EvD Rapid Assessment of the Solidarity Package

Management Comments

Executive Summary

- Management welcomes the EvD rapid evaluation of the Solidarity Package (SP) and appreciates the comprehensive analysis performed as part of the report. Management views these "real time evaluations" as valuable products to identify early lessons and corrective actions. Management notes that its own Solidarity Package Review prepared in December 2020 pursued similar goals and included a number of lessons and recommendations for action. The EvD report similarly concludes that the SP has provided a rapid and effective first response to the crisis, and it has been quickly set up and rapidly delivered while also presenting areas that could be further improved in preparation to future crisis. Management notes that the value of this rapid assessment in identifying early lessons for corrective actions under this crisis-response is limited as the utilisation of the SP ended in 2021.
- Management welcomes and agrees with the findings in the report that confirm the EBRD has provided a rapid, real and timely financial support to its clients through the crisis, with strong disbursement and quicker turnaround times, as evidenced by both the data analysis and responses to the joint survey. The SP allowed the Bank to take an active role in helping and influencing how our clients and markets weather the crisis through financial and policy support. Management also welcomes EvD's recognition of the success of Rapid Advisory Response (RAR) that provided support to the urgent digitalization needs as well as advice to ensure that COVID - 19-policy response was sound in economic terms, green and inclusive, and governance support for institutions at the forefront of the crisis response. Apart from the rapid financial and policy response, the Bank alleviated immediate pressures on liquidity for our impacted clients by deferring up to one year of principal repayments where necessary, with over 100 clients benefiting.
- Management appreciates that while confirming that it is too early to analyse the effectiveness of the SP support, the report finds that so far there is no evidence of transition reversals and confirms an overall good financial and risk performance of projects supported through the SP. These are welcome early signs of the important role the EBRD played in preventing clients' failure to delivering operational, financial and transition results.
- Management agrees that it is important to take stock from the SP crisis response in preparing for any future crisis. Management believes that the "crisis toolkit" developed by the EBRD in record time as part of the SP included a well-designed suite of instruments and streamlined processes to address needs of a broad range of clients, both existing and new, ensuring a speedy and effective response. These reflected the lessons on the importance of speed and signalling effect of the EBRD support from the previous crisis response (e.g. in 2008), and such features provide an important model to replicate in similar circumstances. Management takes note of the lessons identified in the report and will consider them carefully in preparation for and when responding to future crises, should such circumstances arise. Management is currently in the process of designing the EBRD client survey to assess inter alia their view on efficiency and effectiveness of EBRD support under the SP. This will be another opportunity to take stock, draw lessons and learn from the experience in preparing for future crisis.
- Management has however significant reservations about the report's interpretation of the information and statistics, and/or the basis and supporting arguments for drawing some of the conclusions and associated lessons. In drawing such conclusions, the report seems to try to reinterpret the purpose of Resilience Framework (RF) and analyse the support under it and the Tier 2 in isolation from the rest of the EBRD record investments in 2020. While EvD

incorporated some of the earlier comments in the final version, Management arguments detailed below concern conclusions related to:

- Alignment of the EBRD support to private sector needs in most affected countries and areas, and utilisation rate of the SP.
- The degree of agility of the Bank's response, including its ability to understand the needs and adapt processes and solutions.
- The basis for concluding lack of incentives or mechanism for collaboration with others.
- The interpretation of information about coherence and the extent the Bank continued to focus on long-term strategic priorities, in particular Inclusion and Green.

Further details on comments on the key conclusions and lessons are provided below. Other comments and some technical feedback and corrections were shared with EvD in the draft stages.

1. Alignment with the needs and demands of most affected private sector in the Bank's regions

Management welcomes the findings in the report, that the support provided by EBRD through the Solidarity Package has been beneficial and timely to help its clients (existing and new) weather through an unprecedented crisis.

Management would argue however that the SP was, by design, demand driven, and the demand determined the degree of its utilisation and the geographical distribution. Management would also take a more nuanced view as regards the attractiveness of the SP and the link between the alignment with the needs and demands and the degree of utilisation of RF. Management believes that support provided under the SP has been attractive and fit-for-purpose, given its objectives and EBRD's operating model (including adhering to principles of sound banking and sound risk management even at times of unprecedented crises). Given the initial focus on survival of clients, as evidenced by the extraordinary measures taken by the governments and authorities, including putting moratoria on repayments of commercial borrowing, suspension of many regulatory requirements, allowances for delayed reporting and emergency liquidity support to its financial sector actors, EBRD's support under the SP to existing clients has been well justified and placed.

- *Attractiveness and utilisation of the SP*

The Resilience Framework was launched in March 2020 with a specific objective of providing finance to meet the short-term liquidity and working capital needs of existing clients (including affiliates) which was seen as the most pressing need at the initial stages of the crisis. Targeting existing clients under the Resilience Framework carried important enablers: sound banking and speed, as the Bank aimed to preserve transition achievements and prevent reversals in existing clients who at the same time did not require additional due diligence and internal governance, which typically lengthen the process. This has been a practice and lesson from the previous crisis responses, as also identified by EvD in their key messages from stocktaking. Therefore, by design, RF was not targeting "broader needs of the private business". These needs were addressed by the Tier 2 of the SP approved in April 2020 where 40% of projects went to new clients. While the share of signings with new clients could have been higher, this was constrained by market uncertainty, a heightened risk environment and travel restrictions which has affected the ability of Residential Office (RO) banking teams to meet and carry out due diligence on prospective clients on the ground.

Management notes that the RF window was set for up to EUR 4 billion. It was important to signal to the market the Bank's readiness to provide substantial resources to help the affected clients and companies across the COOs, and the record amount of financial support was provided by EBRD in the initial stages in 2020, when it was needed the most. Management believes that the fact that RF was not fully drawn could be considered positive. Clients were no longer dependent on emergency liquidity from EBRD but could revert to other, regular EBRD investment instruments. It was prudent to make a relatively large RF window available, and responsible, as the situation improved, not to draw on it: the Bank "planned for the worst and worked for the best". From the clients' and co-lenders' perspective, EBRD liquidity support was valuable not only if the relevant financing has been disbursed, but critical also to replenish still available capital resources, standby and available facilities (even if they remained not fully drawn), and represented important and prudent contingency planning by EBRD clients. Management would like to clarify that while 44% is the rate of utilisation of RF, the actual "disbursements" to clients is 88% to date (that is, the Bank disbursed immediately the large majority in line with its objectives as an emergency response).

- *Geographic distribution*

Management believes that the geographic distribution of investments under RF and VISP reflected demand, which in turn was affected by: i)The liquidity position of the financial institutions and utilities at the onset of the crisis, their business model (e.g. greater use of electronic payments by utilities made them more resilient), and parent bank support; ii) State support and rescue packages provided to vital infrastructure providers, banks, firms and vulnerable groups, including by the EU and other IFIs; and iii) Country specific crisis and the level of disruption in the EEC region in addition to COVID - 19 (e.g. unrest in Belarus, reform reversals in Ukraine, banking crisis in Moldova, military escalation in the Caucasus) and also a crisis in Lebanon.

Management notes that there is no analysis in the report that assesses the needs of private sector that could have been satisfied but were "neglected" by the Bank, and "private sector clusters left behind". Management also believes that it has been important to provide financial support under the SP to affected clients across many countries of operations and within the parameters of sound banking. As RF aimed at supporting existing clients, it naturally focused on countries where the Bank's business is concentrated. At the same time, many of the hardest hit countries are also the most highly indebted, which is turn reduces the opportunity for VISP lending that meets sound banking.

Given these considerations, Management views 37-42% of total number of operations under the SP as a large share provided to the countries assessed as having been "hardest hit by the pandemic". A substantial share of clients in these countries have also benefited from payment deferrals. In those difficult circumstances, Management believes that EBRD has prioritised countries, sectors and clients in most need to the best of its abilities.

Limitations of any approach to identifying hardest-hit economies are fully acknowledged. The approach was based on the best information available early on during the COVID - 19 crisis. Management continues to monitor the rapidly evolving economic situation across the EBRD regions and reflect on these regularly in Regional Economic Prospects, the Transition Report and internal documents.

2. Speed and agility of the Bank's response

Management recognises the importance of agility in response to the crisis. While there are no bounds to the degree of agility and we could always improve, Management has reservations about the report's supporting arguments to the conclusion that "being rapid did not always translate into being agile and responsive", including its ability to understand the needs and adapt processes and solutions. Management believes and prides itself that agility is the EBRD characteristic and strength, especially in the response during the crisis. Through the presence of teams in the Resident Offices (ROs) the Bank works very closely with clients, is in constant contact with them responding to their needs and getting their feedback. The agility in response to the crisis and adjustments to the broader evolving needs is also demonstrated by: i) the introduction of new products to fit the needs such as Vital Infrastructure Support Programme (VISP); ii) the fast development and deployment of RAR and reorientation of policy engagement priorities; iii) the significant increase and fast utilisation of Trade Facilitation Programme; iv) the switch to online platforms to provide services under the advice for small businesses; v) the adjustment to the use of Investment Councils as a platform for implementing targeted interventions in response to private sector challenges from the COVID - 19; vi) the adjustments to the Green Cities Framework to account for new challenges revealed by the crisis such as digitalisation of municipal service; and vii) the introduction of the streamlined SAMI approach to processing deferrals for clients impacted by the crisis.

- *Capacity to mobilise business networks to reach out to most affected sectors and business clusters in crisis time.*

Management notes that in addition to the usual networks, the Bank scaled up the work through the Investment Councils (IC) to support partner governments respond to the needs of businesses through the pandemic. The EBRD currently supports ICs in 11 countries, with over 50 experts and staff working in the Secretariats across Eastern Europe and Caucasus, Western Balkans, Central Asia and Southern and Eastern Mediterranean.

In addition to supporting their respective governments to develop quickly business-supportive economic policy responses to the social and economic impacts of COVID - 19, these 11 Investment Council Secretariats have also proven to be a key part of the EBRD's policy response to COVID - 19, enabling the Bank to respond to emerging needs quickly and flexibly. For example, in Georgia the Bank worked with PWC through the IC to undertake an extensive assessment of key economic sectors to understand the impact of COVID - 19 on the economy and identify reform priorities for the government to take forward. In Armenia, the IC Secretariat worked with the Ministry of Economy to establish a business hot line, providing practical advice to businesses on how to adapt to the challenges of the pandemic, including by moving on-line where possible. In Moldova, the IC Secretariat developed a Virtual Business Community app enabling representatives of the government and private sector to identify and discuss in real-time the challenges businesses are facing and potential reforms to address them, undertook sectoral strategy analysis to identify which sectors had been most impacted by the pandemic and how their recovery could be best supported, and supported the development of an e-commerce sector through customs reform and e-payment services. The IC Secretariats also supported the development of online guidance for businesses on how to restructure and adapt their operations.

Throughout the pandemic, EBRD has facilitated regular peer-to-peer knowledge sharing between the 11 Investment Councils, including through the hosting of two virtual Annual Conferences. Because of these initiatives, several opportunities to replicate pandemic-response initiatives from one country to another through the Investment Councils have been realised, including through the replication of the Business hot line from Armenia to Moldova.

- *Governance and streamlined processes for the SP*

Management welcomes the report conclusion that the SP has been quickly set up and rapidly delivered. Management notes that the report also concludes, "being rapid did not always translate into being agile and responsive", arguing this on the basis that "operational guidance of the SP was released over one month after its launch; there was lack of clarity in the application of the eligibility criteria in the initial phase, though that was corrected after few weeks".

Management notes the truly unprecedented environment in which the Bank had to put together its crisis response with record speed and believes this context could be better reflected in the report. Amid a rapidly evolving situation and the need to reflect provisions introduced as part of the second phase (SP2), there was an initial period of adjusting the eligibility criteria and Standard Approval Measures and Implementation (SAMI) . The guidelines were developed in record time, put together in the course of one week as the Bank was preparing for imminent lockdown (a framework of the nature of the RF would typically require 3-6 months of preparation and approval), and any changes and updates, including as part of the of SP2 four weeks later, were promptly communicated to staff. Management believes that although questions related to project approval in this initial period of the SP implementation may have been expected, the statistical evidence from the EvD-Banking survey does not seem to support the report conclusion that Bankers think that "they were not equipped to adopt the new SP procedures." While lessons from the experience during this crisis will be considered in the future, Management believes that the guidance and streamlined processes developed for implementing the SP have led to an efficient and effective roll out of much needed assistance to the EBRD clients across COOs. The streamlining measures approved as part of the SP guidance have greatly facilitated expedited project approvals while preserving the necessary elements of the "checks and balances" system. This is evidenced not only by data presented in the EvD report on approval process, signings and disbursements but also by good financial and risk performance of projects signed under the SP.

3. Coordination and collaboration with IFIs and other stakeholders

Management notes that the finding about limited scope of partnerships and collaboration in the report that come from focusing on the amount of or mechanisms for co-financing with other IFIs underestimates the extent of coordinated efforts in the Bank's crisis response. Management also notes that statistical evidence from the internal survey with Banking does not support the report conclusion on "a lack of incentives or mechanisms embedded in the SP favouring coordination and collaboration with other stakeholders". The internal survey asks, "whether the SP offered an opportunity to work closer with other IFIs and/or local agencies in a complementary way (i.e., no "crowding out" with other IFI and/or national authorities). 22% of respondents "agree or strongly agree" with this, while a large majority of 64% of respondents "neither agree nor disagree". Nevertheless, the report concludes that, "Responses to the Banking-EvD survey suggest that there were *no incentives or mechanisms* embedded in the SP aimed at favouring coordination and collaboration with other stakeholders".

Management would highlight that SP financial support, and RF in particular, could not be an instrument conducive to IFI co-financing (albeit with some exceptions) as jointly financed projects require more time to co-ordinate at a period when speed was priority. As the crisis unfolded, EBRD clients went for the fastest and most straightforward finance, which is bilateral rather than syndicated or multi-source financing. EBRD pricing often differs from that of other IFIs and is more aligned with commercial banking market, and the Bank's support under the SP was not in competition with IFIs and other funding providers on the basis of pricing, as this would raise concerns around additionality.

Management believes that enhanced partnerships were a key element of the Bank's support to clients and countries during the pandemic and were strongest in communication with other IFIs at strategic and country levels. There were intense IFI discussions to share experience and define the response in the crisis. The EBRD actively coordinated with other IFIs and EU on reorientation of the Vienna Initiative to organise and target support for businesses as well as joint EU package to support SMEs in the Western Balkans.

Management notes that the report does not provide any detail on how other IFIs have acted during the crisis – in particular, as regards their speed of delivery, concentration on specific geographies and sectors, or engagement with new clients. Such analysis would provide a useful benchmark for EBRD, and could be considered for the final evaluation of the SP.

Management appreciates EvD's recognition of the success of RAR framework. RAR provided support to the urgent digitalization needs, addressed the urgency of work in digitalisation sphere, advice to ensure that COVID - 19 policy response sound in economic terms, green and inclusive, and governance support for institutions at the forefront of the crisis response. Management agrees that lessons learned from the experience could inform improved internal coordination of policy dialogue in the future. As EvD notes, applying operational lessons and improving integration of policy engagements into the Bank's wider work has already begun under the ongoing Policy Review and the forthcoming reorganisation of VP3. To improve policy coordination in the future, the work currently underway will help integrate and link activities across the Bank in a comprehensive and centralised policy database. With respect to EBRD clients benefiting from enhanced/ broader policy engagement, Management notes that several successful RAR assignments from 2020 are now being expanded and followed-up on through broader policy initiatives including via the 2021 Priority Policy Objectives.

4. Coherence with the EBRD's longer term strategic priorities

Management would like to emphasise that the key objective of the SP was to preserve transition progress, hence this and the overall EBRD support during the crisis remained coherent with the overall strategic focus on closing the transition gap. As reported in the Annual Report on Transition Performance 2020, while focussed on the crisis response, 90 per cent of the total projects in 2020 were in countries with larger transition gaps, as measured by the ATQs, and countries hardest hit by the pandemic.

The distribution of projects addressing various transition qualities, reflected the key challenges and overarching focus on crisis response, with almost two-third of new investments aim to strengthen resilience (Resilient quality). Similarly, Management maintains that the decrease in the share of investments with Green and Inclusion objectives reflects the change in our clients and countries priorities during the crisis. Management notes that the Bank continued its work in these areas outside the RF. For instance, while the GET ratio on the total business volume was 29%, it remained 42% when excluding RF in 2020.

Management disagrees with the interpretation of information as "limited focus on gender mainstreaming." Management recognises that initially due to the focus on short-term liquidity investment support to the clients in distress, there was a relatively small share of the SP investment projects focused on gender equality or green economy transition. There has been a marked improvement in level of activity addressing both objectives in 2021.

As the RF was set up explicitly to support existing clients and avoid transition reversals (assigning PTI rating based on existing transition objectives), there was no provision to change transition impact qualities for a given transaction and pursue gender objectives for projects that did not already target Inclusive quality. The lower share of projects with "gender component" or "gender additionality" in RF is therefore a reflection of lower gender shares for projects signed in previous years when EBRD policies and practices on gender mainstreaming were less developed. In contrast, transactions under VISP were encouraged to consider additional TI qualities and were given a rating incentives was projects targeting more than one quality, which led to incorporation of gender components for a small share of VISP projects.

5. Monitoring and reporting

Management notes the EvD view on the scope of Resilience quality, which has been also raised in the Evaluability study. Management does not believe it was appropriate to reassess and revise the Bank's well-established Transition Impact concept for the SP, given the context and timeline. Management notes that, as stated in a number of operational documents, transition qualities are not mutually exclusive; they are often complementary and reinforce each other. Resilience is supported through dimensions of other transition qualities, e.g. trade diversification (Integration); reducing supply volatility and diversifying supply chains (Competitive); strengthening government effectiveness and capacity of institutions (Well-governed). The combination of these components of TQs are highly relevant in a time of crisis and effectively captures transition preservation.

AS discussed in the SP results framework note, given that the goal of the SP was to avoid transition reversals, Management believes it was well justified to use the existing indicators and transition benchmarks for monitoring and reporting transition results and performance of projects with existing clients under RF. For projects with new clients, the new transition objectives and benchmarks were set, as detailed by the SP Guidance.

Management also does not see an inconsistency with assigning either ETI or PTI under RF. The two methods allow the Bank to apply the relevant scoring rule to different types of projects following the same methodology as the rest of the portfolio. Since the key objective was to preserve transition progress, projects under the RF with existing clients were assigned the PTI score rating. The projects under RF that adopt a PTI rating at signing, do so also not to conflate the scorecard ETI based on projects that are designed to support transition impact of existing projects in the portfolio that have already been accounted for (to avoid double counting).

Management agrees that there is always scope to improve further evaluability for the SP results framework, at an increased cost, both in terms of resources and time. At the same time, Management notes that the report would benefit from providing better evidence to back some of findings regarding the SP results framework, e.g. on nature of outcome indicators, the link between outcome and impact, and concentration at a lower tail of results chain. On the SP Results Framework “not having been operationalised”, Management notes that the internal guidance note prepared in December 2020 articulated definitions, measurement methods and the source of information for each result indicator to ensure the data can be collected and reported on. While indeed the existing IT systems do not allow for automated collection of most data, as the indicators were developed on the basis of existing frameworks and monitoring systems, collection and reporting of the data is still possible and has already been done, namely for the SP in December 2020 and as Management’s input to this EvD report.