



SPECIAL STUDY

Review of Strategy Implementation Plans (2016-2021)



European Bank
for Reconstruction and Development

EvD ID: SS20-156

October 2021

EBRD EVALUATION DEPARTMENT

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This Report has been prepared by Claudio Volonte, Senior Consultant, under the supervision of Gabriele Fattorelli, Senior Manager and Joe Eichenberger, former Chief Evaluator, with valuable contributions from Natalia Lakshina, Analyst and Stephanie Crossley, Analyst from EBRD Evaluation Department. Keith Leonard, Consultant, provided technical assistance and peer reviewed the Study and Disha Zaidi, Consultant, undertook the comparative Analysis of Strategic Instruments for MDBs, other IFIs, and Foundations.

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One Exchange Square

London EC2A 2JN





United Kingdom

Website: www.ebrd.com

Contents

Executive Summary	v
A. Context and Background of this Review	v
B. Scope and challenges	vi
C. Key Findings	vii
D. Issues for consideration and further discussion	viii
1. Introduction	1
1.1. Background of this Review	1
1.2. Previous evaluation work	1
1.3. Objective and scope of this review	2
1.4. Process and Methods	2
1.5. Challenges and limitations of the review	3
2. The Bank's strategic planning architecture	4
2.1. The 2014 reform of the ERBD planning process	4
2.2. The role of the SIP and its linkages with other "building blocks" of the strategic planning architecture	6
3. Key Findings	10
3.1. SIP design/process	10
3.2. SIP content	16
4. Issues and suggestions for further consideration	26
Technical Note 1 – Analysis of the responses in EvD online Board survey	28
Technical Note 2 – Assessment of the EBRD Corporate Scorecard	30
Technical Note 3 – Comparative Analysis of Strategic Instruments for MDBs, other IFIs, and Foundations	40

Executive Summary

Key Messages			
Design  <p>The conceptual design of the Strategy Implementation Plan is technically sound and fit-for-purpose: It includes all key elements needed to operationalise the SCF priorities; and the recent SIP 2021-2023 includes significant improvements triggered by an improved Board's interaction with Management.</p>	Process  <p>The process could be more transparent and better documented to improve the learning loop and report on progress towards the achievement of SCF priorities and monitor systematically efficiency gains across the Bank.</p>	Integration  <p>There is a need for a stronger integration of the SIP and other key elements of the planning architecture, including the country and sector strategies; and better alignment of the business plan with the budget for a stronger focus on outcomes and results.</p>	Reforms  <p>This review suggests other reforms and changes aimed at increasing the transparency of the information included (i.e. resource allocations and savings), reducing complexity (i.e. inflation calculation and carry over) and enhancing efficiency (i.e. corporate planning and staff skills baseline.)</p>

A. Context and Background of this Review

1. In 2014 the EBRD made major changes to the strategic planning approach used since its founding, replacing relatively simple and rigid five-year reviews of capital adequacy (Capital Resource Reviews - CRR) with a substantially more flexible multi-year planning and budgeting process, including a high level strategic framework for five years, the Strategic and Capital Framework (SCF), underpinned by a review of the Bank's capital capacity and a framework of strategic controls; and a Strategy Implementation Plan (SIP), reflecting the implementation of the SCF strategic objectives through a three year rolling plan.
2. A series of important developments in the Bank's strategic and operating contexts in preceding years had tested the CRR instrument/process and revealed important weaknesses in the Bank's ability to respond effectively. The global financial crisis, new membership for the SEMED countries, formal Bank commitments to ambitious new global goals and priorities, and major changes in the Bank's Transition Approach, all presented substantial challenges for the Bank and confirmed that it needed significantly more agile strategic and operational planning tools. Specifically, the Bank needed to sharpen and clarify its strategic priorities and operational goals; make resourcing flows more transparent and monitorable; increase shareholder engagement and effective voice; and, enable greater flexibility and adaptability within the framework of five-year plans.
3. The new strategic planning system comprised two integrated processes/instruments: a five-year Strategic and Capital Framework to be approved by the Board of Governors; and, three-year Strategy Implementation Plans (SIP) prepared on a rolling annual basis, to be approved by the Board of Directors. In brief, the SCF sets high-level strategic orientations, reviews the adequacy of capital capacity to accomplish these and sets a control framework for their implementation. SIPs then translate SCF five-year priorities into detailed annual operational plans, whose objectives should provide direction for the design of country strategies, sector strategies and new initiatives. The first five-year framework (SCF1) was approved in 2015 and covered 2016-2021. Five supporting SIPs were prepared, closely discussed by

Management and Directors and approved. Inevitably, there were challenges in moving to the new system, including those that resulted from the many other changes ongoing during the first SCF period. However, this also built a valuable body of experience from which useful insights could be drawn.

4. **Following approval of SCF 2021-2025 (SCF2), Directors asked EvD to review previous Strategy Implementation Plans (SIPs) to provide findings and lessons on early experiences that could usefully inform the ongoing SIP process and content with a view to improving the operationalisation of the SCF.** EvD included a first review of the SIP tool and process in its 2021 Work Programme, initially intended to focus on the five SIPs under SCF1. However, during the course of 2020 it became clear that SCF2 would include new and substantial elements, and that its first SIP (2021-2023; “SIP6”) would also be substantially different. SIP6 reflected a new, carefully crafted Board and Management agreement to address very substantial Board/shareholder requests emerging from the experience with SCF1, some of it quite difficult. In addition, Board and Management moved quickly to complete a new SIP for 2021. For both reasons **EvD decided to widen the intended scope of its review to include SIP6, which reflects the most current Board/Management agreement on how to translate the SCF into budgeted and targeted operational priorities.**

B. Scope and challenges

5. This review aims to identify findings from the experience with the six SIPs produced so far, and thus contribute to a deeper understanding of the SCF and SIP processes. It aims to achieve this by answering the following overarching evaluation question:

What findings and lessons from experience can be identified from the review of the six SIPs produced to date that may help improve the implementation of SCF 2021-2025?

6. This was, in practice, translated into two main areas of enquiry:

- › EQ1 (SIP design/process): How effective has the SIP been as an instrument for the Board to provide operational guidance and resourcing decisions?
- › EQ2 (SIP content): How adequate are the SIP tools (business plan and budget) and incentives (corporate scorecard) for the translation of SCF priorities into annual operational action plans, including any necessary course corrections?

7. **Its scope includes the five SIPs (SIP1-SIP5) produced under SCF1 (2016-2020), plus SIP6, the first under SCF2 (2021-2025).** EvD undertook a thorough desk review of almost 100 key documents related to the six SIPs, the SCFs, relevant corporate policies, Board and Committee (FOPC and BAAC) meetings, sector and country strategies and their reviews, and relevant EvD evaluations. Informal interviews and consultations with key correspondents, including a survey of Board members - c.a. 50% of Board Directors responded to the online survey (Technical Note 2) - have provided important insights into the preparation process, as has the stocktaking of other MDBs’ strategic planning practices, mainly concentrating on the private sector arm of sister MDBs, particularly IFC, MIGA and IDB Invest.

8. **This review also has indirect links to the 2019 Kirk Report on Evaluation in the EBRD.** That report reaffirmed the importance of the evaluability of each Bank intervention, including decision-making tools and policy, to produce results which may be reliably and credibly verified. Therefore, the study also looks at the evaluability and monitorability of the SIP according to well established best practices.

9. **The evaluation work undertaken consolidates and deepens the understanding of important corporate issues, including ongoing work carried on by Management** such as the further definition of scorecard measures (i.e. mobilisation, operational risk), and a review of HR's planning and implementation of a systematic approach to identifying efficiency gains and value for money.

10. **This study aims to provide the Board with findings and lessons on the design and the content of the SIP**; it is intended as a discussion paper rather than a full formal evaluation for several reasons. These include ongoing changes in key elements of the Bank's strategic architecture, the fact that SCF2, and its first SIP, depart sharply from SCF1 and its SIPs, and the unusual circumstances due to the Covid-19 crisis.

C. Key Findings

11. Strengths of the existing SIP outline/design and production process:

- › The conceptual design of the Strategy Implementation Plan is technically sound and includes all key elements needed to operationalise the SCF priorities.
- › The structure of the SIP is lean and "fit-for-purpose"; it includes a transparent annual review of the Bank's capital situation and the planned capital utilisation levels for the following three years to inform future capital reviews.
- › The SIP production process has improved substantially over the years, reflected in a more constructive dialogue and earlier exchange between the Board and Management.
- › The production of SIP6 has benefited considerably from several changes, such as the series of budget cornerstone discussions.
- › Overall, SIP6 is a serious effort by Management to address substantial Board/shareholder concerns about the SCF1 process and results.

12. Opportunities to improve the SIP outline/design and production process:

- › The SIP has limited monitorability and evaluability; SIPs do not systematically include discussion, analysis or reporting on progress towards the achievement of SCF priorities.
- › The SIP is not approved on a comprehensive basis nor unanimously; the "President's Recommendation" for approval in recent SIPs seeks Board approval of the corporate scorecard and budget.¹
- › The SIP is not fully integrated with other key elements of the planning architecture, including the country and sector strategies, confirming other EvD findings (Fig.2). While SIP integration with other strategic documents is asserted, effective integration of strategies and initiatives with the different SCF priorities and Bank policies is difficult to discern.
- › The SIP process has not been consistent over the years and it is not underpinned by adequate information repository and knowledge management. There appears to be no agreed internal process map for producing the SIP.
- › There is an evident lack of means to systematically track Board requests and to extract and use internal "implicit" knowledge; for example, the focal point in charge of collecting and consolidating the broad range of contributions from many departments changes every year.

13. Strengths of the existing SIP content:

¹ In certain cases Board is also asked to approve specific Management requests, such as the opening of a new Country Office.

- › Since the first SIP (2016-18), its content has adjusted flexibly to changed circumstances inside and outside the Bank, reflecting consistent and substantive input from the Board.
- › The six SIPs produced to date contain adequate background and contextual information for budget decision making. In addition, the Accountability Framework interpreted annually in the SIP provides strong assurance to the shareholders that the Bank is pursuing its strategic objectives responsibly.
- › The corporate scorecard has evolved over time to reflect the priorities and expectations of shareholders, and consequent changes in the Bank's activities. The revised scorecard is now more simply and effectively aligned with SCF2 strategic directions and provides a more stable and consistent basis for pursuing the SCF's goals.

14. Opportunities to improve the content of the SIP:

- › The integration between the business plan and the budget in the SIP remains unfinished; and the SIPs under review do not include a meaningful discussion on the "opportunity cost" of limiting increases.
- › Budget information is still organised by business lines while the SCF is defined on the basis of cross-cutting strategic and thematic priorities; the underlying narrative to "connect the dots" remains unfinished.
- › There is no clear definition or methodology to identify structural and temporary savings; it remains unclear which savings are one-off (e.g., those related to exchange rates) and which are structural.
- › Increasing donor resources are not meaningfully integrated into the core budget and not fully transparent to the Board. Donor fees are not included in the Bank's administrative budget, so it is unclear what they are funding.
- › There are defects in the approach to TI across all the SIPs; overall it is unclear how the implementation of the Bank's activities supports transition impact.
- › The learning potential and uptake from SIP experience to date is limited; SIPs do not provide any specific information or qualitative narrative about what has been achieved and what has not, nor do they discuss the reasons and drivers of either success or shortfall.

D. Issues for consideration and further discussion

15. This study identifies important findings regarding the SIP, its relevance, coherence and its effectiveness as a tool for planning and operationalising the SCF priorities: while many issues are specific to the Strategy Implementation Plan itself, they are also in most cases inextricably linked to other key processes and systems that are in some cases still evolving, ranging from institutional strategic planning to the broad aspects of results management.

16. **The main lesson emerging from the review of the SIPs concerns the importance of fully – and formally - incorporating the improvements introduced in the preparation of SIP6 in the SIP preparation process.** This study also suggests other reforms and changes aimed at increasing the transparency of the information included (i.e. resource allocations and savings and strengthening), reducing complexity (i.e. inflation calculation and carry over) and enhancing efficiency (i.e. corporate planning and staff skills baseline).

17. **However, given the breadth, complexity and interlinkages of these issues, EvD decided against concluding with a set of prescriptive recommendations; instead, the paper identifies the following broad "suggestions" for consideration, intended to contribute to a constructive dialogue.** It will be valuable to get Board feedback on these, as well as on the larger directions identified. EvD will

monitor developments in this area and incorporate proposals for appropriate follow-up work in its future Work Programmes.

- i. **Introduce improved SIP practices and set them as an integral part of the SIP preparation process**, including: i) use a series of Committee discussions on budget ‘cornerstones’ and on compensation and benefits elements; and ii) monitor systematic efficiency gains across the Bank with a clear and early indication of potential annual savings; this will support a culture of continuous review in order to maintain optimal resourcing.
- ii. **Enhance transparency around the SIP preparation process**; this may include underpinning the SIP production process with a solid information management system, keeping track of lessons and issues that have been identified during earlier SIP preparation and consider how they would be addressed and reflected upon in future SIPs.
- iii. **Stronger linkage between SIP budget and SIP business plans, including alignment of the corporate scorecard, both in terms of presentation and narrative and as a decision-making tool**. The SIP may include a discussion around portfolio level considerations, such as reaching a critical mass of investments to achieve specific objectives, synergies between different types of instruments and results expected from activities that are not TI-rated on their own, such as stand-alone policy engagements, or advisory for small businesses.
- iv. **External review (“fresh look”) of the budget issues, including the development of a suitable results-based budgeting approach**; this may enhance the understanding of the costs of the Bank’s operations and what resources are necessary to achieve the SCF2 priorities (such as for enhancing the monitoring, evaluation and learning [MEL] function).
- v. **Other suggestions from this review include:**
 - › Develop a complementary **budget approach along strategic or thematic lines**, including, for example, policy dialogue work; RO activities and support; post-approval project monitoring and performance assessment; institutional learning and KM; skills development, etc.
 - › **Provide greater clarity and transparency on savings and reallocations** achieved during the year, gross resource needs and net needs following reallocations.
 - › **Integrate donor resources systematically into core budgeting work**. Make them more transparent by providing, for example, greater clarity about what is funded by donor fees.
 - › **Review the definition of inflation in both the UK and the COOs and the calculation methodology**.
 - › **Perform a detailed assessment of salary increase distribution across bands**, combined with a thorough assessment of staff skills.

1. Introduction

1.1. Background of this Review

18. **Following the approval of SCF 2021-2025 (SCF2), the Audit Committee (AC) asked the Evaluation Department (EvD) to undertake a review of the previous SIPs.** In response, EvD included the review in its 2020-2021 Work Programme. EvD has not previously directly evaluated or reviewed SIPs. Originally, the intent was to only review the five SIPs under the first SCF 2016-2020. Also, the plan was to circulate the review to Management (for comments) and the Board (for information) by end-December 2020/early January 2021, with the aim of informing the final stages of the SIP 2021-2023 preparation. Given this, it was initially prepared on an accelerated basis without a preceding approach paper.

19. **However, it became apparent there was value to be had from also including the most recent SIP 2021-2023 (“SIP6”) approved on 15 December 2020, whose preparation had involved a significantly different approach from that of its predecessors.** The changed approach was an important effort by the Board and new Management to address substantial Board/shareholder requests emerging from past experience with the previous SIPs under SCF1. Therefore, this review covers six SIPs over the period 2016-2021; it includes the five SIPs (SIP1-SIP5) falling under the first period 2016-2020 (SCF1); and SIP6, the first to translate the SCF 2021-2025 (SCF2) priorities into an annual work plan.

1.2. Previous evaluation work

20. **Evaluation of the Bank’s planning process architecture has so far been limited, particularly with regard to the SCF-SIP.** EvD reviewed the design of country strategies in 2016, followed by a review in 2019 (Box 1).

Box 1: Previous Evaluation Work concerning the Country Strategy and the SIP

- **EBRD country strategies are not conceived as a strategic planning document at the institutional level, this purpose is served by SCF and SIPs.** The regional directions and sectoral/product directions as well as investment projections outlined in each SIP flow from the SCF directions, business environment, trends in transition and financial/risk assessment of the portfolio.
- This is also reinforced by the fact that country strategies themselves do not contain an indication of investment volume over their duration, nor targets for any of their objectives, which could specify the scale of the ambition of the country strategy and provide input to SIP directions.
- Country strategies serve as a ‘guiding platform’ for the translation of the broad transition impact mandate into specific TQ priorities and objectives at country level.
- Country strategies plan the nature and content of the Bank’s transition focus along the TQs but take little direction from institutional medium-term priorities and do not figure significantly in annual strategic planning in terms of regional allocations or investment activity.
- In this context, the corporate scorecard reflects (and provides the incentive structure for) the SCF-SIP strategic link, while its link to country strategy objectives continues to be second-hand at best, especially for investments.
- Characterising country strategies as either the bottom of the strategic planning hierarchy or as the middle link between institutional objectives and operations is therefore not quite right; they are rather on a separate track to the SCF-SIP planning, translating TQs within the country context and guiding the type of activities that entails, such as operationalising the country specificity that was part of the TI concept revision rationale.

21. In June 2020, EvD provided the Board and Management with a detailed technical note on the review of the corporate scorecard (Technical Note 2). BAAC members asked EVD to provide input for further discussion of how the scorecard could support mobilisation. The EvD note responded by setting out key issues, conceptual options, and considerations on how indicators for mobilisation may be selected and defined. It identifies critical distinctions necessary for proper scorecard construction. Importantly, the EBRD's own financing (debt and equity) is an output that can catalyse mobilisation of third-party private finance; mobilisation itself is an outcome.

1.3. Objective and scope of this review

22. This review is a contribution to enhancing the operationalisation of SCF 2021-2025. It aims to achieve this by answering the following question: **What findings and lessons on early experiences that could usefully inform the ongoing SIP process and content with a view to improving the operationalisation of the SCF?**

23. This was in practice translated into two main lines of enquiry captured as two evaluation sub-questions (EQ1 and EQ2):

- **EQ1 (SIP design/process): Has the SIP been an effective means for the Board to provide operational guidance and for making resourcing decisions?** The rationale for this question lies in the management function of the SIP as the instrument for guiding operational and resource allocation choices. SIPs, approved annually by the Board of Directors, are the primary tool that translates the SCF five-year strategic directions into annual objectives in the context of rolling three-year projections of operational and financial performance.
- **EQ2 (SIP content): Have SIP business plans and budgets adequately translated SCF priorities into annual operational action plans, including any necessary course corrections, and has the corporate scorecard provided the right incentives?** The rationale for this question lies in the primary function of the SIPs to translate the SCF five-year strategic directions into annual objectives in the context of rolling three-year projections of operational and financial performance. This review therefore includes suggestions on how it would be possible to improve the linkage between the SIP business plan and the budget. Since the SIPs also include the annual corporate scorecard, the review will also provide views to management to inform the planned review of the corporate scorecard.

1.4. Process and Methods

24. The review used the following methods:

- Desk review of almost 100 key documents related to the six SIPs; beyond the SIPs themselves approved so far, SCF 2016-2020 and SCF 2021-2025, relevant corporate policies and Board and Committee (FOPC and BAAC) meeting minutes, sector and country strategies and their reviews, and relevant EvD evaluations.
- Informal interviews and consultations with key correspondents, including a survey of Board members (c.a. 30% of Board members responded² to the 2020 online survey).

² Of 43 Board members invited to participate in the survey, responses were received from 12 in total

- Light stocktaking of other MDBs' strategic planning practices, mainly concentrating on the private sector arm of sister MDBs, particularly IFC, MIGA and IDB Invest.
- This study has also benefited from a close monitoring of the SIP 2021-2023 preparation process, noting some new positive changes introduced, including the budget cornerstones discussions (Box 4) and a more transparent exchange of information between Management and the Board.
- In early December, an internal EvD workshop was held to validate the report's main findings. The group discussed and commented on the study, checking it for factual errors and errors of interpretation.
- Input from an external review consultant.

1.5. Challenges and limitations of the review

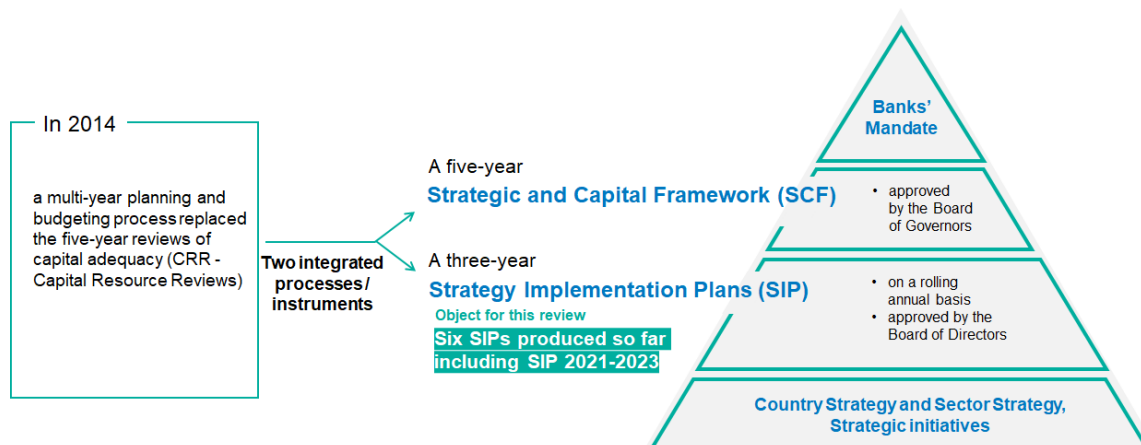
25. **This review is informative in nature; it aims to provide the Board (and Management) with findings and lessons on the design and the content of the SIP;** EvD opted for the format of a discussion paper³ rather than a full evaluation due to a number of challenges, including the original tight timeframe, evolving conditions within the EBRD affecting the Bank's strategic architecture, and the COVID-19 crisis. Limitations of this review include the following:

- **The scope of the review covers two strategic periods.** This evaluation covers six SIPs over the period 2016-2021; it includes the five SIPs (SIP1-SIP5) falling under the first period 2016-2020 (SCF1); and SIP6, the first to translate the SCF 2021-2025 (SCF2) priorities. The review was not originally envisaged to cover two strategic periods as noted above. In fact, covering two periods is not a problem given the nature of the review, which does not consider the content of strategy – rather it assesses how the strategy was converted into action. Again as noted above, including SIP6 is a strength of the review as it allows a comparison of a significantly different SIP preparation process compared with that which had gone before.
- **The review reflects the rapidly evolving environment surrounding the SIPs, and the difficulty in establishing points of reference.** There have been several important evolutions in the EBRD's strategic planning process that framed the scope of the review, including SCF 2021-2025, approved at the Annual Meeting in October 2020, which incorporates a revision of the control parameters and a review of the corporate scorecard. However, the dynamic context is not considered to be a problem for a review that seeks to identify issues, including, as reflected in part of evaluation question EQ2, whether successive SIPs were responsive to changes in the context by making course corrections.
- **The review assessed the experience of the SIPs without evaluating the underlying strategic architecture, and particularly the performance of SCF 2016-2020.** Given the intrinsic relationship between the SIPs and the SCF, some may consider reviewing the SIPs without an in-depth assessment of their underlying strategy may only yield a partial view.
- **However, this review is not an evaluation of the EBRD's strategic framework, nor is it intended to assess the results produced by that strategy. Rather, the review looks at the**

³ The review has not benefited from the usual EvD planning process, which includes an approach paper shared with Management. As noted above, the original plan was to produce the review to a very tight timeframe, so the formal planning and consultative phase was dropped in order to expedite delivery of the review. Notwithstanding this, every effort has been made to engage with Management.

effectiveness and, to some extent, efficiency with which the strategy is turned into operational plans. A mid-term evaluation of the current SCF and SIP6 and SIP7 should be carried out in due course, which can largely benefit from and build on the experience and knowledge derived from this exercise.

2. The Bank's strategic planning architecture



2.1. The 2014 reform of the ERBD planning process

26. Until 2014, the EBRD's strategic planning architecture was built around five-year Capital Resources Reviews (CRRs) as envisaged in the Agreement Establishing the Bank (AEB). Since the first CRR in 1995, the planning process structure and content was relatively constant for two decades; it always included the following elements: i) formulation of medium-term priorities or directions which were reviewed and approved by the Board of Governors in 1994, 1999 and 2009; ii) a CRR covering a five year period, approved by the Board of Governors in 1996, 2001, 2006 and 2010; iii) an annual Operational, Financial and Capital Utilisation Update (OFCU), previously presented in the form of an annual mid-term strategy (MTS) update; and iv) an annual business plan and budget. In all cases, the content of the CRR documents exceeded this 'capital stock' focus and included an assessment of the economic outlook and transition challenges/objectives; a full set of operational projections including regional composition projections; financial projections; formulation of a resource framework on a five year period; and capital adequacy analysis.

27. The production of the CRR required the involvement of a significant number of staff across various Bank departments; the time between initiating technical work and distribution to the Board of Directors was generally around seven to nine months. Related Board discussions, and the preparation of the subsequent Report of the Board of Directors to the Board of Governors prior to its distribution to the Board of Governors took on average, an additional three months. This EBRD strategic planning architecture was more rigid than the strategic governance of other MDBs and the overall process was cumbersome, time consuming and expensive. Major decisions began to be taken outside the CRR framework including, for instance, initiating operations in Turkey, which was not envisaged in CRR3; the build-up of Bank activity as part of the response to the global financial and economic crisis; the decision to extend the Bank's countries of operation to include the South and East Mediterranean (SEMED) region, among others.

28. During implementation the Board has had to balance adherence to a 'fixed' strategy with the need to adapt and flexibly develop the Bank's activities. A more flexible strategic planning

architecture was seen as essential to enable the Bank to respond more quickly and effectively to a strategic and operational context that had changed dramatically between 2000 and 2010. Major new developments, most of them wholly unanticipated, presented shareholders with a range of threats and opportunities for which existing instruments were seen as inadequate. The Arab Spring and the new SEMED members represented an important “Action Forcing Event.” Only one year after the 2014 Strategy (CRR4) was approved basically everything was different and it was clear that the Bank’s five-year plan and planning structure would have to be changed.

29. **At the 2014 Annual Meeting in Warsaw, the Board of Governors approved a substantial reform of the Bank’s strategic planning architecture, on the “principle of unbundling”** (see Table 1), including:

- Distinguishing between issues to be considered over a longer (five-year) timeframe and those that are more appropriately considered over the medium term (three years) or annually; and
- Establishing degrees of flexibility and accountability to enable the Bank to be responsive and able to adapt and develop its response to a changing operating environment.

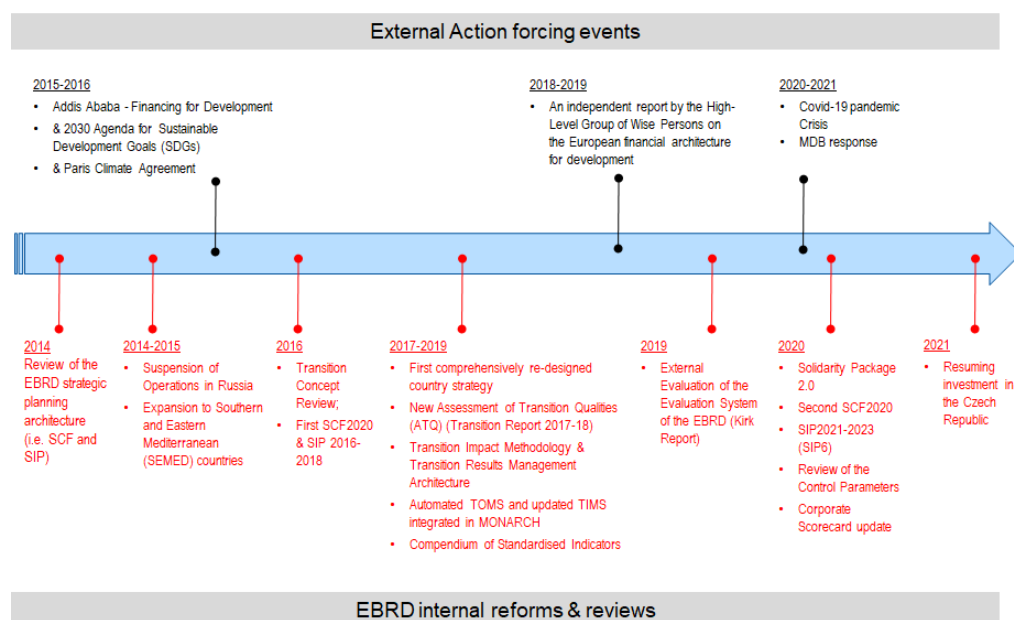
Accordingly, the Bank’s strategic planning architecture was articulated in a five-year Strategic and Capital Framework (SCF), to be approved by the Board of Governors, and a rolling three-year Strategy Implementation Plan (SIP) supposedly to be approved in its entirety by the Board of Directors.

Table 1: Differences between the EBRD planning process before and after 2014

Strategic Area	Before 2014			After 2014		
	Documents	Frequency	Approving Body	Documents	Frequency	Approving Body
Medium term directions	1994: <i>Operational Priorities: Guidelines for the Medium Term</i> • 1999: <i>Moving Transition Forward: Operational Priorities for the Medium Term</i> • 2009: <i>Fighting the Crisis, Promoting Recovery and Deepening Transition</i>	Irregular, not driven by governance requirements	Board of Directors (but submitted for discussion by the Board of Governors)	Strategic and Capital Framework (SCF)	Five-year period	Board of Governors
Capital review	Capital Resources Review	Five-year period, driven by Article 5.3 of the Agreement Establishing the Bank				
Implementation of priorities	Before 2007: Medium Term Strategy Update Since 2007: Operational, Financial and Capital Utilisation Update (OFCU)	Annual	Board of Directors	Strategy Implementation Plan (SIP) • Three-year rolling business plan • Annual business plan and budget	Annual	Board of Directors
	Annual business plan and budget	Annual	Board of Directors			

30. Since 2014, many strategic issues/changes, both internal and external, have occurred as shown in Figure 1, which have had implications for the Bank's strategy, including: EBRD joint commitments to new ambitious global objectives (2015); changes to the transition concept and framework (2016); migration as a key issue (2017-18); the EU architecture debate (2019-2020); the COVID-19 pandemic (2020-present); a new administration and a commitment to strengthen Board/Management relations (2021). In particular, the COVID-19 pandemic has dramatically changed the way of conducting business in the EBRD'S countries of operations; and while the new administration has taken office, the European Commission (EC) has released its Feasibility Study on the European Financial Architecture which may have deep implications for the EBRD. As a partial response to those changes, the Bank's strategic planning instruments have been revised and updated; a new SCF was approved by the Board of Governors at the 2020 Annual Meeting; the control parameters – the framework within which the SCF's strategic orientations will be implemented – have also been revised and a substantial review of the corporate scorecard was approved by the Board of Directors in November 2020. And finally, over time the structure of the SIP has also been reviewed, mostly through the addition of sections that were necessary to develop and explain new aspects of the Bank's business.

Figure 1: Main drivers of evolution of the EBRD strategic planning architecture

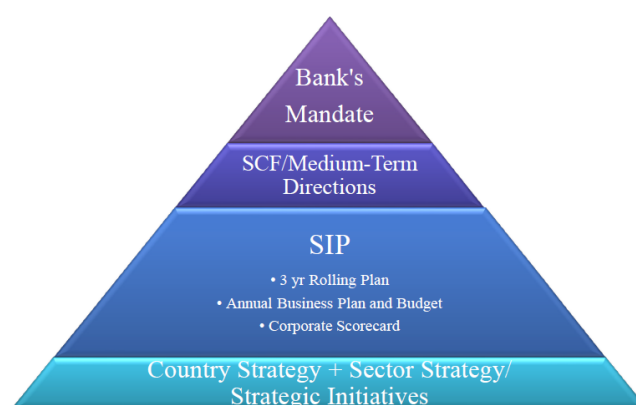


2.2. The role of the SIP and its linkages with other “building blocks” of the strategic planning architecture

31. According to Management, the Bank's planning process operates within a hierarchy of strategic components, with each tier of the hierarchy constrained by, and adding detail to, the tier above (Fig. 2).

- The capstone is the Bank's mandate, as expressed in the Articles Establishing the Bank
- Below this come two essential corporate-level documents: the Strategic and Capital Framework (SCF) and the Strategy Implementation Plan (SIP)
- Country strategies, together with sector strategies and strategic initiatives, form the base of the hierarchy

Figure 2: Overview of the Bank's strategic planning process



Source: BDS14-065

32. The EBRD mandate⁴ stipulates that it must only work in countries that are committed to, and applying, democratic principles.

- The EBRD mandate - promoting “in the full range of its activities environmentally sound and sustainable development” is also part of the mandate (Article 2 of the AEB)
- In pursuing this mandate, the EBRD will endeavour to: 1) promote transition to sustainable market economies by investing in projects, mainly in the private sector; 2) provide advisory services and conduct policy dialogue; and 3) mobilise significant foreign direct investment and other third party resources
- Elaborating on the mandate, the Bank's key operating principles are often summarised as achieving transition impact, following sound banking principles (Article 2) and ensuring additionality of investments beyond what is offered by the commercial sector

33. The SCF, SIPs, country strategies and sector strategies would be the backbone of the Bank's strategic planning.

- The SCF sets the Bank's high-level strategic orientations, reviews its capital capacity to pursue its priorities and sets a control framework for the implementation of these priorities (control framework);
 - In the SCF, the Board reports to the Governors on the adequacy of the Bank's capital base, as required by Article 5.3. The extent to which there is a surplus or shortfall of capital is assessed through a quantitative and qualitative analysis by Management
 - On this basis, the SCF can also include proposals for a capital increase or decrease. The SCF is reviewed and approved by the Board of Governors every five years (Box 2).

⁴ According to Article 1 of the AEB: “[I]n contributing to economic progress and reconstruction, the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics.”

Box 2: Overview of the first SCF (2016-2020) approved by the Board of Governors at the 2015 Annual Meeting

- The SCF2016-2020 indicated that the Bank's priority over this period was to assist its region in re-energising transition.
- At the end of 2015, the Bank had an estimated maximum cumulative investment capacity of €55 billion from its own resources and committed itself to mobilising additional funds from the markets to support its objectives.
- In addition to continuing to be guided by its key operating principles of transition impact, sound banking and additionality, the Bank would focus on three key priorities: 1) Resilience. The Bank aimed to strengthen the resilience of reforms by promoting good governance institutions, inclusiveness and robust economic structures; 2) Integration. The Bank would promote further international and regional integration which is a powerful force supporting efficient markets and reinforcing reform discipline; and 3) Common global and regional challenges.
- While markets worldwide fail to produce sustainable outcomes in these areas, the problems are especially acute in the Bank's transition region (climate finance, energy efficiency, competitiveness, energy security, water, and material waste, private sector, food security).
- **By the end of the SCF period (2020), the Bank was expected to have helped its region to set a course for accelerated reforms and more resilient institutional frameworks; taking measures to diversify economies with an increased private sector role and enhanced competitiveness; strengthening financial systems and capital markets, enabling them to provide financing, also in local currency, to the real economy; utilising energy and resources more efficiently; and embarking on a more rapid income convergence as well as an inclusive and sustainable growth trajectory.**

34. **The overarching objective of the SIP is to translate the SCF priorities into an annual detailed operational plan;** the operational objectives outlined in the SIP, in turn, should provide direction for the design of country strategies and for the production of sector strategies and new initiatives.

- According to the 2014 reform, the SIP should be approved in its entirety by the Board of Directors with the power to approve the Bank's budget being delegated by the Board of Governors, pursuant to Article 27(iv).
- The overall scope of the SIP includes a transparent annual review of the Bank's capital situation and the planned capital utilisation levels for the following three years to inform the capital reviews in future SCFs. The SIP, therefore, includes both the three-year rolling business plan and the annual business plan and budget. The SIP is therefore structured around four main components, including i) budget, ii) operational plan; iii) corporate scorecard; and iv) maintaining financial sustainability.

35. **Country strategies which have included results frameworks (CSRFs) as a component of the Bank's results architecture since 2014, established a set of building blocks consisting of a library of 'strategic themes' (priorities), and a menu of objectives and indicators to be used in the CSRFs to operationalise the priorities.**

- With the review of the transition concept in 2016, the six newly-established transition qualities assumed the place of the 'old' strategic themes at the level of priorities in the country strategies.
- As the approach to country strategies was evolving, major changes were also being made in other primary strategic processes and instruments that overlap or are deeply linked to the country strategies.

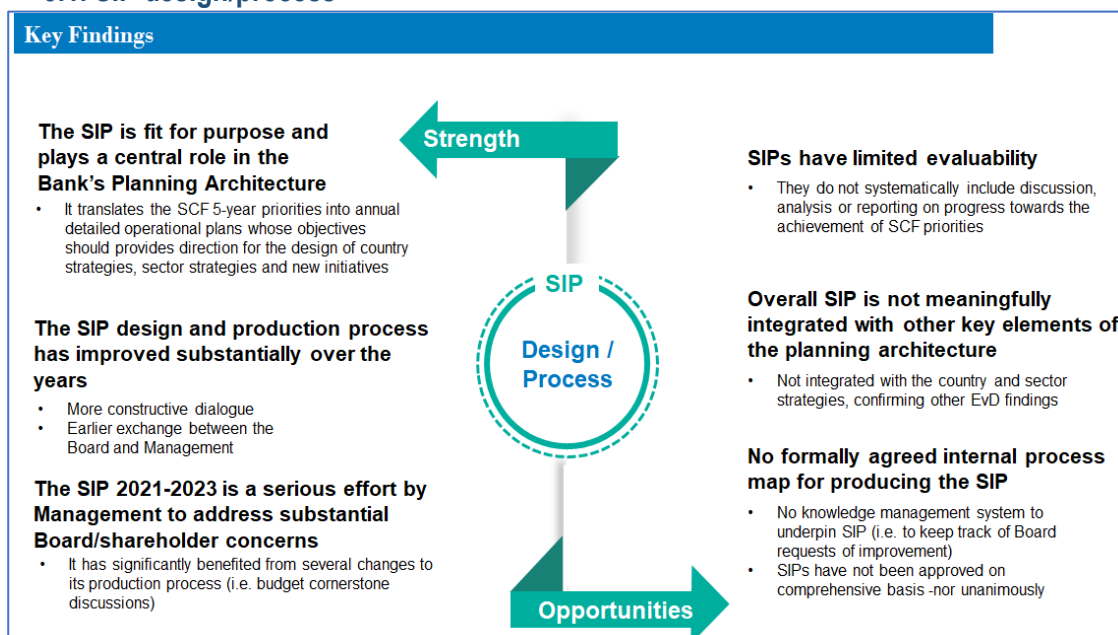
- These include: i) changes in the Bank's overall results architecture; ii) revision of the transition concept; and iii) redesign of strategic planning at country level. Most of these changes are incomplete or still evolving.

36. **Sector strategies aim to define operational policies and approaches for the sector teams;** the sectors for which strategies have been approved are: Agribusiness; Economic Inclusion; Energy; Financial; Information and Communication Technologies; Micro, Small and Medium-sized Enterprises; Mining Operations; Municipal and Environmental Infrastructure; Property Operations; Shipping Operations, and Transport.

- With the redesign of the Bank's results architecture and the revision of the TI concept to economy-wide transition qualities as the institution's main mandate, sector strategies are no longer deemed to be instruments for accountability or incentives.
- Instead, they are intended to guide the selection of country strategy objectives, and outline approaches for operationalising these objectives.
- Overall, the link between country and sector strategies is weak; the two types of documents are linked most convincingly, if not systematically, at the activity level of country strategies where the sectoral approaches can be referred to or applied.
- The design of sector strategies reflects the fact that there is no longer a commitment to, or accountability for, generating sector results at the sector level.
- With this in mind, the most appropriate linkage between sector strategies and the results architecture appears to be at project level by standardised references to sector strategies and their monitoring frameworks in project documents.

3. Key Findings

3.1. SIP design/process



37. **The conceptual design of the SIP is technically sound and includes all the key elements to support the operationalisation of the SCF priorities.** The SIP translates the SCF five-year priorities into annual detailed operational plans whose objectives should provide direction for the design of country strategies, sector strategies and new initiatives. Its structure is lean and built on best practices; it includes the annual business plan and budget, thus avoiding additional documents that may significantly overlap it (Box 3).

Box 3: Design of the SIP established in the reform of the EBRD planning process (2014)

Part I: Three-year plan - this could include the following sections:

- Section I.1: Economic and transition context - a summary update of key trends in terms of: economic context; transition context; and financial markets (including the setting of the planning rate).
- Section I.2: Medium-term directions and transition objectives – this should refer to the medium-term directions of the Bank and provide, if necessary, some update on the evolving situation and potential adjustments relative to the text provided in the SCF.
- Section I.3: Activity and projections – this would include three-year operational projections including portfolio projections over a period of three years (in aggregate and by region).
- Section I.4: Resource framework – this could cover the following topics over a three-year period: summary of key activity drivers: existing and new outlook on staff cost drivers, outlook on operating cost drivers, efficiency/productivity measures and reallocation.
- Section I.5: Financial projections – these would be derived on the basis of operational projections and assumptions regarding: potential impairment, debt and equity returns, treasury income, administrative expenditure, return on capital.
- Section I.6: Capital utilisation projections – this would include statutory and economic capital utilisation projections, based on operational and financial projections in sections I.3 and I.5 within the capital control parameter(s) set in the SCF.

Part II: Year 1 scorecard and budget

- Section II.1 would contain the scorecard and summary budget for year 1 of the SIP.

- Section II.2 would cover the administrative and capital expenditure budget for year 1 of the SIP.

(Source: BDS14-065, page 22)

38. **The SIP production process has improved over the years benefitting from more constructive dialogue and earlier exchange between the Board and Management.** The recent SIP 2021-2023 (SIP6) is a serious effort by Management to address substantial Board/shareholder concerns about the SCF1 process and results. It is quite different from earlier versions and has significantly benefited from several changes to its production process, such as the series of budget cornerstone discussions and generally a more inclusive dialogue between Management and the Board. This review found that the preparation of SIP6 included several important changes, including, for example, the budget “cornerstone” discussions, which represented a significant step forward towards a more systematic incorporation of Board requests and feedback (Box 4).

Box 4: Lessons from the SIP 2021-2023: the “Budget Cornerstones” discussion series

- In Q4 2020 Management undertook a series of open and frank discussions with Board members in BAAC meetings regarding important budget issues related to SIP6 (“budget cornerstones”), including:
 - “Extraordinary items” (IT multi-year investment programme, Libor transition, new HQ accounting), on 23 October;
 - Reward Review, on 28 October;
 - Non-discretionary increases, savings and donor fees, on 5 November;
 - Initial compensation and benefits proposals, on 11 November; and
 - Incremental resources, tentative overall bridge between components, on 23 November.
- The purpose of these “cornerstone” discussions was for Management and Board to benefit from an upstream discussion on emerging budget directions.
- Management provided early information to the Board on the expected 2021 Budget impact for the incremental resources, as well as the final view of all budget components; and the Board provided preliminary feedback to Management.
- The upstream transparency and consensus building enabled Management to circulate a stronger SIP proposal to the Board in mid- December⁵.

In 2021, the cornerstone discussion approach has been extended to the review of the PBC (Performance-based compensation) scheme. As detailed in the Terms of Reference agreed with BAAC on 21 June 2019, this discussion series included three items: i) the approach and methodology to more clearly link the PBC pool with the Bank’s performance against the recently approved institutional scorecard; ii) the PBC accrual level; and iii) how the PBC awards align to individual performance and distribution. In order to facilitate the working plan, a minimum of four cornerstone meetings with BAAC throughout 2021, ahead of final recommendations; in addition Management also committed to presenting a proposal for an operational risk indicator in Quarter 3 of this year, for inclusion in the 2022 scorecard.

⁵ The BAAC discussed the Strategy Implementation Plan 2021–2023 - Operational Plan, Scorecard and Budget (“SIP”) AND the Staff Compensation and Benefits Proposals for 2021 at its meeting on 9 December 2020; the Committee discussed an earlier version of the SIP had been discussed by the Committee on 3 December, and the Compensation and Benefits report on 25 November 2020.

39. **None of the six SIPs produced so far include discussion, analysis or reporting on all SCF1 priorities; overall the SIP has limited evaluability as a decision making tool and limited monitorability.** The table below (Table 2) provides an assessment of how each of the priorities and cross-cutting issues were reported in the five SIPs corresponding to the SCF1 period. Each of them selected a few indicators to report on but they are not presented consistently and analysed, annually, across time. Furthermore, the Kirk Report (CS/AU/19-37) reaffirmed the importance of the evaluability of each Bank intervention, including decision-making tools and policy, to ensure that results may be reliably and credibly verified. Evaluability is reflected in effective accountability and monitorability, and it requires specific conditions: clear objectives; a credible explanation of causal links; adequate data; effective monitoring; clear responsibilities; and timely reporting and feedback.

Table 2: How SIPs address SCF 2020 priorities and cross-cutting issues

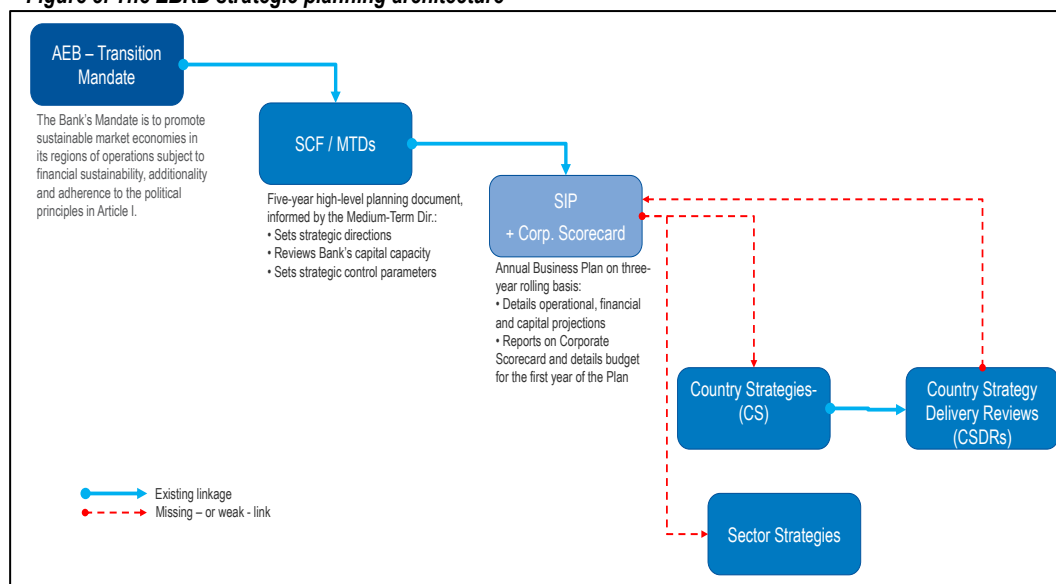
Priority established in SCF 2016-2020	Operationalisation of SCF Priority across successive SIPs
PRIORITY 1 - sustainable energy and resource efficiency and energy security.	<p>Initial SIPs established targets. This was not followed up in later SIPs and results were reported on individual cases, missing the aggregate picture.</p> <p>No analysis of lessons.</p> <p>Indicators to be reported on:</p> <ul style="list-style-type: none"> - GET was projected to rise from 30% in 2016 to 35% in 2018 assuming resource and grant availability. - Hard floor of 75% for successful implementation of operations (both investments and policy engagements) targeting Green TQ. <p>Regional guidance: none.</p> <p>Examples of results reported:</p> <ul style="list-style-type: none"> - As part of the OE&E programme, in 2017 the Banking department was restructured to create a specialised portfolio management function, to cover the Bank's lending for both the corporate sector and energy and infrastructure. - The central Europe support for liberalising the energy sector developed energy markets, reinforced networks for domestic and inter-country connectivity, and improved the energy regulatory environment. However, it doesn't discuss this through the lens of the 'Country Strategy Objective by Quality' table, which shows only three projects targeting energy resilience in the region. <p>Shortcomings:</p> <ul style="list-style-type: none"> - Discussion on important emerging findings remains unfinished
PRIORITY 2 - Suite of solutions to support SMEs, entrepreneurship and innovation.	<p>Initial SIPs established targets. This was not followed up in later SIPs and results were reported on individual cases missing the aggregate picture.</p> <p>The last SIP did not take the opportunity to capture lessons from the SCF1 period.</p> <p>The SIPs are almost silent about progress around entrepreneurship (no mention) and innovation (mentioned only twice).</p>
PRIORITY 3 - An active and comprehensive programme of local currency and capital market development.	<p>Initial SIPs established targets. This was not followed up in later SIPs. Good analysis of the conditions necessary to support local currency but later SIPs did not report on progress.</p> <p>No lessons on how to ramp up LC2. Furthermore, there is no clear guidance on how to achieve the LC2 ramp-up; it is not evident how LC2 is monitored in the corporate scorecard.</p>
PRIORITY 4 - Infrastructure project preparation combined with increased financing for sustainable infrastructure projects.	<p>Initial SIPs established targets. Later SIPs provided further guidance on how to implement the priority at the regional levels but didn't include information on how the guidance was implemented. The last SIP did not report on progress or lessons.</p> <p>SIP2020-2022 includes better and more detailed information than its predecessors. However, it falls short of discussing findings and implications. For instance, information in the SIP shows clearly no increased financing for sustainable infrastructure.</p> <p>Interesting regional guidance:</p>

Priority established in SCF 2016-2020	Operationalisation of SCF Priority across successive SIPs
	<p>-Central Asia: promote operational and financial effectiveness and efficiency of municipal infrastructure and utilities; develop transport infrastructure, including through PPPs; engage in policy dialogue to address soft infrastructure such as customs and border procedures.</p> <p>-Eastern Europe and Caucasus: aim at facilitating technology transfer and development of a technology infrastructure, improving infrastructure and public utilities through direct (co-) investments whilst engaging in policy dialogue to promote commercialisation of municipal utilities.</p> <p>-SEMED region: activities include improvement of operating practices of public utilities and the quality of infrastructure.</p> <p>-South-Eastern Europe: focus on infrastructure and municipal services.</p>
PRIORITY 5 - Address the evolving transition needs of its countries and clients - notably, a higher proportion of equity investments.	<p>Initial and later SIPs established targets, but later SIPs did not provide follow up on how the targets had been achieved. The issue of additionality was not discussed with regards to equity.</p> <p>No discussion of the importance of additionality to close the transition gaps.</p>
PRIORITY 6 - Significant, structured policy dialogue capacity.	<p>Initial SIP established targets, but later SIPs did not provide follow up on how the targets had been achieved. Examples of achievements were focused on the development of policy dialogue strategies. There was a good presentation of this cross-cutting issue at the country level but no analysis of what it meant.</p> <p>Examples of results reported include:</p> <ul style="list-style-type: none"> -Launch of the Economic Inclusion Strategy (EIS) at the Annual Meeting in Cyprus in May 2017 as a key instrument for delivering the SCF commitment in this area. -Enhanced Approach to Policy Dialogue. -SIP2020-2022 includes a very useful 'Country Strategy Objective by Quality' table (count of objective, including policy component). However, it didn't discuss the important findings emerging from the review of the data. -Policy dialogue objectives are being successfully achieved in Jordan (to promote legislation to support investment in energy efficiency and renewable energy), Turkey (to increase economic opportunities for women and youth; and refugees through training and the SME sector), and Kazakhstan (to strengthen financial sector resilience, governance, particularly in the energy and banking sectors and infrastructure).
PRIORITY 7 - Fully mainstream inclusion and gender objectives.	<p>Initial and later SIPs established targets, but later SIPs did not provide follow up on how the targets had been achieved. Limited reporting on achievements or shortcomings/lessons, particularly regarding the consequences of failing to mainstream gender at country level.</p> <p>No discussion or even mention of the striking finding emerging from the Country Strategy Objective by Quality analysis in SIP2020-2022 that indicated that in four regions the Bank's country strategies did not target inclusion/gender mainstreaming.</p>
PRIORITY 8 - Mobilise significant cross-border capital and investments from both traditional and non-traditional sources.	<p>Initial and later SIPs established targets, but later SIPs did not provide follow up on how the targets had been achieved. No reporting on achievements or shortcomings/lessons.</p> <p>No discussion about better definitions, more aligned to the MDB harmonised approach; the last SIP falls short on information on the MDB system and other DFI activities potentially impacting the Bank's business.</p> <p>Examples of reported results include:</p> <ul style="list-style-type: none"> -Annual mobilised investment floor (in 2016 and 2018 it was set at €0.8 billion with a floor combined annual Bank and mobilised investment set at €7.6 and €8.9 billion respectively). -Funds for the Green Economy Transition (GEF-7 and relationship with the GCF).
PRIORITY 9 - Strengthen results orientation and alignment of objectives	<p>Initial and later SIPs established targets, but later SIPs did not provide follow up on how the targets had been achieved. Results reporting was included on IT.</p>

Priority established in SCF 2016-2020	Operationalisation of SCF Priority across successive SIPs
and apply lessons learned.	<p>Neither SCF1 nor SCF2 include any specific commitment and they are silent on the impact on the resource-side of the effort.</p> <p>There is no discussion in any of the five SIPs over the strategic period regarding the importance and urgency of incorporating distilled knowledge in the Bank's project cycle.</p> <p>There is no mention of the role and importance of lessons stemming from self-evaluation assessments; as identified by the Kirk Report, EvD and IAD and others, that is a major deficiency in the Bank's strategic planning.</p>

The SIP is not meaningfully integrated with other key elements of the planning architecture, including the country and sector strategies, confirming other EvD findings. Regarding integration of the Bank's strategic planning, the SIP is not "the middle link" between institutional objectives and operations. As highlighted by the majority of Board members who responded to the online survey, in terms of the wording the SIP seems integrated with other strategic documents, but it lacks a true integration (budget implications) of strategies and initiatives with the different SCF priorities, Bank policies and country strategies. Meaningful links to thematic initiatives are missing or only available when additional resources are needed to implement such an initiative. No formal links exist between the ambition of the SIP and the country strategies. Targets set at the country strategy-level remain disconnected and not specific enough to serve as an input to SIP investment activity projections.⁶ In addition, Recently, in preparation to the MOPAN assessment to be conducted in 2022, Management confirmed, indeed, that, due to its primarily private sector driven and bottom-up project based business model, the EBRD is less able to plan (e.g. in country strategies) the level and specificity of its operations in a country (or region) over a long period. Management also confirmed that "use of the SCF and SIP could provide indicative insights into planning processes, but these involve degrees of interpretation."

Figure 3: The EBRD strategic planning architecture



The majority of Board members who responded to the EvD online survey found that "in the latest SIP (2020-22), a link on the relation between SIP and other strategic documents (SCF, CS, CSDR) was introduced, but remains at a theoretical level without any impact on operational objectives of

⁶ The SIP is to some extent connected to the transition quality of projects via aggregate ETI/PTI measures in the corporate scorecard but it does not have a clear link to the 'middle level country strategies and their results frameworks'.

the SIP.” Also, it remains unclear to what extent the last two SCF1 SIPs (SIP4 2019-2021 and SIP5 2020-2022) took into account the main findings of the 2019 Strategic Review. The review was undertaken at the Board’s request in the wake of a mid-term review of the Bank’s performance against the SCF2016-2020 objectives. This review found that whilst the Bank was broadly on track to deliver against those goals, growth in the Bank’s portfolio – and particularly operating assets – was stagnant.

40. **The SIP production process is not documented and lacks of a transparent information management system (i.e. to keep track of Board’s requests and clarifications).** That is a complex and labour-intensive process (Figure 4): More than 10 units work intensively on the preparation of the SIPs; VP Finance currently “holds the pen” on the SIP, the MD Financial Strategy & Planning being responsible and VP CFO accountable. Overall, the annual SIP process involves extensive dialogue between senior management, planning and delivery units, and the bulk of preparatory work takes place between June and November, ready for submission to the Board in December. However, this review found that the process is quite “fluid”, not regulated by a transparent production process map nor supported by an IT-enabled platform, including adequate information repository and data management. Therefore, the lack of means to extract and use internal “implicit” knowledge negatively impact the overall SIP preparation process; for example, the focal point in charge of collecting and consolidating the broad range of contributions changes every year.

Figure 4: SIP 2020-2022 Roles and Responsibilities

Strategy Implementation Plan 2020-2022: Draft Outline				17/05/2021
Table of Contents		Brief outline		
Preface	President's Recommendation	Shortened compared to last year, including clear ask for Board approvals		
	Executive Summary	In lieu of separate 6 page SIP produced for Governor's last year		
Part 1	Section 1 Introduction - Setting the Context	Brief synopsis of strategic documents and how they sit together		
	1.1 Defining Strategic Directions	• SCF & MTD • Country Strategies • SIP (explaining the four elements: TI, Operations, Financial Sust., Resources)	Corporate Strategy, Finance, CSRM	
	1.2 Outlook for 2020	Setting SIP into a 2020 context (i.e. macroeconomic outlook, incl. growth, GVCs/FDI, monetary policy) + identifying 2-3 trends that may impact the SIP for the next three years with focus on 2020 (political/geopolitical [e.g. trade tensions], technological change, populism - in line with SCF)	OCE	
Part 2	Section 2 Monitoring Performance & Setting 2020 Scorecard Parameters	(1) SCF: Description of the six control parameters in the SCF + Performance evaluation • Transition parameters • Capital parameters • Resource parameters (2) Country Strategies: Transition Objectives (TO) (3) Strategic Portfolio Assessment (on where we stand on portfolio) (4) SIP: Presentation of Corporate Scorecard and reference to other sections (in green) for how we arrive at 2020 targets	Corporate Strategy, Finance, CSRM	
	Section 3 Achieving Transition	2020 Transition Impact Scorecard Parameters	One - page existing listing of the TQ targets of 75%	CSRM
	Section 4 Defining Operational Activity	3.1 Investment activity	• Agreed to keep the current flow of the section (i.e. with assumptions prominently based within the text) • Option 1: Keep flow as is, i.e. - Assumptions #1 => ABI and # projects table - Assumptions #2 => disbursements table - Assumptions #3 => portfolio reflows table - Assumptions #4 => portfolio and operating assets + illustrative regional PF composition table • Option 2: Present Option 1 in a GDP growth like flow/stock chart	OSP
Part 3	Section 5 Maintaining Financial Sustainability	5.1 Introduction	• Three pillars of financial sustainability (Brief overview of three pillars of financial sustainability (profitability, liquidity, capital) + their objectives) • Overview of financial policies at a glance	FSA
	Innovation (Tbd): one page summary of key outcomes of the three sections (profitability, capital, liquidity, with key messages as headers and supported by appropriate visuals)			
	5.2 Profitability			FSA
	5.3 Capital (incl. financial resilience & Risk App.)			FSA
	5.4 Liquidity & Borrowing proposal			FSA
	5.5 2020 Financial Scorecard Parameters	Forecast for 2020 of Corporate scorecard financial objectives		FSA
	Section 6 Resourcing the Bank's Activities: 2020 Budget Proposal	6.1 Rationale for proposal		BUDGET
	6.2 2020 Administrative expense budget at a Glance	• Stating the actual 2020 administrative expense budget for easy overview of what the Board is asked to approve		BUDGET
	6.3 2020 Budget - Key movements & Reallocations	• Understanding key movements in the 2020 budget versus 2020 • Highlighting any major reallocations		BUDGET
	6.4 2020 Resource Scorecard Parameters			BUDGET
Appendix	Section 7 Developing Human Capital	7.1 Workforce overview		HR
	7.2 People Plan	What's been achieved in 2019		HR
	7.3 Preparing for the Future	Description of on-going efforts to understand current workforce vs future skills and how to close the Bank's present vs future skills gap (with reference to SCF part)		HR
Appendix	Appendix A Definitions	List of all definitions used throughout document		FIN FO
	Appendix B Methodology	Lists formulas, elaborates on methodology if useful (e.g. RAROC, RORC)		FIN FO
	Appendix C Budget level disclosures	TBD - move detailed budget data into the appendix		

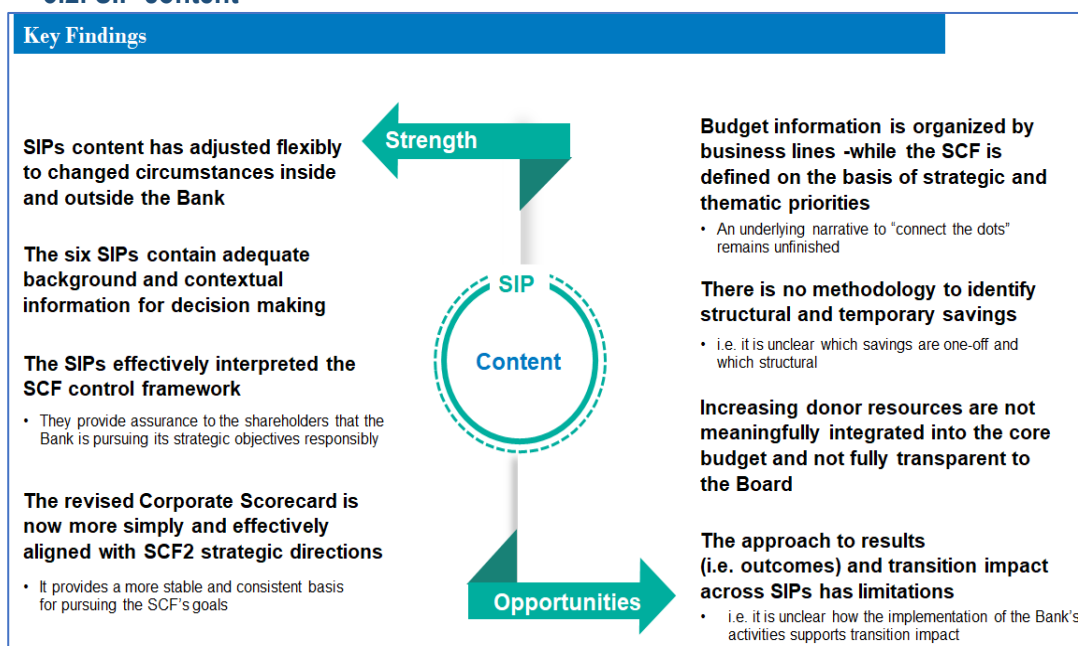
Finally, this review confirms that the governance of the SIP is regulated by a rigorous interpretation of the AEBs. An EvD stocktaking of other IFIs’ practice shows that the Board of Directors is called on to approve

the “Business Plan” in its entirety; in this sense, the EBRD is an exception: in accordance with the AEBs the Directors’ approval is sought only for the budget and not the business plan. Management and this review concurs that the existing governance is effective from a practical perspective: *“the SIP is Management’s narrative on how the following years’ business plans should be delivered and it is not fully subscribed at a detailed level by every single one of the 71 shareholders; it is endorsed at high level to give enough comfort for the shareholders to support the budget.”*

Box 5: Governance of the SIP

- SIPs are not approved “in entirety” by the Board nor unanimously. The President’s Recommendation asked for Board approval of the corporate scorecard and the budget. FOPC and BAAC discussions focussed principally on the items that the Board is asked to approve. Therefore, the SIP is not approved in its entirety as intended.
- EvD’s review of Board, FOPC and BAAC minutes indicates that the SIP-related discussions focused on the items that the Board is formally asked to approve rather than the whole business plan. It is also relevant that SIP approval is not based on a full consensus, which means it may not be a good reflection of the aspiration of all shareholders.
- However, the Board has always approved the budget in accordance with the AEB; and only started approving the scorecard in the last years. Management highlights to this review that it is in accordance with the Governance of the Bank and also appropriate from a governance perspective.

3.2. SIP content



41. The SIP structure and content have evolved mostly by the addition of sections that were necessary to develop and explain new aspects of the Bank’s business; new sections have been added every year (Table 3). The two most recent SIPs include greater clarity on trade-offs in the balanced portfolio approach; better explanation of the constraints to doing more equity business; better explanation of the drivers of developments in statutory capital utilisation; clarification around the issue of underperforming countries instead of bundling these by using a sectoral lens for reporting; and improvements to the budget regarding carry-over costs from the previous year and the different forms of

staff costs. However, there was not always an explanation as to why these changes were made and whether they addressed Board concerns.

Table 3: Evolution of the SIP structure and content

SIP	Main changes
SIP for 2016-18 [SIP1]	<ul style="list-style-type: none"> Section I.4 adapted to “Equipping the Bank for delivery” – including: Challenges of delivery, managing flexibility, strengthening institutional capacity, modernising the Bank’s infrastructure
SIP for 2017-19 [SIP2]	<ul style="list-style-type: none"> New subsections on the evolution of the cost-to-income ratio, Limitations of the parameter New section on operational effectiveness and efficiency
SIP for 2018-20 [SIP3]	<ul style="list-style-type: none"> New subsection on the basis for the 2018 administrative expense budget
SIP for 2019-21 [SIP4]	<ul style="list-style-type: none"> SCF2016-20: Core objectives and assessment Strategic review for optimising the Bank’s activity Strategic fit with SCF geographical priorities Administrative expense budget by expense line Departmental budgets New section on resourcing - rationale for the proposal, resource reallocations, the medium-term profile, the Bank’s workforce (workforce overview, the people plan, priorities for 2019)
SIP for 2020-22 [SIP5]	<ul style="list-style-type: none"> Incorporation of an extremely helpful executive summary and other improvements, including a recap of SCF2 priorities and info graph illustrating the Bank’ strategic architecture Separate sections for resourcing and developing the Bank’s people New subsections in Achieving Transition Country strategy objective by quality Intensifying the Bank’s policy engagement
SIP for 2021-2023 [SIP6]	<ul style="list-style-type: none"> Introduction of a series of Committee discussions on budget ‘cornerstones’ and on Compensation and Benefits elements; and an expectation that the approach can be replicated in future years; Greater clarity upfront on relevant inflation data, on the calculation of inflation applicable for RO salary increases, and on impacts of foreign exchange on RO reward and inflation; Requests for greater clarity and transparency in future years on savings and reallocations achieved during the year; on the gross resource needs and the net needs following such reallocations; and for savings and the needs to be presented for the whole budget not only in relation to incremental activities/resources; Assessment of the implications of the recently revised credit outlook for the Bank from stable to negative, while affirming the Bank’s AAA-rating, by Fitch rating agency; management’s offer to hold a Board Information Session on the topic before year end 2020.

42. **The six SIPs produced so far contain adequate background and contextual information for decision making and have effectively interpreted the SCF control framework.** There is evidence that over the strategic period the SIP has been consistently built on the control framework parameters set in the SCF. The six SIPs produced so far effectively interpreted the SCF control framework (Table 4) in order to translate the SCF priorities into more detailed operational plans over the short to medium term. The control parameters established in the SCF focus on the Bank’s mandate and its financial sustainability, and they

provide the framework within which the SCF's strategic orientations will be implemented. The parameters set minimum acceptable levels of Bank impact through projects, maximum permissible levels of capital utilisation and maximum levels of specific resource measures.

Table 4: The control parameters (and targets) for SCF2016-2020 and SCF2021-2025

	Control level (SCF 2020)	Control level (SCF 2025)	Corp. Score. Target (2020)	Corp. Score. Target (2021)	2018	2019	2020 (est.)	2021 (proj.)
TRANSITION Parameters								
ETI - Expected Transition Impact	>60	>60	>63	63-67	66.7	66.4	66.2	>60
PTI - Portfolio Transition Impact	>65	>65	>63	Min 67	70.1	70.9	70.6	>65
CAPITAL Parameters								
Statutory capital utilisation	<92%	<92%	<92%	<92	73 %	76 %	81 %	83 %
Capital Adequacy utilisation	<90%	<90%	<90%	<90	67 %	66 %	65 %	67 %
RESOURCE Parameters								
OLD Cost-to-income Ratio	<50%	<50%	<50%	N/A				
NEW Cost-to-debt income Ratio	<70%	<70%	N/A	Max 55.4%	54 %	54 %	52 %	53 %
Staff Cost to Total Cost Ratio (5 year average)	<70%	<70%	<70%	Tracked	66 %	67 %	67 %	68 %

- Transition parameters - ETI is the Bank's internal means of assessing the potential effectiveness of a project. It combines the potential strength of a project's impact with an assessment of the risk that the impact may not be achieved.
 - An average ETI is set at 60 and represents projects that address a clear transition gap, in a significant way, in a challenging business environment and are rated 'good'. Setting a floor at this level in the control framework means that – at a minimum – the Bank will undertake projects that address important needs in countries of operations. The Bank tracks the evolution of a project's ETI over its lifetime.
 - PTI is the average of the current ETI score of the active project portfolio. The level of ETI rises as the risks to delivery are reduced and managed by the Bank and transition benchmarks are achieved. The higher level of the control parameter for PTI at 65 reflects this expected pattern. The average level of portfolio transition impact (PTI) should exceed 65 at the end of each year of the SCF period. PTI is assessed during project implementation and rises or falls as benchmarks are passed. The experience and expectation is that there will be an increase in impact over time.
- Capital parameters - It is expected that the Bank will remain well-capitalised across the SCF period and maintain its triple-A credit rating, able to both support its investment activity and withstand shocks without requiring additional capital from shareholders. In line with this objective, the Bank will be managed such that:
 - Statutory capital utilisation will not exceed a ceiling of 92%; and

- Utilisation under the Bank's Capital Adequacy Policy will not exceed a ceiling of 90%.
- Resource parameters –
 - The annual ratio of costs to debt income below 70%. In the course of the SCF1 period, the measurement, control level and governance of the cost-to-income parameter was changed as set out in Governors' Resolution No. 207. As a result, the calculation of the cost-to-income ratio moved from an approach based on the Bank's realised income to one based on net profit (and measured on a five-year rolling average basis), increasing the transparency and coverage of the assessment.
 - This change introduced high levels of volatility; therefore, for SCF2025, it has been replaced with a ratio of total costs to debt income. This ratio follows a similar structure and purpose to the existing cost-to-income ratio, but importantly without the intrinsic volatility arising from the inclusion of equity income. The ratio of staff costs to total costs below 70% based on a five-year rolling average.

43. **The revised corporate scorecard is more effectively aligned with the SCF priorities.** The corporate scorecard records the aggregate transition impact, operational performance, financial performance, organisational performance and resource framework, for all investment projects, technical cooperation and policy dialogue initiatives across the Bank. It is reported annually to the Board, while the management scorecard is reported on a quarterly basis to the ExCom and departmental scorecards are assessed by Management as part of the annual performance review.

The corporate scorecard was introduced in 2001 to encapsulate the Bank's goals and provide an annual 'performance contract' between the Board and Management. In October 2020 the Board approved the revised corporate scorecard structure as a counterpart to its approval of the Bank's annual budget as required under Article 27 iv. The revised corporate scorecard (Table 5) approved by the Board of Directors in its last meeting of 2020 on 13 December, includes some important changes:

Table 5: Corporate Scorecard 2021

TRANSITION IMPACT		FINANCIAL	
Average Expected Transition Impact	63-67	Return on Required Capital (3 year rolling average)	Min 3.5%
Average Portfolio Transition Impact	Min 67	Debt Return on Required Capital before Costs	10.3%
Transition Qualities		INSTITUTIONAL	
Competitive, innovative economies	CPA	Productivity (number of operations based)	1.5-1.7
Well-governed economies and firms	Very good/	Cost to Debt Income Ratio	Max 55.4%
Environmentally sustainable, green	Good/	Staff Engagement Ratio	tracked
Inclusive, Gender-equal economies	Requires		
Resilient economies and firms	Attention		
Well-integrated, connected markets			
Green Economy Transition (share of ABI)	30 – 38%	RESOURCE FRAMEWORK	
Gender-tagged Operations (share projects)	Min 18%	EXPENDITURE	
OPERATIONAL		Core Administrative Expense Budget	
Number of Operations	395-425	Euro (million)	443.6
Annual Bank Investment (€ billion)	9.8 – 10.8	Pound Sterling (million)	396.0
Annual Mobilised Investment (€ billion)	Min 1.2		
Disbursements (€ billion)	7.0 – 8.0		
Private Sector Share (share of ABI)	Min 75%		
Activity in Early Transition Countries, Western Balkans and SEMED (share ABI)	Min 48%		

- It sets targets for: 1) reinforcing the Bank's private sector DNA by setting a minimum level for the private sector share in ABI to 75% for the SCF period; 2) strengthening gender mainstreaming by having a target for the share of projects with a gender SMART tag; 3) increasing support for

countries less advanced in transition with a commitment year on year to raise the share of ABI in Early Transition Countries, Western Balkans and SEMED; 4) ensuring financial sustainability with an annual target for the level of the return on capital deployed in debt operations and 5) maintaining cost efficiency through setting a maximum share for the ratio of the Bank's costs to its debt income.

- It sets a target range for annual mobilised investment (AMI), but the definition of AMI has been revised to reflect the growing imperative to promote the flow of private capital into countries of operations to support transition. As the Bank prepares a new Mobilisation Approach paper for discussion with the Board this year, the definition may continue to evolve⁷.
- It will include a new composite measure on operational risk in 2022, for assessing progress in addressing the challenges in this area. These new measure will supplement the tried and tested elements already in the scorecard for measuring transition impact, operations, financial performance and institutional issues.

Despite these recent improvements, deriving a solid narrative from the results in the Scorecard remains a difficult undertaking; the SIP lacks meaningful discussion on the ambition of the targets set and how the 24 indicators are interlinked; each indicator is estimated and analysed "in isolation".

Furthermore, the Scorecard retains six composite performance assessments, CPAs (Box 6), which are measures representing each TQ through a set of indicators and some narrative, including 'qualitative highlights.' Some aspects of CPA remain unclear, including:

- **Methodology:**
 - Unbalanced number of indicators under each TQ (Inclusive – 7; Resilient 6, Integrated – 4, Green – 7, Well-governed – 3, Competitive – 5)
 - Lack of consistency in the typology of indicators between and within each TQ – output/outcome, quantitate vs qualitative
 - Lack of consistency in the use of weights particularly under Well-governed transition quality
 - Differences in the data quality between system generated vs. manually collected indicators

Box 6: Composite Performance Assessment of Transition Qualities

- **Composite Performance Assessment of Transition Qualities is a qualitative "traffic light" assessment of the performance of the Bank's engagements (investments and policy) targeting a given transition quality based on a set of indicators set at the corporate scorecard.**
- The overall Composite Performance Assessment (CPA), conducted annually, has three value/categories: "Very Good", "Good" and "Requires Attention".
- These are generated as follows:
 - For each transition quality, the scorecard includes three to seven key quantitative performance and results indicators related to investments and one qualitative component related to the policy engagements. For each indicator the rolling three year average figure in a given year is compared to the average of the same figure for at least the past four years, using 95% and 75% as thresholds.

⁷ Upon Board request, EvD prepared a note setting out key issues, conceptual options, and considerations on how indicators for mobilisation may be selected and defined (Annex 2).

- If the rolling three-year average figure of an indicator in a given year is larger than 95% of the threshold (for the four-year average), the indicator is assessed as “strong” and correspondingly has a numeric assessment score of “3”; if the rolling three-year figure of an indicator is smaller than the 75% threshold, the indicator is assessed as “weak” and correspondingly has a numeric assessment score of “1”; otherwise, it is assigned as “fair” and has a numeric assessment score of “2”.
- The average numeric assessment score of all the indicators under each transition quality is compared with two thresholds, 2.85 and 2.25. If the average numeric assessment score is larger than 2.85, the overall CPA of that transition quality would be “Very Good”; if the average score is smaller than 2.25, the overall CPA would be “Requires Attention”; otherwise, it would be “Good”.

(Source: Data Governance Navigator)

- **High degree of latitude;** the CPAs include arbitrary highlights of the projects and instruments implemented, for example, over the years, only one TQ, Green, has just recently dropped from the usual rating of good-very good (Table 6).

Table 6: Ratings of the transition qualities by year (end-2020)

Transition Quality (Very Good; Good; Requires Attention)	2017	2018	2019	2020
CPA 1 – Competitive	Good	Good	Good	Good
CPA 2 – Green	Very Good	Good	Very Good	Requires Attention
CPA 3 – Well-governed	Good	Good	Good	Good
CPA 4 – Integrated	Good	Good	Good	Good
CPA 5 – Resilient	Good	Good	Very good	Very good
CPA 6 – Inclusive	Very Good	Good	Very Good	Very good

In red: no (or limited) changes over the years

44. **The SIP treatment of transition impact and, more broadly, outcomes stemming from EBRD operations, has severe limitations, including a lack of discussion on the ambition of the ETI/PTI target.** The aggregation of ETI from the project level is not meaningfully linked to implementation at the level of strategic objectives. The current approach to transition impact at corporate level does not provide meaningful information on the quality of portfolio implementation against the strategic objectives of the Bank.

- **Since 2017 ETI/PTI have remained almost static with only a limited movement of scores;** but the SIPs do not offer any meaningful discussion nor do they provide any justification of this flat trend (Fig 5 & 6)⁸.

⁸ **Operational changes to TIMS/TOMS could have an impact on the movements in the ETI averages.** The calculation of TI scores prior to the introduction of TOMS in mid-2016 was based on the ETI matrix components of TI impact and TI risk. TOMS introduction removed this matrix and it is argued that the TI risk components are incorporated in the TOMS Question and Answers through Project Christopher. It remains an open question as to what was the impact of such operational change in deriving TI scores for the Bank’s portfolio

Figure 5: AVG ETI 2010-2020

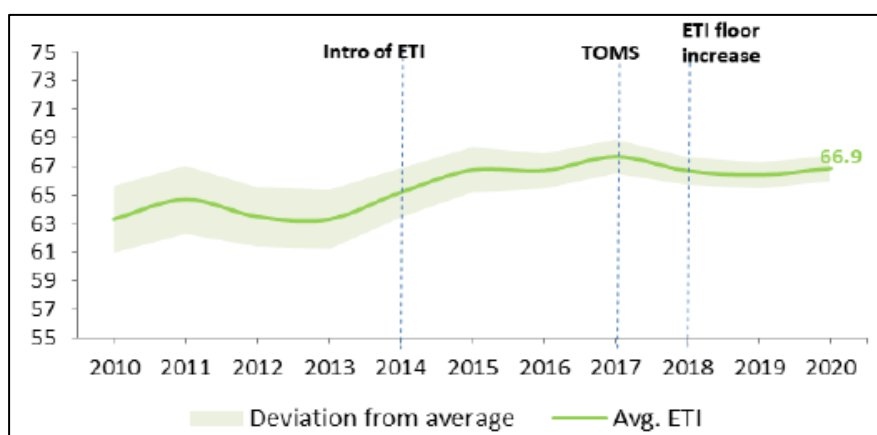
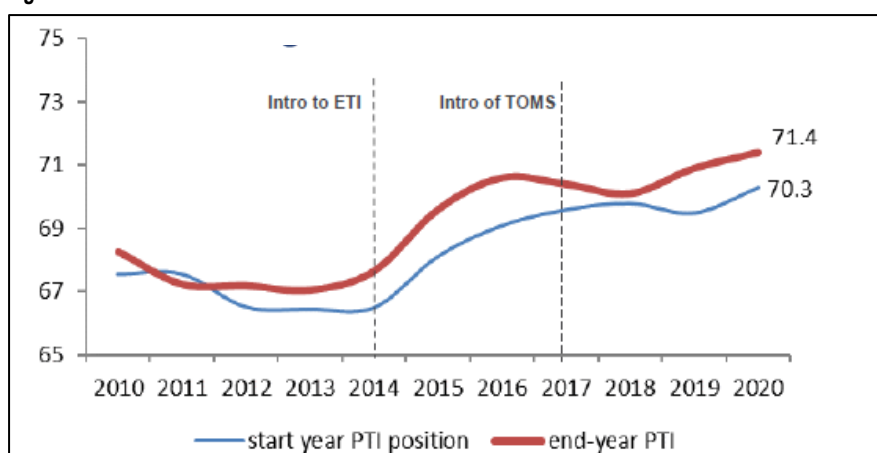


Figure 6: AVG PTI 2010-2020



Source: ARTP 2020, s. 20.

- The SIP does not discuss the transition impact of activities that are not TI-rated on their own (i.e. stand-alone policy engagements, or advisory for small businesses), and lack focus on transition impact stemming from EBRD policy dialogue initiatives.
- There is no analysis on the portfolio level considerations, such as reaching a critical mass of investments for the achievement of transition objectives, or any synergies between different types of instruments that were proposed in the country strategy; and
- There is lack of “impact intensity” information; ETI/PTI are not “weighted” based on the volume invested. Neither the size of the transaction nor the envisaged timeframe of the financial/operational completion are elements that TOMS utilises to assess transition⁹ (SGS18-238 and SGS17-114). This may be due to the fact that transition concept reviews claim that transition accounting (computing transition targeted and achieved per EURO) is not possible and second, the Bank typically considers long tenors as part of additionality and transition-positive – particularly for the Resilience TQ. Thus, the Bank does not consider time a cost to achieving transition.

⁹ The ex-ante assessment (TOMS) consists of several components. These include: 1) screening of project compliance with selected Bank policies (refinancing, subsidy, state ownership, anti-competitive practices and derogations from Bank policies, etc.); and 2) assessment of alignment with country strategy objectives and (iii) assessment of project-level transition objectives.

45. Across the SIPs, integration between the business plan and the budget is clearly lacking.

The Board members that responded to the EvD online survey seem to agree with these conclusions; nearly 90% of respondents replied negatively to the statement that the SIP allows the identification of the most pressing issues and ways to address them. EvD analysis confirmed the Board's perception that the SIP lacks an operational balance between the need for strategic focus/prioritisation and delivery of transition results, and the challenges presented by the Bank's demand-driven business model. In addition, the geographical composition of the ABI among different regions/countries of operations lacks transparency and is not driven by transition impact demand directed to closing "the transition gaps".

The SIP business plan falls short in illustrating how resources are connected with activities that are then connected to medium-term strategic goals and does not provide an essential discussion about trade-offs and choices. Across the SIPs there is, indeed, limited analysis on the trade-offs of pursuing one area over another, i.e. are multiple strategic priorities compatible or in conflict (Covid-19 crisis response and Green Agenda). Furthermore, the Budget does not include any discussion of opportunity cost from limiting increases, nor does it include proposals for what could be achieved from providing more resources.

46. SIP budget information is organised by business lines, while the SCF is defined on the basis of strategic and thematic priorities: the underlying narrative to "connect the dots" remains unfinished.

The review found that the presentation of the budget information has significantly improved over the years, both in terms of quality and transparency, though there are still areas for further work. The five SCF1 SIPs include a presentation on budget changes (upwards and downwards) but there was no synthesis of the causes for the movements, with the single exception of SIP2020; which also clearly reports what the component of carry-over costs is. The two most recent SIPs provided also some information on how some of the Bank's strategies affect the budget. However, despite significant improvements, the budget overall is still organised along "business lines", rather than strategic and thematic priorities. Management have been asked to provide an explanation about this choice rather than a more-results oriented budgeting approach. It has been thus confirmed that to this review that the *"the current allocation of the budget is the only view available for reporting and data presentation purposes"*. Management also informed that *"there is an ambition to overlay the current view with cost allocations per activity. This is a medium term project that was scheduled to start in 2020, but put on hold (deprioritised due to workload). Until progress on this initiative (which may also have an IT enablement component) is achieved, the presentation of the budget data/reporting will have to follow what is available in the system (functional view)"*.

EvD undertook a light stocktaking of other IFIs strategic instruments (Annex 3); for example, the WB/IFC focuses the budget presentation on results and outcomes (Box 7), and the Gates Foundation puts forward that an important component of catalytic philanthropy is the development of robust and flexible strategies. The Gates Foundation has adopted a strategy lifecycle which recognizes the magnitude of the problems tackled and offers a structure to develop strategy, allocate resources, implement grant-making, capture and share data on progress, and, on an annual basis, and reflect on lessons learned and course correct as needed. In a nutshell, best practices among other IFIs include:

- Articulation of the causal pathway to impact; outline the investments and programmatic activities aligned with that pathway;
- Measurement of the results of these investments and activities over time;
- Adjustments based on results, experience, and lessons learned as part of a continuous cycle.

Box 7: The IFC approach links budget and business plan "to create markets"

- Every year the IFC prepares a three-year rolling Strategy and Business Outlook driven by objectives and reporting on "Improvements delivered", meaningful progress made, not only

in launching new tools and approaches but integrating them to change the way that it does business.

- The budget paper is directly linked to the Strategy & Business Outlook (SBO) approved by the Board earlier in the year (the SBO includes a preview of the budget).
- The equivalent of the SIP, being IFC 3.0, tries to address the issue of a demand- versus strategy-driven approach.
- In a nutshell, IFC 3.0 is about being proactive, not reactive.
 1. The reactive approach of the past is characterised as – “our historic approaches, IFC 1.0 and 2.0, which focus on finding the best opportunities to serve our client countries by providing advice and financing to mobilize private sector solutions to their development challenges”.
 2. The changed proactive approach is stated as follows – “We are committed not just to financing projects but also to creating markets” — and mobilising private capital at significant scale, with greater focus on the poorest and fragile and conflict-affected countries.
- The intent is not to wait for projects to turn up or just go hunting for projects, but to do the necessary to create a pipeline of project opportunities. The ‘necessary’ includes policy dialogue work between IFC and other WB staff.
- This proactive approach is therefore called upstream approach. IFC has committed 515 FTEs to this work by FY21 of whom 300 are fulltime.
- In addition, the IFC Management made a very serious commitment to efficiency gains when the Capital Increase Package was negotiated. This package has a 10-year horizon (FY19-FY30), allowing the IFC to stretch the commitments, moving some of the more serious ones towards the end of the period.

47. **Information about the assumptions underlying annual budget increases and cost savings is limited, i.e. structural vis-a-vis temporary savings and calculation of inflation applicable for resident office salary increase.** Every SIP document includes a section on reallocations, however, in earlier years most of the reallocations reported were within Banking. In recent SIP documents there are references to reallocations in other functions or across functions, (BDS15-230 (F)/page 72/A.3&A.4 and page 39 paragraph starting with “Internal reallocations in Banking”; BDS16-190 (F)/page 66/Table 8.5 and page 70 on Banking reallocations; BDS17-148 (F)/page 58/ Table 8.6 point f, g, h and page 59 section on reallocations in Banking; BDS18-160 (F)/page 49/Table 8.3 under point d and section 8.3 on resource reallocations). However, this review did not find clear information across the six SIPs about which savings are one-off, such as those related to exchange rates, and which are more structural.

48. **In addition, there is an overall lack of clarity on relevant inflation data, and on the calculation of inflation applicable for resident office salary increases, and the impact of foreign exchange on resident office reward and inflation.** For what concerns the ROs, developing economies tend to grow faster, have faster salary growth, and in some RO locations there are volatile economic dynamics at play. RO salaries grow faster than HQ due to higher inflation, ongoing wage convergence (as salaries increase and become ‘international’) as well as market pressure associated with demand for ‘international’ multilingual staff. The average RO market growth is 6-7% and therefore with a 4.55% pool increase most staff will see lower growth than in the market. This question was discussed with the Board last year and HR has an action to go back with clarifications.

49. **This review highlighted the issue related to the lack of data on the vacancy rate and headcount;** since 2015 there has been no headcount control at the Board level and the SIP documents do not include staffing or headcount details. The number of budgeted positions with the historic data in the BAAC presentations is included in the SIPs (e.g. BDS19-169 (Addendum 3) page 37). Separately, HR provides staffing data (actual) on Board Online Information (BOI).

50. **Interestingly, the budget envelope has not substantially changed, regardless of the rationale for Management requests which fall consistently between +0% and +2% of the CPI.** The rationale of using the CPI itself may be questionable:

- **SIP 2020-2022 (SIP5):** Medical cost inflation is significant for the EBRD, leading to overall price impacts higher than the weighted-average CPI used for the real growth calculations. Price impacts on the overall EBRD budget have been estimated at 3.0% based on the following components: (1) Bank-specific price impacts on staff costs including compensation and benefits adjustments approved by the Board and price increases impacting medical costs, (2) foreign exchange impacts related to non-GBP costs and (3) general price inflation, UK CPI, applied to the non-staff cost and centrally managed budgets.
- **SIP 2021-2023 (SIP6):** UK inflation at year-end is 0.9% CPI and 1.1% RPI, and yet Management used August 2020 inflation when UK CPI was 0.2%. Therefore, most staff in April 2021 has received below inflation salary increases, which for many could be perceived as a pay freeze.

51. **Donor resource management is not fully transparent yet;** although the Bank relies increasingly upon donor resources for core operational work, the SIPs do not provide exhaustive information regarding the use of donor fees. It is unclear what specific activities are funded by donor fees and the overall decision-making for SIP. In addition, donor funded resource prioritisation is not spelt out. The overall governance process for allocating donor management fees remains unclear and there is some lack of transparency in the reporting on the number of resources/costs funded by donor fees.

Management recognised¹⁰ the need to increase transparency regarding costs charged to donor fees and to include them within the Bank's administrative budget. *"There is an urgent need to enhance governance to ensure that costs are charged consistently to donor fee income, reflecting donor requirements and within the budget discipline of the SIP process. Management has committed to undertake a full review of the donor fee policy in 2021".*

52. **The uptake of lessons in the SIPs is limited; the SIPs do not provide any specific information or qualitative narrative about what has been achieved and what has not.** Evidence shows that the six SIPs produced so far do not actually provide any rationale or explanations of the reasons and drivers of either success or failure. For example, for what concerns the SFC 2016-2022 priority 6, establishing significant, structured policy dialogue capacity, the initial SIP established targets, but later SIPs did not provide follow up on how the targets had been achieved. There was a good presentation of this cross-cutting issue at the country level but no analysis of what it meant. SIP2020-2022 included a useful 'Country Strategy Objective by Quality' table (count of objective, including policy component), but it didn't discuss the important findings emerging from the review of the data.

¹⁰ FOPC meeting held on Nov 5-11-2020

4. Issues and suggestions for further consideration

Issues for Consideration	For discussion with Management on how to further improve the operationalisation of the SCF
	Integration of recently introduced improved SIP practices as a standard part of the SIP preparation process , including series of Committee discussions on budget 'cornerstones' and on compensation and benefits
	Improvement of transparency around the preparation process of the SIP (i.e. efficiency gains and savings) - clarification of the roles and institutional responsibilities, development of SIP knowledge management and lessons learned incorporation.
	Stronger linkage between SIP-business plan and SIP-budget through a more meaningful focus on results - both in terms of 1) presentation and narrative; and 2) alignment of the incentives set in the corporate scorecard (i.e. outcomes-oriented)
	External review ("fresh look") of the budget issues, including the development of a suitable results-based budgeting approach - enhanced understanding of the costs of the Bank's operations and what resources are necessary to achieve the SCF2025 priorities

53. **This review casts some light on issues regarding the SIP, its position and role in the Bank's strategic planning architecture and its effectiveness as a tool for planning and operationalising the SCF priorities.** While some issues are specific to the SIP itself, they are also in most cases inextricably linked to other key processes and systems that are in some cases still evolving, ranging from institutional strategic planning to the broad aspects of results management. Given the breadth, complexity and interlinkages of these observations, the paper identifies four broad issues for further consideration which are intended to contribute to a constructive dialogue.

54. SIP design/process:

- i. **Integration of good practices introduced during the preparation of SIP 2021-2023 as a standard part of the SIP preparation process**, i.e. series of Committee discussions on budget 'cornerstones' and on compensation and benefits elements to be fully and formally part of the SIP; and monitoring of systematic efficiency gains across the Bank with a clear and early indication of potential annual savings; this will support a culture of continuous review in order to maintain optimal resourcing.
- ii. **Improvement of transparency around the SIP preparation process, including clarification of the roles and institutional responsibilities, development of SIP knowledge management and incorporation of lessons learned**; i.e. Introduction of a transparent preparation process map and an information management system aimed at keeping track of lessons and issues that have been identified during earlier SIP preparation and how they would be addressed and reflected upon in future SIPs.

55. SIP content:

- iii. **Stronger linkage between the SIP-budget and the SIP-business plan, including alignment of the corporate scorecard, both in terms of presentation and narrative and as a decision-making tool**; i.e. include discussion around portfolio level considerations, such as reaching a critical mass of investments for the achievement of objectives, synergies between different types

of instruments and results expected by activities that are not TI-rated on their own, such as stand-alone policy engagements, or advisory for small businesses.

- iv. **External review (“fresh look”) of the budget issues, including the development of a suitable results-based budgeting approach which may enhance the understanding of the costs of the Bank’s operations and what resources are necessary to achieve the SCF2025 priorities;** i.e. develop a “complementary budget approach” along strategic or thematic lines, including, for example, policy dialogue work; RO activities and support; post-approval project monitoring and performance assessment; institutional learning and KM; skills development, etc.
- v. Other suggestions from this review include:
 - **Improved clarity and transparency on savings and reallocations achieved during the year, gross resource needs and net needs following reallocations;** i.e. harmonise the financial year with the calendar year and to present savings and needs for the whole budget and not only in relation to incremental activities/resources.
 - **Integration of donor resources into the core budgeting work, making them more transparent by clarifying what is funded by donor fees;** improve the financial management of donor fee income in the future SIPs and strengthen the link of donor fees to the administrative budget.
 - **Clear approach to inflation;** in future SIPs, include a transparent calculation of inflation applicable for RO salary increases, and of the impact of foreign exchange on RO reward and inflation.
 - **Assessment of salary increase distribution across bands, combined with a thorough assessment of staff skills.** That would enable a better understanding of potential internal staff skills reallocation and external recruitment and, more generally, what resources and skills would be necessary to achieve the SCF2 priorities (i.e. GET 2.1 and digitalisation).

Technical Note 1 – Analysis of the responses in EvD online Board survey

In 2020 EvD distributed a survey to Board members seeking their views on a set of propositions about the SIP, relating to its suitability for its purpose and not the proposals for scorecard figures and budget content contained in recent SIPs. Twelve over 23 Directors (October 2020) responded, agreeing that their responses could be circulated but with the names of respondents withheld. Accordingly, these responses are set out in table 7 below.

In the column headings of the table, “A” stands for Agreed including Strongly, “N” stands for Neutral or Not Applicable, and “D” stands for Disagree including Strongly.

Table 7: Board members survey results

Question	A	N	D	Reasons for disagreement (some abbreviated)
The SIP fulfils its purpose as effective tool for operational guidance.	4	4	4	SIP reflects operational reality rather than operational guidance (but some who agreed said the opposite)
The SIP provides an effective translation of SCF medium-term strategic objectives into clear, operationally relevant annual goals.	4	3	5	<p>The latest SIP documents have not encompassed goals related to the quality of the EBRD’s operational footprint.</p> <p>SCF provides sufficient direction.</p> <p>No reflection on the achievement of thematic objectives of the SCF, and only backward-looking assessment of activities according to transition qualities.</p> <p>No real translation of thematic objectives into annual goals. Only backward looking ... no analysis in respect of the way going forward, e.g. which transition quality to be enhanced by region.</p>
The structure of the SIP is organised to allow me to understand the objectives and what is necessary to achieve those objectives.	3	5	4	<p>As a proper operational document - one that incorporates not only quantitative goals but also qualitative elements - the SIP does not convey properly the operational goals and the actions that are necessary to achieve them.</p> <p>Objectives are set in the scorecard, not in the structure of the SIP. Unclear what is needed to achieve the objectives.</p> <p>The structure of the SIP is not organised to allow me to understand what is necessary to achieve those [scorecard] objectives.</p>
The SIP provides sufficient factual material and analysis to identify the most important issues and how they will be addressed as well as how its resources would be allocated at all levels (i.e. programme, instrument, country, region, strategic initiative).	3	2	7	<p>What the SIP is lacking is a way to better present, identify and prioritise the most important issues and how the EBRD proposes to address them in the forthcoming operational year.</p> <p>Only limited information available in terms of important issues and how they will be addressed, mainly focusing on staff resources. Allocation of resources at all levels is missing in the SIP, which is a problem, as the recent discussion on the IT budget has shown.</p> <p>No, the SIP does not provide sufficient factual material and almost no analysis to identify the most important issues and how they will be addressed as well as how its resources would be allocated at all levels.</p>
The SIP ensures an appropriate balance between, on the one hand, the need for strategic focus and prioritisation and delivery of	3	3	6	<p>The SIP document lacks prioritisation of the different challenges.</p> <p>Demand-driven business model is at the centre of the Bank's approach and prioritisation is secondary. Strategic focus therefore remains at very high level. Overall, not a balanced</p>

Question	A	N	D	Reasons for disagreement (some abbreviated)
clear transition results, and on the other the challenges presented by the Bank's demand-driven business model.				<p>approach. It would be good to have a discussion to see how a more balanced approach could be achieved without questioning the demand driven business model of the Bank.</p> <p>Prioritisation is too often seen as being secondary to the so-called Bank's demand-drivenness.</p>
The SIP is effectively integrated with other strategic documents (i.e. SCF, CS, CSDR) and initiatives (i.e. GET, ETC, LC2, Gender Equality, etc).	3	3	6	<p>The SIP is integrated in terms of the wording with other strategic documents, but it is lacking a real integration of strategies and initiatives with the different SCF priorities and Bank policies.</p> <p>In the latest SIP (2020-22), a link on the relation between SIP and other strategic documents (SCF, CS, CSDR) was introduced, but remains at a theoretical level without any impact on operational objectives of the SIP. Link to thematic initiatives is missing or only available when additional resources are needed for the implementation of such an initiative.</p> <p>This should be the case. In my view this was, however, not the case up to now.</p>
The level of ambition in the SIPs over the strategic period reflected well the aspiration of the Bank's shareholders.	3	6	3	<p>The SIP has incorporated in the last few years shareholder's ABI ambitions, but has been lacking a real integration of quality aspirations and major SCF thrusts.</p> <p>SIP is usually not approved based on consensus; therefore not a good reflection of the aspiration of shareholders.</p> <p>The SIP is a paper which is rarely accepted in consensus. Therefore, it would be exaggerated to say that it reflects well the aspiration of the Bank's shareholders.</p>

The three Board members who most consistently disagreed with the propositions in the survey gave as their reasons that they wanted a more forward-looking analysis of Bank operations. At the same time, they and several other respondents noted that if SIPs were to include firmer guidance about operational priorities, this could conflict with the Bank's demand-driven business model, and would be likely to accentuate differences between Board members over the relative priority of quantitative and qualitative objectives.

Technical Note 2 – Assessment of the EBRD Corporate Scorecard

Background and Summary

EvD's recent evaluation of EBRD Mobilisation of Private Finance recommended establishing target ranges for private mobilisation. The latest draft SCF affirms that both mobilisation and own account financing are essential to deliver transition impact (TI). The corporate scorecard provides a framework to operationalise SCF and SIP goals. This note sets out key issues, conceptual options, and considerations on how indicators for mobilisation may be selected and defined. It identifies critical distinctions necessary for proper scorecard construction. Importantly, the EBRD's own financing (debt and equity) is an output that can catalyse mobilisation of third-party private finance; mobilisation itself is an outcome. Revisions to the scorecard and its component indicators for mobilisation are suggested, along with a number of actions to strengthen the scorecard's support for mobilisation.

Key Points

- Scorecards help define strategic priorities and analyse trade-offs across customer demands, and an organisation's operating and investment costs, and financial capacity
- EBRD's draft scorecard targets do not adequately reflect SCF priorities and cannot be mapped well to country strategies or project-level selection
- There are opportunities to strengthen support for Transition Impact (TI) by defining new targets for mobilisation outcomes and categorising them as customer metrics rather than EBRD investment
- Mobilisation targets can reflect opportunities at the country level for EBRD to provide new outputs such as advice and guarantees, supported by own finance loans and equity investments
- Analysis of feasible mobilisation opportunities requires an assessment of available capacity to deliver these new outputs, and a methodology for incentivising staff to pursue own financing and mobilisation
- Expected requirements for EBRD capacity and staff provide a basis to forecast operating and investment costs and set targets for sustainable levels of finance
- Scorecard ex ante targets can be cascaded down to country strategies and operations and underpin project pricing, and monitoring and evaluation of actual portfolio TI performance using ex post data

The primary objective of the draft SCF is the achievement of TI, and it is underpinned by indicators for institutional and operational parameters and financial returns. The indicators for mobilisation have been categorised here by EVD as core or non-core. This classification reflects the importance of indicators for mobilisation and it does not represent a view on other goals under consideration by the Board such as GET and diversity. These core mobilisation indicators can be reviewed in the light of conceptual models such as the Balanced Scorecard (BSC) Methodology, and the scorecards used by other MDBs.

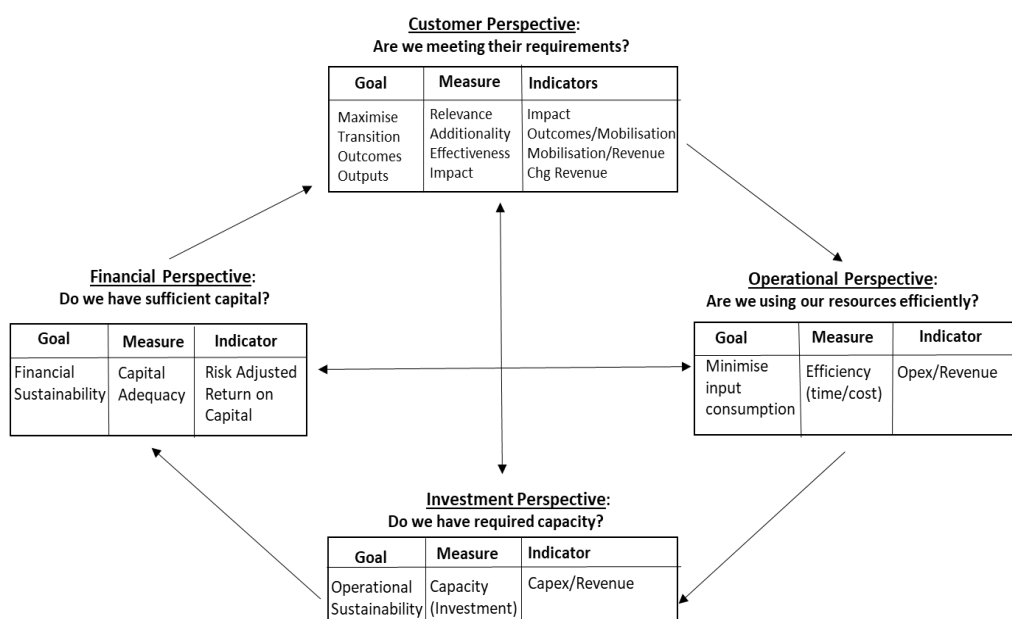
Table 8: Draft Corporate Scorecard

Priority	Measures	Indicators
Transition Impact:		
Core	- Average ETI	Minimum
	- ETI Quality	ETI quality Composite Performance Assessment (CPAs)
Non-Core	- GET	Target percentage of ABI
	- Projects on track	Projects on track Minimum percentage
	- Gender	Gender-tagged operations Minimum percentage of number of projects
Institutional:		
Core	- Cost to debt income ratio	Cost to debt income ratio Annual maximum percentage
Non-Core	- Staff engagement	Minimum
	- (Possibly) Operational Risk	To be defined
Operational:		
Core	- Number of operations Range	Number of operations- range
	- Total Investment € billion range	Total Investment € billion range
	- Annual Mobilised Investment (AMI)	AMI € billion minimum
	- Utilisation ratio	Target percentage
Non-Core	- Non sovereign share in ABI	Minimum percentage
	- Projects in priority regions	Target percentage of number of total projects
Financial:		
Core	- Return on required capital Minimum three-year average	Return on required capital (RORC) Minimum three-year average
	- Debt return on required capital before costs (DRRC)	DRRC before costs Annual target percentage

Source: EVD, based on Management Presentation to BAAC, 9 July, 2019

Constructing Corporate Scorecards – Basic Framework

The standard BSC template consists of four interdependent components that measure performance from different perspectives (Box 8). The indicators measure what is feasible in the market and what can be delivered by an organisation. Levels of indicators will reflect expected trade-offs between targets required to achieve desired levels of sustainable TI, relative to costs of operations, investment needs, and available finance.

Figure 7: Balanced Scorecard – Mobilisation Elements

Source: EVD

Box 8: Interdependent Perspectives in a BSC

- **Customer Perspective:** drives the scorecard by focussing on effectiveness - it differentiates between positive externalities such as TI, mobilisation (third party private investment) outcomes, and changes in own revenues from various financial outputs such as advice, guarantees, debt and equity. Indicators can include sub-metrics such as customer output accessibility, affordability, sustainability, and price.
- **Operational Perspective:** is mainly concerned with efficiency and uses indicators such as operating costs per unit of revenue.
- **Investment Perspective:** measures how much investment is required per unit of revenue to develop the capacity needed to achieve customer goals.
- **Financing Perspective:** the amount of capital required by the organisation to support customer service, operations and meet investment undertakings sustainably.

Source: EVD

In addition to providing a method for designing strategies, the BSC is a framework to define forward looking ex ante targets at the beginning of the period, which are compared to actual ex post results during the operating period as part of the monitoring and evaluation process.

Divergences between ex ante and ex post results provide information used to review assumptions and take corrective action to achieve or revise goals to ensure operations remain relevant over time.

Alternative MDB Versions of the BSC

IFC's BSC illustrates how it is addressing similar mobilisation issues to the EBRD:

- Customer perspective – measures impacts, and indicators for this goal fall in two categories:

- Development indicators, which provide benchmarks to measure creation of markets and they are disaggregated into:
 - ex post indicators such as Independent Evaluation Group (IEG) ratings for investment development outcomes and advisory development effectiveness; and
 - ex ante indicators for new investment projects;
- Client delivery indicators provide benchmarks such as volumes of Long Term Finance (similar to ABI, less trade finance), and Mobilisation Commitment, as measured by PDM.
- Operational Perspective – measures Efficiency and Diversity goals and indicators related to mobilisation fall into two categories:
 - a budget coverage ratio which reflects IFC's administrative budget as a percentage of its net loan and debt security interest and fees; and
 - median days from mandate to disbursement of funds.
- Financial perspective – measures Financial Sustainability goals and there are two categories of indicators:
 - the Risk Adjusted Return on Capital (RAROC) for IFC's debt portfolio; and
 - total return on IFC's equity portfolio compared to the MSCI Emerging Markets Index.

IFC's BSC classifies advisory revenues, lending, equity and mobilisation (PDM) as customer outputs. Importantly, there is no separate perspective for own investment, reducing the number of BSC perspectives from four to three.

Key Points

- EBRD's draft scorecard does not include customer outputs such as advice, guarantees, or equity
- There are no MDB mobilisation metrics such as PDM, PIM, or level of public sector grants
- Own financing is treated as an EBRD investment, rather than an output for customers
- Indicators such as such as number of projects, AMI and Utilisation are not clearly linked to TI or mobilisation
- RORC is based on a three-year rolling average, which is backward looking, slow moving indicator and it is primarily oriented to financial sustainability rather than mobilisation
- RORC three-year average could be supplemented with an annual RORC to improve responsiveness and quality of monitoring and evaluation of performance in the light of changes in current events
- RORC could be supplemented with responsive forward-looking metrics for primary drivers of mobilisation, consisting of non-sovereign debt (RAROC), and equity (IRR)

Comments on the EBRD's Draft Scorecard

The structure of the EBRD's draft scorecard (Table 8) broadly maps onto a BSC (Figure 7). TI is similar to "Customer Perspective", Institutional is similar to "Operational Perspective", Operational maps onto

“Investment Perspective”, and Financial reflects “Financial Perspective”. Offsetting this result, many of the draft indicators do not clearly reflect the EBRD’s mobilisation objectives.

EBRD Transition Impact = “Customer Perspective”

The scorecard flags expected TI (ETI) in the COOs as the primary SCF goal, using the six TI qualities approved in 2016. Prioritising TI is appropriate, but the focus on ETI seems narrow as it is an internal measure of ex ante project performance that does not reflect actual results, only expectations. There is no mention of Portfolio Transition Impact (PTI), which provides a measure of ex post results at the portfolio levels, and actual change in COOs. Ex ante targets for both ETI and PTI which could be compared with actual results during the SCF period would be strategically more useful and a better means of Board oversight. The customer perspective lacks contextual indicators within COOs on the investment climate, scale of investment opportunities, or quality and quantity of upstream advisory work. CPAs are composite measures that do not split out policy work from investment operations. There is no reference to mobilisation (PDM or private indirect investment (PIM)), or volume of EBRD outputs (advice, guarantees, loans, equity) relative to TI or SDGs. IFC addresses these concerns in their scorecard by developing ratings for investment development effectiveness, and advisory development effectiveness that are independently validated by IEG. These ratings reflect factors such as investment climate, and quality of policy engagement in COOs. Neither the EBRD nor IFC includes 3rd party grants in the customer perspective. However, a grant measure could provide clear information on drivers of mobilisation such as rates of leverage and subsidisation.

EBRD Institutional = “Operational Perspective”

The EBRD’s measures for institutional performance are similar to the operational metrics used by IFC. The main differences are the cost to income ratio, as the EBRD excludes revenues from non-debt sources, and it does not have a measure for disbursement. Management has proposed a cost to debt income ratio to control operating costs by linking them to debt income, as it is seen as a stable reference point. There is a risk this formula will prevent an increase in staff costs needed to provide advice and guarantees, even if the revenues from these new activities are largely provided on a cost recovery basis. Given this risk, it might be better to use a cost to EBRD total income ratio, or cost to EBRD total income ratio (excluding dividends).

EBRD Operational = “Investment Perspective”

It is not clear why the number of operations is included. Number of projects is a primary driver of operating costs and it appears to be a proxy for SME operations. If the objective were to ensure support to a minimum number of SMEs it would be more effective to include a SME customer output indicator that maps onto TI.

Total Investment is a new composite of ABI and a new measure of mobilisation, not yet defined. This indicator treats ABI and mobilisation as inputs; it mixes different types of EBRD revenues, making it difficult to measure their contribution to the EBRD’s mobilisation. It would be clearer if Total Investment was disaggregated into own finance and mobilisation components, which were both reclassified as customer indicators:

- Mobilisation outcomes: PDM and PIM; and
- Own finance outputs: Advice, guarantees, equity, ABI.

It can be argued that the Trade Facilitation Program (TFP) should not be included in the scorecard as a mobilisation metric because it is short term finance (STF) that does not directly support investment. TFP was created as a short-term guarantee to support trade in the face of low liquidity and high transaction costs, rather than support new investment. TFP now has both guarantees and credit lines with tenors of

three and five years respectively. This long-term focus indicates TFP has both a liquidity and investment focus. TFP plays a role in mobilisation, but is distinctly different from long-term finance (LTF) elements of ABI. These considerations suggest TFP is retained in the BSC, but defined as a separate STF category, alongside LTF.

Management proposes replacing PDM and PIM with a new indicator for mobilisation that will form part of the Total Investment indicator. As a general principle, it is preferable to use indicators that measure private investment catalysed by the EBRD, which are understood by stakeholders such as providers of grant funding for mobilisation, are comparable across other MDBs, and can be easily calculated. PDM and PIM meet these criteria and are fit for purpose; management does not need to create new metrics for mobilisation.

AMI is an old metric that does not map onto any EBRD TI or mobilisation objectives. It shows volumes of EBRD revenue from B Loans, public sector grant funds managed by the EBRD, and asset sales using unfunded risk participations (URPs). It would be clearer, if AMI was unbundled, the B Loans reclassified as PDM, and Grants classified as a separate customer output category. URPs do not require a specific target in the scorecard as asset sales are reflected in levels of LTF and STF.

Utilisation Ratio is new and it appears to be a de facto replacement for ABI. In the past, the EBRD's ABI volume targets were based on expected utilisation of available capital and historical lending volumes, rather than top down analyses of demand linked to country strategies. Management has indicated the introduction of the Utilisation Ratio would provide incentives for staff to improve disbursement. As discussed previously there is a strong case for treating ABI and its components LTF and STF as specific customer outputs, rather than using an indirect measure such as a percentage of capital utilisation that duplicates the ABI component in Total Investment.

The Utilisation ratio creates risks staff will be incentivised to consume the EBRD's capital for capital's sake, and discourages use of low capital intensity outputs such as advice and guarantees. Where low disbursement is a risk, the definition of an operating metric that directly measures disbursements, along the lines of the operating target in the IFC scorecard would be more effective. This disbursement ratio can potentially be disaggregated for debt and equity to increase clarity.

EBRD Financial = "Financial Perspective"

RORC is already included in the current EBRD scorecard. RORC is calculated at the portfolio level, using a three-year rolling average. RORC includes returns on the whole of the EBRD's portfolio, including equity and debt, and support functions such as treasury operations. The comprehensiveness of RORC makes it an important measure of financial sustainability. The main disadvantage of RORC is its unresponsiveness to change due to the use of the rolling average. Management has indicated it calculates RORC on this basis as equity returns make it too unstable for use as a reliable measure of performance. The weaknesses of using a three-year rolling average could be resolved by presenting the RORC for the current year alongside the three-year rolling average.

Management proposes including a new indicator, DRRC on loans, which is a gross measure based on RAROC, before overhead costs. RAROC explicitly manages risk on non-sovereign loans by making assumptions about expected losses after mitigation. RAROC is an industry standard for measuring returns on non-sovereign loan operations that are subject to risk of non-payment. IFC has included this metric in its scorecard, calculated on a net basis after deducting both direct and indirect costs.

RAROC is regularly used in the EBRD as a discretionary input in project loan pricing. Management prefers to use a gross ex ante calculation of RAROC non-sovereign loans due to the complexity of the EBRD's organisation structure and operations. The EBRD provides multiple products across multiple countries and sectors. Staff do not have control over fixed costs, and gross margins provide a convenient measure of project attractiveness that does not require large amounts of data that may not be readily available. Offsetting these factors, the calculation of RAROC on a gross cost basis discourages the effective use of EBRD capital. The omission of the full costs of operations biases project selection towards small SME projects that do not require much preparation, but may not be profitable on a fully costed basis. This gross costing technique also encourages staff to pursue projects that are approved but not disbursed, as the costs of cancelled projects are treated as an overhead. As a result of these issues, incentives for staff to design and finance large complex projects are diluted, undermining own financing capacity and mobilisation potential.

It is not clear why it is difficult to calculate RAROC on a net basis at the portfolio level. Most of the complexity calculating RAROC is associated with assumptions about returns, which are present in both gross and net calculations. As management is already making these assumptions to derive its gross RAROC, they do not introduce additional complexities when calculating a net RAROC. The cost overhead needed to calculate a net RAROC are derived from the EBRD's internal procedures, mainly at head office, and they are already known with a high degree of confidence. It should be straightforward to calculate project preparation costs and allocate overhead costs to outputs using a simplified version of an activity-based costing methodology. The calculation of net RAROC at the portfolio level, further reduces the need for complex assumptions, relative to small projects.

The final point to note from a financial perspective is the absence of any targets or indicators for equity in the draft scorecard. Traditionally, equity has accounted for about 20% of the EBRD's total financing operations, indicating it is a substantial part of its operations. A specific indicator for equity would provide the Board and Management with important information when setting targets, pricing equity investments, and monitoring and evaluating mobilisation results. Similar to RAROC, it would be preferable to have an indicator that is forward looking and reflects a market-based risk adjusted return on investment. Internal rate of return (IRR) is commonly used in the investment sector as an indicator of equity performance as it can be compared to a minimum cost of capital, and adjusted for market-based risk, using a methodology such as the capital asset pricing model (CAPM) to assess performance and inform pricing decisions. Alternatively, IFC has proposed an equity indicator that measures performance relative to MSCI emerging market index.

Proposed Structure of the BSC to Support Mobilisation

The proposed targets below provide a clear statement of expected TIs and mobilisation outcomes. This information can guide pricing policies for its outputs (particularly for debt and equity) and it can be used to provide parameters for incentivising staff. The adoption of a bonus system based on a system such as equal weighting of Long-Term Finance (LTF), Equity, PDM (and possibly PIM) in staff incentive arrangements would help avoid the competition that is currently occurring between ABI and AMI.

Table 9: Proposed Structure for BSC to Support Mobilisation

Goal	Measure	Unit	Target Indicators
Customer Perspective:			
Maximise TI	Change in TI	ETI/PTI/SDG	TBD
- Outcomes	Mobilisation	TBD	Ratings for investment development effectiveness

	Mobilisation	TBD	Ratings for advisory development effectiveness
	Mobilisation	€ (Mn)	PDM
	Mobilisation	€ (Mn)	PIM
- Outputs	Mobilisation	€ (Mn)	Grants
	Own Financing	€ (Mn)	Advisory Revenues
	Own Financing	€ (Mn)	Guarantee Revenues
	Own Financing	€ (Mn)	LTF (ie ABI less TFP)
	Own Financing	€ (Mn)	STF (ie TFP)
	Own Financing	€ (Mn)	Equity
Operating Perspective			
Minimise unit costs	Own Financing	%	Cost/EBRD Income
	Own Financing	%	Loan Disbursements/ABI Approvals
	Own Financing	%	Disbursements/Equity Approvals
Financing Perspective			
Maintain financial sustainability	Own Financing	%	Net RAROC on Non-Sovereign Debt
	Own Financing	%	Net IRR on Equity
	Own Financing	%	Net RORC (Current year)
	Own Financing	%	Net RORC (Three-year average)

ABI = Annual Bank Investment; IRR = Internal Rate of Return; LTF = Long Term Finance; PDM = Private Direct Mobilisation; PIM = Private Indirect Mobilisation; RAROC = Risk Adjusted Return on Capital; RORC = Return on Required Capital; STF = Short Term Finance; TBD = To be Determined;

Source: EVD

An important feature of this revised BSC is the information it provides to calculate measures of underlying drivers of mobilisation performance (Table 10). Drivers include indicators such as rates of subsidisation and leverage; average tenor of LTF, STF and equity investments; and capital utilisation ratio. Depending on the focus of analysis, these metrics can potentially be calculated at total, country, sector or instrument levels and help guide strategy development and implementation.

Table 10: Mobilisation Performance Measures

Mobilisation Goal	Measure	Unit	Performance Indicators
Total Mobilisation etc	Leverage	(%)	PDM/(STF + LTF + Equity)
	Leverage	(%)	PIM/(STF + LTF + Equity)
	Leverage	(%)	(PDM + PIM)/Grants
	Subsidisation	(%)	Grants/(STF + LTF + Equity)
Own Financing	Loan Life	Years	Average STF Tenor
	Loan Life	Years	Average LTF Tenor
	Equity Life	Years	Average Term Equity Funds
	Equity Life	Years	Average Term Direct Equity
	Capital Utilisation	(%)	Capital Committed/Tot. Capital

Source: EVD

This information will help provide insights on where the EBRD's support for mobilisation is both effective and efficient, and guide monitoring, evaluation and future designs of strategies.

Conclusions

The EBRD's draft scorecard is similar to comparator BSCs (particularly IFC) but with some significant differences. To the limited extent it addresses mobilisation, most metrics are from an investor perspective. IFC in contrast treats these indicators as customer outputs. The IFC approach to defining mobilisation

metrics (PDM) and own finance (LTF) as outputs makes it much easier to appraise mobilisation performance and it provides a quantitative (measurable) dimension to outcomes, relative to the qualitative (indicative) definitions of TI. Staff incentives can be based on own financing measures such as LTF and equity, provision of advice or guarantees, and mobilisation (PDM).

Another critical difference is in classification of financial perspective indicators. IFC uses a net RAROC as its main yield on loan capital metric, which it uses to measure financial sustainability of loans on an ex ante and ex post basis. The EBRD uses a gross ex ante RAROC and a net ex post RORC. It is not clear why management is proposing to use both a backward-looking ex post RORC and a partial estimate of a forward-looking ex ante RAROC as they are not directly comparable and cannot be calibrated on the basis of experience. There is a role for both RORC and RAROC, based ex ante estimates compared to ex post results, and RAROC calculated on a net basis.

The use of a gross RAROC metric on debt is biased towards small projects, and approvals rather than dispersals. Management prefers to calculate RAROC on a gross basis, and use it as a discretionary input in pricing, as it is difficult to calculate meaningful net RAROC figures. Management has adopted this approach as there is a lack of granular data that takes into account differences in instruments, sectors, geographic regions, organisation arrangements, assumptions and quality of data. It is not clear if the calculation of net RAROC at the portfolio level would be more complex than calculation of gross RAROCs at the project level. It is noteworthy that IFC has overcome these difficulties and is using a fully costed RAROC in its BSC.

Targets for outputs such as PDM will be more meaningful if they are based on a mobilisation approach that reflects expected demand within COOs. This assessment would inform an analysis of the EBRD's capabilities to support mobilisation through the provision of non-traditional instruments such as advice and guarantees. Organisational arrangements can be reviewed to assess resource needs and design staff incentives to support both own financing and mobilisation.

More generally, the EBRD's scorecard can provide an opportunity to synthesise the objectives of its various corporate strategies and guide the delivery of projects and portfolios throughout the SCF period. The scorecard can include targets based on objectives in corporate strategies such as GET, and departmental strategies for equity, FI, SME and sustainable infrastructure. Projects can be prepared and priced within the constraints set by corporate scorecard targets. Staff can then be incentivised for achievements utilising own capital and supporting mobilisation objectives such as PDM.

Next Steps to Consider

Discussion of the following would have value before finalising the scorecard:

- (a) Design the EBRD's scorecard based on the perspectives of customers, operations, and financing, using IFC's BSC model
- (b) Strengthen the customer metrics on investment climate, and provision of advisory services, based on ratings that reflect investment climate and are independently validated
- (c) Treat PDM, and PIM as customer outcomes
- (d) Treat grants and EBRD revenues from advice, guarantees, LTF, SCF, equity, as customer outputs, rather than investments

- (e) Use RORC as a metric to demonstrate the EBRD's financial sustainability, and set targets on an annual and three year rolling average basis
- (f) Use net RAROC as the primary metric in the scorecard to measure sustainable yield on non-sovereign debt at the portfolio level, and IRR to measure returns on the equity portfolio
- (g) Prepare a "Mobilisation Approach" to assess feasible levels of targets in the scorecard for customer mobilisation measures such as PDM, identify organisation and investment needs to develop required capacity to support mobilisation using outputs such as advice and guarantees, and define a methodology for incentivising staff to support both own financing and mobilisation.

Technical Note 3 – Comparative Analysis of Strategic Instruments for MDBs, other IFIs, and Foundations

This note provides an overview of how MDBs, IFIs, and Foundations formulate and implement/ operationalize their institutional strategies. The comparison is conducted along lines of operational guidance provided to organizations through Strategy Design/ Process (EQ1), and assessing incentives like corporate scorecards that translate strategies into operational action plans (aligning with EQ2).

To evaluate how EBRD compares with other organizations on the strategic instruments utilized for strategy formulation and implementation, a comparative analysis of ten organizations was conducted along seven types of strategic instruments across these organizations. The organizations are:

1. African Development Bank (AfDB)
2. Asian Development Bank (ADB)
3. European Bank for Reconstruction and Development (EBRD)
4. European Investment Bank (EIB)
5. Inter-American Development Bank (IDB)
6. World Bank Group (includes the IFC)
7. Global Fund to fight AIDS, Tuberculosis, and Malaria (the Global Fund, GFATMS)
8. GAVI, the Vaccine Alliance
9. Gates Foundation
10. Rockefeller Foundation

The strategic instruments assessed for the comparative analysis are Institutional Strategy, Operational/ Implementation Plans, Country Strategies, Sector/ Programmatic Strategies, Corporate Results Frameworks (including Corporate Scorecards), and Development Effectiveness Reviews.

Trends (see table 11 for overview):

- Institutional Strategies: All MDBs had Institutional Strategies like the AfDB, ADB, EBRD, IDB, and the WBG that apply for 5 to 10 years. Similarly other IFIs like the Global Fund, and Gavi-the Vaccine Alliance also had similar Institutional Strategies. But Foundations like the Gates Foundation and the Rockefeller Foundation did not have a 5- or 10-year Foundation-wide strategies but instead relied on 'Strategic Approaches' usually associated with a specific sector. For example, ADB's Strategy 2030 is wide-ranging and "sets the course for the Asian Development Bank (ADB) to respond effectively to the region's changing needs." This includes several multi-sectoral elements such as poverty reduction, accelerating gender equality, tackling climate change, rural development, strengthening governance, and fostering regional cooperation.¹¹ While the Gates Foundation does not have a publicly disclosed Foundation-wide strategy, it relies on "Program Strategies" that are sector specific like Gender Equality and Global Health.¹²

¹¹ <https://www.adb.org/sites/default/files/institutional-document/435391/strategy-2030-main-document.pdf>

¹² <https://www.gatesfoundation.org/our-work>

Table 11: Snapshot of Strategic Instruments across MDBs, IFIs, and Foundations

Strategic Instrument	AfDB	ADB	EBRD	EIB	IDB	WBG (includes IFC)*	Global Fund (GFATM)	GAVI	Gates Found	Rockefeller
Institutional Strategy	✓	✓	✓	x	✓	✓	✓	✓	X	X
Operational/ Implementation Plans	X	✓	✓	X	X	X	X	X	X	X
Country Strategies	✓	✓	✓	X	✓	✓	X	X	X	X
Sector Strategies/ Programmatic Policies~	✓	X	✓	X	✓	X	X	✓	✓	X
Corporate Results Framework/ Scorecard/ KPI Framework	✓	✓	✓	✓	✓	✓	✓	✓	X	X
Development Effectiveness Review	✓	✓	✓	X	✓	✓	✓	✓	✓	X

* Country Strategies: WBG Directive on Country Engagement

~ For AfDB, sector strategies are dated 2013.

- Operational/ Implementation Plans for Institutional Strategy: Some MDBs had operational priority documents to implement the institutional strategy while others did not have such documents. For example, the ADB has an overview document that provides an introduction to the operational plans by summarizing the expected activities, outcomes, and new opportunities. It also summarizes the common operational approaches derived from the guiding principles in Strategy 2030 and describes implementation practices that will be adopted across ADB.¹³ Similarly, the Strategic Implementation Plans at EBRD translates SCF priorities into detailed annual operational plans.

Other MDBs like the AfDB, IDB, and WBG may not have an implementation and action plan corresponding to the institution-wide strategy but they identify operational priorities to implement the institutional/ corporate strategy. For example, the AfDB's Strategy outlines five main avenues for the Bank to deliver its work are reflected in the 'Operational Policies' identified through the five operational priorities, even though there is no 'AfDB Operational Policies' document per se. Similarly, the World Bank has a Directive on Country Engagement that governs and lays out implementation steps for "Country Engagement" of the WBG providing both additional corporate guidance and good practices.¹⁴ IFC has products that contribute to the WBG Country Engagement Cycle centered around its approach of creating markets. These include the Country Private Sector Diagnostic (CPSD) and the IFC Country Strategy (internal document only). The key areas of engagement highlighted in the IFC Country Strategy inform CPF objectives and how IFC investment, advisory and upstream teams will engage at the sector level.¹⁵ The other IFIs (the Global Fund, and Gavi) and the Foundations (Gates Foundation, and Rockefeller Foundation) do not have operational plans to implement the institution-wide strategies but rely on sector specific implementation plans.

¹³ <https://www.adb.org/sites/default/files/institutional-document/435391/strategy-2030-main-document.pdf>

¹⁴ <https://ppfdocuments.azureedge.net/1d0c9176-2efc-4b9e-8148-f6149b5f8c75.pdf>

¹⁵ <https://ppfdocuments.azureedge.net/1d0c9176-2efc-4b9e-8148-f6149b5f8c75.pdf>

- **Country Strategies:** All MDBs formulated country strategies for their countries of operation. The other IFIs (Global Fund, and Gavi Alliance) and the Foundations do not have country specific strategies, likely because they do not engage with central government ministries at a large scale like the MDBs. However, Foundations' country office websites provide a good insight into the work they do in a particular country.
- **Sector strategies:** There are mixed approaches on sector strategies with some MDBs having more sector specific strategies like the AfDB, the EBRD, and the IDB. The WBG did not have publicly disclosed sector strategies (the WBG sectors are now called Global Practices). Similarly, no sector strategies were found for EIB, the Global Fund, and the Rockefeller Foundation.
- **Corporate results framework:** All MDBs and IFIs have some type of corporate results framework, corporate scorecard, or KPI framework. This framework/scorecard is usually divided into 3 or 4 tiers that are linked to the overall institutional strategy, reflecting the regional context, country-level results, as well as the performance of the MDB or IFI at the operational or organization level. Foundations do not have such frameworks, but capture results or impact at the sector-level.
- **Development Effectiveness:** All organizations (except EBRD and Rockefeller Foundation) had an annual development effectiveness report to assess results and outcomes attributed to the organization. These reports were often named differently across organizations but all captured results on an annual basis. For example, at the WBG, the annual development effectiveness report is called the Results and Performance Report (RAP), ADB calls it Development Effectiveness Review, while the GAVI Vaccine Alliance calls it the Annual Progress Report.