

ANNUAL EVALUATION REVIEW 2018



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Evaluation Department April 2019



European Bank
for Reconstruction and Development

The Evaluation Department (EvD) at the European Bank for Reconstruction and Development (EBRD) reports directly to the Board of Directors, and is independent from the Bank's Management. This independence ensures that EvD can perform two critical functions: reinforcing institutional accountability for the achievement of results; and providing objective analysis and relevant findings to inform operational choices and improve performance over time. EvD evaluates the performance of the Bank's completed projects and programmes relative to objectives.

This summary has been prepared by EvD under the authority of the Chief Evaluator. The views expressed herein do not necessarily reflect those of EBRD's Management or its Board of Directors. Responsible members of the relevant operations teams were invited to comment on the Annual Evaluation Review 2018 prior to internal publication. Any comments received will have been considered and incorporated at the discretion of EvD. Although EvD considers Management's views in preparing its evaluations, it makes the final decisions about the content of its reports. Annual Evaluation Reviews are discussed by EBRD's Audit Committee and approved by the Board.

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European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN
United Kingdom
www.ebrd.com

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Abbreviations

AER	Annual Evaluation Review	IFI	International financial institution
ASB	Advice for Small Business	INF	Infrastructure: municipal & environmental infrastructure and transport sectors
CA	Central Asia: Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan, Uzbekistan	IPDET	International Program for Development Evaluation Training
CEB	Central Europe and Baltic States: Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia	IPPF	Infrastructure Project Preparation Facility
EBRD	European Bank for Reconstruction and Development	JICA	Japan International Cooperation Agency
EEC	Eastern Europe and Caucasus: Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine	LC2	Local Currency and Capital Markets
ENE	Energy: natural resources and power & energy sectors	MFI	Multilateral financial institution
ESS	Energy Sector Strategy	NBE	National Bank of Egypt
EU	European Union	OECD	Organisation for Economic Co-operation and Development
EvD	Evaluation Department	OECD-DAC	Development Assistance Committee of the Organisation for Economic Co-operation and Development
FIN	Financial institutions	OPA	Operation performance assessment
GEFF	Green Economy Financing Facilities	RO	Residential offices
HQ	Headquarters	SEE	South-eastern Europe: Albania, Bosnia and Herzegovina, Bulgaria, Kosovo, FYR Macedonia, Montenegro, Romania, Serbia
IC	Investment climate	SEFF	Sustainable Energy Financing Facility
ICA	Industry, commerce and agriculture: agribusiness, equity funds, information & communication technologies, manufacturing & services and property & tourism sectors	SEMED	Southern and eastern Mediterranean
ICGI	Investment Climate and Governance Initiative	SMEs	Small and medium-sized enterprises
IFC	International Finance Corporation	SSF	Shareholder's Special Fund
		TC	Technical cooperation
		TSS	Transport Sector Strategy

Defined terms

Additionality

Additionality is the particular support (input) that EBRD brings to an investment project that is typically not offered by commercial sources of finance. The concept draws on Article 13 of the Agreement Establishing the Bank on Operating principles

Evaluability

The extent to which the value generated or the expected results of a project are verifiable in a reliable and credible fashion

Ex-ante

Expectations or forecasts calculated or existing before a particular event based on assumption and being essentially subjective and estimative

Ex-post

Results rather than forecasts based on knowledge and retrospection and being essentially objective and factual

Impact

The positive or negative long-term effects produced by an intervention, directly or indirectly, intended or unintended; an impact generally results from a series of causal factors of which the project is but one

Indicator

A quantitative or qualitative factor or variable that provides a simple and reliable means to measure achievement, to reflect the changes connected to an intervention, or to help assess the performance of a specified entity

Outcome

The short-term and medium-term effects consequent to delivering the intervention's outputs

Output

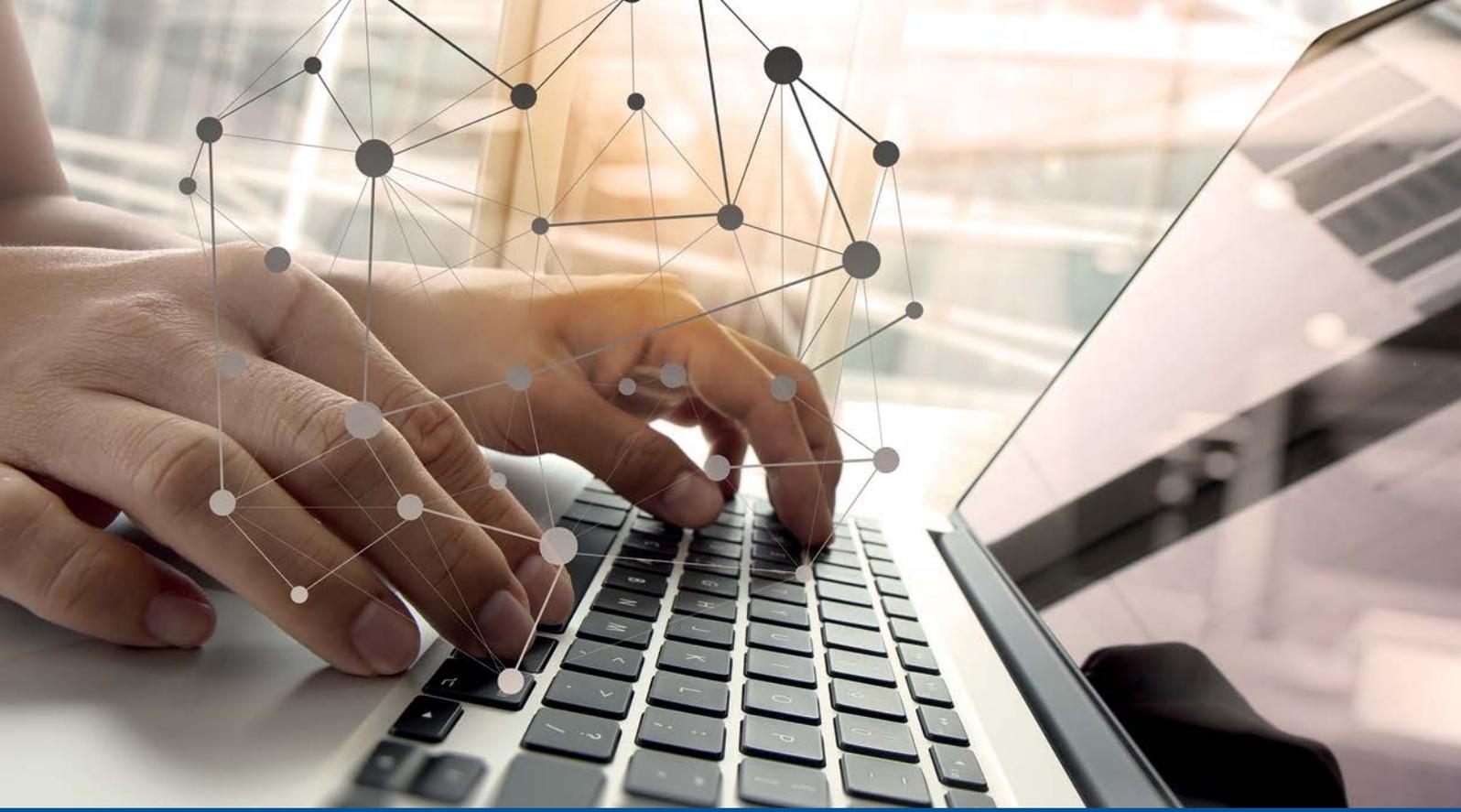
The products, capital goods and services that result from an intervention – its deliverables

Result

The output, outcome or impact (intended or unintended, positive or negative) of an activity or intervention

Transition impact

The likely effects of a project on a client, sector or economy, which contribute to the development of six qualities of a modern market economy: competitive, well-governed, green, inclusive, resilient and integrated



Executive summary

This Annual Evaluation Review 2018, published by the Evaluation Department (EvD) of the European Bank for Reconstruction and Development (EBRD), summarises the Bank's evaluation activities, findings and results. EvD provides evidence-based operational insights, principally to the Bank's shareholders, Management and other stakeholders that contribute to the Bank's accountability for performance and continued institutional improvement.

Major thematic evaluations completed in 2018 produced important insights on the Bank's performance and results in a wide variety of sectors and contexts from infrastructure sector strategies to financial intermediation to investment climate. Nearly 120 self-evaluations by project teams in 2018 provided supporting data for strategic findings from the evaluations over the past year. Together, EvD's thematic evaluations and independent project-level evaluations provide direct feedback for operations teams, and strategically useful insights and results for Board Directors and Senior Management.

EvD's Work Programme is developed in close cooperation with the Audit Committee of the EBRD Board of Directors. After informal consultation, a draft Work Programme is submitted to the Audit Committee. Subsequent to those discussions, a final Work Programme is brought before the Audit Committee and then approved by the full Board. All EvD evaluations are distributed to the Board and Management. Major evaluations are presented to the Audit Committee and are available in full to Bank staff on the EBRD intranet. Audit Committee discussion, which involves an active exchange between Board members, EvD and (generally) Management, provides an essential institutional mechanism for presentation, absorption and uptake of evaluation findings and recommendations. Audit Committee discussions in 2018 provided valuable feedback and guidance to both EvD and Management. Following Committee discussion, final circulation and removal of any sensitive or proprietary information, evaluations are posted on the EBRD website.

The Bank's Evaluation Policy¹ gives EvD primary line responsibility for the effective design and performance of the Bank's overall evaluation system in addition to delivery of high-quality evaluations. In 2018 there was also an increase in the strategic relevance and value of EvD's work within existing resource constraints. EvD, while maintaining its traditional accountability function, continuously

evolves to provide learning and insights to a Bank facing new strategic challenges related to missions, markets and a changing larger organisational context in Europe.

However, beyond adjusting the mechanics and methodology of evaluation, EvD has worked in consultation with the Audit Committee to produce more ambitious thematic evaluations designed to inform and help shape Board and Senior Management strategic reflections and decision. A focus has been placed on timing strategy evaluations to coincide with Board approval of new succeeding strategies. Furthermore, EvD has deliberately moved from single project evaluations to evaluations of multiple related operations to enable comparison across projects; deeper understanding of client, country or sector impact; and assessment of EBRD's ambition, strategy implementation and progress in transition. In January, EvD conducted a self-assessment of its products, practices, operations and management as input for an external evaluation in 2018. This external evaluation will serve as foundational material for future enhancements.

Key accomplishments

Major evaluations delivered

- Energy Sector Strategy Review
- Transport Sector Strategy Review
- Evaluation in the EBRD – An Overview for Board Members
- Credit Lines
- Infrastructure Project Preparation Facility
- Investment Climate Activities
- National Bank of Egypt – Multi-Operations Evaluation
- Property Strategy Review
- Additionality Concept²

1 www.ebrd.com/what-we-do/evaluation-policy.html

2 This paper was completed in 2017 but delivered to the Audit Committee in early 2018.

- Georgia Board Consultation Visit Briefing Paper
- EvD Self-Assessment³

Services and contributions

- Uptake of EvD recommendations in EBRD strategies from Local Capital Markets, Infrastructure Project Preparation Facility, Shareholder Special Fund and Agribusiness Sector evaluations.
- Provided a foundation for Management's Working Group on Additionality via the Additionality Concept study.
- Prompted a Board Information Session by Management to clarify the objectives of and differences between country and sector strategies.
- Provided comments on multiple draft sector strategies, terms of reference and policy documents developed by Management.
- Delivered self-evaluation training at Headquarters and in the Resident Offices.

Major findings and recommendations from evaluations

Looking across all the evaluation products, EvD saw a recurring dimension regarding whether the operations are in sync with the larger sector or programme strategy. Key findings, discussed in more detail in Section 3, are:

Disconnect between country and sector strategies:

Two of the major 2018 studies were the Energy and Transport Sector evaluations. In both of those studies, one of the key themes was the disconnect between country and sector strategies.⁴ At EBRD, transition impact is measured in principle at the country level and is thus driven by country strategy, whereas projects may reflect country strategies but largely are driven by market opportunities and tend to have stronger linkage to sector strategies reflected in monitoring frameworks in the project document. Sector strategies emphasise outputs or the use of proceeds; in short, what was built, purchased, disbursed. Country strategies

emphasise outcomes or the effect of the outputs, for example reduction in carbon, marketplace expansion, more opportunity for women and youth.

What EvD found in both the Energy and Transport Sector evaluations is that the objectives and themes from the country strategy are generally not represented in the sector strategies. The sector strategies represent a choice of potential business opportunities without operational priorities that EBRD may pursue, but tend not to reflect how the transactions will advance transition in the countries of operation. As a result, EBRD may have mainly successful projects and sector-wide success in terms of business and high-level operational indicators, yet countries may still be 'stuck in transition'; thus greater connection between the operational and the aspirational is needed to understand why. Management deserves credit for elevating the importance of better results measurement systems and for the specific initiatives it has launched to develop them. The Bank has focussed the country as the unit of accountability and reference. However, in order to understand how operations impact countries, more coordination between sector strategies, strategic initiatives and country strategies is still necessary.

Better strategic enunciation of IFI cooperation:

Few strategies directly address the issue of coordination among international financial institutions (IFIs), a major theme of the G-20 Eminent Persons Group report. Cooperation remains a continuing challenge for EBRD and the other IFIs. Several 2018 evaluations explored this theme including the Energy Sector, Transport Sector, Property Sector, National Bank of Egypt, Credit Lines, and Infrastructure Preparation Facility evaluation. In some cases, failure to incorporate IFI cooperation may have led to missed opportunities, failure to understand where other IFIs efforts in policy dialogue were well established, and co-financing. Future strategies and operational delivery will be improved if they can outline where other IFIs will be competitors from a market perspective, co-financiers in transactions, and partners in policy development with a trajectory toward collaboration and rationalisation.

Improved integration of policy dialogue:

EBRD's Enhanced and Structured Approach to Policy Dialogue established two key tenets: define policy reform dialogue objectives and activities and monitor

³ Ibid.

⁴ Country and sector strategies continue to evolve at EBRD and they have changed since the time periods reflected in the evaluation. EvD's Review of Country Strategies, to be delivered in 2019, will assess some of these issues reflecting the more recent versions of these strategy documents.

and measure the results of policy engagement. Several evaluations found a lack of policy dialogue objectives and activities at a strategic level. There were cases where the policy dialogue effort was readily apparent and there are some strategies where policy dialogue is included and outlined utilising diagnostics. However, the synthesis is that strategies at EBRD should clearly specify the policy dialogue dimension with objectives, possible activities and indicators including a diagnostic assessment and an understanding of what other IFIs are doing.

Challenges in monitoring: One of the findings from 2018 project evaluations is the challenge to monitor effectively. One lesson was the need for local monitoring including site visits. A second lesson was that EBRD had limited visibility related to syndicated loans on the progress of transition impact objectives and could not provide sufficient guidance to the client to fully meet such objectives. Going forward, it would be extremely useful for EBRD to receive regular reports with the use of proceeds in order to monitor the progress of transition impact objectives in a timely manner. Monitoring of equity projects proved challenging because of the length of projects and the linkage of benchmarks to general market conditions and not to the project specifically.

Outlook for 2019

The Evaluation Department enters 2019 with considerable positive momentum and is well placed to build on the foundations of effective performance of recent years. Important milestones for 2019 are:

- Results of an independent external evaluation.
- Completion of major evaluations including Delegated Authority, Climate Initiatives, Legal Transition Programme, Review of Country Strategies, Policy Dialogue in southern and eastern Mediterranean (SEMED) countries and Mongolia Mining Operations.
- Launch of new evaluations including Refugee Related Projects, Mobilisation and Sovereign Operations and the Bank's Self-Evaluation System.
- New members of the EvD team bringing fresh perspectives and techniques.
- A significant cohort from EvD undertaking top-notch evaluation training at the International Program for Development Evaluation Training.



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The Evaluation Department's year in review

In 2018 EvD completed one of its most challenging and rewarding years. Three large sector strategy evaluations were completed as well as important studies related to investment climate and public private partnerships. EvD introduced a change from random to purposeful selection of projects for evaluation in 2017, which resulted in more relevant evaluation products and reduced resource requirements in 2018. Other highlights include major evaluations related to consultations on new sector strategies with Management; a major presence at the European Evaluation Society meeting in Thessaloniki; and commencement of the external evaluation of EvD and the Bank-wide evaluation system. This section recaps EvD's activities, performance and achievements in 2018.

The Evaluation Department's products

EvD's range of products contributes to institutional learning and accountability, and thus to superior institutional performance and results.

- **Thematic evaluations (special studies):** In-depth evaluations organised around a theme, strategy or sector, providing detailed analysis of design, structure and results. Their objective is to identify strategy and performance issues and provide timely, relevant and actionable recommendations for the Board of Directors and Senior Management.
- **Operation evaluations:** Comprehensive evaluation of a single project or (more commonly) a group of thematically related projects based on deep research and field work. Design and execution are assessed and performance is evaluated against objectives and opportunities. Key findings and recommendations directed to both learning and accountability are provided to the Board and Management.
- **Project validations:** Desktop evaluation reports using self-evaluations produced by Management and independent EvD analysis. Analysis and findings tend to focus on design,

execution, operational results and strategic relevance. Individual evaluations may be clustered by sector or themes where possible in order to present a wider and more useful body of evidence.

- **Reviews:** Detailed review of each Management self-evaluation to provide guidance on performance assessment and extracting lessons.
- **Corporate reports:** Reports about EvD's operation and activities submitted to Board and/or Management, both for information purposes and as an instrument of EvD's own accountability.
- **Additional papers:** Synthesis papers of related previous evaluations, short information notes and brief reports on subjects of particular interest to the Board.

All original evaluation papers are commented on by EBRD Management and shared with the Board Directors. Thematic evaluations and operation evaluations are also discussed in detail at Audit Committee meetings. EBRD staff and Board Directors can access all products through the Evaluation Library.

Work Programme delivery

The year 2018 marked a more prolific year than 2017 in terms of evaluations produced, but with equally impactful evaluations resonating with both Board and Management.

The Department presented the following studies and reports to the Audit Committee last year.

- **Energy Sector Strategy Evaluation:** A review of the 2013 Energy Sector Strategy that provided insights into accountability for results at the country versus sector levels and whether the scope of the strategy encompassed all energy related operations.
- **Transport Sector Strategy Evaluation:** A review of the 2013 Transport Sector Strategy that

also looked at the role of sector-level strategic performance frameworks vis-à-vis country-level results, and delved into issues related to disbursement, mobilisation and IFI collaboration.

- **Evaluation in the EBRD: An Overview for Board Members:** A primer on EvD and how evaluation is conducted for new Board directors and those interested in understanding the evaluation system at EBRD.
- **Credit Lines:** A comprehensive, high-level evaluation of intermediated lending or credit lines that outlined the lack of a clear definition of the role of credit lines and the growth of blended finance resulting in two distinct types of business.
- **Infrastructure Project Preparation Facility Evaluation:** A thematic evaluation of EBRD's Infrastructure Project Preparation facility emphasising value for money, country-level readiness and an independent unit with Bank-wide remit.
- **Investment Climate Evaluation:** A broad look into EBRD's role as an investor and as an agent for wider reform with case studies in Albania, Egypt, Kyrgyz Republic and the Business Ombudsman in Ukraine that highlighted resourcing and coordination issues.
- **National Bank of Egypt Operations Evaluation:** An operation evaluation of three distinct credit lines with the state owned National Bank of Egypt: energy efficiency, small and medium-sized enterprises (SME) and Women in Business.
- **Property Strategy Evaluation:** An evaluation of the 2010 Property Sector Strategy highlighting the challenges in the sector from various crises and a new focus on urban regeneration and energy efficiency.
- **Georgia Board Consultation Visit Briefing Paper:** A new product, a short briefing, which is a synthesis of previous evaluations, to provide insights to Board directors participating in Board consultation visits.

The following corporate reports were also presented to the Audit Committee.

- **Annual Evaluation Review 2017**
- **Mid-term Status Update**
- **Evaluation Department Work Programme and Budget 2017/2019**

In addition in 2017, EvD provided a thorough review of 119 projects via the operation performance assessments (OPAs)/self-evaluations completed by Management and validated 19 projects. Validations are independent desktop evaluations of individual projects performed by EvD.

There has been substantial progress on five major thematic evaluations identified in the 2018 Work Programme: Climate Initiatives, Review of Country Strategies, Mongolian Mining Operations, Delegated Authority, and Hydropower in Georgia will be delivered in the first half of 2019.

Consistency in the project selection and self-evaluation process

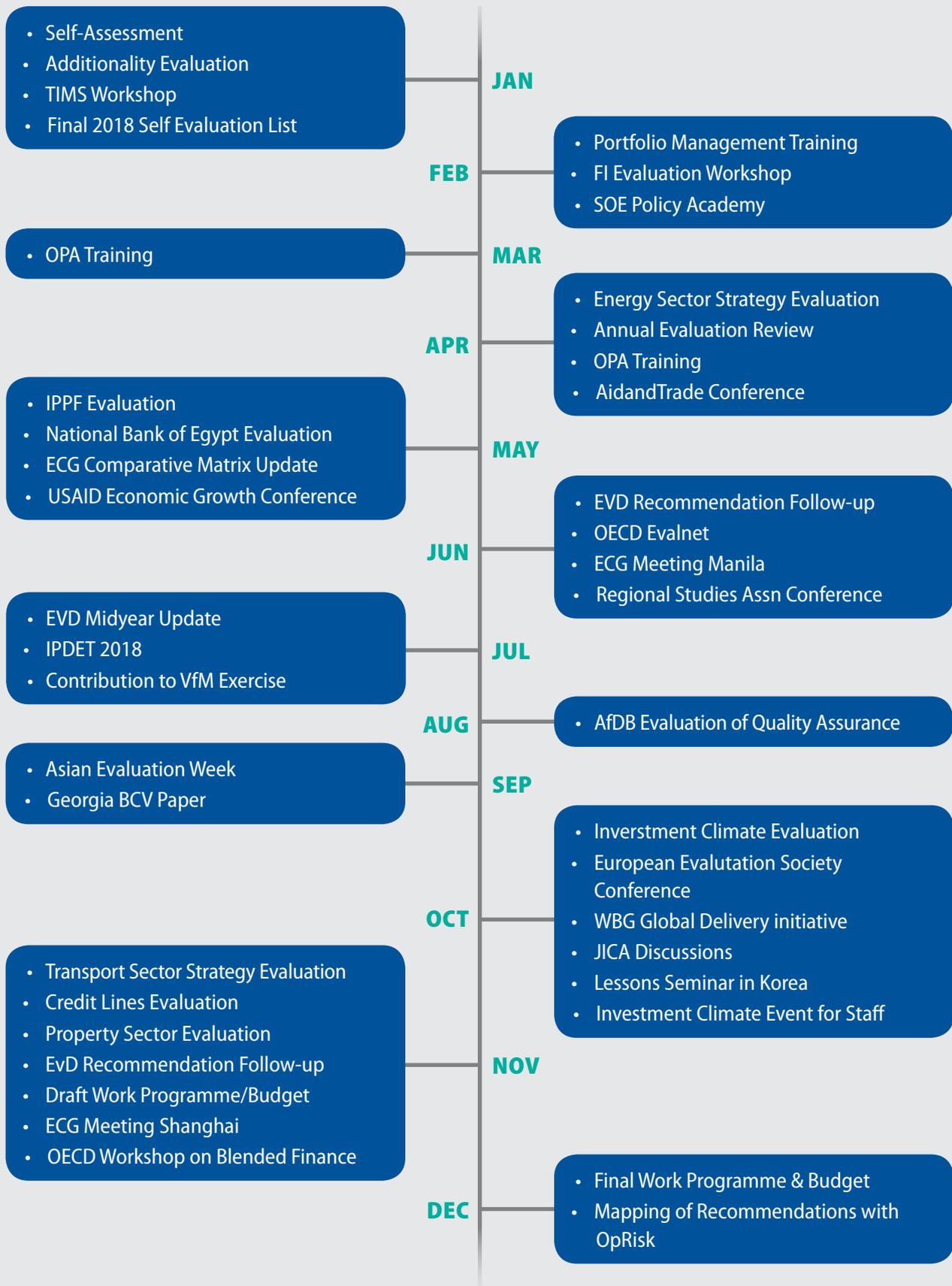
From 2009 to 2016 EvD selected projects for evaluation based on a stratified random, representative sample of sufficient size to establish for a combined three-year rolling sample, performance rates at the 95 per cent confidence level with sampling error not exceeding ± 5 percentage points for key performance indicators. In 2017, EvD moved from stratified random sampling to purposeful sampling for validation. The impetus for the change is spelled out in detail in the Annual Evaluation Review 2017. Based on a positive experience in 2017, the process remained the same in 2018 as did the basic self-evaluation procedures.

One new element was added: modified self-selection of projects to be evaluated by operations teams. Previously, EvD had prepared a list suggesting which projects were to be self-evaluated. In 2018, EvD prepared a list of projects that were evaluation eligible,⁵ highlighting projects that had been completed and those that are eight years older or more. Operations teams then selected projects from the eligible list, emphasising the projects which are complete and more than eight years old.

An internal review of the self-evaluation process is scheduled for 2019. The findings from the review and the external evaluation of EBRD evaluation may lead to modification of the self-evaluation and validation

⁵ A project is considered to be 'ready for evaluation' after 'having reached early operating maturity', which occurs when the project financed has generated at least 18 months of operating revenues for the client company after last disbursement of loans and at least 24 months of operating revenues after last disbursement of equity participations. In addition to these constraints, a project is considered ready for evaluation after at least one year of commercial operation, while at least one set of audited financial accounts should have been received by the EBRD covering at least 12 months of operating revenues by the project.

FIGURE 1. EVD HIGHLIGHTS 2018



AfDB = African Development Bank; BCV = Board Consultation Visit; ECG = Evaluation Cooperation Group; EvD = Evaluation Department; FI = Financial Institution; IPDET = International Program for Development Evaluation Training; IPPF = Infrastructure Project Preparation Facility; JICA = Japan International Cooperation Agency; OECD = Organisation for Economic Co-operation and Development; OPA = Operation Performance Assessment; SOE = State Owned Enterprise; TIMS = Transition Impact Monitoring System; USAID = U.S. Agency for International Development; VfM = Value For Money; WBG = World Bank Group.

system in 2020 or 2021.

Follow-up on EvD recommendations

EvD continued to focus on the importance of producing useful, actionable recommendations, with Board support for their effective uptake by Management. EvD and Management continued to work together to improve the process of reporting on Management's follow-up of EvD recommendations. EvD reports now consistently contain fewer, clearer recommendations, and Management's report to the Audit Committee has improved clarity on areas of agreement and disagreement. Together, we made good progress on dropping long-standing recommendations on which EvD and Management agreed to disagree for which no action would be taken.

Management presents progress on an action plan to follow-up on EvD recommendations to the Audit Committee twice yearly. At the October 2018 presentation, Management noted of the 56 recommendations from EvD evaluations requiring action, they had completed the proposed actions for 35 recommendations, 12 were in progress, five on hold and four were deemed not applicable.

Referencing which areas were addressed, Management noted its own improvement in its strategic approach by better delineating accountability, ensuring sufficient resources for delivery and improved clarity of sector studies. They also suggested streamlined operational processes.

Although EvD has acknowledged improvement in Management reporting, clarity of action plans and capture of feedback from the Audit Committee, the salient diagnostic remarks from EvD's response were:

- Despite Management efforts, EBRD cannot systematically translate project/sector-level efforts (or success) into results at country level.
- Management has not generally addressed issues explicitly nor do action plans present the Board with data or options; actions to meet specific recommendations are often part of large, long-term systemic changes.
- Management made less progress on recommendations that require additional resources. Where a resolution is not possible within current resource constraints, EvD would

like to see Management present the Board with the data and options it needs to take resource decisions.

The follow-up process on recommendations since its transfer to Management continues to be a better reported and more accountable process, but EvD still believes the process lacks a fundamental understanding of performance results from the action plan, and frequently a responsible or accountable party for those results.

In addition, EvD currently maintains two focal points for Management interaction: Banking and Country Strategy & Results Management. EvD has instead recommended, but without success, a single focal point to strengthen accountability and ownership, and to consolidate Management's view reconciling different perspectives.

Results emanating from EvD studies

EvD's evaluations provide learning for performance enhancement and inform decision-making. Highlights of tangible results from EvD's findings and recommendations include:

- Management's new Local Currency and Capital Markets (LC2) Strategy, approved in November 2018, made a number of references to EvD's LC2 study, including in the sections on implementation of the previous strategy and in follow-up to recommendations. The Strategy incorporated EvD recommendations by being more focussed than the previous one, including removing one of the priority themes as suggested by EvD, being supported by better diagnostics, making a stronger link to new transition qualities and also by discussing IFI-wide cooperation more deeply.
- Many issues raised by EvD in the Agribusiness Strategy study and in the Supply Chains and Backward Linkages study were incorporated into the new Agribusiness Strategy (approved in June 2018), for example linking operational priorities to transition impact qualities, linkages to country strategies and IFI cooperation.
- Tables developed for the 2018 Property Sector Strategy Evaluation were used as part of the baseline presentation in Management's new Property Sector Strategy.

- In September 2018, Management presented an Enhanced Approach to Additionality to the Board. EvD's preceding review of the Additionality Concept in EBRD and its application was one of the sources that provided the impetus for development of the enhanced approach.
- The recommendations from the Infrastructure Project Preparation Facility (2018) were largely taken on board and resulted in creation of a new, better-resourced unit in line with EvD's advice.
- While Management did not accept or act on many EvD recommendations from the 2017 Equity Operations study, it did provide more specialist resources as advised by EvD and delivered a follow-up session to the Audit Committee subsequent to EvD's presentation of its evaluation.
- The Shareholder's Special Fund (SSF) evaluation of 2014 was followed by a comprehensive reform of the SSF planning and governance. The President's recommendation to that reform package explains the EvD evaluation: "Its eleven recommendations mainly relate to the role and planning of the SSF, allocation of resources based on transition gaps, simplifying the governance structure with improved accountability, and enhancing reporting. A number of the recommendations have been reflected in the attached proposal, which suggests a revised SSF with a new planning cycle, simplified governance arrangements and administrative rules, and a new rule-based allocative model". Donor Co-Financing proposed changes to SSF in a November 2018 Board Info Session as a result of the EvD report below.
- Recommendations from Ukraine's Policy Dialogue study (2014) are firmly integrated into the Bank's modus operandi with regard to policy engagement, and there is some new evidence of how it affects various segments of the Bank's work. In 2018, Management colleagues noted that EvD's recommendations had a fundamental effect on how their team engages in the policy dialogue and makes sure it delivers results despite the complicated political economy.

Collaboration and contribution across the Bank

In addition to producing evaluations, EvD contributes internally and externally in a variety of formats. Highlights from 2018 follow.

- Organised jointly with Management's Governance team and chaired by the Chief Evaluator, EvD sponsored a staff seminar to discuss the findings and recommendations of the Investment Climate evaluation.
- Provided comments to Management on the Green Climate Fund evaluation policy.
- Reviewed and provided input to (the Country Strategy Coordination & Results Management-led) EBRD's contribution to the cross MDB effort to develop a common conceptual Value for Money framework and harmonised indicators.
- Collaborated with the Knowledge Management team to provide lessons learned for pilot cross-IFI 'knowledge packages', developed in concert with the World Bank-led Global Delivery Initiative.
- Met with the Director of Japan International Cooperation Agency's (JICA) Planning & Portfolio Management Division, Private Sector Partnership and Finance Department to discuss a co-financed Mongolian windfarm and JICA's approach to evaluation of private sector operations more generally.
- Provided input into 'Evaluation of Quality Assurance across the Project Cycle of the African Development Bank Group (2012–2017)'.

Knowledge management

EvD increased its activity and contributions in the area of knowledge management in 2018. EvD and the Investment Climate and Governance Initiative team held a joint session for EBRD staff on the results of the Investment Climate evaluation. In June EvD sponsored a talk by senior representatives from the World Bank's Independent Evaluation Group about 'The IFC's [International Finance Corporation] Approach to Engaging Clients for Increased Development Impact'.

In the early part of the year the Chief Evaluator and Deputy Chief Evaluator continued their participation

in the EPG-led working group on the new Transition Objectives Monitoring System. The Chief Evaluator and the principal author of the Additionality Study made contributions to Management's working group on the Additionality Concept. The Deputy Chief Evaluator continued to serve as the leader of the State Owned Enterprises Community of Practice, and led the development and presentation of a specialised Policy Academy session for visiting Israeli state owned enterprise executives and participated in EPG's knowledge sharing mission on state owned enterprises to Korea.

In addition EvD experimented with new methods of conveying its findings, lessons and observations, including use of one-page visualisations of studies and social media.

Training

The Department provides training to Operations staff assigned to complete OPAs. In addition to the regular training held at Headquarters at the beginning of each evaluation cycle EvD staff delivered OPA training sessions at Resident Offices in Albania, Egypt, Jordan, Kazakhstan, Kyrgyz Republic and Ukraine. Also, EvD participates in the Portfolio Associate Director and Operation Leader training sponsored by Portfolio Management.

Departmental matters

Current staff and recruitment

EvD promoted several staff members to Associate Director, Senior Evaluation Manager and several from Senior Officer to Analyst and Assistant Analyst in 2018. Over the course of the past two years EvD has effectively restructured the organisation to provide career paths and market adjustments for departmental staff, and emphasise a flatter organisation based on roles rather than time in service.

A Senior evaluator and a Principal evaluator left EvD in 2018. EvD actively recruited replacements for these positions. As of the publication date an offer has been tendered and accepted for one position, and a shortlist has been created for the second position.

One evaluator is currently on a year of unpaid leave and a second evaluator has been on indefinite

medical leave for more than two years. Unable to backfill these positions, EvD hired a consultant for six months in 2018 to assist with reviewing self-evaluations and to prepare validations. In 2019 EvD will benefit from the services of an internal secondee from Banking and use short-term consulting support as advisable.

Staff development and participation in the international evaluation community

Two EvD staff members attended the International Program for Development Evaluation Training (IPDET) in Bern, Switzerland. IPDET is managed jointly by the University of Berne (Centre for Continuing Education), the Centre for Evaluation at Saarland University (Germany) and the Independent Evaluation Group of the World Bank. The programme is considered to be one of the top professional short training courses in evaluation.

EvD sponsored a four-person contingent to the biennial European Evaluation Society conference in Thessaloniki, Greece. EvD team members presented a paper on evaluating resilience, participated in numerous panels related to blended finance and crisis response, and chaired several events. Team members attended workshops and seminars.

EBRD is a member of the OECD Development Assistance Cooperation (OECD-DAC) Evalnet, a group aimed at improving development results via better learning through evaluation. EvD attended Evalnet meetings and presented on the topic of self-evaluation at the first joint OECD-DAC meeting between results management and evaluation professionals at Asian Development Bank headquarters in Manila. EvD also submitted comments on the update of the OECD-DAC evaluation criteria, the baseline measurement in international development evaluation since 1991.

In 2018 the Chief Evaluator agreed to chair the peer review of the evaluation function at the International Fund for Agricultural Development in Rome. Results from the peer review are expected in mid-2019.

EvD also sent delegations to the Evaluation Cooperation Group meetings in Manila and Shanghai, IFC Evaluating Development Impact in the Private Sector conference and Asian Evaluation Week. During the Evaluation Cooperation Group

meeting in Shanghai, EvD visited the New Development Bank to discuss the start of an evaluation function at that IFI and appeared on a panel for evaluators at the IPDET Shanghai training programme held at the Shanghai National Institute of Accounting.

External evaluation of EvD and the Bank-wide evaluation system

The independent external evaluation began in 2018 as two eminent consultants in the field of evaluation

were hired as an external evaluator and a high-level reviewer. The external evaluator has prepared an Inception Paper and research has commenced. EvD's Self-Assessment served to inform the approach. The process is led by the Chairman of the Audit Committee of the Board of Directors and the final report is expected in 2019.



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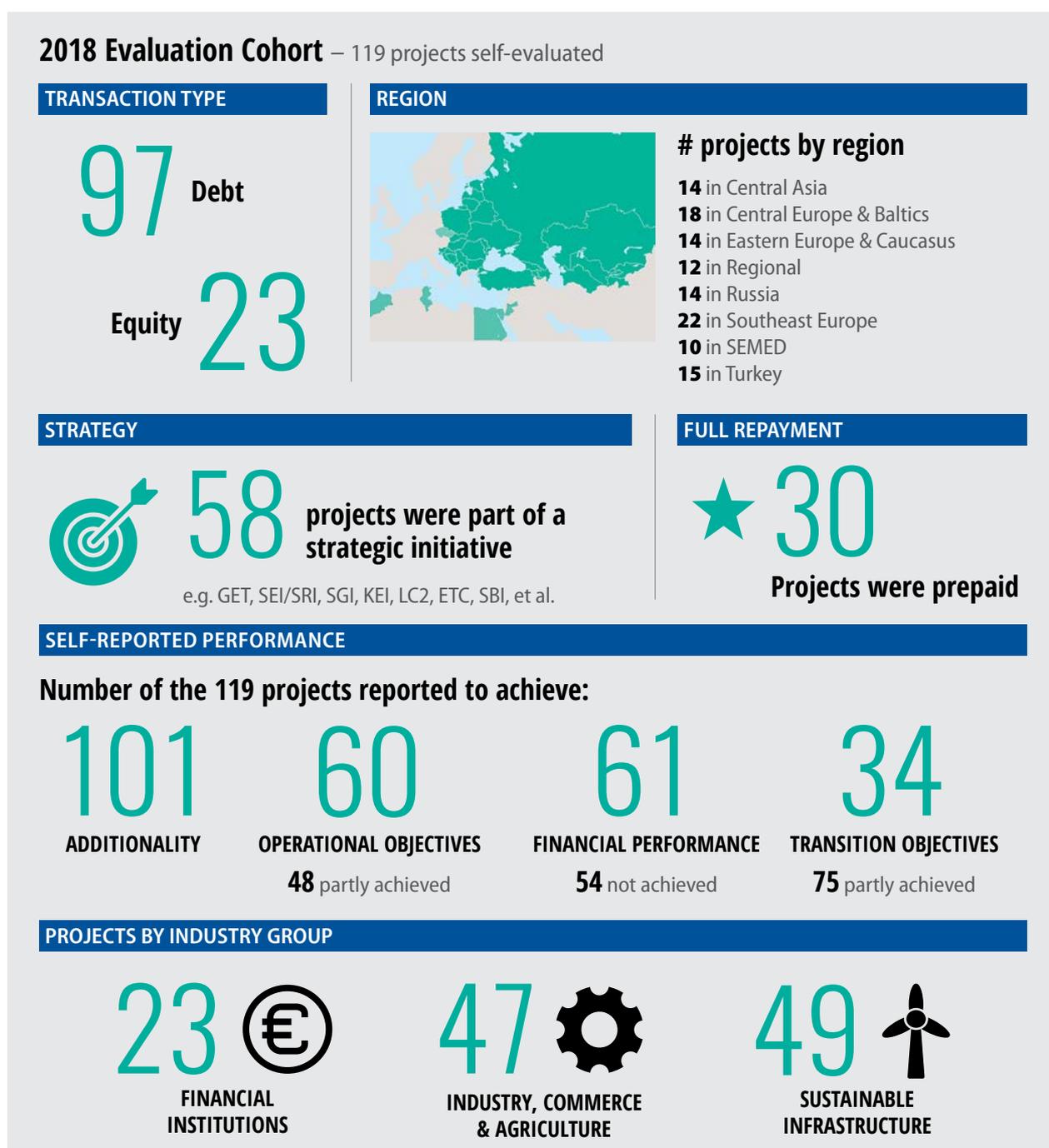
Results in 2018

More strategic evaluations to support EBRD's path forward

Based on the positive reception to the Annual Evaluation Reviews (AER) in 2016 and 2017, EvD will continue to try to integrate results from all of its evaluation products from the preceding year: reviews, validations, operation evaluations and thematic evaluations/special studies. In addition to evaluation reports produced, EvD reviews and comments on every self-evaluation produced by Management, which not only provides project-level data but also facilitates interaction between EvD and Operations teams.

Results

FIGURE 2. SELF-EVALUATION SAMPLE 2018



GET = Green Economy Transition; SEI = Sustainable Energy Investments; SRI = Sustainable Resource Initiative; SGI = Strategic Gender Initiative; KEI = Knowledge Economy Initiative; LC2 = Local Currency and Capital Markets Development; ETC = Early Transition Countries; SBI = Small Business Initiative.

2018 evaluation cohort

Before moving up to the strategic level, a review of EvD's work at the project level is in order. One-hundred and nineteen projects⁶ were self-evaluated by Management, reviewed by EvD, and then returned to Management for final edits and approval. One-hundred and twenty-six lessons learned were derived from the self-evaluation process and entered into the Lessons Investigation Application. A profile of the projects evaluated this year appears in Figure 2.

Interesting results from the data received from Management include:

- Nearly all the projects, 101 of 119, were self-reported as being additional.⁷
- Slightly more than half reported that the financial performance of the client achieved their benchmarks.⁸
- And only 34 reported achieving transition objectives⁹, 75 partly achieved them, and 10 reported not achieved. Two did not respond.

Validations

EvD completed 19 project validations. These projects were assigned results frameworks¹⁰ and project performance ratings, provided supplemental lessons where appropriate and culminated in an evaluation report distributed to both Board and Management.

In terms of overall performance ratings,¹¹ 12 of 19 ratings were Satisfactory or above with three projects being rated Excellent. Two projects were Highly Unsatisfactory and three were Unsatisfactory.

Generally, Management rated projects higher than did EvD. The most common overall rating among the OPAs was Excellent with eight occurrences (42%), followed by Good with six occurrences (32%),

6 One-hundred and nineteen projects were self-evaluated but a smaller number of OPAs were submitted. OPAs frequently cover multiple projects, that is, framework projects or multiple projects with the same client might be evaluated on one OPA.

7 Remainder indicated Partly, No, Not Applicable or did not respond.

8 Ibid.

9 For projects that are validated, the intended outcomes from the results framework are used as a proxy for transition objectives.

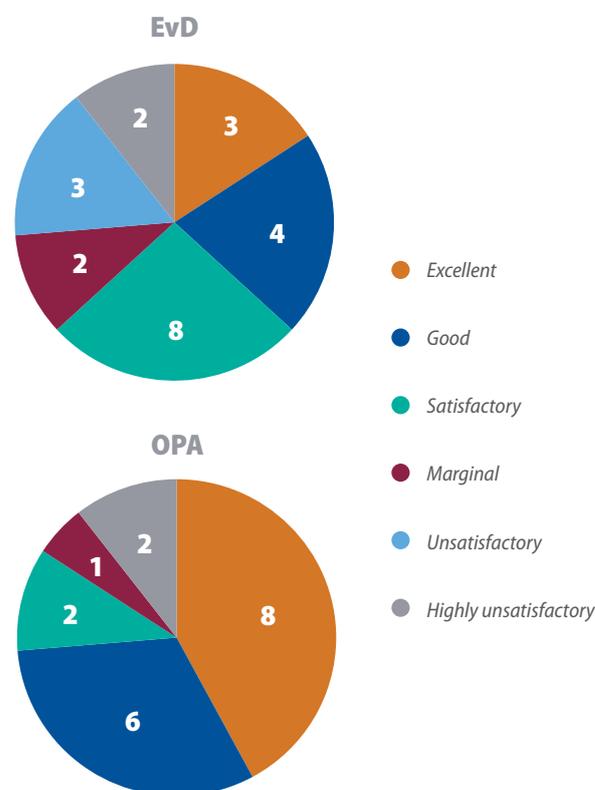
10 For projects where no results framework exists, EvD prepares a results framework based on the project document for Management review and acceptance.

11 Overall performance ratings have a six-point scale: Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Highly Unsatisfactory. Category ratings have a four-point scale: Outstanding, Standard, Below Standard, Deficient.

whereas EvD's most common overall rating in the validations was Satisfactory with five occurrences (26%), followed by Good with four occurrences (21%).

FIGURE 3. OVERALL PROJECT PERFORMANCE RATINGS 2018, EVD-OPA COMPARISON

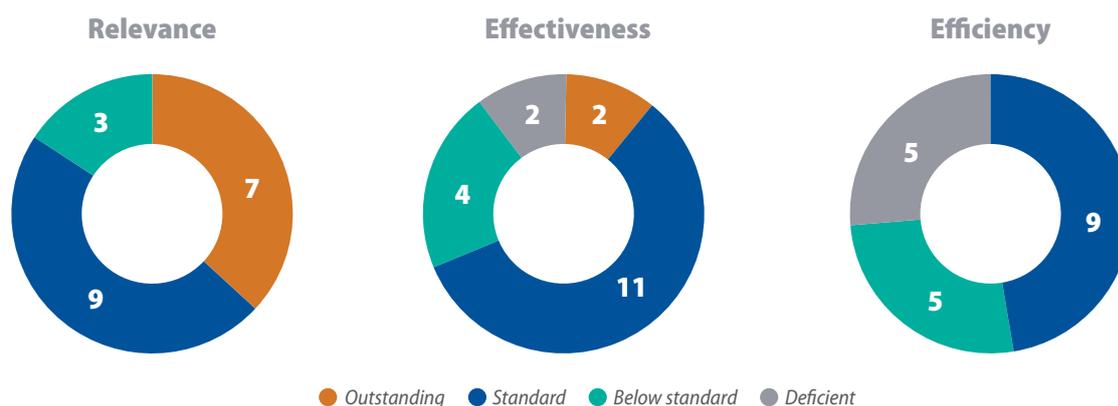
– Based on 19 projects self-evaluated and then validated by EvD



EvD ratings under the current methodology are based on the OECD-DAC criteria of relevance, effectiveness, and efficiency. Relevance assesses the intervention logic and design, and includes additionality as a component. Effectiveness assesses contribution to both outcomes and impacts and provides insight into transition impact. Efficiency assesses financial performance of the client and investment return and could be used as a proxy for sound banking.

Looking at the individual category ratings, the majority of the cohort of projects was rated as Standard or better. The relevance and effectiveness generally rated higher than efficiency because the financial performance of the client in a number of cases was Below Standard, meaning the client did not substantially achieve the projected financial indicators. It is difficult to identify a common reason for the Below Standard rating, but many of the

FIGURE 4. EVD CATEGORY PROJECT PERFORMANCE RATINGS 2018



projects cited lower than forecast revenues because of unforeseen market or regulatory changes.

Lessons from projects

EvD is the sponsor of the Lessons Investigation Application at EBRD. OPAs, validations and operation evaluations produce specific lessons learned at the project level, which are entered into the application. In years past lessons learned from EvD were formally incorporated as part of the project cycle. Several years ago, the project approval requirement was eliminated but operations teams are strongly encouraged to consult the Lessons Investigation Application prior to creating their approval documents for the Operations Committee. Some lessons are developed by EvD staff but most are developed by Operations teams conforming to a specified template and then thoroughly reviewed by EvD staff.

There were 126 lessons entered into the application in 2018. Colleagues are asked to identify the project phase that generated the lesson: due diligence phase, project planning and design phase, or implementation phase. Ninety-nine of the 126 lessons were from the project planning and design phase, which may indicate that EvD findings over the past number of years emphasising results measurements, linkage to strategy, appropriate resources, monitoring and reporting prove appropriate.

The most prevalent lesson in 2017 concerned the strength of the sponsor. When dealing with a new or relatively weak client in a less advanced transition environment, Operations teams felt it was critical to have a strong and active sponsor. In 2018 there were

eight lessons related to sponsors. There were five lessons related to rigorous and active monitoring, four related to the preparation of PPP projects and three related to the need to understand EBRD's speed and flexibility relative to commercial banks.

Of note in 2018, EvD made a subset of lessons suitable for public disclosure and then transferred them to the Global Delivery Initiative at the World Bank. The purpose was collaboration between the Knowledge Management functions at EBRD and the World Bank. Global Delivery Initiative staff incorporated those lessons into 'knowledge packages' concerning various types of projects gathering experience across IFIs. This was a pilot effort and future collaboration is possible.

Findings

In 2018 a significant amount of EvD's work focussed on Bank strategy. The team completed evaluations of the Energy, Transport, and Property Sectors along with the Infrastructure Project Preparation Facility, one of the Bank's key instruments in wider engagement with the Public Sector strategy, and Credit Lines, EBRD's main mechanism for financial intermediation.

Disconnect between country and sector strategies

Two of the major 2018 studies were the Energy and Transport Sector evaluations. In both of those studies, one of the key themes was the disconnect between country and sector strategies.¹² At EBRD,

¹² Country and sector strategies continue to evolve at EBRD and they have changed since the time periods reflected in the evaluation. The Review of Country Strategies evaluation, to be delivered in 2019, will assess some of these issues reflecting the more recent versions of these strategy documents.

transition impact is measured in principle at the country level and is thus driven by country strategy, whereas projects may reflect country strategies but largely are driven by market opportunities and tend to have stronger linkage to sector strategies reflected in monitoring frameworks in the project document.¹³ Sector strategies emphasise outputs or the use of proceeds; in short, what was built, purchased, disbursed. Country strategies emphasise outcomes or the effect of the outputs, for example reduction in carbon, marketplace expansion, more opportunity for women and youth.

What EvD found in both the Energy and Transport Sector evaluations is that the objectives and themes from the country strategy are generally not represented in the sector strategies. The sector strategies represent a choice of potential business opportunities without operational priorities that EBRD may pursue, but tend not to reflect how the transactions will advance transition in the countries of operation. As a result, EBRD may have mainly successful projects and sector-wide success in terms of business and high-level operational indicators, yet countries may still be 'stuck in transition'; thus greater connection between the operational and the aspirational is needed to understand why.

The Energy Sector Strategy (ESS) study noted:

Twenty-nine new Country Strategies presented a total of 99 thematic energy sector priorities, but operations (up to April 2017) were delivered to fewer than 40% of these. Overall, it is difficult to find much linkage from the ESS to country priorities to operational choices. The new Country results frameworks as developed thus far do not enable conclusions to be drawn at the sector level, which is one of their intended functions.

The Transport Sector Strategy (TSS) evaluation described:

EvD also looked at the extent to which TSS priorities were expressed in country strategies. Although there is a relatively strong link between country strategy priorities and at least two of the TSS outcomes, there is not much evidence of use of the TSS in setting sector priorities in individual country strategies.

¹³ Management purports that sector strategies are no longer formally part of the results architecture but they still play an important role in, for example, transaction development and performance monitoring.

Recommendations from these studies included:

The new TSS must provide substantially greater clarity on: i) how TSS and country strategies will be integrated operationally, ii) key performance indicators for strategic priorities, iii) how these will be reflected in operational team incentives and targets and iv) TSS implementation responsibilities and accountabilities. (Transport)

The Bank should clearly establish the purpose and standing of sector strategic documents of this kind in its wider strategic, operational and results architecture, including linkages to Country Strategies, other strategic documents, and new transition elements. . . . It should present strategic-level objectives for operations providing the basis for selectivity and sufficient to report on and assess sector-level delivery performance. (Energy)

Subsequent to EvD's findings, Management delivered a November 2018 Board Information Session, Transition Results Management Architecture Overview and Update, which explained that results are meaningful at all levels but the "country is the unit of accountability and reference for the transition mandate and results". However, EvD has emphasised that without clear linkages to other strategies or elaborated country strategies with specific goals and benchmarks, it is difficult to understand how work at the sector level contributes to transition at the country level.

The challenge of understanding results at the country level was reflected in other studies. The Credit Lines study looked closely at the difference between EBRD's traditional financial intermediation through partner banks and newer, more policy-oriented blended finance instruments, which are a rapidly increasing portion of EBRD's portfolio. The evaluation found:

The use of credit lines without blended finance is not strongly correlated with the assessed transition challenges at the country level. A large proportion of finance is directed to a small number of countries that do not necessarily have the greatest transition gaps. Significant challenges identified at country level, such as competition and market structure, are seldom targeted by individual operations.

EvD's report on the Infrastructure Project Preparation Facility (IPPF) also pointed out the lack of connectivity and opined, "IPPF's focus on

infrastructure should make it directly relevant to corporate and country strategies, but there is little cross-connection. IPPF outputs do not seem to contribute to country strategies, and project selection is driven by IBG business priorities". One of the main recommendations was for EBRD "... to develop standard methodologies to assess country-level readiness to support various forms of procurement and project delivery, and include these in its country strategies and updates".

On the whole, Management should be commended for the rapid development and fielding of results management systems at various levels of the organisation. The Bank has focussed the country as the unit of accountability and reference. In order to understand how operations impact countries and to fully elaborate a Theory of Change,¹⁴ more coordination between sector strategies, strategic initiatives and country strategies is still necessary. In 2019 EvD is preparing a Review of Country Strategies to provide findings that will inform future country strategy design and implementation.

Better strategic enunciation of IFI cooperation

An element of some, but relatively few, strategies is coordination among international financial institutions (IFIs). The October 2018 G20 Eminent Persons Group Report of Global Financial Governance expressly calls for better coordination and cooperation among the IFIs. And, as the European development architecture evolves, there will likely be a strategic drive toward closer collaboration and cooperation among IFIs. EBRD Board directors have conveyed to Management a desire for greater cooperation with sister IFIs. Mobilisation of IFI co-finance counts as part of Annual Mobilised Investment on Management's corporate scorecard. Yet, cooperation remains a continuing challenge for EBRD and the other IFIs. Several 2018 evaluations explored this theme including the aforementioned Transport Sector evaluation.

The Transport study found:

Similarly, the lack of specification around IFI cooperation in the TSS made it difficult to draw conclusions not only on the level of IFI co-financing,

but also in a number of other areas that the TSS spoke of, such as co-financing with IFIs in EBRD's early transition countries and SEMED countries, respectively, pooling grant resources, co-coordinating reform objectives, harmonising policies, joint IFI initiatives and enhanced cooperation with the EU.

The Property Sector Strategy evaluation focussed on cooperation with IFIs and international organisations and reported that only three property projects had co-financed with IFIs during the Strategy period. This was mainly a result of the availability of commercial co-financing, as a large majority of loans were syndicated to commercial banks, combined with the relatively low priority most IFIs attach to this sector.

The Property Sector Strategy mentioned that the EBRD was able to offer its expertise as "a strong supporter and advocate of progressive dialogue conducted by other IFIs, which have well-established programmes in the fundamental sector issues, such as cadastration and land management"; however, the strategy did not explain how this was to be done in practice.

In recent years, however, the Property & Tourism team has established partnerships with several international organisations, such as UNWTO (United Nations World Tourism Organization), UNDP (United Nations Development Programme), the Smithsonian Institution and the World Business Council. In conclusion cooperation with IFIs during the Strategy period was limited but three projects co-financed by an IFI signed in the first six months of 2018 indicate a recent intensification of such cooperation.

EvD completed two significant studies related to Financial Institutions in which the IFI cooperation theme emerged. In the Credit Lines study's look at blended finance, the following finding emerged.

A great deal of thought has gone into the development of blended finance facilities in recent years. They take a holistic approach to promoting finance for particular groups or uses. They tap into existing EBRD skills and processes in order to target both supply and demand issues, and explicitly aim to trigger a demonstrable impact. This is reflected in the focus of their objectives on skills transfer and demonstration effect. Addressing, as they often do, areas of focus for the entire international development community, such as green energy and women's engagement, they offer opportunities

¹⁴ A theory of change is a method that explains how a given intervention, or set of interventions, is expected to lead to a specific development change, drawing on a causal analysis based on available evidence. <https://undg.org/wp-content/uploads/2017/06/UNDG-UNDAF-Companion-Pieces-7-Theory-of-Change.pdf>

for greater cross-IFI collaboration. However, the evaluation team did not find any greater mention of such collaboration in project approval documents, suggesting that such opportunities remain unrecognised so far.

EvD also conducted an operation evaluation of lending instruments with the National Bank of Egypt (NBE) – SME, energy efficiency and Women in Business lines – which assessed the IFI cooperation issue closely. The evaluation found that the Bank's role in policy dialogue was limited because other IFIs were already engaged. The Bank, unlike some other IFIs (for example European Investment Bank and IFC) chose not to allow NBE to lend the proceeds of its loan at what became prevailing lending rates because of concerns over subsidies. This reduced the target market of its product offering. Key findings were:

Unlike in Eastern Europe, where EBRD had the advantage of being the 'first-mover' and remained the leader in policy dialogue for a long time, in SEMED many IFIs and donor organisations have been conducting policy dialogue for years. According to the Central Bank of Egypt, one of the primary targets for these organisations has been the improvement of the financing environment for SMEs. The Bank's policy dialogue action plan called for some actions that have already been undertaken by others, for example development of collateral law (by IFC and EFSA) or drafting of the SME Strategy, done by CIDA and ILO.

The Bank abandoned its other policy dialogue objectives when it realised they were already being addressed by other IFIs and donors (legislative changes and strengthening of credit bureaus). Ultimately, the Bank's advisors and Legal Transition Team (LTT) contributed in two ways: (i) advising on the regulatory environment, which fed into the SME Development Strategy (prepared by CIDA and ILO), and (ii) advising on improvements to the One-Stop Shops, created by NBE to encourage the formalisation of unregistered SMEs. They helped formalise over 4,000 SMEs.

Despite not being able to implement all of the policy dialogue objectives, the evaluation concluded that the client, "... highly prized the Bank's consistent engagement with it, which was often informal. They particularly appreciated EBRD's 'ideas' to address Egyptian financial system's deficiencies, as well as

the fact that EBRD remained engaged even in the most difficult time, when other IFIs reduced their involvement in Egypt".

Future strategies will be improved if they can outline where other IFIs will be competitors from a market perspective, co-financiers in transactions and partners in policy development with a trajectory toward collaboration and rationalisation.

Improved integration of policy dialogue

Connected to the recommendation of enhanced IFI cooperation was improved integration of policy dialogue in investment activity. In 2017 EBRD's Enhanced and Structured Approach to Policy Dialogue established two key tenets: define policy reform dialogue objectives and activities, and monitor and measure the results of policy engagement.

Several evaluations found a lack of policy dialogue objectives and activities at a strategic level. There were cases where the policy dialogue effort was readily apparent. The Energy Sector Strategy evaluation observed, "Activity was substantial across a wide spectrum of renewables and in multiple countries, with accompanying policy dialogue that is well appreciated by stakeholders. Major investments in oil/gas will likely contribute importantly to supply security". Also, the Transport Sector Strategy evaluation found, "There were also clear attempts in the TSS to include indicators of success and to map out the policy dialogue focus".

The Transport Study also found, "It (TSS) should include a stock-take and analysis of wider IFI activity in the sector, including diagnostics and policy dialogue, and identify EBRD's intended role and added-value". This was a recurring theme that strategies should better integrate policy dialogue using diagnostics and considering the activities of other IFIs.

A finding from the Credit Lines evaluation, "Significant challenges identified at country level, such as competition and market structure, are seldom targeted by individual operations. Many challenges are hard to translate into bankable projects and are better addressed through integrating finance with policy dialogue and training", was followed by a recommendation, "Where agreed, finance should be combined with specific policy dialogue and donor-supported

activities such as training, in close cooperation with other IFIs wherever possible, and in support of clearly identified country-level objectives”.

The Investment Climate evaluation picked up on the idea of trying to facilitate institutional change at the transactional level, “With transaction-driven engagement dominant, relationships with other IFIs and international organisations are often competitive while wider policy engagement requires collaboration and ‘coopetition’ (collaborative competition). Investment Climate support is a natural and largely unexploited area for synergy – particularly in diagnostics and policy dialogue”.

The IPPF study went further and explained that sponsoring a variety of activities is not sufficient. “The IPPF’s policy dialogue element has supported a variety of activities but does not appear overall to make an appreciable contribution, for several reasons.”

- Policy dialogue has been mainly conference/ seminar attendance, which perhaps raises awareness but does little to build capacity – a key need.
- EBRD has very little leverage over municipalities to effectively manage the assets or collect data on output performance.
- IPPF policy dialogue does not appear to have resulted in any new commercial or regulatory structures.

The National Bank of Egypt evaluation mentioned the importance of not undertaking diagnostics and waiting too long to engage in policy dialogue, “The EBRD didn’t play a prominent role, as intended, in the policy dialogue on improving the SME lending environment. This was partly because the Bank took a relatively long time (two years) to define the specific objectives of such dialogue”.

The Property Sector Evaluation did report that since 2017, “... the strategic focus of P&T projects was sharpened. Policy dialogue and TCs started playing a more prominent role ...”. In summary there are some strategies where policy dialogue is included and outlined using diagnostics. This has been accompanied by improvement in this area over time along with effective activities. However, the synthesis

is that strategies at EBRD should clearly specify the policy dialogue dimension with objectives, possible activities and indicators, including a diagnostic assessment and an understanding of what other IFIs are doing.

Challenges in monitoring

While EvD aims to be forward-looking and strategic, we also evaluate at the project level. One of the findings from 2018 project evaluations is the challenge to monitor effectively. One lesson from a Natural Resources project evaluation was the need for local monitoring, including site visits. In this particular case post-disbursement monitoring of use of proceeds, detailed invoice checking specifically, was necessary to avoid diversion of funds to other uses, which, in turn, delayed project progress.

A syndicated loan project posed a challenge. Given the absence of periodic reporting requirements for the use of the syndicated loan proceeds relative to transition impact objectives, EBRD had limited visibility on the progress of transition impact objectives and could not provide sufficient guidance to the client to fully meet such objectives. Going forward, it would be extremely useful for EBRD to receive regular reports, as part of covenant reporting packages, with the use of proceeds to monitor the progress of transition impact objectives in a timely manner.

There was a similar recommendation for a Manufacturing and Service equity project. When monitoring arrangements are made, there needs to be formal agreement with the client up front, market information on listed companies may need to be made publicly available prior to transfer to EBRD. Another challenge with a similar equity project was difficulty in monitoring transition benchmarks for the full life of the equity project, especially when attribution is difficult because the benchmarks are linked to general market conditions and not to the project specifically.

Management’s aforementioned changes to the Portfolio Management structure, including staff in the countries of operations along with increased specialised equity resources, will presumably serve to meet monitoring challenges going forward.



3

Special topics:
Credit Lines, Investment
Climate and Infrastructure
Project Preparation Facility

EvD delivered three important studies in 2017 that resounded with stakeholders and connected to ongoing dialogue about EBRD's strategy and future. These were the Credit Lines, Investment Climate and Infrastructure Project Preparation Facility evaluations. High liquidity and low interest rates and a growing emphasis on blended finance have brought the use of traditional financial intermediation into focus. EvD completed a comprehensive review of 672 financial intermediation projects or 'credit lines' to provide lessons. Investment climate is a major source of discussion at EBRD as a method to unlock investment – particularly important after the strategic direction from the Board of Governors to find new paths to increase investment in existing countries of operation. The evaluation assesses the Bank-wide effort toward investment climate reform, with case studies in Albania, Egypt, Kyrgyz Republic and Ukraine. EvD completed a thematic evaluation of EBRD's Infrastructure Project Preparation Facility, the Bank's main instrument for facilitating Public Private Partnerships in its countries of operations. Management incorporated many of the findings and recommendations into its expanded and reorganised implementation of the Facility. This section contains two-page summaries of each of these studies.

Credit lines

Background

Lending through financial intermediaries, informally referred to as 'credit lines', has been a significant part of the Bank's operations since its inception. Credit lines have allowed EBRD to reach larger numbers of smaller borrowers than possible through direct lending, and alongside other forms of support have contributed to financial sector development and growth of strong partner intermediaries. The evaluation examined the design, targeting, execution, monitoring and effects of a large sample of recent credit lines, defined for its purposes as "term loans extended to financial intermediaries with a defined use of proceeds".

The Bank has actively broadened its use of credit lines to target specific challenges and perceived new opportunities in other areas such as clean energy frequently using credit lines incorporating blended finance. These specifically targeted operations typically build the traditional credit line model into a broader package including elements of concessionality and TC.

This report focused principally on the market context, strategic approach and signed operations of the period 2011-2015. The Financial Institutions Group identified 672 facilities committed during this period, of which 374 were new approvals. These operations formed the basis of EvD's review of the portfolio and of operational relevance, design and monitoring.

Main findings

Despite the importance and ubiquity of credit lines in Bank operations and strategic commitments, the Bank lacks a clear definition of what they are; there is no formal strategic framework setting out their role in contrast to other types of engagement with financial intermediaries (such as equity, quasi-equity, bonds) or with MSMEs (direct finance, equity funds); nor is there clarity on integrating credit lines with other activities such as policy dialogue or technical assistance.

There has been a major evolution in the objectives and design of EBRD's credit line instrument, reflecting both demand and strategic drivers, which has resulted in rapidly expanding use of blended finance and related need for supplemental concessional funding.

There are fundamental distinctions between blended finance facilities and other credit lines in terms of purpose, structure and potential for monitoring and reporting.

- **Purpose:** Traditional credit lines contribute to the Financial Institutions Group's core mandate of building the financial sector in countries of operation, while also channelling finance directly to the real economy. Blended finance facilities use the financial sector as an instrument to address other strategic objectives.
- **Structure:** Although many credit lines have donor finance attached, blended finance

facilities are a package of interdependent components, of which the credit line itself is only one. Their complex structure has implications for resourcing, design and management.

- **Monitoring and reporting:** Blended finance facilities bring additional potential for monitoring and reporting on effects at the level of the sub-borrower. This is because of an increased ability to track individual sub-borrowers for such narrowly targeted instruments, and the often substantial use of donor-funded consultancy support for implementation.

Treating credit lines with and without blended finance as variants on a single instrument brings a lack of clarity on what the Bank is trying to achieve, where it should focus its efforts and whether it is achieving desired outcomes; it also represents a missed opportunity in these areas.

The use of credit lines without blended finance is not strongly correlated with the assessed transition challenges at the country level. A large proportion of finance is directed to a small number of countries that do not necessarily have the greatest transition gaps. Significant challenges identified at the country level, such as competition and market structure, are seldom targeted by individual operations. Many challenges are hard to translate into bankable projects and are better addressed through integrating finance with policy dialogue and training.

Enhanced monitoring has been used to good effect in specific cases of purpose-focussed blended finance such as Green Economy Financing Facilities (GEFFs) and in Advice for Small Business (ASB). However, this higher level of ambition on targeting and monitoring has not been widely applied.

Blended finance facilities have discrete and incremental resource costs compared with other credit lines. These are intrinsic to the implementation of the operations and are primarily of benefit to the Bank rather than to clients or sub-borrowers. Therefore they should be seen as regular operational costs for the Bank rather than special donor-funded enhancements to the Bank's offering.

Recommendations

- The Bank's next Financial Sector Strategy, **due by 2021**, should incorporate a strategic review of credit lines. It should include the following:
 - Define and clarify the two types of credit lines with and without blended finance.
 - Clarify selectivity criteria for the use of credit lines without blended finance, specifically in countries where financial sector development or increased access to finance for MSMEs are identified as key transition challenges and strategic priorities through focused, country-specific diagnostic work.
 - Examine alternative administrative/management arrangements including separate management of credit lines with and without blended finance, with coordination through the existing Financial Institutions Group relationship manager.
- **In the case of blended finance facilities, the Bank should review a sample of sub-borrowers to report on outcomes at that level.** As a minimum, the process should be modelled on the review process it has developed for ASB assignments, where the Bank follows up each assignment one year later to measure changes in the client's business performance, compared with the baseline assessment it conducted at project initiation.
- **The Bank should consider more widely applying its Partnership for Growth model** under which it engages in a multi-year agreement with a client to provide finance in tranches subject to normal credit considerations and the client's satisfactory performance against agreed performance objectives.
- **Management should clearly identify the resource implications of these changes**, including the incremental marketing, monitoring and control costs of blended finance facilities. Activities that are effectively core business should be funded by the regular budget. Consolidation should be considered for activities and donor funding now done on ad hoc basis.

Investment climate

Background

This evaluation identifies the principal objectives and components of the Bank's work on investment climate (IC) improvement, assesses the effectiveness of design and delivery, and presents findings and conclusions that may contribute to programmatic performance in the future. Its intended scope includes efficiency and resource deployment across multiple work streams and observable contributions toward IC improvements, including analysis of the Investment Climate and Governance Initiative (ICGI) and other initiatives, and case studies. Its principal purpose is to draw out findings relevant to existing and emerging operational and strategic priorities and provide evidence-based insights useful for future programme design and delivery and internal learning.

Main findings

There is no clearly articulated institutional strategy for investment climate

Since the 2013 'Stuck in Transition' report, the Bank has made multiple efforts to strengthen its IC support. This includes new institutional architecture to strengthen policy dialogue, various IC initiatives, a dedicated governance team, and a redefined transition concept which emphasises 'well-governed' and 'competitive' as key transition qualities. Fourteen current country strategies explicitly prioritise improved investment climate/business environment and a level playing field for investors. These steps reflect implicit recognition of the need for a more systematic response to the deep-seated IC challenges in the COOs. Nevertheless, the Bank has not yet drawn up a more comprehensive strategic vision. The ICGI includes many positive elements but lacks a strategic framework, observable targets and a timeframe to assess performance. It is an initiative with strategic-level aspirations but without an agreed strategy for execution.

Objectives are clearer at country level, and a workable country-level model is in place

In four specific country cases the Bank's intended role and operational priorities were grounded in identified challenges and the Bank's operating

context; objectives are clear and inputs relevant to their achievement. MOUs between the EBRD and partner governments on governance and corruption improve the strategic fit of Bank activities and contribute to mutual trust and commitment.

Transaction-specific work is much better supported than multi-year or multi-country efforts

Administrative processes are geared towards transaction-driven engagement and often fail to support longer-term, transformational initiatives. Although the Bank has specific IC expertise within various teams, inputs and activities are widely dispersed across different teams both in Headquarters (HQ) and Residential Offices (ROs). The Bank's field presence is a clear strength – the application of context-specific local knowledge and skills put the Bank ahead of some of its international counterparts. In some instances, particularly in newer countries of operations, the very fact that the Bank is on the ground is a symbol of transition and a transition impact in itself. However, horizontal mobility is limited and blockages to sharing information, especially between HQ and ROs, can lead to gaps or inconsistencies in relations with external partners.

Activities beyond those that are transaction-driven are often short of funding and human resources, and rely exclusively on donor funds. The lack of a structure/support for multi-year or multi-country work should be addressed.

There are successful individual IC support activities, but higher effectiveness is only just emerging across work streams, particularly for ICGI

Many specialist policy teams – governance, legal transition, economists, integrity and compliance, civil society, policy hubs in banking – deliver good outputs and outcomes for specific elements of investment climate. Many enable new transactions, while others work to change institutions and behaviours (that is, business compliance networks). Project-by-project assessment, even when compiled as in the ICGI biannual review, is insufficient to understand gradual progress in a complex area. Short timelines, diverse donors, intermittent inputs and activities need more coherent and systematic monitoring and reporting.

It is difficult to establish causal links between activities and specific outcomes

IC support activities have often developed ad hoc and opportunistically, without clear and measurable goals or intended results; monitoring and internal evaluation has focused on inputs, activities and outputs. The lack of higher-level goals means that there are no metrics and baselines against which progress can be measured in a meaningful and reliable way. Poor documentation and/or inconsistent delivery of IC support activities are real obstacles to linking activities to outcomes.

Internal learning from operational experience is limited and inconsistent

Despite recent changes, there is insufficient internal communication and collaboration on IC support. A knowledge management system is only just emerging and remains partial. Although cases of successful internal knowledge management and sharing do exist, they are more personality-driven than institutionally enabled. Platforms on which to share lessons and develop new approaches are limited. A hierarchical, siloed approach and a limited corporate culture of sharing still frustrate drawing full value (and competitive advantage) from accumulated experience.

Recommendations

Institutional efforts to strengthen the EBRD's effectiveness in improving the IC are relatively recent and do not lend themselves easily to evaluation. Efforts along the following lines would substantially strengthen the Bank's performance and profile.

- **Prepare a strategy on IC Support for Board approval.** The document should contain clear objectives, baseline indicators, timeframe, institutional accountability and other essential elements of a proper strategy. The strategy should both integrate and contribute to the improved country strategy and transition approaches; a three to five year focus on specific COOs/region where IC challenges and opportunities are greatest should be explicitly considered.
- **Ensure adequate leadership and resourcing for IC as a strategic priority.** If improvements

in the IC are identified as a fundamental precondition to achieve Bank-wide objectives, Management should consider core multi-year funding for IC activities. This could be a dedicated funding pool in the SSF, covering essential elements of wider policy engagement, such as diagnostics, country strategy content, country presence for the governance cadre, collaboration with other IFIs and confident fundraising activities. Supplemental project-specific funding could still be available from donors.

- **Build the basis for improved internal and external cooperation and synergy.**

A communication and knowledge management plan should be included in the proposed strategy. The institutionalisation of information flows and purpose-driven knowledge management will help build success stories to convince potential partners/donors of the EBRD's ability to deliver high-quality results.

Infrastructure Project Preparation Facility

Background

Large infrastructure financing gaps in EBRD countries of operation have long been identified as a key challenge and opportunity for the Bank. EBRD estimates COOs annual infrastructure investment need at close to \$500bn, well in excess of current levels. The World Bank Group estimates that only about half of an annual global investment need of \$2000bn is now being met. Many IFI initiatives thus seek to scale up private finance mobilisation by improving enabling environments, strengthening project preparation facilities to build bankable pipelines, and designing new financial instruments to help bridge project risks and financier risk appetite.

The EBRD IPPF was a high profile initiative approved by the Board in October 2014 to scale up infrastructure support, especially for private investment. An additional 30 projects were expected to be prepared over 2015-2017, including both public and privately financed infrastructure using PPPs, and across all countries of operation. The IPPF was allocated €40mn from the Shareholders Special Fund (SSF) for the period.

On approval of the IPPF, the Board requested a stock taking after three years. This interim review by the Evaluation Department is intended to assess IPPF's performance against its wider objectives, identifying any early results and difficulties, and its potential to be a co-investment multi-donor fund for specific countries and sectors.

Main findings

Performance has differed substantially between the sovereign and private windows. Sovereign support is well in excess of private, although initial allocations anticipated a 50/50 split.

- The SSW has 27 projects as of July 2017, against its current target of 15. The SSW is working well at mobilising consultant teams; and the average time from initiating project preparation to expected signing is 1.1 years, although virtually all projects use traditional public sector foreign currency loans.
- On the other hand, demand for PPPs and use of the PPW has been much less than expected. Only two PPW projects were under preparation as of end 2017, rather than the seven to ten forecast in the business plan. Three new PPW projects have been signed but execution is doubtful in the envisioned timeframe.
- Different cost-sharing arrangements used by the two windows drive different results. Under the SSW clients contribute in kind at 3 per cent of the total TC, but the TC itself is non-reimbursable. Under the PPW clients pay 10 per cent of IPPF's costs.
- Public sector clients are unwilling to pay project preparation costs when they have ready access to non-reimbursable TC from other donors.
- However, the PPW also faces direct competition from the SSW as governments can access this window for free. PPW contracts present additional risk because early termination means all consulting costs must be reimbursed.
- Because PPW contracts are time-bound (three years), the only way the IPPF can recover its money is by reaching financial close within this timeframe, irrespective of the readiness of the project.

Locating the IPPF inside MEI reduces its potential benefits and effectiveness. Access to streamlined

project preparation is not open to other departments such as ICT, P&E and E2C2 that would benefit. Embedding a PPP advisory function in a business unit primarily focused on sovereign lending is clearly sub-optimal; MEI does traditional foreign currency public sector lending, with limited private external finance. Perceived conflicts of interest from MEI's operational status undermine its ability to contribute to policy formulation and engage with its clients.

IPPF's policy dialogue element has supported a variety of activities but does not appear overall to make an appreciable contribution, for several reasons.

- Policy dialogue has been mainly conference/seminar attendance, which perhaps raises awareness but does little to build capacity a key need; IPPF support may substitute for capacity development within governments.
- Conferences cover both commercialisation and investment related topics, but without apparent linkage to downstream project outputs and outcomes.
- EBRD has little leverage over municipalities to effectively manage the assets or collect data on output performance; Public Service Contracts are meant to mitigate risks, but in practice these contracts cannot be enforced by EBRD.
- IPPF policy dialogue does not appear to have resulted in any new commercial or regulatory structures.
- IPPF's focus on infrastructure should make it directly relevant to corporate and country strategies, but there is little cross-connection. IPPF outputs do not seem to contribute to country strategies, and project selection is driven by IBG business priorities.
- IPPF transition indicators include skills transfer and changes to market structure to increase the delivery and replicability of priority infrastructure. However they assume a base of three separate projects within a single country; this has not been accomplished for PPPs but rather for sovereign projects likely to add little that is new.
- While IPPF's demonstration effects may have some impact, there are a wide range of hard constraints preventing government agencies from contracting with the private sector that are

a much more important issue. Wider experience confirms the central importance of developing risk mitigation instruments and other forms of government support needed to make PPP projects bankable.

Recommendations

The Bank should:

- **Develop standard methodologies to assess country-level readiness to support various forms of procurement and project delivery**, and include these in its country strategies and updates.
- **Develop and apply a Value for Money approach to support infrastructure funding proposals** presented to the Board for large infrastructure projects in excess of €50mn that may be suitable for development as PPPs.
- **Revise the current structure of the IPPF by transferring the PPP preparation function and associated funding to a new unit independent of banking operations**, where its services are available to all infrastructure banking operations within EBRD and establish the following sub-functions within it:

- Centralised PPP Policy Unit
- PPP Advisory Unit to provide upstream services to government on a fee for service and through the provision of a range of grant, loan and guarantee instruments
- PPP transaction advisory on a fee for service and grant basis
- PPP consultant management unit.

- **Prepare an end of term Business Case report on IPPF for the Board that identifies the VfM generated by SSF funds allocated to each of its projects**, which is set in the context of all TC funds available to IBG, with a view to determining the amount and sources of funds required for future IBG project preparation support for traditional public sector projects.
- **Prepare a Business Case for the Board providing details on the organisation structure, staff, resources and sources of funding required for the establishment and operation of a new PPP Unit with a Bank-wide remit.**



4

Outlook for 2019:
expectations, changes
and advances

EvD expects 2019 to be a year of substantial delivery on its core mandate – acting as both the cornerstone and main driver of an effective and efficient evaluation system in the Bank. This section summarises a few selected areas of particular interest to the Board and Management.

The Department's 2018 Work Programme continued a significant shift in the composition of EvD's products and services. The intent was to prioritise evaluation work that provides both Board and Management with high-value analysis, findings, insights and recommendations on matters of direct strategic interest and relevance. Particular emphasis was placed on shorter and more timely evaluations delivered in anticipation of pending strategy deliveries by Management. Both Board and Management have noted on multiple occasions that EvD should seek to provide high-value findings on strategic issues upstream of decision points wherever possible. The 2019 Work Programme will continue in this direction further.

Major studies for delivery in 2019

- **Delegated Authority:** EBRD has markedly increased its use of delegated authority for approval of projects in recent years. At the Board's request, EvD will look at the effects and implications of delegated authority including experience with organisational reporting and project performance.
- **Climate Initiatives:** An evaluation of an evolving set of strategic initiatives – Sustainable Resource Initiative to Sustainable Energy Initiative to Green Economy Transition – designated to reduce energy waste and greenhouse gas emissions, but also EBRD's fastest growing area of business.
- **Women in Business in Turkey:** An evaluation of a programme lending to female owned SMEs supported by the Financial Institutions, Gender, and Advice to Small Businesses teams in one of its largest countries of operation.
- **Legal Transition Programme:** EvD will evaluate selected elements of this flagship programme to support operations and policy dialogue in many areas.
- **Review of EBRD Country Strategies:** A review of Country Strategies assessing operational selection, integration of policy priorities and linkages relating to results architecture, the

transition mandate and the strategic planning process.

- **Hydropower in Georgia:** A long-term summative evaluation of EBRD's efforts in the hydropower industry in Georgia looking at market, regulatory, design and financial influences.
- **Policy Dialogue Support in SEMED Countries:** An evaluation of structured policy dialogue efforts in EBRD's newest region.
- **Review of Mongolia Mining Operations:** A cluster evaluation of projects in the mining sector in Mongolia providing specific insights into achievements in Mongolia and EBRD's largest project.

EvD will also expand the pilot offering of briefing papers for Board Consultation visits. The briefing papers, syntheses of previous evaluations combined with current issues, will be produced for each Board Consultation Visit in 2019.

External evaluation

Begun in 2018 under the leadership of the Audit Committee of the EBRD Board of Directors, an independent external evaluation of the Bank's evaluation system in general, and EvD specifically, is expected to be delivered in 2019. EvD will continue to provide information to the external evaluator and support to the evaluation as directed by the Audit Committee throughout the process.

Evaluation evolution and enhancement continued

In 2018 EvD made strides to provide better decision support to the Board of Directors specifically, and to the organisation in general, without changing basic products or methods. This was evidenced by completion of the Energy and Transport Sector evaluations in advance of the new proposed strategies by Management, and undertaking of the Delegated Authority evaluation at the request of the Board. In 2019 not only will the Delegated Authority evaluation be delivered but also EvD will

continue to time completion of evaluations in sync with deadlines for strategies and other documents as frequently as possible.

This is part of an effort by EvD and the larger evaluation community to be more forward-looking and strategic in evaluations. Although ex-post evaluations remain the core of EvD's work, completing evaluations earlier, possibly in real-time, and being more focussed on future results is emphasised over concentrating on a forensic analysis of performance from projects completed years earlier.

Based on the results of the external evaluation and an assessment of the self-evaluation process, EvD anticipates making changes to some products and methods in late 2019 and 2020. A challenge will be the numerous changes at EBRD, the fielding of the new transition impact systems, eventual widespread use of a single results matrix at project inception and the reorganisation of the Portfolio Management department, EvD's main point of contact for the self-evaluation system. Furthermore, the benefits of better evaluation tools and increased access to data through EBRD's IT system enhancement project do not appear to be near-term prospects. External factors will also play a role as the OECD-DAC's evaluation criteria, the key methodological construct of international development evaluation, are undergoing changes and the G7's objective for greater uniformity and collaboration among the IFIs may extend to the evaluation departments.

In summary EvD will continue to increase the relevance of its products in 2019 through creating more strategic and forward-looking evaluations, and will embark on necessary changes to evaluation systems reflecting available resources and intervening environmental factors.

Improving methodologies and techniques through international engagement

Based on the positive feedback received from the 2018 EvD attendees, a cohort of EvD staff will attend the IPDET Training in July 2019 in Bern, Switzerland.

EvD will continue to explore best practices in private sector and international development evaluation in 2019. An EvD delegation will attend the 2019 Evaluation Cooperation Group meetings in Thessaloniki and Abidjan, and EvD will be represented at the February OECD Evalnet meeting. In concert with ECG the Chief Evaluator will attend a joint meeting of IFI Evaluation Department heads and Audit and/or Development Effectiveness committee chairs in Washington. EvD also anticipates presenting the final peer review of IFAD in Rome, delivering a presentation at Asian Evaluation Week in China, and appearing on a panel at the Aid and Trade conference in London.



Annex 1: Management comments

- Management thanks the Evaluation Department (EvD) for the AER 2018 and the insights provided through several studies and collaborative efforts throughout the year. Management also appreciates the continued move toward more ambitious and thematic, rather than single operation, valuations, which support strategic decision-making processes.
- Management appreciates the timely evaluations of sector strategies, an integral tool in preparation and drafting of the new strategies. As a result, recommendations emanating from studies on LC2, Energy, Property and Tourism as well as Transport sector strategies were incorporated into new strategies or approaches.
- Management remains committed to addressing recommendations raised by individual studies and evaluations. The latest update on management follow-ups was presented to the Audit Committee in November 2018. To that end, Management appreciated the reduced number of recommendations issued by EvD, which has improved their focus and Management's ability to follow-up and report on key areas.
- Management notes that as with past reviews, it will not comment here on individual studies as comments are provided for each in the respective review processes.
- Management is also thankful that the collaborative work to enhance the reporting process is acknowledged, although would argue that the follow-up clearly identifies teams and individuals responsible for individual actions. Management maintains that interaction with Banking and VP3 as separate focal points is operationally more meaningful in mobilising the responsible parties and their close cooperation, as it ensures a consistent view and response to EvD studies.
- Management thanks EvD for the acknowledgement on the improved results measurement systems. Addressing the need to elaborate on the coordination between sector strategies, strategic initiatives and country strategies, Management provided the Board with an update in November 2018, as mentioned in the AER.
- Management acknowledges EvD's findings on existing challenges in monitoring and notes that with the reorganisation of Portfolio Management function and increased dedication and resource allocation, it expects to improve the project implementation, local business intelligence and overall portfolio quality using better analytical tools and rigour.
- Management appreciates the enhanced approach to ensure consistency in the project selection for the self-evaluation process and looks forward to seeing this continued in the coming years.
- Management would like to thank EvD for contributing to training of banking teams in 2018 and for its continuous contribution to improvement of the OPA process.
- Management thanks EvD for the continued collaborative effort across the Bank beyond studies and evaluations through Knowledge Management, training and other contributions.
- Management looks forward to the upcoming studies identified in EvD's Work Programme, particularly as EvD seeks to provide further high-value findings on strategic issues.

Acknowledgements

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We invest in changing lives

European Bank for Reconstruction and Development

One Exchange Square

London

EC2A 2JN

United Kingdom

Evaluation Department

Tel: +44 20 7338 6000 (Switchboard/Central Contact)

Fax: +44 20 7338 6726

Email: askevd@ebrd.com

URL: <https://www.ebrd.com/what-we-do/evaluation-overview.html>

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