

## Independent external evaluation of the EBRD's evaluation system: Management comments

January 2020

Management welcomes the independent external evaluation of the EBRD's evaluation system and thanks the independent evaluator, Mr Colin Kirk, for his comprehensive and insightful report. The report contains a thorough, coherent review and analysis of the evaluation system and provides valuable insights.

The core question analysed in the report is the role and value of the evaluation system and whether it contributes, as intended, to institutional performance, learning and accountability. This question is of key importance for Management.

Overall, the Bank's institutional performance has been strong, evidenced by the results against its corporate scorecard and the impact of its investments, technical assistance and policy engagement on the ground in the economies where it invests. In terms of organisational learning, the EBRD, being a private sector-oriented international financial institution (IFI), has benefited from rapid feedback from clients and markets. This has enabled the Bank to be both operationally successful and to meet the evolving needs of the regions where it operates. The EBRD's successful expansion into new markets in the southern and eastern Mediterranean (SEMED) region is testament to that.

Yet, Management fully agrees that there is significant untapped potential for the evaluation system to contribute much more to learning and accountability at the Bank. This includes both the independent evaluation function and self-evaluation. The external evaluation therefore provides an opportunity to make significant further improvements from all sides of the organisation: Management, the Evaluation Department (EvD) and the Board of Directors.

Management is fully committed to significantly improving the Bank's evaluation system. This will require a concerted effort over an extended period of time focusing on three main areas: self-evaluation, results management and knowledge management:

1. The Kirk report's most important recommendation for Management is regarding self-evaluation. Management is fully committed to achieving a meaningful change and a genuine improvement in self-evaluation to increase its value for the organisation. Management is ready to take ownership of the system, as proposed by the report. Work to improve the design of the self-evaluation system has already begun, will continue over a number of years and will require additional resources.
2. The report also contains a number of important findings and recommendations on results management. This is an area in which the Bank has made significant improvements in recent years, including implementing a new approach to country strategies, which is underpinned by country diagnostics, as well as a finding new ways to assess expected transition impact ex-ante and to monitor performance throughout project implementation, based on standardised indicators. However, much work lies ahead to further improve results frameworks, to further strengthen data quality, to assess long-term systemic impact and to communicate the Bank's results and impact, including evaluation findings.
3. Since 2016, Management has also increased its focus on knowledge management, working closely with EvD. For example, five communities of practice have been

established to capture and share lessons learned from our operations. A policy academy has also been created to strengthen policy work and share knowledge. In the follow-up to the external evaluation, Management will propose a more robust and comprehensive Bank-wide agenda for knowledge management and learning.

Work will be overseen by a cross-departmental steering committee, chaired by the Bank's Vice President, Policy and Partnerships. The steering committee will report to the Bank's Executive Committee (ExCom) on a quarterly basis.

The remainder of these Management comments will address in more detail the key recommendations and findings of the external evaluation.

### **EvD policy and work plan**

#### **Recommendations:**

- **EvD (for Board approval): Upgrade the Evaluation Policy. Updates, revisions and additions required include:**
  - *reference to changes in concepts of transition impact and 'transition qualities' as well as results management and the evolving 'results architecture' at the Bank*
  - *notes on evaluation competencies and capacity development; on ethics and avoiding conflicts of interest; on the relationship between monitoring and evaluation; on performance metrics; on clarifications regarding the appointment and remuneration of the Chief Evaluator; and on review of the policy*
  - *a note on arrangements for regular EvD attendance as an observer in senior level committees, including the Management Committee and the Strategy and Policy Committee.*
- **EvD (for Board approval): Prepare a multi-year strategic plan for EvD complementing the evaluation policy**
  - *medium-term directions, priorities, resource expectations and performance metrics, including elements of a multi-year performance scorecard*
  - *a costed plan for EvD to undertake a programme of project-level operations evaluations and a request for the additional resources required*
  - *an indication of EvD's role in repositioning and reform of the self-evaluation system, subject to the outcome of discussions on this.*

Management welcomes the proposed improvements in the evaluation policy and a multi-year strategic plan that would include performance metrics and a scorecard for EvD.

### **Self-evaluation system**

#### **Recommendations**

- **EvD (for consideration by Management and the Board): Building on the findings of this independent external evaluation, identify key issues and develop practical options for improving the EBRD self-evaluation system, drawing on experience gained under the current system and on the evaluated experience of other MDBs, and present a report on issues and options to Board and Management by the end of 2019. Issues to be**

addressed include rating methodologies, alignment with ECG standards and assessment of contribution to transition impact.

- **Management and EvD (for Board review and approval):** Work jointly to develop an effective and appropriate self-evaluation system for EBRD. Set up a working group to consider the EvD analysis and its broader findings on self-evaluation in the Bank and develop proposals for an appropriate and more effective self-evaluation system in EBRD.
- **Management (for Board approval):** Prepare a medium-term plan for strengthening the self-evaluation system and integrating it with the Bank's results architecture. The plan will set out:
  - clear objectives and targets with appropriate performance metrics, detailing the steps required and the anticipated resource requirements
  - provisions for the transfer from EvD to Management of key responsibilities for managing the self-evaluation system
  - measures to strengthen knowledge management and organisational learning, drawing on experience of other MDBs, including mechanisms to systematically integrate relevant findings and lessons from evaluation into the design of new policies and projects
  - stronger institutional incentives to enhance the enabling environment for evaluation. This requires clear, sustained, consistent signals from senior management on the importance of evaluation, organisational learning and knowledge sharing.

Following the external evaluation, Management is committed to achieving meaningful change and a genuine improvement in the area of self-evaluation to increase its value for the organisation. Management is ready to take ownership of the system, as the report proposes. As suggested by the report, a working group with Management and EvD has been set up and has started its work.

More broadly, Management welcomes the report's acknowledgement that operational staff and senior management devote significant time and effort to self-evaluation. The self-evaluation system has evolved over time to respond to the Bank's strategic priorities and the ambition to achieve efficiencies by minimising the duplication of efforts from EvD and Management and by maximising the use of EvD's expertise, including in training and quality control. In 2015, EvD introduced a new rigorous approach (including the template for operation performance assessment (OPA) and ratings methodology). With the aim of improving self-evaluation, Management conducted a survey among operational staff and identified a need to shift the focus from accountability to learning. Subsequently, EvD also independently conducted a similar survey and focus groups with a similar conclusion, which prompted Management and EvD to address these needs by putting more emphasis on learning. However, the report has identified a significant need for further improvement. Management looks forward to the results of the ongoing EvD review of the self-evaluation system. This review will feed into the working group's action planning, with the objective of shifting the full responsibility for managing the self-evaluation system to Management, as the report recommends. This would require significant adjustments in the Bank's organisational structure and processes, and additional resources. Due consideration should be given to the trade-offs and potential duplication with EvD in exercising quality control.

The report proposes to align evaluation methodology and policy to the results architecture of the Bank. In particular, an important related issue is the alignment of self-evaluation methodology with the methodology used for project appraisal and monitoring. This includes and goes beyond the issue of evaluability of projects (in other words, presenting or constructing an explicit theory of change necessary for self-evaluation using Development Assistance Committee (DAC) methodology) to the more substantial issue of potential inconsistencies in how to define and measure the objectives and results for a particular project for the purposes of monitoring and evaluation. In future, an improvement in the results architecture, based on the six transition qualities, the introduction of the new appraisal system (TOMS), which embeds the theory of change, and the compendium of indicators across the results chain (output, outcome, impact), would help to reconcile these differences in the methodology for new investment. Dealing with the stock of old projects (approved before the introduction of the six qualities) remains a challenge, while agreeing on how to align methodologies should be part of the scope of the working group.

The report also raises the issue of discontinuing random sampling of OPAs. EvD has, instead, started to purposefully select a small number of OPAs for validation. This change to evaluation was made in the context of the refocus of the EvD product mix, shifting towards addressing high-level policy purposes, with more emphasis on learning rather than accountability. Such a substitution has significantly reduced the number of operational performance assessment validations (OPAVs), thus releasing resources in order to increase the number of special studies that are deemed more useful for strategic needs, both for Management and the Board.

The above changes have led to decreased OPAV coverage and have impacted the statistical robustness of validations, with the previous OPAV-based reporting on institutional performance now discontinued. However, special studies, complemented by more strategically chosen OPAs for validation or operations for evaluation by EvD, have provided an alternative way of assessing the success and reporting on various areas of the Bank's activities. If greater OPAV coverage combined with random sampling is to be re-introduced, on the basis of a fully reconciled evaluation methodology and results measurement architecture, it would require additional investment in IT and staff both in EvD and across the Bank, especially if the current level of special studies is to be maintained.

Management agrees on the need to integrate self-evaluation into the EBRD results architecture. In this context, Management recognises the important role that the system of self-evaluation of investment projects plays in providing comprehensive, independently validated reporting on institutional performance. Management notes, however, that this is only one component of the EBRD's performance and results, and would like to emphasise that the EBRD delivers transition impact through a broad variety of investments, advisory work and policy engagements. As such, the EBRD's performance and the fulfilment of its transition mandate are not fully captured by the performance rating attached to individual investment projects alone. It is the combination of the complementary roles of investment and policy engagement that defines the Bank's transition ambition and opens up greater opportunities for achieving systemic change.

The contribution of various activities to the achievement of the Bank's transition objectives is reflected in the monitoring of the delivery of country strategies as well as other thematic qualitative assessments, including thematic EvD special studies. It is in this context that, despite the trade-off, special studies (including a performance assessment of the relevant operations

and other activities) deliver evaluation evidence of greater relevance and value for the institution. Alignment of the methodology and policy of EvD to the Bank's results architecture is crucial.

### Organisational learning and use of evaluation

#### **Recommendations**

- **EvD (for consideration by Management and the Board):** Undertake a thematic evaluation of organizational learning at EBRD to assess how well the institution has generated, accessed and used learning and knowledge in its operations, including its policy dialogue and technical assistance. As a first step, compile evidence already available from other institutions on organisational learning in relation to operational improvement.
- **Audit committee:** Request the Chief Internal Auditor to review performance around preparation and implementation of Management responses to evaluation recommendations.
- **Management and EvD:** Formalise arrangements for regular EvD participation in senior level committees including the Management Committee and the Strategy and Policy Committee.

Management recognises the importance of managing knowledge and strengthening organisational learning and feedback loops.

It is important to note that evaluation is only one element of the Bank's organisational learning. As a private sector-oriented IFI, the EBRD benefits from relatively fast commercial feedback on its operations. This manifests itself in acceptance or rejection of the Bank's financing terms and in the commercial success or failure of its operations. All of this provides powerful lessons and Management is committed to making an effort to disseminate these lessons.

Furthermore, in the past three years, Management, in collaboration with EvD, has increased its focus on knowledge management. This focus began with a stocktake of how well the institution has generated, accessed and used learning and knowledge in its operations, which the report proposes to be assessed through a thematic evaluation.

The EBRD's knowledge management (KM) initiative, led by the Economics, Policy and Governance team and initiated in 2016, has made significant progress in terms of embedding a KM culture in the organisation. Key achievements to date include: a) the establishment of five communities of practice, with several others in the pipeline, along with the roll-out of associated products (such as papers, videos, toolkits) and conferences; b) the development of an EBRD Policy Academy (10 modules rolled out and others in the pipeline, along with plans to develop e-courses and learning); and c) collaboration with the World Bank to develop knowledge packages and machine learning. Management has worked closely with EvD on parts of the KM initiative, especially the community of practice on state-owned enterprises. The Bank is also collaborating and enhancing its links with other IFIs in this area in order to learn from their experience.

Management agrees that further progress is needed in terms of developing a Bank-wide knowledge management system that effectively integrates the knowledge generation activities of economists, operational teams, lawyers and other staff with the Bank's IT and data-management facilities and with best practice in HR methods. Management also agrees with the report's recommendation that the Bank should draw on the experience of other comparable institutions, with regard to organisational learning and operational improvements.

In this context, Management will continue its work with EvD to improve the dissemination and use of lessons through a comprehensive outreach and communication strategy. A strategy of this kind could include increasing the prominence of EvD in the EBRD's on-boarding and training catalogue (for example, Banking Academy); conducting periodic sessions with a spotlight on evaluation and learning comprising (i) the role of EvD, (ii) tools and (iii) possibly, capacity-building workshops; and improving the dissemination of evaluation findings through multimedia events (for example, intranet posts) as well as increasing awareness of the 'Lessons Investigation Application'.

Management welcomes the participation of the Chief Evaluator in senior-level management committees such as the Strategy and Policy Committee, when issues relevant to evaluation are being discussed. Management will extend invitations systematically to discuss the findings of EvD studies. Beyond that, however, Management believes that regular EvD participation in a wide range of Management committees could have the unintended consequence of undermining EvD's independence.

### **Resourcing of evaluation**

#### ***Recommendation***

- ***Audit Committee (for consideration by the full Executive Board):*** Recommend the Executive Board to consider a significant increase in budget resources for evaluation, based on well-documented medium-term plans, responsive to this external evaluation, for independent evaluation (EvD) and self-evaluation (Management).

Management believes that strengthening self-evaluation, ex-post evaluation and knowledge management are likely to have significant budgetary implications (as the report suggests).

To be effective, the “significant increase of resources for evaluation” would have to affect both Management and the Evaluation Department and include IT systems. Management would like to emphasise that this could only be achieved through a real budget increase across the organisation. Increasing the resources for evaluation could not be achieved through “reallocation” or “re-prioritisation”, at the expense of focus on core delivery, in other words, the very matter that the evaluation process intends to analyse.

### **Governance, oversight and future evaluation of effectiveness and results management**

#### ***Recommendations***

- ***Audit Committee (for consideration by the full Executive Board):*** Recommend the Executive Board to consider establishing a Board committee with specific responsibility for issues relating to performance and results: a ‘Committee on Transition Impact’, with responsibility for issues relating to performance monitoring, results management and evaluation.
- ***Audit Committee:*** Arrange for regular review of EBRD evaluation and results management systems.
  - Request Management to arrange for a MOPAN review of EBRD's organisational effectiveness and results, to be undertaken after the new self-evaluation system is in place, say in 2022-2023, to include institutional performance management and knowledge management aspects.

- *Arrange for another independent external review of EBRD's evaluation system in 2024-2025.*
- **Audit Committee:** *Maintain close oversight of implementation of recommendations agreed from those listed in this evaluation, including approval of allocation of adequate resources to address agreed tasks and actions. Keep full Board informed of progress and implications for corporate strategy.*

Any decision to create a new Board Committee on Transition Impact rests with the Board of Directors. However, Management would like to note that the oversight of evaluation, both in terms of the function and the use of evaluation for learning, is already firmly established in the Terms of Reference (ToR) of the existing committees. The recommendation would require a review of the entire committee structure and their ToRs, as elements of transition impact envisaged in the purpose of a new committee – that is, objectives and incentives, monitoring, evaluation and organisational learning – span all three existing committees.

Management welcomes future external evaluations and awaits confirmation of the timing for a MOPAN review of the EBRD's organisational effectiveness and results.