing Theory of Change exercise for the programme with the VP3 Impact team with a view towards

improving monitoring and reporting on the programme. As such, the assessment of the programme's contribution to city-wide outcomes should not be within the scope of the regular monitoring process but analysed in selective deep-dive ex-post assessments conducted by VP3 Impact team.