

# REPORT OF THE BOARD OF DIRECTORS TO THE BOARD OF GOVERNORS



**European Bank**  
for Reconstruction and Development

## STRATEGIC AND CAPITAL FRAMEWORK 2021-2025

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# President's Recommendation

I recommend that the Board of Directors approve for transmittal to the Board of Governors the attached Report of the Board of Directors to the Board of Governors: Strategic and Capital Framework 2021-2025, including a draft resolution to be submitted for adoption by the Board of Governors at its 2020 Annual Meeting.

**Jürgen Rigterink**  
**Acting President**

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# Executive Summary

The European Bank for Reconstruction and Development's (EBRD) purpose is to foster transition towards open-market economies and to promote private and entrepreneurial initiative in its countries of operations committed to and applying the principles of multiparty democracy, pluralism and market economics. Since its establishment in 1991, the Bank has invested over €146 billion in its countries of operations to support the systemic change that promotes this transition and private sector development.

## A Strong and Reliable Partner in Uncertain Times

The Strategic and Capital Framework (SCF) sets out the EBRD's strategic aspirations, as captured in Box 1, for the period from 2021 to 2025 and confirms that the Bank has sufficient capital to support its proposed strategy even in the face of financial stress. Over the five years of the SCF, the Bank can lend consistently up to €13 billion annually compared to the record level of annual lending of €10 billion in 2019. However, the Bank's capital must be deployed responsibly and this capital capacity does not represent an aspirational plan or target level of operational activity. The Bank will implement the SCF within a control framework consisting of parameters for transition, capital and resource efficiency.

The overarching goal is for the EBRD to preserve and accelerate transition in its countries of operations through the overlapping and differentiated crisis and recovery phases in response to the Covid-19 crisis and to continue tackling deep-rooted broader challenges, including environmental, demographics and technological transformation.

The level of uncertainty about the duration and extent of the impact of the crisis means that the Bank will need to pursue its goals flexibly. Nevertheless, across the entire period, the Bank will aspire to deploy its capital fully and responsibly for the benefit of its countries of operations. Given the uncertain environment, the Board of Governors will review the implementation of the SCF at the Bank's 2022 Annual Meeting or at the latest at the 2023 Annual Meeting.

The EBRD is fully committed to being a strong and reliable partner to its countries of operations. The Bank will be responsive to market and reform conditions and innovative in helping countries transition to a sustainable market economy through the pursuit of six transition qualities – competitive, well-governed, green, inclusive, resilient and integrated. The Bank not only supports its countries of operations in addressing transition gaps, but also works actively to drive greater ambition through its non-sovereign and sovereign clients to achieve transition impact across the six qualities. Progress on these qualities should lead to an economy that supports greater economic growth and prosperity, more jobs and opportunities, an improved environment for people in countries of operations and supports the achievement of the Sustainable Development Goals.

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## A Distinctive, Relevant and Effective Bank

The EBRD has a distinctive position with the global and European development finance system due to its core strengths and comparative advantage. Its business model and operational approach have proved durable, flexible and effective in various geographic and cultural contexts. The Bank currently operates in 38 economies in Europe, Asia and Africa.

The Bank's distinct contribution is grounded in its focus on private sector development combining investment, policy and technical assistance in a single management and incentive structure, with the ability to make selective interventions in the public sector. Strong local presence and deep sectoral knowledge support the Bank's successful delivery of transition impact. The Bank's business model rests on the three operating principles of transition, sound banking and additionality. In all of its activities, the Bank upholds the highest standards.

Over the SCF period, the EBRD will continue to strengthen its business model and toolkit, including with respect to mobilisation, donor resources and policy engagement.

**Mobilising finance** to deliver transition impact, with a particular emphasis on private investment, is a core strategic goal for the SCF period. The Bank will set out a Mobilisation Approach for discussion with the Board of Directors early in the SCF period. The Approach will cover the instruments, incentives and capabilities required to deliver on the Bank's mobilisation ambitions.

Using **donor finance** in a disciplined manner is also an integral component of the Bank's business model and will be a key enabler of the achievement of the Bank's strategic goals over the SCF period. Demand for donor resources to support the Bank's work is likely to remain strong during the period of crisis response in the context of market disruptions.

Combining **policy engagement** with investment activity is increasingly important for achieving and sustaining systemic transition impact. Stepping up this activity will be an important aspect of the Bank's crisis response and an essential element of successful implementation of the strategic themes of the SCF. The Bank will build on the progress made with a view to strengthening policy impact at the sector and economy level, as well as strengthening its knowledge management.

## Building a Resilient and Sustainable Future

The ways in which the EBRD will support countries of operations' transition throughout the SCF period are indelibly coloured by the Covid-19 crisis. In the initial period, the Bank will focus its financial strength on supporting countries of operations to preserve transition gains in the face of the crisis. A recovery phase is likely to follow at different times in different places during which the Bank will support an acceleration of transition. In all its activities, the Bank will focus on enabling countries of operations to build a more resilient and sustainable future.

### **Sectoral Directions: Crisis Response and Recovery**

The Bank moved swiftly in response to the Covid-19 crisis with the approval of two Solidarity Packages. These set out the ways in which clients and countries of operations will be supported in the early part of the SCF period, including exceptional and innovative measures to address short-term needs in partner banks, small and medium-sized enterprises (SMEs) and infrastructure providers.

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Throughout the SCF period, the Bank will enhance the quality, quantity and impact of its activities in each of its sectors – **Financial Institutions, Industry, Commerce and Agribusiness** and **Sustainable Infrastructure**. The Bank will build on its key strengths, including a comprehensive approach to local currency lending and local capital market development, a broad and flexible suite of SME financing and advice and a unique approach to sub-sovereign lending. In addition, the Bank will innovate by adopting new and different approaches to delivering transition. The ability to provide equity investment is expected to be particularly important to support firms in the early years of the SCF as businesses face a permanent loss of value because of the crisis and as investor risk aversion rises.

### Crosscutting Themes

Across its three sectors, the Bank will focus on three strategic themes that respond to major forces shaping transition opportunities in countries of operations. The crisis has heightened the relevance and importance of these themes:

- Supporting the **transition to a green, low carbon economy** through the new Green Economy Transition (GET) Approach for 2021 to 2025. This Approach builds on the Bank's already strong green finance activity to increase impact through implementing an operational framework to align with the principles of international climate agreements, including principally the Paris Agreement; enhanced country and policy work and targeted thematic interventions. The goal is to raise the share of green finance to at least 50 per cent and to reduce net CO<sub>2</sub> by 25 to 40 million tonnes by the end of the SCF period.
- Promoting **equality of opportunity** by strengthening the Bank's work in supporting access to skills and employment, finance and entrepreneurship and services for underserved groups working with and through the private sector. Priority client segments will include women, youth and those in less developed regions. There will also be a focus on mitigating potential adverse impacts, including from the digital and green transitions. The Approach for this theme will be developed further in 2021 for discussion with the Board of Directors.
- Accelerating the **digital transition**, recognising that technology can be a key enabler of transition progress within countries of operations across the six transition qualities. The Bank has some emerging expertise in this area, such as in the application of technology in infrastructure. A comprehensive Approach to strengthen the Bank's activity will be prepared for discussion with the Board of Directors in 2021.

The quality of governance is a key determinant of differences in economic performance between and within countries. This has become more critical given the increase in the level of state involvement in the economy in response to the Covid-19 crisis. The EBRD will thus give heightened attention to **economic governance** during the SCF period.

### The Transition Journey

The nature and extent of the Bank's work evolves as countries of operations progress in their transition journey. In general, activity becomes more sophisticated and specialised as an economy advances in transition and with the experience gained able to be used to support transition in less advanced economies.

Over the SCF period, the Bank will seek to increase the proportion of its investment and policy activities in countries that are less advanced in transition, including the Early Transition Countries, Southern and Eastern Mediterranean countries and the Western Balkans. In countries more advanced in transition, the scope for the Bank to identify market segments in

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which it can achieve transition impact together with sound banking and additionality tends to reduce over time.

The principle of graduation as set out in the *A Policy on Graduation of EBRD Operations* is reaffirmed for the SCF period. The decision to pursue graduation lies with each country of operations. In order to strengthen the support available to any graduating country, the Bank will put in place an enhanced approach for implementing the Graduation Policy. An update on graduation based on a revised Post-Graduation Operational Approach, will be provided for further guidance by Governors at the time of the review of implementation of the SCF.

### **Geographic Reach**

The Bank's transition mandate and business model have proved effective in a variety of contexts. During the SCF period, the Bank will consider expanding its geographic reach, subject to the approval by the Board of Governors.

The last significant expansion of the EBRD's geographical mandate was in 2011 with the inclusion of the countries of the southern and eastern Mediterranean (SEMED) region. **Within this geographic scope**, three countries have not yet become countries of operations. In the event of an application from a country within this geographic scope, the Bank would conduct in-depth work to allow Governors to make a decision. Algeria's request to become the latest member of the Bank has been approved and it has applied to become a country of operations.

The Bank has explored the possibility of expanding its operations beyond its current geographic scope in the SCF period. Any expansion **beyond the current geographic scope** will need to consider important initial guidelines, including complementing other development partners and the financial, resource and governance implications for the Bank itself. The Bank affirms continued strategic interest in a limited and incremental expansion to sub-Saharan Africa and Iraq during the SCF period. Governors will consider an update on this issue at the time of the review of the implementation of the SCF, reflecting guidance to be provided at the 2021 Annual Meeting.

### **Partnering for Impact**

The EBRD will sustain focused coordination with other actors through the SCF period to deliver transition impact and support its countries of operations. Working with and through other institutions, including other MDBs, bilateral development finance institutions, the European Union and other donors, will enable the Bank to multiply its impact, focus on its strengths and exchange learning with others.

The crisis has reinforced the importance of institutions combining their different strengths effectively. Collaboration at the operational, policy and institutional/information exchange levels helps the development finance system operate effectively. Cooperation will take place through co-financing, policy coordination and mutual lesson learning. During the SCF period, the Bank will play its full part to strengthen complementarity and reflect the conclusions of discussions within the G20 and European Union to strengthen the effectiveness of the international development finance system.

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## Implementing the SCF

The SCF is very ambitious and the EBRD will need the means to deliver. The Bank will require significant additional financial and human resources in addition to identifying opportunities for efficiencies and possible reallocations. Modernising the Bank is crucial to attracting and retaining talent, increasing efficiency and productivity, minimising operational risks and ultimately to delivering value and impact to shareholders and clients. Investment in the Bank's capabilities will be scrutinised and approved by the Board of Directors in the annual budgetary process.

Delivering the Bank's mission and commitment to support its countries of operations in uncertain times requires taking more risk. Throughout the SCF period, the Bank will manage risk effectively at the project and portfolio level to maintain its strong financial position and triple-A credit rating whilst delivering high transition impact.

To support delivery of the SCF, the Bank will strengthen its people planning and organisational design and invest in a sustained effort to enhance its outdated IT capacity and build a new digitally enabled operating platform fit for the Bank's future operations.

The Bank has embarked on a programme of strengthening its approach to monitoring, learning and evaluation to improve continuously its performance and impact. The Bank's approach to results measurement and management has been improving since 2016. In the SCF period, the Bank will take forward the conclusions of the Independent External Evaluation of EBRD's Evaluation System to establish the systems and culture to capture and analyse data, to communicate the Bank's impact and to support continuous learning.

The Bank will establish a capital buffer within its planning framework for the SCF period. In order to support the Bank's response to the Covid-19 crisis, the Board of Directors considers all the Bank's capital capacity accessible until the review of implementation of the SCF.

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# 1. Setting the scene

## 1.1 Introduction

1. The EBRD's purpose is to 'foster transition towards open-market economies and to promote private and entrepreneurial initiative in [its countries of operations] committed to and applying the principles of multiparty democracy, pluralism and market economics'. Experience has shown that the process of transition is long-term, dynamic, non-linear and complex. Since its establishment in 1991, the Bank has pursued transition by standing by its countries of operations through a range of crises and shocks, including the 2008 financial crisis, which saw an increase of annual investment by just under 80 per cent in two years. The Bank has also stepped up decisively in response to moments of historic opportunity, for example, following the Arab Spring in 2010 and more recently with the political transition in Uzbekistan.
2. The global Covid-19 pandemic and consequent economic crisis may represent the most significant challenge yet to the Bank and its countries of operations. Although there is much uncertainty about the precise shape, depth and duration of the impact, many important implications are already clear. It is evident that the effects of the crisis on the opportunities for the Bank to support transition across its countries of operations will be profound and long-term.
3. The Bank moved quickly to respond in full solidarity with its countries of operations to address the immediate effects of the crisis. That strong support will continue. Over the period to 2025, the EBRD has the capacity to lend sustainably up to €13 billion annually, well in excess of the record level of just over €10 billion achieved in 2019. All of this firepower is available for delivering transition impact in line with the EBRD's mandate and principles and the Bank always aspires to deploy its capital to the full benefit of its countries of operations.
4. The Agreement Establishing the EBRD (AEB) requires that the Board of Governors review the Bank's capital stock at least every five years. Shareholders have used these reviews to consider also the Bank's strategic directions for the forthcoming period. The last review took place in 2015. By design, the Strategic and Capital Framework (SCF) is high-level and strategic, in contrast to the prescriptive approach employed in previous Capital Resource Reviews.
5. The Bank's strategic and planning processes are well suited to supporting the dynamic and flexible response which will be essential in the period from 2021-2025, given the uncertainty engendered by Covid-19. There are two components:
  - A **Strategic and Capital Framework** (SCF), which sets the Bank's strategic directions for a five-year period, approved by the Board of Governors. This provides a set of high-level priorities for the Bank, together with an overall control framework. The primary purpose of the SCF is to report on the adequacy of the Bank's capital base.
  - A **Strategy Implementation Plan** (SIP), which translates the strategic directions of the SCF into annual objectives in the context of rolling three-year projections of operational and financial performance, approved by the Board of Directors. The SIP also includes the annual Corporate Scorecard and the budget.

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6. This SCF sets out how the Bank will preserve and accelerate transition in its countries of operations through the overlapping and differentiated crisis and recovery phases following the impact of the Covid-19 pandemic as well as deep-rooted broader challenges. In accordance with AEB, the Bank's focus will continue to be primarily in the private sector. Further, the EBRD will provide its support in line with its principles of achieving transition impact through projects which are financially viable and in which the Bank's finance is additional to other sources.

7. This paper consists of four sections:

- **Section 1: Setting the Scene** describes the Bank's conceptual framework for assessing impact. It also considers the background for the formulation of the SCF, taking into account the impact of the Covid-19 crisis and the long-term economic and political trends that shape the Bank's ability to support transition. Finally, it situates the EBRD and its business model in the overall global development finance system.
- **Section 2: Building a Resilient and Sustainable Future** sets out the Bank's ambition to preserve and accelerate transition in its countries of operations. It describes the Bank's overall strategic directions, including how the Bank will enhance its suite of operational activities for countries at different stages of transition. Finally, it sets out goals for the remaining countries in its current geography in which it does not yet operate, as well as the strategic interest for working in new countries of operations in the course of the strategy period.
- **Section 3: Implementing the SCF** highlights a number of areas internal to the Bank that are key to deliver effectively on the ambitious strategy, notably with respect to human and financial resources, information technology (IT) and monitoring, learning and evaluation. It also presents for approval the strategic control parameters with respect to transition impact, capital utilisation and resourcing within which the Bank will conduct its operations.
- **Section 4: Capital Review** assesses the capital capacity of the Bank and confirms the adequacy of the Bank's capital to pursue its strategic directions over the five-year period of the SCF, as well as outlining the approach to implement a planning capital buffer.

8. In addition, Annex 1 reviews the implementation of the SCF 2016-2020 and Annex 2 presents a draft resolution of the Board of Governors on the SCF.

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## 1.2 The EBRD – Distinctive and Relevant

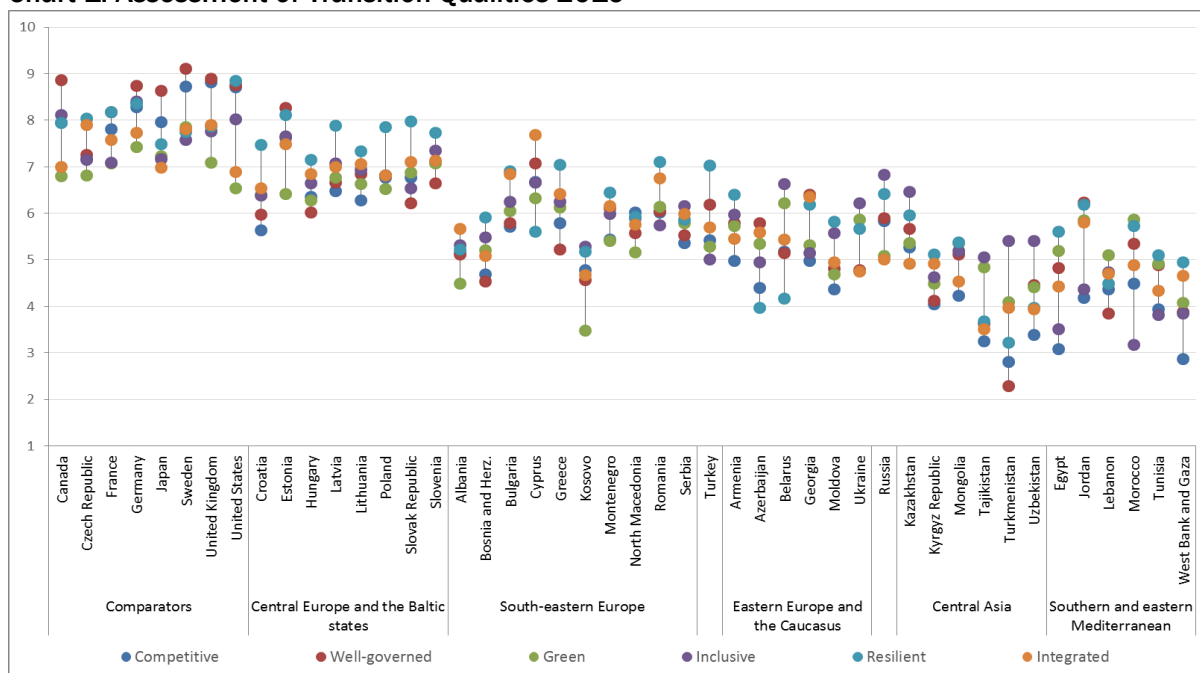
### 1.2.1 The Bank's Goals – The Transition Qualities

9. The EBRD's transition mandate is unique and adaptable. Over the past 30 years, there has been significant progress towards sustainable market economies across the Bank's countries of operations, with European Union (EU) accession as one marker of success for many countries. The Bank's mandate and skills are also relevant more widely, including in countries with diverse economic, historical and cultural backgrounds. As a result, the EBRD now operates in 38 economies on three continents.

10. The way the Bank assesses and makes operational its transition mandate has evolved over time. In 2016, the Board of Directors approved a revised transition concept, reflecting the lessons from the Bank’s transition delivery, the impact of multiple global and regional crises and analysis from economic literature. The new approach moved away from a focus on economic structures to economic outcomes. As a result, the EBRD now defines a successful sustainable market economy as one that is competitive, well governed, green, inclusive, resilient and integrated. Progress against these qualities should lead to an economy that supports greater economic growth and prosperity, more jobs and an improved environment for citizens in countries of operations.
11. The Bank’s overarching goal throughout the SCF period is to support countries of operations’ progress towards these ‘qualities’ of a sustainable market economy by delivering transition impact. The Bank has integrated this goal fully in its approach and systems. The Bank calculates the transition gaps for its countries of operations through the annual Assessment of Transition Qualities (ATQs) and designs country strategies to identify activities that can address the barriers to progress against these transition qualities. At the project level, objectives are set consistent with these goals.

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**Chart 1: Assessment of Transition Qualities 2019**



12. Chart 1 shows the current ATQs for each of the economies in which the Bank operates to show the remaining transition gaps. Each quality is measured on a scale of 10, where 10 is the level for the quality that would exist in a perfect market economy. No economy reaches this level, as shown by the set of comparator countries that are not countries of operations on the left of the chart.
13. The chart shows the wide range of ATQ levels across the Bank’s countries of operations. Although there is variability within regions, transition gaps are generally greatest in the countries of Central Asia and southern and eastern Mediterranean (SEMED). The countries of central Europe and the Baltics (CEB) and the EU member states of south-eastern Europe (SEE) have the smallest gaps. This assessment forms the baseline for the Bank’s work over the SCF period. There is a

risk that the impacts of Covid-19 reverses some of the progress countries of operations have made to narrow these transition gaps.

14. The EBRD implements its transition mandate in the global context of the Sustainable Development Goals (SDGs), which set the framework for enduring global prosperity. The Covid-19 crisis has made collective action to deliver the SDGs even more urgent. Figure 1 shows how the EBRD's six transition qualities map strongly on to the SDGs and confirms the relevance and importance of the Bank's transition mandate and private sector focus to supporting global development.

**Figure 1: Transition Qualities and the SDGs**



## 1.2.2 Country Focus

15. The EBRD supports and measures its achievement of transition at the country level. Consequently, country strategies form the centrepiece of the Bank's approach to delivering its activities. These strategies are underpinned by comprehensive country diagnostics of the obstacles to addressing the transition gaps across the six transition qualities. The Bank defines concrete objectives for each country through consultation with national and local public and private sector stakeholders and civil society, as well as other international development finance institutions and donors. Defined for a five-year period, country strategies cover three perspectives, namely:

- The needs of the country to progress towards the achievement of the six qualities of a sustainable market economy;
- The opportunities for making progress in fulfilling those needs, including the willingness to reform, the scope for investment and the availability of committed partners in both the private and public sectors; and
- The Bank's capacity to take advantage of those opportunities, based on its business model, expertise and complementarity with other development finance institutions.

16. The EBRD's investment activities and policy engagement focus on achieving country strategy objectives and are monitored through a

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results framework. Sector strategies dovetail with country strategies by outlining the ways in which the Bank will achieve transition impact, reflecting sector developments and transition challenges across countries of operations. These strategies also last for five years and have their own performance framework. Seven sector strategies are in place that will last for at least half the SCF period, including in the energy, transport, municipal and environment and ICT sectors. Overall, sector strategies define the instruments and products available to the Bank, whilst country strategies are the main mechanism for aligning strategic objectives across the Bank. This country and sector matrix framework will remain the foundation of the Bank's activity over the next SCF period.

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## 1.3 The Strategic Context

### 1.3.1 A Changed and Uncertain World – Prospects for Transition

17. The underlying economic and political conditions strongly influence the Bank's capacity to support countries of operations in their progress to sustainable market economies. This section outlines the short and medium-term context, highlighting the still unfolding impacts and implications of the Covid-19 pandemic and economic crisis. This uncertain and fluid context will shape both the transition challenges faced by countries of operations and the Bank's ability to support countries' responses.
18. Annual GDP growth rates in the EBRD's countries of operations have roughly halved from the levels in the period before the global financial crisis and estimates of potential growth in countries of operations are around 3 per cent, limiting the prospects for income convergence with advanced economies. Measures to contain the spread of coronavirus have had a dramatic effect on the economic outlook, with a contraction of 3.5 per cent projected in the EBRD regions for 2020, before a recovery to 4.8 per cent in 2021. These numbers stem from a central scenario in which social distancing is phased out swiftly. Trend growth is assumed to continue for the remainder of the period with per capita incomes recovering to their pre-crisis (end-2019) level by early 2022.
19. However, there is considerable uncertainty in making any projections at this time. In particular, there are significant risks in countries of operations that are highly dependent on tourism, commodity prices and remittances. Overall financing conditions are expected to remain highly accommodating into the medium term. However, public indebtedness is projected to increase significantly because of the Covid-19 crisis and debt sustainability will be an important concern for some countries of operations. The crisis is also reshaping financial sectors in the Bank's regions, as private debt increases and non-performing loans (NPLs) rise and foreign banks concentrate on core markets.
20. A number of factors merit consideration in assessing the prospect for growth in the SCF period:
  - **Demographics.** Other things being equal, if the labour force grows more quickly than the population, living standards rise. This is expected in only eight countries of operations in the SCF period –

six in Central Asia, plus Egypt and Jordan. Countries of operations face diverse immediate demographic challenges. In Central Asia, SEMED and Turkey, there is a need to create jobs for a growing, mostly well-educated, young workforce. In other countries of operations, the challenge is to manage an ageing workforce and growing old-age dependency ratio (the ratio of those above retirement age to working-age population).

- **Trade and global supply chains.** Countries of operations are heavily integrated into global supply chains and their growth outlook is significantly influenced by changes in trade flows. The crisis has disrupted supply chains in the short-run, compounding a pre-existing trend of slowing growth of international trade in response to technological change and geopolitical developments. The adverse impact of the weaker global demand on countries of operations may be partially offset by firms seeking to increase the resilience of their operations by diversifying the geography of their suppliers, reducing dependence on the dominant supplier of inputs and focusing on regional supply chains, with 'just-in-case' options partially replacing the 'just-in-time' mantra.
- **Digitalisation.** The crisis has accelerated the digital transition. The Transition Report 2018-19 highlighted the impact of technological advancement globally and in the region on employment trends. Automation may quickly erode the advantages of a development model that relies on lower wages in manufacturing. Technology also leads to the creation of better-paid and higher-skilled jobs at the expense of mid-skilled jobs, resulting in a polarisation of the workforce and greater inequality of incomes, with social, political and economic implications. This trend is expected to continue and intensify over the strategy period. However, businesses that are able to integrate new technologies may be able to take advantage of some of the structural changes accelerated by the crisis, such as the move towards e-commerce business models that require lower upfront capital expenditure compared with physical retail.
- **Resilience to future shocks.** The course of the coronavirus outbreak is highly uncertain and it is not possible to rule out future damaging pandemics. The level of any direct impact – and the capacity to recover quickly after any new shock – depends on the resilience of economies. Some countries of operations are judged to have relatively low economic resilience to renewed health crises, including Ukraine and a number of countries in Central Asia and the Western Balkans, but most countries of operations are seen to be relatively resilient.

21. The crisis has made the outlook for employment uncertain with prospects dependent on the speed of recovery. The creation and preservation of sustainable jobs will be a key goal for policy makers. There has also been a differentiated impact within the labour market. Workers in economies with a greater degree of informal employment are worse affected. In addition, the sectors most impacted by the crisis – for example, hospitality and tourism – are sources of employment for women in particular. Furthermore, social norms tend to make it more difficult for women to maintain their position in the labour market during crisis. The availability of entry-level jobs in all industries will reduce opportunities for young workers. Overall, the crisis is likely to accelerate trends in inequality, with the most adverse effects on already disadvantaged groups.

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22. The *Transition Report 2018-19* stressed the importance of cross-border and within-country migration as a medium-term factor for growth in countries of operations. Emigration is a particular challenge for many countries of operations, with younger and better-qualified workers frequently the most mobile. The extent and duration of border closures in response to coronavirus is uncertain and may affect the mobility of people, with particular consequences for countries of operations reliant on remittances. There is a tendency in all countries for larger cities to grow, irrespective of overall population growth, with implications for service provision in both growing and contracting cities. In more advanced countries, an increasing disassociation of where people live and work may affect the urbanisation trend. Some countries of operations face persistent challenges in managing the consequences of conflict-induced forced migration from neighbouring countries. Those same conflicts – among other reasons – lead a number of countries of operations to experience significant levels of transitory migration. These issues will affect transition progress over the SCF period.
23. The vast majority of countries, including in the EBRD region, are committed to the international community’s objectives set out in the Paris Agreement of 2015 to limit the increase in global average temperature to well below 2 degrees Celsius. Although contributing a relatively small part of global emissions, the EBRD’s countries of operations remain more energy-intensive than comparable countries. As a result, making the transition to a more energy-efficient and decarbonised economy offers a growth opportunity with some of the steps outlined in the Bank’s *Transition Report 2017-18*. Countries’ efforts in this area will intensify and accelerate in the forthcoming period. There is a risk that addressing the consequences of the Covid-19 crisis will dissipate the political energy and will to address climate change with its potentially significant temporary adjustment costs, particularly if oil prices remain low. Contrarily, there is an opportunity to integrate a ‘tilt to green’ approach into the public and private investment programmes aimed at speeding up the recovery from the Covid-19 crisis.
24. Progress in transition over the strategy period requires willing partners and, often, political commitment and a positive reform trajectory. For many countries, convergence with EU standards will remain an important reform anchor. Overall, the current SCF period has shown the challenge of forecasting where political opportunity will emerge. The Bank has moved quickly to capitalise on unanticipated reform momentum, whether as the result of generational change in Central Asia or popular imperative in Ukraine.
25. More fundamentally, the Bank’s *Transition Report 2019-20* showed the vital importance of governance and sound institutions at every level of the economy: national, regional and firm. Yet, progress against the ‘well-governed’ transition quality amongst the Bank’s countries of operations has been uneven. A focus on economic governance in the SCF period will be even more important given the intervention of the state in the economy as a response to Covid-19, with likely both short and long-term implications (see section 2.2.3). The Bank will intensify efforts to identify opportunities for governance reforms at all levels of the economy, particularly leveraging the strength of other multilateral institutions and the EU.

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## 1.3.2 The Global Development Finance Architecture and the EBRD

26. Progress towards the ambitious, urgent and universal agenda set out in the SDGs in 2015 has not been at the scale or speed required. As a result, the UN Secretary General designated the period to 2030 as a decade of action for sustainable development. The Covid-19 pandemic and economic crisis has dramatically worsened prospects for the SDGs, with countries of all income levels set back. EBRD countries of operations are no exception.
27. The international financial institutions (IFIs) and the Multilateral Development Banks (MDBs) – including the EBRD – are important instruments for addressing this increased challenge. To deliver fully, the different institutions should act more as a system. This section outlines the evolving nature of the MDB system and current debates within it, before identifying the distinctive characteristics of the EBRD's business model and its contribution to the effectiveness of the international agenda.

### 1.3.2.1 Towards a Stronger Development Finance System

28. In the last two years, the G20 Eminent Persons Group on Global Financial Governance and the High-Level Group of Wise Persons on the European Financial Architecture for Development examined the ability of the development finance system to support the achievement of the SDGs. Both groups emphasised the importance of promoting jobs, growth and sustainability, with a spotlight on climate change and Africa. They also highlighted common priorities to address these challenges, including the need for:
- increased domestic and international private finance and the role that IFIs can play to catalyse such financing, through both mobilisation efforts and promoting policy reform to improve investment climates;
  - policy coherence within and across countries;
  - good standards, including with respect to environmental, social and governance safeguards, transparency, pricing and debt sustainability; and
  - coordination and agility, including through platforms at the country and regional levels.
29. Finally, both assessments made a strong case for multilateralism, international partnerships and a rules-based order. Follow-up work to the conclusions of both groups is ongoing through the G20 and the EU's discussions on the European Financial Architecture for Development.

### 1.3.2.2 Role and Value Proposition of the Multilateral Development Banks

30. The MDBs play a particular role within the global system to support both tackling the global challenge of the Covid-19 crisis response and recovery and supporting progress towards the SDGs. Working across the full spectrum of emerging and developing countries, MDBs deliver impact by:
- Multiplying the capital subscriptions and contributions invested in them, providing leverage and significant impact;
  - Unlocking private financial resources through co-investment and mobilisation of other partners, as well as supporting domestic mobilisation by strengthening investment climates and deepening capital markets;

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- Advocating for policy reforms through sustained evidence, technical advice and dialogue;
- Leveraging their respective areas of expertise to devise tailor-made financial solutions and products to respond to specific challenges in countries;
- Promoting and requiring adherence to high standards, including in the areas of environment, social inclusion, governance and procurement;
- Supporting capacity- and institution-building for clients and more broadly in countries;
- Investing in public goods and addressing negative externalities that markets alone cannot resolve;
- Consolidating lessons learned, research and the results of evaluations for knowledge sharing; and
- Convening disparate actors, both within countries and internationally, that are needed to come together to find sustainable solutions.

31. While MDBs share many commonalities, they are not perfect substitutes for each other. Each actor in the MDB system has developed specific expertise and operational capacity that are differentiated and frequently complementary across institutions, over and beyond a division of labour driven primarily by geography. National authorities and clients understand the value-added of specific institutions well. The differentiation across MDBs was evident in their responses to the coronavirus crisis. Some focused initially on the health response and public sector, through budget support and policy-based lending. The more private sector-focused institutions, including the EBRD, immediately turned to the economic and financial response to help businesses, especially SMEs, navigate the crisis as well as to keep trade flowing.

### 1.3.2.3 EBRD's Business Model and Position within the MDB System

32. The EBRD operates in 38 economies in Europe, Asia and Africa of all income levels, complementing the work of diverse other development partners. The Bank supports systemic change to achieve the transition to a sustainable market economy through a distinctive business model which is applied universally across its countries of operations. Its business model rests on the three operating principles of transition impact, sound banking and additionality. These fundamentals are derived from the requirements of the AEB and will not change in the SCF period.

33. Key areas to note with respect to the EBRD's business model, core strengths and comparative advantage are as follows:

- **A central focus on supporting the private sector.** The AEB makes supporting private sector development the Bank's core purpose, requiring that at least 60 per cent of its portfolio be in the private sector. Today, the private sector share of the Bank's portfolio is 65 per cent and, in 2019, the private sector share of annual investment was 74 per cent. This is pursued through the combination of financial **investment, policy engagement** – to enhance the environment for business – and **technical assistance**. The EBRD is the only institution in the group of MDBs that has a predominantly private sector orientation and has this range of capabilities managed under the same leadership and incentives.

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- **Selective engagement with the public sector**, including a unique – amongst MDBs – approach at the **sub-sovereign level**, to enable private sector development, support efficiency through increased market discipline and promote reform. The ability to operate in both the public and private sectors reinforces the credibility of the Bank with its interlocutors in each area. The closest comparator to the EBRD given its strong private sector focus is the World Bank Group’s (WBG) private sector International Finance Corporation (IFC), which does not have this possibility other than through coordination with the WBG’s International Bank for Reconstruction and Development (IBRD).
- **A commercial focus that supports the development of sustainable markets** by complementing, not supplanting, private finance. This approach facilitates the mobilisation of external financing and is supported by the disciplined use of concessional and blended finance to make investments in challenging environments and to reduce risk. In all of its activities, the Bank upholds the highest standards.
- **Deep sectoral knowledge combined with local presence** through a network of over 50 regional offices in capitals as well as secondary cities, which provides practical, deep local market knowledge and enables direct work with clients, as well as supporting sustained engagement with local authorities on policy and governance issues.
- **Strong financial standing**, with the Bank’s triple-A rating continuously reaffirmed by the three largest credit rating agencies, reflecting a strong focus on financial sustainability and prudent management of capital, risk and liquidity.
- Ability to finance a **range of project sizes**. The Bank finances a broad range of project sizes from well under €1 million to over €500 million, with over 60 per cent of projects considered ‘small’ (under €10 million). The average project size is €22 million.
- Strong **green** credentials, especially with respect to energy efficiency and renewable energy, including reaching a green finance ratio of 46 per cent of total annual investments in 2019 (of which 91 per cent is climate finance), with 62 per cent going to private clients. In comparison, 19 per cent of WBG’s climate finance went to private recipients; for the European Investment Bank (EIB) it was 36 per cent and for the African Development Bank (AfDB) it was 33 per cent.
- Excellent track record of providing **local currency financing and supporting capital market development**, as evidenced by the increasing number and proportion of local currency committed investments, which stood at 30 per cent as of December 2019. The Asian Development Bank (AsDB) has a similar level at 29 per cent, while other MDBs’ share of local currency financing is lower with IFC at 18 per cent, AfDB at around 10 per cent and the EIB at less than 1 per cent.
- Deep experience supporting **small and medium-sized enterprises (SMEs)**, including through direct financing and business advice. Almost one-third of the EBRD’s projects and over 10 per cent of the Bank’s Annual Bank Investment (ABI) are directed to SMEs. On average, this means that the Bank channels more than €1 billion to over 300,000 small businesses each year. The EBRD is unique in its programme of direct financing and business advice to SMEs.

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- Demonstrated **ability and agility to expand into new geographies**, including countries that were never command economies (the Bank has expanded four times), learn new markets quickly and deliver impact. Within five years of beginning operations in the SEMED region in 2012, the Bank lent over €2 billion in 60 projects and has since broadly maintained this level.

34. The EBRD's business model has been refined over time and has proved robust and effective, enabling the EBRD to invest over €146 billion in 30 years. In so doing, the Bank has become the biggest investor in many of its countries of operations. The focus on systemic change, private sector development and the Bank's demonstrated agility are important attributes in delivering transition and making progress towards the SDGs, given the role that market finance and the private sector must play. These attributes have also proved vital in responding swiftly to stand by countries during the current crisis and will remain crucial during the recovery phase.

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## 2. Building a resilient and sustainable future

### 2.1 Preserving and Accelerating Transition: Crisis and Recovery

35. The ways in which the Bank will support its countries of operations' transition to sustainable market economies throughout the SCF period are indelibly coloured by Covid-19 and its implications. In the initial phase of the SCF period, the focus of the Bank will be on preserving transition in the face of the unprecedented global and regional economic shock. This crisis period will play out in different ways and at different speeds in different countries of operations. However, in time, all countries will enter a period of recovery, allowing the Bank to support an acceleration of transition. There will be no clear dividing line between the two phases and some effects are currently unknown. Therefore, the Bank will pursue its strategic goals flexibly.

#### Box 1: The Bank in 2025

Based on the strategic directions of the SCF, by 2025, the Bank will have:

- Provided timely and effective support to countries of operations to preserve and accelerate transition in the context of the economic crisis caused by the Covid-19 pandemic.
- Demonstrably focused its efforts on supporting those of its countries of operations less advanced in transition, including the Early Transition Countries<sup>1</sup> (ETCs), SEMED and the Western Balkans, through enhanced investment and policy activity.
- Reinforced its private sector focus by ensuring that more than three-quarters of the Bank's total investment in the SCF period is in the private sector.
- Directly supported progress towards green, low-carbon economies through higher levels of investment in the Green Economy Transition.
- Promoted equality of opportunity for disadvantaged groups and deepened the mainstreaming of gender considerations in projects through strengthened capacity for investment and policy engagement.
- Launched comprehensive and coherent activities to help countries of operations leverage the digital transition as an enabler of transition across all sectors.
- Successfully begun operations in new countries of operations within the Bank's existing region, such as Algeria, subject to the approval of Governors.
- If approved by the Board of Governors, taken steps to begin operations in a limited number of countries beyond the Bank's current geographic region.
- Strengthened support for any country that chooses to graduate from the use of the Bank's resources through an enhanced Post-Graduation Operational Approach.
- Increased the levels of private capital it mobilises for countries of operations through a widened and deepened scope of activities.

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<sup>1</sup> Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan.

- Achieved greater transition impact by further integrating policy engagement and investment activity and reinforced its ability to measure its effectiveness
- Strengthened its overall results framework, knowledge management and the use of evaluation findings to improve the design and impact of operations.
- Enabled cost effective delivery of the SCF through investment in staffing, skills, processes, systems and IT upgrades, as well as increased efficiency and reallocation.

The priorities will be implemented through future annual SIPs with continued efforts to manage both existing projects and new commitments to pursue transition impact whilst balancing, at the portfolio level, risks, returns and costs to ensure financial sustainability.

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36. Through both the crisis and recovery phases, the Bank will strive to progress transition and support the building of a better future after the coronavirus pandemic through a 'tilt to green', enhanced work on promoting equality of opportunities and supporting the digital transition. In addition, the Bank will emphasise work on economic governance. In all its work, the Bank will endeavour to undertake projects consistent with the international commitments made by countries of operations and seek to address trade distortions through policy engagement. The remainder of this document sets out the EBRD's strategic directions for the next five years and how the Bank will be equipped to deliver them. Box 1 presents specific aspirations for the SCF period. The Board of Governors will review the implementation of the SCF and progress towards these aspirations at the Bank's 2022 Annual Meeting, unless the Board of Directors, by May 2021, decides to delay the review until the 2023 Annual Meeting.

## 2.2 Strategic Directions 2021-2025

37. This section is the heart of the SCF. It shows how the Bank's paramount goal and highest priority – maximising transition impact in its countries of operations – will be taken forward. It sets out how the Bank will maintain its core private sector focus and strengthen its capabilities to enhance the quality, quantity and impact of its work in countries of operations during the SCF period.
38. The first part of this section provides an overview of the activities in each of the Bank's three principal sectors to preserve transition gains in the face of the Covid-19 crisis and to accelerate transition progress through a number of key innovations and enhancements over the strategy period. The second part of this section puts forward three strategic themes identified as areas of focus for the next five years to achieve impact across all transition qualities, responding to particular crosscutting challenges in countries of operations.

### 2.2.1 Sectoral Directions

#### 2.2.1.1 Financial Institutions

39. The EBRD's work in the financial sector in countries of operations has three principal dimensions. First, the Bank works to build a strong and efficient banking sector by providing capital through debt – including in local currency – equity and capital market transactions, as well as

support for skills. The Bank also promotes efficiency by addressing NPLs through selected support for NPL servicers. Second, the EBRD supports financial institutions as important channels for the direct achievement of transition goals, with a view to targeting SMEs, green investment, women and youth, principally through dedicated credit lines accompanied by technical assistance for partner banks and policy advice to governments and regulators. The Bank's longstanding trade facilitation programme (TFP) has the dual objective of stimulating competitiveness by supporting trade and increasing the ability of banks from countries of operations to operate with international counterparties. Thirdly, the Bank works to broaden and diversify the financial sector by supporting non-bank and microfinance institutions, as well as developing deeper and more liquid capital and local currency markets.

40. Priority actions to preserve transition to be undertaken specifically during the period of crisis response include:
- Rapid deployment and scaling up of the TFP programme and extended use of risk-sharing facilities;
  - Enabling support to the real economy by strengthening the balance sheets of partner institutions through equity and quasi equity investment; provision of higher risk junior debt and increasing participation in capital market transactions; and
  - Exploring the innovative use of government guarantees to enable cross-border banks to increase lending to firms.
41. Priority actions to accelerate transition as part of the recovery over the SCF period include:
- Increasing competition and efficiency in the sector by supporting the digitalisation of incumbent financial institutions and selectively investing in challenger institutions, new business models and suppliers of technology to the banking industry;
  - Supporting the development of green finance by scaling up existing activity as well as broadening the suite of products, including risk sharing and green bonds;
  - Reinforcing longer-term integration through developing the financial system's support for trade across the region;
  - Fostering the resilience of the financial sector through debt and equity financing to meet evolving regulatory requirements, competitive pressures and addressing currency mismatches; and
  - Expanding access to finance to underserved client segments, including women (including through the Women in Business programme), youth and refugees.

#### **2.2.1.2 Industry, Commerce and Agribusiness**

42. The EBRD's work in industry, commerce and agribusiness supports competitiveness and helps to develop a strong, diversified and well-governed private sector through debt and equity investments in firms of all sizes in the manufacturing, services and agricultural sub-sectors, including in local currency. In this sector, the way in which EBRD invests helps promote improved corporate governance, greater opportunities for excluded groups and the enhancement of skills. The Bank achieves impact in this sector at three levels. First, by increasing efficiency at the individual firm level. Second, through the demonstration effect of new and better approaches encouraging market efficiency at the sectoral level as other firms adopt the same techniques. Thirdly, especially when supported by policy engagement,

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investment can lead to economy-wide systemic impact through policy and regulatory development.

43. The Bank also has an integrated approach to working with SMEs throughout the stages of their development. The priorities in this key area for transition impact are set out in Box 2. Furthermore, the Bank has specific expertise in supporting privatisation as well as in bringing commercial approaches to state-owned enterprises, which is likely to be increasingly relevant in the wake of increased state intervention in the economy to combat the impact of the Covid-19 crisis.
44. Priority actions to preserve transition to be undertaken specifically during the period of the crisis response include:
- Exploring innovative approaches to ensuring continued access to finance, preserving corporate bond market development and access to local currency finance;
  - Supporting firms with strong long-term prospects to meet short-term liquidity needs, especially in the agribusiness, tourism and automotive sectors, through deferral and restructuring of existing loans and addressing longer-term solvency concerns through equity investment; and
  - Providing tailored advice to agribusiness firms to navigate the crisis and its implications.

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### **Box 2: Supporting SMEs**

SMEs form the vast majority of the firms in EBRD's countries of operations. Consequently, they constitute the backbone of economies by providing jobs and livelihoods. Supporting SMEs has been a key priority for the EBRD since 2014 through the implementation of a dedicated Small Business Initiative.

The OECD has highlighted that SMEs are at the centre of the economic crisis brought on by Covid-19. SMEs face both a supply shock through the reduction of labour force, disruption of supply chains and shortage of goods and a demand shock given lower consumption spending and liquidity shortages. Furthermore, SMEs are heavily present in specific sectors that the measures to contain the pandemic are severely affecting, including the tourism and transport sectors. Women owned SMEs already faced barriers to access to finance before the crisis and are expected to be disproportionately affected by the crisis, compounded by the fact that women are often primary caregivers.

The Bank responded quickly to meet the needs of SMEs in the very early days of the crisis, including by:

- Supporting the flow of finance to SMEs from partner finance institutions through expanding existing programmes for risk sharing and dedicated SME credit lines;
- Stepping up support for lending in local currency to SMEs by partner financial institutions (PFIs) and
- Providing crisis response advice on financial management and business continuity to both existing advisory clients and new SMEs and accelerating the roll-out of digital delivery of advisory services.

These activities will continue to be refined and implemented during the new SCF period as the impact of the crisis unfolds. In addition, over the SCF period, the Bank will continue to strengthen its approach to SMEs, which combines indirect financing through PFIs, direct financing by the Bank alone or in partnership with PFIs, business advice and policy engagement. Donor

support plays an important part in strengthening impact. Strategic priorities include:

- Creating new products that integrate investment and new areas of advisory support, designed to address key issues such as youth employment and skills, with a strong focus on digitalisation;
- Supporting SMEs to integrate supply chains by investing in aggregators via digital supply chain platforms and/or PFIs' own supply chain solutions, including by providing advisory services to both SMEs and aggregators. Also looking to collaborate with other MDBs to support SME participating in supply chains through reverse factoring;
- Expanding the Bank's successful 'Blue Ribbon' programme which supports emerging leaders in the sector;
- Strengthening the coherence and integration of the Bank's instruments to achieve greater impact through targeted policy dialogue, expanded market coverage and lead to a better performing portfolio;
- Expanding the use of existing products, such as Women in Business, to additional countries of operations; and
- Exploring the merits of creating an impact fund, possibly jointly with the African Development Bank, drawing in official and private investors, for SME development in the SEMED region. This would replicate the Bank's success with the Enterprise Expansion Fund in the Western Balkans.

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45. Priority actions to accelerate transition as part of the recovery over the SCF period include:

- Supporting clients and their supply chains to lower carbon emissions and climate resilience, notably to enhance activity in the agribusiness sector;
- Facilitating a 'just transition' to mitigate the potential negative impacts on economic activity, workers and communities of transition, notably transition to a new sustainable and affordable energy mix;
- Stepping up support for commercialisation of state-owned enterprises in countries with potential for privatisation;
- Supporting competitiveness through the adoption of digital technologies and early stage investment;
- Strengthening support for inclusion by scaling up both skills training, especially for women and youth and sectoral policy engagement; and
- Introducing new products to enhance impact such as risk sharing, insurance, digital infrastructure and Islamic finance.

### 2.2.1.3 Sustainable Infrastructure

46. The EBRD works to develop efficient and sustainable energy, transport and municipal infrastructure, with a strong priority on helping countries transition to a green, low-carbon trajectory. The Bank is active in this sector, mainly through debt and capital market instruments supporting the integration of economies to strengthen competitiveness and, thereby, create jobs. The Bank's strength in this sector lies in combining the ability to operate in both private and public sectors and catalysing systemic change beyond individual projects. In the energy sector, the emphasis is on attracting private sector investment to support the path to a zero-carbon future and promoting energy security. The Bank deploys innovative approaches to sub-sovereign lending, including the Green Cities programme,

which will be an important component in the strategy period. The Bank also supports Public Private Partnerships (PPPs) through advisory services, policy engagement, investment and financing secondary sales and finances smart and sustainable energy systems.

47. Priority actions to preserve transition to be undertaken specifically during the period of crisis response – especially with respect to competitiveness, resilience and good governance – will be taken through the exceptional Vital Infrastructure Support Programme (VISP), whose main instruments are:
- Providing working capital through partner banks to municipalities and utility companies faced by a shortfall in revenue, as a result of payment disruption in the crisis;
  - Direct lending to provide emergency liquidity to key infrastructure providers to maintain continuity of service provision in important sectors and
  - Direct lending to public sector clients disadvantaged by changing public expenditure priorities to secure additional reform and transition impact.
48. Priority actions to accelerate transition as part of the recovery over the SCF period include:
- Supporting green, low-carbon transition through investment in climate resilient infrastructure and the necessary technological upgrades for scaled-up renewable energy supply, including smart grids and enhanced energy storage, together with increased investment in energy efficiency;
  - Advancing electrification of transport and digitalisation of service delivery, including through integrated vehicle and charging infrastructure;
  - Reinforcing support for inclusiveness through targeted skills training on new technologies, with a focus on women, youth and gender-sensitive and inclusive design;
  - Promoting competitiveness and efficiency by supporting private sector investment through well-structured PPPs, where necessary supported by the Bank’s Infrastructure Project Preparation Facility and policy engagement;
  - Promoting sustainability and innovation through the application of digital technology in infrastructure design and implementation, including integrating smart infrastructure elements into all urban operations, through widening and deepening the scope of the Bank’s Green Cities Programme and
  - Fostering high standards in all aspects of the Bank’s infrastructure work, including with reference to the G20 Principles for Quality Infrastructure Investment.

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## 2.2.2 Crosscutting Themes

49. Three strategic themes will underpin the Bank’s work in the SCF period. Through these themes the Bank will be:
- supporting transition to a green, low-carbon economy;
  - promoting equality of opportunity and
  - accelerating the digital transition.
50. Each theme represents an area where the EBRD will respond – through its distinctive business model and approach – to important



challenges faced in countries of operations. The themes are mutually reinforcing and overlapping and will be applied to the delivery of the Bank's work across all the transition qualities and in all sectors. While the Bank's approach to supporting a green, low-carbon transition is well developed, mainstreaming work on equality of opportunities and accelerating the digital transition is less advanced. The remainder of this section outlines the rationale for each theme and the approach to delivery in the SCF period.

### 2.2.2.1 Supporting Transition to a Green, Low-carbon Economy

51. Environmental sustainability is an integral part of the Bank's transition mandate, with Article 2.1 (vii) of the AEB stipulating that "the Bank is committed to promoting environmentally sound and sustainable development in the full range of its investment and technical cooperation activities."
52. The EBRD is broadly recognised as a leading MDB in climate finance through its successful Green Economy Transition (GET) programme. This is ever more relevant as the scope and scale of potential significant disruptive environmental and climate impacts, including on political, economic, financial and social systems, are rising. In addition, the scale of migration will likely rise, linked to the loss of economic opportunity due to environmental degradation and potential conflicts centred on increasingly scarce environmental resources such as water. For the SCF period, the Bank will further scale up and innovate to help countries of operations accelerate the transition to a green, low-carbon economy.
53. The need for a comprehensive, global response to climate change is clear and urgent. Achieving the goals of international climate agreements to limit global average temperature increase to well below 2 degrees Celsius will require investment in energy efficiency and low-carbon transition to increase by a factor of five. For example, delivering on that goal is the centrepiece of the European Union's European Green Deal. Furthermore, air pollution from fossil fuel generated electricity, heat, transport and industry is increasingly a social concern, with concentrations of particulate matter exceeding the World Health Organisation (WHO) recommended limit in almost all EBRD countries of operations.
54. The work of the Global Commission on Economy and Climate shows that the transition to a low-carbon, climate resilient economy can and should go hand-in-hand with economic growth. This is particularly relevant in the context of countries of operations' efforts to stimulate a green economic recovery following the sharp impact of Covid-19. The International Energy Agency (IEA) estimates that 44 per cent of the effort to meet global climate mitigation goals needs to come from energy efficiency, with the shift to renewable energy accounting for a further 36 per cent. For EBRD's countries of operations seeking to move onto a green, low-carbon trajectory consistent with national climate-related action plans, both a reduction in energy intensity of the whole economy and the level of carbon emissions in the energy sector will be required. In addition, adjustment costs need to be managed through a 'just transition'.
55. As illustrated in Chart 2, the Bank enters the new SCF period with a strong track record of delivery on which to build a renewed and ambitious approach to supporting its countries of operations' goals in this area. Over the past 15 years, the Bank has developed a

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successful model for investment in environmentally sustainable projects and climate finance in particular. At the outset of the current SCF period, the Bank set the stretching goal of reaching a green finance ratio of ABI of 40 per cent for 2020, up from an average of 25 per cent in the previous strategic period. In 2019, the EBRD green finance ratio reached 46 per cent of ABI based on the Bank's robust taxonomy, of which over 90 per cent was in climate finance. Specific areas include energy efficiency, renewable energy, green banking, green cities, climate resilience and green bonds. The Bank also has a strong record of climate funding mobilisation.

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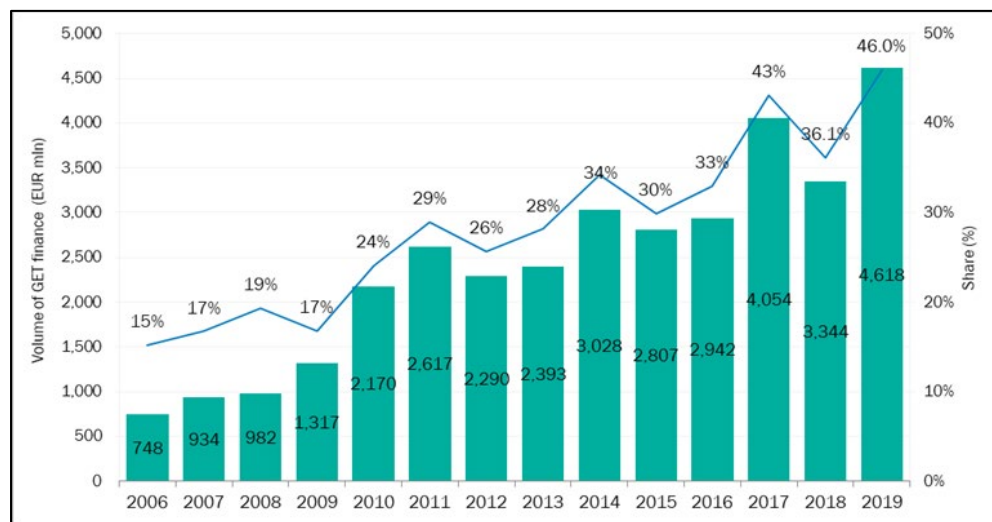
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**Chart 2: The Growth of EBRD Green Finance: 2006 to 2019**



56. The goal in the next SCF period is to significantly deepen and extend this activity through the implementation of the new GET Approach 2021-2025 (BDS20-082/F), which will become effective upon Governors' approval of the SCF. The aim is for the Bank to reach a green finance ratio of more than 50 per cent by 2025. Further, recognising the importance of climate change mitigation, the Bank will seek to achieve a cumulative net greenhouse gas emissions reduction of 25 to 40 million tonnes over the SCF period, based on ex ante estimates. In achieving this, the Bank will adopt a more systemic approach to support countries of operations aiming to drive the transition to a green, low-carbon economy based on the following components:

- In accordance with the principles agreed in the new GET approach, implementing an operational framework to **align with the principles of international climate agreements, including principally the Paris Agreement**, on which a decision will be taken no later than 2022. The underlying methodology for this approach is being jointly developed with other MDBs.
- **Enhanced country and policy work** by strengthening the Bank's policy effort at the country level, supporting the development and implementation of national climate-related action plans, including Long Term Strategies and Nationally Determined Contributions (NDCs), with the engagement of the private sector. The Bank will work with national authorities to develop supportive policies, regulations and standards. The Bank can also be a facilitator for countries of operations seeking to engage with relevant policy initiatives. The Bank is already piloting 'just transition' operations responding to specific requests from countries of operations.

- **Defining thematic interventions** to address major climate mitigation and adaptation and other environmental challenges and opportunities. This would include, for example, a targeted focus on ‘hard to abate’ sectors such as heavy industry and transport. It will also include a concerted effort to scale up activity in areas where the Bank has already achieved meaningful results such as energy efficiency, green cities and the growth of green finance across the banking sectors of countries of operations. Activities under specific thematic areas will drive EBRD green innovation, including digital solutions, new energy sources, such as hydrogen, and nature-based solutions. Activities under these thematic areas will scale up actions to drive toward an environmentally sustainable, low-carbon future supported by the Bank through policy engagement and finance. This includes the mobilisation of both private sector investment and donor resources and collaborative work with partners both in-country and through expert networks. These thematic areas will in particular provide the opportunity to form focused partnerships, including governments, the private sector, other MDBs and Development Finance Institutions (DFIs) and think tanks.

57. In developing and implementing these activities, the EBRD will use its agility and flexibility to introduce new practices and strategies to remain at the frontier of green financing, with a particular focus on the private sector and policy. Achieving ambitious objectives will require continuous product and programmatic innovation, learning both from the Bank’s own experience and from best external practice. The Bank will support countries of operations by continuing to combine an innovative product development function with decentralised execution across sectors and countries of operations.
58. The EBRD has collaborated actively with fellow MDBs on the green climate agenda for over a decade through coordination and knowledge sharing. Consequently, MDBs are well-aligned on a number of fronts, including in formulating a joint climate finance methodology. Joint work is currently underway on defining an operational approach to alignment with the Paris Agreement goals. Close MDB working also supports the definition of ambitious joint action such as the MDBs’ joint statement at the UN Climate Action Summit in 2019. The Bank will continue to engage with global environmental funds and donors who have contributed significantly to the results it has achieved.
59. The EBRD has been investing in its internal monitoring, reporting and verification capacity since 2013, as green finance has grown in importance at the Bank. Looking forward, the Bank will match greater ambition with the further strengthening of data management for green financial and non-financial parameters and disclosure frameworks supporting robust, verifiable and consistent reporting. The Bank will also strengthen its capacity for ex-post monitoring of impact and its verification function.

#### 2.2.2.2 Promoting Equality of Opportunity

60. Inequality – between and within countries – is one of the defining political, economic and social challenges of our times. A sustainable and fully productive market economy is able to draw on the capabilities of the whole population. This requires all people having equal access to basic services and infrastructure to live, work and interact with their communities. In addition, the changing nature of

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work is disrupting labour markets and increasing the risk of leaving disadvantaged groups further behind. The Covid-19 pandemic has further exposed and exacerbated these inequalities. Inclusive growth is essential to tackling these challenges and helping to reduce migration and increase social and political cohesion.

61. Income inequality in the EBRD's countries of operations has declined over the past two decades. However, more than one-half of all people in the region have not seen their earnings converge and two-thirds of income inequality in the region is within countries. Beyond this, inequality of opportunity stemming from factors that are not within an individual's control, such as gender, place of birth or parents' education, remains high across the Bank's region, as highlighted in the EBRD's *Transition Report 2016-17*.
62. The coronavirus crisis has reinforced the effect of inequality. Disadvantaged groups such as women, youth and migrants are more likely to work in service industries and other hard hit sectors such as tourism. These activities often take place in regions where there are few alternative sources of employment and connectivity to the rest of the economy is low. Women also shoulder a disproportionate share of care responsibilities for children, the sick and elderly, making it harder for them to retain jobs or continue entrepreneurial activities. For young people, the complexity of transitioning from education into employment is greater at a time of reduced recruitment and lower investments in work-based learning opportunities. Experience from previous pandemics shows that this widening of existing inequalities is likely to lead to increased income inequality for some years, with life-long earnings reduced for many of those affected.
63. The EBRD has long recognised that the transition to a sustainable market economy requires changes to market structures that can create or further increase inequalities. For example, there is a risk that in the transition to a green, low-carbon economy, communities dependent on industries that are reliant on carbon consumption will be disproportionately and permanently disadvantaged. The extent of this impact will vary according to industrial and labour market policies, connectivity, as well as labour mobility. As part of its efforts to address equality of opportunity, the Bank is developing a toolkit that combines investment, community capacity building and policy engagement to promote 'just transition'.

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### Box 3: Gender Mainstreaming

The EBRD has made progress in mainstreaming gender equality and women's economic empowerment during the implementation of its Strategy for the Promotion of Gender Equality (SPGE), which was approved in 2016. Over the SCF period, the Bank will maintain its focus on three priority pillars: (i) increased access to finance and business support for women-led businesses; (ii) increased access to employment opportunities and skills for women and (iii) improved access to services, focusing on sustainable infrastructure. These pillars will be supported by continuing to promote gender mainstreaming across the Bank's work and institutional capacity building.

As highlighted in section 2.2.2.2, the social and economic consequences of Covid-19 affect women disproportionately and threaten to set back progress towards greater equality. Supporting women with access to finance, skills

and services will be essential to maintain and restore progress on gender equality in the Bank's regions.

In the SCF period, the Bank will put in place gender-responsive instruments and tools and strengthen Bank-wide capacity to promote gender equality. This will include:

- Supporting innovation with new financial products to enhance women's access to finance and savings;
- Leveraging innovative digital financial technologies to reduce costs and increase access;
- Promoting women as entrepreneurs by supporting specialised skills development, including in Science, Technology, Engineering and Mathematics (STEM) areas, business mentoring, coaching and financial literacy activities;
- Promoting women's participation in the workplace by increasing the number of women on boards, in management positions and at technical levels;
- Supporting inclusive procurement and empowering the integration of women-led businesses in supply and value chains;
- Working with clients to address issues of workplace sexual harassment and gender bias in recruitment and promotion;
- Supporting actions to address challenges resulting from child and elder-care responsibilities, and promoting a more effective care economy;
- Enhancing safe and accessible transport to widen opportunities for women; and
- Assisting clients to address gender-based violence.

The Bank will support these actions with a set of institutional activities to enable delivery. They include:

- Embedding more gender expertise throughout the Bank, building on the establishment of the Bank's Network of Gender Champions and providing dedicated training and toolkits across regional and sector teams;
- Developing new tracking tools to strengthen understanding of the Bank's investments, which will be anchored in sound gender analysis;
- Making efforts to institutionalise gender outcome monitoring, for example within the ATQs, to further support the establishment of regional and country specific outlooks; and
- Strengthening existing partnerships and building new ones to identify new opportunities for clients and investors alike.

64. The EBRD prioritises groups that experience disproportionate barriers to economic opportunity due to circumstances outside their control – women, youth, people living in remote areas, refugees and refugee-hosting communities and people with disabilities. Wherever possible, the Bank will continue to explore extending its approach to other disadvantaged groups such as migrants, LGBTI people and the ageing workforce.
65. The Bank promotes equality of opportunity through a practical approach rooted in its private sector focus, addressing three key dimensions:
- Promoting access to employment and skills for disadvantaged groups through a unique private sector-focused approach. The Bank supports firms to improve human capital development and talent management to enhance efficiency and support growth,

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whilst at the same time opening up access to jobs and new skills. It also draws on the power of the private sector to tackle key policy challenges, from introducing national level skills standards that reflect better employer needs, to the removal of labour market restrictions for women that affect talent acquisition and can limit opportunities for innovation and growth.

- Supporting access to finance and entrepreneurship by investing directly, and through financial institutions, to provide tailored financial and non-financial services and improve access to finance to women-led SMEs, youth-led SMEs and SMEs operating in less developed regions. The EBRD also engages in policy dialogue to develop an enabling environment for the target groups.
- Improving access to services by supporting inclusive and gender-sensitive design of infrastructure and safe transport for all, improving connectivity for regional areas and harnessing the advantages of technology. This also includes a focus on ensuring gender-sensitive green investments, for example, through promoting women's participation in renewable energy, clean technology and sustainable infrastructure. At the policy level, the Bank promotes the integration of gender-sensitive measures into national infrastructure strategies (including transport or municipal services provisions), as well as the introduction of inclusive procurement approaches.

66. The EBRD's approach enables businesses to develop diverse and gender-balanced workforces and tap into better-qualified talent pools. It also provides disadvantaged groups with relevant skills, access to finance and services that open up opportunities for their participation in economic activity not previously available to them. The Bank thus offers a distinctive value proposition to private sector clients and countries across a wide range of sectors and countries of operations, fostering sustainable and inclusive economic growth.

67. Furthermore, the Bank is committed to continuing to mainstream gender across its operations as highlighted in Box 3. For this purpose, the Bank integrates gender considerations as an essential component of investments and policy engagements, as well as into sectoral and country strategies. To support this work, signalling from senior management is crucial as is building the capacity of staff and developing gender toolkits.

68. The EBRD has a strong foundation to strengthen and extend its work to promote equality of opportunity, by:

- Enhancing access to skills and employment by:
  - targeting firms in high value-added and growth sectors where the scope for higher value jobs is greatest, including in the technology sector;
  - supporting companies to adapt their workforces to the changing demands and opportunities of the digital transition, through lifelong learning, up-skilling and re-skilling with a specific focus on digital skills;
  - engaging at the policy level to support, for example, national and sector skills frameworks, effective work-based learning models such as apprenticeships, the provision of better data on skills needs and the removal of gender inequality in labour market regulations;

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- introducing inclusive and gender-sensitive supply chain support; and
- scaling up work to promote a 'just transition' for populations, through a comprehensive and integrated approach to regional development.
- Enhancing access to finance by:
  - expanding Women in Business, Youth in Business, as well as Skills in Business and Regional Development credit lines in new priority areas;
  - leveraging digital technologies to support financial inclusion for underserved groups;
  - scaling up advisory work for small businesses and capacity building for partner financial institutions; and
  - expanding policy engagements from Central Asia to SEMED and other regions, to support gender-sensitive regulatory reforms to promote an enabling environment for female entrepreneurship and to enhance the digital, financial and legal literacy of women entrepreneurs.
- Enhancing access to services by:
  - supporting gender-sensitive and inclusive infrastructure design and implementation;
  - introducing 'safe transport' measures across a wider range of infrastructure projects;
  - enhancing the coverage and quality of ICT connectivity in rural regions;
  - integrating gender and inclusion components into the Green Cities Programmes;
  - increasing the capacity and understanding of gender and access to services through developing toolkits and providing targeted advisory services; and
  - enhancing gender considerations in national infrastructure strategies, introducing gender budgeting as part of municipal planning and service delivery and further promoting inclusive procurement policies.

69. Across all these areas, the Bank will seek to strengthen data quality, with a focus on sex-disaggregated data collection and reporting, to support a better understanding of the impact of the Bank's interventions and to enhance inclusive policy design.
70. The Approach for implementing this crosscutting strategic theme will be further developed in 2021 and discussed with the Board of Directors, with due consideration of integrating this work within the existing (and due to be updated) strategies for the Promotion of Gender Equality and Economic Inclusion.

### 2.2.2.3 Accelerating the Digital Transition

71. The digital transition was well underway even before Covid-19. The global pandemic has dramatically accelerated this trend as lockdown and physical distancing measures put in place by most countries have changed overnight the way that many people work, learn and stay connected. Businesses have adapted quickly, rethinking their relationships to customers, workers and suppliers and leveraging technology to stay afloat. Innovative use of technology in education and health – two sectors impacted by the pandemic – is also on the rise. Consumers have adopted new behaviours to obtain the goods

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and services they seek. Governments are using mobile apps for contact tracing to share public health information and to make payments.

72. The digital transition and fourth industrial revolution are changing the structures of economies and labour markets in profound ways. There is no EBRD country or sector untouched by these technology disruptions, albeit with different levels of intensity, opportunity and risks. Yet, the *Transition Report 2018-19* showed that the EBRD's countries of operations generally are lagging in their ability to reap the benefits of this wave of innovation. Consequently, the goal for the SCF period is for the Bank to work with countries and clients to leverage the digital transition in pursuing transition impact to avoid countries of operations falling on the wrong side of the digital divide, while mitigating and managing new risks that are emerging.

73. Digital technology is an enabler of transition impact across the EBRD's transition qualities and is not an end in itself. To illustrate:

- Digital technologies can enable firms to be more **resilient** and **competitive**, by boosting productivity and lowering costs. Mobile phone networks can help connect regional markets allowing greater efficiency and reduced prices. The renewed interest in resilient supply chains, combined with new technologies such as 3D printing, can make reshoring an attractive proposition. Fintech has the potential to revolutionise the financial sector by improving the overall access, efficiency and depth of financial services.
- Digital applications and the underlying ICT infrastructure can greatly enhance connectivity and **integration** by making access to modern broadband more affordable especially to households and smaller enterprises, thus enabling them, for example, to participate in e-commerce economic activity. Blockchain technology and smart systems at customs points can reduce processing times at borders and facilitate international trade.
- The **green**, low-carbon transition will be supported significantly by the application of digital technology, for example, to enhance the efficiency of existing infrastructure and management of traffic, to reduce energy and carbon intensities and to monitor the efficient use of land and energy. The use of big data and machine learning algorithms can help assess climate vulnerabilities and design energy efficient projects.
- Digital technologies can improve **governance** and transparency, for example, in public procurement, customs administration and the sale of public assets, while internet access can reduce the scope for corruption by promoting citizen engagement and press freedom. Building the infrastructure for cashless payments can improve firms' transparency and make important contributions to reducing tax evasion.
- Digital solutions can advance **inclusion**, particularly when disadvantaged groups have access to skills-building opportunities through, for example, online learning for youth and promoting better gender balance in historically male-dominated, computing-based professions and thereby advancing technological adaptation. Advances in financial inclusion, telemedicine and edutech are all good examples.

74. Across the transition qualities, the digital capture, interpretation and utilisation of data can lead to time, cost, efficiency, productivity and

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safety gains in sectors ranging from energy, transportation and mining to water and agriculture.

75. The digital transition also introduces new risks and challenges. Data protection, cybersecurity, client protection and privacy are among the most important. Government capacity to leverage the digital transition is generally weak, though there are a few positive outliers in EBRD's countries of operations. The knowledge of national authorities and transnational standard setters lags behind the pace of change, making it difficult to assess how best to regulate and manage the digital transition. As intersections between broader ecosystems and new industries through the 'Internet of Things' expands, cybersecurity is expected to take on particular importance. On the business side, managers of SMEs and large corporates alike are grappling with fast changing regulatory compliance environments. This is in addition to, among others, tackling issues linked to incentivising innovation, managing global dominant players, new business models, competition policy and taxation.
76. Previous technological shifts have fundamentally changed the composition of labour markets and the nature of jobs. Ultimately, new jobs gained have more than made up for old jobs lost. However, the transition can be painful and affect those least able to cope. Supporting a transition for the benefit of all and building digital skills will be important. As automation and talent models change the nature of work, businesses have to identify the skills and roles needed to thrive in the future. In some countries, these skills are readily available. In others, markets and institutions are struggling to meet the growing demand for these skills.
77. The challenge is not in accessing digital technologies, but it is in establishing a supportive policy and regulatory environment and realising the potential of technology by defining new business models. Creating ecosystems that value interoperability and the seamless interaction across sectors and building the robust infrastructure for inclusive access is essential. In addition, balanced and proportionate policies and regulation need to be in place, as well as strategies for skills development and capacity building.
78. Whilst some private sector incumbent institutions are likely to sustain market leadership due to scale, regulatory advantage and brand recognition, for example big banks in the financial sector, they should nonetheless accelerate the integration of emerging technologies to avoid irrelevance. Across all sectors, businesses will need to consider the impact of digital technologies on customer experience and their supply chains, as start-ups and disrupters increasingly challenge their market share.
79. The EBRD already leverages digital technologies effectively across many activities. For example:
- The ICT Sector Strategy that runs until 2024 commits the Bank to investing in the essential infrastructure necessary to support the application of technology, together with developing the ecosystem for technology firms through the Bank's Venture Capital Investment Programme that supports early and growth stage companies and privatisation;
  - The Energy Sector Strategy that lasts until 2023 combines innovative use of technology and financing that is critical to support progress towards a green, low-carbon future;

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- The EBRD is a leader among MDBs in applying technology-enabled infrastructure and the Bank is supporting the G20 to establish an agenda to accelerate InfraTech. The aim is to realise significant economic, social and environmental value and to advance many aspects of the G20 Quality Infrastructure Investment Principles;
- All future Green City Action Plans generated by the Bank will include 'smart city' elements to connect disparate utility, infrastructure and public services to generate real-time data allowing a range of benefits, including reduced pollution, improved environment and the more efficient delivery of public services. This is particularly important as evidence suggests that digitally-enabled cities have mitigated Covid-19 impacts better;
- In the wake of Covid-19, the Bank has also deployed digital technologies quickly as part of its response, for example, by:
  - incorporating digital tools and remote sensing pilots for the digitalisation and part-automation of the due diligence process fit for a post-Covid-19 era;
  - creating a digital platform for SME knowledge management, to help SMEs navigate workforce and growth issues and
  - piloting blockchain projects to track and trace the availability of pharmaceutical products.

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80. There are lessons from this early activity at the EBRD, the Bank's active Community of Practice on Disruptive Technologies, as well as the experience of other development actors and investors in this space. They include:
- The core infrastructure to support digital technologies remains a constraint in some countries – broadband connectivity, for example, is a key enabler;
  - The central importance of policy and regulation in enabling innovation, while protecting data, privacy and consumers. Countries of operations are particularly dependent on unbiased advice in the development of regulations for nascent markets;
  - The convergence of technologies may mean that a primarily sectoral approach limits the ability to realise the full potential of technology, which relies on the cross-fertilisation and dissemination of approaches across sectors;
  - The knowledge, skills, capacity and attitudes of leaders in both the public and private sectors to implement the changes needed to leverage the opportunities are a major constraint; and
  - IFIs can accelerate the digital transition as they are technology-agnostic, trusted partners that can share knowledge to guide the design and implementation of disruptive technology policies and projects, in line with demand from countries and private sector clients. It is likely that IFIs would work best through intermediaries, not directly with the disruptors, though they have a role in helping existing partners (that is, incumbents) digitalise.
81. To apply these lessons and to be well-positioned to take full advantage of the potential of technology, the Bank will need to:
- Define the role of the Bank's investment, policy and technical assistance activities in addressing market gaps and identify potential delivery modalities across the full range of the activity in which it engages;
  - Assess the degree to which the Bank's own services and products can be delivered through digital channels;

- Identify existing and new partners for maximum leverage and complementarity and
- Review and optimise the Bank's internal technological resources and organisational set-up, including how staff can stay current with emerging solutions and adjust to a more agile and dynamic environment.

82. Following further analysis, an Approach paper setting out how the Bank will take this crosscutting strategic theme forward will be developed and discussed with the Board of Directors in 2021.

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### 2.2.3 The Importance of Economic Governance

83. The quality of governance is a key determinant of differences in economic performance between and within countries. The *Transition Report 2019-20* examined this relationship in depth. Already a priority, improving the quality of governance has become more critical given the impact of the Covid-19 crisis which has seen a high level of state intervention in the economy. The level of state involvement in the economy is likely to grow and deepen as the impact of the crisis continues to unfold.

84. Managing this heightened level of state involvement in the economy will be an important challenge for the Bank. In line with its 'well-governed' transition quality, there is scope for the Bank to give heightened attention to economic governance during the SCF period, working with key partners like the EU and other IFIs. The Bank's private sector focus means that it is best able to support governance progress, either at the firm level or in specific economic segments.

85. With the likely increase in the role of state-owned enterprises (SOEs), the Bank can help maintain a level playing field between nationalised and private firms. This work will include advising governments to set and monitor regulation, avoiding the risk that SOEs become de-facto regulators and helping promote equal access to public procurement opportunities. The Bank may be able to play a particularly important role in supporting the efficient management of state owned firms to increase the transparency of ownership structures, clarify and strengthen management objectives and practices and increase disclosure. Ultimately, the Bank can support a timely return to private ownership.

86. Additional operational approaches identified in the analysis of the *Transition Report 2019-20*, which remain relevant in the SCF period and which the Bank will pursue, include:

- Strengthening the business climate through establishment of Business Ombudsman and Foreign Investor Councils;
- Strengthening governance at both the firm and municipal level through specific Governance Action Plans;
- Expanding the potential of digital technology to support transparent e-governance, including for public procurement, customs administration and the sale of public assets; and
- Improving 'green' governance at the national level through promoting voluntary or mandatory schemes for green disclosure or at the firm level through Green Action Plans.

## 2.3 The Transition Journey

87. The Bank is committed to supporting all of the economies in which it operates. The EBRD will manage its level of operations proactively and flexibly, in accordance with its three operating principles – transition impact, additionality and sound banking. As a result, specific activities reflect the degree to which the Bank can find bankable transition opportunities that cannot be financed from other sources. These opportunities change and evolve as countries progress on their transition journey. The scale, pace and nature of the Bank’s activity is thus differentiated across both countries and sectors within countries. Overall, as transition progresses, transition gaps narrow and the diversity of possible financing sources increases, the Bank tends to act in fewer areas. In more advanced countries, the Bank’s work will tend to be concentrated on more sophisticated and innovative products which offer opportunities for learning, innovation and cross-fertilisation with less advanced countries. Country strategies reflect this reality.
88. In the *financial institutions sector*, debt is the dominant source of capital for banks and microfinance institutions in the early stages of transition, supplemented relatively rapidly by equity investment. As the sector becomes more sophisticated, financial institutions can become delivery channels for transition impact through structured products and dedicated credit lines. Activity in the non-bank financial sector, such as leasing and insurance, tends to come at a later stage in more advanced countries. Bond finance is focused mainly on more advanced countries, although the geographic distribution has widened and will continue to do so in the next SCF period.
89. The nature and scope of activity in the *industry, commerce and agribusiness sector* is less clearly differentiated across countries of operations. However, in countries less advanced in transition, counterparts tend to be small and medium-sized local firms. Over time, larger firms with regional ambitions emerge and provide opportunities for promoting integration in the corporate sector through longer supply chains. In a few cases, in countries more advanced in transition, the Bank works with international firms with extensive reach. At each stage, the sophistication of both the product and client increases.
90. In the *sustainable infrastructure sector*, lending in countries in the early stages of transition tends to be to the sovereign sector or through sovereign guarantees, although it can become progressively more commercial. For example, over time, lending at the sub-sovereign level requires less capacity building or lower levels of guarantees from government or sponsors. As regulatory capacity improves and financial markets deepen, the Bank provides support for PPPs to a wide variety of countries. In energy, lending moves away from state entities to private firms in step with progress in privatisation, the evolving regulatory environment and the depth of financial markets. Capital market instruments are more widespread in countries that are more advanced in transition.
91. Over the SCF period, the Bank will seek to increase the proportion of its investment and policy activities in countries that are less advanced in transition, recognising that investment levels depend on the overall reform environment. Regionally, this will see a continued strengthening of the Bank’s engagement in the Early Transition

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Countries, SEMED and the Western Balkans. This focus also means that the Bank will pay particular attention to seizing transition business opportunities in small countries. As such, the Bank will support the continued trend towards greater diversification in its business composition, which has seen the share of the five largest countries in ABI fall below half in 2019, for the first time in recent years.

92. Success in the transition journey is marked when a country itself decides to graduate from the use of Bank resources. In countries more advanced in transition, smaller transition gaps and more extensive access to finance reduces the scope for the Bank to identify market segments in which it can achieve transition impact, sound banking and – especially – additionality. However, the exceptional economic and financial conditions caused by the Covid-19 crisis will persist, increasing the potential for the EBRD to be additional and deliver on its transition mandate in more advanced countries for a time. Over time, as financial flows return to more typical levels and recovery proceeds, transition business opportunities and Bank activity are likely to reduce once again.
93. In this context, the Bank reaffirms the principle of graduation as defined in *A Policy on Graduation of EBRD Operations (BDS96-166)*, as has been the case in each medium-term strategy since 1996. Graduation from the use of Bank resources is a country-led process. Country strategies, jointly agreed by the Bank and country authorities and approved by the Board of Directors, provide the main instrument for assessing the extent of opportunities for the Bank to support transition and consequently decision-making by countries on graduation.
94. For countries advanced in transition, it is expected that country strategies will be narrow and increasingly focused in a limited number of areas. Recognising that the Bank's activity in its countries of operations will reflect the impact of the Covid-19 crisis, all country strategies will be reviewed and, if needed, revised in the later years of the SCF period through Country Strategy Delivery Reviews. These Reviews will be informed by an analysis of market segments where the Bank's investments are likely to be additional, consistent with *A Policy on Graduation of EBRD Operations*. This analysis will not replace the assessment of additionality at the project level.
95. In order to strengthen the support available to any graduating country, the Bank will put in place an enhanced approach for implementing the Graduation Policy through a revision of the Post-Graduation Operational Approach. This will include, amongst other things, the provision of a rapid right of return in the case of a crisis, based on pre-defined technical criteria. While countries face specific circumstances and the economic and political context for transition can be volatile, there is an expectation that this new approach will help countries advanced in transition, in their country strategies that are agreed to or reviewed after the crisis period, to set a path and plausible pace of graduation. An update on graduation based on a revised Post-Graduation Operational Approach will be provided for further guidance by Governors at the time of the review of the implementation of the SCF described in paragraph 36.

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## 2.4 Expanding the Bank's Geographic Reach

### 2.4.1 Within the Current Geographic Scope

96. The Bank's mandate and business model have proved effective in a variety of different contexts. The last significant expansion of the EBRD's geographical mandate was in 2011 with the inclusion of the countries of the SEMED region. The first wave of countries from the region comprised Egypt, Jordan, Morocco and Tunisia, followed by Lebanon in 2016. The Bank has also operated in the West Bank and Gaza since 2017. Within the SEMED region, three countries – Algeria, Libya and Syria – have not yet become countries of operations. Libya has been a member of the Bank since 2018 and has not to date requested country of operations status. Algeria's request for membership has been approved and it has requested country of operations status. Syria has not applied for membership.
97. Progress on Algeria's request to become a country of operations is likely early in the SCF period. This consideration will be preceded by an in-depth assessment of the role that the Bank can play in the country. Preparatory work has shown that there is scope for the Bank to support the diversification of the economy, a more efficient energy sector and wider access to finance for inclusive growth, with the Bank capable of delivering greater impact in the event of further progress in opening the economy. The EBRD will work closely with the few IFIs already active in the country, notably the AfDB and the World Bank. In the cases of Libya and Syria, political and security uncertainty make it highly unlikely they would be granted country of operations status before 2025, though conditions in Libya may be conducive earlier. The Bank's analysis shows that, in the event that this changed in the SCF period, the Bank could respond positively.

### 2.4.2 Beyond the Current Geographic Scope

98. In recognition of the skills that the EBRD can apply to support the priority objectives of the international community and its track record of successful previous expansions, shareholders asked the Bank to explore the possibility of further expanding the Bank's operations during the SCF period, beyond the geographic scope set out in Article 1 of the AEB. Specifically, options for a limited and incremental expansion into a select number of sub-Saharan African countries and Iraq have been analysed. The context for this consideration was the recognition that sub-Saharan Africa and Iraq are geopolitical and development priorities, as well as the growing links between many countries in sub-Saharan Africa and Iraq and current EBRD countries of operations.
99. The case for a possible expansion of the EBRD beyond its geographical scope, with a focus on countries closely integrated with the Bank's current countries of operations, has been examined both generally and through a number of country case studies. The fundamental challenge that emerged was that a dual reality exists in sub-Saharan Africa – the level of unmet needs is huge, but bankable projects are few.
100. The Bank's experience in previous expansions has shown that its business model is both complementary to other development finance actors and can expand the range of bankable opportunities available to all. Given the Bank's transition mandate, private sector-focused

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business model and distinct operational approach and skills, the work undertaken found possible complementarities in a wide number of areas, ranging from local currency lending and capital market development through to SME support and commercialisation and subsequent privatisation, to private sector involvement across sectors, including energy and infrastructure. The work also considered the factors that would be most conducive to the Bank's effectiveness. In accordance with the Bank's mandate, any new country of operations would need to be judged to be committed to and applying the principles of multiparty democracy, pluralism and market economics. Beyond this, a sufficient level of private sector development, a strong reform trajectory and sufficient peace and security would also be particularly important.

101. The Covid-19 crisis has also highlighted the importance of the world achieving the SDGs, while setting back most countries' progress towards them. It has also highlighted the importance of MDBs working as a system, with different actors and institutions that have different skills, as illustrated in section 1.3.2, deploying those skills in a complementary and collaborative manner. In an interconnected world, society is only as strong as its weakest link putting a premium on accelerating progress towards the SDGs in sub-Saharan Africa where progress is lagging. Private sector development and finance will be key to supporting jobs and better livelihoods and providing the basic services and infrastructure all people need. This will decrease the risk of social unrest and help reduce levels of unplanned migration.
102. Many development finance institutions and partners are active in sub-Saharan Africa and some – notably the AfDB and IFC – have received recent capital increases and a mandate to expand their activity. An essential prerequisite for the success of any limited and incremental expansion into the region by the EBRD would be the establishment of clear modalities for collaboration with existing institutions, such as the IFC, EIB and bilateral DFIs. Above all, it would be particularly desirable to create a concrete partnership with the AfDB that would benefit both institutions.
103. In addition, the preliminary analysis indicated some important initial guidelines and areas for further examination for possible expansion:
- The Bank's mandate to support transition impact, whilst adhering to the operating principles of additionality and sound banking, should remain unchanged;
  - Any activity must be compatible with, and complementary to, the roles that other development actors and IFIs are already playing;
  - New countries of operations should be approached with the same business model and in the same framework as existing ones, with the Bank leveraging deep local knowledge from local business and policy communities and undertaking its work with the same underlying institutional objectives, for example with respect to private activity, the disciplined use of donor funds, or green investment;
  - The EBRD's activities must contribute to enabling a wider range of investible deals than are currently available and create new markets, while crowding in investors and other sources of financing; and
  - A thorough understanding of the financial, resource and governance implications for the Bank itself, noting that

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incremental expansion should not compromise the Bank's triple-A rating nor lead to a request for additional capital contributions.

104. With respect to Iraq, analysis also showed that the Bank could possibly play a positive and complementary role in addressing transition challenges, if the political and security conditions are supportive. Preliminary work suggests that, in the right circumstances, the Bank might add value, for example, in supporting diversification of the economy. Iraq is in the process of becoming a member of the Bank. The Bank is prepared to examine in further depth the question of country of operations status in the event that shareholders agree that it should be possible.
105. The Bank affirms continuing strategic interest in a limited and incremental expansion to sub-Saharan Africa and to Iraq during the strategy period. Accordingly, an update will be provided for further guidance by Governors at the time of the review of implementation of the SCF described in paragraph 36. The Board of Governors will give direction on the preparatory work required for this update at the 2021 Annual Meeting.

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## 2.5 The Bank's Toolkit

106. The ability to combine finance, policy engagement and donor support is one of the distinctive features of the Bank's business model. The ways in which the Bank will invest for impact and innovate in its sectoral work is presented in section 2.2. This section first outlines the role of equity finance before considering the Bank's aspirations for mobilising external finance to deliver transition impact in the SCF period. It goes on to set out the approach for both donor funds and policy engagement.

### 2.5.1 Equity Investment

107. Across all sectors equity investment – both direct and through private equity funds – will remain an important tool for delivering transition in countries of operations. Historically, the transition impact of equity investment has been higher than that for debt and the returns from investments have made a substantial contribution to the Bank's continuing financial sustainability.
108. Equity investment will be disproportionately important in the early years of the SCF period as the second-round effects of the Covid-19 crisis become clear. Across all sectors, firms in both the financial sector and real economy are experiencing a permanent substantial loss as revenues fall and costs remain high. This essentially translates into a loss of equity capital. This loss cannot be offset by the supply of more debt. Indeed, there is a risk that debt will exacerbate cash flow challenges in the medium term. As a result, the demand for equity and quasi-equity products will increase significantly.
109. The Bank has defined a clear medium-term approach to building a financially robust and transition-rich equity portfolio. Once the crisis abates and recovery takes hold in the latter years of the SCF period, the availability of opportunities that combine both high transition potential and attractive financial returns are likely to reduce to a more normal level. In particular, the continuation of current monetary policy



in the medium term will mean – in the absence of a crisis – that valuations may return to prohibitively high levels.

110. There is a substantial and widening funding gap in the EBRD’s countries of operations driven by the perception of unattractive returns. For the Bank, successful equity investment has played a crucial part in maintaining the Bank’s financial sustainability. Over the SCF period, the Bank aims to realise the full potential of its Enhanced Approach to Equity, launched in 2017, to build a transition-rich and financially robust portfolio subject to the availability of sufficiently attractive transition business opportunities.

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## 2.5.2 Mobilisation

111. The Bank delivers transition impact through the total investment financing which flows into countries of operations as a result of its work, complemented by its policy engagement. This finance comes from both the Bank’s own resources and – in keeping with the Article 2.1(ii) of the AEB – the mobilisation of other investors, domestic or foreign. Consequently, mobilisation is fundamental to the Bank’s work. The EBRD, together with other MDBs, is committed to increase private sector mobilisation in the light of the Addis Ababa Action Agenda and in conformity with the 2016 Hamburg Principles. This commitment is all the more important as many countries are experiencing several fiscal pressures due to the coronavirus.
112. The imperative to mobilise has multiple sources. First, and foremost, attracting additional investors to countries of operations supports transition impact directly, including through diversifying sources of finance in countries, increasing both the prosperity and the resilience of financial systems and economies. In addition, new private sector investment together with domestic resource mobilisation and official development assistance is essential for achieving the SDGs. Further, mobilisation can play a role in allowing the Bank to optimise its capital and manage risk concentrations
113. Maximising the mobilisation of finance to deliver transition impact, with a specific emphasis on private investment, is a core strategic goal for the Bank in the SCF period. This goal aligns well with the key findings of an extensive Special Study on EBRD’s Mobilisation of Private Finance undertaken by the Bank’s Evaluation Department. To sharpen the purpose of and incentives for the Bank’s efforts, the Bank is revising its definition of Annual Mobilised Investment (AMI) in the context of the review of the Corporate Scorecard, highlighted in section 3.4. The revised definition will provide better clarity about the Bank’s focus and support the design of clear incentives for delivery. Currently, the Bank’s definition of private direct investment – the most important element of mobilisation efforts – is very narrowly focused. There may be scope for a more comprehensive approach, in as close alignment to the approach taken by other MDBs as appropriate.
114. The Bank will set out a Mobilisation Approach for discussion with the Board of Directors early in the SCF period. The Approach will cover the instruments, incentives and internal capabilities needed to deliver on its mobilisation ambitions. The EBRD will step up its work to mobilise finance through the SCF period by:

- Extending the depth and geographic reach of its existing programmes including B Loan syndication, Unfunded Risk Participations and secondary sales;
- Continuing to innovate through treasury operations, including in the issuance of green and social bonds;
- Creating the conditions for inward investment through support for market reforms; development of local currency and capital markets; investment climate reform and technical assistance; and
- Playing an educational role through raising awareness of the risk/return profile of opportunities in EBRD regions, bringing the strength of the EBRD 'brand' to reduce the perception of risk, especially in the private debt market and to highlight opportunities amongst new investors.

115. The financial market is constantly developing and changing. Consequently, successful mobilisation of private finance in the SCF period will require experimentation. New approaches may be especially valuable in diversifying the relatively narrow group of countries of operations where the Bank is currently able to mobilise finance. Areas of innovation to be examined include:

- Expanding the Bank's reach amongst impact investors building on the adoption of the Operating Principles for Impact Management in April 2019;
- Developing mutualised instruments such as debt, equity or guarantee funds tailored to investors' needs in different ways. Such funds could be managed internally or externally in collaboration with other DFIs or asset managers;
- Looking systematically at innovative instruments including the role of blended finance in supporting market transactions and how equity, quasi-equity and other capital relief instruments, such as guarantees, can multiply the impact of EBRD investments through financial intermediaries; and
- Gaining experience with new programmatic approaches to secondary sales and risk participations.

116. To fulfil its ambitions to mobilise private finance will require the EBRD to effectively raise awareness of the potential of its countries of operations amongst the investment community, as well as the role the Bank can play in partnering and sharing risks with investors. In order to be able to engage with the full range of potential investors, the EBRD will continue to strengthen its measurement and reporting of results. A strong narrative and clear communication on how the Bank delivers impact will be equally important, including with strong links between the transition qualities and the SDGs.

117. The purpose of mobilisation is to catalyse new and additional flows of capital. However, mobilisation can only be successful if it works with the grain of the market. As a result, the Bank's ability to mobilise private investment successfully is dependent on external market conditions and the appetite of investors for emerging market risk, as well as maintaining a thorough understanding of investor needs and market trends. Investment flows into EBRD's countries of operations have been lower on many measures than in other regions, especially since the global financial crisis. The impact of Covid-19 has exacerbated this tendency substantially and has even reversed a relatively promising environment for overall emerging market finance.

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This disruption will be severe in the early years of the SCF period, but may normalise in the outer years.

118. In addition to mobilising private finance, the Bank will continue to mobilise public sector resources, including other MDBs, EU and DFIs (including the members of the EDFI – the Association of European DFIs), or supra-nationals. This can be important in specific circumstances, for example, to overcome exposure limits within specific projects or countries, to address risk concentrations and especially in less advanced countries in times of crises. Co-financing in these instances leads to greater impact. Mutual reliance mechanisms can support these efforts and reduce transactions costs for both clients and public investors. As highlighted in section 2.5.3, the EBRD also has a role in mobilising concessional resources, especially loans, from donors to address specific transition needs.
119. Mobilisation and own account financing are both essential for delivering transition impact. Own-account financing is critical for influence on policy dialogue, to align incentives, take early risk and bring comfort to private financiers, as well as to embed high standards in projects and advocate for policy goals. Mobilised financing is critical to meet the sheer scale of the challenges facing countries of operations and to ensure long-term sustainability. Effective mobilisation requires persistence and resilience, with the right culture and incentives. Painstaking work and effort often takes a long time to result in concrete flows.
120. The Bank will seek to provide the right incentives to maximise the combined impact of total investment financing in its countries of operations.

### 2.5.3 Leveraging Donor Funds

121. The focused and disciplined use of donor funds to support the development of sustainable and inclusive markets is a key part of the EBRD's business model and its delivery of transition impact. The Bank deploys donor funds strategically to deepen impact, with more than 70 per cent of donor funds directly supporting investments. Donor funds support the successful preparation and implementation of projects and enable policy engagements and advisory services to address the most significant transition gaps, as well as help to create the conditions to expand the universe of bankable investment projects. In blended finance transactions, the Bank uses donor funds to mitigate risk, address market failures and affordability constraints, increasing the number of bankable transition business opportunities. The EBRD adheres to the DFI Principles for Blended Concessional Finance in Private Sector Operations. To implement these principles, the Bank has put in place internal guidelines and governance measures for the effective and efficient use of valuable donor resources.
122. In the current SCF period, the Bank's use of donor funds has been both broad and targeted. The share of new projects supported by donor funding (in numbers) has increased in recent years reaching half of all active projects in 2019. While a significant number of projects are supported by donor funds, the ratio of usage of donor funds to ABI has been broadly constant over the current SCF between at between 3 and 5 per cent annually, with regional and sectoral variations. Recent internal analysis suggests that projects with donor

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support tend to have a higher level of transition impact and meet more of their transition objectives, confirming the importance and effectiveness of the targeted use of donor resources.

123. During the current SCF period, the Bank's donor base has grown including more country of operations donors although the dominance of multilateral donor support has increased sharply. The EU is the Bank's largest donor by far, contributing around one-half of the total funds received in recent years. This relationship may change and deepen in the future as the EU's Multiannual Financial Framework is agreed, with the potential increased availability of funds from the European Fund for Sustainable Development-plus (EFSD+). Beyond finance, donor partnerships introduce new ways of working such as results-based approaches to project design and they raise the bar on results monitoring and reporting. This has led to increased impact and strengthened the EBRD as a development partner.
124. In the next SCF period, the implementation of the Bank's sectoral, thematic and geographical priorities (as described in Box 1 in section 2.1) are likely to require a further increase in the proportion of projects supported by donor funding. The trends are already present. Currently, the Bank deploys 75 per cent of donor resources in the priority regions that face the highest transition challenges and where projects tend to need higher grant intensity relative to their size. In addition, the Bank channels over 60 per cent of all donor support to projects targeting the Green Economy Transition with the highest share of GET projects in the infrastructure and energy sectors. Most projects in the economic inclusion and gender agenda have benefitted from important donor resources and the Bank's Shareholder Special Fund (SSF). Further, enhancing the Bank's capacity to mobilise investment may require additional use of blended finance and donor funds.
125. In the short term, the Covid-19 crisis has increased market failures and distortions. This increases the need for more donor funding, and with higher levels of concessionality in some cases, to support the Bank's response to preserve transition gains. All MDBs and DFIs are experiencing the same situation and comparing experience on the most judicious use of donor funds during the crisis. The lesson of this and previous crises are that the Bank needs to be prepared to act quickly. This requires having the right instruments available for channelling vital donor support to areas such as risk sharing and, above all, having ready access to flexible donor and grant finance. Increasing preparedness to address future crises will be a priority.
126. If the Board of Governors decides that the Bank should seek to deploy its skills and business model in new countries of operations over the course of the strategy period – whether within or outside its current geographic scope – it is inevitable that additional donor resources will be required. Preliminary work has suggested that the grant intensity of the Bank's possible work in all potential new countries of operations would be similar to, and perhaps higher than, that in the least advanced of the existing countries of operations. New donor partnerships and approaches will also be essential to the successful achievement of transition goals in such scenarios. Positively, donor interest in new countries and geographies under consideration is typically very high.

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127. The environment for raising additional donor resources for countries of operations over the SCF period is likely to be more challenging as public finances globally are under pressure. Notwithstanding these challenges, over the next SCF period, the EBRD will:
- Deepen and expand its work with donors and broaden and diversify its donor base to access long-term, predictable and flexible external donor finance at levels commensurate with the ambitions of the SCF;
  - Draw on donor finance to enable, support and scale up the Bank's investments, policy engagement and advisory work in its countries of operations;
  - Employ donor finance to help mobilise private capital for development and act as a catalyst to generate additional funding for the Bank's investments, resulting in higher transition impact, including through innovative and novel approaches and funding vehicles; and
  - Cooperate with donors to promote high standards and adopt the best development practice and policies in the Bank's work.
128. The EBRD's SSF will remain an important source of funding during the next SCF period, complementing and reinforcing funds raised from donors. In particular, the SSF is critical for supporting the Bank's growing policy agenda and project preparation and implementation support, supplying half of the needed resources for this work. The flexibility and predictability of the SSF makes it an effective tool for crisis response in the immediate term as well as for medium-term recovery support, when it can help mobilise additional complementary donor finance.
129. Accessing appropriate levels of SSF support during the next SCF period for both the crisis response and recovery phases will be an important enabler of the delivery of the Bank's strategic goals. To that end, the Bank will develop proposals for consideration by the Board of Directors for a strengthened, well-structured SSF for the SCF period to provide a flexible, predictable and appropriate funding vehicle, with transparent and efficient governance arrangements. This work will include determining the priority eligibility and focus for SSF funds.

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## 2.5.4 Strengthening Policy Engagement

130. There has been increasing emphasis on the importance of policy engagement in the Bank's delivery of transition impact and business model over the past decade. Strengthening the Bank's policy approach and capacity is a key theme in the current SCF, responding especially to the insights from the Bank's Transition Report 2013 which showed that a systematic policy reform effort was required to make further progress in transition. Over the current SCF period, the Bank has invested in the skills, processes and organisation to undertake policy work more systematically and with impact. As a result, policy is now mainstreamed throughout the Bank's work. It is supported by deep analysis and setting of priority policy objectives and annual milestones in the context of the country strategies and is pursued through the combination of investment, policy engagement and capacity building, often in partnership with others.
131. The need to continue to heighten the Bank's policy work will remain a central theme in the new SCF period. In the short-term, there is demand from countries of operations for practical and usable policy

advice to tackle the economic consequences of the Covid-19 pandemic. The Bank is supporting rapid assistance to governments by sharing best practice and experience on the design and implementation of policies relating to the private sector. As countries move from crisis to recovery, the needs will change. In particular, the role of the state has expanded as intervention has been needed to support the private sector or correct market failures as a response to the Covid-19 economic crisis. The full extent, quality and duration of that increased state role in markets will not be clear for some time, but the effect is likely to be persistent. As noted in section 2.2.3, maintaining the good economic governance and transparency of both companies and relevant government institutions and the contestability of markets and re-privatisations post crisis will be important tests during this period. The Bank's policy advice can play an important role in helping the state manage its deeper relationship with the private sector efficiently and, ultimately, to restore the balance between the public and private sectors.

132. In addition to supporting countries of operations in tackling the crisis and its implications, policy activity is essential to support the Bank's overall strategic directions and systemic impact. There are existing areas where the Bank's policy expertise is strong and will remain relevant. These include developing local capital markets, advancing corporate governance, fighting corruption and informality and, more generally, improving the investment climate. Building an attractive business environment for foreign direct investment remains a challenge across the Bank's countries of operations and will remain a particularly important priority to drive growth and jobs.
133. Section 2.2 illustrates a number of ways in which policy engagement will contribute to the Bank's ability to deliver transition, notably across the three crosscutting strategic themes. Demand for policy support is expected in areas of traditional strength, such as the regulatory frameworks for energy efficiency or renewables. Areas of intensified policy requests from countries of operations in the green space will likely concern sectors such as heavy industry and aviation where achieving carbon abatement is difficult. To pursue the goal of increasing equality of opportunity, the Bank will also need to engage deeply with governments to understand how its investment can best be deployed to maximise the inclusiveness of the economy, as well as managing the social implications of transition ('just transition'). Similarly, with respect to accelerating a digital transition, the Bank could play an important role in engaging with countries to put in place the right policies and regulation to enable innovation and digital transformation, while protecting data, privacy and consumers.
134. To support these goals, the Bank will enhance the effectiveness and impact of its policy work during the SCF period by:
- Broadening the focus of policy activity from individual transactions at the firm level to seeking systemic impact through sector and economy level interventions. For example, by generalising the experience with training in a specific firm to promote sector skills councils at the national level leading to sector-wide impact. Similarly, associating energy sector unbundling to a significant investment in an energy SOE can lay the foundations for future privatisations and encourage private investment. This broader focus will continue to build on aligning investment and policy. The

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Bank is most effective when finance can be brought into the policy equation;

- Consolidating knowledge, experienced gained and lesson learning, especially in the core areas of EBRD’s distinct expertise. Systematic collection and management of the Bank’s knowledge needs changes in practices. This includes better self-evaluation and a better process of feedback from knowledge back to operations. It also requires stronger systems to manage the know-how and make it available quickly and easily;
- Stepping up coordinated policy work in close partnership with a range of partners, including the WBG, the International Monetary Fund (IMF), Regional Development Banks, the European Commission and bilateral agencies. The development of common country platforms to define joint priorities and common messages is a promising avenue that will be tested in the coming years and
- Building stronger and clearer internal incentives to deliver policy objectives. To be effective, policy engagements should be designed to unlock investment opportunities, with a particular focus on disbursement and be fully aligned with the overall incentive structure of the Bank.

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## 2.6 Partnering for Impact

135. Article 2.2 of the AEB calls for the Bank to cooperate with other economic development actors and the range and quality of the Bank’s partnerships is a key determinant of its ability to deliver transition impact. Cooperation with others allows the EBRD to draw on the complementary skills and expertise of other IFIs and to mobilise financing, especially when commercial co-financing is unavailable. The EBRD’s partnerships are extensive with MDBs, DFIs, the EU, bilateral and multilateral donors and the UN system, individually and through associations such as EDFI and the Heads of MDB Groups.
136. Collaboration enables the development finance system to operate effectively. The Covid-19 pandemic has injected further urgency to the need for better and tighter coordination and pragmatic collective action to meet overwhelming needs. Early coordination focused on tackling the health and social emergency, including coordinated action to assess the needs for – and supply of – key medical equipment. On the economic and financial side, where the EBRD is active, there has been practical coordination on aligning the terms and conditions of payment deferrals, ways of conducting due diligence and monitoring given the travel restrictions, as well as strategic coordination with the IMF.
137. The imperative to support recovery and build a better future may be the greater test of effective coordination amongst the IFIs. In this period, the MDBs and DFIs will need to innovate to share and to leverage skills, balance sheets, risk and networks across the system. The IFIs will need to provide the right incentives by avoiding distortions in the use of concessional resources, promoting responsible debt management and maintaining standards. Above all, aligned policy messages are essential in a range of areas, including managing state intervention in the economy and prioritising a ‘tilt to green’.
138. In this context, the EBRD will sustain focused coordination throughout the SCF period to deliver transition impact and support countries of

operations. The Bank's experience collaborating with other IFIs is wide-ranging and examples vary with different levels of depth and formality, broadly within the following categories:

### Operations

139. At the project level, collaboration includes co-financing and parallel financing and joint deal structuring on deals that are too large or complex for one institution alone. Reciprocal syndications, supported by increased mutual reliance, are effective ways to increase responsiveness and reduce transaction costs. At the end of 2019, just under 15 per cent of transactions in the portfolio were co-financed with partner MDBs and DFIs.
140. At the country and regional level, the EBRD engages with other institutions to agree on shared goals and priorities with respect to an entire country, region or sector, including implementation arrangements. The EBRD is keen to work constructively within country platforms with national authorities and other IFIs, including exchanging diagnostic work and lessons learned. Examples of this type of collaboration includes the Western Balkans Investment Framework, jointly managed by the EIB and the EBRD; the Ukraine Reforms Architecture programme, a multi-donor/multi-stakeholder initiative funded by the EU and 12 donors and carried out in collaboration with other IFIs and the Compact with Africa, where EBRD works on the compacts for Egypt, Morocco and Tunisia.

### Policy

141. The EBRD collaborates with other institutions to agree common priorities and key messages with respect to policy outcomes in countries of operations, including implementation arrangements. For example, the EBRD helps shape and implement the structural conditionality of IMF programmes and has worked with the EU to promote corporate governance in Ukraine.
142. In response to Covid-19, the EBRD quickly engaged under the Vienna Initiative with the IMF, World Bank, EIB, European Commission, ECB/Single Supervisory Mechanism, representatives of cross-border banks and central banks from member and observer countries. The Initiative will focus on tailoring the IFIs' Covid-19 response products to match better the needs of commercial banks. It will also focus on issues of regulatory coordination, for example with respect to payment moratoriums, regulatory forbearance and liquidity provision, as well as the resolution of non-performing loans.

### Institutional/Information Exchange

143. The EBRD is an active member of many of the over 100 MDB working groups. These working groups address a variety of development priorities to facilitate a system-wide response on key issues such as on infrastructure, leveraging private finance, value for money, additionality, climate financing, migration and forced displacement and the development and application of standards, for example in the use of blended finance.
144. The Covid-19 crisis has accelerated the degree of institutional knowledge sharing across a wide range of functions. This has allowed lesson learning to help MDBs respond to the crisis in areas as varied as implementing environmental and social standards, holding virtual board meetings, supporting staff well-being and responding to calls for MDB debt suspension.

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145. During the SCF period, the EBRD will continue to explore new partnerships, platforms and instruments across the system to optimise its financing capacity and technical capabilities to achieve transition impact. The Bank will also seek innovative ways to facilitate exchanges of talent and expertise so that strengths can be deployed across the system in the most effective way. In any agreed expansion of the EBRD's operations to new countries, the Bank will pay particular attention to how it best complements, cooperates and shares skills with the most relevant partners.

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### 3.1 Balancing the Portfolio

146. The Bank’s mandate is to deliver transition impact. In fulfilling this mandate it is also required to act as a ‘bank’, taking risk on its own balance sheet and managing it effectively to maintain financial sustainability. The AEB in Article 13(v) also indicates that “the Bank shall seek to maintain reasonable diversification in all its investments”. The overall balance of the portfolio is set each year in successive SIPs.
147. Over the period of the current SCF, the Bank strengthened its longstanding strategic portfolio management approach through which transition impact, financial returns and risks are balanced. Decision-making and monitoring is now informed by new tools such as the Investment Profitability Model. In addition, the Bank tests each annual business plan to ensure that the proposed approach does not make it vulnerable to possible stress events. The Bank has also established a new dedicated portfolio management team that has strengthened the focus on the transition impact and financial performance of its activities.
148. The impact of the crisis has reset the balance between transition, risk and financial return to some extent. The fulfilment of the Bank’s mission and commitment to support its countries of operations during the crisis response phase of this SCF requires the inherent taking of more risk, as the deterioration of economic and business conditions translates into higher capital requirements for the existing portfolio. Consequently, risk adjusted returns on existing projects will fall and as the Bank stands by its existing clients, risk concentrations may increase. As economic uncertainty persists, transition business opportunities for the Bank with new clients are expected to show lower risk adjusted returns than in recent times if it is not possible to price for the increased risks. In its response to the crisis, the Bank will maximise its transition impact by acting as a countercyclical lender, willing and able to deploy its financial strength when needed.
149. The Bank’s primary goal is to maximise transition impact, but it will manage its portfolio over the SCF period to maintain its long-term financial sustainability and triple-A rating. This overall balanced approach will continue if the Board of Governors decides that the Bank deploy its skills and business model in new countries within or beyond its current geographic scope. Operating in new countries has the potential to reduce the Bank’s overall risk by diversifying the portfolio. However, in the SCF period the impact of possible operations outside the current geographic scope on the Bank’s portfolio is likely to be modest as new activities are likely to ramp up slowly.

### 3.2 Equipping for Delivery

150. The SCF for 2021-2025 is very ambitious. This ambition reflects a steadfast commitment to continuing to accelerate transition in countries of operations while preserving transition progress at risk from the ravages of the unprecedented crisis. It also reflects a firm focus on providing value to the Bank’s shareholders and to the

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development finance system as a whole. The Bank will need the means to deliver on its ambition. This requires strategic choices.

151. This section lays out, at a high-level, the nature of the resourcing required for the future. It then describes strategic goals in three key areas: people – the Bank’s greatest asset; technology and data; and monitoring, learning and evaluation. Finally, the section previews the review of the Bank’s Corporate Scorecard, a fundamental annual tool for accountability that serves as a contract between the Board of Directors and Management of the institution.
152. The EBRD aspires to be an institution of choice for its clients, staff and shareholders. Modernising the Bank is crucial to attracting and retaining talent, boosting efficiency and productivity, minimising operational risks and ultimately to delivering value and impact to shareholders and clients. The Covid-19 pandemic has accelerated thinking within the Bank about new and better ways of working. Over the SCF period, the Bank expects to leverage the potential of technology more fully, reduce travel, increase remote working, use better data to take better decisions and be more flexible in the ways it works. The fundamental changes brought by the crisis are still playing out. As a result, the EBRD will place a renewed focus on organisational resilience and flexibility alongside agility and productivity, delivered through an appropriately skilled, reinforced workforce and supported with appropriate digitisation and knowledge management.

### 3.2.1 Resourcing the Future

153. The SCF is not a business plan and resourcing decisions are for the successive SIPs that the Board of Directors will approve over the period of the SCF. Nevertheless, it is critical to signal that it will not be possible to deliver on the ambition contained in the proposed strategy for 2021-2015 without the necessary resources. This section provides high-level indications of the resource pressures in successfully delivering the aspirations of the SCF.
154. The starting point for resourcing decisions is the Bank’s goal to deliver value for money for its shareholders. As such, the Bank will look first for opportunities for reallocations among activities reflecting strategic priorities and streamlining processes. As the SCF period progresses, all budget proposals will be made and considered in the context of the Bank’s financial sustainability and in compliance with the relevant control parameters. Specifically, the Bank will undertake to increase transparency by progressively moving to have all core Bank activities financed from the Bank’s own budget and not donor funds. This will be an immediate priority, for example, in taking forward the strategic theme of equality of opportunity.
155. Reallocation and efficiency savings alone cannot support the scale and quality of transition impact envisaged in the SCF period. Significant additional financial and human resources will be essential over this period to support increased activity, drive innovation through acquisition and development of new skills and address operational risks. Proposals for additional investment in new and strengthened capacity to deliver the Bank’s impact over the SCF period will need to be appropriately sequenced, fully transparent and supported by well-articulated business cases, allowing careful scrutiny by the Board of Directors prior to any approval. Some of these investments will be

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required to remedy areas of previous systematic underinvestment, for example in IT and Operations and Service Management to enable and support business and to improve the evaluation culture and knowledge management of the Bank. Investments will also be needed to match new ambitions in existing areas of successful activity, such as implementing GET 2.1, strengthening policy delivery, increasing the mobilisation of external finance and reinforcing donor partnerships, as well as to build capacity in newer areas such as accelerating the digital transition. Should the Bank begin activities in additional countries of operations – whether within or beyond the Bank’s existing geographic scope – appropriate additional financial and human resources would also be needed. New organisational models, processes and controls – some of which are already being explored – may also be particularly relevant in such cases.

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### 3.2.2 People Planning

156. An international, diverse, dynamic and continuously developing workforce is the Bank’s most important resource. To achieve the ambitions in the SCF, the Bank is committed to continuing to build a positive, healthy and environmentally conscious working environment that will allow it to be an employer of choice for the best talent in both its headquarters and throughout its network of regional offices.
157. The approach to organisational design in the SCF period will aim to build a lean, responsive, creative and resilient organisation capable of finding, attracting and developing talented people and capturing and using their knowledge and experience effectively. The Bank’s introduction of suitable technology and digitisation of processes will be critical to enable its ability to respond rapidly to changing environments.
158. Strategic priorities for people planning over the SCF period are:
- Assessing existing and future skills needs and gaps on a regular basis, using a consistent Bank-wide process supported by technology linking people, finance and productivity data. This knowledge will be the basis for ensuring the Bank has the right people in the right place at the right time. It will also allow the Bank to innovate dynamically in response to the always-evolving contexts in its countries of operations. Specific new skills, for example, will be needed with respect to a green, low-carbon economy and leveraging the potential of digital technologies, both internally and for our clients;
  - Improving mobility and encouraging turnover by rotating staff internally and opening up more opportunities for external moves. This will unlock career opportunities for more junior staff across all the Bank’s locations and support improved knowledge management and innovation within the organisation;
  - Strengthening a culture of continuous learning and investing in training in both managerial and technical skills (including banking and policy advice knowledge and incentivising professional accreditations), to ensure that staff keep up with new skills, evolving market practice and remain employable in the wider market. This will include improving the Bank’s training offer where investment currently is far below industry benchmarks; and
  - Exploring the right level of decentralisation of people and processes in support of the client-driven business model of the Bank to deliver greater impact in countries of operations. The

Bank will consider where, when and how decentralisation might occur, as well as assess the optimal use of external partners for non-core services. The goal is both to increase the effectiveness of the Bank to achieve transition impact through in-depth country knowledge and relationships and to strengthen the resilience of the organisation in the face of significant shocks.

159. In evaluating its workforce needs, the Bank will also seek to improve continually the methods of collaborative working across departments, with specialised external partners and in close collaboration with other institutions. The objective will be to determine which skills are required to be developed in house, which should be provided externally and the areas in which partnerships with other organisations would provide the best outcome for countries of operations.
160. In addition, the Bank will address a range of less effective procedures, many stemming from outdated administrative processes and people management practices established in the early years of the institution to improve the effectiveness of Human Resource arrangements and reduce operational risk for the Bank.

### 3.2.3 Investing in Technology and Data Integration

161. The EBRD will need to make sustained, multi-year investments in a comprehensive programme of modernising its core technology and processes to build a new operating platform fit for the Bank's future operations. This will not only remedy the issues related to the legacy platform – which were evident in the severe technology difficulties the Bank had in supporting all staff to move to remote working during lockdown - but also build a capability that is flexible and fit for the next period of the Bank's existence.
162. Discussions on the necessary levels of investment have begun with the Board of Directors. The end result should be a digitally enabled institution with an expert workforce, well-connected across all locations, confidently using data and technology to add value, making decisions based on good access to analytics and decision-support tools and able to properly share and collaborate with stakeholders and clients in line with their expectations.
163. The storage of data on legacy platforms and its management with manual processes makes the use of this vital resource difficult, imprecise and time-consuming. This includes data in areas such as climate risk assessment and management; new transparency and disclosure requirements; capital market development; and mobilisation of private sector finance. This hampers the Bank's ability to respond to changing circumstances and the Covid-19 crisis has reinforced the importance of automated processes, modern platforms and new ways of interacting.
164. Furthermore, without modernisation, the Bank's systems will be incompatible with those prevalent in countries of operations. This risks excluding the Bank from areas of potentially high transition impact, especially in the financial sector. The aspiration of the Bank to accelerate the digital transition in countries of operations requires building its internal capacity as well.

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165. Over the course of the SCF period, the Bank will deliver a robust approach to modernising its technology and associated processes to deliver on its strategic goals by:
- Improving the Bank’s networks and infrastructure in all the Bank’s locations and building a hybrid datacentre to facilitate the HQ move;
  - Maximising the use of cloud-based infrastructure and business solutions’ platforms for enhanced scalability, resilience and cyber security;
  - Building the technologies and processes to support more integrated working with clients, partners and stakeholders;
  - Moving to integrated Enterprise Resource Planning by modernising systems in the Finance, Human Resources and Risk functions;
  - Improving data and analytics capability to help interpret a rapidly changing world; and
  - Building a connected and digitally enabled workforce and workplace, fit for more remote and dispersed forms of working and a new, connected HQ.

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### 3.3 Monitoring, Learning and Evaluation

166. All institutions improve their performance by learning actively from their own and others’ experience, disseminating those lessons widely and integrating them as appropriate into new project design. Effective systems for monitoring, learning and evaluation (MLE) are essential for creating a robust feedback loop.
167. Robust MLE systems must be underpinned by clarity about an institution’s goals and the ways in which those goals will be achieved through its actions. For the EBRD, this clarity comes from its transition mandate and strong conceptual framework provided by the six transition qualities. To maximise its effectiveness in delivering transition impact, the EBRD needs a clear understanding of which activities are most successful and why.
168. The Bank has made significant progress in recent years in measuring and managing its transition results, a process accelerated by the approval of the revised transition concept in 2016. The current framework consists of:
- A transition results framework for country, thematic and sector strategies and investment and advisory activities focused on six transition qualities: competitiveness, well governed, green, inclusive, resilient and integrated;
  - An *ex ante* assessment of a project’s contribution to support transition along the six transition qualities (Expected Transition Impact - ETI);
  - A Compendium of Standardised Indicators based on the EBRD’s Theory of Change – that translates the six transition qualities into more detailed transition objectives;
  - All new investments have explicit baselines and targets, together with implementation timing;
  - An annual monitoring at the project level of progress against the targets set at approval – this review provides an opportunity for taking any remedial action, if needed, and making a new

assessment of the transition impact (Portfolio Transition Impact - PTI); and

- The aggregation of project-level results into country-level results for use in the annual assessment of performance against country strategy objectives in the context of Country Strategy Delivery Reviews.

169. As noted in section 1.2, the Bank's six transition qualities map well to the SDGs and the Compendium of Indicators is aligned (wherever possible) with SDG targets. This allows for reporting of the Bank's impact within a wider framework relevant to the global community, many shareholders and an increasing number of investors.

170. Work on improving MLE must be continuous and constant. In the next SCF period, the Bank's improvements in this area will be guided in part by the recommendations of the Independent External Evaluation of EBRD's Evaluation System<sup>2</sup> (Kirk Report). The Bank has developed a cross-institution response with the involvement of all stakeholders, including the Evaluation Department and the Board's Audit Committee. To implement this response and monitor progress on key milestones, the Bank has established a Senior Management Steering Group on Evaluation, with ExCom members representing the policy, banking, economics, corporate strategy, communications and legal functions. In addition, two working groups have been created to support this work and promote change over the SCF period:

- The Self-Evaluation and Results Management Working Group is addressing key conclusions of the Kirk Report that the Bank's results architecture and systems need to continue to develop to provide a sound basis for project design, evaluability of performance and integration of lessons into decision-making. In addition, it will strengthen cross-Bank ownership and improve the self-evaluation system in terms of its contribution to accountability, measurement of the Bank's results and continuous learning across the organisation.
- The Knowledge Management Working Group is working to tackle a range of deficiencies in the Bank's management of knowledge. These include better mapping of who knows what, strengthening the capture of lessons learned from the Bank's operations and policy work, leveraging technology to disseminate knowledge supported by more user-friendly data and promoting collaboration and knowledge sharing.

171. The Kirk Report also made important observations about the need to address a number of cultural, organisational and practical blockages. Delivering on these changes will be a multi-year effort across the SCF period, requiring cultural change and supported by effective incentives.

172. Additional priority areas for in the next SCF period with respect to MLE are:

- Streamlining and improving reporting, including increasing aggregation of results at the institutional level, strengthening country-level reporting and capturing the results of policy work;

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<sup>2</sup> Available at <https://www.ebrd.com/what-we-do/evaluation-full-report.pdf>

- Creating feedback loops to incorporate the learning from project monitoring, implementation and self-evaluation for use in the design of future strategies and projects;
- Identifying the wider impacts and outcomes that are relevant for assessing the Bank's support for transition and developing methods for reporting on them;
- Strengthening the ability of the Bank to assess, measure and evaluate its long-term, systemic impact by improving understanding of the link between the results of its engagements and positive outcomes for beneficiaries;
- Realising the potential of IT to increase the ease of project design and assessment; and
- Strengthening incentives for increased alignment of activities with country strategy objectives.

173. Finally, the Kirk Report also made recommendations to strengthen the Bank's MLE capacity for the Evaluation Department itself. Over the SCF period, the Evaluation Department will prepare a medium-term strategy including performance metrics and a scorecard and a communications outreach plan, as well as launch a review of the Bank's Evaluation Policy.

### 3.4 Reviewing the Corporate Scorecard

174. The EBRD's Corporate Scorecard is the vehicle for setting and measuring the Bank's annual objectives and impact. It forms the annual agreement between the Bank and its shareholders. The last comprehensive review of the scorecard took place in 2013, with adjustments made in 2017 to reflect the updated transition concept. The Bank is undertaking a new review in 2020 with a view to approving the structure of the Corporate Scorecard that will be used over the SCF period. Parallel discussions will take place about the approach to the relationship between scorecard objectives and the Bank's Performance- Based Compensation system.

175. The review will consider the place of the Corporate Scorecard within the Bank's overall institutional performance and management approach bearing in mind the approach of other MDBs. The goal of the review is to ensure a balanced set of incentives are in place to guide the Bank to deliver on the aspirations set in this SCF. The Bank will first use the approved scorecard structure in 2021, the first full year of the SCF period. The level of ambition for the different elements of the scorecard will be set in the context of the successive SIPs.

### 3.5 Control Framework

176. By nature, the SCF is not prescriptive and allows the Bank to respond to opportunities and circumstances to deliver its objectives. However, this flexibility exists within a clear framework of accountability. In order to provide assurance to the shareholders that the Bank is pursuing its strategic objectives responsibly, the SCF contains a set of control parameters. These parameters will be interpreted by the Board of Directors in the context of the annual SIPs.

177. The parameters set minimum acceptable levels of Bank impact through projects, maximum permissible levels of capital utilisation and maximum levels of specific resource measures. This section

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establishes the levels of the control parameters that will apply across the SCF period.

### 3.5.1 Transition Parameters

178. The Bank's primary purpose is to support the transition towards sustainable open market-oriented economies. Accordingly, two control parameters are set to ensure that this purpose is always fulfilled, namely:

- The average level of Expected Transition Impact (ETI) should exceed 60 for each year of the SCF period. Expected Transition Impact is an assessment which combines the scale of the effect the Bank is seeking with the probability of its achievement at the start of a project's life; and
- The average level of Portfolio Transition Impact (PTI) should exceed 65 at the end of each year of the SCF period. Portfolio Transition Impact is assessed during the implementation of a project and rises or falls as benchmarks are passed. The experience and expectation is that there will be an increase in impact over time.

179. Expected Transition Impact is the Bank's internal means of assessing the potential effectiveness of a project. It combines the potential strength of a project's impact with an assessment of the risk that the impact may not be achieved. An average of ETI is set at 60 and represents projects that address a clear transition gap, in a significant way, in a challenging business environment and are rated 'good'. Setting a floor at this level in the control framework means that – at a minimum – the Bank will undertake projects that address important needs in countries of operations.

180. The Bank tracks the evolution of a project's ETI over its lifetime. Portfolio Transition Impact is the average of the current ETI score of the active portfolio of projects. The level of ETI rises as the risks to delivery are reduced and managed by the Bank and transition benchmarks are achieved. The higher level of the control parameter for PTI at 65 reflects this expected pattern.

181. These parameters establish the minimum levels the Bank should maintain over the SCF period. Ambitious annual goals for transition objectives, including the average levels of ETI and PTI, will be set in the formulation of the Corporate Scorecard in successive SIPs.

### 3.5.2 Capital Parameters

182. It is expected that the Bank will remain well-capitalised across the SCF period and maintain its triple-A credit rating, able to both support its investment activity and withstand shocks without requiring additional capital from shareholders. In line with this objective, the Bank will be managed in order that:

- statutory capital utilisation will not exceed a ceiling of 92 per cent; and
- utilisation under the Bank's Capital Adequacy Policy will not exceed a ceiling of 90 per cent.

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### 3.5.3 Resource Parameters

183. Under the current SCF, two parameters were established with respect to resourcing. The first was the cost-to-income ratio that was introduced to maintain a focus on the Bank's continuing efficiency. The second was the ratio of staff costs to total costs, which was to ensure that spending on staff did not rise disproportionately within the total budget.
184. In the course of the SCF period, the measurement, control level and governance of the cost-to-income parameter was changed as set out in Governors Resolution No. 207. As a result, the calculation of the cost to income ratio moved from an approach based on the Bank's realised income to one based on net profit (and measured on a five-year rolling average basis), increasing the transparency and coverage of the assessment. This change also introduced higher levels of volatility, which justified changing the threshold level of the parameter. In parallel, clear governance was introduced to ensure that the Board of Governors would be made aware of adverse developments and appropriate action taken, well in advance of the parameter level being exceeded.
185. The cost-to-income ratio has played an important role in encouraging a greater focus on both the Bank's cost and income performance and a better awareness of the financial consequences of strategic and project pricing decisions. Recent fluctuations in financial performance driven by changes in equity performance have caused volatility in the cost-to-income ratio that cannot be smoothed through the use of a moving average alone. As a result, the ratio as currently constituted is difficult to interpret. It also provides a weak measure of the relationship between the level of resources and outputs.
186. For the new SCF period, it is proposed to replace the cost-to-income ratio with a ratio of total costs to debt income<sup>3</sup>. This ratio follows a similar structure and purpose to the existing cost-to-income ratio, but importantly without the intrinsic volatility arising due to the inclusion of equity income. The total costs to debt income ratio also provides a stronger link between resources and financial outcomes.
187. The cost-to-debt income ratio would be defined as total costs divided by debt operating income from the Banking book before impairment. For the purposes of this calculation, debt operating income includes net interest margin, amortised fees and guarantee fees received. The result of this ratio is more predictable over time and, to a greater degree, would be under the Bank's influence. Consequently, movement of the ratio would be more relevant than the current resource parameters to inform actions or measures with respect to efficiency concerns.
188. Historical analysis has been undertaken to inform the level that would signal the need for discussion and possible remedial actions. It is recommended that a maximum ceiling level of 70 per cent would represent a prudent level for a control parameter within the framework, whilst also allowing some headroom for the lag between the initial cost outlay required to grow the asset base and income ultimately received. This is particularly relevant if the Bank expands to new countries of operations. A lower annual ceiling for the total cost-

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<sup>3</sup> The IFC uses a similar metric to monitor efficiency.

to-debt income ratio could be defined in the Corporate Scorecard for each year of the SCF period.

189. In addition, to provide transparency on the evolution of the level of staff costs, the control framework also sets a limit for the ratio of staff costs to total costs. As a result, the resource control parameters for the SCF period are to maintain:

- The annual ratio of costs to debt income below 70 per cent; and
- The ratio of staff costs to total costs below 70 per cent based on a five-year rolling average.

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## 4. Capital Review

190. The Board of Governors are required to review the Bank's capital stock at least every five years to fulfil the obligations of Article 5.3 of the AEB. The formal purpose of the SCF is to undertake that review. The last such review took place in 2015 (*Strategic and Capital Framework (BDS15-013 (Final))*) and concluded that the Bank's projected capital stock was appropriate for the period to 2020.
191. Previous sections have set out the Bank's strategic directions for the SCF period. This section assesses the Bank's potential capital capacity to support those activities in the 2021-2025 period, before outlining the approach to establishing a small capital buffer through the capital planning process.
192. This capital capacity analysis is a top-down estimate of the maximum level of operating assets that could be supported by the Bank's capital base for the medium term. The rate of capital growth is based on prudent assumptions about the level of profitability in the next SCF period. Recognising that actual results are likely to differ from the assumptions, the sensitivity of the projections to variations in key variables is also analysed. Overall, these projections are not forecasts or targets.

### 4.1 Capital Capacity Assessment

193. The Bank manages its capital adequacy based on:
- The nominal statutory capital utilisation, under Article 12.1 of the AEB, within a 92 per cent prudential threshold; and
  - The risk-based Capital Adequacy Policy (CAP), within a 90 per cent prudential threshold.

These thresholds form the capital control parameters for the 2021-2025 strategy period, as discussed in section 3.6.

194. The binding constraint on the Bank's capital capacity for the SCF period is provided by the statutory capital policy, since it requires a lower level of operating assets to reach the maximum utilisation threshold than under the risk-based CAP. Based on the projected growth in members' equity to the end of the SCF period, it is estimated that the **maximum level of operating assets assessed under the statutory policy is €42 billion, an increase of 30 per cent over current levels**. By contrast and for illustration, under the risk-based CAP, operating assets could grow to €49 billion by end 2025. These capacity levels compare to estimated operating assets of €33 billion at end 2020.
195. The maximum level of operating assets within the capital capacity analysis is a pure indication of possible capacity under certain financial assumptions and does not constitute a target or limit. Throughout the SCF period, the Bank's SIPs allow the Board of Directors to assess the adequacy of the Bank's capital base on an annual basis. This provides for a dynamic and responsive approach within the overarching SCF, allowing, if necessary, for adjusting projected operating asset levels for the Bank to respond to the prevailing economic, market and risk environment. It also allows for consideration of the distribution of net income under Article 36.1 of the AEB, at which time the Board of Governors determines "...what part of the Bank's net income...shall be allocated to surplus or other

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purposes and what part, if any, shall be distributed”. The Bank always aspires to deploy its capital to the full benefit of its countries of operations.

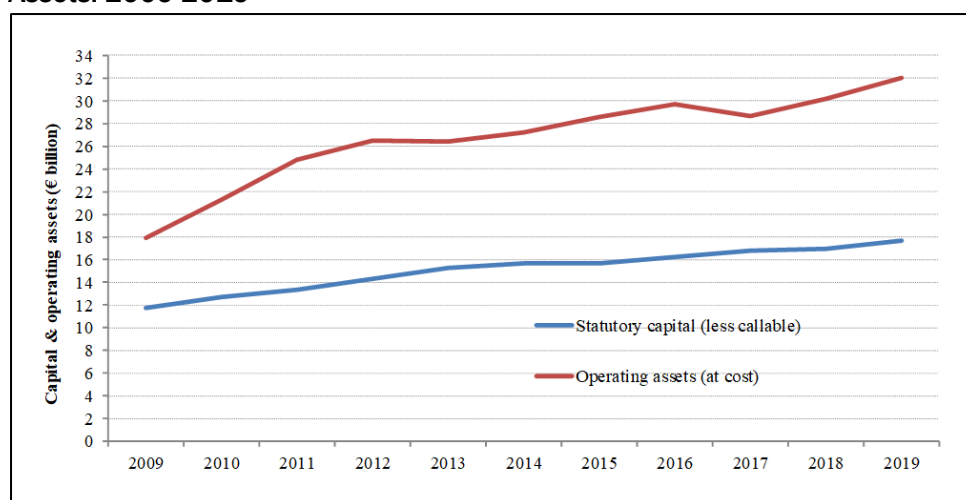
196. Based on the analysis presented in this paper, the Board of Directors considers that **the Bank’s projected capital stock is appropriate for the period to the end of 2025.**

#### 4.1.1 Methodological Approach

##### Capital Growth

197. The assumed financial returns, and consequent profitability and growth in reserves, are a key element of the capacity assessment. Across both capital metrics, the focus on capital growth is based on realised profits over the period. Unrealised equity gains offer no additional lending and investment capacity, since they are excluded by definition from the calculation of the capital base under the statutory policy and assigned a 100 per cent capital charge under the CAP. The main driver of projected capital growth for both capital policies is the estimate of realised profit.
198. The projection of realised profits across the SCF period reflects the historical performance of the Bank. This is appropriate because the Bank’s product mix is relatively stable over time and the consistent growth of the Bank’s statutory capital base is shown in Chart 3.
199. On average, over the last 10 years, this pattern of realised profit has led to a growth in the statutory capital base of 4 per cent annually. In the most recent five-year period, growth was lower, at an average at 2.8 per cent, compared to 6 per cent annual growth in the period from 2009 to 2014. This performance reflects a number of factors:
- The relatively large annual allocation of net income in 2015 of €360m to the Chernobyl project;
  - Stronger levels of realised equity income in the period 2009 to 2014; and
  - Stable debt income over the period with lower debt margins reflecting market movements and growing operating assets.

**Chart 3: Growth in Statutory Capital (excluding callable capital) and Operating Assets: 2009-2019**



200. The projection of realised profit, and hence capital growth, conservatively assumes that this subdued pattern continues. For the purposes of the capital capacity calculation, the statutory capital base

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(excluding callable capital) is assumed to grow at 3 per cent across the SCF period. This slight increase over the later part of the current SCF period reflects the fact that, to calculate the theoretical maximum capacity of the Bank, capital stock is assumed to be utilised. By contrast, the actual rate of growth capital between 2014 and 2019 is based on the deployment of around 70 per cent of the Bank's capital at a time when there is no financial return on the unused portion of the capital. As a result, the assumed rate of growth in capital is prudent. This approach reflects the inherent uncertainty in any financial forecast allowing for the prospect of adverse outcomes such as a further deterioration of debt margins or realised equity underperformance, even if this is not the Bank's expectation. In addition, any five-year period will see positive and negative variations in financial performance.

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### Conversion to Operating Assets

201. Once the projection of growth in members' equity (excluding unrealised gains) is established, the next step is to determine the level of operating assets that leads to a capital requirement that would drive utilisation levels to prudential limits. This is computed as follows:

- For statutory capital, the capital requirement is determined purely by the nominal value of operating assets (net of specific provisions). Consequently, the maximum level of operating assets<sup>4</sup> that can be supported within the policy is simply that which corresponds with the 92 per cent prudential limit of the total statutory capital stock. Note that the Bank's callable capital stock is added to members' equity to derive the total statutory capital base.
- Calculating the maximum level of operating assets under the CAP requires two steps. The maximum capital requirement is that which corresponds to 90 per cent of the level of members' equity. This is then translated into operating assets by assuming that the risk profile remains constant across time and using the current relationship between required capital and operating assets<sup>5</sup>.

### 4.1.2 Lending and Investment Capacity

202. Table 1 shows the estimated maximum capacity in operating assets under each capital policy to the end of the SCF period with the statutory capital policy providing the binding constraint.

203. The capital capacity figures presented in the table incorporate an element of very significant stress from the financial impact of the Covid-19 crisis. The estimation of available capital of €16.9 billion by end 2020 assumes an end-of-year net loss of €0.9 billion, driven by large reductions in the valuations of equity investments and a significant increase in the level of provisions for impairment, notably in general portfolio provisions. The increase in general portfolio provisioning includes the management overlay deemed necessary to address the potential impact of the crisis, in particular to reflect the expectation of worsening credit risk and substantial reductions in forward-looking GDP projections across the Bank's countries of operations. The loss assumption is built on an extrapolation of the

<sup>4</sup> The stock of specific provisions is assumed to grow in line with balance sheet size.

<sup>5</sup> This is applicable under the assumption that product mix and risk profile do not change throughout the SCF period.

2020 first quarter results, with no recovery of the equity values and provisions for the rest of the year. As a result, the capital calculation prudently includes a material negative impact from the Covid-19 crisis.

**Table 1: Evolution of Operating Assets at Maximum Capacity**

€ billion / at planning rate	Act 2019	Estimate 2020	Indicative 2021	Indicative 2022	Indicative 2023	Indicative 2024	Indicative 2025
<b>Statutory capital basis</b>							
Implied maximum operational capacity (at 92% utilisation):							
Portfolio	45.7	48.3	57.4	58.2	59.1	60.0	60.9
Operating assets (at cost)	31.6	33.2	39.6	40.2	40.8	41.4	42.1
Cumulative specific provisions	(0.7)	(0.7)	(0.8)	(0.9)	(1.0)	(1.1)	(1.2)
<b>Net operating assets</b>	<b>30.9</b>	<b>32.5</b>	<b>38.8</b>	<b>39.3</b>	<b>39.8</b>	<b>40.3</b>	<b>40.9</b>
Statutory capital base (incl. callable capital)	41.2	41.6	42.1	42.7	43.3	43.9	44.5
<b>CAP basis</b>							
Implied maximum operational capacity (at 90% utilisation):							
Portfolio	45.7	48.3	62.3	64.4	66.0	68.9	71.2
Operating assets (at cost)	31.6	33.2	43.0	44.5	45.6	47.6	49.2
Available capital base	17.8	16.9	17.7	18.5	19.3	20.1	21.0

204. Based on this broad assessment of growth in operating assets, it is possible to infer an indicative maximum level of ABI. Without outlining any specific trajectory, it is estimated that **the Bank could reach a steady state level of up to €13 billion annually**, under the statutory capital ratio. The Bank's capital must be deployed responsibly, and this does not represent an aspirational plan or target level of operational activity. It is simply an estimate of the theoretical capacity that could be supported by the Bank's capital base during the SCF period. Illustratively, under the risk-based CAP constraint only, the Bank could reach a steady state ABI of €15 billion.
205. The level of capital capacity suggested in these projections will allow the Bank to support all the strategic aspirations outlined in this SCF, including supporting countries of operations throughout the crisis response and recovery phases and possible expansion into selected countries both within and outside the Bank's current geographic scope. Nevertheless, over the SCF period, the Bank will explore ways in which it could leverage its capital even more efficiently to further increase its available headroom, including through the use of new structures and instruments or adapting its policies. It is an imperative for all MDBs to seek to optimise their balance sheets.

#### 4.1.3 Sensitivity Analysis

206. The assumptions underpinning the calculation of capital capacity are intended to be prudent, but it is important to highlight the impact of altering some key variables. For illustration, a number of sensitivities are presented below:
- **Foreign exchange variation.** Although the Bank's overall balance sheet is hedged with the Banking portfolio being matched by Treasury in terms of currency, capital utilisation projections are sensitive to changes in exchange rates. A depreciation of the Euro against the US dollar to parity from the Bank's planning rate of EUR/USD 1.15, would result in the statutory capital utilisation increasing by about 4 per cent and capital adequacy utilisation by

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2 per cent<sup>6</sup>. For statutory capital, it is worth noting that the existing prudential limit of 92 per is in place, in part, to guard against foreign exchange movements.

- **Assumed growth in members' equity**<sup>7</sup>. If the core assumption of capital growth underpinning this analysis is reduced from 3 per cent to 2 per cent, the maximum level of operating assets in 2025 is reduced from €42 billion to €41 billion under statutory capital and from €49 billion to €47 billion under CAP.
- **Return on equity investment.** A decrease of 5 percentage points (from a typical planning level of 6 percent to 1 per cent) in annual equity return from 2021 onwards would worsen statutory capital utilisation by around 1 per cent by 2025, with an insignificant impact on CAP utilisation. Both capital metrics are not materially sensitive to the assumed equity return. Unrealised movements are excluded from the statutory capital base and any realised gains make up a small proportion of the large base (including callable capital). The CAP is based on equity fair value, therefore capital requirements proportionately increase/decrease as gains/losses are recorded.
- **Debt losses.** Statutory capital utilisation is not impacted by variations in provisions for impairment. In addition, the impact of the foregone interest from the non-performing assets on the statutory capital base is almost negligible. In the case of CAP, the foregone interest has more impact due to both the smaller capital base relative to statutory capital and the need for required capital to be held against impaired assets not covered by specific provisions. If the projected level of specific provisions is doubled from typical planning levels, utilisation under CAP increases by around 3 per cent by 2025.

207. In addition to the key sensitivities, the methodologies of external rating agencies have a significant bearing on the Bank's risk-based CAP. Over a period of five years, the rating agencies may change their methodologies.

#### 4.1.4 Stress Testing

208. Each new operational and financial plan presented in the annual SIPs is subjected to a series of forward-looking stress tests, designed to simulate the financial and capital impact of adverse economic conditions. The resultant impacts are judged using the Bank's risk-based CAP, which is sensitive to losses and risk levels that may be observed during a crisis. The statutory capital metric is not used as it is not sensitive to credit losses or fair value movements on equity investments.

209. Historical results indicate that, at current capitalisation levels, a 10 per cent utilisation buffer within the CAP is sufficient to absorb losses caused by a once in 25 years shock. However, this cannot be assumed to hold inevitably across the next SCF period. Each new plan will contain different risk profiles, product mixes and growth gradients, all resulting in potentially different levels of capital impact under stress. Whilst it is not unreasonable to demonstrate maximum capital

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<sup>6</sup> This figure may overstate the impact. In stress tests carried out by the Bank, it was concluded that correlated weakening of local currencies are likely to provide a natural hedge, under a USD strengthening scenario.

<sup>7</sup> Excluding unrealised gains.



capacity to the prudential limit of 90 per cent, it is possible that a lower level of utilisation will be considered prudent once the effects of stress are assessed for each plan.

210. The EBRD has sufficient capital to support the proposed strategy even in the case of severe distress and is expected to continue operating in a financially sustainable way, in terms of capitalisation, profitability and efficiency.

## 4.2 Establishing a Capital Buffer

211. In order to allow the Bank to be always in a position to provide additional lending in the event of a localised crisis or another unanticipated event, it is proposed to establish a capital reserve (or buffer) that would not be used for core lending and investment activities under normal circumstances. Access to the buffer will be swift and simple, with the option of it being used for a variety of purposes.
212. The Bank will introduce a capital planning approach for the SCF period under which the Bank would always plan, in its SIPs, to operate at levels of activity that would maintain capital utilisation at below 90 per cent as measured by statutory capital (two percentage points below the 92 per cent prudential limit). As a result, capital capacity would be available to support a temporary surge in lending of around €750 million in ABI for each of two successive years. Should shareholders decide that conditions warrant the use of this headroom, such a decision could easily and flexibly be agreed under the normal governance of the EBRD's Board of Directors. In order to support the Bank's response to the Covid-19 crisis, the Board of Directors considers this headroom to be accessible until the review of implementation of the SCF, described in paragraph 36.

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# Annex 1: Taking Stock – Implementing the Strategic and Capital Framework 2016-2020

1. The EBRD's current SCF was approved in 2015 and covered the period from 2016 to 2020. It set for the Bank the goal of 'reenergising transition' against a backdrop of slowing reform momentum and significant economic and political uncertainty. Although the six transition qualities have only been measured since 2017, following their approval in the previous year, their assessment provides some indication of the progress at the country level made in the current SCF period. Chart A.1 shows the number of 'sizeable'<sup>8</sup> improvements and deteriorations in ATQs scores from 2017 to 2019. Overall, improvements have substantially exceeded deteriorations. Amongst the individual qualities, improvements have been particularly widespread in the 'green' and 'resilient' qualities, with scores improving in around one-half of the Bank's countries of operations. Movements have been both less pervasive and more mixed across the other qualities, with deteriorations outweighing improvements for the 'inclusive' quality. At a country level, only three countries did not have at least one quality in which there was sizeable improvement. Of course, progress – or reversal – is not in itself attributable solely to the Bank's actions.
2. By contrast, the Bank does have control over its own project implementation. Of the 761 projects that were completed from 2016 to 2019, almost 72 per cent have fully achieved their objective; a further 20 per cent have had a positive impact, but not achieved their full potential and the remainder have had negligible or no positive impact. The Bank also continuously monitors the progressive impact of its projects. The average Portfolio Transition Impact for projects has been maintained at a high level across the SCF period at just over 70, against a floor for the average level of 65 set in the SCF. The Bank also assesses the potential impact of each project at entry through Expected Transition Impact. Average Expected Transition Impact has been around 67 over the SCF period, against a floor for the average of level of 60.

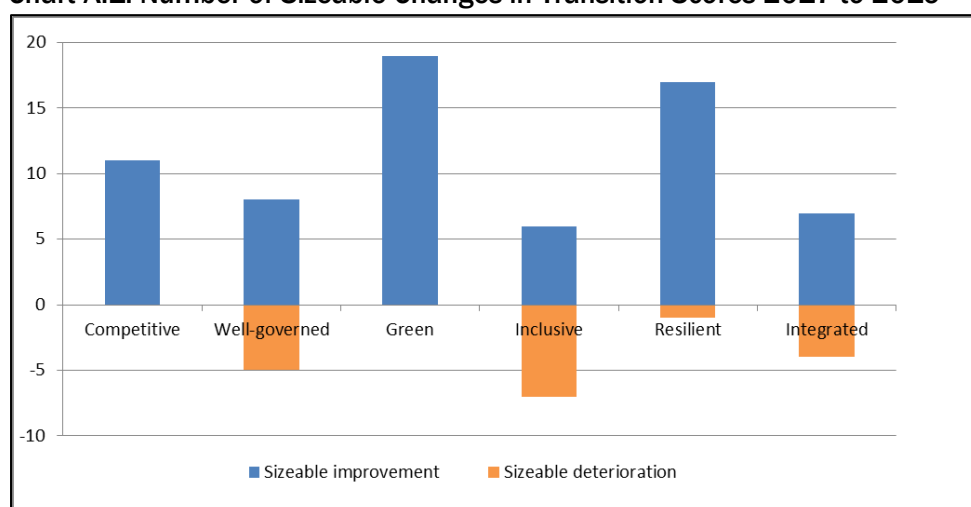
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<sup>8</sup> A 'sizeable' improvement or deterioration is one which is greater than one standard deviation of all score changes across qualities and countries in the 2017-19 period.

**Chart A.1: Number of Sizeable Changes in Transition Scores 2017 to 2019**

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3. Table A.1 presents quantitative operational information for both the period covered by the Bank's fourth Capital Resources Review (CRR4) and the SCF period. Average **Annual** Bank Investment (ABI) has been eight per cent higher under the SCF than in the earlier strategy period.

**Table A.1: The Bank's Operational Delivery 2011 to 2019**

	CRR4 period (2011 to 2015)		SCF period (2016 to 2019)	
	Level	Annual Growth Rate	Level	Annual Growth Rate
Average Annual Bank Investment (€ billion)	8.9		9.7	
Average annual number of operations	385		409	
Average Annual Mobilised Investment (€ billion)	1.2		1.4	
Portfolio value (€ billion; end period)	41.6	6.3%	46.1	2.6%
Portfolio volume (number of operations; end period)	1,864	3.4%	2,092	2.9%
Operating assets (€ billion)	28.6	6.1%	31.8	2.7%

4. The Bank's portfolio and operating assets have grown in both periods. The value of both rose considerably faster in the earlier period reflecting the disbursement of the accelerated activity of the Bank during and immediately after the global financial crisis in the previous strategy period. Also, the growth in the SCF period has been influenced by the rapid contraction of the Bank's portfolio in the Russian Federation. The Bank has not approved new projects in this country of operations since the middle of 2014. As a result, the Russian portfolio has fallen from €5.6 billion to €1.6 billion over the SCF period to 2019. By volume, the total number of operations in the Bank's portfolio grew at similar rates in both periods.

**Table A.2: The Bank's Operational Performance 2011 to 2019 – Selected Indicators**

	<b>CRR4 period (2011 to 2015)</b>	<b>SCF period (2016 to 2019)</b>
<b>Share in cumulative ABI of:</b>		
Equity	13%	7%
GET investment	31%	40%
Private investment	77%	74%
Sovereign investment	13%	19%
<b>Share in cumulative operations of:</b>		
Local currency and capital market transactions	23%	31%

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5. The current SCF also set directional objectives for the 2016-2020 period for the nature of the Bank's work. This included an aspiration to increase the share of investment in energy and resource efficiency and equity, as well as strengthening activity in local currency and capital markets. Table A.2 shows the outcomes to date in these areas, together with the private and sovereign shares of the Bank's business. It shows that the Bank has raised significantly its support for what is now described as the Green Economy Transition (GET) and local currency and local capital markets. Within GET, adaptation financing more than doubled between 2016 and 2019. However, investment in equity has been much lower as a proportion of overall activity. This has reflected external conditions characterised by ample available capital and consequent difficulty in finding opportunities that combine transition and financial return. It has also been influenced by the necessary refinement and restructuring of the internal approach to equity investment which has taken time to be fully effective.
6. The SCF set aspirations in two other areas. For SMEs, the Bank has continued to extend its suite of instruments introducing a number of new products to enhance impact, such as the Blue Ribbon programme targeting high growth SMEs, as well as adopting increasingly streamlined approaches to delivering its business. With respect to sustainable infrastructure, the Bank's approach has broadened from an initial focus on project preparation to encompass the entirety of its infrastructure activity.
7. The SCF also highlighted a number of institutional objectives. The Bank has significantly developed its policy capacity over the period through enhanced diagnostic work, a greater integration of policy and operational objectives and organisational changes to increase the overall impact of the Bank's activity. The goal of mainstreaming gender and inclusion in the Bank's operations has been taken forward through the first Strategy for the Promotion of Gender Equality, which runs until 2020, and the first Economic Inclusion Strategy approved in 2017 and running to 2021. The Bank's results architecture has been comprehensively overhauled – a process accelerated by the introduction of the transition qualities – and the country strategy design and formulation process streamlined and improved. The Bank has mobilised almost exactly the same

proportion of external capital in the CRR4 and SCF periods, at 14 per cent. Positively, however, the range of countries that have benefited from this mobilisation has increased, as has the number and nature of participating counterparties.

8. The current SCF set the goal of moving the Bank's operations progressively towards countries and regions within countries that are less advanced in transition. Specifically, there was a focus on delivering in the Early Transition Countries (ETCs), the Western Balkans and the SEMED region. Table A.3 shows the shares of ABI and project numbers in each of the Bank's standard regions and priority categories. The three geographic areas of focus accounted for 44 per cent of ABI in the SCF period and 57 per cent of all projects. When compared with the CRR4 period shares, SEMED shows a significant increase, ETCs show a modest increase and the Western Balkans remained static, albeit within the higher absolute levels of activity in the SCF period. In addition, the Western Balkans has the highest levels of investment both as a share of GDP and per capita of any Bank region. Beyond investment, the focus of the Bank in these countries has been reflected in the intensity and seniority of policy engagement.

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**Table A.3: Regional Shares of Bank Investment 2011 to 2019**

	CRR4 period (2011 to 2015)		SCF period (2016 to 2019)	
	ABI	Projects	ABI	Projects
Central Asia	9%	17%	12%	20%
Central Europe and Baltics	14%	11%	14%	11%
Cyprus and Greece	1%	0%	7%	3%
Eastern Europe and Caucasus	19%	24%	17%	23%
Russia	18%	11%	0%	0%
South-Eastern Europe	17%	24%	17%	21%
Southern and Eastern Mediterranean	7%	5%	19%	12%
Turkey	14%	8%	14%	10%
<i>Of which:</i>				
Early Transition Countries	12%	28%	14%	29%
Western Balkans	11%	16%	11%	16%

9. Table A.4 shows key indicators over the years since 2011. Financial sustainability is essential for delivering and expanding the Bank's impact. The growth rate in the Bank's total members' equity has been significantly higher in the SCF period than the previous strategy period. This level is also well above the estimated baseline rate of expansion of members' equity presented in the SCF itself. This growth resulted in an actual level for members' equity that is almost exactly in line with the first SCF projections despite the higher growth rate. This was the result of the starting level of members' equity at the end of 2015 being lower than the estimates used in the SCF projections.

Annual net profit in the SCF period has been twice as high in the later period. The levels of capital utilisation at the end of each period are shown, with the nominal measure of capital utilisation rising between the periods and the risk-based measure falling substantially. This confirms the view, highlighted in the first SCF, that statutory capital consumption is the more limiting factor. Nevertheless, by both measures the Bank is very well capitalised.

10. The shift in medium-term planning format from the CRRs to the SCF was introduced to allow flexibility in the face of changing circumstances. This proved helpful almost immediately when the SCF period began with the formulation of the Bank's programme of support for refugee-hosting communities in 2016. In 2017, the Bank began operations in West Bank and Gaza through its first Trust Fund, Lebanon became a country of operations and the EBRD recommenced full operations in Uzbekistan after a decade of minimal engagement. None of these activities had been foreseen at the time of the approval of the SCF. In addition, other significant events in the past five years have included the addition of five new shareholders (China, India, Lebanon, Libya and San Marino) and the successful conclusion of the Bank-managed New Safe Confinement project at Chernobyl after a decade of work.

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**Table A.4: Selected Indicators 2011 to 2019**

	<b>CRR4 period</b> 2011 to 2015	<b>SCF period</b> 2016 to 2019
Return on members' equity (Annual growth)	2.4%	5.2%
Average annual profit (€ million)	488	882
Capital Utilisation <sup>9</sup> (end period)		
• Statutory	71%	76%
• Capital Adequacy Policy	80%	66%
Cost to Income Ratio (Five year rolling average; end period)	35.7%	32.6%
Total Employees <sup>10</sup> (end period)	3,036	3,660

<sup>9</sup> Calculated on the basis of the policy prevailing at the time.

<sup>10</sup> Total number of active employees across the Bank, including both staff and other resources. Other resources are defined as individuals engaged by the Bank on non-staff contracts or other arrangements, including consultants, contractors and temporary staff (CCTs), Board Directors, interns and external secondees into the Bank.

# Annex 2: Draft Resolution of the Board of Governors: 2021-2025 Capital Review, Strategic and Capital Framework (2021-2025)

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## THE BOARD OF GOVERNORS:

Noting the unprecedented challenges posed by the Covid-19 crisis and the uncertainty of the regional and global economic outlook;

Welcoming the positive role played by the Bank in the rapid response to the Covid-19 crisis and the continuing demand for the Bank's investment, policy expertise and business model;

Recognising the strong role the Bank can play, within its transition mandate, to build a resilient and sustainable future by preserving and accelerating the transition towards sustainable market economies in its countries of operations committed to and applying the principles of multiparty democracy, pluralism and market economics;

Acknowledging the contribution the Bank can make to supporting its countries of operations' efforts to tackle climate change and environmental issues, promote equality of opportunity and make progress on the Sustainable Development Goals;

Noting further that Article 5.3 of the Agreement Establishing the Bank specifies that "the Board of Governors shall at intervals of not more than five (5) years review the capital stock of the Bank", and that previous such reviews took place in 1996, 2001, 2006, 2010 and 2015; and

Having considered the report of the Board of Directors to the Board of Governors "Strategic and Capital Framework 2021-2025 (BDS20-13)" (the "Report");

## RESOLVES THAT:

The Bank will foster the transition towards open market-oriented economies and promote private and entrepreneurial initiative during the 2021-2025 period, guided by the strategic orientations outlined in the Report and within the set control parameters;

The Bank's projected capital stock is appropriate for the 2021-2025 period.