

EvD Special Study: Review of Strategy Implementation Plans 2016-2021***Management Comments*****Executive Summary**

- Management welcomes the EvD discussion paper on the Strategy Implementation Plans (SIPs) which contains a comprehensive analysis and stocktaking of the SIP process that is useful to further improve its effectiveness going forward. The SIP is a key corporate planning tool in EBRD used to operationalise Strategic Capital Framework (SCF) priorities, and Management welcomes the paper's assessment that "SIP provides strong assurance to the shareholders that the Bank is pursuing its strategic objectives" which in essence validates that the primary role of a SIP is delivered.
- Further, Management welcomes the EvD's positive assessment of the conceptual design of SIP as sound, the structure fit for purpose, and acknowledgement of significant improvements made recently to the SIP process, content and constructive engagement with the Board. Management appreciates widening the scope of the evaluation to include the latest SIP (2021-2023) to fully reflect the latest refinements made to the SIP process and content.
- The SIP resulted from a significant overhaul of the planning architecture of the Bank. As a matter of clarification, the old Capital Resources Review (CRR) was not just replaced by "a multi-year planning and budgeting process called SCF". The entire suite of planning tools was changed by a new one. The SCF is not a multi-year budgeting tool. The CRR was replaced by a shorter, less complex and more directional SCF whilst the annual business plan and budget was replaced by a three-year rolling strategy implementation plan that incorporates the budget.
- Despite the SIP's strengths also recognised by EvD, Management acknowledged the opportunities to further improve the SIP structure, content and production process presented in the paper. Management in principle agrees with many of the findings, including on the need to better document and map the SIP processes, further strengthening integration of SIP and other strategic documents, or ensuring earlier engagement with the Board through cornerstone discussions, among others. Management also notes the important work already done or currently underway to address some of the suggestions and findings in the paper. These include in particular, improved performance and results reporting against the corporate scorecard through existing reports, information already included in the more recent SIPs on internal resource reallocations across the Bank, or theories of change for transition qualities being developed (which will assist in improving reporting of transition impact as part of the Corporate Scorecard in SIP).
- In few areas, Management does have a different, but well substantiated assessment and view from the study. This includes the relationship and level of subordination between country/sector strategies and SIP, governance around approval of the SIP by the Board of Directors, or full integration of donor resources and fees into the core Budget. A more detailed response on these, as well as other significant findings and suggestions is presented below.
- Management takes note of the issues for consideration and will consider incorporating the relevant elements in the future SIPs, also taking into account business needs and resources. Management also welcomes the follow up work that EvD may undertake as part of its work programme going forward to explore these issues in more detail, as noted in the paper. At the same time, Management notes that some suggestions and issues for consideration are not relevant for SIPs. For instance, the definition of inflation and assessment of salary increase across bands are within the purview of HR's Compensation and Benefits paper and not of the SIP document.

- In summary, Management sees the discussion paper as a positive endorsement of the SIP process in place, particularly since the start of the new SCF period in 2021. The positive comments on the process for SIP2021-23 and the alignment of the Corporate Scorecard with the SCF strategic directions are particularly welcome. There are always areas in which improvements can be made and Management shares the conclusions in many of the areas for strengthening highlighted in the report, but believes there is a solid basis on which to build.

More detailed response to significant findings and suggestions presented in the paper

1) On the SIP being an instrument to assess performance and delivery

Management accepts that the Bank should have a robust system to monitor its overall delivery success. This is done primarily on a strategy level, where success in delivering past objectives is always assessed when refining and updating future direction.

In this respect, Management would like to emphasise that SIP, mainly a forward looking document, should not be seen in isolation. There are many ways through which the performance against specific objectives set out annually in the SIP is monitored (with individual objectives reflecting SCF priorities) and reported. To start, there is an annual assessment of the performance of the Bank against the Corporate Scorecard (the ultimate summation of the SIP objectives). Additionally, there are various reports to the Board during the year on the progress of a variety of key elements of the SIP such as progress reports on support to SMEs, Equity, Mobilisation, Donors, etc. Finally, there are regular and standard reports (Quarterly Performance Review, Annual Report on Transition Performance, Financial Statements and monthly operational updates) that provide a wealth of information about progress against the SIP objectives. These are not just passive reports but accompanied by rich discussions either at the Board Committee meetings and/or full Board meetings.

In Management's view, there are plenty of reporting documents and substantive opportunities for discussion on the performance of the Bank against the SCF parameters and priorities, individual country and sector strategies, and the specific SIP objectives.

2) Governance: on the SIP approval by the Board

The governance around the SIP is consistent with and fully compliant with the Governance of the Bank and the Agreement Establishing the Bank. The Board is required by Article 27.iv of the AEB to approve the budget. In consultation with Directors, it was agreed that the Board would also approve the Corporate Scorecard as the counterpart to the approval of the Budget. This forms the chief accountability tool for the Bank to its shareholders. This approach reflects good governance practice in focussing the Board's decision-making at the appropriate level. The content of the SIP is not approved by the Board but rather constitutes Management's substantiation of the rationale for the Budget and Scorecard proposals and underpins the Board's assessment of the decisions to be made.

This governance has been in place since the inception of the Bank (and not since recently as it is implied by the paper).

The explicit approval by the Board of the opening of new offices is a mandatory requirement as set out in the Article 1.b) of the By-laws of the Bank.

3) On a better integration and hierarchy between the SIP and other strategic documents

Management believes there is always a serious effort in ensuring alignment between the SIP and other strategic documents. There is certainly always the preoccupation in ensuring that the SIP adequately

reflects the Bank's strategies and policies, in particular the key priorities set in country strategies, and the work on improving such alignment will continue going forward.

At the same time, Management notes that the paper raises an architecture issue (on hierarchy of various planning documents) that has been discussed at length before. Management's view is that, contrary to the report's assertion, country strategies and sector strategies are not (and should not be) subordinated to, or shaped by, the SIP. They should be reflective of the SCF directions and feed into the SIP and are, in this sense, upstream to the SIP. SIP, as the name would suggest, is the Bank's plan to operationalise and implement its strategy (both overall and on a country and sector level) and not a document in which the strategy and direction is defined.

4) *The SIP process has changed and is not properly documented or mapped (and is under resourced)*

The SIP has indeed been an evolving document that has responded to massive changes in the external and internal environments. As such, the areas of focus (and its structure) has also been evolving and by doing so responded very positively to the challenges presented. Nevertheless, Management agrees that it would be beneficial to better document and map the process and the timelines. Management also agrees the overall coordination of the SIP process would benefit from dedicated staff. These process enhancements would, of course, have to be weighed against other important delivery priorities, also recognising that in the current state the SIP and the current planning process meet their core objectives.

5) *On integration between the business plan, the budget and the SIP*

The budget has proven to be a strong enabler of the delivery of the Bank, as evidenced by the EBRD successfully delivering against increasingly ambitious objectives year after year. It is true that the analysis of trade-offs is rather limited, and it is difficult to know what the Bank is not doing because of limiting the budget increases. While the right equilibrium is always difficult to assess, the past has demonstrated a reasonable balance has consistently been achieved between budget availability, business opportunities and our capacity to deliver.

6) *On budget being prepared on a functional basis rather than on types of activities or themes*

The current allocation of the budget, responsibilities for budget management and monitoring are based on the functional structure of the Bank. This has been done on the basis of data and information availability and for reporting and data presentation purposes, and has served the Bank well. However, Management recognises there would be merits in having other perspectives, namely cost allocations per key strategic priorities and activities. This journey that has started in the most recent SIP will take some time and is very much on the radar of senior management. It will also require some IT enhancements (and significant work on data to capture other dimensions of costs), as well as recognition that functional views will always have to co-exist with organisational structures in the budgeting process.

7) *On integration of donor resources/fees into the core Budget*

Whilst Management recognises that there was an issue with clarity regarding the use of donor resources until recently, this was addressed in the latest SIP (2021-23), wherein enough information and transparency on the donor fees were provided in line with the presented governance process (CS/BU/20-38 part 2/cornerstone discussion and BDS20-213 (Rev 2) section 4.3 on donor fees).

Management does not advocate the integration of donor fees in the Administrative Budget. Given the nature of donor management fees, resources funded by fees should have a strong link to the activities performed to support donors. They should also not constitute permanent fixed costs, to be able to respond to variations of the overall level of annual donor fees (to avoid a mismatch between uses and funding).

Hence, it is Management's view that these budgets should be managed separately, but presented and discussed at the time of the SIP discussions, ensuring some level of integration.

8) *On the need to improve SIP practices regarding consultations with the Board and optimal resourcing*

Significant improvements have been implemented in the SIP process, namely in the way and structure Management engages with the Board throughout the process. This has been recognised by EvD in this discussion paper. Management intends to continue building on such improvements, namely the SIP cornerstone discussions to ensure earlier engagement with the Board before the formal SIP document submission. Management also expects to increasingly address some other suggestions namely in the SIP2022-24 document by incorporating a discussion and a section on Resource Effectiveness.

9) *On the external review of the budget issues*

Whilst "fresh looks" may provide new and interesting perspectives, Management believes that our close relationship with the budget and planning functions of other IFIs provides us permanent inputs and benchmarks and gives us confidence on the strengths of our processes, as well as areas for improvement. Currently, with significant other priorities (namely the ambition to acquire increased cost transparency), having an external review is not deemed by Management to be urgent.

10) *On possibilities to provide greater clarity and transparency on savings and budget reallocations*

Management notes a good progress and improvements made on this aspect over last years. In fact, every SIP document includes a section on reallocations. While in earlier SIP documents, most of the reallocations were within the Banking departments, in recent documents reallocations in other functions or across functions have also been presented. Here are some details for easy reference - BDS15-230 (F)/page 72/A.3&A.4 and page 39 paragraph starting with "Internal reallocations in Banking"; BDS16-190 (F)/page 66/Table 8.5 and page 70 on Banking reallocations; BDS17-148 (F)/page 58/ Table 8.6 point f, g, h and page 59 section on reallocations in Banking; BDS18-160 (F)/page 49/Table 8.3 under point d and section 8.3 on resource reallocations. Management will continue efforts for further improvement in this area.