STRATEGY IMPLEMENTATION PLAN 2020–2022

European Bank
for Reconstruction and Development

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PRESIDENT’S RECOMMENDATION

I **recommend** that the Board of Directors approve together:

- an Administrative Expense Budget of £383.4 million (€437.0 million) for the Bank’s core expenditure
- the parameters and objectives contained in the 2020 Corporate Scorecard
- the opening of offices of the Bank in Asyut, Egypt and Urgench, Uzbekistan

EXECUTIVE SUMMARY

Strategic Context

On an annual basis, the Strategy Implementation Plan (SIP) translates EBRD's strategic directions into a three-year operational plan on how the Bank will deliver on its transition mandate whilst safeguarding its financial sustainability and managing its resources in an efficient manner. As such, it provides context for consideration by the Board of Directors of the Bank's annual Budget and Corporate Scorecard.

This Strategy Implementation Plan for 2020–22 concludes the current Strategic and Capital Framework (SCF) period with a detailed delivery plan for 2020 while also providing projections for future years where activity will reflect the next SCF (2021–25) to be approved in May 2020. Against this backdrop, this Plan is one of **'continuous ambition'**:

- It is a plan of **continuity** broadly mirroring the indications already contained in the SIP 19–21 for both 2020 and 2021 and setting planning indications for 2022 at €11.4 billion as the Bank continues its preparatory work for the SCF 2021–25 that will define the strategic directions and business delivery model for the next strategy period.
- It is a plan of **ambition**, as the Bank continues on its ambitious growth path set out in last year's SIP.

2019 Delivery

The Bank has been delivering strong results both in quantity and in quality.

The Bank has significantly grown its business whilst preserving its financial sustainability with:

- portfolio growth increase of 7 per cent (at the end of Q3, year-on-year) with the Bank's portfolio projected to increase by up to 19 per cent between end 2018 and end 2022
- growth in operating assets of 8.4 per cent (at the end of Q3, year-on-year) with operating assets projected to increase by up to 21 per cent between end 2018 and end 2022
- the number of active portfolio projects having exceeded the 2,000 portfolio project mark in August 2019, and increased by 3.6 per cent (at the end of Q3, year-on-year)

Focusing on both quantity and quality, the Bank successfully stepped up its efforts to meet the SCF objectives, including among others:

- promoting greener and more inclusive market economies, with a strong GET ratio of 46 per cent (end September 2019) and the number of gender operations increasing by 25 per cent year-on-year between 2017 and 2018
- supporting Small and Medium-Sized Enterprises as the backbone of economies in its region (increase in the number of operations of 6 per cent year-on-year Q3), enhanced through advisory support to develop the segment in a sustainable way (increase in number of advisory projects of 16.6 per cent year-on-year Q3)
- supporting Early Transition Economies (increase of 11 per cent year-on-year 2017 and 2018, or more than 30 per cent of the total number of new projects) and expanding its business in small economies (50 per cent of the total number of new projects, or an increase of 11 per cent year-on-year 2017 to 2018 up from an average growth rate of 5 per cent)

Transition impact remains strong for both the Bank's existing portfolio (with PTI levels at 70.1 end of Q3 2019, above the 65 floor for the average set in the 2019 Corporate Scorecard) and flow of new projects (with ETI levels at 66.7 end of Q3 2019 above the floor for the average set at 63). This achievement has been supported by the Bank's policy engagement, reflected in the annual Policy Priority Objectives and the integrated policy-investment approach defined in the Bank's Country Strategies.

In delivering its mandate to promote sustainable market economies the Bank is required by its founding principles to be both additional and profitable. As a result, it has also consistently maintained a strong financial position, as evidenced in its track record of:

- running a profitable business model, with a profit of €970 million (at the end of Q3, year-on-year) well above the €660 million planned for the full year of 2019
- strengthening less volatile sources of income with debt income growing by 11.5 per cent (at the end of Q3, year-on-year) and cash dividends received by 16 per cent (at the end of Q3, year-on-year)
- improving the five-year rolling cost-to-income ratio to 38.3 per cent (end of Q3 2019)
- preserving prudent levels of capitalisation, with projected risk-adjusted capital utilisation providing strong reassurance of the Bank's triple-A rating for the Plan period while retaining sufficient capital headroom to both withstand stress events and support additional operational activity. That is coupled with a Return on Required Capital projected to remain well above the minimum scorecard level of 3.5 per cent (4.9 per cent projected for 2019, three-year rolling average)
- preserving minimum levels of liquidity even if faced with significant market disruptions and therefore projecting a one-year stress ratio of 109 per cent for end 2020 (against a minimum of 100 per cent), and net cash requirement coverage of 119 per cent for the next two years (well above the stipulated 75 per cent ratio)

2020 Corporate Scorecard Goals and Resources

Remaining on a path of 'continuous ambition', the 2020 Corporate Scorecard includes:

- an Expected Transition Impact floor for the average of new projects at 63
- a Portfolio Transition Impact floor for the average for existing projects at 65
- number of new operations within a range of 395 to 445
- Annual Bank Investment within a range of €9.7–10.7 billion
- Annual Mobilised Investment floor set at to €1.1 billion with a floor for combined
- annual bank and mobilised investment set at €10.8 billion
- a minimum non-sovereign share of Annual Bank Investment of 80 per cent
- a target Green Economy Transition share of 40 per cent of the ABI mid-range
- annual disbursements range of €6.9–8.2 billion
- a three-year rolling average of Return on Required Capital of at least 3.5 per cent
- composite Performance Assessment indicators for each of the Bank's six transition qualities

Success in delivering on these objectives is expected to result in significant growth of the Banking portfolio of around 7 per cent (from Q3 2019 to end 2020) and operating assets of around 8 per cent, which needs to be properly supported by three financial dimensions: capital, liquidity and budget:

- From a capital perspective, the Bank will start 2020 from a position of strength that is expected to be maintained throughout 2020 with an end of year projected capital adequacy ratio (CAP) of 70 per cent (compared to a limit of 90 per cent) and a statutory capital ratio of 80 per cent (compared to limit of 92 per cent).
- From a liquidity perspective, the Bank will shape its borrowing programme to comfortably comply (and exceed) its various minimum limits and therefore continue counting on liquidity as a very strong consideration for the rating agencies. Consequently a borrowing programme for 2020 of €12 billion is separately proposed, with formal approval by the Board of Directors requested in the recommendation contained in BDS19-171.
- From a budget perspective, the Bank's significant real growth (achieved and planned) calls for a reasonable real growth of budget and human resources whilst improving levels of efficiency.

The Bank's delivery of its 2019 targets has brought to the fore increasing pressures on the Bank's resources—a trend set to continue in 2020 as a result of:

- managing, measuring, and monitoring a growing balance sheet (size and number of projects)
- originating and delivering on increasingly complex, innovative projects, tailored to country-specific needs and opportunities (in alignment with the 2016 transition concept review)
- matching rising investment activities with increasing donor co-financing that is becoming more complex, targeted and reporting-intensive
- a rising compliance bar for Multilateral Development Banks ranging from more transparent Access to Public

Information policies (and implementation thereof) to participating in a growing, yet fragmented and evolving ESG (Environmental, Social and Governance) universe, resulting in the Bank's need to engage in and comply with a plethora of ESG standards (such as ESG screening by rating agencies) and initiatives (such as Principles for Responsible Investing and Climate-related Financial Disclosures)

- the need for sound risk and compliance management to address operational and financial risks

Adding to these resource pressures, the Bank must deal with:

- price increases of its costs that exceed average Consumer Price Index (CPI) levels
- carryover consequences of decisions taken in previous budgets
- delivery of the two-year comprehensive Reward Review to address legacy gaps in various components of staff compensation and benefits

Against this background and already taking into account 2020 cost savings and significant reallocation of existing resources to priority areas, a nominal increase of 3.7 per cent for the 2020 Administrative Expense Budget is proposed, divided into (see Table 6.2):

- non-discretionary price increases (such as contractually agreed inflation impacts, foreign exchange rate movements) representing 1.8 per cent
- non-discretionary carryover impacts from previous decisions/budgets representing 1.5 per cent
- budget impact of 1.0 per cent as a result of the proposed compensation increase at CPI level for Headquarters and Resident Offices
- an increase of the 2020 budget as a result of the Reward Review proposals related to post-leave medical care representing 0.3 per cent
- an increase of 0.5 per cent in real resource growth—the only component of the budget request related to a volume of incremental resources

The above are offset by 1.4 per cent of efficiencies or budget reductions. This includes 0.8 per cent identified across staff and non-staff costs, including achieving target OE&E savings from procurement activities, as well as 0.6 per cent of recurring budget reductions (specific budget lines to be defined during 2020).

Following three years of limited real budget increase that has exhausted efficiency gains and manoeuvring space for resource reallocation, the proposed budget will enable the Bank and its staff to meet the 2020 business plan objectives, manage a growing portfolio and safeguard quality delivery. The proposed budget is fully funded by the growth of business and revenues and is therefore financially responsible (with the five-year cost-to-income ratio indicatively projected at 35.1 per cent by the end of 2020) whilst also enabling the Bank to address some long-standing legacy gaps in compensation necessary to retain and attract highly skilled employees.

ABBREVIATIONS

ABI .... Annual Bank Investment
AEB .... Agreement Establishing the Bank
AMI .... Annual Mobilised Investment
ASB .... Advisory for Small Business
BAAC .... Budget and Administrative Affairs
BCV .... Board Consultation Visit
BPS .... Business Performance Services
CAP .... Capital Adequacy Policy
CCT .... Consultants, Contractors and Temporary Staff
CGAP .... Comprehensive Governance Action Plan
CPA .... Composite Performance Assessment
CSDR .... Country Strategy Delivery Review
DCF .... Donor Co-Financing
ETC .... Early Transition Country
ETI .... Expected Transition Impact
FLTT .... Financial Loss Tolerance Thresholds
FOPC .... Financial and Operations Policies Committee
FX .... Foreign Exchange
GDP .... Gross Domestic Product
GET .... Green Economy Transition
GEFF .... Green Economy Financing Facility
HROD .... Human Resources and Organisational Development
IPM .... Investment Profitability Model
JML .... Joiners, Movers, Leavers
LCY .... Local Currency Financing
MSME .... Micro, Small and Medium-sized
MTD .... Medium-Term Directions
PTI .... Portfolio Transition Impact
RAROC .... Risk-Adjusted Return on Capital
RORC .... Return on Required Capital
RSA .... Risk Appetite Statement
SCF .... Strategic and Capital Framework
SEMED .... Southern and Eastern Mediterranean
SIP .... Strategy Implementation Plan
SOE .... State-Owned Enterprises
SSF .... Shareholder Special Fund
TALP .... Treasury Authority Liquidity Policy
TC .... Technical Cooperation

1. INTRODUCTION: SETTING THE CONTEXT

1.1 Defining Strategic Directions: The Building Blocks

The Bank relies on a comprehensive set of strategic documents through which it defines its strategic directions for the medium term, refines its delivery model and plans its investment and policy activities (see Figure 1.1).

- At the highest level, the Bank is guided by its mandate to promote sustainable market economies in its countries of operations, examined through the lens of the six transition qualities, and subject to financial sustainability, additionality and the political principles of Article I of the Agreement Establishing the Bank (AEB).
- The Strategic and Capital Framework (SCF), as approved by the Board of Governors, lays out the broader marching orders for the next five years. Importantly, the SCF sets out the 'strategic control parameters' with respect to transition, capital and resource efficiency (see Section 2.1).

Figure 1.1 Strategic Planning at the Bank: The Building Blocks

The *Bank's Mandate* is to promote sustainable market economies in its regions of operations subject to financial sustainability, additionality and adherence to the political principles in Article I.

Medium-Term (5 years)

Strategic and Capital Framework

Five-year high-level planning document, informed by the Medium-Term Directions:

- Sets strategic directions
- Reviews Bank's capital capacity
- Sets strategic control parameters

Country Strategies

Five-year medium-term strategy:

- Prioritises transition qualities, sets strategic objectives and details investment and policy activities to achieve these
- Supported by Sector Strategies on how the Bank will deliver (e.g. products, policy)

Annual (1 year)

Strategy Implementation Plan

Annual Business Plan on three-year rolling basis:

- Details operational, financial and capital projections
- Reports on *Corporate Scorecard* and details budget for the first year of the *Plan*

Country Strategy Delivery Reviews

- Reports on annual performance against each country strategy
- Highlights opportunities and challenges to delivery in the coming year

Strategic and Capital Framework 2016–20

The EBRD's first Strategic and Capital Framework (SCF) was approved by the Board of Governors in 2015 and covers the period from 2016 to 2020. The guiding goals of the SCF 2016–20 were set by the Bank's Medium-Term Directions which committed the Bank to:

- build transition resilience
- support market integration
- address common global and regional challenges

The SCF also proposed a review of the concept of transition to guide the Bank's delivery of its mandate. A revised transition concept was approved in 2016 establishing that a sustainable market economy is one that is competitive, well-governed, green, inclusive, resilient and integrated. These transition qualities now provide the Bank's operational framework.

The SCF set high-level qualitative objectives for the Bank to 2020. Operationally, these are to:

- increase emphasis on energy and resource efficiency, and energy security
- provide comprehensive support to small and medium-sized enterprises (SMEs)
- be active in local currency and capital market development
- increase financing for sustainable infrastructure through strong project preparation
- have a wide range of products, including a higher proportion of equity investment

The SCF included a number of cross-cutting objectives through which the Bank aims to:

- have a significant structured policy dialogue capacity
- fully mainstream inclusion and gender objectives
- mobilise significant cross-border capital and investment
- further strengthen results, orientation, design and lessons learned

Finally, in the context of a balanced portfolio, the SCF anticipated the Bank would move progressively towards countries and regions that are less advanced in transition, in particular the Early Transition Countries (ETCs), the Western Balkans and the southern and eastern Mediterranean region (SEMED).

Finally, in the context of a balanced portfolio, the SCF anticipated the Bank would move progressively towards countries within regions that are less advanced in transition, in particular the ETCs, the Western Balkans and the SEMED region.

The strategic directions set out in the SCF are then translated into annual business plans through successive Strategy Implementation Plans (SIPs). Each plan provides a three-year rolling perspective on the Bank's activities to provide context to the Bank's annual Budget and Corporate Scorecard which are approved by the Board of Directors. Each plan provides:

- an overall assessment of the anticipated delivery of the Bank's **transition mandate** through its activities in pursuit of Country Strategy objectives
- the **expected operational activities**—specifically levels of investment, donor supported work and mobilisation—through which these country objectives will be pursued in the coming years and the consequent evolution of the Bank's portfolio
- an analysis of the impact of this portfolio evolution on the **financial sustainability** of the Bank, including an assessment of conformity with the Bank's capital policies and risk appetite statement
- the proposed **resourcing** for the Bank's activities, including the annual Budget for approval by the Board of Directors

The Bank's annual objectives are set out in the proposed Corporate Scorecard, also for the approval of the Board of Directors.

Country strategies provide more granular guidance on investment and policy activities by defining specific objectives. Having countries as the core lens through which the Bank plans its work reflects the insights of the 2016 review of the transition concept. It highlighted the importance of taking into account differing country circumstances when assessing progress towards sustainable market economies. Country strategy objectives are defined for a five-year period by a rigorous structured process that includes systematic analysis of:

- the **needs** of the country necessary for progress towards the achievement of the qualities of a market economy (via an assessment of the six transition qualities and in-country diagnostic work)
- the **opportunities** to make progress towards fulfilling those needs, including the scope of investment and the availability of committed partners in both the private and public sectors
- the **capacity** of the Bank to take advantage of those opportunities based on its areas of expertise, business model and complimentarity to other development finance institutions

In accordance with Article 11.2 in the AEB, progress towards pursuing the objectives of country strategies is assessed through Country Strategy Delivery Reviews (CSDRs) which in addition to a year-on-year performance also highlight the opportunities and challenges to future delivery. Country strategies are complemented by sector and thematic strategies.

1.2 Outlook for 2020

The outlook for the European Bank for Reconstruction and Development (EBRD) regions is for continued stable growth, but far below pre-crisis levels. Most countries in the EBRD regions have experienced stable growth in recent years. However, on average, growth rates in the period 2010–18 were less than half of those recorded in the period 2000–07 and this trend is expected to continue. Convergence to G7 income levels is now estimated to take more than 25 years longer than it would have taken with the higher average growth rates observed in the period 2000–07.

External conditions are expected to deteriorate. Global growth is expected to slow further from 3.8 per cent in 2017 to 3.2 per cent in 2019, recovering partially to 3.5 per cent in 2020 and the medium term. The outlook for the global economy is hampered by a prolonged period of heightened policy uncertainty and continued trade tensions. Economic growth in the eurozone, in particular, is projected to fall to 1.7 per cent in 2020 (down from 2.0 per cent in 2018 and 1.9 per cent in 2019), reflecting a decline in exports and slowing manufacturing activity.

Weaker external conditions are expected to weigh on growth in the medium term. The EBRD regions and Emerging Europe in particular are highly integrated in global value chains, making them vulnerable to changes in external conditions. Foreign direct investment inflows as a per cent of GDP have been falling since the global financial crisis and are expected to decline further; global value chain integration appears to have plateaued and started declining relative to global GDP. Against this background, average growth in central Europe and the Baltic States and south-eastern Europe is projected to slow in 2019 and 2020, mirroring weakening growth in the eurozone.

Average growth in the EBRD regions is expected to pick up somewhat in 2020 after slowing in 2019, largely on account of expected recovery in Turkey. After a very sharp slowdown in the second half of 2018, growth in Russia is expected to pick up in 2020 (following a decline in 2019 on the back of an increase in the rate of value added tax). Growth in Eastern Europe and the Caucasus and Central Asia is expected to increase moderately in 2020; however, in most cases it remains too weak in per capita terms to raise living standards to a meaningful extent. Growth in the southern and eastern Mediterranean is projected to increase in 2020 but remains modest in per capita terms, reflecting higher rates of population and workforce growth. The outlook is particularly uncertain in Lebanon given geopolitical tensions and high levels of public debt and external financing needs.

Financing conditions are expected to remain favourable. The financing conditions faced by economies in the Bank's regions tightened throughout 2018, but have generally eased since January 2019 and the cost of funding has remained low from a historical perspective. The monetary policies of the United States and the eurozone are expected to remain accommodative, with markets expecting further easing in the United States.

The outlook for the EBRD regions remains subject to significant downside risks. These include a further moderation in global growth and, in particular, a sharper-than-expected slowdown in the eurozone, trade tensions and possible further disruptions to global supply chains, and the consequences of Brexit. The security situation in the Middle East and geopolitical tensions also represent significant sources of risk. On the upside, many of the economies where the EBRD invests have strengthened their macroeconomic frameworks, and many have fiscal space available that could facilitate an appropriate policy response in the event of an adverse external shock.

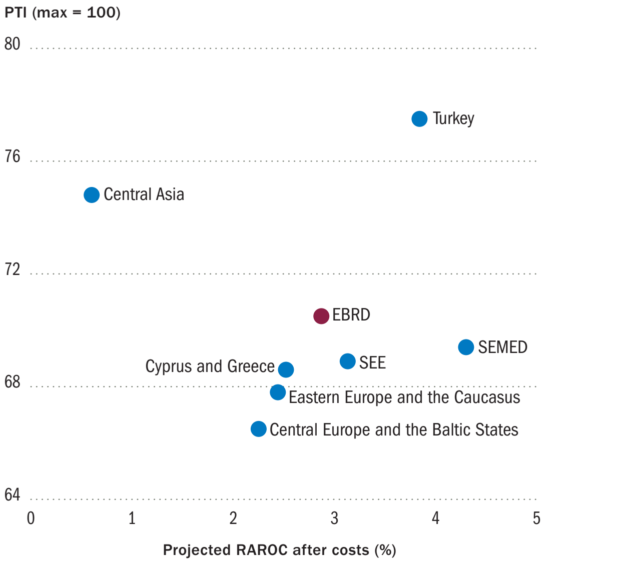
1.3 Strategic Portfolio Assessment

Examining the performance of the Bank's existing debt portfolio against the dual objectives of transition and financial sustainability offers the following insights:

- **The Bank's debt portfolio appears to perform best in the Bank's largest countries of operations, possibly owing to a larger pool of potential projects and hence greater ability to focus on areas where the Bank can have the greatest impact and influence.** Figure 1.2 presents the projected performance of the Bank's debt portfolio by region at the end of 2018, against transition and financial objectives, as measured by PTI and Projected Risk-Adjusted Return on Capital (RAROC). Relative to the Plan of the previous year, RAROC has strengthened significantly in the SEMED region, reflecting the upgrade of Egypt's country risk rating, whilst in Turkey rising impairments and downgraded risk rating have reduced risk-adjusted returns from previously very high levels—albeit still at above-average levels. Turkey's transition performance remains strong, as is that in Central Asia, although at the expense of below average financial returns.
- **For approved projects in the period of 2017–18, the Bank's predicted performance in terms of expected transition and financial performance for all regions is positive and broadly similar to that shown at portfolio level.** Figure 1.3 depicts ETI against the results from the Investment Profitability Model (IPM) RAROC for debt project approvals in the period 2017–18. This analysis of new project approvals complements Figure 1.2, as it offers an indication on how the Bank's portfolio is likely to develop in specific regions going forward. The financial and transition impact profile of recent project approvals is broadly similar to the portfolio view presented in the top chart. One notable difference is Turkey where new transaction IPM RAROC results can respond dynamically to credit downgrades with an opportunity to elevate interest margin levels due to the more pessimistic risk outlook.

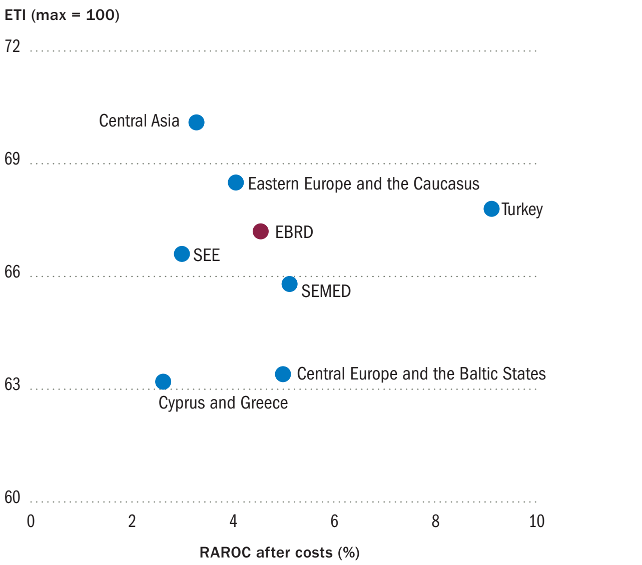
While this analysis is useful in illustrating the dynamics of the portfolio and how regions compare, it needs to be treated cautiously as neither a predictor of future performance nor a determinant of planning. First, the view is inevitably backward looking and subject to change over time, as the year-on-year fluctuations in financial performance shows. Secondly, in planning its activity the Bank maximises transition and financial objectives subject to strategic choices in terms of geographic and sectoral focus and is willing to accept trade-offs. In particular, strategic policy objectives may on occasion push the Bank to exert higher effort in areas where achieving transition and financial objectives has so far been challenging.

Figure 1.2 The Bank's Existing Portfolio 2018: Transition and Financial Return by Region



Notes: Performance is influenced by the quality of projects at origination and the subsequent evolution of the risk environment and progress in reforms. For example, country rating downgrades would typically increase expected credit losses, thus reducing projected RAROC to below peer regions. SEE = south-eastern Europe; SEMED = southern and eastern Mediterranean.

Figure 1.3 New Portfolio Projects (2017–2018): Transition and Financial Return by Region



Comparing the evolution of volume of Annual Bank Investment and number of projects between two strategic medium-term planning periods (Capital Resources Review [CRR] 2011–15, SCF 2016–20) offers a complex picture (see Table 1.4). The SCF headlines pointed the Bank's activities towards those countries and areas least developed in transition highlighting the need to strengthen engagement in ETCs, the Western Balkans and to build up activity in the SEMED region, which were in their early stages when the SCF was approved. The growth in the Bank's activity in SEMED has progressed strongly, with 18 per cent of cumulative ABI and 12 per cent of projects taking place in the region during the SCF period—the continuation of this trend is shown in section 4. For the longer established strategic priority areas, comparisons with the previous CRR period are not straightforward. However, the Bank's delivery in ETCs has been proportionally slightly higher in the SCF period and whilst the share of cumulative ABI in the Western Balkans is lower, the proportion of projects in the region is roughly equivalent. However, the Western Balkans is the region where the Bank's investment as a share of GDP is at its highest and the scope for increases may be more limited. The balance presented in the Plan also reflects the approach to graduation highlighted in the SCF that 'as the transition becomes still more advanced, the level of activity of the Bank in a country will decrease as a consequence of the fewer market segments in which Bank investments can satisfy its operating principles (transition impact, sound banking and additionality). Finally, the table shows that share of equity investment within ABI has fallen sharply, despite the expectation at the outset of the SCF period for increases. This has reflected both financing conditions, which have limited the number of financially attractive transition business opportunities, and the reorientation of the Bank's approach to equity investment.

Table 1.4 Evolution of the Bank's Portfolio Composition by Region

	Capital Resources Review 2011–15		Strategic and Capital Framework 2016–20	
Shares in cumulative....	ABI	Projects	ABI	Projects
Central Asia	9.2%	16.8%	12.4%	20.4%
Central Europe and the Baltics	14.5%	11.2%	14.1%	11.2%
Cyprus and Greece	1.0%	0.4%	7.3%	3.4%
Eastern Europe and the Caucasus	19.4%	24.3%	16.5%	22.5%
Russia	18.0%	10.7%	0.0%	0.2%
South-Eastern Europe	17.1%	23.6%	16.4%	20.7%
Southern and Eastern Mediterranean	7.1%	4.8%	18.4%	11.6%
Turkey	13.8%	8.3%	14.9%	10.0%
Early Transition Countries	12.3%	28.2%	13.6%	28.7%
Western Balkans	10.2%	13.3%	9.4%	13.0%
EBRD equity share	13.0%		6.9%	

2. MONITORING PERFORMANCE AND SETTING 2020 SCORECARD PARAMETERS

2.1 Strategic and Capital Framework Control Parameters

In addition to setting the high-level objectives for the Bank, the SCF sets six 'control parameters' to monitor the Bank's performance to 2020 across three key aspects:

- **Ensuring the Bank delivers on its mandate:** Minimum levels for the Bank's transition delivery through its projects at approval and throughout their life. Floors are set for the average quality of the Bank's projects at their initial approval (Expected Transition Impact [ETI]) and over their lifetime (Portfolio Transition Impact [PTI]) as measured through the Bank's internal monitoring systems.
- **Ensuring financial sustainability:** Maximum levels of capital utilisation as measured both on a statutory basis and through the Bank's Capital Adequacy Policy (CAP) to ensure financial sustainability
- **Preserving efficiency:** Maximum levels for the five-year rolling average of each of the Bank's cost-to-income ratio and the share of Staff Costs in Total Costs.

The trends in these parameters play an important part in guiding the Bank's work and compliance with limits in the first year of the Plan a precondition for Board approval of the Corporate Scorecard and Budget for the first year of the Plan (2020).

The Bank has been performing and is projected to perform within all six control parameters within the period of this Plan (see Table 2.1).

- At the end of September 2019, the Bank is operating above the ETI and PTI floors for the average, with levels standing at an ETI of 67 and a PTI of 70.3, respectively.
- Both capital utilisation measures are projected to rise until 2022 reflecting the enhanced level of ambition presented in this document. However, the Bank continues to remain well within the control levels.

Table 2.1 Performance on Strategic and Capital Framework Control Parameters

	Control Level	2017 Actual	2018 Actual	2019 Estimate	2020 Projected	2021 Projected	2022 Projected
Transition parameters							
Expected transition impact	> 60	67.7	66.7	67.0			
Portfolio transition impact	> 65	70.4	70.1	70.3			
Capital parameters							
Statutory capital utilisation	< 92%	70%	73%	77%	80%	82%	84%
Capital utilisation (under CAP)	< 90%	70%	73%	69%	70%	71%	72%
Resource parameters							
Cost-to-income ratio (5-year rolling average)†	< 50%	36.4%	41.9%	35.9%	35.1%	36.0%	35.8%
Staff cost to total cost	< 70%	66%	66%	66%	67%	68%	68%

* as of end of September 2019

† The cost-to-income ratio ensures a healthy balance between costs and income generation with the rolling average designed to smooth fluctuations. Following approval by the Bank's Governors, the control level was set at 50 per cent. If the operational limit of 40 per cent is exceeded, Management is required to present to the Board of Directors an analysis of the causes of the rise in the ratio and a proposal for mitigation. The Board of Governors would be informed of the event and the appropriate action.

- Resource control parameters are projected to remain below the control levels for the planning period:
  - The cost-to-income for the end of 2019 is 36 per cent—down from 42 per cent ratio in excess of the operational level in 2018—and projected to stay around this level for the Plan period. The cost-to-income ratio is primarily sensitive to income, not costs (where the Bank has always stayed within the Board approved budget). The 2018 excess of the operational level was a combination of volatility in the Bank's equity portfolio (with close to zero returns in 2018) and a legacy of the Bank's 2014 subpar financial performance that continued to feed into the 2018 calculation as part of the five-year rolling average.
  - The ratio of staff costs to total costs is projected to remain below the 70 per cent ceiling, albeit increasing over the Plan period.

2.2 Corporate Scorecard

The Bank's Corporate Scorecard reflects the Bank's commitment to deliver on its mandates, striking a balance between meeting transition, operational, and financial objections as well as on resourcing and organisational goals. The current scorecard structure was designed in 2013 with subsequent revisions approved by the Board of Directors reflecting the introduction of the revised transition concept in 2016, a new financial measure in 2017, and a minimum share of non-sovereign lending of Annual Bank Investment in 2018. For 2020, and reflecting a continuous focus on mobilisation, an increase in the floor for Annual Mobilised Investment (AMI) is suggested to €1.1 billion. A further review will be undertaken in the course of the preparation of the Bank's second Strategic and Capital Framework (2021–25) and the results reflected in revisions to the Corporate Scorecard from 2021 onwards.

The Board of Directors is asked to approve the Bank's Corporate Scorecard 2020 (see Table 2.2).

Table 2.2 The Bank's Corporate Scorecard for 2020

	2020 BP and Budget	Q3 2019 Actual	2019 BP and Budget	2018 Actual
TRANSITION IMPACT				
Expected Transition Impact	Min 63	67.0	Min 63	66.7
Portfolio Transition Impact	Min 65	70.3	Min 65	70.1
Transition Qualities				
Competitive, innovative economies	CPA*	†	CPA	Good
Share of Projects On Track	Min 75%			80%
Well-governed economies and firms	CPA	†	CPA	Good
Share of Projects On Track	Min 75%			75%
Environmentally sustainable, green economies	CPA	†	CPA	Good
Share of Projects On Track	Min 75%			78%
GET ratio	40%			36%
Inclusive, Gender-equal economies	CPA	†	CPA	Good
Share of Projects On Track	Min 75%			91%
Resilient economies and firms	CPA	†	CPA	Good
Share of Projects On Track	Min 75%			81%
Well-integrated, connected markets	CPA	†	CPA	Good
Share of Projects On Track	Min 75%			77%
OPERATIONAL PERFORMANCE				
Number of operations	395–445	265	385–440	395
Annual Bank investment (ABI: € billion)	9.7–10.7	5.7 (plan rate)	9.6–10.6	9.5
Annual mobilised investment (€ billion)	Min 1.1	0.9	Min 1.0	1.5
Disbursements (€ billion)	6.9–8.2	4.9 (plan rate)	6.7–7.9	7.2
Non Sovereign Share of ABI	Min 80%	84%	Min 80%	n/appl
FINANCIAL PERFORMANCE				
Return on Required Capital (3 year rolling average)	Min 3.5%	6.1%	Min 3.5%	5.9%
Realised profit before impairment (€ million)	Tracked	494	Tracked	606
Non-Performing Loan ratio (non-sovereign %)	Tracked	5.6%	Tracked	5.5%
ORGANISATIONAL PERFORMANCE				
Productivity (number of operations based)	1.5–1.7	†	1.6–1.8	1.6
Staff Engagement Ratio	Tracked	—	Tracked	3.8
RESOURCE FRAMEWORK				
Expenditure				
Administrative Expense Budget				
Euro (million)	437.0	305.9	421.8	406.3
Pound Sterling (million)	383.4	269.6	370.0	358.8
Operational Effectiveness and Efficiency Investment				
Euro (million)	n/appl	4.4	3.2	3.7
Pound Sterling (million)	n/appl	3.9	2.8	3.4

* CPA: Composite Performance Assessment
† Assessed at year-end

3. ACHIEVING TRANSITION

The Bank's mission is to support its Countries of Operations in achieving the transition to a sustainable, well-functioning market economy subject to demonstrating additionality and maintaining financial sustainability (see Section 2.1). Against this backdrop, Figure 3.1 on pages 10–11 provides an overview of the Bank's prioritisation of transition qualities per region alongside standardised transition objectives, which are part of the Bank's Standardised Compendium of Indicators to measure its delivery in a consistent and standardised manner.

The Competitive quality continues to be the key transition quality targeted by country strategies for both investments and policy engagement. On average three separate Competitive objectives are targeted in each Country of Operations, tailored to match country-specific circumstances. Support for increased competition, the strengthened role of SMEs, and improved business skills reflect the strong focus on work with private companies; reinvigorated work with state-owned enterprises (SOEs) is shown in the relative importance of commercialisation and restructuring of SOEs, as well as in increased private sector ownership. Increased Competition through new entry/consolidation and levelling the playing field as well as support for increased private sector ownership and participation continue to be the key focus in more advanced transition countries in central Europe, Cyprus and Greece. Improved business skills, standards and sophistication, increased competition and support for commercialisation and restructuring of SOEs are targeted in less advanced countries in eastern Europe, south-eastern Europe and Central Asia. Competition, financial diversification, and support for innovation, for example, are key objectives of the recently approved Country Strategy for Turkey (2019–24).

The Green transition quality continues to be an important objective across almost all regions of the Bank, reflecting the Bank's strategic focus and capabilities in this area. The Bank focuses primarily on energy efficiency improvements and increased renewable energy in the fuel mix, with those two key objectives accounting for more than half of all Country Strategy objectives under the Green transition quality. Increasingly, country strategies also focus on greater resource efficiency including waste management and recycling, as well as the reduction in the vulnerability to climate change, and increased water efficiency and quality. The Green transition quality is particularly important in south-eastern Europe and Turkey, as well as Central Asia. More broadly, strategic objectives targeting Green quality are strongly present across all regions, except for Cyprus and Greece. Country Strategies with key strategic objectives focusing on Competitive, Resilient and Well-governed qualities also often target Green as a secondary transition quality. It is important to note that comprehensive programmes with Green quality heading, such as Green Cities Action Plans, cover a number of activities and policy engagements that can focus on a range of transition qualities.

The Bank is active in improving financial resilience in Turkey, central Europe, Cyprus and Greece, as well as engaged in safeguarding energy resilience in key regions of central Europe, Eastern Europe and the Caucasus, SEMED, and Turkey. Resilient features as a key transition quality in Turkey, central Europe, Cyprus and Greece, where the Bank targets resilience of the financial sector, including support for strong capitalisation and sustainable funding structures in the banking sector, increased variety and sophistication of non-banking financial products and services and developing capital markets and local currency financing solutions. Those areas are also important in country strategies for some less advanced transition countries in south-eastern Europe, eastern Europe, Central Asia and SEMED, although to a lesser degree than other strategic objectives under different qualities reflecting overall progress with transition reforms. In central Europe, support for liberalisation of the energy sector, development of the energy markets, reinforced networks for domestic and inter-country connectivity, and improved energy regulatory standards are particularly important. Improved regulatory standards to promote energy resilience are also targeted in Eastern Europe and the Caucasus, SEMED and Turkey. Policy engagements on energy sector regulatory standards to support resilience are closely linked to support for the development of regulatory frameworks for the expansion of renewable energy under the Green transition quality.

Figure 3.1 Country Strategy Objective by Quality (Count of Objective, including [Policy component])

Transition quality	Country Strategy Objective (based on Standardised Compendium of Objectives)"	Central Asia	Central Europe and Baltic States	Cyprus and Greece	Eastern Europe and the Caucasus	Russia	SEMED	South-eastern Europe	Turkey
	Total number of countries per region	n=6	n=8	n=2	n=6	n=1	n=5	n=8	n=1
COMPETITIVE	Increased competition through entry/consolidation and levelling playing field	2 [2]	4 [1]		3 [3]		2 [2]	4 [3]	1
	Strengthened role of SMEs in economy	3 [2]			1 [1]	1	3 [3]	3 [3]	
	Enhanced value chains and linkages	1 [1]	1 [1]		2 [1]		2 [2]	3 [2]	
	Diversified and deepened financial system products	2 [1]	4 [4]		1				1 [1]
	Improved product and process innovation and levels of technology penetration (including ICT)		1 [1]		1	1	2 [2]	1	1 [1]
	Improved business skills, standards and business sophistication	3 [3]	1	1 [1]	3 [3]		3 [2]	2 [2]	
	Increased private sector ownership and participation	2 [2]	6 [5]	2	2 [2]	1	3 [2]	2 [2]	
	Commercialisation and restructuring of SOEs	2 [2]	2 [1]	1	4 [4]	1	2 [1]	4 [3]	
	Conducive environment for market efficiency and commercially sound decision making	4 [3]		1 [1]	1 [1]	1	1 [1]	3 [3]	
INTEGRATED	Enhanced trade through process upgrades/adopted technology/improved global value chains	2 [2]			1 [1]			2 [2]	1 [1]
	Improved institutional arrangements between countries for trade and investments	1 [1]		1 [1]					
	Increased FDI and associated production enhancements	1							
	Increased capital markets integration								
	Improved quality and connectivity of infrastructure for effective/efficient economy interactions	4 [3]			2 [2]			6 [6]	
	Enhanced legal, regulatory and institutional frameworks for improved use of infrastructure and reduced transaction costs							1	
GREEN	Increased energy efficiency (EE)	2 [2]	3 [1]		3 [2]		3 [2]	7 [6]	
	Increased renewable energy (RE) in the fuel mix	4 [4]	4 [1]		2 [1]		3 [3]	5 [4]	1 [1]
	Reduced GHG emission				1		1 [1]	1 [1]	
	Improved land management and agriculture value chain								
	Increased water efficiency							2 [2]	
	Reduced vulnerability to climate change	1			1 [1]			2 [2]	
	Pollution prevented and controlled		1 [1]					1 [1]	
	Improved water quality							1 [1]	
	Increased resource efficiency including waste management/reduction & recycling	3 [3]	1 [1]		1 [1]		2 [1]	1	1 [1]
	Improved waste and wastewater treatment						1	3 [2]	

(Cont'd.)

Figure 3.1 (***continued***) Country Strategy Objective by Quality (Count of Objective, including [Policy component])

Transition quality	Country Strategy Objective (based on Standardised Compendium of Objectives)"	Central Asia	Central Europe and Baltic States	Cyprus and Greece	Eastern Europe and the Caucasus	Russia	SEMED	South-eastern Europe	Turkey
	Total number of countries per region	n=6	n=8	n=2	n=6	n=1	n=5	n=8	n=1
WELL-GOVERNED	Stakeholders and institutions governed more effectively on national level				1 [1]				
	Strengthened policies and institutions to fight and prevent corruption								
	Improved procurement policy and practice						1 [1]		
	Strengthened corporate governance practices						1 [1]	1 [1]	
	Strengthened rule of law				2 [1]		1 [1]	1 [1]	
INCLUSIVE	Increased access to employment opportunities for all population groups (gender, age, regions)						3 [3]	1	1 [1]
	Increased access to skills development opportunities contrbuting to reduction of skill missmatch (gender, age, regions)	1 [1]					2 [2]	1 [1]	1
	Increased access to infrastructures unlocking economic opportunities (gender, region)						1	1 [1]	
	Increased access to finance (gender, age, regions)				2 [2]		2 [1]	1 [1]	
	Increased access to water and wastewater (gender, region)								
	Improved business standards of conduct and decision-making for equal opportunities								
	Improved regulation and quality of institutions related to excluded groups (such as for employment and education)							2 [2]	
RESILIENT	Strengthened resilience including capitalisation and sustainable funding structure of banking sector	1 [1]	4 [3]	2 [2]	1		1 [1]	1 [1]	1
	Increased variety and sophistication of non-banking financial products and services	1 [1]	1 [1]	1 [1]	2 [1]		2 [2]	3 [2]	1 [1]
	Developed local capital market and local currency financing solutions	1 [1]	3 [2]	1	1 [1]		2 [2]	2 [2]	
	Liberalised energy sector with effectively improved market liquidity		3 [2]		1 [1]				
	Reinforced networks for domestic and inter-country connectivity		3 [3]		1 [1]			1 [1]	
	Improved regulatory standards to promote energy resilience		3 [2]	1 [1]	1 [1]		1 [1]		1

Note: This table maps the Bank's prioritisation of its investment and policy objectives against its regions of operations. Each cell provides the number of countries in which the standardised objective features as a priority, the number in brackets indicates whether the objective features a policy component. For example, in Central Asia the objective of "strengthened role of SMEs in the economy" is featured in the country strategies of three countries (out of a total of six economies) and includes a policy component in two out of these three economies.

It is important to note that Country Strategies are being updated on a rolling basis. More recent country strategies are therefore more likely to feature the concept of green and inclusive, reflecting the Bank's shift towards a more comprehensive idea of transition.

The Bank has been ramping up its support for inclusive economies with key focus on SEMED and Turkey. Inclusive as a transition quality is a key strategic focus in more recent countries of operations such as Turkey and SEMED, as well as less advanced transition countries in south-eastern Europe where inclusion gaps are large in terms of gender inequality, high youth unemployment, and regional disparities. On the other hand, no current Country Strategy in central Europe, Cyprus and Greece targets inclusion quality as the primary objective, just one Central Asian country targets increased access to skills development opportunities, and two eastern European country strategies target increased access to finance to address inclusion gaps, showing a potential for further expansion of Bank's activities in this area. In addition, Women-in-Business—a well-developed flagship inclusion programme that has been deployed across a number of countries—can also be covered by strategic objectives focusing either on Competition or Resilience as primary transition qualities. Further efforts are also needed to increase the range of available instruments and to mobilise necessary donor co-financing on a long-term sustainable basis to expand the number of countries with more ambitious primary objectives targeting inclusion gaps.

Intensifying the Bank's Policy Engagement

Following the streamlining of the Bank's Priority Policy Objectives (PPOs) in 2017 the Bank has expanded the initiative to over 30 countries, with focus areas varying by region and country in line with challenges and opportunities reflected in the Country Strategy Priorities by Qualities (see Table 2.1).

Addressing gaps under the **Resilient** quality, the Bank is assisting in the implementation of legal reforms in the Egyptian gas sector and the diversification of gas supply in Morocco. Other areas include the development of capital and money markets in Kazakhstan, helping to develop pan-Baltic capital markets as well as an enhanced focus on non-performing loan (NPL) resolution efforts and improving capital market infrastructure in Turkey.

Targeting **Green** as a transition quality, in Armenia, Ukraine and Georgia—among other countries—the Bank supports the development of the renewable energy sector. Other areas of support include green urban development in Bosnia and Herzegovina and improvements in the renewable power off-take structure in Kosovo. In Belarus, the Bank is focused on the adoption of the National Energy Efficiency Action Plan.

Helping economies become more **Integrated**, the EBRD is working on transport infrastructure improvements in North Macedonia, and enhancing inter-regional connectivity and international integration by reviewing railway tariffs in Kazakhstan.

Aiming for **Well-governed** economies, policy objectives include the launch of the Foreign Investors Council in Uzbekistan, strengthening of the banking sector in Tajikistan, and capacity building for the Albanian gas operator. Improving SOE performance and governance is a focus area in Slovenia as well as Serbia, while in Bulgaria the Bank is aiming to strengthen the energy regulator. In Romania, the improvement of public urban transport is a priority via the improvement of operating efficiency.

Working towards more **Inclusive** economies, the Bank is supporting the removal of legal barriers to women's economic participation in the Kyrgyz Republic. In Jordan, more inclusion is targeted in water and wastewater public procurement, while in Kazakhstan skill mismatches are addressed by improving the national qualifications framework. Key policy objectives in Turkey include the improvement of vocational education effectiveness through private sector engagement.

Strengthening the **Competitive** quality of economies, the Bank is supporting private sector participation in the renewable energy and infrastructure sectors in Tunisia, as well as the modernisation of Egypt's public utilities. In Mongolia, the implementation of renewable energy auctions is targeted, along with the support for private sector participation in infrastructure in Montenegro. In Turkey, the Bank is working on the rationalisation of incentive measures in agriculture.

2020 Scorecard Parameters: Transition Impact

The 2020 Corporate Scorecard contains objectives for average ETI and PTI and progress under each of the six qualities of the revised transition concept using a Composite Performance Assessment (CPA) (see Table 2.2).

The SCF document provides for the level of the floor for the Bank's average ETI and PTI to be set each year. Last year's Plan increased the level of ambition to an ETI of 63 (from previously 60) with the proposal that this level be maintained until the end of the current SCF period in 2020. Average PTI is proposed at a minimum level of 65.

In addition, CPA indicators were introduced in 2016 to provide a comprehensive means of tracking the extent to which the Bank is supporting delivery at the institutional level across all transition qualities. The CPA indicators are composed of a set of qualitative and quantitative indicators for each quality aiming to achieve balanced coverage across the whole transition dimension while avoiding a burdensome or confusing proliferation of metrics. The CPA indicators draw from the Bank's Compendium of Indicators that allow for consistency in the choice of indicators for all the Bank's projects.

Similar to previous years, a **minimum requirement of 75 per cent** for successful implementation of operations (investment and policy engagement) is maintained across all six transition qualities.

The specific **reporting indicators** for each quality remain as in 2019, including:

- **Competitive.** The number of: projects with a Competitive objective; loans to SMEs financed through intermediaries and the impact of ASB operations on SMEs' turnover; and an account of qualitative achievements
- **Well-governed.** The number of operations with a Well-governed objective; the number of Comprehensive Governance Action Plans (CGAPs) agreed with clients; and an account of qualitative achievements
- **Green.** The number of operations with climate adaptation, water and/or waste minimisation components; estimated annual CO2 emissions reduction and the number of sub-loans financed by Green Economy Financing Facilities (GEFFs (formerly SEFFs)); and qualitative achievements focusing on policy dialogue and advisory work. The Bank targets a ratio of Green Economy Transition (GET) financing of 40 per cent by 2020
- **Inclusive.** The number of: new investments with either a gender component or focus; MSME sub-loans under Women in Business programmes; ASB operations with women-owned companies; operations with an Inclusive objective; new investments with a youth or regional inclusion focus or component and an account of qualitative achievements
- **Resilient.** The number of: operations with a Resilient objective; transactions contributing to local capital market development; the proportion of debt investments in local currency and the net changes in the capital adequacy ratio of partner banks and an account of qualitative achievements
- **Integrated.** The number of projects with an Integration objective and trade facilitation program transactions supported by partner banks, and a qualitative account of results focusing on policy dialogue and advisory work

As previously, CPAs will be assessed annually:

- Each **quantitative** indicator will be assessed against its floor (where it exists) or against a three-year rolling average, as 'strong', 'fair' or 'weak'.
- **Qualitative** indicators will be assessed as 'strong', 'fair', or 'weak' based on the magnitude and scope of results achieved in the year taking account of defined objectives and transition and operational factors.
- The overall CPA of Very Good, Good or Needs Attention will be derived by combining the assessments above. Progress against some components of the CPAs is also reported in the Bank's Quarterly Performance Report.

Integrated as a transition quality is the key focus of country strategies only in Central Asia, eastern Europe, and south-eastern Europe, as well as in Turkey. Improved quality and connectivity of infrastructure for effective and efficient economic interactions is particularly important in south-eastern Europe, Central Asia and eastern Europe, alongside support for enhanced trade through process upgrades and improved global value chains. Objectives targeting integrated transition quality are not a key focus of country strategies in either central Europe or SEMED. As Integrated as a stand-alone transition quality was approved only in 2017, a number of transactions and policy engagements with the Integrated as a primary transition quality are still covered in existing country strategies by other objectives including under Competitive and Resilient headings.

Well-governed as a transition quality is the least common primary stand-alone objective of country strategies but is an important and common complementary feature across all qualities. Well-governed as a stand-alone transition quality appears only in a few country strategies in Eastern Europe and the Caucasus, SEMED and south-eastern Europe, focusing on strengthened rule of law, better corporate governance practices, and improved procurement. However, strong focus on corporate governance and rule of law is a cross-cutting theme strongly highlighted in a number of country strategies across objectives focusing on other transition qualities, including Competitive quality where governance improvements go hand in hand with support for increased competition, strengthened role of SMEs, improved business standards, commercialisation and restructuring of SOEs, and supporting creation of a conducive environment for market efficiency and commercially sound decision making, including through such flagship programmes as the Investment Climate and Governance Initiative.

4. DEFINING OPERATIONAL ACTIVITY

4.1 Investment Activity

This section presents the Bank's projected activity and portfolio over the period 2020 to 2022 in line with its operating principles and strategic objectives described in Section 1.1. While these projections take account of the results of the Bank's Strategic Review (BDS19-034) undertaken at the end of 2018 and of the SIP 2019–21, these do not pre-judge priorities and strategic directions to be developed in the context of the upcoming SCF 2021–25.

Annual investment activity

The Bank's investment volume for 2019 is estimated at around €10 billion while the number of operations for 2019 is expected to reach around 400—both of which are well within the 2019 Business Plan range. These projections are based on the actual results as at the end of the third quarter, on the current operating environment and on the current project pipeline for the remainder of the year. As at the end of the third quarter, ABI reached €5.7 billion at the current planning rate, similar to end September 2018 and above the end September 2017 level of €4.8 billion. The number of projects signed reached 265, compared to 261 in 2018 and 212 in in 2017, with average project size at €19.3 million compared to €19.5 million at end Q3 2018.

The SIP for the period 2020 to 2022 is based on similar assumptions as the current SIP including the following factors:

- Equity share of ABI is assumed to be at 10 per cent, based on an assessment of the current pipeline and reflecting the Bank's ambition to grow its equity portfolio in support of its transition impact and profitability.
- Sovereign ratio is assumed to be at around 18 per cent of ABI reflecting latest trends.
- Trade facilitation is assumed to be at around 10 per cent of ABI, similar to the level observed in 2018 and results over the first three quarters of 2019.
- New project activity in Cyprus is assumed to cease by end 2020.
- Management may conduct selective defensive portfolio and restructuring operations in Russia. Based on recent trends in portfolio dynamics and the marginal amount of restructuring operations conducted in the country over the past two years, no ABI is currently assumed for the SIP 2020–22 in Russia.

Projections of the Bank's investment activity for the period covered by the SIP 2020–22 take account of the Strategic Review. At the top end of operating ranges, ABI is projected at €10.7 billion for 2020, rising to €11.4 billion in 2021 and 2022. This increase assumes a full alignment of positive external and internal enablers identified in the Strategic Review across regions and sectors, resulting in the ability to operate towards the top end of the range across regions and countries. Reflecting ABI growth and assuming a broadly constant average project size, the number of operations is projected to increase from around 400 in 2019 to an upper end of up to 445 in 2020 and up to 470 in 2021 and 2022 (see Table 4.1).

Table 4.1 Number of Operations and Annual Bank Investment 2018–22 (€ billion at planning rate €/$1.15)

	2018 Actual	2019 Estimated	2020 Projected	2021 Projected	2022 Projected
Annual Bank Investment	9.5	around 10.0	9.7–10.7	11.4	11.4
Number of operations	395	around 400	up to 445	up to 470	up to 470

Portfolio and operating assets

The Bank's portfolio and operating assets are driven by a range of parameters, including Annual Bank Investment and disbursements and portfolio reflows (repayments, pre-payments, divestments and cancellations). For planning purposes, portfolio and operating assets projections are shown for two different activity levels for 2020, a planning level of €10.3 billion and an upper end of €10.7 billion. The operational parameters ranges for the years 2020 to 2022 (see Tables 4.2–4.5) reflect this range of 2020 ABI.

The Bank's annual disbursement reached €7.2 billion in 2018, up 14 per cent from end 2017 levels, and above the average of the previous five years at €6.6 billion. Reflecting these trends and assumed activity at the upper end of the range for 2020 to 2022, disbursements are estimated to reach up to €8.2 billion in 2020 and to increase to up to around €8.6 billion at the end of the planning period (see Table 4.2).

Table 4.2 Annual Disbursements 2018–22
(€ billion at planning rate €/$1.15)

	2018 Actual	2019 Estimated	2020 Projected	2021 Projected	2022 Projected
Disbursements	7.2	up to 7.9	up to 8.2	up to 8.5	up to 8.6

Annual portfolio reflows are projected at around 16 per cent of total portfolio in 2019 and to remain at around 17 per cent for the period 2020 to 2022 (see Table 4.3). Reflow projections are based on an analysis of individual reflow parameters which are either estimated on the basis of actual information (this is the case for scheduled repayments on existing operating assets) or of ratios to operating assets (for prepayments, divestments, and write-offs) or portfolio (cancellations). Projections for the main reflow parameters are based on the following assumptions for the period covered by this SIP:

- **Repayments are projected at around 18 per cent of the unimpaired loan operating stock.** Repayment projections are based on scheduled repayments for existing operating assets and repayment profiles for new commitments based on historical trend analysis accounting for projected levels of loan impairment. The current schedule of repayments on existing operating assets shows repayments to peak in 2021, with the average size of facility repayment rising by 11 per cent between 2020 and 2021. For the SIP 2020–22 period, annual repayments are projected at around 18 per cent of the unimpaired loan operating asset stock. This is similar to the historical average for 2016–18 and to projected levels in the current SIP 2019–21.
- **Annual prepayments projected at around 5 per cent of unimpaired loan operating assets for 2020 to 2022.** Current trends show a continuous decline from the peak experienced in 2016 which reflected a number of large prepayments on projects in Ukraine and Russia. As a result, the level of annual prepayment decreased from 10 per cent of unimpaired loan operating assets in 2016 to a stable level of around 5 per cent in both 2017 and 2018. Based on this trend and current levels in 2019, prepayments are projected at around 5 per cent of unimpaired loan operating assets for 2020 to 2022, a level similar to the projected level in the SIP 2019–21.
- **Annual divestments are projected to remain at around 13 per cent of equity operating assets.** Annual divestments reached €0.5 billion in the first nine months of 2019, similar to the level for the same period in 2018. Based on an examination of the stock of the Bank's current investments and possible exit opportunities, divestments are projected to remain at around 13 per cent of equity operating assets during the SIP 2020–22 period, similar to last year's projection. In volume terms, total divestments are projected at around €2.2 billion for the period 2020 to 2022, marginally below the €2.3 billion projected in the SIP 2019–21.
- **Cancellations are projected at around 7 per cent of undrawn commitments.** The annual volume of cancellations reached €0.7 billion in 2018, well below the levels of €1.2 billion experienced in 2016 and 2017. Cancellations to date in 2019 are in line with this trend with €0.6 billion of undrawn commitments cancelled in the first three quarters of the year. Based on these trends, annual cancellations are projected at around 7 per cent of undrawn commitments for the period 2020–22, compared to 8 per cent in the 2019–21 Plan.

Table 4.3 Portfolio Reflows 2018–22
(€ billion at planning rate €/$1.15)

	2018 Actual	2019 Estimated	2020 Projected	2021 Projected	2022 Projected
Portfolio reflows	6.4	up to 7.0	up to 7.4	up to 8.4	up to 8.4

Based on the above trends and projections of annual disbursements, portfolio reflows and investment activity levels, the Bank's portfolio and operating assets are projected to increase by up to 19 per cent and 21 per cent respectively from 2018 to end 2022. The Bank's portfolio is projected to increase by 19 per cent from €43.2 billion at the end of 2018 to €50.8–51.3 billion at the end of 2022, while operating assets are projected to grow by up to 21 per cent from €30.2 billion at the end of 2018 to €36.0–36.4 billion by the end of 2022. Taking into account projected portfolio growth, historic trends of the average project size and projected reflows, the number of active projects in the Bank's portfolio is projected to increase by about 18 per cent from 1,984 at the end of 2018 to up to 2,330 operations by the end of 2022 (see Table 4.4).

Table 4.4 Portfolio and Operating Assets 2018–22 (€ billion at planning rate €/$1.15)

	2018 Actual	2019 Estimated	2020 Projected	2021 Projected	2022 Projected
Portfolio	43.2	45.4–45.8	47.3–48.0	49.0–49.6	50.8–51.3
Operating assets	30.2	32.0–32.1	33.6–34.0	34.7–35.1	36.0–36.4
Active portfolio operations	1,984	up to 2,095	up to 2,170	up to 2,250	up to 2,330

At a regional level, reflecting transition opportunities and the Bank's additionality, the three largest portfolios by 2022 are projected to be in Eastern Europe and the Caucasus, in south-eastern Europe and in the southern and eastern Mediterranean region, while the highest portfolio growth rates are projected to take place in Central Asia and Eastern Europe and the Caucasus. Portfolio composition is a function of region-specific activity levels, product composition, reflow rates, and maturity of the portfolio. Reflecting these parameters at the upper end of the ABI range, the illustrative portfolio projections for 2020 to 2022 presented in Table 4.5 show that:

- The **Central Asia** portfolio is projected to grow by 44 per cent from €4.3 billion at end 2018 to €6.1 billion at end 2022.
- The **central Europe and the Baltic states** portfolio is projected to remain broadly constant over the period at around €6.0 billion, reflecting the high maturity level of this portfolio.
- The **Eastern Europe and the Caucasus** portfolio is expected to grow by around 27 per cent from €7.6 billion to up to €9.5 billion in 2022.
- The portfolio in **Cyprus and Greece** is projected to grow from €1.8 billion to up to €2.1 billion by end 2022 reflecting the growing reflow rate over the period combined with the cessation of new project activity in Cyprus by end 2020.
- The portfolio in **south-eastern Europe** is projected to grow by around 7 per cent from €8.3 billion at end 2018 to up to €8.8 billion at end 2022 reflecting the combination of the expected flow of new projects in the region over the period and the rising maturity of the Bank's assets in the region.
- The portfolio in the **southern and eastern Mediterranean** region is projected to increase by close to two-thirds from €6.4 billion at end 2018 to up to €10.5 billion at end 2022 reflecting new activity levels over the period, combined with the growing maturity of the portfolio in the region.

Table 4.5 Illustrative Regional Portfolio Composition 2018–22 (€ billion at planning rate €/$1.15)

	2018 Actual	2019 Estimated	2020 Projected	2021 Projected	2022 Projected
Central Asia	4.3	4.9–5.0	5.2–5.4	5.6–5.8	6.0–6.1
Central Europe and Baltic States	5.9	5.9	5.9–6.1	5.9–6.0	6.0–6.1
Cyprus and Greece	1.8	1.9	2.0	2.0	2.1
Eastern Europe and the Caucasus	7.6	8.0–8.1	8.5–8.6	9.0–9.1	9.5–9.6
Russia	2.0	1.5	1.1	0.9	0.7
South-eastern Europe	8.3	8.6–8.7	8.8–8.9	8.8–8.9	8.7–8.8
Southern and eastern Mediterranean	6.4	7.7	8.8	9.7	10.5
Turkey	7.0	7.0	7.0–7.1	7.1–7.2	7.3
Total	**43.2**	**45.4–45.8**	**47.3–48.0**	**49.0–49.6**	**50.8–51.3**

Per cent share	2018 Actual	2019 Estimated	2020 Projected	2021 Projected	2022 Projected
Central Asia	10%	11%	11%	11–12%	12%
Central Europe and Baltic States	14%	13%	12–13%	12%	12%
Cyprus and Greece	4%	4%	4%	4%	4%
Eastern Europe and the Caucasus	18%	18%	18%	18%	19%
Russia	5%	3%	2%	2%	1%
South-eastern Europe	19%	19%	19%	18%	17%
Southern and eastern Mediterranean	15%	17%	19%	20%	21%
Turkey	16%	15%	15%	15%	14%

- The **Russia** portfolio trend reflects, in addition to the expected amortisation of the Bank's portfolio in the country, the impact of portfolio dynamics to date including continuing reflow in the form of divestments and prepayments.
- The portfolio in **Turkey** is projected to increase from €7.0 billion in 2018 to €7.3 billion at end 2022 reflecting expected transition opportunities in the country and the growing maturity of the portfolio.

2020 Scorecard Parameters: Operational Performance

Based on the above projections, the following operational performance ranges are proposed for 2020 to deliver the Bank's strategic objectives (see also Table 2.2):

- **Number of new operations** range from **395 to 445**, reflecting the ABI range and average project size dynamics.
- **ABI** ranges from **€9.7 billion to €10.7 billion** in line with the 2019–21 Plan, with the indicative and regional and sectoral ABI share in Table 4.6.
- **Annual disbursements** range from **€6.9 billion to €8.2 billion** reflecting 2020 ABI target levels, with the lower end of the range reflecting the potential impact of fungibility between ABI and Annual Mobilised Investment (AMI).
- Reflecting planned activity and an assessment of the current mobilisation opportunities for the Bank in its region of operations, **AMI** floor to **€1.1 billion** with fungibility between EBRD and mobilised external finance set at €0.8 billion, similar to the 2019 Business Plan.
- A **combined ABI and AMI floor of €10.8 billion** to maintain the Bank's operating assets base and revenue generating capacity and, assuming a maximum fungibility of €0.8 billion between ABI and AMI.

Table 4.6 2020 Indicative Regional and Sectoral Annual Bank Investment (€ million at planning rate €/$1.15)

	BP2019	BP2020	BP2019	BP2019	BP2020	BP2020
	Share Planning Level/ Upper End	Mid-Range/Upper End	Planning Level	Upper End ABI	Planning level	Upper End ABI
Central Asia	13–14%	14%	1,350	1,450	1,350	1,450
Central Europe and Baltic States	13%	13%	1,300	1,400	1,300	1,400
Cyprus and Greece	5%	5%	550	550	550	550
Eastern Europe and the Caucasus	19%	19%	1,900	2,000	1,950	2,000
South-eastern Europe	17%	17%	1,700	1,800	1,700	1,800
Southern and eastern Mediterranean	23–24%	22–23%	2,400	2,400	2,400	2,400
Turkey	9–10%	10%	1,000	1,000	1,050	1,100
Total	**100%**	**100%**	**10,200**	**10,600**	**10,300**	**10,700**

	BP2019	BP2020	BP2019	BP2019	BP2020	BP2020
€ million at planning rate €/$1.15	Share	Share	Planning level	Upper End ABI	Planning level	Upper End ABI
Corporate	29%	29%	2,950	3,050	3,050	3,150
Financial institutions	33%	33%	3,450	3,550	3,400	3,500
Sustainable infrastructure	38%	38%	3,800	4,000	3,850	4,050

4.2 Donor Funding

Donor support plays a key role in delivering transition and enabling the Bank to target activities that cannot be undertaken with market instruments alone. In particular, it supports the Bank to engage and deliver its transition impact in less advanced transition countries, with SEMED, Central Asia and the Eastern Europe and the Caucasus region being the largest recipients in 2018. The majority of grants are used in support of transactions, particularly projects that advance Green Economy Transition (GET), bolster the financial sector to provide on-lending to the private sector, or provide support to build critical infrastructure as a prerequisite to increased economic activity or basic public services.

The Bank deploys donor funds selectively and only where they do not create situations of dependency or distort markets. Furthermore, the Bank applies the Development Finance Institutions' concessional finance principles in all its private sector operations to ensure the effective and efficient use of concessional resources.

EBRD's donor base is growing and the Bank currently works with some 40 donors, primarily governments and multilateral organisations. Multilateral donor support continues to account for the largest amount of donor funds, and this is likely to be the case for the foreseeable future. In 2018, the European Union (EU) remained the largest donor providing 68 per cent of grant resources. Bilateral donor support remains important, including steady support from traditional partners and a growing number of countries of operations setting up grant funds. Additionally, the Bank receives support through its net income mainly via the Shareholder Special Fund.

The use of donor funds has evolved in parallel with the Bank's business, accelerating post-financial crisis alongside the Bank's efforts to strengthen the institutional environment and help the region recover, but also following the Bank's expansion to new regions. Medium-term trends in donor funded activities include:

- an increase in Blended Finance opportunities as donors are increasingly looking to leverage their public support
- an increase in concessional loans in recent years primarily in the climate space
- a growing and evolving partnership with the EU, marking a transition towards larger, more complex, multi-country programmatic funding for specific products or sectors, accompanied by an increasing importance of regional platforms such as the Western Balkans Investment Framework
- a continuous trend towards new and innovative donor instruments, especially instruments such as risk-sharing and unfunded guarantees
- a growing number of Countries of Operations establishing their own donor funds for their respective countries

The donor funds agenda has expanded both in scale and complexity. Donor funds now support more than 40 per cent of the Bank's active portfolio (in numbers) with strong regional variations ranging from some 60 per cent in Central Asia and the Western Balkans to much less in the EU. In 2018 alone, the Bank raised €583 million, signed 175 agreements, and managed an active portfolio of donor-funded projects worth €2.7 billion. As set out above, donor funding is used for much more complex funding operations than in the past with more active donor engagement during the implementation phase. In operational terms the larger volume of donor inflows and funds under management means that the donor funds business is now a significant business line in its own right. Some 1100 staff, or up to 40 per cent of all Bank staff, are involved in this business in some way.

Donors are imposing ever-increasing demands on their MDB partners, including EBRD. Some donors have established high entry requirements (for example, the EU pillar assessment and GCF accreditation). Larger donors such as the EU now also impose additional stringent policy requirements (including domiciliation, sanctions) on the Bank. Currently, close to 70 per cent of staff time (and cost) associated with donor funds is linked to project preparation, implementation, compliance and monitoring and reporting. For example, the Bank submits up to 700 reports each year to donors, which progressively requires disaggregated result indicators (including gender, specific target groups).

It is essential that EBRD has the capacities and systems in place to effectively mobilise new funds from donors and also to manage such funds in full compliance with its fiduciary duties towards its donors given the growing importance of donor funds for the Bank's business across countries and sectors. In the context of the next SCF, and specifically for the next Strategy Implementation Plan an analysis will be conducted on the most appropriate ways to address these challenges also aiming at a better alignment with the approaches used by other International Financial Institutions.

Future needs and indicative fundraising targets

The higher level of ambition for investment activity proposed in this Plan will require the Bank to correspondingly scale up its fundraising work. The largest increases in ABI relative to previous projections are in the more grant-intensive regions such as SEMED and Central Asia, where increased donor funding will be needed to provide implementation support, advisory services and more GET projects. Going forward, scaling up the Bank's policy engagement, capacity building, and efforts to improve governance at the corporate and non-corporate level will require steady access to grant funding.

To support the Bank meeting its upper ABI target, initial modelling suggests total funding needs of €874 million for 2020. (grants: €759 million [including both TC and co-investment grants], concessional finance: €115 million). These primarily stem from:

- strong growth projections for the Bank's portfolio in the Central Asia and SEMED regions, which require a higher than average proportion of donor fund investments
- high grant needs in the Western Balkans and Eastern Europe and the Caucasus
- CAPEX grants and Technical Cooperation (TCs) for project preparation and implementation in the infrastructure sector
- higher funding needs for the financial sector based on sectoral growth projections
- ongoing policy engagement and advisory activity, which is largely donor funded

Taking into account available funds, the estimated funding gap is approximately €770 million for 2020.

Against these needs and gaps, an indicative target for total donor inflows of €582 million has been set for 2020 (see Table 4.7). This indicative target includes all donor and grant funding such as official and private sector co-financing sources, SSF funding, unfunded guarantees as well as concessional finance.

Going forward and in addition to existing fundraising efforts, the Bank will explore new funding sources and opportunities for cooperation in 2020:

- **Broadening the donor base.** This will include finding new ways to cooperate with existing donors; exploring opportunities with multilateral/global funds which do not yet support the Bank including thematic EU funds; exploring fundraising from the private sector and philanthropic foundations; and continuing to attract more support from donors in countries of operations.
- **Instruments.** This will include fine tuning and rolling out innovative funding vehicles including portfolio risk-sharing instruments and portfolio guarantees; and exploring access to concessional funding from bilateral donors with established soft loan windows, especially related to climate finance.
- **New ways of working.** This will include mobilising more support for the Bank's multi-donor funds; investing in local fundraising to engage more actively and systematically with donors locally; working to reform the Shareholder Special Fund (SSF); and pursuing dedicated fundraising campaigns including for key strategic focus areas.

Table 4.7 Indicative Fundraising Targets 2020–22 (€ million)

Sources	2020	2021	2022
Donor inflows	385	390	400
Special Shareholder Fund†	117	100	100
Total non-reimbursable	**502**	**490**	**500**
Donor inflows (reimbursable concessional finance)‡	80	100	100
GRAND TOTAL	**582**	**590**	**600**

* Does not include unfunded guarantees estimated at €275 million.

† The SSF allocation for 2020 is based on the net income allocation approved by Governors' at the 2019 Annual Meeting. It excludes any net income allocation for West Bank & Gaza as this is predominantly used for investment operations.

‡ Concessional finance inflows from donors (mainly climate funds) are dependent on a few individual transactions and as such very difficult to project on a yearly basis.

5. MAINTAINING FINANCIAL SUSTAINABILITY

5.1 Introduction

Financial sustainability is an integral element of the Bank's operational mandate, as it aims to deliver transition without an ongoing need for additional funds from shareholders. In order to support this objective the Bank follows a three-pronged approach, namely to consider profitability, capital adequacy and liquidity requirements. To ensure that these are quantifiable and measurable, the Bank has developed tools to measure, monitor and manage returns against risk, as well as ratios to determine if adequate liquidity is in place.

Profitability

- The **Return on Required Capital (RoRC)** captures the overall returns on debt, equity and Treasury activities and is used as the measure for the financial objective in the Corporate Scorecard.
- The **IPM** allows assessment of projected risk adjusted returns on new debt projects.

Capital management

Established as capital control parameters in the SCF, the Bank manages its capital adequacy based on:

- The **CAP** which provides an internal indicator of likely rating agency assessments of the Bank's capital adequacy. The policy is monitored using a capital utilisation ratio, defined as required capital to available capital. A 90 per cent prudential limit is defined to preserve a buffer above minimum requirements for 'triple A' strength.
- In addition to the risk-based measure, the Bank is required by the AEB to adhere to a **statutory capital** metric that ensures that the total Bank exposure does not exceed the capital base (including callable capital). A prudential limit is set at 92 per cent against this nominal measure.
- The Bank's existing capital policies are supplemented by forward-looking **macroeconomic stress testing**.
- The Bank's high-level financial and risk management objectives have been articulated in a **Risk Appetite Statement**, including a quantification of the risks associated with the Bank's business plan through Financial Loss Tolerance Thresholds (FLTT). Stress test results are measured against these thresholds.
- Finally, a **Framework for Net Income Allocation Proposals** guides the financial assessment of future net income allocations within the context of growth in members' equity.

Liquidity management

The Bank's Treasury Authority and Liquidity Policy (TALP) is a key element in safeguarding the Bank's financial stability in the medium term and supporting the Bank's 'triple-A' rating. The Bank ensures that at any time it is able to meet each of the minimum liquidity requirements set out in TALP:

- Net Treasury liquid assets must be at least 75 per cent of the next two years' net cash requirements.
- Projected net cash flows requirements can be met under an extreme stress scenario for a minimum of 12 months.
- The Bank's liquidity position is perceived as robust by rating agencies and investors.

5.2 Profitability

The detailed financial projections are based on the planning level of ABI for 2020 of €10.3 billion. This is taken as a central case and avoids presenting an overly optimistic assessment of future profitability and capital accumulation for planning purposes. A sensitivity test is undertaken using the indicative upper end of ABI of €10.7 billion in 2020 to confirm that there is also adequate capital to support this higher level of activity.

The Bank's capital is projected to grow by €1.77 billion (after net income allocations) from €16.81 billion (estimated at end 2019) to €18.58 billion by end 2022 (see Table 5.1), broadly in line with last year's plan.

The 2019 estimate represents the original Business Plan albeit actual financial performance to date (September year-to-date: €970 million) has been far exceeding the €660 million original target. This is largely driven by net

Table 5.1 Profitability (€ billion)

Profitability (€ billion)	2017 Actual	2018 Actual	2019 Estimate	2020 Plan	2021 Projected	2022 Projected
Debt operating income	0.77	0.79	0.80	0.82	0.84	0.87
Equity operating income	0.33	0.02	0.33	0.34	0.36	0.40
Treasury operating income	0.11	0.12	0.12	0.12	0.13	0.14
Return on free capital	0.00	0.00	0.00	0.00	0.00	0.00
Financial reporting adjustments	(0.02)	0.02	0.00	0.00	0.00	0.00
Total operating income before impairment	**1.19**	**0.95**	**1.25**	**1.28**	**1.33**	**1.41**
Provisions for impairment	(0.00)	(0.19)	(0.16)	(0.16)	(0.16)	(0.18)
Administrative expenses	(0.42)	(0.42)	(0.43)	(0.44)	(0.46)	(0.48)
Total net profit before net income allocations	**0.77**	**0.34**	**0.66**	**0.68**	**0.71**	**0.75**
Net income allocations	(0.18)	(0.13)	(0.14)	(0.11)	(0.11)	(0.16)
Net profit after net income allocations	**0.59**	**0.21**	**0.52**	**0.57**	**0.60**	**0.59**
Total members' equity	**16.17**	**16.28**	**16.81**	**17.38**	**18.00**	**18.58**
Return on total members' equity (%)	5.1%	1.5%	4.1%	4.0%	4.2%	4.1%

unrealised movements on the equity portfolio. It should be noted, however, that equity markets are highly volatile and prudence demands following the original Plan.

Return assumptions remain broadly unchanged compared to last year's Plan:

Debt

- **The average margin on non-sovereign debt is assumed constant at 3.0 per cent across the planning period.** This reflects the level of operating asset margins in recent years (2017: 3.11 per cent; 2018: 2.99 per cent; year to September 2019: 3.03 per cent), supported by an uptick in average margins for new signings (2018: 2.92 per cent; year to September 2019: 3.38 per cent).
- **Net specific provision charges are assumed at €0.15 billion per annum for the Plan period consistent with the five-year average level of €0.15 billion (2014–18) and the previous Plan.** Although the period of 2014–18 was marked by geopolitical and economic pressures in the Bank's regions of operations, anchoring the projection to these levels reflects both prudence and a larger and increasing debt portfolio. The assumed losses across the planning period result in a projected increase in the non-performing ratio to 5.4 per cent, from 4.7 per cent at end 2018.

Equity

Overall return on equity (dividends received, realised and unrealised gains) is assumed at a constant 6 per cent per annum throughout the planning period. This is slightly lower than in last year's Plan largely as a result of uncertain interest rate outlook and a challenging monetary policy environment. Any material increase in interest rates in developed markets or withdrawal of quantitative easing during the planning period would likely depress equity valuations globally and lead to an outflow of short-term capital from emerging markets, precipitating currency devaluations in the Bank's countries of operations. These downside risks are somewhat moderated by the likely rebound of banking sector assets in higher interest rate environment. These levels are higher than the average annual return reported for the last three years (2016–18) of 4.7 per cent. Notwithstanding, performance to date (at Q3 2019) has been exceptionally strong with returns currently standing at 16.3 per cent compared to 6.4 per cent outlined in the 2019 Plan. Equity returns will be volatile but the Bank does aspire to achieve these results over the medium term.

Treasury

Treasury operating income is assumed at €120 million for 2020, with a gradual increase in 2021 and 2022 reflecting the projected growth in Treasury assets.

Average weighted investment return on Treasury assets (including sub-Libor benefit and trading activities) is assumed at 38 basis points (average 2016–18 was 40 basis points).

Table 5.2 Operational and Capital Utilisation Trends

Planning rate* € billion (other than percentages)	**2017** Actual	**2018** Actual	**2019** Estimate	**2020** Projected	**2021** Projected	**2022** Projected
Annual Bank Investment	9.7	9.5	10.2	10.3	11.4	11.4
Portfolio	41.4	43.3	45.4	47.3	49.0	50.8
Undrawn commitments	12.0	12.2	12.5	12.7	13.2	13.5
Guarantees	0.7	0.9	0.9	1.0	1.1	1.3
Operating assets at cost	**28.7**	**30.2**	**32.0**	**33.6**	**34.7**	**36.0**
Deduct accumulated specific provisions	(0.6)	(0.7)	(0.8)	(0.8)	(0.9)	(1.0)
Adjusted net operating assets (a)	**28.1**	**29.5**	**31.2**	**32.8**	**33.8**	**35.0**
Total statutory capital† (b)	40.3	40.5	40.7	41.0	41.4	41.7
Statutory capital utilisation† (a / b)	**70%**	**73%**	**77%**	**80%**	**82%**	**84%**
SIP 2019–2021			76%	79%	81%	
Capital adequacy:						
Required capital‡§	11.2	11.9	11.6	12.1	12.8	13.3
Available capital	16.2	16.3	16.8	17.4	18.0	18.6
Capital utilisation (under CAP)§	**70%**	**73%**	**69%**	**70%**	**71%**	**72%**
SIP 2019–2021			73%	73%	74%	

Notes:
*Actuals at reported rates; projections at planning rate of €/$1.15
†Statutory capital is reduced by accumulated specific provisions (see 'Review of the Gearing Ratio Interpretation' (BDS15-018))
‡Actuals based on previous CAP (BDS16-170). The capital and financial projections incorporate an implied risk profile for the projected portfolio. On the basis of the indicative changes in the regional shares within the portfolio by end 2022 and assuming that the average risk rating for each region remains unchanged, the average capital requirements for debt would be around 15.1% of debt exposure by end 2022 (August 2019: 15.2%)
§Projections based on latest CAP (BDS19-106) which became effective from Q4 2019. Actuals based on previous CAP (BDS16-170).

Other

- **Return on capital (and equity cost of funds) is assumed at 0 per cent** throughout the period of 2020–22 based on prudent expectations of forward interest rates.
- Administrative expenditure projections are based on the medium-term budget assumptions set out in Section 6.

5.3 Capital

Capital distributions

As well as profitability, capital projections take into account potential future **allocations of net income** to 'other purposes' pursuant to Article 36.1. Any net income allocation proposal needs to be developed under the Framework for Net Income Allocation Proposals with an expectation that at least 75 per cent of the Bank's growth in members' equity be retained in reserves on a rolling three-year basis. For planning purposes, illustrative amounts for net income allocations have been assumed over the period of this Plan, representing broadly 20 per cent of projected capital growth across the planning period 2020–22. Such illustrative amounts should not be seen as pre-empting any decisions on net income allocations that are taken by the Board of Governors on the basis of proposals from the Board of Directors.

Capital utilisation projections

The Bank is projected to remain well within capital control parameters for the Plan period 2020–22, and retain sufficient capital headroom to support additional operational activity to deliver on this year's Plan (see Table 5.2). In addition, there is also capital headroom to absorb fluctuations in projected capital utilisation (for example, sensitivities to the EUR/USD exchange rate[1] equity portfolio growth, and returns).

- **Statutory capital utilisation is growing at a faster pace relative to risk-adjusted capital utilisation** under CAP. The statutory capital base is adjusted for net unrealised movements on share investments and general portfolio provisions, in other words it assesses capital on a 'realised earnings' basis rather than 'fair value' basis.
- **The projected levels of risk-adjusted capital utilisation provide strong reassurance of the Bank's triple-A rating for the Plan period.** Estimates of rating agency capital assessments have been projected for each year of the Plan. The Bank remains comfortably above minimum

1 For example, CAP utilisation at end 2022 would increase by around 2 per cent if the euro depreciated from the $/€1.15 planning rate to a rate of $/€1.0. Similarly, under statutory capital, utilisation increases by around 2.5%. These are maximum impacts of $/€ exchange rate movements as, in line with historical trends, the impact of the US dollar strengthening on the Bank's capital ratios is likely to be significantly (or entirely) offset by the simultaneous devaluation of local currencies against the euro.

thresholds for triple-A capital strength throughout the planning period.

Return on capital

The **return on required capital** on a three-year rolling basis is projected to exceed the minimum 3.5 per cent floor over the period covered by this Plan. The expected lower return in 2020 is reflective of the modest financial performance in 2018 (annual return on required capital of 2.4 per cent).

Table 5.3 Return on Required Capital (%)

Return on required capital	2017 Actual	2018 Actual	2019 Estimate	2020 Plan	2021 Projected	2022 Projected
Annual return basis (%)	6.7%	2.4%	5.6%	5.8%	6.0%	5.8%
3-year rolling average return (%)	7.4%	5.9%	4.9%	4.6%	5.8%	5.9%

Stress testing the 2020–22 Plan

Stress tests help the Bank better understand and identify potential vulnerabilities in its overall portfolio and sub-portfolios. They further provide clarity on the impact of stress scenarios on the Bank's projected capital capacity (and hence planning thereof) and whether the operational plan is within an acceptable risk tolerance. For planning purposes, the analysis focuses on a severe (1:25) scenario in which the Bank aims to continue to retain its triple-A rating according to rating agency methodologies, whilst relying on perceived shareholder support for such a rating. Under the Bank's Capital Adequacy Policy, this equates to a capital utilisation level of not more than 100 per cent after stress.

Results from the stress test confirm the Bank's resilience over the planning period of 2020–22 in a 1:25 stress event. This includes very strong capitalisation levels projected at 76 per cent at the end of the planning period, marking an 8 per cent increase relative to an estimated 68 per cent at end of 2019.

Risk appetite

To ensure a prudent stance on balancing taking risks and maintaining capital reserves, the Bank's Risk Appetite Statement (CS/AU/18-05) provides a framework to quantify the level of financial loss that could be experienced (and absorbed) against each operational plan. Losses and associated capital erosion are assessed under stress levels with differing severity (effectively providing an understanding of performance ranging from a cyclical downturn to a tail-risk shock in the severe scenario and results are compared against boundaries (in effect, the FLTT). In doing so, the Bank ensures that risks associated with each plan are understood and within the expected risk appetite.

The Bank's operational plan for 2020–22 remains well within risk appetite boundaries across the FLTT metrics of varying levels of severity (see Table 5.4).

Table 5.4 Stress Tests Results vs. Financial Loss Tolerance Thresholds

FLTT Metric	Downturn	Downturn FLTT	Severe Post-IA	Severe FLTT
Net earnings 1 year (€m)	-727	-2,000	-2,100	-3,700
Net earnings 3 year (€m)	647	-1,100	-1,539	-3,000
Capital utilisation 1 year	-1%	7%	-1%	9%
Capital utilisation 3 year	4%	9%	8%	12%

Note: As in any theoretical exercise, the actual behaviour of key variables may differ from that assumed (see examples below). Nevertheless, the Bank will always preserve the flexibility to adapt investment levels or risk and product mixture to respond to unexpected events.

USD/EUR exchange rate: The stress test assumes that the effect from a USD/EUR appreciation on the Bank's capital ratio would be fully compensated by an equivalent LCY/EUR depreciation. While this assumption is scenario consistent (flight to safety market behaviour) different outcomes are conceivable.

Operational assumptions such as re-flows, disbursements, cancellations could behave differently in the event of stress compared to the SIP business plan.

Maintaining the share of equity investments may prove difficult in a crisis. A lower rate of new equity transactions would reduce profits if markets were assumed to recover at the end of the period of stress. This would also result in a reduction in capital requirements.

5.4 Liquidity and 2020 Borrowing Programme

The assessment of the Bank's liquidity requirements and resulting size of the Borrowing Programme is performed annually in the medium-term context provided by each Plan. In determining the Bank's liquidity requirements for the following year, the Bank sets an operating target for liquidity above the minimum policy requirements to retain flexibility in the execution of the Programme.

Based on planned activity levels in this year's Plan, a Borrowing Programme of €12 billion[2] net new issuance is set for 2020. This presents a €3.0 billion increase compared to the €9.0 billion Borrowing Programme in 2019. Responding to growing Banking commitments, higher repayments needs, and changes in the composition of Treasury portfolio, this level of borrowing is expected to maintain stable liquidity ratios, above the minimum levels required by internal policies and external rating agency methodologies. This size represents an expected maximum amount of borrowing (not a target) and aims at minimising the need for ad hoc pre-funding requests as happened in late 2018 and 2019. Projections are based

2 This proposal includes the approval by Board of Directors on October 2019 to execute pre-funding of the proposed 2020 requirement in 2019 up to an amount of €2.0 billion in order to permit Treasury to take advantage of opportunities offered by the market to secure long-term funding ('Pre-Funding the 2020 Borrowing Programme' [BDS19-167]).

Table 5.5 Projected Next Two Years Cash Requirement Ratio at End 2020

€ billion	Year end 2020	Year end 2021	Year end 2022	Aggregate 2021-22
Opening Gross Treasury liquid assets (excl. pre-funding)	31.0			
Pre-funding of 2020 Borrowing Programme in 2019	2.0			
Sub-total	**33.0**			
Less: short-term debt	(10.2)			
Opening Net Treasury liquid assets	22.8			
Movements in the year:				
Net operational disbursements and profit, net of net income allocations	(1.2)	(0.7)	(0.9)	(1.6)
Scheduled debt redemptions (incl. new issuance)*	(9.2)	(7.8)	(8.4)	(16.3)
Net annual cash requirements	**(10.4)**	**(8.5)**	**(9.4)**	**(17.9)**
Projected funding level (€11bn less €2bn pre-funding in 2019)	**9.0**			
Closing Net Treasury liquid assets	21.4			

* Years 2021 and 2022 includes an assumed proportion of new funding yet to be issued. Assumption: 25% of new issuance redeemable within these two years.

€ billions	Year end 2020
Next two years' net cash requirement	17.9
Net Treasury liquid assets (includes €12 billion projected funding)	21.4
2-year net cash requirements coverage ratio (min. requirement 75%)	120%

on an €11.0 billion anticipated use of the €12.0 billion Borrowing Programme, with the remaining €1 billion forming a contingency in case of adverse movements in any of the underlying liquidity need drivers.

In accordance with the Bank's Treasury Authority & Liquidity Policy, projections indicate:

- **A coverage of 120 per cent of net cash requirements for the next two years (see Table 5.5).** This is well above the stipulated 75 per cent ratio.
- **A one-year stressed ratio of 109 per cent at the end of 2020 against a required ratio of 100 per cent (see Table 5.6).** This ratio level ensures that the Bank's liquid funds are sufficient to meet its cash requirements against a one-year debt service plus 50 per cent of undrawn commitments.

Table 5.6 Projected 1 Year EBRD Stressed Ratio

	End 2018 Actual	End 2019 Estimate	End 2020 Projected
1-year stressed EBRD ratio (min. requirement 100%)	110%	109%	109%
Headroom above the min. requirement (€ billion)	2.4	2.4	2.4

2020 Scorecard Parameters: Financial Performance

The Corporate Scorecard (see Section 2) assesses the Bank's performance through:

- a targeted return on required capital (RoRC) of at least 3.5 per cent which is assessed on a three-year rolling average basis to mitigate potential volatility on an annual basis
- the Bank's realised profit before impairment as a track measure
- a non-sovereign loan impairment ratio (NPL ratio) as a tracked measure

The projections indicate that:

- **An overall 5.7 per cent annual return on required capital.** Within this, RoRC before costs for debt is projected at 13.7 per cent in 2020 (with non-sovereign debt also projected at 13.7 per cent). This is higher than the overall projected return generated from the flow of recent deals; RAROC before costs from debt projects approved by the Board (including those through delegated authority) in the first nine months of 2019 was 9.3 per cent (non-sovereign debt: 9.4 per cent). The projected RoRC of 5.8 per cent is slightly higher than 5.6 per cent estimated for 2019 (compared to a 2019 Plan figure of 5.5 per cent [see Table 5.7]).
- **The base case financial reporting profit before net income allocations for 2020 is €679 million.**

Table 5.7 Projected Income and RoRC for 2020

€ million	Banking activities					Treasury activities	Operational risk	Total
	Non-Sov. debt	Sovereign	Debt	Equity	Total			
Net interest income	584	55	639		639			639
Fee and commission income	129	32	161		161			161
Net gains from loans at FV and amortised cost	19		19		19			19
Dividend income				95	95			95
Realised and unrealised equity gains/(losses)				241	241			241
Treasury operating income						120		120
Total income	732	87	819	336	1,155	120	0	1,275
Impairment (general and specific)	(158)	(1)	(159)	0	(159)			(159)
Risk adjusted return before costs	574	86	660	336	996	120	0	1,116
Total administrative costs								(437)
Total net profit (before net income allocations)								679
Opening required capital*	4,197	637	4,834	5,009	9,843	1,652	140	11,635
RoRC (before costs)	13.7%	13.5%	13.7%	6.7%†	10.1%	7.3%		9.6%
RoRC (after full costs)								5.8%

*Required capital is based on 2019 forecast.
†Return on capital for 2020 is illustrative based on assumed equity return for the year.

6. RESOURCING THE DELIVERY OF THE PLAN: BUDGET, PEOPLE, TECHNOLOGY

6.1 Rationale for Proposal

The Bank has been fully delivering on the Strategic and Capital Framework (SCF) 2016–20 and its objectives with limited increases of budgets in real terms. This has been enabled by a combination of prioritisation and reallocation of resources (as described in the SIPs 2017–19, 2018–20, and 2019–20) as well as savings generated by the OE&E programme. To date, the programme has created savings totalling £51.5 million (2017–20), which has freed up financial and non-financial resources to be re-employed in high priority areas.

The Bank's delivery on the SCF objectives meant, however, an engagement in more resource-intensive activities. The multiple demands placed on the Bank, including delivering a higher number of smaller projects across a set of small economies (including ETCs), more comprehensive and more complex projects (such as in sustainable energy or infrastructure), or in challenging geographies of Central Asia, Eastern Europe and the Caucasus and SEMED, has resulted in higher direct costs as well as indirect expenses such as management support, human resources (HR), Information Technology (IT) and occupancy costs.

The Bank's portfolio and therefore income-generating assets have been expanding strongly, bearing witness to its successful delivery. At the end of Q3 2019, measured on a year-on-year basis the portfolio expanded by 7.0 per cent; operating assets grew by 8.4 per cent; and the number of active transactions managed by the Bank expanded by 3.6 per cent (crossing the 2,000 mark in August 2019). This is in line with projections where the portfolio is expected to grow by 19 per cent from the end of 2018 to around €51 billion by end 2022 with up to 2,330 operations (an increase of 18 per cent from 1,984 at end 2018).

Against this backdrop of significant past and planned growth, the 2020 Budget proposes a real resource increase to support the Bank's business plan objectives, manage a growing portfolio and safeguard quality of delivery. This is after three years of limited real budget increase that has reduced the potential for further efficiency gains and manoeuvring space for resource reallocation.

This proposal will support:

- managing, measuring, and monitoring a growing balance sheet (size and number of projects)
- originating and delivering on increasingly complex, innovative projects, tailored to country-specific needs and opportunities (in alignment with the 2016 transition concept review)
- matching rising investment activities with increasing donor co-financing that is becoming more complex, targeted and reporting-intensive
- a rising compliance bar for Multilateral Development Banks including more transparent Access to Public Information policies (and implementation thereof)
- the need for sound risk and compliance management to address operational and financial risks

In addition, the proposal provides for:

- additional funding for IT necessary to safeguard the Bank's critical information infrastructure, replace outdated systems and provide the necessary support to prepare the Bank's IT infrastructure for the next decade (such as external data centres)
- funding to address long-standing structural issues in the Bank's compensation and benefits as part of a two-year comprehensive Reward Review, in close consultation and discussion with the Board of Directors

The proposed budget for 2020 calls for an increase of 3.7 per cent in nominal terms from the re-base-lined 2019 Budget, with limited incremental resources and therefore a planned rise in employee productivity (budget growth detailed in Section 6.2.). This includes a 1.3 per cent increase for compensation adjustments. Of the remaining 2.4 per cent growth only 0.5 per cent relates to real resource increases to support the significant growth in

Table 6.1 Administrative Expense Budget for 2020 (£ million)

	2019 Budget	2019 Restatement	2019 Baseline	2020 Budget	2020 vs Baseline £ million	2020 vs Baseline Per cent
Operating expenses	327.4	(0.5)	326.9	339.8	12.8	3.9%
Depreciation	42.6		42.6	43.6	1.0	2.4%
Administrative expenses (£)	**370.0**	**(0.5)**	**369.5**	**383.4**	**13.8**	**3.7%**
GBP/EUR rate	1.14	1.14	1.14	1.14		
Administrative expenses (€)	421.8	(0.6)	421.2	437.0	15.8	3.7%

activity planned for 2020. As such this is a budget expected to deliver improvements in productivity per employee.

The proposed budget reflects a rigorous and prudent approach to budgeting, consistent with supporting the Bank's financial sustainability. The administrative expense budget represents 34.2 per cent of projected income for 2020 and a five-year rolling cost-to-income ratio of 35.1 per cent at the end of 2020. The income projection represents a conservative view of expected income, notwithstanding that actual results will be volatile in any given year, particularly for equity returns. As such, the proposed budget is consistent with achieving a five-year rolling cost-to-income ratio over the medium term comfortably below the 40 per cent operational ceiling and 50 per cent limit (see Section 2).

6.2 Overview of the 2020 Administrative Expense Budget

The Board is requested to approve an Administrative Expense Budget of £383.4 million for 2020 (€437.0 million), which represents a 3.7 per cent nominal increase from the re-baselined 2019 Budget of £369.5 million (see Table 6.1).

The proposed 3.7 per cent nominal growth in the Administrative Expenses Budget relates to:

- non-discretionary price and volume increases (such as contractually agreed inflation impacts, foreign exchange rate movements) representing 1.8 per cent
- non-discretionary carryover impacts from previous decisions/budgets representing 1.5 per cent
- budget impact of 1.0 per cent from compensation increase at CPI level for Headquarters and Resident Offices
- an increase of the 2020 budget as a result of the Reward Review proposals related to post-leave medical care representing 0.3 per cent
- an increase of 0.5 per cent in real resource growth—the only component of the budget request related to a volume of incremental resources

The above are offset by 1.4 per cent of efficiencies or budget reductions. This includes 0.8 per cent identified across staff and non-staff costs, including achieving target OE&E savings from procurement activities, as well as 0.6 per cent of recurring budget reductions (specific budget lines to be defined during 2020).

The nominal increase of 3.7 per cent translates into a 1.2 per cent increase in real terms of the 2019 baseline budget (see Table 6.2).

6.3 2020 Budget—Key Movements and Reallocations

Movements in the Administrative Expense Budget are driven by various factors detailed below (see Table 6.3):

- **An additional £3.8 million budget is proposed to fund the total 2020 base salary increases, including the impact on benefits (£5.0 million full year impact) and an incremental £0.95 million is included in the 2020 Budget to support the 2020 Benefits proposal** (£1.9 million full year impact).[1] (see Table 6.3, line a) These two measures will result in a carryover impact of approximately £2.2 million on the 2021 Administrative

1 See Staff Compensation and Benefits Proposals for 2020 (BDS19-186).

Table 6.2 Summary of 2020 Budget Increases and Savings (£ million)

	Proposed	Savings	Net request	% Increase (of 2019 baseline budget)
Compensation increases at CPI level	3.8		3.8	1.0%
Reward Review proposals	1.0		1.0	0.3%
Carry-over impact	5.6		5.6	1.5%
Total staff cost price increases & carry-over	**10.3**		**10.3**	**2.8%**
Other price / volume / FX factors	6.6		6.6	1.8%
Business resources	1.9		1.9	0.5%
Other adjustments / reductions		(5.0)	(5.0)	–1.4%
Total nominal growth	**18.9**	**(5.0)**	**13.8**	**3.7%**
of which EBRD inflation			(9.2)	–2.5%
Total real growth			**4.6**	**1.2%**

Note: The conversion of the sterling budget into a euro budget was made at an exchange rate of GBP/EUR 1.14. The current lack of clarity around the timing and nature of the UK's withdrawal from the EU ('Brexit') means that this assumption is subject to considerable uncertainty.

Expense Budget (there are no other carryover impacts resulting from this year's budget).

- **2020 Compensation increases at CPI level.** The 2020 Administrative Expense Budget incorporates an increase of £3.8 million. This is based on the proposed staff compensation adjustment and associated impact on benefits (as linked to salaries and the performance-based compensation pool from 1 April 2020).
- **2020 Reward Review proposals.** A total of £0.95 million additional budget or 0.3 per cent increase over the 2019 Baseline Budget to support the proposed increase of contributions for the Retiree Medical Benefit (RMB), (effective as of 1 July 2020).
- **Carryover impacts.** This includes the full year impact of the 2019 compensation adjustments (three months impact January–March 2020), additional positions approved in the SIP 2019–21 (eight months phasing in 2019) and additional costs linked to promotions/ advancements from 1 April 2019 (in line with the 2019 Compensation proposals paper, without budget funding). (See Table 6.3, line b.)
- **Price and FX movements, volume changes.** This includes £6.6 million or a 1.8 per cent increase reflecting price changes (medical insurance, RMB, Board/VP and other salary increases, information services, service charges and other contractual increases); impact of FX movements (staff costs, RO lease, information services); as well as volume driven growth (RMB, medical insurance). (See Table 6.3, line c.)
- **Business needs.** A net increase of £1.95 million (or 0.5 per cent) for business resources to support the delivery of the Bank's strategic priorities. It is important to note that initial proposals by departments totalled £13.3 million and were scaled down by over 85 per cent. (See Table 6.3, line d.)

  Current proposals will be critical to support the Bank's business plan objectives (see Section 6.1) including:

  » growth of operating assets and strengthening of portfolio monitoring

  » further investments in governance and risk control (Access to Information Policy, Compliance)

  » additional funding for IT to address basic requirements linked to maintenance of the current infrastructure

  » additional resources to set up a new unit within Human Resources and Organisational Development (HROD) to focus on organisational change and performance and utilising the lessons and skills from the OE&E programme
- **Other adjustments and reductions.** The increases above were partially offset by reductions in underlying budgets (see Table 6.3, line e), including:

  » termination of the 155 Bishopsgate lease and associated savings

  » reduction of departmental staff cost budgets based on the bottom-up exercise to price up the current structure of the Bank (negative wage drift)[2]

2 Negative wage drift arises as a result of replacing experienced and higher paid staff who leave the Bank with newly appointed staff who are usually recruited at a lower salary, and other structural changes to the organisational structure.

EBRD specific inflation

As opposed to the weighted-average CPI used for the real growth calculations in Table 6.2, price impacts on the overall EBRD budget have been estimated at 3.0 per cent based on the following components: (1) Bank-specific price impacts on staff costs including compensation and benefits adjustments approved by the Board and price increases impacting medical costs, (2) foreign exchange impacts related to non-GBP costs and (3) general price inflation, UK CPI, applied to the non-staff cost and centrally managed budgets.

Inflationary increases in staff costs of £8.7 million reflect 3.5 per cent increase over the 2019 baseline staff costs budget (or 2.3 per cent increase of the re-baselined 2019 Budget of £369.5 million).

Inflation in non-staff and centrally managed budgets compared to an annual UK CPI rate of 1.7 per cent (August 2019) applied to the respective baseline budget levels, with some of the distinct variances presented in Table 6.3. The combined impact of £2.4 million due to movements and price increases of non-staff costs and centrally managed budgets reflects a 0.7 per cent increase of the re-baselined 2019 Budget.

- review and adjustments of departmental non-staff cost and centrally managed budgets
- achievement of target OE&E savings from procurement activities, including procurement of the new mobile phone contract
- additional budget reductions of £2.2 million or 0.6 per cent. Specific budget lines for this reduction will be defined during 2020. Until then, the central benefits budget line will be used to temporarily hold this negative budget adjustment.

As in the past, flexible reallocations of staff and budgets are implemented throughout the year to support operational requirements. Reallocations or adjustments since the beginning of 2019 included:

- **A budget reallocation (annual staff and non-staff costs) of £1.5 million budget from the Client Services Group (CSG) to VP Risk and Compliance to support reorganisation of the Procurement Policy and Advisory Department (PPAD).** This allowed for re-alignment of the Bank's procurement function that supports clients by combining the central unit with procurement specialists from the Sustainable Infrastructure Group (SIG) in Banking Department (transfer of 16 staff or positions).
- **A reallocation of up to 25 staff and positions in banking resources during the first nine months of 2019.** This included reallocations across resident offices in Central Asia; move of positions to SEMED region and Turkey; transfers across country and sector teams based on the matrix structure of the department; absorption of the seven graduates of the International Professionals Programme (IPP) and further reallocations at HQ (within the Equity Group and across sector teams). This was associated with reallocation of £2.1 million annual staff costs budget within the department and included setup of 10 new positions using permanent savings within the approved 2019 staff costs budget.
- **Creation of six positions (or approximately £0.5 million full year staff costs) across departments within vice presidencies.** These helped address resource pressures during the year using permanent headroom generated within the approved 2019 staff cost budgets. This included two additional roles in Risk Management (junior roles), two in Finance (junior resources in Loan Syndications and Data Management) and two junior roles in VP Policy (Economics, Policy & Governance).

These efforts will continue in 2020. As an example, the 2020 Budget proposes a further £0.4 million budget reallocation in support of establishing a central unit under HROD to focus on organisational change and performance.

In addition, the Bank intends to implement a business partnering service (BPS) with the initial scope being funded by existing budgets. The BPS will involve working with a business process management (BPM) service provider as part of a new operating model for Corporate Services. In 2020 the BPS initiative will kick off with the transition of a number of processes to the Bank's BPM service provider as a proof of concept. This will gradually scale through 2020/21. The Bank's selected partner will deliver these processes from a country of operation and will maintain a close service management relationship to the Bank's Headquarters directly and through the closest RO. Given the limited scope of the initial phase the implementation costs will be funded from existing budgets.

Table 6.3 Key Movements in the 2020 Budget (£ million)

		Proposed	Saving	Increase	of which inflation		of which other	
					£ million	Per cent	£ million	Per cent
2019 Budget	**370.0**							
IFRS 16 treatment of lease costs	(0.5)							
2019 Baseline Budget	**369.5**							
a. Compensation and reward proposals:		**4.8**	**0.0**	**1.3%**	**3.8**	**1.0%**	**1.0**	**0.3%**
2020 Base Salary proposals (9 months), including:		**3.8**						
Base Salary increase at CPI		3.8			3.8	1.0%		
Reward Review proposals—Salary framework review							0.0	0.0%
Reward Review proposals—RMB (6 months phasing)		0.95					0.95	0.3%
b. Carry-over impacts:		**5.6**	**0.0**	**1.5%**	**2.1**	**0.6%**	**3.5**	**0.9%**
2020 Compensation & Benefits (full year impact)		2.1			2.1	0.6%		
2019 SIP positions (full year impact)		1.9					1.9	0.5%
2019 Promotions		1.6					1.6	0.4%
c. Price / volume and FX factors:		**6.6**	**0.0**	**1.8%**	**5.2**	**1.4%**	**1.4**	**0.4%**
Medical insurance		1.3			0.6	0.2%	0.6	0.2%
Retiree Medical Benefit (current level)		1.5			0.8	0.2%	0.8	0.2%
Board, VP and other salary increases (assumptions)		0.2			0.2	0.1%		
FX movement impact on staff costs		1.1			1.1	0.3%		
FX movement impact on non-staff and centrally-managed costs		0.4			0.4	0.1%		
Audit fees		0.3			0.3	0.1%		
Information services		0.4			0.4	0.1%		
HQ occupancy and central staff expenses		0.5			0.5	0.1%		
Central IT costs		0.2			0.2	0.1%		
Other inflationary increases (consultancy, travel, central budgets)		0.7			0.7	0.2%		
d. Business needs		**1.95**	**0.0**	**0.5%**	**0.0**	**0.0%**	**1.95**	**0.5%**
Client Services Group		0.3					0.3	0.1%
Risk and Compliance		0.1					0.1	0.0%
Finance		0.0					0.0	0.0%
HR and Corporate Services—IT		1.0					1.0	0.3%
HR and Corporate Services—HROD		0.3					0.3	0.1%
Office of Secretary General		0.3					0.3	0.1%
e. Other adjustments / reductions		**0.0**	**(5.0)**	**–1.4%**	**0.0**	**0.0%**	**(5.0)**	**–1.4%**
HQ occupancy and depreciation (155 Bishopsgate)			(0.5)				(0.5)	–0.1%
Departmental budget reductions (negative wage drift)			(0.5)				(0.5)	–0.1%
Other reductions in non-staff and central budgets			(3.2)				(3.2)	–0.9%
Procurement related savings / budget reductions			(0.9)				(0.9)	–0.2%
Total movements		**18.9**	**(5.0)**	**3.7%**	**11.1**	**3.0%**	**2.8**	**0.7%**
2020 Budget (2019 baseline budget + total movements)	**383.4**							

Table 6.4 Detailed Administrative Expense Budget for 2020 (£ million)

Administrative expenses	2017 Actual	2018 Actual	2019 Budget	2019 Restatement	2019 Baseline	2020 Budget	2020 vs 2019 £ million	2020 vs 2019 Per cent
Total salary costs	121.7	125.8	134.9		134.9	141.0	6.2	4.6%
Total benefits	89.0	90.6	97.4		97.4	102.1	4.7	4.8%
Performance Based Compensation	16.8	17.7	15.5		15.5	16.1	0.7	4.3%
Other staff costs	1.4	2.2	1.4		1.4	1.4	(0.0)	(1.5%)
Staff costs	**229.0**	**236.4**	**249.1**		**249.1**	**260.6**	**11.5**	**4.6%**
Consultancy/Legal	17.8	14.8	12.5		12.5	11.1	(1.5)	(11.7%)
Travel/Hospitality	12.4	14.4	13.0		13.0	13.2	0.2	1.7%
Other Direct Costs	12.7	13.3	13.3		13.3	12.9	(0.4)	(3.1%)
Non-staff costs	**42.8**	**42.5**	**38.9**		**38.9**	**37.2**	**(1.7)**	**(4.3%)**
Direct costs	271.9	278.9	288.0		288.0	297.8	9.8	3.4%
Occupancy costs	32.4	35.3	11.1		11.1	11.2	0.1	0.8%
IT and Telecommunications costs	11.6	14.2	19.3		19.3	21.9	2.6	13.4%
Annual Meeting	1.3	1.3	1.2		1.2	1.2	—	—
Central staff expenses	4.7	5.6	5.1		5.1	5.3	0.2	3.0%
Institutional fees	1.3	1.8	1.9		1.9	2.1	0.2	8.4%
Depreciation	18.8	21.7	42.6		42.6	43.6	1.0	2.4%
Contingency			0.8	(0.5)	0.3	0.3	0.0	7.9%
Total centrally-managed costs	70.1	79.9	82.0	(0.5)	81.5	85.5	4.0	4.9%
Administrative expenses (£)	341.9	358.8	370.0	(0.5)	369.5	383.4	13.8	3.7%
GBP/EUR rate	1.17	1.13	1.14	1.14	1.14	1.14		
Administrative expenses (€)	399.1	406.3	421.8	(0.6)	421.2	437.0	15.8	3.7%

6.4 Budget Details

2020 Administrative Expense Budget by cost line

An increase of £13.8 million or 3.7 per cent is proposed for the 2020 Administrative Expense Budget. The total budget of of £383.4 million is broken down in Table 6.4.

Total staff costs budget increase of £11.5 million or 4.6 per cent mainly reflects full year impact of the decisions made in 2019 (compensation proposals, phased 2019 new positions), inflationary pressures (medical insurance, Retiree Medical benefit), impact of FX movements on staff costs, as well as 2020 proposed increases for Compensation & Reward Review with incremental resource requests for business priorities offset with efficiencies identified in underlying budgets.

Total non-staff costs budget reduction of £1.7 million or 4.3 per cent is mainly driven by reclassification of IT budgets to reflect increase in vendor costs (from consultancy to centrally managed IT and Telecommunications lines), as well as centralisation of mobile phone costs away from departmental budgets (other direct costs) to centrally managed IT costs and depreciation. Underlying non-staff cost budgets have increased to reflect the impact of price and FX movements (information services, audit fees and other contractual increases) and limited additional budgets proposed for 2020 business priorities.

An increase of £4.0 million or 4.9 per cent in centrally-managed costs including a reclassification of £1.5 million of non-staff IT costs and £0.7 million mobile costs across departments to centrally-managed costs (including depreciation). Additionally, IT costs are proposed to increase by £1.0 million, and other budgets increase as a result of price increases and the impact of FX movements on lease costs (depreciation).

Total contingency funds in the 2020 Budget are £1.3 million, or around 0.3 per cent of the total budget. This includes a Management Reserve of £1.0 million together with the existing £0.3 million General Contingency (the latter subject to Board approval).

Departmental budgets

An increase of £9.8 million or 3.4 per cent is proposed for direct costs. The total direct costs budget of £297.8 million for 2020 is broken down by department in Table 6.5.[3]

- **CSG:** Direct costs budget increases by £3.5 million. This is a result of £1.0 million full year impact of 2019 compensation increases, £1.2 million increases in direct costs due to FX movements, £0.8 million to reflect higher benefits allocation rates and £0.3 million additional budget to support prioritised areas (mainly field-based resources to support portfolio and operating assets growth). The underlying budgets also reflect the full year impact of a reallocation to VP Risk and Compliance linked to realignment of the procurement policy function in Q1 2019.
- **Finance:** Direct costs budget increase of £1.4 million is to reflect £0.6 million for inflationary and price increases (information services and audit fees), £0.6 million budget reallocation from VP, HR & Corporate Services as well to account for the full year impact of 2019 compensation increases and higher benefits allocation rate.
- **VP, HR & Corporate Services.** The reduction of £1.8 million in the budget is mainly driven by 1) reclassification of £1.6 million in IT consultancy and staff cost budgets which are reflected in increases to centrally managed costs (vendor based service model), and 2) reallocation of £0.6 million information services budget from VP, HR & Corporate Services to Finance. These reductions are offset by an additional budget of £0.3 million for the HROD function to set up a central unit focusing on organisational change and performance, as well as £0.1 million additional budget to reflect higher benefits allocation rates.
- **VP, Risk and Compliance:** Direct costs increase of £1.0 million is mainly attributed to reorganisation of the procurement policy function (full year impact of £0.3 million), full year impact of 2019 compensation increases (£0.2 million), as well as to priority areas for 2020 (£0.1 million), higher benefit allocation rates (£0.1 million) and £0.2 million price increases in 2020 (information services).
- **Office of General Counsel:** The office is allocated £0.2 million additional direct costs budget to reflect £0.1 million full year impact of 2019 compensation increases and £0.1 million impact of increased benefits allocation rate.

Table 6.5 Direct Costs by Department (£ million)

	2019 Budget	2020 Budget	2019–2020 Variance
Banking	125.0	128.0	3.0
VP, Policy & Partnerships	20.1	20.6	0.4
Client Services Group	**145.1**	**148.6**	**3.5**
Finance	12.6	14.1	1.4
VP, HR and Corporate Service	31.5	29.7	(1.8)
VP, Risk and Compliance Group	27.9	28.9	1.0
Office of the General Counsel	16.3	16.6	0.2
Office of the Chief Economist	2.3	2.3	(0.0)
Internal Audit	1.2	1.2	0.0
Corporate Strategy	1.2	1.2	0.0
Communications (incl. BIS)	6.9	6.9	0.1
Office of the Secretary General	4.3	4.6	0.3
President's Office	1.8	1.8	(0.0)
Project Complaint Mechanism	0.7	0.8	0.2
Evaluation Department	3.1	3.1	(0.0)
Board of Directors	13.4	13.8	0.4
Unallocated	19.6	24.2	4.6
Total direct costs	**288.0**	**297.8**	**9.8**

Note: It should be noted that unallocated budget includes funding for the 2020 Compensation and Reward Review proposals, estimated performance based compensation pool (£16.1 million in aggregate) as well as the Management Reserve of the Bank.

- **Office of the Secretary General:** Additional £0.3 million direct costs budget reflects incremental resources proposed for 2020 to support Access to Information Policy (AIP).
- **Board of Directors:** Additional £0.4 million of direct costs budget reflects consistent funding across constituencies, indicative 2020 staff costs budget adjustments at CPI level (£0.2 million) and higher benefits allocation rate (£0.1 million).
- **Unallocated** additional budget of £4.6 million includes funding for the 2020 Compensation and Reward Review proposals (£4.8 million), estimated performance based compensation pool (£15.7 million excluding the impact of 2020 Compensation proposals), as well as the Management Reserve of the Bank. This budget line includes £2.2 million or 0.6 per cent of budget reductions temporarily held as a negative budget adjustments within the centrally managed benefits (specific budget lines for this reduction to be defined during 2020).

3 Historic data is available on Board Online Information and Annex.

Opening of new satellite offices in Egypt and Uzbekistan

The Board is requested to approve pursuant to section 1.2 of the Bank's By-laws the opening of two satellite offices in Asyut (Egypt) and Urgench (Uzbekistan) in the course of 2020. On-going occupancy expenses (estimated at £40–50 thousand per year for both offices) and the one-off capital expenditure will be borne by the Bank. New offices will also require additional support from central units such as HR, IT and Administrative Services. Staff and non-staff costs such as travel will be borne by donors. These offices will serve as a hub for development and scaling of the Bank's Advisory for Small Business (ASB) activities and support the Bank in increasing its regional impact and advance its inclusion agenda (e.g. SME access to finance and advisory services).

Capital expenditure

HQ and Resident Office resources

The Bank's headquarters (HQ) lease expires in December 2022. The Bank undertook a comprehensive exercise to identify its future HQ building in London, with the Board approving the signing of the lease for 5 Bank Street, Canary Wharf as well as a separate associated capital expenditure budget of £111.0 million (BDS19-076). Capital expenditure is budgeted for and approved through its effect on depreciation. In 2020, this will correspond to £0.7 million capital expenditure for HQ and £1.8 million in Resident Offices (ROs).

Key areas for capital expenditure planned for 2020 include:

- upgrading essential building systems such as components of life safety system, electrical installations, catering equipment as well as minor changes to office space at HQ
- opening of satellite offices in Asyut (Egypt), Urgench (Uzbekistan), and Cluj (Romania) in 2020. Of these, the opening of Asyut, Egypt and Urgench, Uzbekistan are subject to approval by the Board. The approval of the new office in Cluj (Romania) was confirmed in the SIP2019-21 (BDS18-160 Final)
- work in existing ROs including the relocation of the Chisinau; expansion of the office in Minsk and Tbilisi; the replacement of furniture in Ankara, Bucharest and Tashkent; and the replacement of several vehicles

IT resources

The planned IT capital expenditure in 2020, excluding carried forward budgets is about £23.5 million, including:

- increase of £3.0 million in 2020 (and £2.5 million in 2021) to move to new external data centres operated by a specialist 'co-location' provider, which will provide greater security, cost-effectiveness, sustainability, flexibility and resilience than an in-house facility and enables the move to Canary Wharf
- additional £8.5 million for essential upgrades and technical debt (remediation) related activities, including a Summit Upgrade as a foundation for the LIBOR changes, a VDI delivery (EBRD Remote upgrade) and a series of necessary upgrades to applications and hardware
- increase of £3.7 million for continuation of Tech2020 objectives including the move to Microsoft Office365 which will change ways of working across the Bank
- additional £1.5 million for small enhancements of current applications and systems to support business needs
- increase of £1.8 million for new Business Priorities that are requested during the year
- additional £4.0 million for Monarch in 2020 (with £6.0 million in 2021 and £2.0 million in 2022); Monarch is the end-to-end application to manage external banking and project activities including investment, policy and advisory work

For pipeline projects, the business case, scope and budgets need to be finalised and approved by Management.

2020 Scorecard Parameters: Resources

Organisational performance in the Bank's scorecard is measured on the basis of the annual number of operations plus the number of operations monitored in the portfolio, divided by the actual level of expenditure of the Bank (expressed in pound sterling).

Based on the projected increase of the number of portfolio and new operations and the projected operating expenditure, the target organisational performance ratio for 2020 is set within a range of 1.5 to 1.7 operations per one million pounds sterling of operating expenditure.

Table 6.6 Organisational Effectiveness & Efficiency (OE&E): Investment and Savings (£ million)

	2017	2018	2019	2020	TOTAL
Total programme					
Client Services	(5.7)	(9.1)	(9.1)	(9.1)	(33.0)
IT Operating Model	(3.6)	(3.3)	(3.9)	(3.7)	(14.5)
Procurement Operating Model	(0.4)	(0.6)	(1.5)	(1.5)	(4.0)
Total savings	**(9.7)**	**(13.0)**	**(14.5)**	**(14.4)**	**(51.5)**
OE&E Investment	12.9	3.4	5.5		21.8
Net Investment (savings)	**3.2**	**(9.6)**	**(9.0)**	**(14.4)**	**(29.8)**
Of which IT:					
Recurrent annual savings	(2.0)	(2.4)	(2.4)	(2.4)	(9.2)
One-off savings (2017 / 2018)	(1.6)	(0.2)	(0.6)		(2.4)
Savings from IT transformation		(0.7)	(0.9)	(1.3)	(2.9)
Total IT savings	**(3.6)**	**(3.3)**	**(3.9)**	**(3.7)**	**(14.5)**
OE&E Investment	1.8	1.2	3.0		5.9
Net IT Investment (savings)	**(1.8)**	**(2.1)**	**(0.9)**	**(3.7)**	**(8.6)**

6.5 Operational Effectiveness and Efficiency

Non-financial benefits

Since 2017, the OE&E has successfully streamlined and strengthened processes in the Bank, including among others:

- a revision of the Bank's **Country Strategies** into a more methodologically sound and less time-consuming process (reduced by one-third)
- creation of a specialised **portfolio management** function
- streamlining and strengthening the measurability of the Bank's transition impact, including the Bank's Transition Objectives Measurement System (TOMS) and development of the standardised **Compendium of Indicators**
- creation of a **Data Management Function and Governance** to bring the coherence to the Bank's records necessary to take full advantage of the new systems of result measurement and client management
- **streamlining of internal decision-making** processes to strengthen individual accountability and empowerment within the Bank

In 2019, OE&E further:

- piloted **new ways of working in the Bank's HQ** for increased staff productivity and informing the design of the Bank's new HQ
- supported ongoing **transformation of the Bank's IT** systems, including a complete restructuring, enhancing cyber security and ramp up business support
- implemented a category management approach to achieve better value for money in **procurement**
- has been reviewing the processes in the Bank's middle and back offices

Financial benefits

Overall, the OE&E programme has been able to deliver medium-term budget savings of about £14.4 million per annum across Client Service Group (CSG), IT and Procurement (see Table 6.6).

- **Recurrent aggregate savings of £9.1 million within CSG** were achieved in 2017 with completion of the Voluntary Separation Programme (VSP) in the Banking Department (£8.4 million savings) and further recurring savings delivered within VP Policy (£0.7 million).
- **In IT, savings of £3.7 million are reflected in the 2020 budget.** This includes savings of £1.3 million relating to a changed delivery model with revised management and internal capability, together with a set of vendor partners to support the Bank's 'IT Transformation'. The savings from IT Transformation in 2020 are however £1.2 million lower compared to projections in the 2019–21 Plan (£2.5 million). This is because of two things: (1) supplier response to the applications function (one of the three

Table 6.7 Organisational Effectiveness & Efficiency (OE&E): Investment Budget (£ thousands)

	LATEST PROJECTED EXPENDITURE					
	2017 Actual	2018 Actual	2019 Estimate	2017–2019 Total	Cumulative approved budget	Variance
Client services	8,777	0	0	8,777	8,777	0
IT operating model	1,798	1,164	2,980	5,942	7,508	1,565
Procurement operating model	564	145	25	734	1,209	475
Programme management	1,801	2,072	2,452	6,326	6,307	(19)
Contingency	0	0	0	0	3,000	3,000
Total	**12,940**	**3,382**	**5,457**	**21,779**	**26,800**	**5,022**
OF WHICH:						
FTE-related investment (not fungible)	9,341	281	2,450	12,071	14,093	2,022
Other investment	3,599	3,101	3,008	9,707	9,707	0
Contingency				0	3,000	3,000
Total	**12,940**	**3,382**	**5,457**	**21,779**	**26,800**	**5,022**

workstreams in scope for the IT outsourcing project) during the procurement process revealed a higher than anticipated quote due to the Bank's ageing legacy systems which led to the conclusion for more staff to be retained and (2) the timing of the outsourcing of the function has been delayed. It is important to note that recurrent aggregate savings are expected to incrementally increase to £4.8 million beyond 2020 (including £2.4 million relating to the IT Transformation), reflecting the full year impact of the final element of the changes to the IT delivery model.

- **In procurement, savings of £1.5 million are reflected in the 2020 budget**, consisting of £0.6 million of savings following restructuring of the procurement function, and £0.9 million of further ongoing incremental savings attributable to the impact of category management to be realised in 2020.

To monitor delivery of the programme, the Bank introduced a key performance ratio of cumulative savings over cumulative expenditure (including provisions) during the four-year period 2017–20. This ratio was initially set at 2.4 (2017–19 Plan) and subsequently revised to 2.0 (2018–20) Plan following the revision to the scope of the OE&E programme. The ratio is now projected to return to a ratio of about 2.4 at end 2020.

Investment budget

Cumulative programme expenditure (2017–20) is projected at £21.8 million (see Table 6.7). In 2017–19, a fully ring-fenced cumulative budget of £29.3 million was approved for the period of the OE&E programme, which was subsequently reduced to £26.8 million as a result of de-scoping of the programme. To date, cumulative expenditure is projected at £21.8 million, reflecting factors such as FTE-related costs for CSG and the outsourcing of IT functions and procurement workstreams.

The OE&E Programme is planned to be completed by the end of 2019. This includes finalisation and contracting of the last phase of IT transformation for support teams of the Bank's applications. Whilst the new structure supported by external vendors will have a phased rollout in 2020, the estimated implementation costs will be accrued at the year-end based on finalised arrangements. As such, Management aims to propose to the Board to close the separate OE&E Investment Budget immediately following the end of 2019, with remaining unused amounts of the budget being cancelled.

Reallocation of freed capacity

Since inception, the OE&E programme has freed up resources (staff and financial) to be re-employed in high priority areas. These resource reallocations were set out in respective SIP documents across the years and arrived at in close consultation with the Board of Directors during regular OE&E reporting sessions by Management. Examples include enhanced resources for GET as well as Risk and Compliance functions (approved in the 2017 and 2018 budgets); savings arising in IT were reinvested within IT to support implementation of the Bank's strategic approach to IT (Tech2020); and targeted incremental budget savings of £0.9 million from procurement activities in 2020 contribute to limiting overall budget growth.

6.6 Outlook on the Medium-Term Budget

This SIP 2020–22 covers two years of the next SCF. As such it is difficult to make budget projections for plans that are still being shaped. Presently indicative levels of investment and activity are to a certain extent placeholders waiting for decisions in the SCF.

Notwithstanding this uncertainty and to provide a sense of the financial sustainability of potential budget increases, Table 6.8 includes an illustrative development of total administrative expenses to 2022. This calculation is based on a purely illustrative 5.0 per cent growth in the underlying nominal budget. Future budgets will need to take into account:

- adjustments for rewards that ensure that the Bank remains competitive and for inflation pressures
- resources to support the Bank's operational delivery
- increased IT costs over the medium term as the Bank's infrastructure and core software systems are out of date and in many cases fully depreciated. As the Bank looks to update to support the business, new systems including the Monarch project will have depreciation costs as well as operating costs impacting the budget
- resources to support growing donor-related activities
- resources to facilitate strengthening of the Evaluation (including self-evaluation by business) and Internal Audit functions at the Bank

In addition, the overall budget will be impacted by increases to the costs of the Bank's headquarters in 2021 and 2022 as costs will be borne for both the existing building and the new building in Canary Wharf. Under accounting standards, depreciation of 'right of use' assets (amounts imputed from the rental lease) commences during 2021, when the Bank plans to start using the building for fit-out works, and depreciation of the fit-out costs will start from mid-2022 when the new building is occupied. By 2023, costs will be lower than the 2020 budget. The impact of this transition period on the overall budget has not been reflected in the illustrative medium-term profile.

The Bank remains committed to an efficient use of resources and to strict budgetary control and these indications do not prejudge the development of the budget over the medium term.

Table 6.8 Projected Total Administration Expense 2020–22 (£ million)

Administrative expenses (a)	**2019** Baseline	**2020** Budget	**2021** Projection	**2022** Projection
Administrative expenses (£)	**369.5**	**383.4**	**402.5**	**422.6**
GBP/EUR rate	1.14	1.14	1.14	1.14
Administrative expenses (€)	**421.2**	**437.0**	**458.9**	**481.8**
OE&E Investment Budget (b)				
Anticipated expenditure (£)	5.5			
Total expenditure (a+b)				
Total expenditure (£)	375.0	383.4	402.5	422.6
Total expenditure (€)	427.5	437.0	458.9	481.8
Cost-to-income ratio (5-year rolling average)	35.9%	35.1%	36.0%	35.8%

7. DEVELOPING THE BANK'S PEOPLE

7.1 The Bank's Workforce

The number of positions continues to increase, with ROs and externally funded positions accounting for the majority of growth (see Table 7.1). Viewed from the perspective of contract type, the majority of growth is in Bank-funded regular positions, two-thirds of which are in ROs. And from the perspective of bands in the People Management Framework (PMF), 65 per cent of growth is in bands 5 and in the Client Services Group (CSG). Recruitment pressures exist in CSG in PMF bands 5 and 6, Risk and Compliance Group in PMF bands 6 and 7 and turnover pressures in bands 5 and 6.

7.2 The People Plan

In 2018, the Bank embarked on a five-year People Plan to improve the Bank's current performance and prepare for capabilities going forward, including:

- develop an **organisational design** capability
- develop a **high-performance and learning culture**
- increase **mobility** across the Bank to provide opportunities for growth, re-skilling and improve career options of the Bank's top talent
- continue to improve how the Bank can leverage a **diverse workforce and inclusive culture** to drive productivity and

Table 7.1 The Bank's Workforce in 2019

	2017 Q3 Headcount	%	2018 Q3 Headcount	%	2019 Q3 Headcount	%*
Headquarters	1,631	66%	1,733	66%	1,792	65%
Resident office	826	34%	904	34%	957	35%
Banking	1,336	54%	1,455	55%	1,510	55%
Non-Banking	1,121	46%	1,182	45%	1,239	45%
Regular	1,868	76%	1,970	75%	2,072	75%
Fixed-Term contract	425	17%	514	19%	517	19%
Short-Term contract	164	7%	153	6%	160	6%
Non-Overtime Eligible (male)	967	39%	1,053	40%	1,087	40%
Non-Overtime Elgible (female)	919	37%	1,030	39%	1,095	40%
Overtime Elgible (male)	94	4%	89	3%	92	3%
Overtime Elgible (female)	477	19%	465	18%	475	17%

*(as at 12 September 2019)

performance by working on the Economic Dividends for Gender Equality Certification (EDGE), the Race at Work Charter and Stonewall certification processes, as well as targeted recruitment of underrepresented nationalities

- provide tools for **strategic workforce planning and 'people analytics'** to increase resource flexibility, inform planning decisions and reduce resource cost by better matching staff with strategic priorities
- develop a **people analytics** tool to deepen managers' understanding of the Bank's talent and help support **data-driven** decisions on hiring and promotion
- deliver improvements within overall operating costs and improve client satisfaction by **'getting the basics right'**, and increasing the levels of **self-service and process automation**

In 2019, the Bank prioritised and focused on the following three objectives:

- 'getting the basics right', including process automation to free up HR space to focus on business priorities (away from 'non-core work')
- laying the groundwork for improved people analytics and organisational design as a prerequisite to sound workforce planning
- re-vitalising learning and fostering an engaging work environment to attract and retain talent

In addition, the Bank successfully closed its Organisational Effectiveness & Efficiency (OE&E) programme and embarked on a comprehensive review of its reward framework (the Reward Review), including a review of the HQ salary framework, the post-leaving medical provision, and performance-based compensation.

7.3 Preparing for the Future

The Bank will focus on the following aspects in in 2020:

- establish itself as a **learning organisation** as key to attracting and retaining key talent in response to the changing nature of work as a result of rapid digitisation
- carrying out a **Bank-wide skills audit** to take stock of the Bank's current skillset as prerequisite to strategic workforce planning
- develop a **cross-departmental Corporate Services analytics capability**
- define **leadership, behavioural and technical competency framework** to help develop both leadership and competency-based career paths
- further roll out **training and learning programmes**, including digital learning platforms such as LinkedIn Learning and the peer-to-peer learning via the Mentoring programme
- introduce a **new engagement survey**
- upscale **on-the-job learning opportunities** through, for example, internal and external mobility schemes
- develop **knowledge management schemes** to transfer knowledge across the organisation
- continue **'fixing the basics'** by creating 'usable' HR data, re-engineering the JML process, leverage robotic process automation to automate steps in the JML Process, further embed self-service HR query resolution; and roll out automated data quality checks and 'paperless processes' across HROD
- continue the Reward Review and approach to performance management, through a review of family-friendly benefits, retirement age and pension benefits as well as implementation of Board-approved recommendations with regard to the Bank's 2019 Reward Review

APPENDIX: BUDGET DATA DISCLOSURE

Responding to the request by members of the Bank's Budget and Administrative Affairs Committee for enhanced budget data disclosure in the Strategy Implementation Plan document, this Appendix provides a five-year trend of budget data. The following tables are attached hereto:

- **Table A.1.** Administrative Expense Budget 2016–20
- **Table A.2.** Detailed Administrative Expense Budget 2016–20
- **Table A.3.** Direct Costs by Department 2016–20
- **Table A.4.** Occupancy and Contingency, including IFRS 16 Impact (2016–20)

This data will equally be available on Board Online Information.

Table A.1 Administrative Expense Budget 2016–20

	2016 Budget	2017 Budget	2018 Budget	2019 Budget	2019 Restatement	2019 Baseline	2020 Budget	2020 vs 2019 £m	2020 vs 2019 Per cent
Operating expenses	328.4	327.6	338.6	327.4	(0.5)	326.9	339.8	12.8	3.9%
Depreciation	17.3	18.4	20.9	42.6		42.6	43.6	1.0	2.4%
Administrative expenses (£)	**345.7**	**346.0**	**359.5**	**370.0**	(0.5)	**369.5**	**383.4**	**13.8**	**3.7%**
GBP/EUR rate	1.34	1.16	1.11	1.14	1.14	1.14	1.14		
Administrative expenses (€)	**462.5**	**401.4**	**399.0**	**421.8**	(0.6)	**421.2**	**437.0**	**15.8**	**3.7%**

Table A.2 Detailed Administrative Expense Budget 2016–20 (£ million, except where indicated otherwise)

Administrative expenses	2016 Budget	2017 Budget	2018 Budget	2019 Budget	2019 Restatement	2019 Baseline	2020 Budget	2020 vs 2019 £m	2020 vs 2019 %
Total salary costs	121.9	127.3	130.0	134.9		134.9	141.0	6.2	4.6%
Expat/ IHS	8.7	10.1	9.5	9.8		9.8	9.5	(0.3)	(3.2%)
Medical plan	6.8	6.8	8.2	9.0		9.0	10.3	1.3	14.4%
Gross retirement costs	40.4	43.3	48.1	50.0		50.0	53.5	3.5	7.0%
Other Benefits	30.7	26.8	27.9	28.7		28.7	28.9	0.2	0.7%
Total benefits	86.6	87.0	93.7	97.4		97.4	102.1	4.7	4.8%
Performance Based Compensation	13.4	14.2	14.5	15.5		15.5	16.1	0.7	4.3%
Other staff costs	1.7	1.6	1.5	1.4		1.4	1.4	(0.0)	(1.5%)
Staff costs	**223.6**	**230.0**	**239.7**	**249.1**	—	**249.1**	**260.6**	**11.5**	**4.6%**
Consultancy/Legal	32.1	19.2	16.5	12.5		12.5	11.1	(1.5)	(11.7%)
Travel/Hospitality		13.3	12.6	13.0		13.0	13.2	0.2	1.7%
Other Direct Costs	12.1	12.8	13.3	13.3		13.3	12.9	(0.4)	(3.1%)
Non-staff costs	**56.7**	**45.2**	**42.4**	**38.9**	—	**38.9**	**37.2**	**(1.7)**	**(4.3%)**
Direct costs	**280.3**	**275.2**	**282.1**	**288.0**	—	**288.0**	**297.8**	**9.8**	**3.4%**
Occupancy costs	31.3	31.7	32.9	11.1		11.1	11.2	0.1	0.8%
IT and Telecommunications costs	8.5	12.3	14.9	19.3		19.3	21.9	2.6	13.4%
Annual Meeting	1.2	1.2	1.5	1.2		1.2	1.2	—	—
Central staff expenses	4.7	4.7	4.9	5.1		5.1	5.3	0.2	3.0%
Institutional fees	2.0	2.1	2.0	1.9		1.9	2.1	0.2	8.4%
Depreciation	17.3	18.4	20.9	42.6		42.6	43.6	1.0	2.4%
Contingency	0.3	0.3	0.3	0.8	(0.5)	0.3	0.3	0.0	7.9%
Total centrally-managed costs	**65.4**	**70.8**	**77.4**	**82.0**	(0.5)	**81.5**	**85.5**	**4.0**	**4.9%**
Administrative expenses (£)	**345.7**	**346.0**	**359.5**	**370.0**	(0.5)	**369.5**	**383.4**	**13.8**	**3.7%**
GBP/EUR rate	1.34	1.16	1.11	1.14	1.14	1.14	1.14		
Administrative expenses (€)	**462.5**	**401.4**	**399.0**	**421.8**	(0.6)	**421.2**	**437.0**	**15.8**	**3.7%**

Table A.3 Direct Costs by Department 2016–20 (£ million)

Direct Costs	2016 Budget	2017 Budget	2018 Budget	2019 Budget	2020 Budget	2019–2020 Variance
Banking	120.8	119.8	122.0	125.0	128.0	3.0
VP, Policy & Partnerships	18.2	19.5	19.1	20.1	20.6	0.4
Client Services Group	**139.0**	**139.3**	**141.1**	**145.1**	**148.6**	**3.5**
Finance	8.8	9.3	11.3	12.6	14.1	1.4
VP, HR and Corporate Service	41.7	34.9	34.7	31.5	29.7	(1.8)
VP, Risk and Compliance Group	22.7	24.6	26.4	27.9	28.9	1.0
Office of the General Counsel	14.7	15.7	16.2	16.3	16.6	0.2
Office of the Chief Economist	1.9	2.3	2.3	2.3	2.3	(0.0)
Internal Audit	1.1	1.0	1.1	1.2	1.2	0.0
Corporate Strategy	1.0	0.9	1.1	1.2	1.2	0.0
Communications (incl. BIS)	5.6	6.6	6.8	6.9	6.9	0.1
Office of the Secretary General	4.0	4.1	4.2	4.3	4.6	0.3
President's Office	1.6	1.5	1.7	1.8	1.8	(0.0)
Project Complaint Mechanism	0.1	0.1	0.1	0.7	0.8	0.2
Evaluation Department	3.1	3.0	3.0	3.1	3.1	(0.0)
Board of Directors	12.5	12.8	13.1	13.4	13.8	0.4
Unallocated	22.6	19.3	19.0	19.6	24.2	4.6
Total Direct Costs	**280.3**	**275.2**	**282.1**	**288.0**	**297.8**	**9.8**

Table A.4 Occupancy and Contingency, including IFRS 16 Impact (£ million)

Administrative expenses	2019 SIP	IFRS 16 Impact	2019 Budget	2019 Restatement	2019 Baseline	2020 Budget	2020 £m	2020 %
HQ Occupancy	24.3	(15.7)	8.6		8.6	8.8	0.1	1.6%
HQ Lease depreciation	—	15.3	15.3		15.3	15.0	(0.3)	(2.2%)
HQ Fixed asset depreciation	5.5	—	5.5		5.5	5.8	0.3	5.4%
Subtotal—HQ Occupancy	**29.8**	**(0.4)**	**29.5**	**—**	**29.5**	**29.6**	**0.1**	**0.3%**
RO Occupancy	8.6	(6.1)	2.5		2.5	2.4	(0.1)	(2.1%)
RO Lease depreciation	—	6.0	6.0		6.0	6.3	0.3	4.9%
RO Fixed asset depreciation	1.6	—	1.6		1.6	1.6	—	—
Subtotal—RO Occupancy	**10.2**	**(0.1)**	**10.1**	**—**	**10.1**	**10.3**	**0.2**	**2.4%**
Total HQ and RO Occupancy	**40.0**	**(0.5)**	**39.6**	**—**	**39.6**	**39.9**	**0.3**	**0.9%**
Transfer to Contingency		0.5	0.5	(0.5)			—	—
Total IFRS 16 Impact	40.0	(0.0)	40.0	(0.5)	39.6	39.9	0.3	0.9%

EBRD contacts
European Bank for Reconstruction and Development
One Exchange Square, London
EC2A 2JN
United Kingdom

www.ebrd.com

Switchboard/central contact
Tel: +44 20 7338 6000

Information requests
For requests and enquiries, please go to
www.ebrd.com/inforequest