



SPECIAL STUDY

EBRD's Health-Focused Interventions Management Comments



European Bank
for Reconstruction and Development

EvD ID: SS19-146

June 2021

EBRD EVALUATION DEPARTMENT

Executive Summary

- Management welcomes the Special Study on EBRD's Health-focused Interventions. Management appreciates its extensive analysis and findings in general and for capturing a selection of Advice for Small Businesses activities in the special study and welcomes the findings on the successful outcomes of international advisory projects for SMEs. The study recommends preparing a health sector approach or strategy and, ensuring a clearly managed results system, including adding the health sector assessment in the Assessment of Transition Qualities (ATQs) indicators. For PPP projects, the study recommends to review the capacity of a procuring authority and to provide a full analysis of how PPP design balances public and private interests, how it allocates risks and how it compares to PPP best practice as part of Board approval. Management shares the view that the health sector is an important area for the Bank and had already scheduled a BIS for an updated approach for Board review (after the Audit Committee discussion of the EvD report). The scope of Bank's activities in the sector does not justify a formal sector strategy. The Bank intentionally breaks its activities into three distinct categories covered under (i) the MEI strategy (BDS 2019) in SIG, (ii) "Updated Approach to Private Healthcare Services" for M&S and (iii) ASB (BDS20-207)). Management notes that the rationale for keeping the activities in different departments, (M&S, SIG, and ASB) is very strong based inter alia on the respective teams' client base, track record, skills and resource efficiency.

- Management recognizes the importance of an effective framework for assessing the transition potential of healthcare service projects. However, Management partially disagrees with the components of Recommendation 2 in relation to these issues. In particular, Management disagrees with the notion that Bank's internal assessment systems (Transition Objective Measurement System (TOMS), Compendium of Standardised Indicators, Assessment of Transition Qualities (ATQs) indicators) do not facilitate transparent and rule-based assessment of the transition potential of projects in the healthcare sector. Management notes that a framework to assess healthcare services projects' transition potential already exists and that the current TOMS methodology allows for such an assessment. TOMS already has a dedicated set of questions that are tailored to the healthcare services, infrastructure and related investments, along with a relevant set of monitoring indicators from the compendium. Management disagrees with the recommendation to introduce a healthcare sector sub-dimension under the Resilient ATQ. The Bank's work on healthcare services and infrastructure certainly contributes to strengthened resilience of the health sector, but the scope remains limited and it focuses primarily on privately-owned healthcare services provision.

- In relation to recommendations 3 and 4, Management notes that IPPF and its consultants already perform analysis for all projects prepared in the suggested areas (i.e. PPP design, allocation of risks, comparison to best practices and a review of the of the capacity of the procuring authority) as important elements of government advisory assignments.

Management's comments focus on the EvD study recommendations. Further detailed comments on the study analysis and findings were provided at the draft stage of this study.

Recommendation 1: *Prepare a health sector strategy or approach for Board review and endorsement.* It should provide clear strategic direction for work post COVID-19 and appropriate results governance, covering organisational and structural issues, resourcing, results frameworks, and reporting means and obligations.

Management agrees with the recommendation. Management welcomes and shares the view that the health sector is an important area for the Bank which justifies the BIS for the updated approach already planned for Board review and endorsement. The scope of Bank's activities in the sector, as agreed with the Board, does not warrant a sector strategy (just as IFC and CDC do not have a sector strategy) The Bank has selected not to have a comprehensive strategy/policy level statement of its objectives in its activities in the health sector as they distinctly break into two categories well covered already under the MEI strategy (BDS 2019) on one hand and by the (2014) updated approach for the private healthcare services on the other. The detailed presentation of its role in the private healthcare services sector is found in the "Updated Approach to Healthcare Services", (UA), which was discussed in a Board Workshop in 2014; no formal Board approval was sought as the Board clearly preferred this updated approach to a comprehensive strategy/policy.

Management has already agreed formally with Board that an update to the Board is warranted on the Bank's approach to healthcare services since the last one in 2014. Management was waiting for this EVD report that was unfortunately delayed from 2019. This BIS is scheduled in early July 2021 after the discussion of the EvD report. In the approach update, Management will underpin the key directions in the Bank's support for healthcare with an analysis of the challenges in the CoOs, including as a result of COVID - 19 pandemic and in its aftermath. Such an update of the approach would also detail how the Bank has currently all the instruments necessary to support the potential roles for the private and public sector, either through private healthcare services under the Manufacturing and Services (M&S) sector or large infrastructure (i.e. hospitals PPPs and energy efficiency in public hospitals) for the Sustainable Infrastructure Group (SIG), or ASB (advisory for potential private M&S clients). Such approach would highlight PPPs as a procurement methodology that can be applied in the healthcare sector. It will be made clear that PPP delivers 'infrastructure' and 'infrastructure services' (and not 'healthcare services').

Management only partly agrees with the section on the EBRD's institutional architecture to support its health sector operations. As other Bank activities, multiple departments, under multiple programmes and using multiple instruments, perform operational work. Management notes that the rationale for keeping the three activities in different departments (M&S, SIG and ASB) is very strong based inter alia on the different types of risks and structures, the respective teams' client bases, track record, skills and resource efficiency. In addition, while the 2014 Updated Approach provides the most complete available treatment of the Bank's work in private healthcare services, in fact it does not extend to, or cover, substantial amounts of the Bank's activities: the rest of these activities are covered by the MEI Strategy (BDS19-069/F) and by ASB (BDS20-207). The three activities are fundamentally different and the Bank's organisation fits very well the market practice and the strengths of the Bank. For example, PPPs are undertaken by SIG as part of PPPs for public services, including infrastructure in the health sector. As in the market of financiers and sponsors, these infrastructure activities should be kept together regardless of the sub-sector of the PPP, and separate from investments in private healthcare services. Similarly, market practice aggregates private health services, equipment manufacturing and pharma together (as M&S does) for both financial structuring and the type of sponsors involved. The various teams are each adequately staffed with experienced specialists who cover the various risks of each project in the sector, with a long track record of

satisfactory examination from all support units during the rigorous appraisal process of the Bank, including by EPG on the affordability dimensions.

Management also agrees to improve reporting means for example in the coverage of the health sector activities in Country Strategies. However, Country Strategies should not systematically refer to our activities in the health sector, as it is an intentional decision to refer to PPPs and other health activities selectively, as we have done already, depending on the priorities in each country (see next section on Recommendation 2.). Whenever relevant, health sector related objectives and associated indicators are included in the country strategy results framework and reported as part of Country Strategy Delivery Reviews.

Recommendation 2: *Ensure that a transparent, adequately resourced and clearly managed results management system is in place. It would be valuable specifically to consider:*

- i. Augment TOMS so that it facilitates transparent and rule-based transition assessment of projects in the healthcare sector.*
- ii. Introduce a sub-dimension under the Resilient ATQ to measure and monitor country-level transition progress in health sector resilience to transition reversals such as public health crises. Consider this sub-dimension in each country diagnostic.*
- iii. Ensure that the Annual Transition Performance Report demonstrates the alignment between the EBRD's interventions and SDG3.*

Management partially agrees with the recommendation. Management recognizes the importance of an effective framework for assessing the transition potential of healthcare services projects. However, Management disagrees with the study statement forming part of the recommendation that the Bank's internal assessment systems (Transition Objective Measurement System (TOMS), Compendium of Standardised Indicators, and Assessment of Transition Qualities) are not sufficiently capable to conduct transparent and rule-based assessments of the transition potential of projects in the healthcare sector. Management notes that a specific framework to assess the transition potential of healthcare service projects already exists and that the current TOMS methodology allows for such an assessment. In particular, TOMS contains streams of questions on healthcare services and related infrastructure projects. EPG regularly reviews these streams of questions and carries out updates, as necessary. As part of this continuous improvement process, management will also review the available TOMS questions on the potential transition impact of healthcare services projects to ensure that the questions are relevant, targeted and fully capture the benefits of private sector investments in the healthcare services sector including through the participation in the PPP projects.

Management notes that the EBRD Compendium of Indicators contains a range of relevant indicators capturing the impact of access to healthcare systems. These include healthcare-specific indicators applied at the level of any engagement (i.e. indicators used for all new investment projects and TCs) alongside indicators that relate specifically to PPPs (e.g. "new financing instrument or method introduced" or "PPP contract awarded").

To complement the TOMS system and the Compendium of Indicators, Management (EPG and CSR&EU) is currently developing a Theory of Change (ToC) for transition qualities, covering all the sectors that EBRD operates. Once completed, the ToC will complement the existing systems for measuring and monitoring the Bank's transition impact by providing a narrative that links the Bank's

activities and the client-, sector- and economy-wide outcomes of its investments and policy interventions.

Management disagrees with the recommendation to introduce a healthcare sector sub-dimension under the Resilient ATQ since the inclusion of a healthcare component in the Resilient ATQ would be disproportionate to the scope of the Bank's current activities in this area. The current scope of the Resilient ATQ includes financial system resilience and energy sector security, where the Bank's operations have a much broader and comprehensive scope compared to healthcare. Resilience of the healthcare sector has understandably become a prominent issue in the context of the ongoing COVID -19 pandemic. At the same time, the Bank's activities do not focus on comprehensive public health issues and risks but rather on supporting the provision of effective, modern and affordable privately-owned healthcare services and sustainable hospital infrastructure.

The link to SDG3 is already part of the internal methodology developed to map the health operations to SDGs. As of 2020, SIG maps all projects against the SDGs, including SDG3, to determine the extent of contribution of our infrastructure projects to achieving these.

Recommendation 3: *PPP engagements should conduct a prior review of the capacity of the procuring authority and consider capacity building TA as a condition of EBRD involvement. This should be presented to the Board as part of the project submission where upstream work with the procuring authority has not been possible.*

Management partly agrees with the recommendation. Management notes that that SIG SI3P's Policy and PPP Advisory Units carry out this type of activity as part of upstream policy and capacity building and specific project preparation. Therefore, Management agrees that a prior review of the capacity of the procuring authority should be conducted and capacity building considered where the Bank provides upstream support for the development of PPP projects. For cases where SI3P has not provided upstream support and/or PPP advisory, the Bank would expect the procuring authority to appoint advisers to help them structure and tender a PPP in line with best practice, as required under Annex 1 of the Bank's Concession Policy ("EBRD Financing of Private Parties to Concessions"). This should ensure that the procuring authority has the capacity or support needed to deliver a PPP project successfully. Compliance with the Bank's Concession Policy is presented in the Board Document for PPP projects.

While the Bank may consider capacity building TC support in some cases, where needed and available, Management does not believe that such support should be a condition for EBRD financing in all cases where it does not undertake upstream work and therefore disagrees with the recommendation that this be presented to the Board as part of the project submission.

Recommendation 4: *Prepare a full analysis of how PPP design balances public and private interests, how it allocates risks and how it compares to PPP best practice as part of future PPP Board approval. The objective would be to ensure: (i) the compensation on termination payments is well structured to achieve performance incentives as per PPP best practice, and; (ii) budget affordability considerations (including FX risk) are properly assessed. Particularly, availability-based PPP models have specific fiscal management and budgetary affordability considerations. The EBRD should ensure that these are properly analysed and managed by the public sector. Greater attention is required on how FX exposure in PPP projects can be reduced and managed better.*

Management agrees with the recommendation. As above, Management notes that SIG SI3P's Policy and PPP Advisory Units carry out this type of activity as part of upstream policy and capacity building and specific project preparation phases. IPPF and its consultants perform analysis of these elements

for all projects prepared as important elements of government advisory assignments. For cases where SI3P has not provided upstream support and/or PPP advisory, the Bank, with the help of (lenders') advisers, assesses the allocation of risks and balance of interests as part of its due diligence to determine the bankability and sustainability of the project. This also forms part of the compliance of a PPP project with the Bank's Concession Policy ("EBRD Financing of Private Parties to Concessions"). This assessment will include inter alia an assessment of the adequacy of the provision on compensation on termination payments in the legal documentation and budget affordability considerations, including FX risk. The key risks and mitigants are presented in the Board document.