European Bank
for Reconstruction and Development

Management Comments on evaluation of the independent Evaluation Department

Accelerating the Transition Journey: Evaluation of the EBRD's approach to Early Transition Countries (2017-2022)

May 2023

European Bank
for Reconstruction and Development

Management Comments

Independent EvD's evaluation of the EBRD's approach to Early Transition Countries (2017-2022)

May 2023

Overarching comments

- Management thanks the Evaluation Department (EvD) and welcomes EvD's evaluation of the EBRD's approach to Early Transition Countries (2017-2022). Management appreciates recognition of the Bank's *ETC initiative* that originated in 2004.
- The report makes several timely observations such as considerations for strengthening definitions, and strengthening donor flows data on ETCs. Management welcomes interesting insights on SME financing in the report in section 3.1.
- Management notes that the Bank has been successful in triggering a systemic change in the energy sector of ETC countries like Uzbekistan both as an investor and as a policy advisor. For example, the Bank has led the introduction of a successful RE regulatory system, which has brought significant private sector investment into the country, and increased the electricity supply at record low prices.
- Management maintains that the ATQ index scores measure countries' progress in transition along the six qualities and are unsuitable for monitoring and evaluating EBRD success at the country level. It is not possible "to clearly attribute all EBRD activity .... with narrowing of country transition gaps" as explained further below. Management notes that there may be a conceptual misunderstanding about the role of ATQs, and the underlying outcome indicators. This leads to unevidenced assertions such as in message 2 "there may be a lack of critical mass for achieving substantive progress… and issues around measures used for assessment of transition qualities", also not fully explained how this message is relevant specifically to the ETCs.
- Similarly, Management would like to stress that the report has not fully internalized the various dimensions of financial additionality. The report focuses excessively on the pricing rather than other dimensions of financial additionality like tenor, repayment structures.
- Management notes that the Data Warehouse reports record all donor funds commitments or disbursements, and have indicators denoting their country(s) of assignment. There may be difficulties in automatically pulling this data out of EBRD's systems in a structured and validated manner. The report's finding that the donor commitments in SIG are clearly defined and tracked well is welcome.

Management's response to the report recommendations is provided below, followed by further comments on the report's findings.

1. Response to recommendations

Recommendation 1: *To better redirect support to countries with the biggest transition gaps, rethink the ETC classification and its use. The evaluation identifies that the current ETC classification lacks clear criteria and its use is inconsistent across strategic documents.*

Partly Agree: Management agrees with the opportunity to change the definition for ETC and its classification in today' context. The Strategic and Capital Framework 2021 stated that 'Over the SCF period the Bank will seek to increase the proportion of its investment and policy activities in countries that are less advanced in transition'. It went on to identify not only ETCs, but also countries in the Western Balkans and SEMED as countries where the Bank's engagement will be strengthened. Subsequently, the Board approved a new measure in the corporate scorecard to provide an incentive to fulfil this goal. From this, it is clear that the use of the term 'ETC' itself does not inhibit the Bank's ability to address the needs of countries which have similar, less advanced levels of transition. The ETC initiative was originally established to overcome institutional and operational barriers to the Bank's work in less advanced and smaller economies. The ETC initiative has been broadly successful in that goal.

In the development of the next Strategic and Capital Framework there will be an opportunity for shareholders to provide guidance on the geographic direction and impact targeting of the Bank's work and which, if any, countries or groups of countries should be identified as of particular priority.

However, the report has not clearly described the mainstreaming of ETC classification across the Bank documents. Further,

- Our country strategies and delivery tools take into account both the transition gaps in the country and the Bank's general SCF strategic objectives – but also the political economy context.
- Our scorecard incentivises business delivery in the less developed countries (e.g. ABI share, small countries number of projects, SCI definition to be revisited under the next SCF)
- The Bank has increased its resources in Central Asia & Mongolia, including sector/specialist resources in our two regional hubs.
- We are now working on streamlining processes for small deals, that will help us further to deliver more and efficiently in less developed countries.

Recommendation 2: *To enhance efforts to develop sustainable infrastructure in ETCs, design and propose a programme for services to small municipalities and increase RO PPP unit resources where needed.*

Agree: Management broadly agrees with the second recommendation. Management will continue to explore opportunities for new FWs (e.g. small deals inn ETCs, and project preparation facilities to support sovereign and sub-sovereign clients), as part of its efforts to develop sustainable infrastructure in ETs.

We are already expanding FIF/intermediated finance, TFP and RSF. However, Management will not expand DFF due to both risk and resource intensity considerations. Management notes that in addition to the Green Cities FW, the Bank has a number of existing frameworks and facilities in ETCs that cover small municipalities such as in water, wastewater and solid waste (e.g. in Tajikistan). More comprehensiveness in the ETC context through frameworks for all services in small municipalities can be pursued only if there is sufficient client demand and in some cases client capacity.

FWs may not be the best way to promote intercountry learning, given the different challenges and country context. In addition to a common and specific transition objective, FWs require sufficient pipeline of projects that includes sufficient client capacity. Further, FWs require donor co-financing preferably through SBIF and at a country or regional FW level rather than at the level of individual investment transaction. Finally, while the EVD report calls for more private sector participation, it properly highlights limitations to PPPs in ETCs (pages 39, 40).

Recommendation 3: *To increase regional connectivity despite the challenging political economy in ETCs, such as through transport linkages, lead discussion with other IFIs to develop priorities for project development, and begin joint policy dialogue with relevant counterparts.*

Agree: Management agrees with the third recommendation but with reservations. The Bank has been focused on IFI coordination, joint policy dialogue and development of joint initiatives. The Bank's ability to engage on the integration-agenda with relevant IFI partners beyond what is currently being done has limitations and is outside of the Bank' control. The set of limitations may come in the form of client country factors, including the political economy factors, and/or the activities of regional organizations that determine the integration agenda and demand besides sovereign initiatives.

The report' message that only cross-border investment projects bring together the region in Central Asia is not necessarily true. Many individual investments and soft measures contribute towards improved connectivity and trade. These aspects tend to be more catalytic than only-cross border engagements. Based on recent events (i.e. Russia' war on Ukraine) options for enhanced transport connectivity is on the agenda in Central Asia and the Caucasus and may bode well for more regional integration efforts in the region. The report is largely silent on opportunities with regional public goods (e.g., environmental sustainability initiatives).

Management plans to increase financing of transport connectivity projects and enabling infrastructure for cross-border electricity trade across ETCs, are also subject to donor funds availability in the form of capex grants or concessional co-financing, and subject to flexibility on the Bank's public/private support ratio. In some areas like TFPs, additional resources are required and will be explored with the Board via the regular SIP process.

2. Further comments on findings

2.1. Scope of the report

At the scoping and approach paper-stage of the evaluation exercise, Management had recommended to the evaluation team that the ETCI should be evaluated in its entirety from the beginning of the interventions, i.e. since 2004 to provide a balanced overview of the programme and its outcomes. However, the evaluation team has proceeded with the evaluation only of the last five years (2017-2022) only. By 2017, the main products developed under ETCI were mainstreamed into the EBRD operation practices across all COOs, going far beyond the ETCs.

As a result, Management believes that the evaluation exercise has led to partial conclusions in Message 2 on page v, about "slight" increase of the share of ETCI ABI and a reference to a "critical mass to achieve substantive results" during the review period, compared with the previous review period (i.e. 2014-2016). This is logical given the age of the ETCI (13-18 years after ETCI launch). Management believes that EvD has missed the opportunity to provide the Board with a better overview of the Bank activities in this area.

2.2. Political economy context

Management notes that the evaluation has not analysed the context of political economy factors in ETCs. Management also notes that the evaluation of the EBRD's approach to ETCs should have covered assessment of the role of institutions, actors and other factors that affect EBRD activities, in line with a well-recognized practice of Political Economy Analysis (PEA), for example, in select country case studies.

2.3. Transition Impact

The study recommends:

- *"Developing transition methodology to clearly attribute all EBRD activity including policy dialogue work, legal transition, capital markets and local currency development work, and investment projects with narrowing of country transition gaps.*
- *Quantifying the extent of EBRD contribution, that of other IFIs and partner governments to more clearly demonstrate EBRD's contribution, successes and drawbacks in changing the bigger picture…"*

Management recognises the importance of assessing the Bank's effectiveness in achieving transition objectives and contributing to transition in COOs. However, as explained in the comments of past evaluations (including that on Evaluability of transition qualities), the ATQ index scores are unsuitable for monitoring and evaluating EBRD success at the country level. They are used to measure the state of transition and progress made in countries along Transition Qualities achieved by many players and depends on a number of factors outside EBRD's control (attribution issue).

ATQs are indices based on country level outcome indicators, and a number of factors and player affects their slow change, while EBRD investments in these countries are relatively small. The link to broader country /sector level changes is always a narrative of contribution and could only be made in specific cases anecdotally. For example, in Tajikistan, in 2019, the energy resilient score improved on the back of the unbundling of the national utility company, Barki Tojik, and improving the legal framework to set up an independent regulator – the latter was supported through an EBRD engagement.

Assessing the Bank's specific contribution is very difficult and goes beyond the well-known attribution issue. Establishing causality between EBRD project level outcomes to country level outcomes is difficult to quantify and often depends on estimates that require high quality data and significant resources for impact studies. Furthermore, the scale of EBRD interventions may not lead to sizable changes of quantitative indicators at country level (impact).

Management would like to emphasise that enhanced evaluation by management and impact studies will help the Bank to improve understanding of potential causal links in ToC and hence help build/improve the narrative on how the Bank contributes to transition (at aggregate and project level) in reporting and communication of impact. It also helps the Bank to understand which activities, instruments and approaches are more effective in supporting transition objectives and learn for the future. However, Management notes that the assessment and evaluation of wider impact will not enable the Bank to measure and demonstrate empirically a one-to-one link, or report the magnitude of EBRD contribution to wider systemic impact for all its activities (unlike for an institution that focuses only on job creation). This may only be possible for selective specific area/indicators or special case study examples.

Regarding the report's message about adequacy to close the transition gap (page 19), the analysis presented here it seems that the authors only reviewed the TI indicators information. Often the 'ambition' of a project to close transition gaps (although not explicit) is captured by the TI objective wording and rating. The TI monitoring indicators are not suitable for making these conclusions in the EvD report. The report states, "This data does not reveal the extent to which an indicator addresses the gap or the size of the investment project and its potential impact on the market". Management notes that the above aspect should be broadly captured by the TI objectives linked to that indicator. In any case, Management notes that even when there is no substantial increase, progress with outcomes can still be achieved, so such correlations stated in Message 3.1.2 may not be meaningful.

2.4. Including more countries in ETC definitions

Management notes the interesting point about revisiting the ETC definition and including more countries. We welcome a definition review and will consider how best to incentivise investment in countries and sectors which lag in transition with a view to updating the Bank's approach to focussing its activities. While considering this suggestion, we would note that a more granular approach might be better suited rather than expanding the definition to include even more countries. Regions like SEMED, Western Balkans are diverse and face different challenges, even when they have comparable ATQ scores. Management highlights that the current ATQ scores for SEMED are significantly below those of other ETCs.

2.5. Financial Additionality, SMEs and ETCs

Management broadly agrees with the points regarding repeat clients and potentially supplementing investments with advisory when relevant.

However, the report (page 28) also states "Client feedback from case study countries reveal a progressive weakening of the Bank's financial additionality and frequent instances of non-agile client interaction".

Management disagrees with this assertion and notes that financial additionality is not just linked to pricing, but to providing better tenor, repayment structures, and instruments (quasi equity/ equity) that are often not available in the local market.

As access to finance remains a large constraint for SMEs in ETCs, as the authors quote in the rest of this section, it should be made clear in the report that it is not EBRD's role to compete with other commercial lenders on pricing, as this could undermine sound banking practices and lead to crowding out private investors.

2.6. Donor Flows

All donor funds commitments or disbursements are recorded on Data Warehouse reports, and have indicators denoting their country(s) of assignment, although there are significant difficulties in automatically pulling this data out of EBRD's systems in a structured and validated manner. DCF therefore conducts an important amount of manual data reconciliation and cleaning, to arrive at the annually submitted CSDR donor funds data, and other country-level aggregation analysis. Furthermore, there are difficulties with aggregating donor funds data at the regional-level, i.e. ETC, or other regions. EBRD's data governance system does not define regional classifications. Hence, manually coding of indicator for regions becomes necessary.

Management agrees that multi-country assignments using donor funds appear at first sight to be more prevalent in the pre-validated data (before manual reconciliation) as stored on Data Warehouse. Data Warehouse storage does not automatically lead to an easy identification of the individual countries involved in a multi country assignment. There is not enough information stored to allocate the exact amount of donor funds used per country even with manual identification of involved countries.