MANAGEMENT COMMENTS

IEVD's Mid-term Evaluation of SCF 2021-2025 Strategy Report

13 January 2025

1. Executive Summary

Management welcomes the IEvD's mid-term evaluation of the SCF 2021- 2025 Strategy Report and five (5) Technical Chapters (TCh), including: (1) Mobilisation; (2) Learning and Knowledge Management (LKM); (3) Crises Response; (4) Green; and (5) Operationalisation of the SCF priorities. The Management Comments (MCs) focus on the recommendations of the summary strategy.

Management welcomes the objective of these extensive evaluations to provide timely insights into the implementation and early results of the SCF implementation over the period 2021-2023, complementing Management's reviews and Internal Audit Department's (IAD) assessments.

Management appreciates the extensive work on the five technical chapters that form the basis for the summary strategy report. They cover some of the important strategic priority areas of SCF such as green and mobilisation with also knowledge management as an area identified for strengthening, and crisis response that became a key operational focus of the Bank during the covered period 2021-2023. The report also assesses how effective implementation of the SCF has been by looking at operationalisation of SCF priorities in country, sector and other strategies.

Management welcomes the acknowledgement in these studies of efforts EBRD exerted to achieve a significant progress in meeting its green strategic aspiration as well as to "*overachieve on the mobilisation target*", and the important progress made to build the foundation and improve tools of LKM. The past IEvD studies on crises response have already recognised the Bank's agile response.

Nevertheless, Management notes that there seems to be a rather fundamental misunderstanding of the purpose and role of the SCF. We would like to clarify again that the SCF is directional in nature and delivers using tools like a Strategy Implementation Plan (SIP) and we don't think a Theory of Change, or another conceptual model for the SCF is the way forward.

Management notes that the studies do not fully reflect the important work done in some of the areas considered, such as evaluation of mobilisation approach and toolkit, some aspects of progress made in building LKM within the Bank (including work by HR, Data and Transformation, and VP3). The Bank's mobilisation strategy has always focused on attracting private capital and continued to adjust and expand its product range (as also reflected in the AMI definition and scorecard).

The recommendations are far-reaching and range from those related to suggestions on the strategic focus and format of the SCF document, to revising the transition concept and incentive structure, and developing new approaches (e.g. fragility, mobilisation), while asking for matching and adequate resources and improved data systems to ensure effective implementation, monitoring and reporting on strategic objectives.

Management recognises these important aspects and indeed several recommendations reflect the advanced and ongoing work by Management as part of the preparation of upcoming SCF and other strategic discussions and initiatives, including the update of transition impact management system.

Finally, Management would encourage IEvD revisiting one of the proposed "key finding" that suggests "*insufficient clarity and direction*" in SCF (page ii of the "Strategy Report"). Management disagrees with this concluding remark that is also not derived from the analysis focusing on implementation efforts of the SCF. Importantly, the assertion that what BoD and BoG approved as a strategic document setting direction for 2021 - 2025 period lacks strategic clarity and direction is at odds with the judgement of shareholders themselves in previous discussions of SCF implementation.

Management comments on the recommendations of the study are presented below.

2. Management Comments on IEvD Recommendations

Recommendation 1 (*strategic*): *To deepen the transition to robust and sustainable market economies in all its countries of operation, the EBRD should gear the new SCF towards systemic change, focusing on the far-reaching effects that change the underlying market structures and behaviours.*

Management **Agrees** with the recommendation.

Supporting the transition to a sustainable well-functioning market economy has required the Bank to target systemic change, since its foundation. Consequently, it is core to its operational approach. This focus is being sharpened within the overhaul of the EBRD's assessment and monitoring systems providing more clarity on the key features and improving howe we articulate and measure systemic impact of the EBRD operations.

The current SCF already makes clear that systemic change is at the core of the Bank's work. The key objective of the new SCF is deepening impact while also focusing on areas that address key global and regional challenges and where the Bank has strength and knowledge to achieve a systemic transformative change.

However, as the IEvD report suggests the SCF is directional, not operational in nature. The follow up and implementation of the SCF's directions will focus on changing market structures and behaviours - this is not the purpose of the SCF itself. This is also to remind everyone that the effects underlying market structures and behaviours take a long time to develop and reveal the change and would span beyond the new SCF period. It is therefore very important to be realistic and careful when choosing targets, including being aware of the attribution/measurement issues.

Recommendation 2 (*strategic*): *To help maximise its impact, the EBRD should streamline and "slimline" SCF and present a clear five-years vision how it can best leverage its unique DNA for systemic change, building on its strength and areas where it has proven results.*

Management **Agrees** with the recommendation.

Management accepts that the SCF2021-25 has too many aspirations for the Bank of different natures and would benefit from simplification with a focus on a smaller number of operational goals. This also reflects a consistent message from Directors over the preliminary discussions of the SCF.

Recommendation 3 (*strategic*): *To upscale its preparedness to respond to crisis across functions and activities, the EBRD should develop and implement a unified set of criteria and processes, setting out the conceptual and operational components for crisis situations, including conflict and fragility context and climate crisis.*

Management **Agrees** with the recommendation.

Management is of the view that the Bank addresses fragility as an inherent part of pursuing its transition mandate. It has also gained operational experience of working in conflict and crisis affected as well as fragile situations particularly in the current SCF period. Recently Management presented the EBRD perspective on Fragility, including a proposed conceptual framework for fragility at the EBRD, in line with its transition impact mandate and operating model, and the guiding principles of the Bank's response to fragility. Recognising the value in learning from that experience and the focus on this issue amongst shareholders and other MDBs, Management will produce a paper setting out the conceptual and operational components of the Banks work on fragility. Fragility response is also closely linked to the Resilient Transition Quality, which is currently undergoing methodological improvements to better address additional fragility drivers, as per above.

Recommendation 4 (*strategic*): *The EBRD should better reflect its ambitions on attracting private finance by ensuring its mobilisation strategy places a greater emphasis on attracting private sector capital. Additionally to transaction-based mobilisation, the Bank could consider adopting more robust portfolio approaches designed to draw institutional investors such as pension funds and insurers.*

Management Partly **Agrees** with the recommendation.

The suggestions in the recommendation are already in the scope of ongoing work by Management around a follow-on mobilisation approach as the current one concludes end of 2025. The new approach will address this EvD recommendation. Already the current mobilisation approach is focused on attracting private sector capital and delivery evolved significantly over the past few years, in particular, by adjusting and expanding the range of mobilisation tools and products.

The Bank has and continues to work on expanding the toolkit of mobilisation instruments in the CoOs. The Debt Mobilisation team are working on a Synthetic Risk Transfers (SRT) programme (initial issuance expected in Q4 2025), as well as a debt fund (operational readiness before FYE 2026) and intend to discuss with the Board the initial terms of a possible move towards an originate-to-share model. All of this is designed to attract institutional investors such as pension funds and asset managers as an investor class identified as a priority in the course of the new Mobilisation Approach.

However, Management does not agree to use Total Mobilisation (TM) instead of AMI as an internal scorecard metrics as suggested in the details of this recommendation. While we agree to report separately public and private mobilisation, we believe direct mobilisation and hence AMI is the relevant mobilisation that we should focus on for incentivising our origination activities. For communication purposes, the joint MDB report uses Private Indirect Mobilisation (PIM) and Private Direct Mobilisation (PDM) as metrics so this is where the interested stakeholder can obtain purely private mobilisation figures in addition to AMI and PDM reported as TM.

Recommendation 5 *(operational)*: *To enhance the Bank's ability to understand and communicate its transition impact, the EBRD should review the Transition Impact Concept and interrelations between Transition Qualities, particularly TQ Resilient and Green, to make them contemporary and relevant to current and emerging context.*

Management **Partly Agrees** with the recommendation.

Management notes that the recommendation is rather broader than the analysis suggests which deals with widening the definitions of the TQs rather than revising the concept and TQs themselves.

Management does not agree that the Transition Impact Concept comprising the framework provided by the six transition qualities is in need of review. Transition Impact concept has proven to provide a strong framework for addressing key and evolving challenges in our COOs. Specifically, as IEvD has also noted in its studies, experience over the current SCF period has shown that supporting *resilience* in the CoOs is important. A succession of crises and major disruptions to global supply chains have brought the issue of economic resilience to the forefront of policy debate.

Management agrees that it is right to be vigilant to ensure that the transition concept is intellectually coherent and operationally relevant. The updating of the TOMS system will go a long way to ensuring that the Bank's scope for impact is better captured and contemporary, recognising the importance of necessary adjustments and deepening.

Accordingly, Management, in collaboration with IEvD, is currently revising the Resilience TQ to broaden its scope to both reflect the lessons from the Covid-19 and other recent crises and reflect more on the definition of resilience in the 2016 Board paper on Transition Impact Concept. A new Theory of Change being developed including two key components of resilience response: preparedness and crisis response. These include new areas of resilience in addition to currently financial and infrastructure sectors, such as supply chains, digital and cyber-security, and climate resilience).

Management notes that it was always envisaged that the transition qualities would be mutually reinforcing. However, at the operational level work is underway as part of the update of TOMS system to remove duplication of objectives and indicators under qualities (both as part of the assessment of transition qualities and projects) to give greater day-to-day clarity.

Recommendation 6 *(operational)*: *Develop a simpler, more outcome-based scorecard that better balances investment targets and incentives to achieve strategic priorities.*

Management **Partly Agrees** with the recommendation.

Management agrees that developing a simpler scorecard that better balances investment targets and incentives would be desirable and helpful. Equally, Management finds the supplementary ideas related to the grouping of various indicators and the introduction of multiple scorecard sub-targets less useful, as they would inevitably lead to expansion of the scorecard's length (likely well beyond its current already substantial size), making it less useful as a basis for incentives. Management notes that the comparisons to the World Bank Group, while always interesting, are less useful here, as the World Bank's scorecard serves as a communication tool, rather than as a basis for financial incentives (through Performance Based Compensation), as it is the case at the EBRD.

The report calls for "a simpler, more outcome-based scorecard", only to explain further that it would require a much larger set of indicators across three groups (control, influence and interest, as per the suggested theory of change taxonomy), with some additional filters/sub-groupings imposed on it (across geographies, sectors and potentially other domains). This theme of complex, multi-indicator, multi-dimension scorecard also appears in some annexes, for example in the annex on mobilisation, where the report goes as far as to suggest country level targets. This is clearly impractical, given the volatility of business volumes, commercial market appetite and business opportunities at that level.

Management feels that the challenge with the scorecard comments appears to originate from lack of clarity on what the purpose of scorecards should be. Clearly, if the scorecard is to be primarily an incentive tool (which is its main role today) then, to use the suggested theory of change language, it should be composed of indicators within the "control" sphere (so that people are incentivised on performance against metrics they control). Moving towards outcomes (which often lie in the "interest" sphere) may well be useful from the perspective of communicating impact, as indeed is Management's intention to complement scorecard with outcome indicators in the Impact report, but if the Bank's staff have only a limited control over these, it would weaken incentive mechanism (since the correlation between effort and outcome would be often low). Management would therefore welcome IEvD's clear articulation of their vision on what primary purpose the scorecards should serve.

Recommendation 7 *(operational)*: *Strategic ambitions should be matched by adequate resourcing. To ensure delivery of all identified strategic priorities, the EBRD budget should identify the required resources – the core budget and others.*

Management **Agrees** with the recommendation.

Management (i) agrees that strategic ambitions should be matched by adequate resourcing and (ii) makes that case in annual budget discussions with the Board of Directors. In the discussions of the preparatory work for the SCF2026-30 the need for adequate early funding for the ambitious strategic agenda, which is developing, has been consistently highlighted.

Management concurs that the delivery of the SCF priorities is generally under-resourced and the EBRD is in many areas punching well above its resource base. Nevertheless, the issues at hand are much more complex than the report is acknowledging. The report does not address or recognise the trade-off between properly resourcing large number of labour-intensive priorities on one hand and running an agile, cost effective and profitable development organisation on the other. In particular, the assertion that we need more resources for all priorities needs to be balanced by the fact that the EBRD is a relatively small regional development player and the desire to take on multiple priorities must be balanced against demands for cost efficiency and a relatively flat budget (which are equally important to many shareholders). The cost management and capital growth (for future impact delivery) dimensions could be more explicitly acknowledged in the report. Equally, it could be useful, if the report recognised the trade-offs involved and pointed out to the need for shareholders' prioritisation between wide set of ambitious delivery/impact priorities on one hand and prudent/ stringent cost management on the other hand.

Recommendation 8 *(operational)*: *To implement effectively the vision and ambition of its new SCF, the EBRD should: 1) Develop an impact reporting mechanism (tools and processes), focusing on systemic changes achieved and in general on ex-post measures; 2) Introduce a standardised tagging system in the bank's database that clearly categorises investment, technical assistance and advisory projects related to crisis response 3) Set out indicators for tracking and publicly reporting results related to mitigation and adaptation impact, recognising that adaptation activities may include nonfinancial interventions (in line with the MDB Common Approach to Measuring Climate Results).*

Management **Agrees** with the recommendation.

Management agrees that strengthening information systems is important to enable monitoring and reporting on key strategic priorities, and important efforts are ongoing to do so. As part of the preparation of the new external Impact report that is anchored on the SCF strategic priorities, Management defined a data governance process for the core indicators to be included in the report. The data governance process includes clearly defining each indicator, data roles and responsibilities, and the source of data and quality status. In this process it identified the key system issues and the solution going forward

Rec #8 (1): As part of the on-going TOMS2.0 initiative and the Impact reporting, management is developing an impact reporting mechanism to be able to track, report, and analyse crisis-related activities accurately and a related systemic change. It is however yet to be seen how and whether it is feasible aggregating systemic change effects for reporting purposes, since a pool of data would be based on specific projects and impact assessments.

Rec #8 (2): Significant progress has been made in bringing all investment, technical assistance, and advisory projects into Monarch. A detailed requirements specification has been developed by Operational Strategy & Planning to develop an ability to tag individual Activity Lines under these projects with a predetermined list of values maintained in EBX, the Bank's reference data management system. This will facilitate management and governance of the tags while allowing for rapid deployment of new values and ad-hoc reporting once the functionality is developed and deployed in Monarch. The requirement has been added to the Monarch development backlog for prioritisation.

Rec #8 (3): Management are developing metrics for tracking and publicly reporting results related to mitigation and adaptation impact as part of the Green 3.0 strategy, including looking at MDB-agreed indicators.