

EvD SPECIAL STUDY: Evaluation of the Shareholder Special Fund (2016-2020)

Management Comments

1. Executive Summary

- This is a timely report and Management values the quality of the review, its findings and recommendations. The reflections in the report mirror Management's view of the positive changes made to the Shareholder Special Fund (SSF) over the years and where would like to see progress going forward. Since its start, the SSF has undergone many reforms. This has continued since the last EvD evaluation in 2014 as the Fund adapts to the Bank's new priorities and realities.
- Management appreciates the acknowledgement of efforts made to align the SSF with the Bank's strategic priorities, sectoral and country strategies including the aim for full Paris Alignment and the 2021-2025 Strategic and Capital Framework (SCF), and the increased focus on countries facing the largest transition challenges. In particular, the latest SSF WP 2021-2022 is aligned to the three crosscutting themes of the SCF.
- Management systems for project approvals have now been updated and include compulsory indicators for SCF alignment for proper monitoring of compliance. Furthermore, Management fully concurs with the importance of the SSF for the design and implementation of investment transactions, policy work and many flagship initiatives. It is also universally recognised that the SSF plays a complementary role to donor finance, and both leverage additional donor resources and support activities for which donor funds cannot be identified.
- Management fully agrees with the recommendation 1 to review the adequacy of SSF funding on a regular basis and is of the view that this is an important process to ensure predictability for the Bank and foster its ability to plan ahead.
- Management appreciates the references to the strong role that the SSF has played in crisis response, particularly during the COVID pandemic and the Syria crisis. This high degree of adaptability and flexibility has been tested again with the war on Ukraine, where a rapid reallocation of funds has enabled the Bank to engage proactively at the start of the crisis, and before alternative donor support had been mobilised. Management agrees with Recommendation 2 to incorporate more flexibility in the management of future allocations for specific crisis allocation and as funding needs change across priorities.
- Management notes the comments on improved reporting and shares the evaluators' views on the need to continue improving the monitoring and management of SSF resources. Management has focused strongly on improving the financial and strategic controls of SSF use in recent years. This has enabled a better overview of SSF usage and assessment of compliance with strategic priorities and facilitated transparency. Management agrees with Recommendation 3 to report on SSF control mechanisms 3, 4 and 5 to the Board on an annual basis.
- However, Management would like to emphasise that, in spite of progress achieved on SSF controls, swift usage of SSF resources depends ultimately on general factors affecting project implementation by SSF user teams. Equally, efficient fund management is affected by significant limitations of existing information systems that render many tasks manual and time consuming.
- Management notes the comments on improved portfolio reporting – piloting a sectoral approach in 2021 and rolling this out fully in 2023 - will give a more holistic view of delivery. Management shares the evaluators' views on how to continue to improve this going forward but underlines that improved results-based aggregate reporting will require improved project management systems.
- There are ongoing efforts to review the entire end-to-end process of managing and reporting on grant resources as part of the Multi-Year Investment Plan. While this will take some time to complete, a coherent system for producing, monitoring and reporting on all use of grants types across the Bank should allow for enhanced efficiency and quality control of the reporting process that will serve to provide for a better overview of Bank results. Management agrees with Recommendation 4 and will support further work on

IT solutions to provide real-time information and utilise suitable system solutions with the Transformation Team.

- The Bank's donor agenda has been undergoing reform in recent years. It covers multiple areas such as a broader clarification of roles and responsibilities when it comes to managing donor relations and funds, organisational reform, introduction of new processes, and the design of an end-to-end programme management system with related IT upgrading. These reforms will have a positive impact also on the management of the SSF and help tackle some of the bottlenecks and challenges identified by this evaluation.

Management provides detailed comments below on each individual recommendation.

2. Study Recommendations

Strategic recommendations

Recommendation 1: *A review of the adequacy of the SSF level of funding and its sustainability will be valuable to ensure that the Fund can continue being instrumental in driving the Bank's transition impact. With the mid-term SCF period fast approaching as a time to reflect on strategic priorities, alongside EBRD response to the compounding and multiple global crises in its CoOs, this offers a timely moment for reflecting on the level of the SSF support that will be necessary to deliver the Bank's mandate and ambitions in the next period*

Management agrees with this recommendation. Management is of the view that ensuring access to an appropriate level of SSF funding on a regular basis is important to ensure predictability for the Bank and to foster its ability to plan ahead, while also increasing its ability to tackle any unexpected crises.

The SSF is sourced from net income. At present, net income allocations for the SSF are made on an annual basis and within the Framework for Net Income Allocation Proposals. The size of the SSF is thus directly affected by the financial results of the Bank.

The annual allocation of net income in recent years has oscillated around EUR 100 million. It is clear that a future geographic expansion plus any significant increase of its ABI levels compared to today, would suggest a need for higher donor support. In view of the importance of the SSF for the delivery of the Bank's ambitions and business plans, this may also necessitate increased regular SSF allocations.

In 2022, the Bank has piloted a new sequencing to the annual SSF net income allocation following a request from the Board, where a SSF funding needs analysis was carried out prior to any net income allocation and Work Plan approval. This first such analysis showed an important increase in needs due to the volatile environment caused by the war on Ukraine with significant economic impact on the Bank's countries of operations. In times of global economic crises with a subsequent impact on the Bank's financial situation, demands on SSF resources may exceed available funds. In such scenarios, it is important to look at the SSF in conjunction with the ability to mobilise additional donor support.

Recommendation 2: *Make the adjustment of initial funding allocations, as part of the SSF crisis response sub-accounts/ vehicles, more flexible and strengthen the learning loop to maximize the use of the SSF as a crisis response tool. Concretely, consideration should be given to the possibility of creating a built-in mechanism/ procedure allowing a swift reallocation of funding across priorities/pillars/windows under future SSF sub-accounts/ vehicles set up to respond to crises, should needs change with regard to an ex ante assessment. In addition, SSF-funded expenditures on diagnostics work and real-time monitoring should be facilitated from the outset.*

Management agrees with this recommendation. Management agrees that incorporating more flexibility in the management of allocations for a specific crisis allocation is desirable and will take this forward in any forthcoming dedicated crisis allocations from NIA. In-built mechanisms allowing a swift re-allocation of funding across priorities if needs change, as well as sufficient funding for initial diagnostics and real-time monitoring, will be incorporated.

Technical recommendations

Recommendation 3: *Improve the SSF resources monitoring and reporting: Enhance the SSF results reporting (including to Board of Directors) by adding regular (at least on an annual basis) analysis on the SSF Control Mechanisms 3,4 and 5, to increase transparency, identify disbursements' bottlenecks, and ultimately contribute to increased efficiency in the use of the SSF financing.*

Management agrees with this recommendation. Management agrees with the need to continue improving the monitoring and management of the SSF resources, with a view to reduce inefficiencies and dormant funds.

Management would like to stress that DCF already undertakes regular controls in line with the Control Mechanisms and engages with user teams to ensure effective fund use. For example, DCF has introduced a quarterly financial update for user teams with the status of the current work plan. DCF is also undertaking regular exercises with user teams to check on and close inactive projects, and to point to funds with limited disbursement. These exercises generate savings, which DCF, on an annual basis, put forward as inputs to the establishment of the annual net income allocations.

Management agrees to report on the SSF Control Mechanisms 3, 4 and 5 to the Board of Directors on an annual basis.

Management would like to emphasise that SSF monitoring of control mechanisms has been hampered by existing systems and the inability to access relevant data on SSF usage from a single source. In consequence, the reporting on SSF control mechanisms 3, 4 and 5 to the Board will still take place mostly on a manual basis, drawing on inputs from several systems and information from user teams.

Recommendation 4: *Set-up a comprehensive and up to date on-line platform/ tool accessible to SSF users. Comprehensive and regularly updated on-line platform/ tool offering an overview of all available donor funds, and ability to run searches by key eligibility criteria (sector, product and country at the minimum), needs to be set-up, piloted, operationalised and made accessible to the SSF users by end-Q1 2023.*

Management agrees with this recommendation. Management will support any further work on IT solutions to provide real-time information. Together with the Transformation Team and its predecessors and the IT Department, DCF is working to prepare the following tools:

Phase 1: "Donor availability tracker" to provide information on available donor funds for all EBRD teams. It will be available on EBRD's Intranet before year-end of 2022.

Phase 2: "Donor Funds Agreement Dashboard and Library" in Tableau, that will also include the "Donor availability tracker" and provide all original legal documentation and summary notes on donor compliance requirements. It is aimed to become operational by end of Q1 2023.

Both tools will make donor funds filterable by country, product, or sector.

In addition, DCF is designing a new Donor Reporting Platform that will be developed in the context of the broader Multi-Year Investment Plan, which will include a dashboard that aggregates some data and support timely reporting. These new management information systems and tools should facilitate live data regarding availability of donor funds and facilitate more interactive SSF portfolio and project management as well as better SSF reporting. The implementation of this Reporting Platform is related to the introduction of an end-to-end process for managing and reporting on grant resources and will be introduced as part of this reform process. Management will consider suitable system solutions (currently Tableau and Intranet), to host this platform.