
APPROACH PAPER

Sustainable infrastructure in Advanced Transition Countries

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Abbreviations

AEB	Agreement Establishing the Bank
ATC	Advanced Transition Country
ATQ	Assessment of Transition Qualities
CEB	Central Europe and Baltics
CRR	Capital Resource Review
CS	Country Strategy
EvD	Evaluation Department (EBRD)
IA	Integrated Approach
IAPR	Integrated Approach to Polish Renewables
MEI	Municipal and Environmental Infrastructure
P&E	Power and Energy
PPOs	Priority policy objectives
PSP	Private sector participation
RE	Renewable energy
SCF	Strategic and Capital Framework
SIG	Sustainable Infrastructure Group (EBRD)
SIP	Strategy Implementation Plan
SPM	Strategic portfolio management
TC	Technical Cooperation
TQ	Transition Quality

1 Introduction

1.1 Objective and scope

The Evaluation Department's (EvD) 2020 Work Programme¹ includes a multi-project cluster evaluation of sustainable infrastructure operations in Advanced Transition Countries (ATCs).

A cluster evaluation focuses on a set of interventions that share common features such as objectives, applicable strategy or target country/sector. The objective of cluster evaluations is to learn about what happened across the cluster and to ascertain common themes, findings and lessons, which is consistent with aims stated in the Board approved work programme.

The **purpose** of the proposed evaluation is to contribute to i) institutional accountability by evaluating the characteristics of the past operations against expectations; and ii) institutional learning by offering insights relevant for the development of future strategies and project design.

The **objective** of the proposed evaluation is to assess the merits of the sustainable infrastructure operations and to gather from their experience insights specific for the group of countries at the most advanced transition state from the Bank's regions of operations.

The **scope** of the evaluation covers the implementation of sustainable infrastructure operations in ATCs. The time scope of the evaluation comprises the past two strategic periods, the Capital Resource Review (CCR4, 2011-2015) and the first Strategic and Capital Framework (SCF, 2016-2020). Specifically, sustainable infrastructure operations approved by the Board of Directors within the time frame of 2011-2019 entered the initial portfolio analysis. The selection of projects for evaluation is discussed below.

1.2 Rationale for inclusion in the work programme

Sustainable infrastructure investments have been the focus of the Bank's operations in ATCs in recent years – including but not limited to expanding capacity in renewable energy production. A multi-project cluster evaluation of recent such operations would provide a valuable overall picture of the Bank's efforts, objectives and emerging experience in this area. It would also provide operations-based insights into design and performance issues to inform future choices and priorities.

This evaluation is launched in the context of a wider strategic review, in which the geographic focus of future operations has been of major concern. The optimisation of operations in existing regions has been consistently affirmed. Questions of the contribution of sustainable infrastructure operations to the progress of ATCs along their transition trajectory, and remaining additionality of the Bank's operations are therefore likewise germane to the evaluation's rationale.

2 Context overview

2.1 Advanced Transition Countries

While there is no official internal definition of advanced transition countries, in line with internal practice and convention for the purpose of this evaluation ATCs are defined as the countries of Central Europe and Baltics (CEB) region, namely Croatia, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, and Slovenia. This group specifically does not include countries that might be considered advanced based on their performance on some of the Transition Qualities (TQs) or based on their membership in the EU, such as Greece, Cyprus, Bulgaria and Romania.

The following table presents the ranking of ATCs among all EBRD countries of operations based on 2019 Assessment of Transition Qualities (ATQs). More detailed presentation of the TQ position of ATCs, including scores, comparison with regional averages and with advanced comparator countries outside of EBRD operations is in Annex 2. Overall, ATCs score well above EBRD average across most TQs, yet still generally below those of advanced comparator countries outside of the EBRD region. There are some exceptions to that, specifically Estonia is performing in line with advanced comparators across several TQs.

¹ BDS19-238: EvD Work Programme & Budget 2020

Table 1: Rank of ATCs in all EBRD countries of operations based on 2019 ATQs

	Competitive	Green	Inclusive	Integrated	Resilient	Well-governed
Croatia	14	7	12	11	6	14
Estonia	1	6	1	2	1	1
Hungary	7	9	8	8	8	13
Latvia	6	3	3	6	3	5
Lithuania	8	4	4	5	7	3
Poland	3	5	6	9	4	4
Slovak Rep.	3	2	10	4	2	9
Slovenia	2	1	2	3	5	6

Source: 2019 ATQs on EPG intranet

There is no specific EBRD strategy or approach for operations in ATCs. However, institutional strategic and business plans (former CRR, current SCF and SIPs) as well as sector strategies or Bank initiatives may include specific regional directions and/or approaches. ATCs are also subject to standard country strategy planning process. (See further Section 2.3 on strategic overview.)

2.2 Sustainable infrastructure

For this evaluation, sustainable infrastructure operations are considered to be those currently within the purview of the Sustainable Infrastructure Group (SIG). The SIG itself was established relatively recently as an organisational unit, in January 2019. SIG encompasses power, energy, transport, social and municipal infrastructure sectors in all the Bank's countries of operations, representing about a third of the Bank's annual business activity. Operations approved within these sectors, even before the establishment of the SIG, entered the initial portfolio analysis. The list of the projects in the evaluation scope was further narrowed as described in detail below.

2.3 Strategic context

The time scope of the evaluation comprises the past two strategic periods, the CCR4 (2011-2015) and the first SCF (2016-2020). These broad mid-term institutional strategies were complemented by a number of specific strategies and initiatives at sector/thematic level and by country strategies. The SCF was also operationalised through annual business planning (SIPs).

2.3.1 CRR4 (2011-2015)

Based on the transition potential of the region, the Bank's CRR4² projected expansion in the early and intermediate transition countries and in Russia while **maintaining a significant level of operational activity** in the advanced transition countries. However, the **share of annual business volume in the ATCs was projected to decrease from 12% in 2011 to 4% in 2015** reflecting declining additionality post-crisis and the decreasing transition challenges in the EU-7 countries.

Graduation remained a fundamental principle. The EU-7 countries were firmly on the path to graduation during the CRR3 period until the global financial crisis hit. On the assumption that global market conditions improve, financial flows return thereby reducing the Bank's additionality, the region recovers in a sustainable way and the threat to transition recedes, the **EU-7 countries were expected to graduate during the CRR4 period**, taking into consideration each country's specific circumstances.

With respect to sectors, in P&E in the ATCs the Bank prioritised energy competition, diversity and security. The focus would be replacing ageing power generating assets, increasing power generation from RE sources to meet EU targets and financing distribution and transmission to reduce bottlenecks for connection of new renewable energy generation as well as regional interconnections. For MEI the remaining transition challenges were already characterised as modest in ATCs; the focus would

² BDS10-020 (Final): Capital Resources Review 4: 2011-2015

be on addressing funding gaps in cooperation with EU cohesion funds and new products to support the development of local capital markets. Transport sector in ATCs was foreseen in the area of PPP transactions together with private rail, regional airports and ports.

2.3.2 SCF (2016-2020)

The SCF³ maintained its **strategic orientation to move progressively towards countries and regions within countries that are less advanced** in transition. The Bank reaffirmed the principle of graduation, as defined in its Graduation Policy. The main instrument for decision making on graduation would be the respective country strategies, jointly agreed by the Bank and country authorities. Shareholders expected that country strategies for the **EU7 would continue to set the path and indicate a plausible pace of graduation for these countries within the medium term**, while recognising that countries face specific circumstances and the economic and political context for transition can be volatile.

The SCF highlighted the need for a renewed emphasis on **strategic portfolio management (SPM)**. It noted that in addition to existing tools (assessing transition impact, effective risk-based allocation of capital to the portfolio, and risk management framework), the Bank would also develop new tools to enhance the implementation its strategic portfolio approach over the SCF period.

The first SIP (2016-2018)⁴ brought further to the front the nature of the trade-offs involved in SPM, balancing the transition impact and financial sustainability elements of the portfolio. It introduced the SPM matrix analysing debt operations' transition and returns across regions. It noted that the Bank's obligations under the Agreement Establishing the Bank (AEB) mean that its portfolio should not become unbalanced within or among regions. In response, it proposed to **maintain the size of its portfolio in CEB (ATCs), as opposed to a decline** (ahead of expected graduation decisions in the medium term), given the region's contribution to the financial strength of the Bank's portfolio and remaining transition opportunities.

The subsequent SIP (2017-2019)⁵ marked the Bank's shift to the new transition concept via the framework of the **six Transition Qualities (TQs)**. It presents the summary of transition challenges across regions, as drawn from Country Strategies, with priorities for CEB identified in **competitive, green and resilient** TQs. The SPM analysis places CEB region in lowest risk but also below average transition and RAROC category. The SIP envisages **lower levels of activity than in the previous SIP, particularly in CEB**.

SIPs 2018-2020⁶ and 2019-2021⁷ continued to focus the CEB priorities on **competitive, resilient, and green** TQs, with an overarching objective to support frontier-level innovation and higher-value-added activities given the advanced economies of the countries in this region. The SIPs include mentions of **policy priority objectives (PPOs)**; in the ATCs these were linked to capital market regulation, efficiency and accessibility, in Croatia and Poland.

The final SIP⁸ of this SCF period offers a comparison of the evolution of ABI volume between the CRR4 and the SCF. Despite the SIP claim that the balance presented in the Plan reflects the approach to graduation highlighted in the SCF in that the level of activity in the most advanced countries will decrease, the data actually show only marginal difference – the ABI share of CEB countries over CRR4 was 14.5% compared to 14.1% in the SCF period. The share of projects in ATCs was at 11.2% for both strategic periods.

2.3.3 Sector strategies

Sector strategies were historically not tied to specific time span and only recently moved to standardised five year cycles with the redesign of the Bank's results architecture. There are three sector strategies for each of the three SIG subsectors that were applicable over CRR4 and SCF.

Usually sector strategies approved before the review of the Transition concept (switch to TQs) contained some assessment of transition challenges per region, including ATCs (CEB). Nevertheless, strategic priorities were commonly not detailed per

³ BDS15-013 (Final): Report of the Board of Directors to the Board of Governors: 2015 Annual Meeting – Strategic and Capital Framework 2016-2020

⁴ BDS15-230 (Rev 2): Strategy Implementation Plan: 2016-2018

⁵ BDS16-190 (Final): Strategy Implementation Plan: 2017-2019

⁶ BDS17-148 (Final): Strategy Implementation Plan 2018-2020

⁷ BDS18-160 (Final): Strategy Implementation Plan 2019-2021

⁸ BDS19-169 (Final): Strategy Implementation Plan 2020-22

region but mostly consisted of broad regional directions/ indications, if any. The newest batch of sector strategies, which are TQ-based, do not commonly have assessment of transition challenges per region, nor do they provide specific regional priorities. Overview of sector strategies with respect to ATCs is presented in Annex 3.

2.4 ATC additionality & graduation

The issue of potential graduation of ATCs makes it important to emphasise that graduation itself is not linked to closing transition gaps but rather to diminishing EBRD additionality. However, due to intrinsic relationship between well-functioning financial markets and well-functioning economies more broadly, diminishing EBRD additionality is indeed the issue of ATCs.

The Bank's 1996 Graduation Policy⁹ does not establish specific criteria to 'trigger' graduation, but it does identify additionality as the main driver of graduation: *"The Bank will have achieved its objective when it is no longer additional. That will be a measure of the success of the transition and of the Bank."* The Policy also outlines the expectation that graduation is to some extent a market-driven process; i.e. that as each country progresses through transition, the opportunities for the Bank to be additional in certain segments of the economy will cease.

The issue of graduation became more prominent in the context of CRR3 (2006) following the accession of eight EBRD countries to the EU. As a result of both transition progress and reduced demand for EBRD finance, the process of segment-by-segment graduation in the EU-8 countries was by that point already occurring. However, there was a desire to accelerate country-level graduation rather than wait for bottom-up graduation to complete itself. EU countries were expected to graduate in the CRR3 period. Nevertheless, with the onset of the global financial crisis and the severe impact it had on the transition region, the timetable for graduation was delayed.¹⁰

CRR4 confirmed the commitment to graduation in principle, and expected it to occur *"[o]n the assumption that global market conditions improve, financial flows return thereby reducing the Bank's additionality, the region recovers in a sustainable way and the threat to transition recedes."*¹¹ The current SCF (2016-2020) reaffirms the principle of graduation and identifies country strategies as the main instrument for decision-making on graduation. It notes that as *"the transition becomes still more advanced, the level of activity of the Bank in a country will decrease as a consequence of the fewer market segments in which Bank investments can satisfy its operating principles"*,¹² thereby reverting rather to the concept of bottom-up (market-driven) graduation.

A Board information session on implementing the graduation policy in February 2020, reflected on the preceding Strategic Review process and the preparation of new medium-term strategic directions.¹³ There is no intention to reopen the Graduation policy but rather to 'enhance the approach to graduation' by exploring the operational possibilities of post-graduation, including the 'right to return' under certain circumstances.

There is evidence that projects in ATCs are subject to increased scrutiny and expectations with respect to the Bank's additionality. Many Directors have consistently insisted that it be clearly justified; i.e. to show that the Bank is operating in segments and with instruments where other finance is not available, and 'graduating' from segments where it is no longer needed. A review of the minutes of Board discussions for a recent EvD study showed that for projects in ATCs additionality is more commonly subject of enquiry, and Directors often emphasise their expectations for these projects to be exhibit 'high standards' of additionality (as well as transition impact). This concern about clear additionality in ATCs is also reflected in their high proportion of additionality-related abstentions and votes against projects, where Board minutes record abstentions/no votes based on low perceived additionality over 40 per cent of these were projects in Poland.¹⁴

⁹ BDS96-166: A Policy on Graduation of EBRD Operations

¹⁰ SGS10-037: Executive Session: CRR4: Activities in Central Europe

¹¹ BDS10-020 (Final): Capital Resources Review 4: 2011-2015; p.44

¹² BDS15-013 (Final): Report of the Board of Directors to the Board of Governors: 2015 Annual Meeting – Strategic and Capital Framework 2016-2020; p.24

¹³ SGS20-030 (Addendum 1): Implementing the Graduation Policy – Preliminary Issues

¹⁴ CS/AU/18-01: Additionality in the EBRD – Review of Concept and Application

2.5 ATCs and strategic portfolio management

The link between additionality and risk has implications for the Bank's strategic portfolio management. Strategic portfolio management (SPM) demands that both the stock of existing projects and the flow of new commitments are managed to pursue transition impact whilst balancing, in the portfolio, risks, returns and cost. In particular, the portfolio must be balanced across countries, products and other risk categories in order to achieve transition impact whilst ensuring the Bank's financial viability.¹⁵ The Bank has committed to developing new tools to enhance the implementation of its strategic portfolio approach over the current SCF period to cope with contextual uncertainties.¹⁶ There is an assumed link between additionality and risk, in that – generally speaking – riskier projects tend to be more additional and vice versa. This link was already explored in the 1995 paper on the Bank's role in countries at more advanced stages of transition. The paper presented the relatively stable risk profile of the Bank's activities over time as evidence for the Bank's sustained additionality achieved by its moving to riskier market segments in countries as they progressed through transition.¹⁷ Greater reliance on strategic portfolio management reinforces the need to strengthen and systematise additionality analysis.

A workshop on additionality in 1998 identified a basic issues that persists. A regional approach to additionality could accommodate some projects which were relatively less additional but which made money, in order to finance highly additional, but perhaps less profitable, projects elsewhere. On the other hand was the view that additionality is a fundamental requirement for all operations. At a discussion of the first SIP several Directors cited *'the importance of continued activity in advanced transition countries in order to achieve a balanced portfolio in terms of risk.'*¹⁸ There was a concerted view that Bank operations in the EU-10 region are an important revenue driver and a risk mitigant and enable the Bank as a whole to operate in more grant-intensive regions.¹⁹ However others argued for the use of the Treasury portfolio *'as a risk-balancing and fundraising instrument rather than financing low transition, low risk projects in advanced transition countries that fall out of the Bank's mandate.'*²⁰ While the need for the balanced portfolio is universally acknowledged, at project level the common calls at the Board for the 'highest standards of additionality' and high selectivity for projects in ATCs is in tension with the strategic portfolio approach.

In the most recent years high liquidity in markets and low rate environment translated into a compression of credit spreads, leading to increased capital allocations to emerging markets and increase in credit to corporates in developing countries. The Bank's update on income generation in 2018 concluded that because spread compression is more pronounced for better ratings, there is an opportunity to take more risk for better risk-adjusted returns.²¹

2.6 Sustainable infrastructure in ATCs – portfolio overview

Note: This is a summary of the portfolio analysis presented in Annex 4

2.6.1 Annual business volumes

Between CRR4 and SCF, the ABI of SIG in ATCs has fallen in terms of absolute volume, as well as a proportion of both SIG ABI and ATC ABI.

Between CRR4 and SCF period, the ABI of SIG operations overall grew slightly, both in absolute volume and as a proportion of EBRD ABI. This trend however was not true for SIG in ATCs. While over CRR4 SIG in ATCs was on average around €400m and 14% of SIG ABI, in SCF period SIG activity in ATCs decreased noticeably to about €250m ABI on average and about 7% as a share of SIG ABI. The last two years (2018, 2019) were particularly low on SIG ABI in ATCs, comprising only 3% and 5% of SIG ABI. Likewise, the SIG ABI as a share of ATCs ABI fell between the two periods – while in CRR4 SIG represented on average 30% of ABI in ATCs, over SCF this figure dropped to 19%. In the last two years (2018, 2019), SIG ABI represented only 7% and 12% of the ABI in ATCs.

¹⁵ BDS14-098 (Final): Re-Energising Transition: Medium-Term Directions for the Bank

¹⁶ BDS15-013 (Final): Report of the Board of Directors to the Board of Governors: 2015 Annual Meeting – Strategic and Capital Framework 2016-2020

¹⁷ CS/FO/95-30: The Bank's Role in Countries at More Advanced Stages of Transition

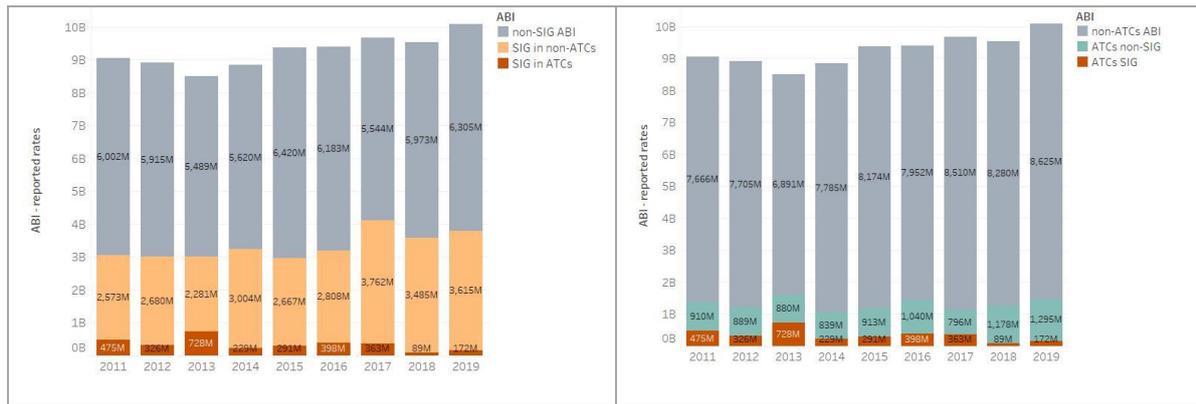
¹⁸ BDS/M/15-24 (Final): Minutes of the Board Meeting of 11 November 2015

¹⁹ SGS17-057: Information Update: Conclusions of the EU-11 Representatives to the EBRD Meeting

²⁰ BDS/M/15-17 (Addendum 1)(Final): Minutes of the Board Meeting of 22/23 July 2015

²¹ CS/FO/18-10: Update on Income Generation

Figure 1: SIG ATC ABI as a proportion of SIG ABI and as a proportion of ATC ABI, 2011-2019

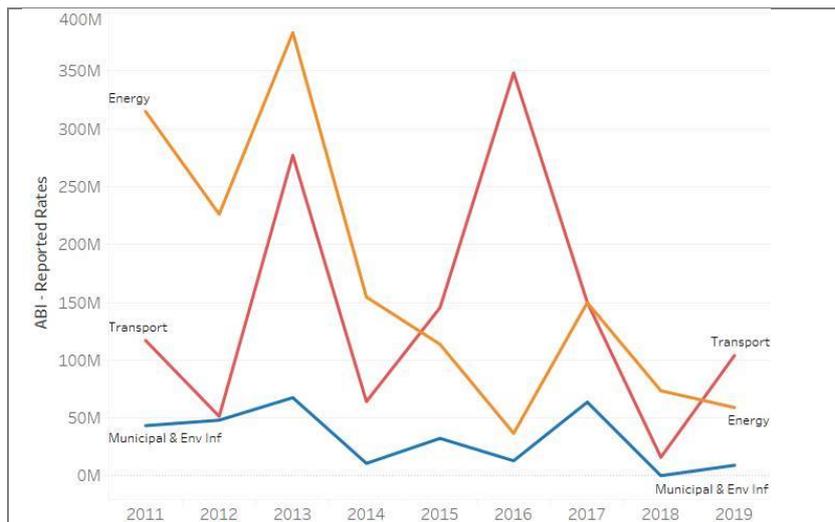


Source: DW_Banking_Operational dataset, EvD analysis

The overall decrease in reported SIG ABI in ATCs was reflected in all three SIG subsectors – Energy, MEI and Transport – over the 2011-2019 period.

While reported ABI fluctuated for all three subsectors between individual years, the overall trend was decreasing. This was perhaps most marked in Energy investment, where the average ABI dropped from €240m in the CRR4 period to just under €80m over the SCF.

Figure 2: SIG sub-sectors ABI in ATCs, 2011-2019



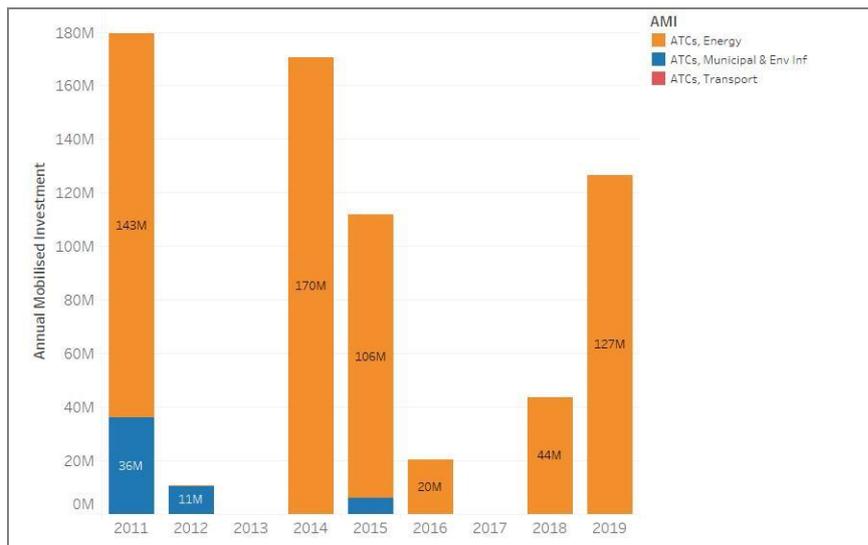
Source: DW_Banking_Operational dataset, EvD analysis

2.6.2 Mobilisation

With respect to mobilisation of investment of SIG operations, between CRR4 and SCF the AMI of SIG in ATCs decreased both in absolute volume and as a proportion of both SIG AMI and ATC AMI. The decrease in absolute volume of SIG AMI in ATCs is in line with the decrease of ABI volumes between the two periods. While over CRR4 the AMI of SIG in ATCs widely fluctuated, it was on average at 94m€, while in SCF period this dropped to 48m€.

In terms of SIG subsectors, practically all SIG AMI in ATCs was delivered by Energy. While there was some AMI by MEI in the CRR4 period, this vanished in SCF (together with most of MEI ABI), and Transport did not deliver any AMI in ATCs over either of the strategic periods.

Figure 3: SIG sub-sectors AMI in ATCs, 2011-2019

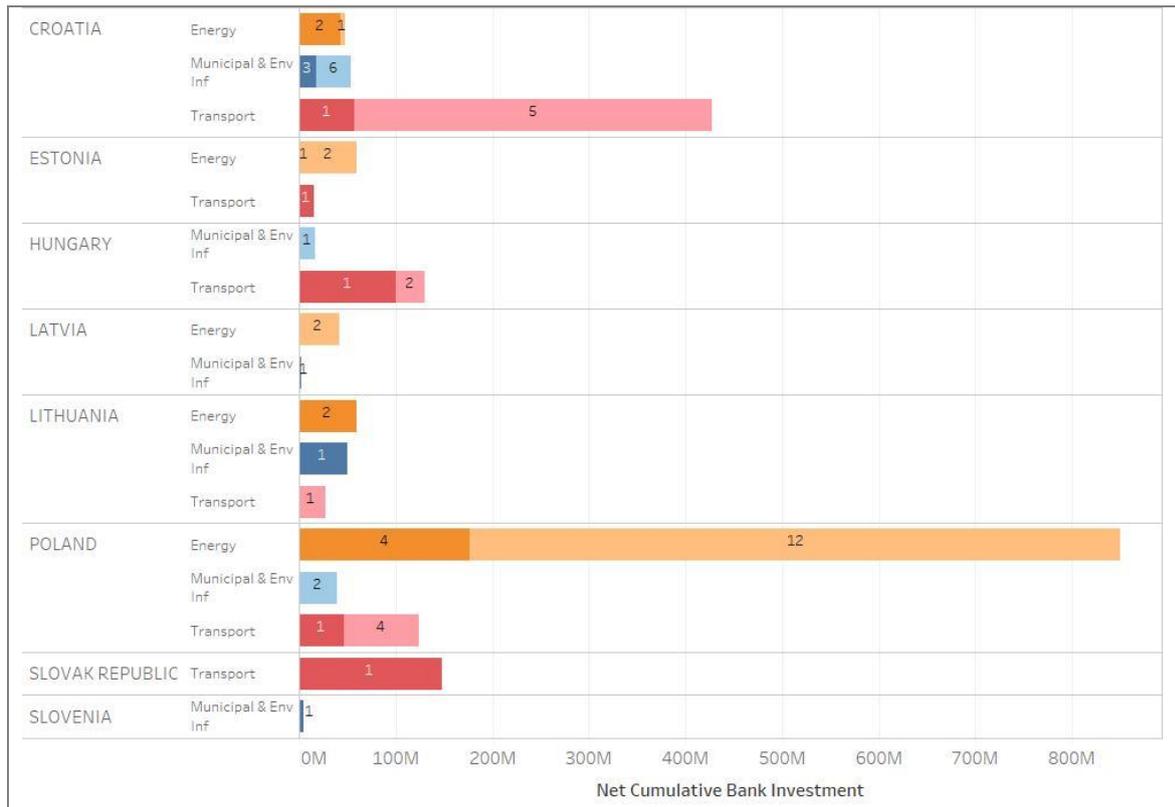


2.6.3 Investments

Based on the initial parameters this evaluation identified 56 individual operations in the SIG in ATCs portfolio.²² The cumulative investment (NCBI) made by the Bank over these 56 projects was predictably not evenly distributed, either by country or sector. The largest investment went to Poland, with over €1bn over 22 projects; over 80% of this was in Energy. The second largest country was Croatia, with over €520m in cumulative SIG investment. Majority of this investment was in Transport, which registered the largest single project of the whole SIG ATC portfolio – €250m sovereign guaranteed loan for the restructuring of HAC, the Croatian Motorways company. Slovak Republic is the third largest country in the portfolio, despite the implementation of only one SIG project over the entire period – this was the D4/R7 Highway PPP project with investment of over €148m. In terms of sectors, Energy investments cumulatively account for just over half of the portfolio (over €1bn), while Transport accounted for over 40% and MEI for just under 8% of the portfolio.

²² See Annex 4 for the overview of the parameters, and the full list of operations

Figure 4: NCBI per country and sub-sector, 2011-2019

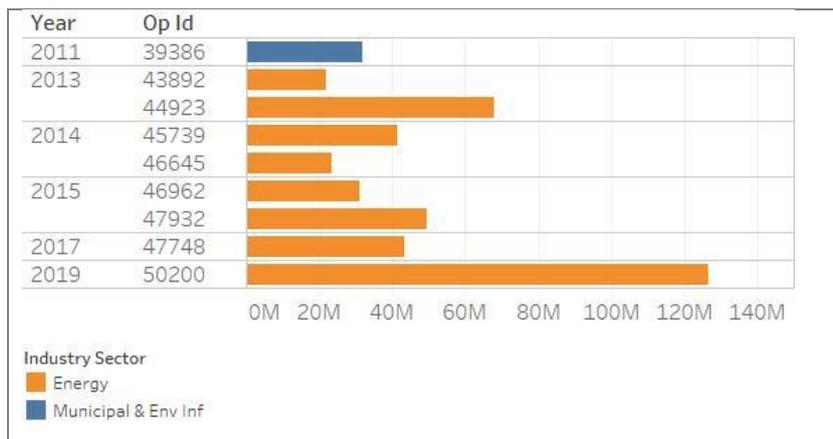


Note: Light shade – CRR4, Dark shade – SCF; Allocation of investment (NCBI) to strategic periods is based on the year of project approval; Number on bar signifies number of projects

Source: Source: DW_Banking_Operational dataset, EvD analysis

From the portfolio of 56 SIG operations in ATCs 2011-2019, a third (19) registered some level of co-financing; of these, only nine registered any mobilisation (AMI).²³ The AMI total for both CRR4 and SCF operations was over 430m€. Of the nine operations, only two were approved under SCF.

Figure 5: Mobilisation (AMI) of SIG ATCs operations, 2011-2019



NB: Allocation of mobilised finance (AMI) to years is based on the year of project approval

²³ Co-financing represents a looser concept whereby the Bank claims to be 'indispensable' for bringing the external finance to the operation; compared to Mobilisation where some evidence of the direct involvement is actually provided.

2.6.4 Technical cooperation and policy dialogue

Projects were in a number of cases supported by technical cooperation (TC) funds, in many instances financed by donor grants. Unlike banking operations, the establishment of the portfolio of TC operations is made difficult by inadequate internal systems. While in principle transactional TCs are linked to banking operations' ID numbers, in reality this information is often missing or incorrect. In addition, there is no accessible system to extract information on TCs financed from the Bank's budget (as opposed to the SSF or donor funds). Therefore, the portfolio of TCs with relevance to the above described banking operations is established on best effort basis by cross-checking project documents (BDS) with TCRS database information. It should be noted that performing this task at aggregate level requires laborious manual inputs. This is indicative of a system that is not appropriately set up to allow for systematic and comprehensive accountability of TC operations.

Overall, about a third (19) of investment projects appear to have TC operations associated with them. In terms of sectors, TC was most used in MEI operations, where 13 of 15 banking operations had some form of TC. Only five of 17 operations in transport had TC, and these were mostly located in Croatia (4). Energy, while the largest sector in the portfolio with 24 banking operations, only had three operations associated with TC. However, in addition to these transactional TCs, there was a TC package of €500,000 approved to accompany the Integrated Approach to Polish Renewables, consisting of four TC projects. Based on the information available, these IA associated TCs were largely not implemented and only €65,000 of the package was disbursed.

There is no available system to establish the portfolio of policy dialogue activities related to SIG in ATCs. Only one of the TCs in the list is classified as Policy Dialogue (linked to the Integrated Approach to Polish Renewables), but it is possible that policy activities, including stand alone, non-budgeted, or Bank-budget activities in policy were taking place in other areas too. **Priority Policy Objectives (PPOs)**, annual set of milestones in policy, were only established in 2018. Relevant PPOs in 2018 and 2019 were listed as:

- Poland 2018: Implementation of regulatory measures ensuring financial viability of wind farm projects operating under the Green Certificate scheme: milestone: Reversal of the Real Estate Tax
- Poland 2019: Promoting Green Economy Transition by increasing the share of renewables in the Polish energy mix: milestone: Conduct of new renewable auctions (min. 1GW of new capacity).

2.7 Previous relevant evaluations

EvD has in recent years conducted several thematic evaluations which included fully or partially SIG sub-sectors and selected ATC countries in their scope. This section summarises their findings as relevant to the present study.

Evaluation of **Private sector participation (PSP) in MEI**²⁴ in 2014 covered the period of 2001-2012. It found a gradual loss of status of PSP as a strategic priority over the period in the Bank's MEI approach, whereby disappointing results from specific PSP initiatives reduced the Bank's ambition and operations with a PSP dimension became limited, cautious and highly selective. Specifically for ATCs, the evaluation noted that EU accession (even several years before it actually took place) spelled difficulties for PSP initiatives in MEI because **large EU grants** were to target mainly infrastructure development gaps. Ambiguity as to the eligibility of private projects to benefit from such grants co-financing convinced many cities to give up on plans involving private ownership or operations of their assets or services in favour of public options. Nevertheless, some ATC country strategies approved in this period still foresaw support to privatisations and PPPs in transport and MEI projects.

Evaluation of **Four Wind Energy Projects**²⁵ in 2016 included one wind farm in Poland (Margonin, Board approved 2010) and one in Estonia (Nelja Energia, Board approved 2009). The evaluation found that all evaluated projects were **affected by an uncertain and shifting policy and regulatory environment**. Generally, the policy and regulatory context was relatively well defined at project approval and during implementation, providing relatively generous support to renewable energy sector. However, governments subsequently sought to limit their support for the sector, resulting in a much less favourable operational environment. For that reason, the Bank's policy dialogue work was sometimes viewed by policy-makers as being self-serving, particularly where the Bank had equity at stake. The Bank's **policy dialogue was in most cases not specifically planned**.

²⁴ CS/AU/14-11: EvD Special Study: Private Sector Participation in Municipal and Environmental Infrastructure Projects - Review and Evaluation

²⁵ CS/AU/16-07: Evaluation Department: Four Wind Energy Projects

However, the Bank quickly reacted to policy changes, ultimately engaging in relatively active policy dialogue. The results of policy dialogue were mixed. In most countries the Bank was seen as only “one of many voices” (within the international community comprising other IFIs and organisations), warning against retroactive application of new policies. It is arguable that Bank engagement contributed to inclusion of the “grandfathering” clause in the new renewable energy law in Poland. However, the Bank was less successful in Estonia in this respect. Ultimately, it was the EU, rather than any of the IFIs, which provided clear guidance on the new renewable energy policy, which was accepted by all three EU countries.

The evaluation further found that while in stable (mostly advanced transition) **countries regulatory uncertainty may not deter investors, sliding prices do**. Despite the review of the Polish renewable energy support system, announced by the government in 2011, installed capacity in the wind energy more than tripled between 2011 and 2014 despite the uncertainty of the prospective new system. However, after average energy prices decreased and green certificate prices slumped at the end of 2012, there was a substantial slowdown in wind energy investments. In that respect it was also difficult to establish a clear link between the investment in Margonin which was expected to have a demonstration effect, and the expansion of wind power in Poland.

An **Evaluation of the 2013 Energy Sector Strategy (ESS)**²⁶ in 2018 found that sector-level priorities could not be determined, so an overall assessment of performance relative to objectives was not possible. Absent sector-level results reporting or monitorable targets, the evaluation assessed only expected project-level results or progress towards them where possible. The evaluation included a brief overview of the implementation of the Integrated Approach to **Polish Renewables**.

Similarly the **Evaluation of the 2013 Transport Sector Strategy (TSS)**²⁷ in 2018 found that the Strategy did not set out clear objectives or provide a causal discussion of how objectives were to be achieved. In the absence of a sector-level results measurement and reporting framework or monitorable targets, EvD assessed expected project-level outcomes against six key performance outcomes created ex post from the TSS. Regarding elements relevant to ATCs, the evaluation noted that the Strategy expected to derive financial additionality primarily from mobilising private capital and closing project funding gaps. Despite a commitment to increase the private share, the TSS also maintained the sovereign lending would “remain a platform”. Under the TSS sovereign investment increased from 43% of annual transport investment in 2013 to 64% in 2017, which rather points to acceleration of sovereign transport investment. The evaluation points out that **three sovereign transactions were closed in Croatia**, an EU country and an ATC. There was no common rationale for sovereign support across the three project documents. In general, while **policy and regulatory environment** more conducive to private sector participation was highlighted by TSS as a cornerstone of transition, very few projects and TCs supported policy and regulatory improvements.

Thematic evaluation of **Projects Supporting Cross-Border Connectivity (Regional Integration)**²⁸ in 2020, included nine projects in total, three of which were transport projects in ATCs: Corridor Vc (Board approved 2010), Port of Split Infrastructure Rehabilitation (Board approved 2012), both in Croatia, and DCT Gdansk Expansion in Poland (Board approved 2014). The evaluation found that the country strategies of the more advanced countries had less pronounced linkages to Integrated TQ (assessed as “moderate”) as their EU membership elevated their degree of integration. Nevertheless, their infrastructure was deemed far from adequate and therefore set to be targeted by the Bank, supporting the Integrated TQ. At project level, regional integrating impact potential was often cited, but **without prior diagnostics completed**. Performance metrics were insufficient and typically were limited to traffic/throughput, which projections were simply linked to a country’s forecast GDP. These **expectations were often underachieved**. In Croatia Corridor Vc the throughout traffic was 50-80% below projections, and Port of Split 28% below projections. Only DCT Poland achieved 8% over projections. In terms of ‘soft’ measures, the evaluation found that the key deficiency in respect of soft integrating measures in cross-border projects has been their scarcity, i.e. such soft measures were rarely included as part of projects. In Croatia, where these measures were included by supporting the development and signing of the Customs and Immigration Protocol with BiH, designed to simplify border crossing procedures, this was not successful.

Individual operations of SIG in ATCs have been subjected to a standardised self-evaluation (Operation Performance Assessment, OPA), depending on their maturity – OPAs have been prepared for 23 projects in the portfolio. Selection of OPAs

²⁶ CS/AU/18-10: Review of the EBRD Energy Sector Strategy

²⁷ CS/AU/18-48: EvD Transport Sector Strategy Review

²⁸ CS/AU/20-28: EvD Special Study: Projects Supporting Cross-Border Connectivity (Regional Integration)

is validated by EvD every year (OPAV); there are four OPAV reports covering projects in the portfolio (40782 Golice Wind, 43819 Kukinia Wind, 42202 & 45395 Graanul Invest Phase I and II).

3 Approach

3.1 Focus

The portfolio of SIG operations in ATCs over the two past strategic periods (CRR4 and SCF) as described in the above section, consisted of a total of 56 operations. As there is no specific unified strategy or approach that would connect all these operations, this study will approach the evaluation of the operations from a bottom-up, project perspective. While this will be the primary approach, the benefit of a ‘cluster’ evaluation of a series of projects with common characteristics is that broader patterns and relationships can be identified as well as potential cumulative results/ impacts.

Therefore this evaluation will focus on three sub-clusters of the full portfolio, representing the three sub-sectors of SIG, as well as representing three separate countries of the ATCs. The proposed clusters are:

i) MEI operations in Croatia

MEI operations represent the smallest sector in the portfolio, both in terms of number of projects and investment volumes. MEI operations declined in ATCs already prior to CRR4, with little remaining additionality for the municipalities of EU member states. Croatia, the last of CEB countries to join the EU, is the country where the majority of MEI projects took place – there were six in CRR4 and another three in SCF. While not large in volumes, these project have specific characteristics that distinguish them from other sectors – this includes the allocation of their investment in the State sector portfolio, significant use of TC funds, as well as common expectations of sources of transition impact through elements of commercialisation, regulatory improvements including tariff setting, and regional consolidation of utilities.

ii) Energy operations in Poland

Energy sector represents the largest share of SIG in ATCs, and Poland has had by far the largest investment volume. The portfolio consists of 15 projects, of which 12 were Board approved in CRR4.²⁹ This mostly consisted of investments in wind farms in the private sector portfolio, but also included three state projects two of which were aimed at enhancements of electrical grid. In addition, in 2014 the Bank developed and the Board approved the Integrated Approach to Polish Renewables (IAPR, IA)³⁰, under which most of the following operations were approved. The IAPR was an attempt to assume a more holistic approach to the sector (as opposed to a project-by-project approach), and included a broader rationale for the Bank’s involvement, as well as cumulative objectives for investments, and elements of policy dialogue to support the transition impact of the Bank in the sector. It also included a package of TC operations to support the achievement of these objectives. Therefore, the IA is also part of this evaluation.

iii) Transport operations in Hungary

Transport sector will be represented by the operations in Hungary. While the sector implemented a number of operations in Croatia as well, some of these have already been scrutinised in other recent EvD studies, namely the evaluation of Regional Integration projects, and the evaluation of Transport Sector Strategy. Therefore, this evaluation will turn its attention to Hungary, where three Transport projects in the private sector portfolio were implemented – two related to the M6 highway, and one investment (refinancing) in the Budapest Airport, all three approved under the Regional framework for development of secondary market for maturing PPPs (47488).

3.2 Evaluation Questions

Given the relatively large number of operations under the three clusters, it is not the objective of this evaluation to fully evaluate each individual operation across all evaluation criteria. Instead, the evaluation will focus on several key issues broadly falling under the criteria of relevance and effectiveness of the operations. The operations will be evaluated through the lens of these

²⁹ Another Energy project, 51126 Enefit Green, was approved as Regional, with country allocations between Poland and Estonia. This project was Board approved in 2019 but not signed until 2020, so it did not represent any ABI or NCBI in the portfolio figures.

³⁰ BDS14-255: Poland: Integrated Approach to Polish Renewables

issues, and where possible these issues will also be considered in a cross-cutting way within the clusters, to identify any patterns, cumulative effects, or developments through time.

The following evaluation questions and key issues will be considered:

EQ1: How relevant were SIG operations in ATCs to the Bank's strategies and local context?

- Relevance to country needs and context
- Relevance to the EBRD mandate and applicable strategies
- Financial and non-financial additionality
- Mobilisation of private finance

EQ2: What results and transition impacts can be identified from these operations?

- Adequacy of design for results
- Operational results and transition impacts
- Evidence of cumulative and demonstration effects
- Integration of TC for facilitating results
- Policy dialogue activities and results
- Evidence of meaningful monitoring, self-evaluation and lessons learning

3.3 Methods of data collection & sources of data

The collection of data and structure of the report will be guided by the evaluation matrix presented in Annex 1.

The evaluation will make use of both primary and secondary data. Documentary review, data analysis, and interviews will be the main methods of evidence gathering.

The evaluation will develop three case studies, one for each cluster of operations. These will be structured by the evaluation questions and sub-questions, and will be primarily developed from project-level data. Based on project-level analysis, broader findings in each will be drawn as much as possible across the cluster. The main report will synthesise the main findings from the case studies to make broader comments on SIG operations in ATCs over the two strategic periods.

The following main sources are expected to contribute to the evidence base for the evaluation; list not exhaustive:

Documents:

- Project documents – BDS, TIMS, PMM, ESD, etc.
- Documents and records relating to TCs and Policy dialogue activities
- EBRD strategic documents – institutional strategies, business plans, country and sector strategies
- Existing evaluation reports, including OPA and OPAVs
- Country diagnostics
- EBRD reporting, incl. CSDRs, Transition performance reports, Board information sessions

Data:

- Internal EBRD data on banking and non-banking operations, external finance, mobilisation
- Aggregate TI and results data as available
- External data on the development of contextual indicators as relevant and available

Interviews:

- Banking teams
- EPG
- Country/ Regional directors
- DCF
- Board of Directors

- External stakeholders, including clients, representatives of governments and partner institutions as relevant

3.4 Challenges and limitations

Given the time scope of the operations, the evaluation will to some extent rely on documentation and institutional memory being adequate to support the collection of relevant data. In addition to internal systems which are known to be lacking especially with respect to the 'softer' elements of operations (TC and policy dialogue), the evaluation will depend on the cooperation of management to provide access to relevant internal documentation and dedicate time to interviews.

This evaluation is taking place in the context of the Covid-19 public health crisis. It is expected that this context will place limitations on international travel and personal meetings for the remainder of the year. Efforts will be made to substitute these with remote connections via videoconferencing for the purpose of interviews of relevant stakeholders both in and outside of EBRD.

4 Administrative arrangements

4.1 EvD team and peer review

The review is led by Regina Husakova, senior evaluation manager. Contributions may be made by other evaluation managers or an analyst as appropriate. Consultants may be hired to deliver specific elements of the case studies. Internal peer review and quality assurance will be carried out according to standard EvD procedures.

An independent external peer reviewer with relevant IFI experience will be sought to provide comments on the draft paper.

4.2 Indicative timetable

Milestone	Date
Approach paper approved	June 2020
Draft report circulated to internal peer reviewers	October 2020
Draft circulated to external peer review	November 2020
Draft circulated for Management comments	December 2020
Final approved by Chief Evaluator	December 2020
Final distribution within the EBRD and to Board	January 2021

Annexes

Annex 1. Evaluation matrix

Annex 2. ATCs TQ overview

Annex 3. Overview of ATC strategic priorities

Annex 4. Portfolio analysis