

## Management Comments on Final EvD report

### “IEvD Evaluation of EBRD’s support to sustainability and private sector participation in transport”

#### Executive summary

Management welcomes the evaluation report on EBRD’s support to sustainability and private sector participation in transport.

Management welcomes the recognition of the Bank’s efforts to increase its ambition on sustainable transport, with a focus on energy efficiency, promoting modal shift, and climate resilience. Management is also pleased to have confirmation that the vast majority of sustainability components of the sample projects have been implemented as planned, resulting in a positive impact. As per other IEvD reports, some of the shortcomings have been noted and are being addressed, including through the Bank’s ex-post monitoring. Nonetheless, the nature of the impacts, in particular with regards to modal shift, will be challenging to track on a project level, as these would require specific and potentially expensive TC-based transport modelling studies. This is a question of resources for the Bank and needs to be considered carefully.

With respect to the finding that “Other IFIs have been increasingly prioritising decarbonisation and integration of transport”, Management would like to underline that EBRD in its 2019-2024 Transport Sector Strategy had Sustainability as a central theme, and “Low carbon Solutions” as a strategic direction, and as such was not out of step with other IFIs in the evaluation period. It also features concretely in the Infrastructure Sector Strategy (ISS) (2025-2029) currently under preparation and slated for Board approval in December 2024.

Management welcomes the recognition of the Bank’s efforts to expand its strategic and policy engagement on sustainability. Whilst Management agrees that tackling fundamental issues such as fossil fuel subsidies for transport are important for the sector as price signals, such an engagement on highly sensitive and complex issues, have significant trade-offs for industries and households, as well as political and social economic considerations. As such, this requires a sustained and extensive co-operation with national authorities over several years, with changes to subsidy regimes that are often done in tandem with major macro-economic reforms (often with IMF involvement). The Bank uses the resources available to prioritise policy and strategy engagements with close links to project beneficiaries, business opportunities and nearer term results where we have the most leverage – such as electric vehicle and charging infrastructure policy frameworks, while continuing efforts for sustained long-term cooperation and in coordination with other development actors and partners.

On the substance of recommendations, Management welcomes the spirit of the recommendations, including the importance of strategic focus on transport decarbonisation, ambitious policy engagement and monitoring indicators, improving projects’ implementation planning with increased focus on supporting local capacity level, and incentives for timely delivery. At the same time, Management notes significant challenges related to transport policies hindering decarbonisation, such as fossil fuel subsidies for road transportation, due to highly complex issues with potentially high

social and economic impact, and our approach using the EBRD comparative advantage, as well as reservations related to the suitability of specific suggested approach, such as that on monetary incentives in concession agreements and measures of success.

**Recommendation 1:** *“Make transport decarbonisation a central theme of the new strategy, to be implemented through a close integration of investments, TCs and policy dialogue, as well as utilisation of cross-sectoral approaches, focusing on:*

- *the improvement and green transformation of existing infrastructure, with more selective approach to the extension or the development of new infrastructure;*
- *promoting modal shift to less carbon-intensive modes of transport;*
- *electrification of all modes of transport (including ground transportation at airports and ports), as well as the development of electricity charging infrastructure for roads and renewable energy generation capacity at selected clients;*
- *promoting integration between different modes of transport, particularly long-distance with urban.”*

Management **Agrees** with the headline recommendation to make decarbonisation a strategic theme of the draft of the upcoming (new) Infrastructure Sector Strategy (ISS). Management takes note of the suggested areas of focus. The ISS is under preparation, having passed public consultation in summer 2024. Management confirms that the suggested focus areas do in fact feature in the new ISS , which is scheduled for Board approval in December 2024.

**Recommendation 2:** *“Increase ambition of policy dialogue in the Transport sector, to spur systemic change in order to add EBRD’s voice and support other IFIs tackling more sensitive, national- or global-level policies, which hinder decarbonisation and modal shift in transport (where opportunities arise). These include, for example, reducing or eliminating vehicle fuel subsidies; advocating a gradual introduction of carbon pricing in transport services in selected countries, e-mobility (higher tax on polluting vehicles, channelled to subsidise purchase of EVs), etc.”*

Management **Agrees** with Recommendation 2. Management recognises the importance of policy dialogue in driving a broader systemic change in decarbonisation of the transport sector and works closely with other partners. Management however notes that transport policies hindering decarbonisation, such as fossil fuel subsidies for road transportation, are highly complex issues with potentially high social and economic impact requiring in some cases decades of engagement over multiple projects, clients, and sectors. In many cases, institutionally, transport policies often depend on very different actors than those receiving EBRD investment finance, giving us limited leverage policy at a higher level, e.g. Ministry of Finance or higher for fuel policy (where fuel tax is often a key source of general government revenue).

The Bank is, therefore, been selective in its engagements with its limited resources, aiming to achieve meaningful impact in the nearer term. This approach has led to a particular focus on policy engagement at the urban transport level (not captured by this evaluation) with cities or regional authorities. These include, for instance, the demand-side measures aimed at influencing travel

decisions like parking policies or urban road-user charges, attitude campaigns etc. as well as supply-side measures seeking to provide a credible alternative to private cars aimed at providing well-planned, sustainable and attractive public transport services, as well as policies that seek to increase the modal share of active mobility options. At the national level, examples include efforts that have been undertaken on electric mobility policy, in particular charging infrastructure roll-out. At the international level, the Bank has initiated engagements with International Maritime Organisation (IMO) and International Civil Aviation Organisation (ICAO) on international maritime and aviation decarbonisation, respectively.

Management agrees that an increase in ambition of policy dialogue on structural changes has the potential to accelerate the green transition at national and international level. However, in addition to the complexity, political and social economic impact mentioned earlier, there is a resource gap to scale this up in a significant way. Management will continue to coordinate with other IFIs and International Organisations such as the International Monetary Fund (IMF) on these sensitive economic issues that have been led by other IFIs to date for many years.

**Recommendation 3:** *“Set ambitious TI benchmarks for private transport projects (other than project signing or implementation). Consider setting emissions/resource reductions targets in relative terms, e.g. per square meter of infrastructure in expansion projects, rather than targeting overall reduction, when applicable.”*

Management **Partly Agrees** with Recommendation 3. Management recognises the importance of ambitious TI benchmarks and associated significance of robust monitoring mechanisms for public and private transport projects, and through the draft Infrastructure Sector Strategy (ISS) (2025-2029) have committed to enhancing our monitoring processes. Moreover, with the revision of the TI assessment methodology, we will aim for a system which have a much clearer focus on the outcomes of projects. At the same time, we note that achievements during signing and implementation are significant, in particular for some projects. For instance, Public Private Partnerships (PPP) preparation, tendering and execution, in itself is considered a highly complex from both a technical and financial perspective and should not be considered modest in terms of TI ambitious.

On the specific technical recommendation, we caution against the systemic use of targets per square metre. Setting emissions/resource reduction targets in relative term as proposed is not common and it would use the very same mechanics as in case of absolute emissions reductions calculation. Moreover, it would be challenging to benchmark and compare the projects against it.

Therefore, for projects, which expand transport infrastructure, we consider that it makes sense to focus Green TI benchmarks on outcomes related to absolute emissions reduction. As per current methodologies, these reductions are calculated relative to a counterfactual baseline of the infrastructure constructed to a lower environmental standard than the project, or to the current emissions of the infrastructure (for brownfield projects), reflecting what would happen without the Bank’s involvement. Relative benchmarks make it difficult to understand the overall effect that the Bank is having in mitigating environmental impacts, noting that there are not universally accepted benchmarks on desirable/optimal values.

Management welcomes the recommendation for improved implementation and monitoring of projects. However, this should recognise the low capacity of many of EBRD's public sector clients. Funding should be increased both for the capacity building and training programmes with project implementation, and for lenders' monitoring advisor, to ensure an effective project oversight for the Bank.

**Recommendation 4:** *“Improve project implementation planning using more realistic timelines, paying more attention to local capacity gaps and factoring them into implementation schedules, including the time needed for a loan to reach effectiveness and for permitting processes. Step up support for project implementation.”*

Management **Agrees** with Recommendation 4. The IEvD report makes observations on frequently delayed implementation schedules. Management notes that the Bank produces detailed procurement plans and timelines for projects. Sovereign infrastructure projects take time to implement. It should be recognised that the low capacity of our public clients is a key reason (arguably one of the key reasons) for project implementation delays (dependency on Project Implementation Unit (PIU) support, cost/time overruns, lack of supervision/monitoring capacity etc). The Bank has a systemic approach to assess the clients' capacity in terms of procurement and implementation capabilities as part of the overall due diligence as documented in Procurement Annex for each transaction. The assessment leads to structuring adequate level of support via potential consultancy assistance, e.g., PIU consultant, ensuring presence of adequate supervision engineers and, if appropriate, engaging advanced procurement support. However, for new clients it is recognised that the difference between national procurement procedures compared to the requirements of the Bank's Procurement Policies and Rules (PPRs) may be a challenge, i.e., the use of fully open competitive procurement procedures including EBRD Client e-Procurement Portal (ECEPP). This will require capacity building efforts on the Clients side, which from experience takes time to build.

**Recommendation 5:** *“If possible and agreed with a regulator, include clear monetary incentives in concession agreements to complete capex programmes on time, e.g., linking them to hikes in service charges.”*

Management **Partly Agrees** with Recommendation 5. Market-standard PPP contracts already include liquidated damages that are the generally preferred remedy for late service commencement. While early (as opposed to timely) service commencement might in some cases be beneficial to the public partner and therefore could be incentivised (as was the case for some Bank-financed projects) it might inadvertently lead to potential negative impacts on service quality, consumer costs and more. Furthermore, incentives to service charge increases could place an additional financial burden on the users and these should be assessed against the benefits the users derive from early commencement. These issues highlight the need for a more tailored and flexible approach that considers the specific context of each concession agreement and the environment in which it operates.