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1. Introduction

1.1 Scope and nature of the evaluation

This paper outlines the proposed approach to an evaluation of a cluster of six hydrocarbons projects, which will be presented in the wider context of the Bank’s changing approach to this sub-sector and an analysis of the hydrocarbons portfolio signed in the last 10 years (2010 – 2019).

The evaluation will provide a short historical background, presenting the evolution of the Bank’s approach to hydrocarbons and briefly describing its landmark hydrocarbon projects from the early days (or results from their evaluations where available). It will then examine how the cluster projects fitted into the Bank’s applicable country strategies, energy sector policies/strategies, and the Bank’s special initiatives, as well as to the national energy strategies of relevant countries.

The six cluster projects, financed by the Bank in six different countries, will be evaluated according to the evaluation criteria of relevance, effectiveness and efficiency; a detailed evaluation of each project will be presented in the annex and their common features and issues will be highlighted in the report. To better identify such commonalities, the review will also draw upon recently completed EvD evaluations, which relate to EBRD hydrocarbons operations either directly or by means of a case study, i.e. Mongolian Mining (2019), which evaluated the Bank’s coalmining projects in this country, the Regional Integration study (2020), which covered a strategically important TANAP gas pipeline and other gas projects in Azerbaijan, and the Energy Sector Strategy Review (2018), which included the Bank’s oil and gas operations in Kazakhstan as a case study. Moreover, the results of three Operation Evaluations and four OPAVs covering hydrocarbons projects from this period will also be taken into account.

The assessment of the cluster projects will be based on a review of the relevant documents, strategies and data. It is currently envisaged that there will also be interviews with clients, government representatives, regulators, consultants, industry associations and NGOs. However, depending on further developments related to the Covid-19 epidemic and associated travel restrictions, the majority of the evaluation may be limited to desk reviews, telephone interviews and email exchanges with selected stakeholders. The evaluation will also take into account the impact of both older and newer (currently ongoing) Bank projects, related to the cluster operations.

The Bank’s cooperation with other IFIs on the cluster projects, as well as the approach used by other IFIs to hydrocarbons will be examined and presented in the review.

The key objective is to identify strategic and (to the extent possible) common issues in the Bank’s hydrocarbons projects, to provide the Board and Management with useful information on projects performance and the Bank’s key achievements in this sub-sector, as well as contribute to

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1 Projects with hydrocarbons entail financing of oil, natural gas and coal exploration, processing, storage and transport.
strengthening the design and implementation of future hydrocarbons projects during the current Energy Strategy period.

1.2 Rationale for inclusion in the work programme

Support for hydrocarbons is being phased out from the Bank’s operations, however selected types of hydrocarbons operations will still be financed for the foreseeable future. The new “Energy Sector Strategy 2019-2023” marks a turning point in the Bank’s approach to this sub-sector as it does not envisage financing any future thermal coal mining or coal-fired electricity generation operations, or any upstream oil exploration and upstream oil development projects except in rare and exceptional circumstances where the projects reduce greenhouse gas emissions or flaring. This change is prompted by current global trends, which shape the strategic priorities of the Bank’s shareholders, such as:

- The challenge posed by climate change, which is driving a world-wide decarbonisation of energy generation;
- Concerns about air quality, with many “hot spots” in the Bank’s COOs;
- The falling costs of renewable energy, enabling the deployment of affordable, low-carbon generation capacity.

Given the profound shift in the Bank’s approach to hydrocarbons, it seems an appropriate time to take stock and look back at the Bank’s achievements in this sector – in physical, financial, environmental and particularly transition/policy dialogue terms. This is particularly important as, during the evaluation period, the Bank has been involved in some relatively innovative projects in this subsector, which were designed to bring environmental benefits (e.g. energy efficiency improvements to refineries, pollution abatement, gas flaring reduction, etc.). None of them have been evaluated so far, so it is important to assess their results and draw lessons for the future.

The last time EvD evaluated the Bank’s hydrocarbons operations (as the main part of the Extractive Industries Sector Review), was in 2010/2011. That review covered 18 years of activity in this sector, from the Bank’s inception until the end of 2009. The proposed review will pick up where the last one ended, i.e. it will review the Bank’s portfolio (although only for hydrocarbons) signed between the beginning of 2010 until end-2019, and evaluate a sample of projects from this portfolio.

1.3 Background to this evaluation

During the 10 years to the end of 2019, the Bank financed 73 hydrocarbons projects for a total of €4.8 billion. This compares with 81 projects for €2.7 billion financed during the previous 18 years. Based on preliminary analysis, the main differences between these two periods were:

(i) Doubling of average project size (from €33.3 million to €65.7 million), mainly thanks to large pipeline projects such as TANAP, TAP, EGAS, NAK Naftogas, as well as 11 other projects, all of which were over €100 million;

(ii) Virtual absence of Russian projects (only three) in the recent portfolio, which had dominated the previous period’s portfolio, with 33 projects, accounting for 40% of the total number and volume. Moreover, in the period to 2009, the Bank’s operations outside
Russia were also relatively narrowly concentrated in Azerbaijan, Mongolia and Kazakhstan, with 1-3 projects across 15 other countries. In the last 10 years, the Bank’s hydrocarbons operations have been more evenly spread across 22 countries, with a lower level of project concentration (the highest being 11, in Ukraine, and 10 in Egypt);

(iii) In terms of sub-sectors, oil and gas extraction accounted for half of the Bank’s hydrocarbon projects until 2009, dropping to 30% in the subsequent 10 year period. Moreover, in this recent period the Bank has almost doubled the number of petrol station projects and “support activities for oil and gas”, compared to the earlier period;

(iv) The number of coal mining projects (or activities supporting coal mining) tripled during the recent period (growing from two to six), although they were still relatively marginal (accounting for less than 6% of the volume and 8% of the number of all hydrocarbons projects). They were undertaken in only two countries – Mongolia and Ukraine (three projects in each).

(v) The number of pipeline and network distribution projects (both oil and gas) was exactly the same for both periods - 11, although the volume of those signed in the last 10 years grew by 180%, from €0.6 billion to €1.7 billion.

Almost all of the hydrocarbons projects were developed and implemented by the Natural Resources team, which for many years was part of the Bank’s Energy Group. However, as of January 2019 it became a part of the ICA Group, and its gas pipeline, storage and distribution projects were transferred to the Energy Eurasia and Energy EMEA teams, which form part of the newly created Sustainable Infrastructure Group. Changes in the institutional set up, their rationale, what they were intended to improve/achieve and whether they succeeded, will be explored under this evaluation.

During the 10 years between 2010 – 2019, the Natural Resources team\(^2\) signed 104 projects, of which 70% (73 projects) supported hydrocarbons operations, while 31 were related to ore/metal mining. In volume terms, hydrocarbons accounted for 73% (€4.8 billion) of the Natural Resources team’s operations. Eleven of these projects (15%) were state (almost all gas pipelines, storage distribution) and the rest were private. Three were equity projects, three were combined debt and equity, and the rest (92%) provided debt.

The evaluation will analyse the Bank’s hydrocarbons portfolio and its changing structure, comparing different periods of the Bank’s activities in this sub-sector.

The Bank’s hydrocarbons operations during the last 10 years were guided by the following strategies and initiatives:

- **2006 Energy Operations Policy**, which incorporated oil, gas and thermal coal operations into a broader energy sector theme (as opposed to earlier, team-focused Operations Policies, with a separate Natural Resources Policy from 1999);

\(^2\) There were no pipeline projects in hydrocarbons signed in the last year (2019) by the above-mentioned Energy Eurasia or Energy EMEA teams.
- **2012 Mining Operations Policy**, in terms of hydrocarbons, this only covered coking coal, which is used mainly in the steel production process (with thermal coal covered by the Energy policy and then strategy). It had limited application to the portfolio proposed for this assessment (with 1-2 projects in both Ukraine and Mongolia);

- **2013 Energy Sector Strategy**, which incorporated oil, gas and thermal coal operations. This strategy was subject to an in-depth evaluation in 2017 (see the next section);

- **2015 Green Economy Transition Approach** – which presented the Bank’s holistic approach to environmental sustainability, in which energy-related operations had a central position;

- **2017 Extractive Mining Industries Strategy** – this included coking and thermal coal operations, however it stated that projects related to the latter would be financed only in exceptional circumstances, e.g. those related to H&S and operational improvements or mine remediation;

- **2018 Energy Strategy for 2019-23**, which was approved in December 2018 and covered only the last year (2019) of the period to be assessed under this evaluation. Under this strategy, the Bank committed itself to refrain from financing any further thermal coal mining or upstream oil exploration operations (except in rare and exceptional circumstances). This strategy also introduced a new method of hydrocarbon project screening through carbon shadow pricing.

Also, some of the Bank’s other strategies and policies were directly applicable to hydrocarbons operations, such as the 2008 and 2014 Environmental and Social Policies, the 2011 Public Information Policy and the Procurement Policies and Rules (2010 and 2017 editions), as well as country strategies.

The evaluation will verify the alignment of the Bank’s hydrocarbons operations (particularly the cluster projects) with these strategies and initiatives, as well as with the country strategies.

In terms of performance, a preliminary portfolio review noted a myriad of issues, ranging from oil price drops, adverse political events, technical problems, lower than expected reserves, long delays in implementation and cost overruns. Some projects also suffered slow implementation or sponsor’s disinterest in transition-related commitments. However, there seems to be certain successes, often in terms of improved corporate governance, as well as health and safety procedures. Many of intended energy efficiency and environmental improvements were implemented, although for some of them data on exact benefits has been difficult to obtain so far.

### 1.4 Other relevant evaluation work

So far, the Bank has conducted two evaluations covering hydrocarbons operations - **Extractive Industries – Sector Strategy Review** (PE10—479S) published in August 2011, which covered the Bank’s activities in this sector from 1992 to end-2009. This study included a review of the Bank’s support to metal and mineral mining activities, together with activities related to hydrocarbons. Its main recommendation was for the Bank to prepare a separate Mining Strategy (which was duly done).
An earlier special study – **Extractive Industry Review** (PE03-256S) published in July 2004, covered the Bank’s NR sector operations to 2003, focusing on those completed under the Natural Resources Operations Policy of 1999. Its main recommendation related to environmental performance and called for the Bank to move from ensuring that its clients meet national, EU/WB standards to adding value through pollution prevention, cleaner production, ecological offsets, etc. There is some evidence that the number of such projects increased in the following years.

Moreover, in recent years EvD has completed several evaluations, some of which covered hydrocarbons projects or related issues:

- **Mining Operations in Mongolia**, November 2019 (PE18-602) – among the 14 projects reviewed, it covered all three coal mining projects, which were signed in Mongolia during 2010-19. (Leighton, MMC debt and Sharyn Gol). It stressed the importance of coal for the Mongolian economy, but also its detrimental impact on the country’s air quality. In terms of performance, it noted that two of the three coal projects from this period ended in Corporate Recovery, mostly due to the drop in commodity prices and the sponsors’ mismanagement. All of them were from the earlier years of the evaluation period, since the Bank stopped financing coal mining after 2013. Generally, the report stressed the low level of achievement of the results expected from these projects, with frequent delays and cost escalations. The Bank’s key success was implementing Extractive Industries Transparency Initiative (EITI), which improved the governance of the mining sector. Also, the work of Corporate Recovery, applying innovative debt recovery methods, resulted in the MMC debt project making a positive contribution to the Bank’s P&L.

- **Regional Integration**, March 2020 (SS19-136) – this review concentrated on the transport sector, however it also included one very important natural resources project – the Trans-Anatolian Pipeline (TANAP), a vital part of the Southern Gas Corridor from Azerbaijan to Europe, through Turkey. The evaluation generally praised this project, which, despite being highly complex and challenging, was completed on time and below budget, also yielding substantial social and environmental benefits for local communities. It has started operating as planned, delivering Azeri gas to Turkey. Its connection to Europe (through the Trans-Adriatic Pipeline – TAP) will be completed in 2020. However, not all of policy dialogue objectives set for TANAP projects were achieved. As part of this evaluation, EvD held interviews with the Ministry of Energy, the regulator and Sofaz state fund, and also examined Azerbaijan’s energy strategy and reviewed the Bank’s other hydrocarbons projects in Azerbaijan (Shah Deniz I and II gas fields).

- **Energy Sector Strategy Review**, April 2018 (SS17-105) – this evaluation was focused on broader, strategic issues related to the Bank’s operations in this sector. One of the two case studies provided an evaluation of the Bank’s projects in Kazakhstan (published separately from the main report). It covered three out of six projects in the Bank’s current hydrocarbon projects’ portfolio (Petrom Kazakhstan, Bozoi Gas Storage and Gas Network Modernisation) and stressed the importance of the role of the Bank and other IFIs in filling the financing and policy advice gap in this sector. The project assessment
was based on defined performance indicators, noting the early pre-payment and limited results stemming from the Petrom project and the more robust achievements of the other two projects. It also observed that their environmental impact (in terms of targeted GHG reduction, energy savings, etc.) will be known only after 2025.

An additional project from the Natural Resources’ 2010-2019 Kazakh portfolio was assessed under the evaluation of the Facility for Mid-Size Projects (PE12-554S). This was the Zhanros Drilling operation (42197) - a €10 million loan to a local private company, which was initially intended to finance the acquisition of one hydraulic fracturing unit for high-pressure drilling works and other equipment. The purpose was later revised to expansion of existing drilling activities through the purchase of two new drilling rigs because of increasing demand for the company's core activities. The assessment noted a substantial growth in the client's operations, and observed that it had been working with the EBRD's BAS programme to improve financial and HR management and systems.

In 2019, EvD also published an assessment of the Bank’s Climate Initiatives (SS18-115), which evaluated the Bank’s approach to climate change prevention. Some findings and observations from this study will also be applicable to the strategic-level assessment of the Bank’s hydrocarbons operations.

The Bank’s hydrocarbons portfolio for 2010-19 also includes three further projects for which EvD has completed Operation Evaluations (one of which covers two operations - debt and equity), as well as four which were the subjects of OPA validations. The Operation Evaluations relate to MMC debt (UHG coal mine in Mongolia) PE11-527, and two operations with Galnaftogaz (loan and equity, PE14-587). At that time (2014) the MMC project was assessed as "highly successful" with "excellent" financial performance. However, the recent Mongolian Mining Cluster reassessed it as less successful, as it is currently in Corporate Recovery. The Bank’s earlier operations with Galnaftogaz of Ukraine were assessed as “Good”, as they achieved most of their operational and transition objectives. However, the report noted an excessive reliance on auxiliary issues such as road safety for TI, without the development of a clear theory of change or, importantly, the use of leverage to cement focus, as well as missed opportunities to explore synergies with IFC. A more recent project with the same client (Galnaftogaz III) is part of the cluster and was co-financed by IFC and BSTDB. It will provide a good opportunity to verify whether lessons from the earlier operations were incorporated in the design and implementation of the more recent one.

Also, findings from other evaluations and studies mentioned above will be taken into account, for the identification of common themes and issues with hydrocarbon projects.

2. Monitoring and self-assessment

2.1 Monitoring reports

All projects proposed for this evaluation are stand-alone (rather than under frameworks) and have been subject to semi-annual or annual PMM and TIMS. All recent (mostly 2019) monitoring reports
were obtained and they provide information on the project status or completion. All projects have been now completed (or largely completed). Annex 2 provides brief information on the current status of each cluster project based on these reports.

2.2 Transition monitoring

As above, recent TIMS are available for all cluster projects. The standing of TI benchmarks varies widely from project to project. In some cases (e.g. MOL/Slovenaft, PICO) TIMS indicates that data on the achievement of environmental or energy efficiency benchmarks (e.g. GHG and energy savings) are still expected from the client. This evaluation will strive to clarify such cases and obtain all applicable data to verify the status of transition benchmarks.

2.3 Self-evaluation

Self-assessments have been prepared for three of the six projects proposed for this cluster, reviewed by EvD - Serinus Energy, MOL/Slovenaft and PKN Orlen. The Serinus OPA highlighted a set of issues (political, oil price drop, technical), confirmed by its validation, while the other two OPAs indicate a relatively good performance (although, as mentioned above, some data to substantiate this is still missing).

These self-evaluations (including one validation) will be helpful and will be taken into account in the evaluation of relevant projects. For the remaining three cluster projects (Energan, PICO and Galnaftogaz III) no self-evaluations are envisaged. EvD will rely on interviews with OLs, monitoring bankers in relevant Resident Offices and clients/consultant/stakeholders/government representatives to obtain relevant information and data.

3. Evaluation methodology

3.1 Evaluation questions

The key questions to be answered by this evaluation are as follows:

- How has the Bank’s approach to hydrocarbons projects evolved and what the Bank’s overarching strategy on hydrocarbons has been over the years, particularly in respect of its transition impact objectives and how has the past experience shaped its current approach?

- To what extent has the support for hydrocarbons been reflected in the Bank’s country strategies (those relevant to the cluster projects) and have the Bank-financed projects fitted into the strategic objectives of relevant countries in terms of supporting their economic, environmental and energy security objectives? How, in the countries’ view, did these projects contribute to the achievement (or otherwise) of such objectives?

- What results did the Bank’s hydrocarbon projects achieve, for example in terms of (i) promoting the private sector and competition; (ii) environmental, social and climate impact; (iii) improvement to corporate governance, the adoption of international standards and practices, as well as the transparency of the sector; (iv) market-supporting
laws, policies and practices (such as non-discriminatory access to market), (v) the sponsor’s financial performance and the contribution to the Bank’s profit margin.\(^3\)

- What lessons can be drawn from the design and implementation of the cluster projects to strengthen the impact of the Bank’s future hydrocarbons projects?

### 3.2 Methodology

This will, in principal, be an evaluation of a “cluster” of six hydrocarbons projects. However, the evaluation report will present its findings within the broader context of the Bank’s approach to supporting hydrocarbons. It will start with a brief historical background, present the evolution of the Bank’s approach to hydrocarbons (including changes in the institutional setup and explore their rationale) and briefly describe the Bank’s landmark hydrocarbons projects from the early days. It will also analyse how relevant country and sector strategies treated hydrocarbons operations, whether the Bank’s overarching strategy in respect of such support has been sufficiently clear and whether it was supported by appropriate diagnostics. This part of the study will also contain an analysis of the Bank’s portfolio of hydrocarbons operations during 2010-2019, as well as a comparison with the portfolio of hydrocarbons projects from the preceding period.

The second part of the study will consist of an evaluation of the cluster of six projects. Please see annex 2 for the list of the projects, their current status and their selection process.

In the preparatory phase to this evaluation, EvD will request data on benchmarks and performance indicators (financial statements, project monitoring and TC completion reports) and it will prepare a list of issues for each one, to be clarified during the interviews with stakeholders.

It is currently envisaged that this would be followed by three field missions (each combining two countries) to interview project stakeholders - clients and TC consultants, to clarify key issues related to each project and identify common themes. In most cases, other stakeholders, e.g., regulators, other TC beneficiaries, local government, industry associations and NGOs, might be also interviewed, depending on the issues. Finally, it is envisaged that EvD would also hold brief meetings with government representatives to establish how the projects fitted into their own economic and energy strategies and what impact they made (from the government’s point of view).

However, depending on further developments related to the Covid-19 epidemic, the interviews might need to be limited or may not happen at all. Currently (mid-March 2020) there has been a relatively low occurrence of Covid-19 contamination cases across the cluster project countries. However, travel has been restricted and if such restrictions are maintained, EvD will try to arrange telephone or video interviews, as well as email exchanges with selected stakeholders to explore their views and obtain data.

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\(^3\) These categories are mentioned, as based on a preliminary review of transition objectives of 6 cluster projects, they appear the most frequently as such objectives. However TI of each project will be assessed based on its specific targets set at approval (taking into account unintended benefits, if any).
The evaluation will also explore the experience of IFIs co-financing the projects, both in terms of the implementation issues (including coordination with the EBRD) and their own approach to hydrocarbons.

As all cluster projects are related to oil exploration, refining or distribution, EvD will also verify the adequacy of the oil price assumptions and forecasts made for these projects, as well as the implications of potentially prolonged low oil price levels on these projects. Also impacts of the cluster projects on, or links with, other Bank projects in energy sub-sectors (e.g. in renewable resources) will be explored.

The focus of this part of the review will be on identifying and assessing results achieved by each project. However, the evaluations will also comment on the projects’ design features, such as clarity and evaluability of their transition objectives, as well as integration of policy dialogue and TC components into project design and management. Finally, attempt will be made to relate the projects’ transition objectives to the Bank’s new transition qualities (although without evaluating such “shadow” transition objectives as they were not originally set for these projects).

Annex 1 presents the general (indicative) evaluation criteria, against which this evaluation proposes to assess the results of the cluster projects. However, following deeper analysis of available material, EvD will prepare Theories of Change/Result Frameworks for each project, which will indicate project-specific evaluation criteria and indicators.

The evaluation will try to identify broader impacts and long-term outcomes (e.g. on a country’s economy, environment or industry practices, laws or regulations adopted following the project).

To ensure a focused evaluation, three main performance categories will be assessed for each project relevance (including additionality), effectiveness (achievement of physical and transition-related outputs, outcomes and impacts) and efficiency (financial performance and contribution to the Bank’s P&L). An overall performance rating for each project will be also provided, in accordance with EvD practice. The assessment will derive a set of key findings from each project, which will be presented in a concise format and will focus on selected practical issues.

The main report will present a wider, cross-cutting strategic-level assessment as well as common operational-level findings and recommendations, taking into account the cluster project evaluations, portfolio analysis, and the results of earlier EvD assessments of relevant projects from this portfolio, to present a cohesive picture of the Bank’s performance in this sector in the last ten years.

3.3 Potential problems and limitations

Availability and adequacy of information and data is the main challenge for this study. It is likely to be more difficult to gather such information as, due to Covid-19 epidemic, it might not be possible to properly interview and/or to reach to all relevant stakeholders.
Moreover, most of the cluster projects were implemented over a relatively long time (some by several OLs, some of whom are no longer with the Bank), while local counterparts have also changed, which could make it challenging to obtain full and reliable information on the evolution of these projects.

Country-level reliable and up-to-date data on environmental and energy sector performance might be also difficult to obtain for non-EU countries (Ukraine, Egypt and Tunisia).

Moreover, larger projects have typically been co-financed by other IFIs, ECAs and commercial banks and it might be difficult to attribute higher-level impacts to any particular financier.

4. Administrative arrangements

4.1 Evaluation team

This evaluation will be performed by Tom Bartos, Senior Evaluation Manager. Alejandra Palma, Principal Evaluation Manager will contribute to selected chapters, providing research, data compilation and drafting support. Natalia Lakshina, Assistant Analyst will provide research and administrative support, while Stephanie Crossley, Analyst, will act as the report's editor. Barry Kolodkin, Deputy Chief Evaluator will peer-review the draft. An external panel member (to be identified) may be also requested to review the draft report.

4.2 Timetable

Due to current uncertainty related to the Covid-19 virus epidemic it is difficult to properly plan all activities, particularly those related to field work. For now, activities such as writing the first part of the report (evolution of the Bank's approach, portfolio analysis, links to country strategies, etc), as well as preparation of questions, data requests and issues to be clarified, are scheduled during April-July and any field work is scheduled for September-November, when it is hoped the situation might become clearer. If travel is not possible, telephone interviews and email exchanges with selected stakeholders will have to suffice.
<table>
<thead>
<tr>
<th>Milestone</th>
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<tbody>
<tr>
<td>Approach paper prepared, circulated and approved</td>
<td>March-April 2020</td>
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<td>Background documentation review, ToC preparation x 6</td>
<td>March-May 2020</td>
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<td>Internal and external data collection and internal interviews</td>
<td>April-June 2020</td>
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<td>Field work (three trips, each covering two countries)</td>
<td>Sept-Nov 2020</td>
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<td>Drafting of the report</td>
<td>May-Nov 2020</td>
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<td>Draft submitted to CE</td>
<td>End Nov 2020</td>
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<tr>
<td>Draft circulated for Management Comments</td>
<td>Beginning of Dec 2020</td>
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<td>Final editing and final distribution</td>
<td>End Dec 2020</td>
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### 4.3 Budget

Provisional travel budget of up to £15,000. No consultancy budget required.
Annex 1: Evaluation matrix

The evaluation matrix presented below relates mainly to the more strategic issues to be reviewed as part of this evaluation. In addition, for each project the EvD will prepare Theory of Change organigram, specifying its outputs, outcomes and impacts. Point 3 of this matrix gives examples of issues which might be encountered and relevant evaluation criteria, indicators and sources of data, which could be applied in the process of evaluating the cluster projects.

<table>
<thead>
<tr>
<th>Evaluation questions</th>
<th>Evaluation criteria</th>
<th>Indicators</th>
<th>Sources of Data</th>
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<tbody>
<tr>
<td>1. How has the Bank’s approach to hydrocarbons projects evolved over the years and how has the past experience shaped its current approach?</td>
<td>N/A</td>
<td>N/A</td>
<td>- evidence of using past experience when preparing subsequent approaches to hydrocarbons</td>
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<td></td>
<td>- changes in the Bank’s approach to hydrocarbons</td>
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<td>- evidence of improvement to the Bank’s operations (in terms of higher TI, quality of projects) due to changes in institutional set up</td>
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<tr>
<td></td>
<td>- changes in the Bank’s institutional set up</td>
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<td>- interviews with the Bank’s Management</td>
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<td>To what extent has support for hydrocarbons been reflected in the Bank’s country strategies (those relevant to evaluation projects), as well as sector strategies and strategic initiatives?</td>
<td>- extent of coverage of hydrocarbons in relevant strategies</td>
<td>- adequacy of the description of hydrocarbons issues, e.g. concrete examples of issues related to transparency, environmental issues, energy security, etc.</td>
<td>Country strategies (Ukraine, Egypt, Greece, Poland, Tunisia, Slovakia)</td>
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<td>- existence of meaningful diagnostics supporting the Bank’s involvement (or otherwise) in hydrocarbons</td>
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<td>Sector Strategies (Energy) Initiatives (Green Economy Transition Approach)</td>
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Note: N/A indicates not applicable.
<table>
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<tr>
<th>Evaluation questions</th>
<th>Evaluation criteria</th>
<th>Indicators</th>
<th>Sources of Data</th>
</tr>
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<tbody>
<tr>
<td>How did the evaluation projects fit strategically?</td>
<td>- projects clearly in line with operational priorities of country and sector strategies</td>
<td>-projects directly responding to issues identified in the strategies</td>
<td>-Board Reports and relevant strategies</td>
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<td>2. Have the Bank-financed projects fitted into the strategic objectives of relevant countries in terms of supporting their economic, environmental and energy security objectives?</td>
<td>-existence of relevant strategy related to hydrocarbons for each country (Energy, Mining, Environmental)</td>
<td>-Bank-financed projects included in given country’s strategic priorities</td>
<td>-relevant countries’ own Energy/Mining/other strategies</td>
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<td>How, in the countries’ view, did these projects contribute to such strategic objectives?</td>
<td>-change in given country’s energy security, environmental performance and/or wider economy</td>
<td>- evidence of a positive impact from the Bank’s projects</td>
<td>-interviews with country governments, -country-specific data -interviews with private sector/industry associations/NGOs representatives</td>
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<tr>
<td>3. What outcomes were achieved and what impacts did the Bank-financed projects make on each country’s: (i) hydrocarbons sector performance, transparency, energy security and economy in general?</td>
<td>-greater competition and private sector participation</td>
<td>-pre and post project data on market structure, quantity and quality of hydrocarbons, energy saved, pollution reduction, employment, etc.</td>
<td>-data from clients, client and stakeholder interviews, (site inspections, if possible)</td>
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<td>- increased diversification of energy supply,</td>
<td>-evidence of improvements to efficiency of facilities</td>
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<td>-increased throughput or storage capacity,</td>
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<td>-increased production from natural resources,</td>
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<td>-increased export</td>
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<td>-reduced pollution, APG flaring</td>
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<tr>
<td>Evaluation questions</td>
<td>Evaluation criteria</td>
<td>Indicators</td>
<td>Sources of Data</td>
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<td>- increased energy efficiency,</td>
<td>- evidence that the use of new standards, practices, laws, or regulations improves competition, access to market, transparency, etc. (e.g., adoption of EITI, market coupling for gas, guidelines for energy, third party access for pipelines)</td>
<td>- consultant and client interviews, consultants reports, site visits</td>
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<td></td>
<td>- improved corporate governance, business conduct, H&amp;S, EITI</td>
<td>- new institutions' impact on energy efficiency, security, sector's transparency, competition, etc.</td>
<td>- interviews with government, lawmakers, clients, industry associations, NGOs</td>
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<td></td>
<td>- increased employment</td>
<td>- the number of new institutions' staff trained</td>
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<td></td>
<td>- new standards, practices, laws, or regulations being adopted and utilised</td>
<td>- high competence of staff in the opinion of market participants</td>
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<td></td>
<td>- new institutions created, capacity of staff improved</td>
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<td>(ii) adoption of international laws, regulations and standards or creation of institutions?</td>
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<td>- new standards, practices, laws, or regulations being adopted and utilised</td>
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<td>- new institutions created, capacity of staff improved</td>
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<td>- new institutions created, capacity of staff improved</td>
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<td>4. What was the projects' (or sponsor's) financial performance and did its financing contribute to the Bank's profit?</td>
<td>- project's (or sponsor's) financial performance</td>
<td>- alignment with the project's financial projections</td>
<td>- project's/sponsor's financial statements, Board reports, consultant reports, economic data on oil prices, Bank's project P&amp;L records</td>
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<td>- financing terms and record with their fulfilment by the sponsor</td>
<td>- adequacy of underlining assets (oil) price projections</td>
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<td>- amount of contribution to the Bank's P&amp;L</td>
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<td>5. What common themes and issues can be discerned in the hydrocarbons projects?</td>
<td>patterns in the occurrence of issues relevant to hydrocarbons projects</td>
<td>N/A</td>
<td>- all of the above and web pages and internal documents of the IFC, EIB and ADB, interviews with relevant staff</td>
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</table>
Evaluation questions | Evaluation criteria | Indicators | Sources of Data |
---|---|---|---|
6. What lessons can be drawn from the evaluation projects to strengthen the impact of the Bank’s future hydrocarbons projects? | N/A | N/A | all of the above |

The performance of projects will be assessed in accordance with EvD’s standard evaluation methodology. The projects will be evaluated based on three key criteria:

(i) **relevance** – alignment of the project’s objectives with the relevant country and sector strategies and the Bank’s strategic initiatives. The strength of the additionality case;

(ii) **effectiveness** – achievement of the projects’ operational and transition objectives to date;

(iii) **efficiency** – achievement of the financial objectives to date and contribution to the Bank’s P&L.

Ratings for each of the above categories will be based on EvD’s current scale of: Excellent – Fully Satisfactory – Partly Unsatisfactory – Unsatisfactory. The overall performance rating scale is: Outstanding – Good – Acceptable – Below Standard – Poor – Very Poor.
Annex 2: Cluster projects – their selection process and current status

Cluster projects selection process

The projects to be evaluated were selected based on a preliminary analysis of the Bank’s portfolio of hydrocarbon projects (signed between 2010-2019), followed by close consultations with the Natural Resources team bankers and management. For reasons of practicality, capacity and timing, it was decided to limit the number of cluster projects to six.

Most of the projects which were completed more than five years ago were seen as less suitable (particularly if the Bank has lost contact with the sponsor). Similarly, projects signed in recent years and still ongoing, were excluded as they are not ready for evaluation.

One group of projects (accounting for about half of the cluster) were selected as they were typical operations, providing a fairly good representation of the Bank’s portfolio, in countries where the Bank has been the most prolific (e.g. Egypt and Ukraine) and in the most frequent sub-sectors, both down and up-stream (e.g. oil exploration, gasoline stations).

Another group comprised “niche” projects, particularly those which promised substantial environmental/energy efficiency benefits (e.g. at the processing facilities), or which were intended to support policy dialogue.

As explained earlier in this paper, several recent EvD studies or evaluations covered a number of Natural Resources portfolio projects and these were excluded from the selection for this cluster, i.e.:

- The Mongolian Mining Review (2019) covered three coal mining projects (out of four hydrocarbons projects in Mongolia, with the remaining one being related to petrol stations, which was subject to a self-assessment validation).
- The Regional Integration Review (2020) provided a detailed evaluation of the TANAP project and also included a review of the key performance indicators of two associated projects in Azerbaijan (Shah Deniz I and II), which covered the whole Azerbaijani hydrocarbons portfolio. In reviewing this project, EvD also interviewed and presented the opinions of gas distributors and the Ministry of Energy in Turkey;
- The Energy Strategy Review (2018) – covered the Bank’s operations in Kazakhstan as one of its two case studies. It evaluated four out of six hydrocarbons projects in this country (the other two being repeat projects with the same local sponsor in “support activities for oil and gas”).

Findings from these evaluations will be taken into account when identifying common issues and patterns in hydrocarbons projects.
As part of the selection, long-listed projects where subjected to preliminary screening and discussed with the relevant OLs. Projects offering interesting findings and lessons were favoured, however projects which have been clearly unsuccessful, e.g. currently in Corporate Recovery, were generally excluded (nevertheless they will be mentioned in the report and their key performance issues highlighted).

Following this selection process, three oil and gas exploration projects were chosen (PICO, Serinus and Energan I & II), along with two projects aiming at improving the environmental and energy performance of oil refineries (MOL/Slovnaft and PKN Orlen) and one petrol stations project (Galnaftogaz III). Based on preliminary review, they offer interesting findings and represent relatively well the Bank’s hydrocarbons portfolio.

However, despite attempts, no suitable gas pipeline, distribution or storage projects were identified among the eleven in the portfolio as four are not yet ready for evaluation (including three which so far have disbursed less than 10% - BRUA, NAK, EGAS, while TAP is to be completed only later this year) and three have been recently evaluated (TANAP, Bozoi and Gas Distribution, the latter two in Kazakhstan). Three other gas distribution projects were signed in 2010 and completed a long time ago, with the Bank maintaining little or no contact with the clients. Only one project in this sub-sector (Energaz Financing in Turkey of 2013 vintage) was considered. However, as EvD has already interviewed gas distributors in Turkey last year (as part of the TANAP project evaluation), this project was deemed less suitable for the cluster.

Also, suitable coal projects were difficult to identify. Among six such projects in the Natural Resources portfolio, three in Mongolia were evaluated as part of Mongolian Mining cluster in 2019, while three Ukrainian projects are all in Corporate Recovery and EvD was advised not to select them at this stage.

It is also worth mentioning that despite, most of the Bank’s 2010-2019 hydrocarbons projects being in Ukraine (11), most of them were deemed unsuitable for this cluster, i.e. two not yet ready (NAK and Naftogaz Eurobond), three in corporate recovery (Coal Energy and Sadovaya Coal Recycling debt and equity), two already evaluated (Galnaftogaz debt and equity 2011), Kubgas project in war-torn Lughansk region and with limited contact with the sponsor. Naftogas Gas Purchase Facility was an atypical project (providing financing for gas purchase), which left two petrol stations projects - Nadezhda and Galnaftogaz III - to choose from. The latter was chosen as it was a relatively ambitious project, where the Bank gradually helped a smaller private player to substantially expand its market share in a sector dominated by state and oligarch-related companies. It was also a follow up on an earlier (evaluated) projects and it was co-financed with other IFIs (IFC and BSTDB), offering potentially interesting findings.

Table below lists the cluster projects, and their current status is summarised in the next section.
## Hydrocarbons Projects (Regional)

<table>
<thead>
<tr>
<th>OpId</th>
<th>Project Name</th>
<th>Country</th>
<th>Bank’s loan €m</th>
<th>Signed</th>
<th>Short description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Oil and gas exploration projects</strong></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>44491</td>
<td>PICO Oil and Gas</td>
<td>Egypt</td>
<td>33.5</td>
<td>6.2015</td>
<td>Corporate loan to PICO – a mid-size Egyptian oil company, part of a larger club deal of up to USD 200 million, to finance the expansion of the Amal and Zaafarana fields. The project’s transition impact was based on: (i) supporting a medium-size independent player in a sector dominated by state-owned companies; (ii) demonstration of efficiency improvements with the reduction of APG flaring and CO2 emissions; (iii) setting higher standards for corporate governance and business conduct by introducing EITI principles and by meeting best international EHS standards; and (iv) contribution to the ongoing policy dialogue aimed at promoting the commercial utilisation of Egypt’s domestic natural gas resources.</td>
</tr>
<tr>
<td>47822</td>
<td>Energan Oil</td>
<td>Greece</td>
<td>70</td>
<td>5.2016</td>
<td>Senior and subordinated loans to finance the drilling of five production wells at the Prinos offshore field, workover and well stimulations and the construction and installation of the oil platform, followed by the drilling of seven wells in this field. The project’s TI was aiming at: (i) Setting Standards of Corporate Governance and Business Conduct by adopting an ESAP, bring the Project and existing operations in line with the Banks E&amp;S requirements and improve EHS performance; facilitate upgrades to energy facilities; establish a new modern metering system for oil, water, and gas production from each well; install state-of-the-art pollution prevention systems, such as low-emission combustion systems and de-asphalting units; and sensors to measure and reduce emissions. Also, a commitment not to flare gas beyond safety reasons; (ii) Frameworks for Markets: TCM assisting the Greek Ministry of Energy and the hydrocarbons regulatory body (HHRM) create an efficient/transparent economic model that could be used to assess and monitor the different parameters of upstream licences; as well as to develop the Greek upstream regulatory framework, including guidelines and rules book for implementing the EU Directive on safety in offshore oil and gas operations (TC of EUR 445,000); (iii) Demonstration of New Products: introduction of new technologies promoting efficiency, such as innovative offshore mobile drilling platform.</td>
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<tr>
<td>48358</td>
<td>Energan II</td>
<td>Greece</td>
<td>17.8</td>
<td></td>
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<tr>
<td>44744</td>
<td>Serinus</td>
<td>Tunisia</td>
<td>44.6</td>
<td>11.2013</td>
<td>$40 m senior and $20 m convertible loans to Serinus Energy - a mid-sized private Canadian oil and gas company - to support the exploitation and development of four oil and gas concessions in Tunisia (Sabria, Chouech Essaïda, Ech Chouech, and Sanrah). Its TI was related to the increased share of private ownership in the Tunisian upstream oil sector, the transfer of skills from the company to the newly acquired Tunisian operations, and setting higher standards for corporate governance and business conduct.</td>
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<td></td>
<td><strong>Improvements to oil refineries</strong></td>
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<tr>
<td>43869</td>
<td>MOL/Slovnaft</td>
<td>Regional</td>
<td>134</td>
<td>7.2012</td>
<td>Senior loan to MOL, Hungary’s premier oil and gas company, to support the refurbishment of the old steam cracker and the integration of a new Low Density Polyethylene (LDPE) unit (which was to replace the 3 existing units) at the Slovnaft refinery and petrochemical complex in the Slovak Republic. MOL was a long standing EBRD client. TI based on: (i) the demonstration of efficiency and environmental management improvements at the petrochemical plant (BAT introduction), leading to a decrease in energy and input fuel consumption and in CO2 emissions; (ii) demonstration of an integrated emission and energy management system at the complex level (i.e. integrated for the refinery, petrochemical unit and power plant), which will be externally certified and monitored. (iii) the petrochemical unit meeting the carbon intensity benchmark set by the EU ETS phase 3 to be in the 10% least energy intensive petrochemical units in Europe, and receiving enough free allowances to offset its emissions.</td>
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</tbody>
</table>
Hydrocarbons Projects (Regional)

<table>
<thead>
<tr>
<th>Code</th>
<th>Entity</th>
<th>Country</th>
<th>Size</th>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>42609</td>
<td>PKN Orlen</td>
<td>Poland</td>
<td>180</td>
<td>6.2011</td>
<td>€ 250 million AB loan to PKN Orlen - the largest oil company in CEE, in parallel to a syndicated refinancing package of up to €2.7 billion of existing debt. Additionality based on the maturity (stretching from 5 to 7 years) and on the environmental conditionalities. TI based on the demonstration effect of energy efficiency and environmental management improvements at the corporate level, including (i) compliance of the CHP plant with new EU industrial emission directives through the introduction of BAT before the regulatory deadline, (ii) the introduction of a carbon and energy management system, which could be monitored and verified; and (iii) improvements in the energy intensity performance of the Plock refinery complex, to meet the level of the top 15% most efficient installations in the EU. This was to make a positive demonstration effect to other Polish companies that are in the process of upgrading their plants.</td>
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<tr>
<td>45462</td>
<td>Galnaftogaz III</td>
<td>Ukraine</td>
<td>11.4</td>
<td>11.2013</td>
<td>A/B loan of USD 80 million to Galnaftogaz to finance the expansion of its fuel stations network in the underserved south and east of Ukraine. Intended as part of the company's USD 200 million capex, including to extend the energy efficiency programme initiated under the previous loan to cover an environmental upgrade of tank storage facilities. The project was to promote use of higher quality (more environmentally-friendly) fuel. Bank's 6th transaction with this company, co-financed with IFC and BSTDB. In terms of TI, the project was expected to have incremental transition impact through setting higher energy efficiency and EHS standards. It was to extend GNG's market leading energy efficiency standards of station operation to new areas and extend SEI measures to tank storages. Also, the company was to be EBRD's first private sector sponsor of a comprehensive road safety programme and was to provide a compelling national platform for EBRD's road safety initiative in Ukraine.</td>
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Current status of cluster projects

**PICO Oil and Gas** - corporate loan of USD 50 million to PICO – an Egyptian mid-size exploration company, a part of a larger club deal of USD 200 million to finance the expansion of the company's operations in the Amal and Zaafarana fields in Egypt (capex in fields and facilities upgrades) intended to yield greater efficiencies and lower environmental impact.

The project's transition impact was based on: i) supporting a medium-size independent player in a sector dominated by state-owned companies; (ii) demonstration effect of successful efficiency improvements with the reduction of APG flaring and CO2 emissions going beyond current best practice in Egypt; (iii) setting higher standards for corporate governance and business conduct by introducing EITI principles and by meeting best international EH&S standards; and (iv) contribution to the ongoing policy dialogue aimed at promoting the commercial utilisation of Egypt's domestic natural gas resources.

Largely implemented as planned. According to 2019 monitoring reports, in terms of increasing private ownership, the company exceeded the target, drilling more new wells than planned. Its market share in the country grew by 1.2%. Evidence of improved cooperation with the Egyptian authorities in the area of sustainable energy in the oil and gas sector through the signing of an MoU, progress on the Bank’s initiative to reduce gas flaring and the completion of a TC related to improving the regulatory framework for PSCs in Egypt.

The setting standard, biodiversity strategy, H&S and ISO certification objectives are mostly achieved. PICO has implemented a Worldwide Corporate Energy Efficiency and APG Flaring
Reduction Programme on all worldwide activities and achieved compliance towards certifying the ESH&S systems to ISO 14001 and OHSAS 18001 standards. The Company has completed the corporate restructuring plan and has reportedly begun to disclose payments made to the authorities in EBRD COOs (Egypt and Romania) and beyond (Mexico) in line with EITI principles.

However based on most recent reporting, some other objectives, e.g. related to the training and certification of staff within PICO Oil & Gas and at the three Joint Venture Operating companies have not yet been achieved. Also, for unexplained reason the Company failed so far to become a member of the International Petroleum Industry Environmental Conservation Association. These issues will be discussed and the current status reflected in the evaluation report.

**Energan Oil** – a senior and subordinated loans financing drilling of five production wells at the Prinos off-shore field (north-eastern Greece), workover and well stimulations and the construction and installation of the oil platform followed by the drilling of seven wells in this field. It also financed the upgrade and refurbishment of the existing onshore production facilities to bring improvements to operational efficiency, and the new equipment required for the utilization of Associated Petroleum Gas (APG).

The project’s TI was based on: (i) Setting Standards of Corporate Governance and Business Conduct: The Bank was to assist Energean in raising EHS standards by adopting an ESAP, which bring the Project and existing operations in line with the Bank’s E&S requirements and improve EHS performance.; facilitate upgrades to energy facilities/equipment like compressors and motors; establish a new modern metering system for oil, water, and gas production from each well; install state-of-the-art pollution prevention systems, such as low-emission combustion systems and de-oiling units; and distribute sensors to measure and reduce emissions. The loan agreement was also to covenant Energean’s commitment not to flare associated petroleum gas beyond safety reasons; (ii) Frameworks for Markets: The Bank was to assist the Greek Ministry of Energy, which has confirmed its interest to receive EBRD technical assistance, in helping the Greek hydrocarbons body (HHRM) create an efficient/transparent economic model that could be used to assess and monitor the different parameters of upstream licences; as well as to develop the Greek upstream regulatory framework, including guidelines and rules book for implementing the EU Directive on safety in offshore oil and gas operations (TC of EUR 445,000); (iii) Demonstration of New Products: The company was to introduce new technologies promoting efficiency, such as innovative off-shore mobile drilling platform with the SIFT or SIP-2 technology and well completion with dual completion methodology, for the first time in Greece.

Based on monitoring documents, relatively small part of this ambitious plan was implemented so far. After the management change at Energan, the new management indicated to the Bank that some of the agreed initiatives were no longer a priority. The project experienced technical problems due to asphaltene precipitation in the wells, which have been now addressed. According
to available reports, the installation of the oil platform has been delayed. The current oil production rate is slightly higher than the Bank’s oil production forecast and the base case.

In terms of TC benchmarks, the technical cooperation on offshore safety has been completed and the final report and workshops done in April 2018. The EU Directive (2013/30/EU) has been transposed. Reportedly, resources and training were provided to develop the procedures for a practical implementation of the Directive (including emergency response).

Serinus Energy – senior and convertible loans to Serinus Energy - a mid-sized, private Canadian oil and gas company - to support the exploitation and development of four oil and gas concessions in Tunisia (Sabria, Chouech Essaida, Ech Chouech, and Sanrahr). Transition impact of this project was expected from: i) support to greater private ownership in the Tunisian upstream oil sector, ii) the transfer of skills from the company to the newly acquired Tunisian operations, and iii) setting higher standards for corporate governance and business conduct.

According to monitoring documents of 2019, the project has had very limited success with regards to increasing its proved oil reserves and oil production. This was largely due to the low oil prices as the company had to revise downwards its capex investment plans for Tunisia. Serinus’ oil production has not yet reached the 1,500 boe/day benchmarked under the Loan Agreement. Production from the Sabria and Chouech Es Saida oil fields was 1,348 boe/day in 2015, but it decreased to 1,180 boe/day in 1H2016 and in 2017 the fields were shut-in due to protests (the nature of the protests is not clear from the monitoring documents). Overall oil production plummeted to 352 boe/day in 2018 due to the shut-in of the Chouech Es Saida field.

Until 2016, the Company was on track to achieve targeted net proved reserves (from the 3,199 Mboe certified in 2013). However, in 2017 the figure fell to 3,178 Mboe and then 2,246Mboe in 2018 due to lower investments by the company. It is unclear what the situation with the reserves and the production was in 2019 and beyond. The exact capacity utilisation at the existing Sabria processing facilities has not been documented, although it is unlikely the capacity utilisation figure was over the 90% target benchmarked.

With regards to skills transfers, no progress was made. The Company has been reportedly still using 3rd parties for drilling and workovers, and it has been generally lowering its production, mainly due to the depressed commodity prices. As the Company’s main concern is to remain afloat, it is not expanding and therefore not securing dedicated drilling and service rigs (as was expected under the project).

It is likely that the project’s main achievements relate to adoption of higher corporate standards. The Company reportedly introduced: (i) an integrated Environmental and Social Management System, (ii) disclosure of all payments to the Tunisian authorities according to PWYP principles, (iii) clear HR policies and the (iv) specific plans for the treatment and monitoring of drilling mud
and liquid discharges. The Company has also developed and implementing a robust Social/Community Engagement and Investment Programme.

However, overall, depressed commodity prices and the subsequent financial underperformance resulted in very modest impact, limited mainly to the private ownership. Senior debt has been repaid and the convertible loan is still expected to be repaid (in instalments, rather than as a bullet as originally designed).

**MOL/Slovenia** - €120 million loan to MOL, Hungary’s premier oil and energy company, to support the refurbishment of the old steam cracker and the integration of a new Low Density Polyethylene (LDPE) unit (which was to replace the 3 existing units) at the Slovnaft refinery and petrochemical complex in the Slovak Republic. MOL was a long standing EBRD client.

Project’s TI was based on: (i) the demonstration of efficiency and environmental management improvements at the petrochemical plant (BAT introduction), leading to a decrease in energy and input fuel consumption and in CO2 emissions. (ii) demonstration of an integrated emission and energy management system at the complex level (i.e. integrated for the refinery, petrochemical unit and power plant), which will be externally certified and monitored. (iii) the petrochemical unit meeting the carbon intensity benchmark set by the EU ETS phase 3 to be in the 10% least energy intensive petrochemical units in Europe, and receiving enough free allowances to offset its emissions. These elements were to have a positive demonstration effect for other CEE companies which were in the process of upgrading their plants to improve their competitiveness.

Based on 2019 monitoring reports, while there has been some progress made on the project has been moving very slowly. The steam cracker was refurbished and two of the old LDPE units have now been decommissioned. However, the status of LDPE3 was reconsidered and is now still operating intermittently. A number of benchmarks have been considerably delayed, partly due to delays in new equipment tendering and commissioning. The improvement in performance following the refurbishment of the steam cracker have been considerably lower than what was envisaged at signing in terms of energy saving (1.37mJ vs 4.5 mJ/kg of product), NOx emissions reduction (6.6% vs 60%) and CO2 emissions (11.9% v 14%). As the benchmark related to the steam cracker refurbishment and the resulting energy/emission savings were due four years ago, EPG assessed them as not achieved.

It is unclear whether the refurbished steam cracker and LDPE unit remain in the top 10% most carbon efficient facilities within the EU as no information has been provided by the borrower. However, it is noted that, as per the Loan Agreement between EBRD and MOL, MOL is required to provide the Bank with a report stating the emission performance of Slovnaft Group’s petrochemical facility compared with the prevailing carbon intensity threshold level in the EU. If provided with this information, this would help establish how the LDPE unit performs in terms of efficiency compared to its EU peers (this will be attempted under this cluster evaluation).

Reportedly, the new LDPE unit commissioned in 2017 meets BAT standards in terms of direct/primary energy consumption and water consumption (energy consumption was...
Hydrocarbons Projects (Regional)

approxiatively 10% less than benchmarked values). The integrated energy and carbon management system and greenhouse gas emission management policy was initiated, however in 2019 the steam cracker was not operating at target performance levels hence the expected specific energy efficiency was not measured. No information was given regarding the replication of a similar refurbished integrated petrochemical plants in the Bank’s region. The Slovnaft Refinery was reportedly on track with implementing ESAP; detailed annual Environmental and Social Reports, ESAP implementation reports and supporting documents are submitted on a timely manner and allow to trace the implementation by the Client of EBRD’s environmental and social requirements. Relevant documents are saved in Project Link folder for this transaction.

PKN Orlen - € 250 million A/B loan to PKN Orlen – the largest oil company in CEE, in parallel to a syndicated refinancing package of up to €2.75 billion of existing debt. Additionality based on the maturity (stretching from 5 to 7 years) and on the environmental conditionalities.

TI based on the demonstration effect of energy efficiency and environmental management improvements at the corporate level, including (i) compliance of the CHP plant with new EU industrial emission directives through the introduction of BAT before the regulatory deadline, (ii) the introduction of a carbon and energy management system, which could be monitored and verified; and (iii) improvements in the energy intensity performance of the Plock refinery complex, to meet the level of the top 15% most efficient installations in the EU. This was to make a positive demonstration effect to other Polish companies that are in the process of upgrading their plants to improve their competitiveness, provided it is shown that the targeted measures go beyond the norm for the sector in Poland and current Company’s business practices. Also the potential to increase competition in the power generation market from this independent private producer, should a significant surplus of electricity from the CHP be sold on the market.

The TI potential of this project was constrained because the Company already had very advanced corporate, business and environmental practices (it had an energy management system in place; it was listed on the Warsaw Stock Exchange). There were also concerns that the project could strengthen the dominant player in the oil refining/petrochemical and fuel retail market in Poland, with an estimated wholesale market share of 62% and retail distribution share of 26%, and one of the leading companies in CEB. The Polish Treasury held Orlen’s blocking stake (27.5%) and had veto rights over key strategic decisions.

Based on monitoring documents, the project has experienced mixed success overall. The energy efficiency of the refinery’s installations has not been improved. Also the carbon management system and the energy management systems have not been unified.

However, thanks to the project the carbon management system has been implemented within the Group. The adoption of integrated carbon and energy management systems in other
refining/petrochemical companies in EBRD region has been achieved so has the compliance of the CHP plant with (i) EU environmental standards and (ii) the EU Industrial Emissions Directive.

The enhancement of competition was not achieved as the Company didn’t increase its sales of electricity to the grid through a market platform to a yearly average of at least 788 GWh. Evaluation will verify the current level.

Galnaftogaz III - Corporate A/B loan of USD 80 million to Galnaftogaz (GNG) supporting the expansion of GNG’s fuel stations network in underserved south and east of Ukraine. Intended as part of the company’s USD 200 million capex, including to extend the energy efficiency programme initiated under the previous loan to cover an environmental upgrade of tank storage facilities. The project was to promote use of higher quality (more environmentally-friendly) fuel. Bank’s 6th transaction with this company, co-financed with IFC and BSTDB. Thanks to this and earlier projects, GNG is now one of the main players in the sector.

In terms of TI, the project was expected to have incremental transition impact through setting higher energy efficiency and EH&S standards. It was to extend GNG’s market leading energy efficiency standards of station operation to new areas and extend SEI measures to tank storages. Also, the company was to be EBRD’s first private sector sponsor of a comprehensive road safety programme and was to provide a compelling national platform for EBRD’s road safety initiative in Ukraine.

The project did not go well, due to war conflict the expansion capex was substantially reduced and part of the loan cancelled. Also, a significant drop in income per capita in Ukraine led to a drop in demand for high quality fuel. Fuel tanks investments were made in 10 locations (following Mott McDonald’s study and recommendations). Reportedly, the Road Safety Management Plan was prepared and implemented and road safety trainings are being held for drivers. The team reports that a case study on Road Safety Management in the private sector has been prepared, although it doesn’t seem to appear on the client’s website.