Management Response on IEvD Draft Report:

“Regional Level Evaluation of EBRD’s operations in Baltic Countries”

10 April 2026

1. Executive Summary

Management appreciates the thorough regional evaluation of EBRD operations in the Baltic countries (2016–2024).

The report provides valuable insights into the Bank’s relevance, additionality, and evolving role in advanced transition economies.

Management notes that the evaluation sought to address the overarching question of the Bank’s contribution to systemic change in each of the Baltic states and the region as a whole over an extended period covering two strategic cycles (2016–2024). However, the breadth of the exercise combined with the compressed timeline required to support the preparation of new Country Strategies for Estonia, Latvia, and Lithuania limited the depth of analysis in certain areas, including the impact of indirect equity investments at investee level and the tracing of potential systemic effects in the corporate sector.

Management broadly agrees with the overall assessment that EBRD’s strategic priorities in the Baltics were relevant and that its strongest value proposition lies in selective, catalytic, and innovative engagement rather than scale. It also acknowledges the positive recognition of the Bank’s role in advancing Pan-Baltic capital markets and supporting the green transition, particularly in the period following 2022.

At the same time, Management considers that certain aspects of the report’s analysis, particularly regarding strategic delivery gaps, additionality, and the framing of operational efficiency and policy engagement, do not fully reflect the Bank’s operating context. In particular, the conclusions do not sufficiently account for (i) the constraints of operating in advanced EU markets, including graduation dynamics during the first strategic cycle, and the resulting need for a focused engagement model; (ii) the demand-driven nature of EBRD’s business model; and (iii) the influence of external factors such as EU funding availability, regulatory frameworks, and geopolitical shocks on both delivery and systemic outcomes.

Management notes the report’s recognition of EBRD’s regional convening role and its ability to deliver additionality across the project lifecycle. However, any potential expansion into new areas should be assessed in the context of the Bank’s evolving mandate and risk framework for advanced economies, including portfolio balance requirements and institutional constraints.

Further specific comments raised by Management on the report are set out below:

1. **Strategic relevance and delivery:** Management agrees that strategic priorities were well aligned with Baltic transition needs, particularly in the green transition, energy security, and capital markets development. However, it considers the conclusion that ambitions were “not fully implemented” to be insufficiently contextualised. This does not fully reflect the demand-

driven nature of operations in advanced markets or the more limited role of IFIs in policy-intensive environments already strongly supported by EU institutions. In addition, several non-materialised activities, including PPPs and interconnectors, were largely outside the Bank's control, as their realisation depended on government readiness, regulatory frameworks, availability of EU financing, perceptions of PPP efficiency, and external shocks such as the COVID-19 pandemic.

2. **Operational delivery and portfolio composition**: Management acknowledges the backloaded investment profile and the increase in activity after 2022, but considers the interpretation incomplete. The post-2022 surge reflects exceptional geopolitical shocks and the Bank's countercyclical response, while lower volumes prior to 2022 are consistent with typical MDB engagement patterns in more mature markets. In addition, describing earlier delivery as "opportunity-led" is viewed as insufficiently nuanced. Management underlines that transaction readiness is an inherent feature of sound banking practice, and that operations such as SOE bonds and IPOs were aligned with the strategic objective of capital market development rather than being purely opportunistic.

3. **Regional approach**: Management agrees with the positive assessment of the Pan-Baltic capital markets approach but considers that extending this model to other sectors requires exercising some caution. Structural differences across sectors, particularly energy and infrastructure, limit the applicability of a regional model due to nationally anchored regulatory frameworks. Additional constraints include differences in permitting regimes, subsidy structures, and fiscal frameworks. The success of the capital markets approach also reflects specific enabling conditions, including strong client commitment, EU alignment, and available funding support, which may not be replicable elsewhere.

4. **Additionality**: Management concurs that additionality increased significantly after 2022. However, it considers that the analysis does not fully capture the earlier period. Non-financial additionality, including contributions to governance, standards, and structuring, was present throughout the evaluation period. Any perceived decline in financial additionality in earlier years should be interpreted as reflecting market maturity rather than reduced relevance. With respect to equity funds, Management considers the assessment of risk appetite insufficiently precise, noting that decisions are guided by a portfolio approach and fiduciary responsibilities, and that limited engagement with first-time funds reflects market conditions rather than willingness to participate.

5. **Policy engagement and technical cooperation (TC)**: Management notes the observation of relatively limited policy engagement outside capital markets but considers it insufficiently contextualised. Baltic countries have strong institutional capacity and well-established EU-driven reform frameworks, which naturally limit the scope for EBRD-led policy dialogue. The Bank has nonetheless contributed in specific areas, such as the development of the private equity ecosystem. Similarly, challenges in mobilising TC funding reflect the availability of substantial EU grant resources and competition with other IFI and EU instruments.

6. **Operational efficiency**: Management acknowledges concerns regarding operational complexity but considers some characterisations imbalanced. References to "slow and bureaucratic processes" or "EBRD being more demanding" do not fully reflect the increasing compliance, risk management, and governance requirements in advanced markets.

Maintaining high due diligence standards remains essential, particularly for complex transactions. The feedback of some clients on efficiency should also be considered alongside strong recognition of the Bank's technical expertise, credibility, and local presence.

7. **Results and impact**: Management agrees that results in areas such as renewable energy and sustainable finance are relatively recent, and that capital market outcomes are more visible in institutional development than in transaction volumes. However, it considers the assessment incomplete in several respects, particularly regarding time lags in systemic change and the difficulty of attribution in highly integrated EU markets. In relation to equity and innovation activities, Management believes that limited evidence of systemic outcomes reflects methodological and timing constraints rather than absence of impact. More advanced approaches to assessing such interventions could yield different conclusions.

Overall, notwithstanding the broad scope and period covered under relatively tight timeline of the evaluation, Management appreciates the thoroughness of the report and its relevance including in the light of upcoming new Country Strategies for each of the Baltic states. At the same time Management considers that the report would have benefited from a more balanced representation of EBRD's performance and operating environment, and the comments provided below aim to ensure that this context is more fully and accurately reflected.

Management's detailed comments on the evaluation study's recommendations are provided below.

2. Recommendations

Recommendation 1: *In the next strategic period the Bank should capitalise on its capabilities as a trusted adviser and convenor of the three Baltic governments in the area of Regional Capital Markets, and leverage these strengths in areas where a regional approach is warranted and highly additional, for example in the clearly defined subsectors of Sustainable Infrastructure and Energy*.

Management **Agree**s with the recommendation.

Management takes a note of, and appreciates, this strategic recommendation provided as guidance in the context of preparing the new Country Strategies for Estonia, Latvia, and Lithuania.

While the suggestion to explore opportunities for leveraging a regional approach in additional sub-sectors, where warranted and demonstrably additional, is acknowledged, Management notes that the recommendation neither advocates an exclusive focus on regional approaches nor diminishes the importance of addressing country-specific priorities, initiatives, projects, and clients.

Management further notes that the recommendation does not call for broad replication of the Pan-Baltic capital markets model across entire sectors. Rather, the Bank will explore extending a regional approach only to clearly defined areas where cross-border coordination is integral to addressing market challenges and where the Bank can deliver genuine additionality.

Recommendation 2: *Include an explicit strategic additionality framing that clearly defines Bank's expected role over the next strategic period.*

Management **Agrees** with the recommendation.

Management notes that this strategic recommendation is provided as guidance for the preparation of the new Country Strategies for Estonia, Latvia, and Lithuania. It does not call for the introduction of additional additionality tests within the individual project approval process. Rather, it acknowledges that financial additionality in advanced markets is dynamic and may expand during periods of crisis.

Management further observes that prescribing additional limits or tests for additionality for the next strategic period, rather than relying on established principles and existing additionality tests, could inadvertently signal that the Bank has a high degree of confidence in predicting future market cycles, which may not be appropriate in rapidly evolving markets shaped by ongoing geopolitical tensions.

For the purposes of acting upon the strategic additionality framing recommendation, Management notes that the EvD report highlights the importance of assessing additionality at the market level and over time. The evaluation identifies an emerging pattern in which the EBRD's value proposition in the Baltics has become increasingly counter-cyclical and risk-specific. This, in turn, raises considerations for the next strategic period as to whether the elevated levels of Bank ABI observed post-2023 are likely to persist, normalise, or fluctuate in line with evolving market conditions and risk dynamics.

Overall, while the recommendation is useful, Management will act upon it within the established EBRD and MDB terminology on additionality. Assuming that the financial additionality may narrow over time in more mature markets, Management will look to emphasize the growing role of non-financial additionality, particularly through market building, standard setting, policy and regulatory engagement, mobilisation, signalling, and knowledge transfer, while remaining fully aligned with the Bank's additionality framework.

Recommendation 3: *When defining its country strategic priorities for the next cycle the Bank should conduct a review of its risk appetite as part of future investments in Equity Funds targeting the Baltic region, including degree of its focus on first-time funds. In addition, it should also clarify its intentions and key actions to crowd-in international institutional investors. Both should factor in evolving gaps and the dynamic context in the region.*

Management **Partly Agrees** with the recommendation.

Management agrees that the country strategies for the region could further elaborate on the Bank's potential interventions in the sector given the operating environment and lack of access to equity finance. We agree that equity funds play an important role in developing the Baltic private equity and venture capital ecosystem, capital markets development and providing scarce growth equity to companies. The Bank has supported the development of the ecosystem through the Baltic Integrated Approach which combined capacity building underpinned with investment activity. Investments were made in accordance with the Bank's sound banking principles, additionality, and transition impact (the Bank's mandate may differ from other significant investors in the Baltics). However, we submit that the Enhanced Equity approach has already taken into considerations the risk frameworks. Supporting first time teams is only one element of the Enhanced Equity Approach which covers the Bank's region therefore naturally not every aspect of it will be implemented in a specific geography within a set time period. Moreover, one of the three first time institutional quality funds established in CEE during the review period is a Baltic focussed first time fund which is disproportionately high given the scale of the countries in CEE.

There seems to be confusion and conflation in the draft language between institutional investors and specifically, international investors (whereas local institutions played a critical role in the Baltic states eco-system during the evaluation period). Similarly, the focus on first-time funds ignores the Bank's critical role in supporting both emerging and more established managers.

The sustainability of the Baltic PE/VC markets depends on the long-term involvement of institutional investors which in turn requires the development of institutional quality fund managers able to generate successful track records across multiple vintages. The long-term nature and illiquidity of PE/VC means that it takes a number of fund vintages to develop track records attractive to institutional investors. The Bank's approach has been to target its investments on the funds which exhibit *ex ante* the ability to develop a long-term sustainable operation whether these are institutional quality funds being established by first time teams, emerging managers or more established managers. It seeks to build a universe of funds to build a track record in the Baltics and thereby encourage other institutional investors to consider the opportunities. Institutional investors typically require a minimum fund size which can only be achieved over successive vintages and is further limited in the Baltics by the small size of the local markets, which reduces the chances of attracting international investors.

Recommendation 4: *When considering further expansion of the Green Cities Programme in the Baltic countries or deepening existing engagement in Vilnius, the Bank should combine those with supporting governments of Lithuania, and, potentially, Estonia and Latvia in making legal changes that enable municipalities and their companies to raise funds on sub-sovereign debt market.*

Management **Agrees** with the recommendation.

Management notes that EvD is not recommending the expansion of the Green Cities Programme in the Baltic States *per se*. Rather, it suggests that, should such an expansion occur, either through the inclusion of additional Baltic cities or through further deepening of engagement in Vilnius, EBRD should consider complementing investments with enhanced policy and regulatory support to strengthen municipalities' fiscal capacity and enable more sophisticated financial structuring.

In recent years, the Bank has worked extensively not only with Vilnius, but also with Riga and, to a lesser extent, Tallinn to advance local infrastructure financing, including through green instruments and the exploration of potential debt issuance. However, progress has been constrained by the need for legislative changes, limited institutional capacity at the municipal level, and electoral cycles, all of which complicate project preparation and implementation. In addition, the relatively small size of municipalities limits the pool of potential issuers with sufficient scale, while many municipal companies operate with a degree of independence, allowing them to compare commercial lending, IFI financing, and EU support, often favouring options that avoid the additional time and costs associated with accessing capital markets.

At present, Lithuanian legislation does not permit the City of Vilnius, or other municipalities, to issue bonds. Similar constraints exist in Estonia and Latvia. The Bank has recently undertaken a regional feasibility study on municipal green and sustainability-linked bond issuance across several Central and Eastern European countries, including the Baltics, which confirms these structural challenges.

EBRD has a strong track record of working with partners to develop the legal and institutional foundations of sustainable finance and capital markets. In this context, the Bank could support Baltic authorities in further developing capital markets, including by enabling access for municipalities and their companies. However, Management concurs with the EvD report's finding that such efforts would require a substantial build-up of expertise and institutional capacity, which is currently limited.

The IEvD report suggests that EBRD could leverage its role as a trusted advisor to the three Baltic governments in the capital markets space to support the exploration of potential pathways for opening new investment opportunities for municipalities and their companies, including through green and sustainability-linked bonds. Any such progress would, however, depend on the willingness and readiness of national stakeholders to reform fiscal frameworks governing prudent sub-national borrowing.

Should there be stronger appetite, currently assessed as subdued, including in light of findings from the DG REGIO-supported municipal green bond study, among authorities and municipalities to expand the Green Cities Programme and/or to access capital markets, the Bank is developing mechanisms (including CMISP) to provide targeted support to potential municipal issuers.