

The Shareholder Special Fund – interim evaluation



EBRD Evaluation department
2015

The EBRD Shareholder Special Fund provides substantial support for a wide range of Bank initiatives and operational activities. Management asked the Evaluation department to assess the Fund's operations and processes in advance of, and to contribute to, Management and Board strategic and operational planning work, particularly on grants and donor support. The evaluation identified a number of significant operational planning and governance challenges issues flowing in large part from divergent views on Fund priorities. It produced a number of recommendations that were incorporated directly into some substantial changes to Fund operations.

Highlights

The Fund

Now in its seventh year the EBRD's Shareholder Special Fund (SSF) has received a total of € 385 million and committed over € 250 million. The SSF has come to play a major role in supporting Bank initiatives and affects a wide cross section of Bank operational activities. SSF operations and issues have also been an area of very substantial Board engagement, interest and concern.

The Evaluation's key finding was that there were sharply divergent views on the core purposes of the Fund, from which important operational ambiguities had developed.

The SSF's original clearly stated prime purpose was to "broaden and deepen the Bank's transition impact" using incremental funds to complement those of donors.

In practice Management has viewed this largely as filling funding gaps for ongoing operational activities whose transition merits were already determined. Funding requests for various Board approved initiatives are routinely approved. This approach makes the SSF essentially a supplemental funding source, largely indistinguishable from others, and covering gaps outside areas of donor priorities.

Many on the shareholder side see the SSF's founding proposition as providing high-value incremental resources specifically to make a distinctive and strategically prioritised contribution to transition.

This tension or duality is well known but has never been clearly addressed and resolved. It has in turn powerfully shaped the Fund's practices and operations, and the concerns that exist between Shareholders and Management on SSF issues.

Overall Recommendation

Irrespective of the size of future resource allocations, divergent views on SSF purpose and priorities should be reconciled.

While the SSF should remain a source of finance that is responsive to demand, it should become more selective by responding more clearly to demands that align with clearly defined priorities. These priorities may be identified in and drawn from transition gap analysis already intended to be part of the Bank's sector and country strategies.

The definition of SSF priorities on a medium-term basis should be specific enough to provide the shareholders with sufficient assurance that the objective of transition impact maximisation remains at the heart of SSF and to allow for reconsideration of the Fund's governance.

SSF planning

Regardless of its future size, SSF strategic planning should be aligned with the new planning cycle of the Bank which comprises a five-year Strategic and Capital Framework (SCF) and a Strategy Implementation Plan (SIP), which will be approved annually by the Board and reflecting the implementation of the strategic objectives through a three-year rolling business plan. Accordingly the same planning cycle should be applied to the SSF.

Clarifying the EBRD's priorities in dialogue with donors

The SSF should continue to be used as a means to develop partnerships and structured dialogue between EBRD shareholders, donors and grant recipients. A strategically-driven multi-year SSF approach coupled with three-year rolling plans will give EBRD priorities greater prominence in the dialogue with donors.



Approach

This evaluation was intended primarily to review SSF utilisation, process, management and governance. This choice was made based on the time and resources availability for the study and the likelihood of producing findings and recommendations useful for Management's strategic planning for 2015.

EvD looked at the SSF portfolio to identify whether specific aspects of the grants committed in technical and non-technical cooperation operations could be relevant to be reviewed in the future.

Key evaluation questions included:

- To what extent has the SSF supported the Bank's evolving strategic agenda?
- Has the SSF governance contributed to allocative and process efficiency in fund utilisation?
- Has SSF management been efficient?

Findings and recommendations

SSF support for the strategic agenda on grant co-financing

The SSF is a key element of the Bank's wider partnership with its donors.

It has contributed to substantial changes in the planning and reporting processes for grants, particularly in the framework of the Grant Co-financing Strategic Review.

It has provided considerable value added within the existing donor architecture by providing untied resources, acting as a fund of last resort, supporting strategic initiatives, and serving as a co-financing and bridge funding tool.

Divergent views exist on the SSF's intended priorities – providing incremental support for activities to extend the Bank's transition impact, or filling funding gaps for ongoing operational activities.

SSF planning and operational activities have been built to accomplish the latter purpose.

There is no formal SSF-specific strategic planning process. As a result there is no basis on which the Fund can now demonstrate a distinctive contribution to transition.

Recommendations:

- Align SSF planning to the new EBRD planning cycle, with a five-year approach and three-year rolling plans
- Base SSF strategic planning on existing transition gap analysis

About the SSF

The Shareholder Special Fund was established in 2008 by the EBRD Board of Directors to “broaden the scope and deepen the intensity of the Bank's transition impact, focussing on the most important transition challenges.”

Intended to focus on technical assistance and other initiatives such as investment grants, the SSF would complement donor funding, drawing its resources from allocations of EBRD net income. Now in its seventh year it has received a total of € 385 million and committed over € 250 million.

The SSF has come to play a major role in supporting Bank initiatives and affects a wide cross section of Bank operational activities. SSF operations and issues have also been an area of very substantial Board engagement, interest and concern.

- Better clarify EBRD's priorities in dialogue with Donors

SSF governance and efficiency of fund utilisation

The governance structure of the SSF has been fully integrated into the existing EBRD mechanisms for grants planning and approvals.

All stakeholders are complying with rules and their responsibilities.

The Board is playing a substantial role in quality assurance and assessing the transition case in the grants approval processes in the absence of other accountability and oversight mechanisms.

Recommendations:

- To enhance transparency and accountability, Management should produce an SSF Operations Manual to formalise all processes and clarify roles and responsibilities related to the SSF implementation.
- Review SSF governance structure: consider more delegation of authority to Management provided an improved adequate accountability mechanism is in place
- Approve and enforce accountability mechanisms for non-TC grants: The SSF has contributed to a more focused attention by the Bank on the issue of non-TC grant provision. Nevertheless, concerns among some shareholders remain about the consistency of the application of existing Guidelines for the use of this instrument, also with regard to the SSF.

Efficiency of SSF Management

The SSF has been managed efficiently given the limited human and technical resources available for grants management. However governance, planning and implementation of the SSF has been shaped almost exclusively by its supplemental funding role.

Thus SSF reporting has emphasised resource use and allocation rather than specific priorities funded or results achieved.

Recommendations:

- Enhance quality of reporting on SSF results. Reporting about the SSF has been overwhelmingly focused on the accountability for its complementarity function and reflecting the poor management for results related to grants management. In line with the recent efforts of the Bank for all TC grants, SSF funded operations have included results matrices; however the Board has not yet been provided with any report at aggregate level against the SSF objective.
- Present an action plan for interim solutions to urgent IT issues. The limitations and challenges of the EBRD IT system to manage grants have been already identified by previous studies and confirmed by all stakeholders interviewed for this evaluation.
- Create a data sharing platform for EBRD shareholders and SSF users. Management should develop an intranet platform for shareholders through which they could access: (i) updated information on grants in need for funding; (ii) a database of SSF commitments.
- Review adequacy of human resource allocation to SSF administration.

Read the full report at www.ebrd.com/evaluation.

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