Strategy Implementation Plan 2021-2023

PRESIDENT'S RECOMMENDATION

I recommend that the Board of Directors approve together:

- An Administrative Expenses Budget of £406.1 million (€454.9 million), comprising a Core Administrative Expense Budget of £394.5 million (€441.8 million) and Extraordinary Budget Items of £11.6 million (€13.0 million)
- The parameters and objectives contained in the 2021 Corporate Scorecard

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Executive Summary

The Strategy Implementation Plan 2021-2023 (the "SIP") is the first SIP under the Strategic Capital Framework 2021 – 2025 (the "SCF"), approved by Governors in October 2020. As with every SIP, it is multi-dimensional, bringing together over a three year period the Bank's planning for implementation of strategic priorities, transition impact, operations, financial sustainability and human resources, and sets concrete objectives for the year ahead, through the Budget and the Corporate Scorecard.

But this is a SIP unlike previous SIPs.

It is a SIP shaped by the crisis. The planning horizon is clouded by profound uncertainty, with respect both to market developments and to the operating capacity of the Bank through prolonged remote working. Uncertainty however cannot result in inaction. The Bank will continue to be a reliable partner in unstable times with a firm commitment to step up and support its countries of operations and clients, as it has done since March 2020 through the Solidarity Package to preserve transition gains. The balance through 2021 between rescue instruments, such as the Resilience Framework, and more complex restructuring and recovery projects is difficult to foresee at this stage. A greater preponderance of rescue instruments would likely deliver ABI at the upper end of the planning range set at €11.0 billion, as in 2020. If demand for rescue finance is lower however, a balance of investments tilted towards the recovery, including complex restructurings and accelerating transition, would be unlikely to deliver such high overall business volumes.

It is a SIP of ambition. The SCF lays out an agenda whose range, complexity and tempo require a bold start in Year 1. The most urgent priority is the green economy transition (GET), reflecting the Bank's existing strengths as well as a strategic prioritisation given the external context. Yet, the share of GET business may continue to be moderated in 2021 to the extent that demand is ongoing for the Bank's rescue instruments, which by definition have little or no GET impact. It, therefore, will be essential from early 2021 to lay the foundations for enhanced and scaled up GET delivery throughout the SCF period, with a trajectory to achieve a green finance ratio of more than 50 percent by 2025. This critical foundational work will include a review of resource distribution, on-boarding of new resources, and clear steps towards alignment with the Paris Agreement.

Recognising that only a learning bank can deliver on SCF ambitions, particularly with a fast-evolving external environment, the SIP also prioritises investing in self-evaluation and results management, building on the recommendations of the Kirk Report. The Bank will also take sequenced steps in 2021 to begin focusing on other SCF goals. The Corporate Scorecard, formulated to the new template approved in October 2020, summarises the Bank's ambition for 2021.

It is a SIP that follows a sustained period of institutional growth, within constrained resources. In the less than three years between December 2017 and October 2020, the Bank's operating assets have grown by approximately 18 percent, and the number of portfolio projects by more than 12 percent. Operating assets are the driver of revenue over which the Bank has the greatest direct control, whereas the number of portfolio projects is an indicator of both impact and resource intensity. During the same period, the administrative resources of the Bank have grown in real terms by a smaller margin (less than 7 percent when CPI adjusted). This has created increased pressure on the Bank's operational systems and resources. 2020 has brought into focus the need to invest in long-term operational sustainability, as proposed for the first time in this SIP. This will likely continue to be a priority throughout the SCF. The Core Administrative Budget proposal for 2021 is £394.5 million (€441.8 million), a 2.9 percent increase on the 2020 Budget (1.1 percent when expressed in euros, the financial currency of the EBRD). This includes a 0.9 percent increase for Compensation and Benefits proposals, 1.9 percent increase due to non-discretionary increases and carry over impacts, and 2.2 percent growth for new resources (£8.5 million, rising to £11 million with additional use of donor fees). The growth in new resources is almost entirely offset by permanent savings and budget reductions of 2.1 percent.

It is a SIP addressing exceptional needs with two extraordinary budget items. The need to overcome a legacy of under-investment in IT with a very significant multi-year investment programme was accepted by the Board in July 2020, and implementation work has begun. Capex for Phase 1 is now confirmed at £78.3 million, of which £52.2 million will be invested in 2021. The cost impact on the 2021 Budget (operating expenses and depreciation) is £3.9 million, rising to £18.6 million in 2022 and £28.9 million in 2023. In addition, a one-off investment is required to complete the LIBOR transition, a regulatory requirement that entails a ring-fenced budget of £7.8 million in 2021. These two items bring the total budget increase proposal to 5.9 percent (4.1 percent in euro terms).

It is a SIP for vigilance on financial sustainability. Deteriorating credit margins in the market, increased provisioning for loan losses and continued equity volatility all contribute to a challenging outlook. At the same time, costs will increase, notably with respect to IT investment. Thus, cost to debt income is estimated to rise from 52 percent in 2020 to 59 percent in 2023. This calls for reflection to inform future decisions. Overall, however, the Bank is projected to remain profitable throughout the planning period. In addition, levels of capital and liquidity remain very strong and in line with triple-A standards. In recognition of the challenges ahead, the Bank will pay increasing attention to the balance between revenue-generating and non-revenue-generating activities when new ideas, initiatives and investments are considered and, in addition, will assess, whenever relevant, tools, processes and structures to ensure they are efficient. The SCF underlines that the starting point for resourcing decisions is the Bank’s goal to deliver value for money for its shareholders. As such, the Bank will look first for opportunities for reallocations among activities reflecting strategic priorities and streamlining processes. Accordingly from 2021, the first year of the SCF, Management will further strengthen its efforts to identify opportunities for reallocations, savings and efficiency gains. The overall outcome will be presented to Directors in the context of preparatory discussions for future SIPs, and will be taken into account in future “cornerstones” discussions. As the SCF period progresses, all budget proposals will be made and considered in the context of the Bank’s financial sustainability and in compliance with the relevant control parameters.

1. Delivering through uncertainty

The COVID-19 health and economic crisis has had a profound impact on EBRD countries of operations and the Bank's operating environment has significantly changed, with increased challenges for delivery. The EBRD has responded with record business investment and stands ready to support its countries of operations and clients through the uncertain period ahead.

1.1. The economic outlook

The COVID-19 crisis struck in the context of an ongoing deceleration of growth in EBRD regions, with growth already slowing from 3.4 per cent in 2018 to 2.6 per cent in 2019. Social distancing measures aimed at containing the spread of COVID-19 weigh on domestic demand (as a major part of aggregate consumption involves public gatherings) and domestic supply (as workers stay at home). The economic impact of domestic containment measures are compounded by several related external shocks, whereby economies in the EBRD regions face a collapse in tourism, lower remittances, relatively low commodity prices and lower demand for exports. Large fiscal stimulus packages helped to cushion the impact of the COVID-19 crisis on individuals and firms. However, public debt as a share of GDP is expected to increase sharply.

GDP in the EBRD regions as a whole is expected to contract by 3.9 per cent in 2020, with growth of 3.6 per cent expected in 2021. This assumes gradual phasing out of social distancing in 2021 providing for a rebound in economic growth. Even under these assumptions, many economies are not expected to reach their pre-pandemic level of income per capita until 2022-2024.

A weak external environment weighs on growth prospects in central Europe and the Baltic states, though generous government spending programmes have helped cushion the impact of the crisis so far. Growth could pick up in 2021 conditional on some recovery in external demand and boosted by disbursement of EU funds. Strict lockdowns, travel restrictions and a collapse in tourism weigh on growth in the southern European Union in 2020, though there too, fiscal packages have helped alleviate some of the impacts of the crisis. A partial rebound in growth is expected in 2021, conditional on a gradual normalization of activity in the economies as well as their trading partners. A collapse in tourism, disruptions in global supply chains and declines in foreign direct investment inflows and remittances hold back growth in the Western Balkans.

GDP in Russia is expected to shrink in 2020 as a result of the COVID-19 crisis and a drop in oil prices, though the introduction of the National Plan for Economic Recovery helped mitigate some of the negative effects. A rebound in 2021 is conditional on some recovery in oil prices. In Eastern Europe and the Caucasus, a sharp fall in remittances during the early months of the pandemic is compounded by lower commodity prices and a collapse in tourism. Contractions in Central Asia are expected to be larger in countries with high external vulnerabilities. Assuming a partial recovery in tourism and some improvements in the external environment, growth in the region could rebound in 2021.

Weak demand for exports, disruption to supply chains and social distancing measures weighing on the outlook in the services and manufacturing sectors in Turkey. Containment measures, a drop in tourism, falling external demand and a slowdown in foreign direct investment inflows hold back growth in the southern and eastern Mediterranean, though growth could rebound in 2021, supported by the implementation of structural reforms packages.

The projections are subject to tremendous uncertainty. Forecasts are highly sensitive to the assumptions relating to government policies and the extent of social distancing as well as the precision of early estimates of growth. If previous episodes of major crises are a guide, flash estimates of growth are likely to be subject to large revisions, in particular in emerging markets and developing economies, which will, in turn, be reflected in significant revisions to forecasts.

1.2. A new way of working

One of the probable impacts of COVID-19 is that companies will see a significant increase in remote working, even once a vaccine is available and a more normal return to offices is possible. However, it is still too early to fully understand and assess the magnitude of the impact of the crisis on long term working arrangements.

Whilst there are obvious benefits of reduced travel costs and environmental impact, the current limited ability to travel to and within countries of operations and physically meet with clients and see projects on the ground may impact engagement, sense of contribution, and effectiveness through making in-person connections. Questions also remain about how easy it will be to maintain and develop social capital and corporate culture through longer-term remote working.

The Bank is seeing record ABI levels. However one can observe the impact of COVID-19 on the number of new operations (with new clients rather than repeat business) which reduced by 46 per cent in H2 2020 compared to H1 2019.

Externally there are limited, if any, predictions or indications of the longer-term impact of the current pandemic on productivity and employee engagement. The Bank continues to monitor various data points to make sure we are able to respond quickly, to support its people and business activity.

1.3. A growing business

The preparation of the SIP 2021-2023 comes at a time of exceptional operational growth for the Bank driven by its response to the current crisis. Through the Solidarity Package, the EBRD has supported its clients and countries of operations, delivering unprecedented investment levels during the second and third quarter of 2020. At the end of the third quarter, Annual Bank Investment reached €7.9 billion, close to 30 per cent above the previous highest investment volume in the first three quarters of the year. The Bank accentuated its support for the countries less advanced in transition with annual investment in the Early Transition Countries, SEMED and the Western Balkans accounting for 48 per cent of total investment, compared to 37 per cent for the same period in 2019.

As a result of these strong activity levels, the Bank's portfolio has grown by close to €4 billion in the 12 months to end Q3 2020, a level comparable to those following the Bank's response to the 2008 Financial Crisis. The growth of the portfolio mirrors the shift in activity to countries less advanced in transition, with portfolio in those countries accounting for 45 per cent of the total portfolio, compared to 41 per cent a year before. Likewise, operating assets increased by over €2 billion year on year reflecting record disbursement activity driven by the activity under the rapid response channels. The number of active operations under implementation reached close to 2,150 at end September 2020, up more than 130 projects compared to end September 2019, the largest annual increase since 1997. Operating assets have increased by 18 per cent since end 2017.

2. A clear strategic framework

A comprehensive and complementary set of strategic documents guide how the EBRD plans to fulfil its transition mandate.

2.1. The Strategic and Capital Framework (SCF)

At the apex of these documents is the Bank's Strategic and Capital Framework (SCF). The EBRD's Board of Governors unanimously approved the SCF 2021-2025 at the Bank's 2020 Annual Meeting.

The SCF sets the overarching aim for the EBRD to support its countries of operations in preserving and accelerating transition to build a more resilient and sustainable future. In order to achieve this headline goal, the EBRD aims to assist countries of operations to develop sustainable market economies that are competitive, well governed, green, inclusive, resilient and integrated.

The SCF contains a clear set of strategic operational, geographical, financial and institutional aspirations for the Bank in 2025, which are summarised in Box 1. This is the framework against which the EBRD's success will be judged over the SCF period.

Box 1: The Bank in 2025

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

- Provided timely and effective support to countries of operations to preserve and accelerate transition in the context of the economic crisis caused by the COVID-19 pandemic.
- Demonstrably focused its efforts on supporting those of its countries of operations less advanced in transition, including the Early Transition Countries[1] (ETCs), SEMED and the Western Balkans, through enhanced investment and policy activity.
- Reinforced its private sector focus by ensuring that more than three-quarters of the Bank's total investment in the SCF period is in the private sector.
- Directly supported progress towards green, low-carbon economies through higher levels of investment in the Green Economy Transition.
- Promoted equality of opportunity for disadvantaged groups and deepened the mainstreaming of gender considerations in projects through strengthened capacity for investment and policy engagement.
- Launched comprehensive and coherent activities to help countries of operations leverage the digital transition as an enabler of transition across all sectors.
- Successfully begun operations in new countries of operations within the Bank's existing region, such as Algeria, subject to the approval of Governors.
- If approved by the Board of Governors, taken steps to begin operations in a limited number of countries beyond the Bank's current geographic region.
- Strengthened support for any country that chooses to graduate from the use of the Bank's resources through an enhanced Post-Graduation Operational Approach.
- Increased the levels of private capital it mobilises for countries of operations through a widened and deepened scope of activities.
- Achieved greater transition impact by further integrating policy engagement and investment activity and reinforced its ability to measure its effectiveness
- Strengthened its overall results framework, knowledge management and the use of evaluation findings to improve the design and impact of operations.
- Enabled cost effective delivery of the SCF through investment in staffing, skills, processes, systems and IT upgrades, as well as increased efficiency and reallocation.

[1] Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan.

2.2. The Strategy Implementation Plan (SIP)

The Strategy Implementation Plan (SIP) translates the SCF's medium term aspirations into near term priorities, sequencing delivery of the SCF as appropriate based on country demand and institutional readiness. Approved by the Board of Directors, the SIP provides a three-year rolling perspective on the implementation of the SCF and the context for the EBRD's proposed annual Budget and Corporate Scorecard. The SIP 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 country objectives will be pursued in the coming years and the consequent evolution of the Bank's portfolio;
- An analysis of the consequences of this portfolio evolution for the **financial sustainability** of the Bank, including an assessment of conformity with the Bank's capital policies and risk appetite statement and
- The proposed **resourcing** of the Bank's activities, including the annual budget for approval by the Board of Directors.

2.3. Country Strategies and Country Strategy Deliver Reviews (CSDRs)

The achievement of transition is only fully recognised at the individual country level. Accordingly, country strategies are integral to Bank's planning and delivery. Country Strategy objectives are set for five years through a rigorous and structured process that includes systematic analysis of:

- The **needs** of the country to progress towards the achievement of the qualities of a market economy (via an assessment of transition qualities and subsequent in-country diagnostic work);
- The **opportunities** which may exist for making progress in fulfilling those needs, including the scope for investment and the availability of committed partners in both the private and public sectors; and
- The **capacity** of the Bank to take advantage of those opportunities, based on its areas of expertise, business model, additionality, and complementarity to other development finance institutions.

Country Strategy Delivery Reviews assess progress against country strategy objectives annually in accordance with Article 11.2 of the Agreement Establishing the Bank (AEB) and highlight challenges and opportunities for future delivery of transition. Country strategies are complemented by sector and thematic strategies.

3. SIP 2021-2023: setting priorities

The ambition contained in the SCF cannot be delivered without a significant increase in resources. Equally, proposals for additional investment in new and strengthened capacity to deliver the Bank's impact over the SCF period must be properly sequenced, fully transparent and supported by well-articulated business cases, allowing for careful scrutiny by the Board of Directors prior to any approval. This section identifies the SCF objectives that will be prioritised during the first year, and for which resources are being requested in this SIP.

3.1. Preserving and accelerating transition: crisis and recovery

The SCF recognises that the impact and implications of the Covid-19 crisis shape the EBRD's approach in the short and medium term. As a result, delivering the Bank's transition goals will be pursued flexibly, recognising that the crisis will evolve differently in different countries of operations.

The SCF anticipates two overlapping phases. The focus in the initial crisis response is on preserving transition by providing rapid and substantial support as reflected in the Solidarity Package. As economies recover and become more stable, the Bank will have the opportunity to accelerate transition. In both these phases the Bank will seek to support all its countries of operations, building on its strengths, for example in local currency and capital market financing, SME support and sub sovereign lending, and innovating to find new ways of achieving transition. The SCF contains priority actions for the Bank's principal sectors that seek to preserve transition in the face of the crisis, as well as innovations and enhancements to accelerate transition.

The SCF also identifies three strategic themes that will be particularly stressed in the pursuit of transition, namely:

- Supporting the transition to a green, low carbon economy;
- Promoting equality of opportunity; and
- Accelerating the digital transition.

The crisis has heightened the relevance of each of these themes.

Other goals highlighted in the SCF include:

- Promoting high standards of economic governance, an objective whose importance across the Bank's activities has also been highlighted by the crisis;
- Increasing the mobilisation of private capital;
- Focusing support on those countries less advanced in transition;
- Enhancing the Post-Graduation Operational Approach;
- Potential geographic expansion to new countries of operations;
- Strengthening the Bank's monitoring, learning and evaluation systems and culture;
- Improving the Bank's technology and data; and
- Improving HR practices to match the capabilities of the Bank's workforce to the new strategic objectives.

The EBRD is committed to supporting all its countries of operations, especially in the face of the crisis. Within this, over the SCF period, the Bank's goal is to increase the proportion of its investment and policy activity in countries less advanced in transition with a particular emphasis on Early Transition Countries, Western Balkans and Southern and Eastern Mediterranean (SEMED). In addition, over the lifetime of SCF, the Bank aims to strengthen its private sector focus and mainstream gender considerations in its operations. These goals are reflected in the Bank's annual Corporate Scorecard in place from the start of the SCF period.

In approaching the first SIP of the new SCF, the Bank therefore faces a formidably ambitious set of goals. With a three-year horizon from 2021 to 2023, this SIP is crucial in setting a commensurately ambitious but realistic approach to implementation of the SCF, with prioritised and sequenced actions to build the Bank's capacities across the goals set out above. While the SCF objectives are all important, the Bank does not have the capacity or resources to launch each with equal energy and focus from the first year of implementation.

In 2021, the first year of the SCF, the focus and incremental budget allocations will be on three priority areas: operational sustainability; implementation of GET 2.1; and self-evaluation and results management (implementation of the Kirk report). A description of each of these areas, and of their importance and urgency, is set out below.

Outside these three priority areas, the Bank will deliver and resource itself across all operations and activities, and across all other strategic goals, within a flat budget: new resources will be funded from savings, through reallocations of existing staff or, where appropriate, from donor fees (see section 4.3 below).

However, the EBRD will use the first year of the SCF to prepare the groundwork for new ambition in other areas. Working across the Bank and leveraging the knowledge of partners, the Bank will prepare Approach Papers on mobilisation of private capital, promoting equality of opportunity, and accelerating the digital transition. These Approach Papers will be discussed with the Board of Directors, laying the foundations for greater ambition in the outer years of the SIP. In addition, in the event that shareholders agree to expand the Bank's operations to one or more new countries of operations, the Bank will prepare for a commencement of operations, with additional resource implications when this happens.

3.2. Operational Sustainability

Operational sustainability is about having the systems, processes and capabilities to work in a way that minimises operational risk and is supported by a range of functions. The need for investment to ensure the delivery of these key services and avoid rising operational risk, has been highlighted by Internal Audit and Operational Risk Management.

The crisis, which has created acute business pressures and a radically changed working environment, has highlighted limitations in the Bank's IT capacity. The work being undertaken to address this deficit is set out in detail in Chapter 8. 2021 represents a pivotal year as the Bank begins to adjust to the longer term implications of radically transformed ways of working and embarks upon the Multi Year Investment Plan (MYIP), agreed in the summer of 2020. The MYIP will ensure that the process and technology platform of the Bank is fit for the future strategic directions outlined in the SCF. Some elements of the project started in 2020, but the majority of elements will start in earnest in 2021 and will run until 2023. Enhanced governance and reporting on this major project will be provided by: detailed oversight from the newly established Programme Steering Board; independent validation by experienced external experts; and oversight by the IT Governance Committee. There will be regular and rigorous reporting to the Board.

In addition to IT, rising pressures on operational sustainability stem from: increased volume of activities in compliance (domiciliation, sanctions, donor requirements, project integrity); field-based support to increased portfolio operations (particularly, in the context of current crisis); and strengthening of control functions (Operational Risk, Internal Audit, EVD, IPAM).

Directors have indicated their interest in including an Operational Risk indicator in the Scorecard from 2022. The focus in this year's SIP on operational sustainability sets the right foundations for that metric to be developed, applied and then utilised as a tool to monitor and incentivise the Bank's performance in these areas going forwards. Enhancing operational sustainability positions the Bank well to take on more ambitious and complex activities, whether linked to innovations in specific sectors or new geographies.

3.3. Green Economy Transition

Delivering on the ambitious, new Green Economy Transition Approach 2021-2025 (GET 2.1) is an immediate priority for the Bank. With the imperative of building back better and more sustainably, the urgency of addressing climate change at scale and the upcoming COP26 in November 2021, the EBRD needs to be ready to implement the new GET Approach quickly and energetically across its activities.

New activities include the implementation of a Paris Agreement alignment methodology to assess all new operations, policy support to COOs on Long Term Strategies, NDCs and sector decarbonisation plans, greening financial systems in COOs, new product development across thematic action areas including for example climate adaptation, sustainable connectivity, food systems and natural capital. These activities will position the Bank on the path to achieve the ambitious policy and operational goals set in GET 2.1, as well as enhanced controls, results management and systems.

The Board approved the GET 2.1 Approach on 8 July 2020, with the understanding that the achievement of its broad and demanding set of goals would depend, inter alia, on "the timely allocation of internal resources". GET 2.1 includes a preliminary assessment that over 100 additional staff will be required, and notes that additional staff will be required early in the period to provide the basis for achievement of GET2.1 targets. Whilst Chapter 8 sets out a more modest resource plan for 2021-2023, totalling 60 additional staff, a frontloading of these incremental resources to 2021 is proposed. A similar frontloading was made to support the early active implementation of GET1.0 as part of the SIP 2016-2018, contributing in a major way to the strong results achieved under GET1.0.

The implementation of GET 2.1 involves a broad range of departments and functions, and during 2021 steps will be taken to ensure maximum resource allocation effectiveness for this vital and growing area of work.

3.4. Self-evaluation and results management

Monitoring, Learning and Evaluation are important functions for an organisation of EBRD's size and complexity, and are a foundational requirement for any multilateral development bank. The EBRD has a specific approach grounded in its private sector, transition impact focused business model. The SCF commits the Bank to strengthening its learning and evaluation systems and culture, guided in part by the recommendations of the Independent External Evaluation of the EBRD's Evaluation System (the Kirk Report). This SIP will strengthen capacity on results management and self-evaluation, now managed from CSG, and will also strengthen the Evaluation Department. Preparatory work has already begun in the area of self-evaluation, and this will be further developed and implemented during 2021.

4. The Operational Plan

4.1. Achieving transition: strategic portfolio analysis and country strategy objectives

Strategic portfolio analysis

In pursuing its transition mandate, the EBRD must also maintain its financial sustainability. The EBRD's strategic portfolio analysis looks at these different objectives together, so that Board and Management can take a balanced view of the portfolio.

The charts below show two views of the distribution of transition impact and financial performance by region. Chart 1 presents the relationship between the transition impact and the financial returns of the current debt portfolio, as measured by Portfolio Transition Impact (PTI) and projected portfolio Risk Adjusted Return on Capital (RAROC) before costs[2]. It shows that the Bank's strong transition and financial position is underpinned at regional level by a varied pattern.

Transition and Financial Return by Region

Chart 1: Full Portfolio 2019

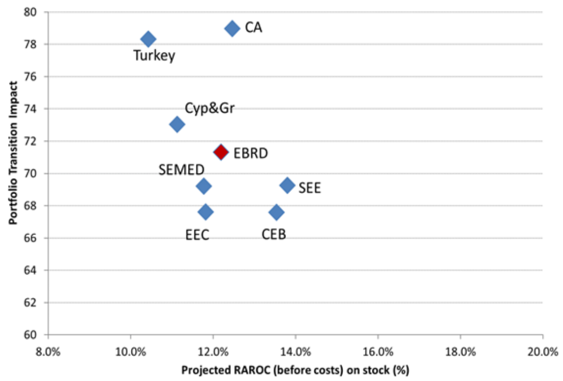
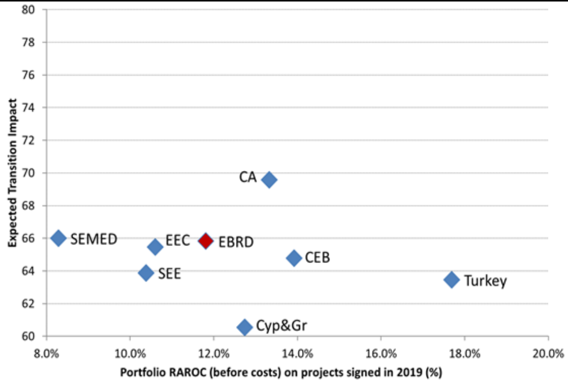


Chart 2: New Projects 2019



Central Asia is the only region where the Bank's portfolio performs above both the average transition impact and financial performance, though only marginally. Similarly, EEC and SEMED each perform a little below average on both transition impact and financial performance. The other regions are below average by one measure and above on the other. Performance is influenced by the quality of projects at origination and the subsequent evolution of the risk environment and progress in reforms. For example, downgrades in a country rating would typically increase expected credit losses without materially affecting pricing, thus reducing projected RAROC below peer regions.

The transition performance of Turkey and Central Asia remain strong as in previous years, although at the expense of below average financial returns (before costs) in the case of Turkey. On the other hand, the overall financial impact is offset in Turkey by the high proportion of larger projects that have lower relative costs.

[2] Cost allocation, particularly down to project level, is challenging. In a complex organisation operating on a matrix basis and with significant overheads, it is difficult to allocate costs to individual activities and business. Management is committed to developing, in the medium term, simplified methodologies to improve transparency on costs allocations. Nevertheless, as implemented currently, RAROC focusses on the risk return trade-off of each transaction, and as such RAROC before costs is considered during the project approval process. Therefore, the analysis in this section is based on RAROC before costs.

Chart 2 provides a forward-looking indication of how the portfolio may evolve by showing the financial and transition characteristics of new debt projects signed in 2019, by region. The profile of the new signings could be an indication of how the portfolio profile *may* evolve over time. For example, the level of Expected Transition Impact (ETI) in projects signed in Turkey and Greece and Cyprus in 2019 was well below the level in the current portfolio level. In both cases, financial returns were higher, substantially so in the case of Turkish projects. In both SEMED and SEE, tighter margins have led to lower recent levels of financial return than across the portfolio as a whole.

While this analysis is useful in illustrating the dynamics of the portfolio and how regions compare, it is backward looking and needs to be treated with caution as it is neither a predictor of the future performance – especially in uncertain times - nor should it be a determinant of planning. Generally, the EBRD maximises transition and financial objectives subject to strategic aspirations set in SCFs in terms of geographic and sectoral focus. This is particularly relevant in the context of the COVID-19 crisis.

The SCF established new strategic aspirations for the medium term that guide this SIP. The SCF 2016-2020 contained a goal of focussing on countries and regions less advanced in transition with a particular emphasis on Early Transition Countries, Western Balkans and SEMED. Table 1 shows the development of the Bank's portfolio by region over the SCF period. It shows a substantial increase in the portfolio share of both ETCs and SEMED. Notwithstanding the stability of the share in the Western Balkans, this remains the region where the Bank's investment as a share of GDP is highest.

Table 1: Regional shares in the Bank's Portfolio

	Portfolio 2015	**Portfolio Q3 2020**
Central Asia	9.4 %	10.8 %
Central Europe and Baltics	14.6 %	14.0 %
Cyprus and Greece	1.1 %	4.5 %
Eastern Europe and Caucasus	20.4 %	18.0 %
Russia	13.5 %	2.7 %
South-Eastern Europe	19.5 %	18.6 %
Southern and Eastern Mediterranean	7.2 %	17.3 %
Turkey	14.4 %	14.1 %
Memorandum		
Early Transition Countries	11.4 %	15.0 %
Western Balkans	13.7 %	13.5 %

Country strategy objectives

The Bank's mission is to support its Countries of Operations in achieving the transition to a sustainable, well-functioning market economy characterised by six key transition qualities, Competitive, Well-governed, Green, Inclusive, Resilient and Integrated. Table 2 provides an overview of the Bank's prioritisation of transition qualities in its countries of operations, as set out by country strategies and their objectives.

Strengthening competitiveness (the Competitive quality) continues to be a key priority targeted by Country Strategies for both investments and policy engagement. All EBRD country strategies focus on this transition quality with particular objectives tailored to country-specific challenges and needs. Support for increased competition across countries include strengthening the role of SMEs and improving business skills reflecting the strong focus on work with private companies. At the same time, engagement with state-owned enterprises (SOEs) focuses on the importance of commercialisation and restructuring of SOEs, as well as in increased private sector ownership for stronger firm competitiveness. Levelling the playing field, process and product innovation, 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, 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. The recently approved Country Strategy for Bulgaria (2020-25), for example, set out enhancing value chains, linkages and skills, as well as support for innovation as key objectives under Competitive quality.

Supporting Green transition (the green quality) is another major objective across all regions of the Bank, reflecting the Bank's strategic focus and strength in this area. The Bank focuses primarily on energy efficiency improvements and increasing renewable energy in the fuel mix, with those two featuring as key objectives of the Green quality in more than half of all Country Strategies. EBRD is placing an increasing focus on supporting 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. Among recent examples is the Country Strategy for Greece (2020-2025) that is supporting decarbonisation of the economy and increased resource efficiency and climate resilience. The strategic objectives targeting Green transition are present across all regions, with particularly strong focus in South-eastern Europe and Turkey, as well as Central Asia. 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.

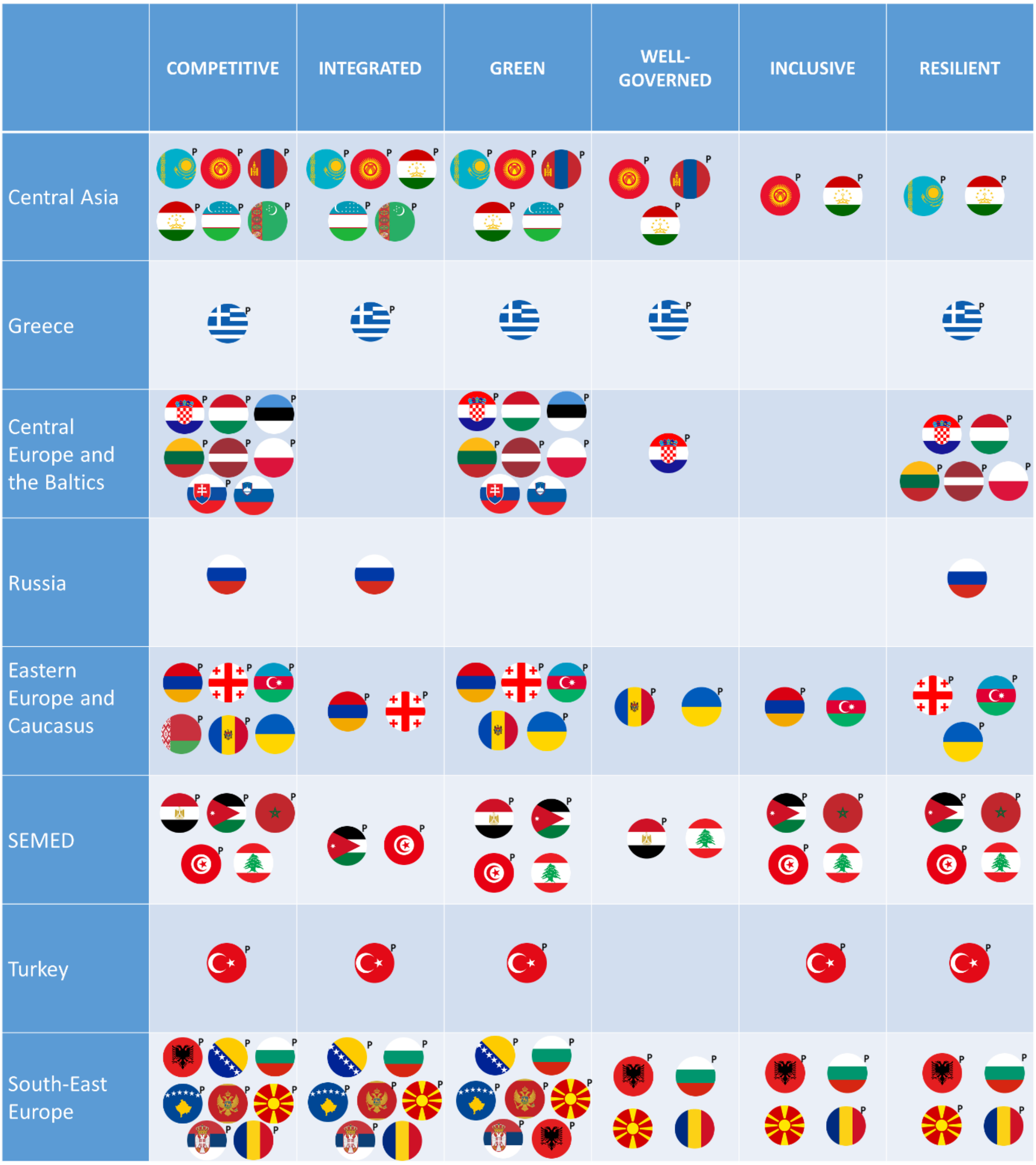
The Bank is active in supporting financial and energy resilience across all regions its focus reflecting their specific challenges (the resilience quality). Enhancing resilience features as a key strategic objective in Turkey, central Europe and Greece, where the Bank targets its future support to improving 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. These are also becoming increasingly important areas of support in Country Strategies in the other regions, such as South-eastern Europe, Eastern Europe, and SEMED. A key objective in the new Country Strategy for Romania, for example, is strengthening resilience of financial sector including capitalisation, sustainable funding structure and sound risk management practices 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 country strategies for 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.

The Bank has continuously increased its strategic focus and support to improving economic opportunities for women, youth and in the underdeveloped regions, particularly in SEMED and Turkey (the inclusive quality). Supporting inclusive economies is a key strategic focus in 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. Under the recently approved Country Strategy for Jordan (2020-25), the Bank aims to support a more inclusive economy through three objectives related to increased access to finance, skills and services for underserved groups. In two countries in Central Asia, the country strategy targets support to increased access to skills development opportunities, while in two Country Strategies in Eastern Europe and Caucasus, the objective is to support increased access to finance to address inclusion gaps. In addition, Women-in-Business – a well-developed flagship inclusion programme that has been deployed across a number of countries – is also covered by strategic objectives focusing either on Competition or Resilience as primary transition qualities.

Integration and connectivity is the key focus of Country Strategies in Central Asia and South-eastern Europe, as well as in Turkey (the integrated quality). Improved quality and connectivity of infrastructure for effective and efficient economic interactions is particularly important in South-eastern Europe, Central Asia and eastern Europe. Another key strategic objective in these regions is support for enhanced trade through process upgrades and improved global value chains as recently reflected in the new Country Strategy for Tajikistan (2020-25). Objectives targeting integrated transition quality are not a key focus of Country Strategies in central Europe and SEMED. However, a number of transactions and policy engagements that support integration as a primary transition quality are still covered in existing Country Strategies by other objectives including under Competitive and Resilient qualities because Integrated was introduced as a standalone transition quality in 2017.

Improved governance is an important cross-cutting theme in the Bank's support (the well-governed quality), although this objective appears less commonly as a stand-alone primary objective in Country Strategies. Well-governed as a stand-alone transition quality appears in fewer Country Strategies, particularly in Central Asia, South-eastern Europe and, to lesser extent, Eastern Europe and the Caucasus and SEMED. In these countries, the strategic focus is on strengthened rule of law, better corporate governance practices and improved procurement. In addition, Well-governed is an important and common complementary feature in strategy objectives across all other transition qualities. For instance, strong focus on corporate governance and rule of law is a cross-cutting theme strongly highlighted in a number of Country Strategies in objectives focusing on the Competitive quality. 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.

Table 2: Country Strategies supporting Transition Qualities including Policy Component



This table maps the Bank's country strategy priorities and objectives (incl. policy) to transition qualities. A country flag in each cell shows that there was at least one objective in the country strategy in that country under the corresponding transition quality. A letter "P" next to a country flag shows that at least one of country strategy objective mapped to a corresponding transition quality has a policy component.

4.2. Investment Activity

This section presents the Bank's projected activity and portfolio over the period 2021 to 2023 in line with its operating principles and the strategic directions of the SCF.

Reflecting the Bank's response to the impact of the pandemic in its countries of operations, Annual Bank Investment for 2020 is expected to reach around €10.8 billion, above the upper end of the BP2020 range, while the number of operations is likely to reach around 400. Amidst much uncertainty on the impact and duration of the pandemic, the projections presented in this section take account of the ongoing crisis and recovery phases of the Bank's response during the period covered by the Strategic Implementation Plan 2021-2023. At the top end of operating ranges, Annual Bank Investment is projected at €11 billion for 2021 and 2022, rising to €11.2 billion in 2023 based on the following assumptions:

- Equity share of ABI assumed to grow to 8 per cent in 2021 and 10 per cent from 2022 onwards, reflecting the Bank's ambition to grow its equity portfolio in support of its transition impact and profitability.
- Sovereign ratio assumed at around 18 per cent of ABI reflecting latest trends.
- Trade facilitation assumed at around 14 per cent of ABI, similar to the level observed in 2019 and results over the first three quarters of 2020.
- New project activity in Cyprus assumed to cease at end 2020.
- Management may conduct selective defensive portfolio and restructuring operations in the Russian Federation. 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 2021-2023 in the Russian Federation.

A key feature of the Bank's activity in the context of its crisis response has been a substantial increase in the average size of projects up from €20 and 19 million respectively in 2018 and 2019 to a peak of €26 million at mid-2020 and a reduction towards €24 million at end Q3 2020. Reflecting Annual Bank Investment growth and assuming a progressive return to historical average project sizes over the period of the SIP 2021-2023, the number of operations is projected to increase from around 400 in 2020 to an upper end of 440 at end 2021 growing to 460 at end 2023.

Table 3: Number of operations and Annual Bank Investment 2019-2023

	2019	**2020**	**2021**	**2022**	**2023**
€ billion at planning rate €/$1.15	**Act.**	**Proj.**	**Proj.**	**Proj.**	**Proj.**
Annual Bank Investment	10.0	10.8	10.0 – 11.0	11.0	11.2
Number of Operations	452	395-425	395-435	up to 450	up to 460

The Bank's portfolio and operating assets are driven by a range of parameters, including Annual Bank Investment and disbursements on the inflow side and portfolio reflows (repayments, pre-payments, divestments and cancellations) on the outflow side.

The Bank's annual disbursement reached €7.2 billion in 2019, similar to the 2018 level. Reflecting the impact of the Bank's crisis response in 2020 and assumed activity at the upper end of the range for 2021 to 2023, disbursements are for projection purposes assumed to be €8.4 billion in 2020 and at €8.0 billion in 2021 to up to €8.5 billion at the end of the planning period (Table 4).

Table 4: Annual disbursements 2019-2023

€ billion at planning rate €/$1.15	2019 Act.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.
Disbursements	7.2	8.4	7.0 – 8.0	up to 8.4	up to 8.5

The crisis has impacted the levels of reflows in particular, deferred repayments and lower prepayments levels, annual portfolio reflows are projected at around 14 per cent of total portfolio in 2020 and to increase to around 16 per cent for the period 2021 to 2023, a level similar to the period 2017 to 2019 (Table 5). 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:

- Repayment projections are projected at around 18 per cent of the unimpaired loan operating stock. The current schedule of repayments on existing operating assets reflects the impact of the Bank's response to the crisis with a number of repayments deferred to 20201 and a substantial number of projects reaching maturity in the second half of the SIP period owing to the relatively shorter tenors of 2020 signings especially under the Resilience Framework.
- Annual prepayments projected at around 4 per cent of unimpaired loan operating assets for the period 2021 to 2023. Current trends show a strong decline from 2019 levels reflecting the current business environment. At end Q3 2020, prepayments were less than half the level observed in 2019 for the same period.
- Annual divestments reached €0.4 billion in the first nine months of 2020, compared to €0.5 billion for the same period in 2019 reflecting a decrease of divestment activity in the first six months of the crisis but also the lower stock of equity held by the Bank. Based on an examination of the stock and the maturity of the Bank's current investments and possible exit opportunities, divestments are projected to remain at around 14 per cent of equity operating assets during the SIP 2021-2023 period.
- The level of cancellations to date has remained broadly constant with previous years reached €0.6 billion in at end Q3 2020, similar to the end Q3 2019 level. Based on recent trends, annual cancellations are projected at around 7 per cent of undrawn commitments for the period 2021-2023, similar to the SIP 2020-2022 assumptions.

Table 5: Portfolio reflows 2019-2023

€ billion at planning rate €/$1.15	2019 Act.	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.
Portfolio Reflows	6.6	6.4	up to 7.7	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 16 per cent and 20 per cent respectively from 2019 to end 2023. 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 circa 13 per cent from 2,092 at the end of 2019 to up to 2,370 operations by the end of 2023 (Table 6).

Table 6: Portfolio and operating assets 2019-2023

	2019	2020	2021	2022	2023
€ billion at planning rate €/$1.15	**Act.**	**Proj.**	**Proj.**	**Proj.**	**Proj.**
Portfolio	45.7	48.8	50.0-50.7	up to 51.8	up to 53.1
Operating Assets	31.6	34.4	35.3-35.7	up to 36.8	up to 38.0
Active Portfolio Operations	2,092	up to 2,200	up to 2,270	up to 2,320	up to 2,370

At a regional level, reflecting transition opportunities and the Bank's additionality, the three largest portfolios by 2023 are projected to be in the Southern and Eastern Mediterranean, Eastern Europe and Caucasus and in South Eastern Europe regions, while the highest portfolio growth rates are projected to take place in the Southern and Eastern Mediterranean and Central Asia region. Portfolio composition is a function of region-specific activity levels, product composition, reflow rates, and maturity of the portfolio. Reflecting these parameters, the illustrative portfolio projections for 2020 to 2023 presented in table 4.5 show that:

- The **Central Asia** portfolio is projected to grow by 32 per cent from €5.0 billion at end 2019 to €6.6 billion at end 2023 reflecting strong activity levels.
- The **Central Europe and Baltics** portfolio is projected to remain broadly constant at around €6.6 billion up to 2022 and decrease marginally to €6.4 billion, reflecting the high maturity level of this portfolio and expected repayment profile for the region. Overall the portfolio in this region is expected to grow by 3 per cent during the four years from end 2019.
- The portfolio in **Cyprus and Greece** is projected to grow from €1.8 billion to up to €2.0 billion by end 2020 and decrease to €1.8 billion by end 2023 reflecting the growing reflow rate over the period combined with the cessation of new project activity in Cyprus by end 2020. So no net change to portfolio volume is expected in the four years from end 2019.
- The **Eastern Europe and Caucasus** portfolio is expected to grow by over 20 per cent from €8.4 billion to up to €10.1 billion in 2023.
- 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. The portfolio is expected to shrink by 61 per cent.
- The portfolio in **South Eastern Europe** is projected to grow to €9.0 billion at end 2020 and remain broadly constant at that level reflecting the combination of the expected flow of new projects over the period and the rising maturity of the Bank's assets in the region. Over the four years to end 2023, it is projected to grow by 5%.
- The portfolio in the **Southern and Eastern Mediterranean** region is projected to grow by over 50 per cent from €7.4 billion at end 2019 to up to €11.2 billion at end 2023, reflecting new activity levels over the period combined with the growing maturity of the portfolio in the region.
- The portfolio in **Turkey** is projected to increase from €6.7 billion in 2019 to €7.3 billion at end 2020 and remain broadly constant at that level reflecting expected transition opportunities in the country and the maturity of the portfolio. Over the four years to 2023, the portfolio is projected to grow by 9 per cent.

Table 7: Indicative regional portfolio composition 2019-2023

€ billion at planning rate €/$1.15	2019 Act.	2020 Est. (up to)	2021 Proj. (up to)	2022 Proj. (up to)	2023 Proj. (up to)
Central Asia	5.0	5.4	5.9	6.3	6.7
Central Europe and Baltics	6.2	6.6	6.6	6.6	6.4
Cyprus and Greece	1.8	2.0	1.9	1.9	1.8
Eastern Europe and Caucasus	8.4	8.7	9.2	9.6	10.1
Russia	1.6	1.2	0.9	0.8	0.6
South-Eastern Europe	8.6	9.0	9.2	9.0	9.0
Southern and Eastern Mediterranean	7.4	8.5	9.7	10.5	11.2
Turkey	6.7	7.3	7.3	7.2	7.3
Total	**45.7**	**48.8**	**50.7**	**51.8**	**53.1**

% Share	2019 Act.	2020 Est.	2021 Proj.	2022 Proj.	2023 Proj.
Central Asia	11 %	11 %	12 %	12 %	13 %
Central Europe and Baltics	14 %	14 %	13 %	13 %	12 %
Cyprus and Greece	4 %	4 %	4 %	4 %	3 %
Eastern Europe and Caucasus	18 %	18 %	18 %	19 %	19 %
Russia	3 %	2 %	2 %	1 %	1 %
South-Eastern Europe	19 %	18 %	18 %	17 %	17 %
Southern and Eastern Mediterranean	16 %	18 %	19 %	20 %	21 %
Turkey	15 %	15 %	14 %	14 %	14 %

Table 8: 2021 Indicative regional and sectoral Annual Bank Investment

€ billion at planning rate €/$1.15	BP2020 Indicative Share	BP2021 Indicative Share	BP2020 Indicative Planning Level ABI	BP2020 Indicative Upper End ABI	BP2021 Indicative Planning Level ABI	BP2021 Indicative Upper End ABI
Central Asia	13-14 %	13%	1,350	1,450	1,400	1,450
Central Europe and Baltics	13 %	12-13 %	1,300	1,400	1,300	1,400
Cyprus and Greece	5 %	5 %	550	550	500	550
Eastern Europe and Caucasus	19 %	18 %	1,950	2,000	1,900	1,950
South-Eastern Europe	17 %	17 %	1,700	1,800	1,750	1,850
Southern and Eastern Mediterranean	22-23 %	22%	2,400	2,400	2,350	2,400
Turkey	10 %	12-13 %	1,050	1,100	1,300	1,400
Corporate	29-30 %	27 %	3,050	3,150	2,850	3,000
Financial Institutions	33 %	36 %	3,400	3,500	3,750	3,950
Sustainable infrastructure	37-38 %	37 %	3,850	4,050	3,900	4,050

4.3. Donor funding

Over 50 per cent of projects in the Bank's active portfolio are supported in some way by donor funds. Their use encompasses a wide variety of instruments. A close partnership with donors and access to grants and concessional finance will continue to play a critically important role in delivering the Bank's mission and business plans through this SIP. This is likely to continue focusing primarily on the Bank's less advanced regions: Eastern Europe and Caucasus, SEMED, the Western Balkans and Central Asia.

EBRD's donor landscape has evolved considerably over the past five years, with a significant increase in the volume of donor inflows, led primarily by support from multilateral donors such as the EU and the global climate funds. While the Bank hopes to secure important continued support from bilateral donors, the majority of its 2021 support is expected to come from a combination of the EU and global climate funds.

During the current SCF period, donor inflows have predominantly come in the form of grants. Grants are likely to remain a cornerstone of the Bank's donor support; however, there is a notable shift towards new financial instruments such as concessional loans and risk-sharing instruments. This trend will likely continue, and such financial instruments are expected to represent an important share of total support. For 2021, there is a high demand across sectors for donor funded concessional loans on flexible terms. Equally, the Bank is working on securing significant access to unfunded guarantees in 2021 from both the EU and bilateral donors, which can be drawn upon as risk mitigating instruments for several years into the next SCF.

Many sectors across the Bank draw on grants and concessional finance for their activities, whether in support of Bank transactions or for stand-alone technical advisory or policy projects. As well as helping to provide the conditions for successful investments, donor funding plays a crucial role in the delivery of transition impact objectives and the Bank's quality objectives, notably on green and inclusion. In 2021, there will be an important need for support to assist EBRD in the preparation and launch of the

GET 2.1 agenda. COVID-19 has affected Bank operations in more than one way; some programmes and sectors have slowed down in 2020 and are expected to pick up pace in 2021. This is the case in the sustainable infrastructure sector and for the broader GET agenda where access to donor support is vitally important. On the other hand, the pandemic has highlighted a critical demand for supporting SMEs, especially with local currency financing, requiring significant access to donor finance.

EBRD has benefitted from a significant growth in donor support over the current SCF period, with a 70 per cent increase in funding between 2016 and 2019. Indicative funding needs for 2021 remain relatively high, at EUR 760 million estimated across the Bank. However, forecasting demand with precision during the current crisis is challenging, so this is a broad indication.

Table 9: 2021 Donor co-financing fundraising plan:

Source	EUR million
Donor inflows	485
SSF/net income	100
TOTAL NON-REIMBURSABLE*	585
Donor inflows (reimbursable concessional loans)	285
TOTAL	870 +/- 50

Funds will be mobilised for a variety of purposes and instruments, where matching available resources with project needs will be important. The SSF plays a pivotal role as a complementary source of grants, which can both enable or reinforce projects with donor support or complement in areas where sufficient donor funding may not be forthcoming and help match project needs with additional grant support. This is especially true for the Bank's policy dialogue initiatives. An SSF net income allocation of EUR 100 million has already been secured by approval of the Bank's Governors.

<u>Donor Fees</u>

The Bank manages over 200 funds on behalf of donors. Through its management of these funds the Bank incurs costs, therefore to compensate for these costs the Bank charges management fees to donors. Viewed from an accounting perspective, the Bank is engaging in a business of managing funds for which it receives income and incurs costs. Whereas the costs are incurred over a long period of time (the life of the fund), the income is paid entirely up front.

The Bank's current practice for accounting for donor fund management was put in place many years ago when donor fund management formed a smaller part of the Bank's activities and was not particularly material. It has however grown significant: in 2019 a total of £6.5 million actual costs were funded from fees, of which 85 per cent related to staff, and 15 per cent for donor visibility, audit fees, bank charges, consultancy and travel. Indirect costs such as occupancy, IT and other basic infrastructure costs are not covered by donor fees, and are met by the core budget of the Bank.

The practice for accounting and use of donor fees is now being updated, with three key features:

- The Bank will no longer offset donor fund related income and costs. Instead, these shall be presented separately gross on the income statement, making transparent the income and costs associated with the Bank's management of donor fund;
- The recognition of management fee income will be decoupled from the booking of donor related costs. Instead the income will be independently assessed and recognised based on a fund by fund analysis of the performance obligations of the Bank.
- The level of costs recognised as donor fund related costs will be reassessed in light of the changes made to the income recognition.

It is anticipated that there will be some volatility in the level of fee income recognised year on year, depending on changes in the number and size of funds, the rate of disbursements made by the funds, and the weighted average life of the funds. Given these factors, it is likely that there will be fluctuations in the ratio of donor related costs to income. As a result, management is initially targeting utilising 85 per cent of the fee income on average (with the percentage to be potentially refined every year during the planning cycle), thereby minimising the likelihood that costs should exceed income in any given year. Nevertheless, the new methodology enables a significant increase in the use of donor fees, as opposed to the previous approach where a large proportion of fees was held as deferred income.

An increased use of donor fees is commensurate also with the increasing scale and complexity of donor funds implementation. For 2021, it is anticipated that up to £2.5 million can be released for new resources focused on implementation of donor requirements. To be aligned with the Bank's donor fee policy, the following key principles will be applied when approving resources/costs funded by these fees:

- **Relevant:** additional resources and costs should be relevant for donor activities (must be related to and generated by projects implemented, or facilities managed, by EBRD).
- **Eligible:** agreed resources and costs must meet the eligibility criteria of donors. This includes direct IT costs to support fit for purpose systems/automation.
- **Time-bound:** since fees are received in connection with donor funds / projects that follow a specific timeline, all cost charged to fees must be time-bound.

Table 10: Donor Fees 2019-2021

£m	2019 Actual	2020 Estimate	2021 Estimate
Income	6.5	6.7	10.9
Reserve (15% of fees)	-	-	(1.6)
Expenses	(6.5)	(6.7)	(9.3)

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, the Bank follows a three-pronged approach, namely to consider profitability, capital adequacy and liquidity requirements. These three dimensions together aim at running a profitable business through the cycle, maintaining the ability to absorb unexpected losses and being able to withstand disruptions or closures of the funding markets. To ensure that these are quantifiable and measurable, the Bank has a set of tools to assess, monitor and manage returns against risk, as well as ratios to determine if adequate liquidity is in place. These are summarised as follows:

(i) Profitability

- **Investment Profitability Model (IPM),** which allows assessment of projected risk-adjusted returns on new debt projects at the point of origination and decision.

Corporate scorecard metrics:

- The overall **return on required capital (RoRC)** captures the overall returns on debt, equity and Treasury activities; and
- The newly introduced **debt RoRC** aims to isolate and assess risk-adjusted financial returns within the debt portfolio only.

(ii) Capital management

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

- The **Capital Adequacy Policy (CAP),** which provides an internal indicator of likely rating agency assessments of the Bank's capital adequacy. The policy is monitored using a utilisation ratio, defined as required capital to available capital. A 90 percent prudential limit is defined to preserve a buffer above minimum requirements for 'triple A' strength.
- In addition to the risk-based measure, the Bank also adheres to a **statutory capital** metric that ensures that total Banking exposure does not exceed the capital base (including callable capital). A prudential limit is set at 92 per cent against this nominal measure. An additional crisis buffer of 2 per cent was introduced following approval by Governors of SCF 2021-25[3]; the Bank will therefore operate at levels below 90 per cent.

The Bank's existing capital policies are supplemented by forward looking **macroeconomic stress testing**. 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 net income allocations within the context of growth in members' equity.

(iii) Liquidity management

The Bank's Liquidity Policy is a key element in safeguarding the Bank's financial stability in the medium term and supports the Bank's 'triple-A' rating. The Bank also ensures that at any time it is able to meet

[3] BDS20-030/F

each of the minimum liquidity requirements set out in the Bank's **Treasury Asset and Liquidity Policy (TALP).**

5.2. Profitability

The detailed financial projections are based on the 'upper-end' of the planning range of ABI during the SIP period. The Bank's capital is projected to grow by €1.5 billion from €17.0 billion (estimated at end 2020) to €18.5 billion by end 2023 as shown in table 5.1.

The estimated net loss of €0.68 billion for 2020 reflects crisis-driven valuations of equity investments and a significant increase in the level of provisions for impairment, both general[4] and specific. The net loss in 2020 reflects the year to date financial performance at the time of writing, together with estimates of stable income streams to the year end.

Table 5.1: Profitability

Profitability (€ bn)	Actual 2018	Actual 2019	Estimate 2020	Plan 2021	Proj. 2022	Proj. 2023
Debt operating income	0.79	0.81	0.75	0.82	0.83	0.86
Equity operating income	0.02	1.14	(0.55)	0.26	0.28	0.31
Treasury operating income	0.12	0.17	0.20	0.09	0.10	0.10
Financial reporting adjustments	0.02	(0.23)	(0.08)	0.00	0.00	0.00
Total operating income before impairment	**0.95**	**1.89**	**0.32**	**1.17**	**1.21**	**1.27**
Provisions for impairment	(0.19)	(0.02)	(0.57)	(0.25)	(0.20)	(0.21)
Administrative expenses	(0.42)	(0.44)	(0.43)	(0.47)	(0.50)	(0.51)
Total net profit/(loss)	**0.34**	**1.43**	**(0.68)**	**0.45**	**0.51**	**0.55**
Total members' equity	16.28	17.83	16.98	17.48	17.99	18.54
Return on total members' equity (%)	1.5%	10.2%	-4.1%	2.9%	2.9%	3.1%

Relative to the prior SIP, financial returns are assumed to be lower across the majority of business segments. The outlook is a reflection of the extremely low interest rate environment and the ongoing economic fallout from the Covid-19 induced shock. The financial return assumptions are as follows:

Debt

- The average margin on performing non-sovereign debt is assumed at 2.8 per cent across the planning period (3 per cent in SIP 2020-22), reflecting evidence of a recent decline in average margins on stock (2018: 2.99 per cent; 2019: 2.97 per cent; Sept 2020: 2.76 per cent). Note that since annual business investment replaces only a portion of operating assets each year, margins on new signings (2019: 3.07 per cent; September 2020: 2.33 per cent) take time to impact average stock margins.

- Net specific provision charges are assumed to be €250 million in 2021 and €200 million per annum in 2022 and 2023 respectively. The projection is based on the (externally audited) IFRS 9 expected credit loss model, and using GDP projections from the Bank's economists for the *downturn scenario* established for stress testing (see section 5.3.3.1 below). These higher levels compared to SIP 2020-22 (€150 million per annum) reflect continued economic uncertainty as well as a likely increase in defaults as payment deferral dates are reached. The assumed credit losses across the

[4] Includes management overlay introduced during 2020.

planning period result in a projected increase in the non-performing ratio to 7.1 per cent, from 4.4 per cent at end 2019.

Equity

- Overall equity returns (dividends received, realised and unrealised gains) are assumed at 6 per cent per annum across the planning period. Forecasting equity returns is challenging, particularly during periods of economic turbulence. As a result, average annual returns are set uniformly across the planning period. At these levels of return, it will take two years to recover the losses recorded during 2020.

Treasury

- Treasury operating income is assumed at €90 million for 2021, increasing to €100 million by the end of the planning period.
- The average weighted investment return on Treasury assets (including sub-LIBOR benefit and trading activities) is assumed at 30 basis points (average 2017-2019: 48 basis points). This lower return on assets compared to historic readings reflects lower spreads on the short- term investment portfolio together with a tightening of the sub-LIBOR benefit on the Bank's funding activities.

Other

- Administrative expenditure projections are based on the medium term budget assumptions set out in section 7

5.3. Capital

As well as profitability, capital projections are also influenced by any potential future allocations of net income to 'other purposes' pursuant to Article 36.1. Any such net income allocation proposal needs to be developed under the Framework for Net Income Allocation Proposals, which has an expectation that at least 75 per cent of the Bank's growth in members' equity should be retained in reserves on a rolling three year basis.

As a result, of the continuing volatility and uncertainty in projected financial results, and the SSF financing needs yet to be defined, no illustration has been given as to the level of allocations from net income during the planning period. As such, all capital projections are stated before any net income allocations that may occur in the future. Decisions on Net Income Allocations are taken by the Board of Governors on the basis of proposals from the Board of Directors.

5.3.1. Capital utilisation projections

The development of the Bank's actual and projected operation levels and capital utilisation is presented in table 5.2.

Table 5.2: Operational and capital utilisation trends

Planning rate [1] € billion (other than percentages)	2018 Actual	2019 Actual	2020 Estimate	2021 Proj.	2022 Proj.	2023 Proj.
Annual Bank investment	9.5	10.1	10.8	11.0	11.0	11.2
Portfolio	43.3	46.1	48.8	50.7	51.8	53.1
Operating assets at cost	**30.2**	**31.8**	**34.4**	**35.7**	**36.8**	**38.0**
Deduct accumulated specific provisions	(0.7)	(0.7)	(0.9)	(1.1)	(1.2)	(1.3)
Adjusted net operating assets (a)	**29.5**	**31.1**	**33.5**	**34.6**	**35.6**	**36.7**
Total statutory capital [2] (b)	40.5	41.2	41.3	41.6	41.9	42.2
Statutory capital utilisation (a / b)	**73%**	**76%**	**81%**	**83%**	**85%**	**87%**
SIP2020-22			*80%*	*82%*	*84%*	
Capital adequacy:						
Required capital	11.9	11.8	11.1	11.7	12.2	12.6
Available capital	16.3	17.8	17.0	17.5	18.0	18.5
Capital utilisation (under CAP)	**73%**	**66%**	**65%**	**67%**	**68%**	**68%**
SIP2020-22			*70%*	*71%*	*72%*	

(1) Actuals at reported rates; projections at planning rate of €/$1.15
(2) Statutory capital is reduced by accumulated specific provisions (see 'Review of the Gearing Ratio Interpretation' (BDS15-018)).

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 2023 and assuming that the average risk rating for each region remains unchanged, the average capital requirements for debt would be 14.4 per cent of debt exposure by end 2023 (September 2020: 14.6 per cent).

Estimates of rating agency capital assessments have also been projected for each year of the plan. The Bank remains comfortably above minimum thresholds for triple-A capital strength throughout the SIP2021-23 period.

Overall, the Bank has appropriate capital to support and implement its plans in the period to 2023, whilst remaining well within the prudential thresholds, even under stressed conditions. There is also capital headroom to support additional operational activity and to absorb variations in projected capital utilisation, for example driven by sensitivities to the EUR/USD exchange rate[5] and variation in equity portfolio growth and returns.

5.3.2. Return on capital

The **return on required capital** on a rolling 3 year basis is projected to exceed the minimum required 3.5 per cent over the period covered by the SIP, with the exception of 2022. The projected result in 2022 is reflective of the net loss estimated in 2020, whereby the Bank is projected to record a negative annual rate of return on required capital of 6.4 per cent and the dropping from the rolling average of the significant profits registered in 2019.

[5] For example, SC utilisation at end 2023 would increase by around 2 percentage points if the Euro depreciated from the $/€1.15 planning rate to a rate of $/€1.0. Important to note that impact of FX variations are supposed to be absorbed by the difference between 92% policy and 100% SC utilisation. As for CAP, the same sensitivity would lead to a change of the CAP ratio by also around 2 percentage points.

Whilst the level in 2022 falls below the minimum of 3.5 per cent stated in the Corporate Scorecard, the projected reversion to 4.4 per cent in 2023 indicates that structural profitability is expected to be preserved.

Table 5.3: Return on required capital (per cent)

Return on required capital	Actual 2018	Actual 2019	Estimate 2020	Plan 2021	Proj. 2022	Proj. 2023
Annual return basis (%)	2.5%	14.1%	-6.4%	4.4%	4.3%	4.4%
3 year rolling average return (%)	6.0%	7.7%	3.4%	4.0%	0.7%	4.4%

5.3.3. Financial resilience

5.3.3.1. Stress testing

The Bank conducts stress tests to better understand potential vulnerabilities in its overall portfolio and sub portfolios. It also assesses the impact of stress scenarios on the Bank's projected capital capacity to understand if the operational plan is within an acceptable risk tolerance and the potential implications of stress events from a capital planning perspective.

Stress scenarios are translated into key drivers of financial impact on the Bank, including debt, equity and treasury losses, as well as growth in capital requirements. Debt losses are calculated using stressed probabilities of default (PD) which are directly linked to country level GDP growth projections, whereas equity losses are calculated based on a Value at Risk approach applied to relevant regional equity indices. Growth in debt capital requirement is driven by PD rating downgrade assumptions, as well as by the projected evolution of sovereign ratings (which act as a ceiling on non-sovereign PD ratings). Both capital requirements and losses also depend on SIP business growth assumptions.

For planning purposes, the Bank's main focus is on the Severe (1-in-25) scenario. The Bank aims to be sufficiently capitalised to withstand such a severe macroeconomic shock with resulting capital ratios consistent with retaining a ‘triple-A’ rating under rating agency methodologies, whilst relying on perceived shareholder support for such a rating. Under the Bank’s CAP, this equates to a capital utilisation level of 100 per cent after stress.

Based on the Severe stress (after institutional actions[6]) and maintaining planned investment levels outlined in the SIP operational plan, **peak capital utilisation during the planning period is projected at 73 per cent**, marking an 8 per cent increase relative to 65 per cent (est.) at end 2020.

In conclusion, the results from the stress test confirm that the capitalisation levels are very strong and the Bank would remain resilient in the event of a severe shock during the implementation of the SIP2021-23 operational plan.

5.3.3.2. Risk appetite

A framework has been established to transparently quantify the level of financial loss that could be experienced (and absorbed) against each operational plan.[7] Such losses are assessed under stressed

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6 Reduction in equity share of ABI.

7 See Risk Appetite Statement Annual Update 2020 (CS/AU/20-23) and 2020 Review of Financial Loss Tolerance Thresholds (CA/AU/20-51).

conditions of differing severity. The results are then compared against boundaries, or *Financial Loss Tolerance Thresholds* (FLTT), to ensure the risk associated with each plan is understood and within the expected appetite.

Under the FLTT framework, the Bank looks at the Severe and Downturn stress scenarios to assess financial performance at different points on the severity distribution. Considering more than one scenario widens the understanding of the Bank's exposure to more predictable downturn conditions, but also against more severely correlated tail-risk shocks.

The results from these stress scenarios applied to the SIP2021-23 plan are presented below together with the FLTT.

Table 5.4: Stress Tests Results vs. Financial Loss Tolerance Thresholds

Scenario	Net Earnings 1 year (€m)	FLTT (€m)
Downturn	-762	-1,000
Severe (post-IA)	-2,398	-3,000

As in any modelling exercise, the stress results represent only one outcome out of a multitude of possible adverse paths the future can take. While any projected financial outcomes are subject to model risk, the risk of underestimation of losses is considered low due to a number of conservative modelling assumptions.

5.4. Liquidity and 2021 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 liquidity requirements for the following year, the Bank sets an operating target for liquidity above the minimum policy requirements.

Based on planned activity levels in this year's Plan, a Borrowing Programme of up to €14 billion[8] net new issuance is set for 2021.

This size, although €2.0 billion higher than the 2020 Borrowing Programme, represents an expected maximum amount of borrowing (not a target). Furthermore, this level of borrowings will ensure:

- the liquidity ratios remain comfortably above the minimum levels required by the Bank's internal policies and that the Bank's liquidity position is assessed in the strongest category under external rating agency methodologies; and
- flexibility in the implementation of the borrowing programme such that the Bank is not required to borrow funds in unfavourable market conditions; and
- a comfortable buffer - forming a contingency in case of unexpected movements in any of the underlying liquidity need drivers; and finally
- minimising the requirement for pre-funding requests.

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

- A coverage of 154 per cent of net cash requirements for the next two years (Table 5.5). This is well above the stipulated minimum ratio of 75 per cent.

[8] This proposal includes the approval by Board of Directors on 9 November 2020 to execute pre-funding of the proposed 2021 requirement in 2020 up to an amount of €3.0 billion in order to permit Treasury to take advantage of opportunities offered by the market to secure long-term funding ('Pre-Funding the 2021 Borrowing Programme' (BDS20-170)).

- A one-year stressed ratio of 133 per cent at the end of 2021 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.

5.4.1. Projected liquidity ratios

It is projected that at the end of 2021 the Bank will have 154 per cent coverage of the next two years' net cash requirements (to end 2023), as illustrated in table 5.5. These cash flows, including within year, remain volatile.

Table 5.5: Projected next two years cash requirement ratio at end 2021

	Year end 2021	Year end 2022	Year end 2023	Aggregate 2022-2023
€ billions				
Opening Gross Treasury liquid assets (excl. pre-funding)	**30.9**			
Pre-funding of 2021 Borrowing Programme in 2020	1.5			
Sub-total	**32.4**			
Less: short-term debt	(9.6)			
Opening Net Treasury liquid assets	**22.7**			
Movements in the year (2021):				
Net operational disbursements and realised profit	(0.9)	(0.6)	(0.8)	(1.4)
Scheduled debt redemptions (incl. new issuance)*	(6.7)	(7.3)	(9.3)	(16.6)
Net annual cash requirements	**(7.5)**	**(7.9)**	**(10.1)**	**(18.0)**
Projected funding level (€14bn less €1.5bn pre-funding in Q4 2020)	**12.5**			
Closing Net Treasury liquid assets end 2021	**27.7**			

*Years 2022 and 2023 includes an assumed proportion of new funding yet to be issued.

	End 2021
Next two years' net cash requirement	18.0
Net Treasury liquid assets (includes **€14 billion** anticipated funding)	27.7
2 year net cash requirements coverage ratio (min. requirement 75%)	**154%**

The projected liquidity levels at the end of 2021 aim to ensure the Bank achieves the strongest assessment rating on liquidity from rating agencies. To support this goal, the Bank uses a **1-year stressed ratio,** which broadly ensures that the Bank's liquid funds (after the application of liquidity haircuts) are sufficient to meets its cash requirements against one year debt service plus 50 per cent of undrawn commitments.

The Bank's Liquidity Guidelines require a minimum 100 per cent coverage under this one year ratio at any given time. Table 5.6 presents the coverage under this ratio; at the end of 2021 it is estimated to be 133 per cent (end 2020 estimate: 116 per cent[9]).

[9] Includes pre-funding a proportion (€1.5 billion) of the 2021 Borrowing Programme in Q4 2020.

Table 5.6: Projected 1 year EBRD stressed ratio

	End 2019 Actual	End 2020 Estimate	End 2021 Projected
1 year stressed EBRD ratio (min. requirement 100%)	107%	116%	133%
Headroom above the min. requirement (€ billion)	1.5	4.0	8.3

6. People

The Bank's staff are its greatest asset.

6.1. The Bank's Workforce

The number of positions has grown at the lowest rate since 2015-2016, with the turnover rate decreasing slightly since Q1 2020, with the greatest reduction in HQ. Viewed from the perspective of contract type, the majority of growth is in Bank-funded FTC positions, most of which are in HQ (see Table 7.1). From the perspective of bands in the People Management Framework (PMF), 76 per cent of growth is in bands 5. Leaver volumes are proportional to the percentage of the Bank's population of Regular and FTC staff these Bands make up, with 53 per cent being seen at bands 5 and 6. Demand from CSG is still the key driver of hiring volumes, accounting for 72 per cent of applications, 61 per cent of the potential interview pool and 60 per cent of hires. As a result of COVID-19 there is an emerging trend of a reduced number of hires Bank-wide, alongside a higher number of applications per vacancy.

6.2. The People Plan

In 2018, the HROD embarked on a five-year plan to improve its approach to support the Bank's current performance and prepare for capabilities going forward, including: activities to support a diverse workforce and inclusive culture; developing organisational design capability; a high-performance and learning culture; increasing mobility across the Bank to provide opportunities for growth, re-skilling and improve career options of the Bank's top talent; provide tools for strategic workforce planning and 'people analytics' to increase resource flexibility; develop a people analytics tool to deepen managers' understanding of the Bank's talent and help support data-driven decisions; 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 2020, the Bank's efforts have inevitably been focussed on the response to the COVID-19 pandemic. In addition, HROD have prioritised and focused on the following areas:

- developing our organisational design capability, including the approval of EBRD's Organisation Design Principles and the introduction of the Organisational Change and Performance Team
- laying the groundwork for improved people analytics (>300m data points organised for analytics thus far, 6 fully automated Tableau dashboards now available for Board, Business and HR users) and organisational design as a prerequisite to sound workforce planning, with a focus on Talent
- continuing to 'fix the basics' by re-engineering the joiners, movers and leavers process (207 issues discovered; 124 closed thus far), leveraging robotic process automation (1.2 FTE of capacity created thus far), further embedding self-service HR query resolution (year-on-year reduction of 71 per cent in the number of queries received by AskHR thus far); and rolling out automated data quality checks (>1m rows of data now checked daily for completeness) and 'paperless processes' across HROD (joiners, movers and leavers process is now 100 per cent paperless)
- digitising training and the further roll out learning and development programmes, including LinkedIn Learning and the peer-to-peer learning via the Mentoring programme

In addition, the Bank defined a new leadership competency framework, introduced a new engagement survey, and reviewed its family-friendly benefits as well as implementation of Board-approved recommendations with regard to the Bank's 2019 Reward Review.

6.3. Organisation Design

It is expected that there will be a significant level of organisation design support required over the next SIP period, both to enable effective delivery of the SCF 2021-2025 and to support other Bank-wide optimisation agendas. The Bank will take a phased approach, determined by resource availability and prioritisation and alignment of activity, with the expected focus of 2021 being on:

- decentralisation, including design of strengthened regional hubs
- a review of end-to-end delivery of policy activity Bank-wide
- organisational impacts of the IT multi-year investment plan
- organisational delivery of GET 2.1

6.4. Preparing for the Future

The Bank will also focus on the following aspects in in 2021:

- carry out a Bank-wide skills audit to take stock of the Bank's current skillset as prerequisite to strategic workforce planning and to enable delivery of the SCF 2021-2025
- introduce measures to improve mobility, including developing both leadership and competency-based career paths, providing opportunities for growth, re-skilling and improved career options for the Bank's top talent, and upscaling on-the-job learning opportunities through, for example, internal and external mobility schemes
- establish itself as a learning organisation as key to attracting and retaining key talent, from across all shareholder countries, in response to the changing nature of work as a result of rapid digitisation both externally and internally through the IT multiyear investment plan
- develop knowledge management schemes in conjunction with the Kirk Report Working Groups to transfer knowledge across the organisation

7. Resourcing for delivery: The Budget

2021 presents significant challenges from a resource perspective.

The growth of the Bank's portfolio, the need for the Bank to continue playing a counter-cyclical role through the crisis, and the ambitious goals of the SCF, mean that growth in the core administrative budget is essential. New resources will expand the Bank's skillset and scale up activities in the key priority areas of operational sustainability, implementation of GET 2.1, self-evaluation and results management. New resources will be deployed alongside a resolute focus on optimisation of organisational structure and processes for enhanced effectiveness, savings and reallocation of resources to priority areas.

Beyond the core administrative budget, two exceptional items are presented in the 2021 budget: the IT Multi-Year Investment Plan (IT MYIP), endorsed by the Board in July 2020; and the LIBOR Transition Project. Each of these elements of the budget is examined in this chapter. In addition, accounting standards require the recognition of new HQ costs between April 2021 (when the building becomes available) and December 2022 (when the Bank moves to the building). It is proposed that these costs are reflected outside the Budget: they are presented in Annex B.

7.1. Outlook on the Medium-Term Budget

This SIP covers the first three years of the five year SCF and it has a multi-year perspective. The operating environment is challenging, operational volumes and complexity will increase, and pursuit of the SCF's goals will be appropriately sequenced in a context of ongoing optimisation and reallocation of the Bank's resources to emerging priorities. Multi-year operational and resourcing plans have been developed for IT Multi-Year Investment Plan and GET 2.1 (see Annex A, Table A.5), and will also be developed for other priorities, as foreseen in section 3.

In 2021-2023, the Bank's resources will shift towards the priorities proposed in this SIP. As set out in the SCF, the Bank will in all cases first seek to reallocate and save, so as to invest in these emerging priorities. The Bank will continue to promote mobility, innovation and upskilling within its existing resource base, facilitated by initiatives such as skills development, reassignments, and other means to increase all types of mobility. An organisational optimisation programme will be pursued to eliminate inefficiencies and maximise the vitality of the institution.

However, the SCF is clear that in order to deliver, the Bank will also need incremental budget increases in every year of the SIP. As set out in section 3, this corresponds to scale requirements for delivery in specific areas, in view of increases in business volume, complexity, or risk (resource intensity), as well as the need to bring in new expertise in specific skillsets needed to deliver the Bank's goals (resource matching).

The proposed budget for 2021 calls for an increase of 2.9 per cent in nominal terms from the 2020 Budget level for core expenses. This includes a 0.9 per cent increase for Compensation and Benefits proposals, 1.9 per cent increase due to non-discretionary increases and carry over impacts, 2.2 per cent growth for new resources, offset with permanent savings and budget reductions of 2.1 per cent.

This reflects a rigorous and prudent approach to budgeting, supported by focused top-down priority setting, rigorously prioritised new resource requests, and internal challenge sessions moderated by VP Finance. During the preparation of the budget, no requests for new resource were considered, except within the three priority themes described in Section 3. Any new resources required outside the three priority themes will therefore be funded from in-year reallocations or savings, or not at all.

Executive Committee members were asked to strictly prioritise new resource requests within the three themes, and made requests for new resources amounting to £25 million.

Detailed work undertaken by VP Finance, and involving various challenge sessions at the level of the Executive Committee, sorted those requests into the following categories:

- Priority requests to be filled from in-year reallocations of existing resources, if possible.
- Short term costs to be met from one-off in-year savings, if possible.
- Priority requests to be back-loaded to subsequent SIPs, in view of relative urgency and scalability of ambition.
- Urgent priority requests for 2021, to be funded from an increase to the Budget or where appropriate to be charged against donor fee income: these amounted to £11 million.

In addition to supporting core expenses, current and next SIPs will be impacted by extraordinary items (one-off and multi-year investments). Table 7.1 includes an illustrative development of Total Administrative Expenses to 2023. This calculation is based on an illustrative 5.0 per cent nominal growth in the core budget in 2022 and 2023, in addition to exceptional budget items proposed in the current SIP. Such illustration is provided for the sole purpose of assessing financial sustainability under prudent assumptions of cost growth and should not be seen as pre-empting future budget proposals. The budgets beyond 2021 will be approved by the Board of Directors in subsequent SIPs.

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. Among other items, future budgets for core expenses will need to take into account:

- phased implementation of the SCF2021-25 priorities
- resources to support the Bank's operational delivery
- adjustments for rewards to remain competitive and address inflationary pressures

Table 7.1: Projected Total Administrative Expense Budget 2021–23

Administrative Expenses Budget £m	2020 Budget	2021 Budget	2022 Projection	2023 Projection
Core Admin Expenses Budget GBP	**383.4**	**394.5**	**414.2**	**434.9**
GBP/EUR rate	1.14	1.12	1.12	1.12
Core Admin Expenses Budget EUR	**437.0**	**441.8**	**463.9**	**487.1**
Extraordinary Budget Items GBP		**11.6**	**18.6**	**28.9**
LIBOR Transition		7.8	0.0	0.0
IT MYIP (opex and depreciation)		3.9	18.6	28.9
Extraordinary Budget Items EUR		**13.0**	**20.8**	**32.4**
LIBOR Transition		8.7	0.0	0.0
IT MYIP (opex and depreciation)		4.3	20.8	32.4
Total Admin Expenses Budget				
GBP	**383.4**	**406.1**	**432.8**	**463.8**
EUR	**437.0**	**454.9**	**484.8**	**519.5**

7.2. 2021 Total Administrative Expense Budget with extraordinary items

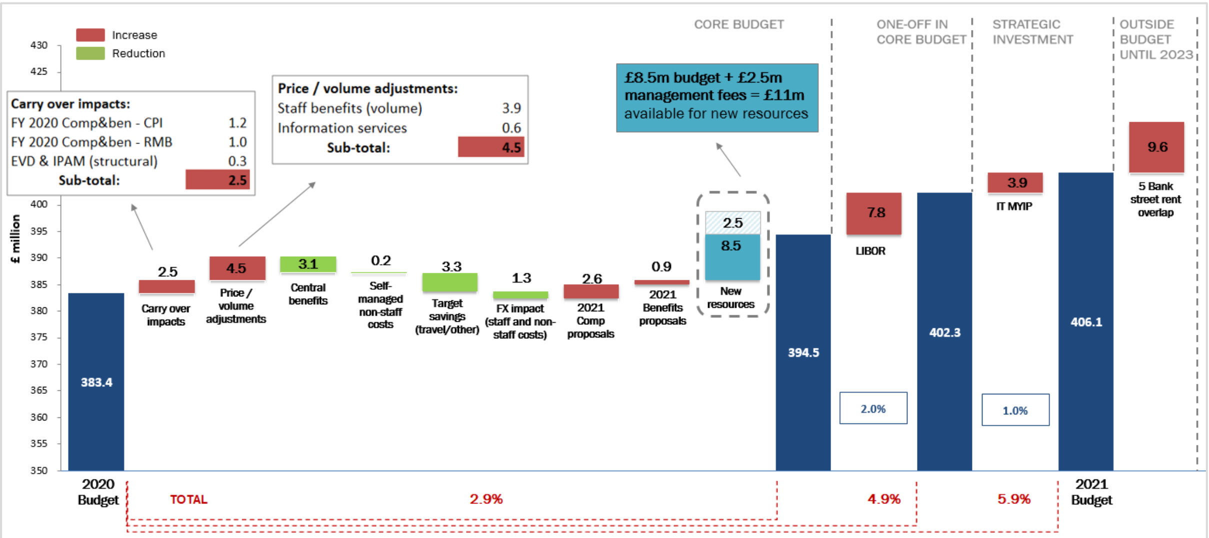
The Board is requested to approve the 2021 Total Administrative Expense Budget consisting of a core budget, and two extraordinary strategic items. A total of £406.1 million (€454.9 million) is proposed for the 2021 Total Administrative Expense Budget, including:

1. Core Administrative Expense Budget of £394.5 million (core budget),
2. LIBOR Transition Project budget of £7.8 million,
3. IT Multi-year Investment Plan Phase 1 implementation impact of £3.9 million,

This reflects an aggregate increase of 5.9 per cent from 2020, including 2.9 per cent for the core budget. Further details are presented later in this section.

Chart 7.1: Total Administrative Expense Budget for 2021

7.3. Core Administrative Expense Budget



A total of £394.5 million is proposed for the Core Administrative Expense Budget in 2021, which represents a 2.9 per cent nominal increase from the 2020 Budget of £383.4 million (see Table 7.2).

Table 7.2: Core Administrative Expense Budget for 2021

Administrative Expenses	**2020**	**2021**	**2021 vs 2020**	
£m	**Budget**	**Budget**	**£m**	**%**
Operating Expenses	339.8	351.4	11.7	3.4%
Depreciation	43.6	43.1	(0.5)	-1.2%
Core Admin Expenses	**383.4**	**394.5**	**11.1**	**2.9%**

The proposed 2.9 per cent nominal growth in Core Administrative Expenses Budget relates to:

- non-discretionary carryover impacts from previous decisions/budgets representing 0.7 per cent
- non-discretionary price and volume increases (such as contractually agreed inflation impacts) representing 1.2 per cent
- budget impact of 0.7 per cent from compensation increase as per the 2021 Compensation proposals (salary budget increase for Headquarters and Resident Offices)
- an increase of the 2021 budget as a result of the 2020 Reward Review proposals related to Family Friendly benefits and changes to leave allowances, representing 0.2 per cent

- an increase of 2.2 per cent in real resource growth (incremental resources)

The above are offset by 2.1 per cent of budget savings or reductions. This includes 0.9 per cent target structural savings in travel and other budget lines, 0.81 per cent reductions in central budgets and 0.34 per cent impact of the foreign exchange movements on staff and non-staff costs.

Table 7.3. Summary of 2020 Budget Increases and Savings

£m	PROPOSED	SAVING		NET REQUEST	
Compensation increases	2.6		=	2.6	0.7%
Reward Review proposals	0.9		=	0.9	0.2%
Carry over impacts	2.5		=	2.5	0.7%
Total staff cost price incr & carry over	**6.0**		=	**6.0**	**1.6%**
Other price / volume factors	4.5		=	4.5	1.2%
Priority investments	8.5		=	8.5	2.2%
Other adjustments / reductions		(7.9)	=	(7.9)	-2.1%
Total nominal growth	**19.0**	**(7.9)**		**11.1**	**2.9%**

Note: Numbers are rounded to one decimal and sum of subtotals may not exactly add up to aggregate numbers.

7.3.1. Core Budget – Key Movements and Reallocations

Movements in the Core Administrative Expense Budget are driven by various factors detailed below (see Table 7.4):

- **An additional £2.55 million budget is proposed to fund the total 2021 base salary increases, including the impact on benefits** (£3.32 million full year impact) **and an incremental £0.91 million is included in the 2021 Budget to support the 2021 Benefits proposals** (£1.21 million full year impact)[10] (see Table 7.4, Line a). These two measures will result in a carryover impact of approximately £1.07 million on the 2022 Core Administrative Expense Budget (there are no other carryover impacts resulting from this year's budget).
  - **2021 Compensation increases, promotions/advancements, structural adjustments**. The 2021 Administrative Expense Budget incorporates an increase of £2.55 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 2021).
  - **2021 Reward Review proposals**. A total of £0.91 million additional budget or 0.2 per cent increase over the 2020 Budget to support the proposed changes to the Family Friendly benefits (effective as of 1 April 2021).

- **Carryover impacts** (see Table 7.4, line b.). This includes the full year impact of previous decisions as described below:

[10] See "Staff Compensation and Benefits Proposals for 2021", BDS20-206 (Rev 1), Section 1.1

- Full year impact of 2020 Compensation adjustments (three months impact January–March 2021) of £1.2 million[11].
- Full year impact of 2020 Reward Review proposals (six months impact January – June 2021) of £0.95 million due to increased contributions for the Retiree Medical Benefit (RMB) [12].
- £0.3 million full year impact of structural changes in EVD and IPAM:
  - Additional position approved for EVD to support implementation of the Kirk Report recommendations.
  - Additional staff costs to reflect permanent structure of IPAM upon finalised MD recruitment and re-evaluation of existing positions.

- **Price and volume changes** (see Table 7.4, line c.). This includes £3.9 million or a 1.0 per cent increase reflecting volume impact on central benefits (Flex allowance/Final Salary Plan costs impacted by higher than 2020 planned level of regular and fixed term contracts; Retiree Medical Benefit costs increase due to higher staff members eligible for the benefit, a factor of reaching age of 50 and 7 years of service), as well as £0.6 million or 0.2 per cent increase due to information service costs (contractual increases). These are partially offset with reductions presented later in this section.

- **Business needs** (see Table 7.4, line d.). Following a stringent internal prioritisation process, a total of £11 million (80 new FTEs and non-staff cost budgets) is considered necessary to support delivery of the priorities described in section 3. Some of these incremental resources will, where appropriate, be funded by donor fees, resulting in a 2021 Budget increase of £8.5 million (or 2.2 per cent) for business resources.

  - **Operational sustainability.** Incremental £5.6 million funding and 41 FTEs are proposed for investment in operational sustainability (addressing current gaps and creating capacity for sustainable growth). This is to address increased volume of activities in compliance (domiciliation, sanctions, donor requirements, project integrity), cost recovery, field based support to increased portfolio operations (particularly, in the context of current crisis), strengthening of control functions (Operational Risk, Internal Audit, EVD, IPAM). Further details on the proposed allocation across functions is set out in the section on departmental budget moves.

  - **GET2.1.** Incremental £4.9 million funding and 34 FTEs are proposed for new and incremental activities under GET2.1 in the first year of SCF2021-25 implementation. New activities include implementation of Paris Agreement alignment methodology to all new operations, policy support to COOs on Long Term Strategies, NDCs and sector decarbonisation plans, greening financial systems in COOs, product development in new areas and innovation in existing thematic action areas. Regarding functional split of these incremental FTEs, 13 resources are proposed for the Paris Agreement alignment, 14 resources are proposed to support thematic areas, with the remaining seven resources proposed for enhanced controls, results management and systems. Further comments and details on proposed allocation across departments are provided in the section on departmental budgets.

  - **Evaluation** (self-evaluation and results management). Incremental five FTEs and £0.5 million budget are proposed to implement some of the recommendations of the Kirk Report. Particularly, to create capacity in business on results management and self-evaluation (coordination of the activity transferred from EVD to Portfolio), as well as provide additional resource for the Evaluation Department.

[11] See "Staff Compensation and Benefits Proposals for 2020", BDS19-186 (Final), Section 1.1.
[12] See "Staff Compensation and Benefits Proposals for 2020", BDS19-186 (Final), Section 1.1.

Attribution of some of these resources to expenses against donor fees is expected to be in the amount of approximately £2.5 million, in conformity with the principles described in Section 4.3 (relevant, eligible and time-bound).

Other priorities (e.g. equality of opportunity, digitalisation, mobilisation and others) will continue to be pursued within the current resource envelope, including through in-year savings and reallocations. It is expected that incremental additional resources will be required for these priorities in the outer years of the SIP.

Other adjustments and reductions. The increases above were partially offset by £7.9 million or 2.1 per cent reductions in underlying budgets (see Table 7.4, line e), including:

- Review and assessment of central budgets. Permanent budget reductions were confirmed based on structural savings identified in **central budgets**. This partially offsets non-discretional volume and price increases described above.
  - Medical insurance costs budget adjusted to reflect lower than planned price adjustment in 2020.
  - Reduction of the geographic mobility budget to reflect the current restrictions and constraints for physical move of staff for geographic re-assignments and bring the budget in line with 2019 actual expenditure. This budget will be reviewed next year in preparation of the 2022 Budget to reflect the post-COVID state and funding requirements to support staff mobility.
  - Increased recovery of benefits costs from donor funds or fees for externally funded staff, based on historic trend analysis.

- Review and assessment of **self-managed consultancy and other budgets**. Permanent budget reductions were confirmed with teams for self-managed costs to partially offset non-discretional inflationary increases for information services costs.

- **Targeted savings**. This includes structural savings (permanent reductions) in self-managed budgets supported by:
  - review and cancellation of annual memberships with corresponding budget reductions (across departments)
  - reduction of OSG printing budget to reflect expected benefits from implementation of the Pegasus project
  - 20 per cent reduction of the EBRD travel budget (including, for the Board, EVD and IPAM) to reflect the COVID year experience, as well as for the conscious reduction of the Bank's environmental footprint.
  - further £0.75 million negative budget adjustment included at central level (held against the consultancy and other direct cost lines), specific allocation to be defined during 2021.

- Impact of **FX movements** on staff and non-staff costs (salary costs and associated benefits for staff on local currency contracts, information services and database costs, resident office lease costs/depreciation).

Budget savings net of FX adjustments reflect 1.7 per cent of the 2020 Budget higher than 1.5 per cent permanent savings delivered in 2019 and 2020 Budgets[13].

[13] See "Strategy Implementation Plan 2019-2021" (BDS18-160 (Final), Table 8.3 excluding savings delivered under the OEE programme) and "Strategy Implementation Plan 2020-22" (BDS19-169 (Final), Table 6.2).

Table 7.4. Key Movements in the 2021 Budget

£m		Proposed	Saving	Increase
2020 Budget	**383.4**			
a. **Compensation and reward proposals:**		**3.5**	**0.0**	**0.9%**
2021 Base Salary proposals, including promotions/advancements (9 months)		2.55		
Reward Review proposals - Family friendly benefits, other (9m phasing)		0.91		
b. **Carry over impacts:**		**2.5**	**0.0**	**0.7%**
2020 Compensation proposals (full year impact, Jan-Mar 2021)		1.2		
2020 Benefits proposals (full year impact, Jan-Jun 2021)		1.0		
EVD/IPAM structural changes		0.3		
c. **Price / volume factors:**		**4.5**	**0.0**	**1.2%**
Staff benefits volume impact (FSP, Flex allowance, RMB)		3.9		
Information services (includes database costs)		0.6		
d. **Priority investments**		**8.5**	**0.0**	**2.2%**
Operational Sustainability		5.6		
GET2.1		4.9		
Evaluation		0.5		
Resources to be funded by donor management fees		(2.5)		
e. **Other adjustments / reductions**		**0.0**	**(7.9)**	**-2.1%**
Adjustments to central benefits budget			(3.1)	
Review / adjustments of self-managed budgets			(0.2)	
Target savings (travel, other)			(3.3)	
FX movement impact on staff and non-staff costs			(1.3)	
f. **Total movements**		**19.0**	**(7.9)**	**2.9%**
2021 Budget	**394.5**			

Note: Numbers are rounded to one decimal and sum of subtotals may not exactly add up to aggregate numbers.

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 2020 included:

- **Reallocation of up to 35 staff and positions in Client Services Group.** This included reallocations to FI to support strengthening of TFP team; reallocations from HQ to resident offices in Central Asia, EEC and CSEE regions, as well as across ROs within Central Asia; transfers across Banking country and sector teams based on the matrix structure of the department; reallocations at HQ within Equity Group and VP3. This was associated with reallocation of £2.1 million annual staff costs budget within the department and included setup of eight new positions using permanent savings within the approved 2020 staff costs budget.
- **Creation of four positions (or approximately £0.3 million full year staff costs) within other departments** to address resource pressures during the year using permanent headroom generated within the approved 2020 staff cost budgets. This included two additional roles in CRO area (junior roles in Risk Management and ESD), one in HROD (Talent Management) and one in OGC (Legal Transition).

These efforts will continue in 2021. As an example, the 2021 Budget proposes further £1.2 million budget reallocations to support incremental resource pressures in CSG (further portfolio support in the field, senior role for self-evaluation function, sector team moves at HQ, internalisation of donor funded resources) and OGC (legal transition).

COVID response, temporary reallocations/re-deployment. In addition to permanent budget and resource reallocations described above, the Bank continues responding with temporary staff moves to address current pressures linked to the COVID-19 crisis. Up to eight staff resources (or equivalent to £0.7 million staff costs funded by 'home' team budgets) were temporarily reassigned from Banking and other functions to support increased workload in VP, Risk and Compliance (OCCO, Risk Management). Further £0.9m additional funding was agreed to engage temporary resources during 2020 in VP, Risk and Compliance and OGC. Some of these staff re-deployment will continue during 2021 for sustainable support to pressures of the COVID crisis expected to continue during next year.

7.3.2. Core Budget - Details

2021 Core Administrative Expense Budget by cost line

An increase of £11.1 million or 2.9 per cent is proposed for the 2021 Core Administrative Expense Budget. The total budget of £394.5 million is broken down in Table 7.5.

Total staff costs budget increase of £11.9 million or 4.6 per cent reflects full year impact of the previous decisions (£2.5 million for 2020 Compensation and Benefits proposals, including for the Retiree Medical Benefit (RMB) and structural changes in control functions), volume impact on staff benefits (£3.9 million), increases reflecting the 2021 Compensation and Benefits Proposals (£3.5 million), incremental resource requests for business priorities (£5.2 million staff costs) and reclassification of IT business as usual (BAU) budgets to better reflect the split across main cost categories (increase of £1.1 million). This is offset by a reduction in central benefits (£3.1 million) and favourable FX movements (£1.2 million).

Total non-staff costs budget reduction of £2.0 million or 5.5 per cent is mainly driven by a 20 per cent top-down reduction in travel budgets recognising new ways of working post-COVID19 and reducing Bank's environmental footprint in line with the GET theme (£2.6 million, including other reductions), savings identified in self-managed budgets (£0.2 million), further £0.75 target saving added as a negative budget adjustment at central level (consultancy and other direct cost lines) and favourable FX movements (£0.1 million). This is offset by £0.6 million increase in information services costs, additional £0.6 million non-staff costs budget requested under business priorities (mainly, GET2.1), as well as reclassification of IT budgets (increase in non-staff costs by £0.4 million).

Table 7.5: Detailed Administrative Expense Budget for 2021

Administrative expenses £m	2018 Actual	2019 Actual	2020 Budget	2021 Budget	21 vs 20 £m	21 vs 20 %
Salaries	126.0	134.4	141.3	147.5	6.2	4.4%
Total Benefits	90.6	93.3	102.1	107.2	5.1	5.0%
Performance Based Compensation	17.7	19.4	16.1	16.7	0.6	3.6%
Other Staff Costs	2.2	2.5	1.4	1.4	(0.0)	(0.2%)
Staff Costs	**236.6**	**249.7**	**260.9**	**272.8**	**11.9**	**4.6%**
Consultancy/Legal	14.8	13.1	11.1	10.7	(0.3)	(3.0%)
Travel/Hospitality	14.4	14.6	13.2	10.6	(2.6)	(19.8%)
Other Direct Costs	13.3	13.2	12.9	13.8	0.9	7.1%
Non Staff Costs	**42.5**	**40.9**	**37.2**	**35.2**	**(2.0)**	**(5.5%)**
Direct Costs	**279.1**	**290.6**	**298.1**	**307.9**	**9.9**	**3.3%**
Occupancy Costs	35.1	10.7	11.0	11.0	0.0	0.1%
Technology (license,hosting & vendor)	14.2	17.3	21.9	23.2	1.4	6.2%
Annual Meeting	1.3	1.0	1.2	1.2	-	-
Central Staff Expenses	5.6	5.8	5.3	5.3	0.0	0.4%
Institutional Fees	1.8	2.0	2.1	2.5	0.4	20.4%
Depreciation	21.7	42.6	43.6	43.1	(0.5)	(1.2%)
Contingency			0.3	0.3	0.0	0.0%
Total Centrally Managed Costs	**79.7**	**79.4**	**85.3**	**86.6**	**1.3**	**1.5%**
Core Admin Expenses	**358.8**	**370.0**	**383.4**	**394.5**	**11.1**	**2.9%**

Note: Numbers are rounded to one decimal and sum of subtotals may not exactly add up to aggregate numbers.

An increase of £1.3 million or 1.5 per cent in centrally-managed costs mainly relating to business priorities (£2.1 million IT BAU budget and £0.3 million for GET2.1 training/upskilling costs), and £0.2 million for increased insurance premium costs. This is offset by reclassification of IT budgets (decrease in centrally managed £0.7 million), £0.3 million reductions in central staff expenses (£0.5 million reduction in catering services in HQ related to reduced services during the COVID pandemic, offset by £0.2 million increase in staff medical screening expenses in both HQ and RO) and £0.5 million reduction in depreciation. The latter is made up of reduction of £0.8 million depreciation in IT due to project timing and reclassification offset by £0.3 million increase in ASD mainly related to the accelerated depreciation of assets that will not be taken to the new HQ at 5 Bank Street, the timing of which has shortened the useful life of HQ assets.

Total contingency funds included in the 2021 Budget are £1.3 million, or around 0.3 per cent of the Core Administrative Budget. This includes a Management Reserve of £1.0 million together with the existing £0.3 million General Contingency (use of the latter subject to Board approval).

Departmental budgets

An increase of £9.9 million or 3.3 per cent is proposed for direct costs. The total direct costs budget of £307.9 million for 2021 is broken down by department in Table 7.6[14].

Table 7.6: Direct Costs by Department

Direct Costs £m	**2020 Budget**	**2021 Budget**	**Variance 21 vs 20**
Banking Department	130.3	130.4	0.1
VP, Policy & Partnerships	20.8	20.6	(0.2)
Client Services Group	***151.1***	***151.0***	(0.1)
Finance	14.2	14.4	0.2
VP, HR and Corporate Service	30.4	32.3	1.9
VP, Risk and Compliance Group	29.3	30.9	1.6
Office of the General Counsel	16.8	16.9	0.1
Office of the Chief Economist	2.4	2.5	0.2
Internal Audit	1.3	1.6	0.3
Corporate Strategy	1.3	1.3	(0.0)
Communications (incl. BIS)	7.0	7.3	0.2
Office of the Secretary General	4.6	4.6	(0.0)
President's Office	1.8	1.7	(0.0)
Indep. Project Account. Mechanism	0.8	1.1	0.3
Evaluation Department	3.1	3.3	0.2
Board of Directors	13.8	13.8	(0.1)
Unallocated	20.2	25.3	5.1
Core Direct Costs	**298.1**	**307.9**	**9.9**

Note: Numbers are rounded to one decimal and sum of subtotals may not exactly add up to aggregate numbers.

- **CSG:** Direct costs budget reduces by £0.1 million. This is a result of £0.8 million full year impact of 2020 compensation increases, £0.2m inflationary increase of information services costs, offset

[14] Historic data is available on Board Online Information and Annex A.

with £0.1 million reductions in other non-staff costs, £1.1 million reduction in direct costs due to FX movements, £1.3 million reduction in mobility budget, £1.9 million target reduction in travel and consultancy budgets and £3.3 million additional budget to support prioritised areas. 2021 additional resources for priority areas include:

- £3.6 million staff/non-staff costs and 25 FTEs under GET2.1 (resources for sector teams, E2C2, EPG, CSRM and Portfolio teams)
- £0.9 million and 15 FTEs under Operational Sustainability (Gender and Inclusion team resources internalisations, DCF resources for donor related activities and field based resources to support portfolio activities)
- £0.4m and 4 FTEs for self-evaluation (Portfolio) and results management (CSRM)

Some of these resources are expected to be attributed to donor management fees (up to £1.6 million).

- **Finance:** Direct costs budget increase of £0.2 million reflecting £0.3 million additional budget proposed for 2021 priority investments offset by £0.1 million target reduction in travel and other budgets. Priority investments include one resource for Treasury under GET2.1 theme and two resources to support Operational Sustainability (Treasury and Financial Control teams). Treasury resources are to address current pressures linked to external reporting requirements to rating agencies and investors (including for green business). Additional resource for Financial Control team is to offset heightened financial reporting risks driven by increases in the volume and complexity of the Bank's transactions.

- **VP, HR & Corporate Services**. The increase of £1.9 million in the budget is mainly driven by reclassification of £1.6 million in IT centrally managed budgets with corresponding increases in staff costs and consultancy budgets to align with current state of a mix of a vendor based model and staff supporting the phasing of work to managed service providers. In addition, there is an increase of mobility budget by £0.2 million, additional £0.2 million and 2 FTE resources for HROD (to support recruitment and talent development activities under GET2.1 and Operational Sustainability themes, £0.1 million assumed to be funded by donor fees). An additional £0.2 million and 3 FTEs for OSM to support increase in volumes (assumed to be funded by donor fees), offset with £0.2 million reduction in travel budget (target saving) and due to FX movements.

- **VP, Risk and Compliance:** Direct costs increase of £1.6 million due to £0.1 million full year impact of 2020 compensation increases, £0.2 million inflationary increase of information services costs, offset by £0.3 million reduction in non-staff costs (including target savings in travel budget and due to FX movements). £0.1 million reduction in mobility budget and £1.6 million additional funding provided for priority investments. Priority investments reflect additional 16 FTEs:

  - £1.0 million and 10 FTEs under Operational Sustainability (resources for Operational Risk Management, OCCO on domiciliation, sanctions, project integrity matters and for PPAD)
  - £0.7 million and 6 FTEs under GET2.1 priority (4 FTEs in ESD and Risk Management to support commitments under the Taskforce on Climate related Financial Disclosure (TCFD), further 2 FTEs in ESD for monitoring, reporting and verification).

- **Office of the General Counsel:** Direct cost budget increase of £0.1 million as a result of £0.1 million full year impact of 2020 compensation increases, £0.3 million additional direct costs budget under the Operational Sustainability (incremental activities related to sanctions and corporate recovery needs) and GET2.1 (Legal Transition) priorities, offset by reductions of £0.2 million in travel and mobility budgets. Some of the new resources are expected to be attributed to donor management fees (up to £0.1 million).

- **Office of the Chief Economist:** 2021 Budget proposal includes two FTEs and £0.2 million additional budget under Operational Sustainability theme (for analysis of big data by means of machine learning and to support of household, enterprise and banking surveys).

- **Internal Audit:** £0.3 million increase in direct costs budget reflects additional three FTEs proposed under the Operational Sustainability theme. This aims to increase IAD capacity in a journey to right-size the department in line with the growth of the Bank (for IAD work programme to be based on risk assessment metrics rather than constrained by resource availability).

- **Communications (including BIS):** £0.2 million increase in direct costs budget reflects inflationary increases of information services and database costs, partially offset with target reductions in travel budget.

- **IPAM**: Increase in direct costs by £0.3 million reflects carry over impact of previous decisions (permanent structure of IPAM upon finalised MD recruitment and re-evaluation of existing positions) and request for additional 2 junior resources to support case management, outreach and advisory activities (net additional £0.1 million budget proposed under Operational Sustainability theme).

- **Evaluation Department**: £0.2 million increase in direct costs reflects carry over impact of previous decisions (additional position approved by the Board for 2020 in response to the Kirk Report recommendations) and one additional position proposed for 2021 for capacity building (in response to the Kirk Report recommendation).

- **Board of Directors**: £0.1 million decrease in direct costs reflects the target reduction of travel budget.

- **Unallocated** additional budget of £5.1 million includes funding for the 2021 Compensation and Benefits Proposals (£3.5 million including the impact on performance based compensation), £0.8 million net increase in central benefits (volume impact offset with identified budget reductions) and full year impact of 2020 Compensation and Benefits Proposals. Further £0.75 million target reduction is included in this line as a negative budget adjustment, held against consultancy and other direct cost budget lines. Unallocated category also includes the Management Reserve and General Contingency of the Bank (unchanged from 2020 levels).

Capital Expenditure

Responding to the request by members of the Bank's Budget and Administrative Affairs Committee for enhanced information disclosure, Table 7.7 presents a summary of planned capital expenditure for the first two years of the current SIP (further details presented later in this section). This includes capital expenditure for business as usual, as well as for strategic investments and projects. For information (not for approval), this table also includes indicative capital expenditure for IT MYIP Phases 2 and 3, with the cumulative £200 million total investment for the programme. Phases 2 and 3 will be presented and discussed in the following SIP documents.

Table 7.7: Capital Expenditure

Capital Expenditure £m	2020 Forecast	2021 Budget	2022 Budget	2023 Budget	Total
Business as usual	**24.1**	**10.3**	**8.6**	**TBC**	**N/A**
IT	22.9	7.1	6.1	TBC	N/A
HQ	0.5	0.4	0.5	TBC	N/A
Resident Offices	0.7	2.8	2.0	TBC	N/A
Strategic investments and projects	**17.9**	**110.5**	**66.8**	**61.1**	**315.8**
HQ Project	4.0	53.5	53.5	-	111.0
IT MYIP - Phase 1	13.4	52.2	12.6	-	78.3
Essential upgrades	*-*	*5.4*	*0.6*		
Client Services	*6.2*	*12.4*	*1.2*		
M365	*0.6*	*4.2*	*2.4*		
Data Centre	*4.8*	*10.8*	*3.6*		
London HQ tech implementation	*-*	*2.8*	*2.8*		
Remote working at scale	*0.6*	*4.4*	*1.0*		
Business change and contingency	*1.2*	*12.2*	*1.0*		
IT MYIP - Phase 2 (not for approval)	-	-	59.4	31.6	91.0
IT MYIP - Phase 3 (not for approval)	-	-	-	29.5	29.5
Sub-total IT MYIP (Phases 1, 2, 3)	13.4	52.2	72.0	61.1	198.8
Libor	0.5	4.8	0.7	-	6.0
Total	**42.0**	**120.8**	**75.4**	**TBC**	**N/A**

Note: HQ project forecast for 2020 includes a portion related to spend in 2019. 2021/2022 split is an estimate until the fit out contractor procurement process completes in Q2 2021. Numbers are rounded to one decimal and sum of subtotals may not exactly add up to aggregate numbers.

HQ and Resident Office resources

Capital expenditure is budgeted and indirectly approved through its effect on depreciation. A total of £3.2 million capital expenditure is planned for HQ and Resident Offices (business as usual).

The Bank's headquarters (HQ) lease expires in December 2022. The Bank undertook a comprehensive exercise to identify it's 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 million (BDS19-076). In 2021, there will be no depreciation impact from this capital expenditure associated with the relocation to 5 Bank Street. Construction for this project is planned to commence in Q2 2021, and depreciation will commence on completion and occupation of the new Bank headquarter in Q4 2022. Due to the relocation of the Bank's headquarters, planned business as usual capital expenditure for One Exchange Square has fallen to £0.4 million.

Key areas for capital expenditure planned for 2021 include:

- **HQ.** Upgrade of end-of-life mechanical and electrical systems such as low voltage switch panel breaker, fire sprinkler refurbishment, as well as office space reconfiguration.
- **Resident Offices.** COVID19 has delayed majority of the Resident Office planned capital expenditure. The revised work programme for 2021 is now £2.8 million. The programme includes opening of new satellite offices in Cluj, Ismailia, Asyut and Urgench[15], office expansion in Nur-Sultan, relocation of the Ankara office, refurbishment of the Bucharest Office, as well as replacement of 16 resident office vehicles.

[15] As approved in SIP2019-21 (BDS18-160 (Final), Annex 1) and SIP2020-22 (BDS19-169 (Final), section 6.4).

HQ Capex
The Board approved £111 million capital expenditure is broadly categorised as fit out costs and furniture costs. The details and timing of this expenditure will become more evident once the procurement process for the fit out contractor completes in Q2 2021.

- Fit out costs of £97 million for Internal fit out of property including design and installation of air-conditioning, structured cabling, structural steel works, security systems, audio visual equipment, building of the office space, break out space, meeting rooms, auditorium, restaurant, Board room and security control rooms.
- Furniture costs of £14 million for desk, chairs, meeting room and soft furniture.

IT capex – business as usual (BAU)
The planned IT capital expenditure in 2021, excluding carried forward budgets and investment related to the multi-year investment plan (MYIP) is about £7.1 million, including:
- non-discretionary expenditure from 2020 to cover ROs and hardware requirements of £0.9 million to align with the increase in demand for laptops and mobiles phones as well as iPhone 6 handsets replacement of £1 million for most users as the technology will be out of support.
- business pipeline projects of £2.0 million in 2021 for the provision of funds for urgent intra-year business led demand. The allocation of this funding will be reviewed and approved by IT Governance Committee (ITGC).
- Enhancements increase of £2.0 million in IT transformation capacity for all staff to work on backlog of small enhancements and improvements of systems to support business demand.
- Tech led pipeline projects of £1.2 million to cover dedicated capex resources for new capabilities, £0.7 million (Robotics, Microsites) and Technical Currency items and £0.6 million to provide funding for IT small essential technical debt projects.

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

7.4. Extraordinary Item: IT Multi-Year Investment Plan

On 23rd July, the Board considered the IT MYIP and:
- Acknowledged the requirement for an overall IT multi-year investment plan with its three phases and approximately £200 million Capex programme for the period of 2020 to 2025.
- Endorsed the plan for Phase 1 with an indicative Capex of £78.3 million in 2020-2021, including the financial implications of the implementation of Phase 1 on operating expenditure and corresponding Depreciation in 2021 and subsequent years, and noting the indicative cost estimates of Phases 2 and 3.
- Agreed the urgent IT investment of £13.4 million Capex required to start in 2020 can do so immediately.
- Agreed that the three Phase budgets for this programme will be the subject of a full discussion and agreement in the annual SIP process and consideration will be given to holding this separately from the normal Administrative Budget.

Phase 1 Capex is now confirmed at £78.3 million, of which £52.2 million will be invested in 2021. The cost impact on the 2021 Budget (operating expenses and depreciation) is £3.9 million, rising to £18.6 million in 2022 and £28.9 million in 2023.

Phase 1 comprises the following elements:

Essential platform upgrades of £6 million, including the upgrade of approximately 21 IT supported Applications and Infrastructure to vendor supported and latest versions.

- Upgrade cost of £1.2 million for Web Content Management System (WCMS) including EBRD.com, the intranet and self-managed microsites.
- Integration cost of £1.2 million for the video content platform with WCMS for sites and streaming.
- Version upgrades cost of £3.6 million for package applications (e.g. Java, Oracle, Appian, PowerBuilder, Livelink, Intranet, Cognos etc.) and development tools to be compatible with vendors that will help reduce operational risk and maintain flexibility.

Client Services: £19.8 million to develop common, integrated platform across Client Services (Monarch Ecosystem) for improved user experience and optimum business activity.

- Monarch 2.0 is estimated at £15.0 million to build on the foundational elements of Monarch to deliver enhancements and further capabilities for Party Management, Lifecycle Management and My Dashboard. This will include a significant breadth of client services to be accessed in one place via a single unified platform, with an estimate 60-70 per cent of the quantum of value against the 30 core epics. Monarch 2.0 will replace outdated systems and staff pain-points, reduce IT risk, digitalise and automate remaining key processes across the CSG lifecycles.
- Expected capital expenditure for Monarch 2.0 will span over 3 years; £2.7 million for Infrastructure and Cloud Set-up, £1.5 million for team set up, £1.6 million for the adoption of Agile methodology, £7.9 million for functional and epic delivery and £1.3 million for other business change.
- CRM wrapper to client contact and prospect management of £2.4 million will integrate with Monarch engagement and party lifecycle management.
- Extend Pegasus solution will cost £2.4 million to cover all governance bodies meetings, agenda and document repository requirements which will be integrated with workflow and records management platforms.

M365: £7.2 million to enable all EBRD colleagues to collaborate and communicate, securely and efficiently, using Microsoft Office 365 cloud-based productivity suite. This will be accessible at any time from any internet connected location and on any device.

- Replacement of the personal file “L” drive with secure cloud-based storage for personal work files across devices and locations that is estimated at £2.4 million.
- Team collaboration tools for secure, cloud-based sharing of team/department files and other content (blogs, wikis etc.) which will be accessible across devices and locations that will support secure external sharing. This is estimated at £2.4 million. This will replace some of the software currently in use viz. Jabber, Webex, Cisco phones and NetApp shared drives.
- Unified communications will enable Instant messaging, voice and video communication to anyone in the organisation from anywhere, with any device which will be integrated with other Office capabilities. This is estimated to cost £2.4 million.

Data Centre: £19.2 million - establishment and migration to a sustainable new home for the Bank’s on premise applications and associated infrastructure to support the exit from current HQ by September 2022 whilst maintaining continuity and quality of the Bank’s IT services.

- Resilient hosting expenditure of £4.8 million will enable HQ move and provide secure, connected and resilient pair of hosting facilities for our entire on premise infrastructure.
- Flexible hybrid computer/storage expenditure of £2.4 million for highly operable combined “hyperconverged/converged” compute and storage technologies allowing flexible allocation of resources to workloads across co-located and cloud (IaaS) DCs
- Flexible hybrid core network of expenditure of £2.4 million to increase security and network controls spanning virtual and physical, co-located and cloud (IaaS) platforms
- Resilient shared data centre services expenditure of £2.4 million for essential shared services (Network Time Protocol or NTP that synchronises our servers and network, Active Directory that

authenticates and monitors access rights, Backup etc.) that will allow efficient administration of the network and support for on premise applications.

- Cloud security control expenditure of £1.2 million to monitor and control access to cloud services and control risks of insecure/shadow IT services.
- Application re-hosting to data centres expenditure of £4.8 million to enable HQ migration and build security and resilience by re-hosting on premise applications in new Data Centres, with exception for near-term SaaS migration.
- Flexible wide-area connectivity expenditure of £1.2 million to enable reliable multi-mode access from ROs and HQ to co-located and cloud-based resources without a central bottleneck or single point of failure.

London HQ Tech Implementation: £5.6 million to provide the needed connectivity and technology to fully support the move to a new HQ.

- New HQ workplace and AV expenditure of £2.4 million to design and implement LAN, WAN and active network devices required to enable the IT network as well as the Unified Communications (UC), End User Computer equipment (EUC), Video Conferencing Bridge and the internal mobile network provision.
- New HQ Campus expenditure of £3.2 million to enable connectivity for all HQ end-user and administrative devices including essential wired and wireless networking infrastructure for new HQ

Remote Working at Scale: £6 million - will provide secure access from any device, anywhere for a full EBRD desktop experience.

- Exchange Online expenditure of £1.2 million will enable Outlook web access across devices
- Virtual desktops expenditure of £1.2 million will allow access to full, personalised desktop functionality from any computer/tablet. This will provide for a seamless experience inside or outside HQ/ROs.
- Access anywhere expenditure of £2.4 million will allow users of Bank-approved devices to access approved Bank services securely from anywhere. Combination of cloud-based virtual private networking with Identity-as-Service to authenticate and permission all access. This will enable move from HQ “fortress” to a flexible, distributed service/end-user model with no single points of failure.
- Flexible secure device support expenditure of £1.2 million will allow integrated remote configuration and impose security policies on user devices including laptop/tablet/mobile whether Bank- or used-owned. This will integrate with other Office 365 applications to allow secure access to documents anywhere.

Business Change and Contingency: £14.5 million - will cover the provision for required business change to support new ways of working and embed the required change. Additionally, contingency at 10 per cent has been included for Phase 1.

The financial implications of implementing Phase 1 of the IT MYIP in 2021 is estimated at £3.9 million, peaking to £29.3 million in 2024 (combined operating expenses and depreciation).

Table 7.8: IT MYIP Phase 1 Financial Implications

£m	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Essential platform upgrades	**0.0**	**1.0**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.3**	**0.6**	**0.6**
Operating Expense	0.0	0.3	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Depreciation	0.0	0.7	0.9	0.9	0.9	0.9	0.9	0.7	0.0	0.0
Client Services	**0.4**	**2.7**	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**	**3.6**	**3.6**
Operating Expense	0.3	1.4	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Depreciation	0.1	1.3	2.1	2.1	2.1	2.1	2.1	2.1	1.7	1.7
Data centre	**2.5**	**8.3**	**9.7**	**10.2**	**10.2**	**9.4**	**7.6**	**7.4**	**7.3**	**6.6**
Operating Expense	1.8	5.8	6.3	6.6	6.6	6.6	6.6	6.6	6.6	6.6
Depreciation	0.7	2.5	3.4	3.6	3.6	2.8	1.0	0.8	0.7	0.0
HQ move	**0.0**	**0.5**	**2.2**	**2.2**	**2.2**	**2.2**	**2.2**	**1.5**	**1.4**	**1.2**
Operating Expense	0.0	0.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Depreciation	0.0	0.2	1.0	1.0	1.0	1.0	1.0	0.3	0.2	0.0
M365	**0.0**	**1.5**	**3.4**	**3.4**	**3.4**	**3.4**	**3.4**	**3.4**	**3.1**	**2.4**
Operating Expense	0.0	1.2	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Depreciation	0.0	0.3	1.0	1.0	1.0	1.0	1.0	1.0	0.7	0.0
Remote working at scale	**0.0**	**1.5**	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**	**3.5**	**3.2**	**3.0**
Operating Expense	0.0	1.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Depreciation	0.0	0.3	1.0	1.0	1.0	1.0	1.0	0.5	0.2	0.0
Business Change	**0.0**	**0.5**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**	**0.5**	**0.0**
Operating Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	0.0	0.5	1.1	1.1	1.1	1.1	1.1	1.1	0.5	0.0
Contingency 10%	**0.9**	**2.5**	**3.0**	**3.0**	**3.0**	**2.3**	**1.6**	**1.6**	**1.6**	**1.6**
Operating Expense	0.2	1.1	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Depreciation	0.7	1.4	1.4	1.4	1.4	0.7	0.0	0.0	0.0	0.0
Total	**3.9**	**18.6**	**28.9**	**29.3**	**29.3**	**27.9**	**25.4**	**23.8**	**21.2**	**19.0**
Operating Expense	2.3	11.3	17.0	17.3	17.3	17.3	17.3	17.3	17.3	17.3
Depreciation	1.6	7.3	11.9	12.1	12.1	10.6	8.1	6.5	4.0	1.7

Note: Budgets will be fungible within the approved phase, (including across GL account types). Internal EBRD governance will ensure that combined costs for all projects remain within the approved budget for the phase.

7.5. Extraordinary Item –LIBOR Transition Project

The UK Financial Conduct Authority (FCA) announced that financial institutions will no longer be compelled to publish LIBOR (London Inter-Bank Offered Rate) rates after December 2021, signalling the effective end of LIBOR. A large number of transactions will be impacted, from Derivative and Bonds to Banking loans (around £10 billion). All LIBOR linked instruments derivatives need examining to see if and how the documentation needs updating, negotiating a transition to alternative rates and agreeing pricing with counterparties. There will be an operational impact on IT systems that need upgrading to take into account more than one benchmark rate and redesign of the current booking process.

Total project costs were initially estimated at £10.3 million for 2020/21, including £10.1 million considered as one-off expenditure and £0.2 million for IT operating expenses and depreciation (peaking at £1.4 million in 2023/24)[16]. However, delays in recruitment and more detailed workstream roadmaps have reduced this estimate to £9.3 million for 2022/21 (£1.0 million in 2020 and £8.3 million for 2021). A further £0.5 million negative budget adjustment/top-down challenge is included in the SIP2021-23 proposal to reduce the one off project budget in 2021 to £7.8 million.

2020 project costs will be funded from in-year savings within the approved 2020 Budget. These include backfill resources from Q4 and legal/consultancy costs to support due diligence work and review of the derivatives business impacted by LIBOR. In addition to staff backfill resources until end of 2021, next year's costs are for the introduction of new fall-back language into existing and new loan

[16] See "Libor Project", BDS20-121 (Rev 1).

agreements, redesign and implementation of transfer pricing methodology (incorporating IFRS standards and addressing system implications to booking and billing), valuation, modelling and travel.

A total of £6.0 million capital expenditure will be required to support the project. System changes will be carried out in two phases: (1) upgrade of the core Summit software (extra costs not included in SIP2020) and (2) LIBOR enhancement with relevant upstream/downstream systems and interfaces impacted by Summit and LIBOR changes.

It is proposed to have LIBOR project costs treated as a one-off element within the Core Administrative Expenses. These project costs will be ring-fenced and tracked separately within the overall budget for 2021. Almost 50 per cent of the proposed funding for 2021 is for legal and travel costs (£3.9 million). If not used during 2021, these budget savings will not support business as usual activities and will be released. Capital investments required for LIBOR system changes will result in incremental operating expenditure and depreciation to be tracked separately in 2021. From 2022, these incremental annual costs will be consolidated into the core EBRD expenses.

The project will be delivered by nine workstreams as presented in Table 7.9.

Table 7.9: LIBOR Transition Project

LIBOR costs: **£8.8m** (with **£1.0m** in **2020** and **£7.8m** in **2021**)		
Banking Stream **£2.3m** Identification of Libor exposure New fallback language introduced into existing and new loan agreements New Product design	**Treasury Stream** **£0.6m** Funds Transfer Pricing model Managing economic risk associated with IBOR's Building of new market data framework TAG development	**Communication Stream** **£0.5m** Internal/ External communication Workshops, seminars Libor material for Bankers/Clients
IT - Summit Stream **£0.2m (Opex)** Summit upgrade to facilitate Libor enhancements	**Accounting Stream** **£0.25m** IFRS9 impact Hedge Accounting Transfer pricing methodology between Banking and Treasury	**OSM/Market Data Stream** **£0.3m** System readiness for future Market Data requirements Assessing booking and billing implications Rebooking IBOR products to new RFR
OGC - Finance Stream **£0.5m** Debt and Derivatives database CSA, Funding & Swap documentation ISDA protocols	**OGC - Banking Stream** **£4.0m** Fallback language introduced into existing and new loan agreements (and other relevant instruments) Development of a loan template incorporating new reference rate mechanism	**Risk Stream** **£0.2m** Risk Engine compatibility with new Libor world Valuation and modelling Model validation

Note: Numbers are rounded to one decimal and sum of subtotals may not exactly add up to aggregate numbers.

8. Incentives and accountability: The Control Framework and Corporate Scorecard

In addition to setting high-level objectives, the SCF provides a set of control parameters within which the work of the Bank is be undertaken between 2021 and 2025. Within the boundary set by the Board of Governors in the control framework, each year the Board of Directors approves an annual budget and Corporate Scorecard in the context of considering a three-year rolling plan.

This section reviews first the projections for the control parameters over the period covered by this SIP, and presents the Corporate Scorecard for 2021 for consideration and approval by the Board of Directors.

8.1. The Control Parameters

By design, the SCF is not prescriptive and allows for the Bank to respond to opportunities and circumstances to deliver its objectives. This flexibility, however, exists within a clear framework for accountability, the control parameters, to provide assurance to shareholders that the Bank is pursuing its strategic objectives responsibly. The control framework consists of six elements that relate to the three key components of the Bank's operating framework:

- **Transition.** The transition parameters set minimum levels for the Bank's transition delivery through its projects at approval and throughout their life. The average level of transition impact that should be exceeded is set for 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.
- **Capital.** The capital parameters a set maximum levels of capital utilisation, as measured both on a statutory basis and through the Bank's Capital Adequacy Policy (CAP).
- **Resources.** The resource parameters set maximum levels for Bank's cost-to-debt income ratio and the five-year rolling average of each of the share of staff costs in total costs.

Projections for the development of the capital and resource control parameters are presented over the period covered by the SIP in Table 17. The table shows that the Bank has been performing and is projected to continue to perform within the constraints set the by the control framework within the period of this Plan (see Table 17).

- The level of ETI and PTI at 66.2 and 70.6 at the end of September 2020 are well above the control levels of 60 and 65 respectively.
- Levels of capital utilisation are below the control levels of 92 per cent for statutory capital utilisation and 90 per cent for the Bank's Capital Adequacy Policy. They are projected to remain so, although an increase is expected over the period covered by the SIP reflecting the scale of the Bank's crisis response and continued strong activity levels.
- Both the resource parameters are currently below the control levels of 70 per cent for the cost-to-debt ratio and 70 per cent based on a five-year rolling average for the ratio of staff costs to total costs. The projections show that this will continue over the period covered by the SIP, with the cost-to-debt income ratio rising steadily and the five-year rolling average of the staff cost to total cost ratio remaining stable.

Table 17: Projected SCF Control Parameters 2018 to 2023

	Control Level	2018	2019	2020 (est)	2021 (proj)	2022 (proj)	2023 (proj)
Transition Parameters							
Expected Transition Impact	>60	66.7	66.4	66.2	>60	>60	>60
Portfolio Transition Impact	>65	70.1	70.9	70.6	>65	>65	>65
Capital Parameters							
Statutory Capital Utilisation	<92 %	73 %	76 %	81 %	83 %	85 %	87 %
Capital Adequacy Utilisation	<90 %	67 %	66 %	65 %	67 %	68 %	68 %
Resource Parameters							
Cost to Debt Income ratio	<70 %	54 %	54 %	52 %	53 %	57 %	59 %
Staff Cost to Total Cost ratio (5 year average)	<70 %	66 %	67 %	67 %	68 %	68 %	69 %

8.2. Corporate Scorecard

The Board of Directors approved the template for the Corporate Scorecard for 2021 in October this year following a thorough review[17]. The levels for each element in the Scorecard are presented below. They reflect the Bank's projections and ambitions for 2021, as set out in the first seven sections of this document

TRANSITION IMPACT

- **Average ETI is set at a range of 63-67:** The range for average ETI is set on the basis of principles. The lower end of the range is derived from the median ETI for the Bank's projects over the past year. A higher lower end of the range (such as 65) would not be appropriate, for the following reasons: A median ETI of 63 is on the high side historically, as the median ETI has usually hovered around 60.

  In the past year, 40% of projects were rated at 60 (which is calibrated as having good performance/risk balance). Some of the Frameworks that have a default rating of 60 are for operations are of particular importance especially in the crisis response period (for instance FIF-SME lending). Having an unrealistically high floor could hamper the Bank's ability to deliver on its mission for three reasons: i) 56-58 percent of projects in each of the last three years has an ETI of below 65. An ETI range with a lower bound of 65 would risk implying that more than half of all projects signed in the last few years fall below the minimum requirement from a TI perspective; ii) As a result, if 65 is the floor, there will be intense self-selection so that projects with good transition potential will be selected out unnecessarily, and there may be pressure to inflate TI ratings to ensure attainment of the floor level for this ETI range; iii) Having a narrow range of 65-67 in reality is a "point target" and not a range. The value of having a real range is that it provides incentives for Bankers to be more ambitious and strive to perform closer to the higher end of the range.

[17] Details of the revisions can be found in *Review of the Corporate Scorecard (BDS20-147/F)*

- The upper end of the range is set at the average level of ETI for the past three years[18], rounded up. While the lower bound of the proposed range is a floor, the upper value is not a ceiling. **Average PTI is set at a minimum level of 67** consistent with the lower bound of the ETI range. The three-year moving average of the difference between ETI and PTI is 3.7 points as transition impact is realised and the risks to future transition delivery decrease. Since this is a floor for PTI, it is appropriate to set the level four points (3.7 rounded) above the lower end of the ETI range.

- **For each of the six Transition Qualities**, there will be a quantitative and qualitative assessment, as currently, through the Composite Performance Assessments: Very Good, Good or Requires Attention.

- **Green Economy Transition is set as 40 per cent share of ABI**. This objective is set as a clear signal of the Bank's intention to rebuild the share of GET finance after the crisis induced decline in 2020, on the path to the goal of reaching more than 50 per cent in ABI by 2025. While such objective constitutes a strong statement of ambition, it may be challenging to achieve in the context of 2021. The Bank's dedicated fast disbursing crisis facilities will likely continue to be important, though their share of ABI is uncertain, reflecting uncertainties around the speed of the recovery, while the capacity of these instruments to support GET objectives is very limited; indeed, this is the reason for the low GET ratio during 2020. The pace at which the GET share in ABI can recover from the 2020 level will depend on the extent to which crisis financing continues. Accordingly, the assessment of the Bank's performance against this target will need to take into consideration the value of crisis response financing provided. Indicatively, for each increment of EUR 500m of financing under the Resilience Framework and Vital Infrastructure Support Programme and at equal levels of total ABI, the resulting GET ratio would be reduced by 2%.

- **Gender-tagged Operations is set at a minimum 18 per cent share of total projects**: a three percentage point increase over the current level of gender operations, as the start of a sustainable growth path over the SCF period. This target is proposed as a 3 percentage point increase from the baseline of 15 percent of Gender TI / Addditionality projects as a share of the Bank's total number of projects at the end of Q3/2020. It also reflects increases of Gender TI / Additionality projects over the previous years, from 7 percent in 2016 to 12 percent in 2019. Similar increases will be envisaged over the coming years to ensure an upward trajectory of the share of Gender TI/Additionality projects year on year. This target is to be measured through a newly developed *Gender SMART process* and related *Gender SMART tag*, to be hosted on DTM. The *Gender SMART Process* will support Bankers in introducing gender considerations earlier in the project design stages to contribute to improving the sustainability of the investment, as well as expected impact. The Process is based on the OECD Gender Marker principles and categories and establishes a standardised, systematic approach to addressing gender in projects, including at sector-level interventions. The goal of introducing the Process is to embed gender equality fully in the investment culture of the Bank, from the earliest possible stage (pre-CRM) of project development, and then throughout the project cycle. Further detail is provided in Annex C.

<u>OPERATIONAL</u>

- **Number of operations is set at a range of 395 to 435** reflecting the ABI range and average project size dynamics**.**

[18] (2018-Q3 2020)

- **ABI is set at a range €10.0 to €11.0 billion,** reflecting anticipated investment opportunities across the Bank's regions, and fractionally above the 2020 operational plan, given the uncertainty about the extent of crisis and longer term business.

- **Annual Mobilised Investment (AMI)** is set at €1.2 billion, reflecting both the revised –and more narrow – approach to AMI focussed on private sector mobilisation with a slight increase in line with progressive approach to stepping up mobilisation activity. **Annual disbursement is set at a range of €7.0 billion to €8.0 billion** reflecting 2021 ABI with the lower end of the range reflecting the potential impact of ABI/AMI fungibility.

- **Private Sector share of ABI is set at a minimum of 75 per cent**, consistent with the medium term objective in the SCF.

- **Activity in Early Transition Countries, Western Balkans and SEMED is set at a minimum of 48 per cent** average ABI over the period 2018 to 2020[19].

FINANCIAL

- **Return on Required Capital is a three year rolling average minimum of 3.5 per cent,** reflecting its nature as a 'through the cycle' measure of performance.

- **Debt Return on Required Capital is set at a minimum level of 10.3 per cent.** This new financial measure provides a focus on the more stable part of the Bank's income flows from the debt portfolio. This greater stability allows the setting of an annual goal. The target is set at a level that is one percentage point below the 2021 projection of 11.3 per cent.

INSTITUTIONAL

- **Productivity is set as a range of 1.5-1.7**, reflecting the proposed budget and operational plan for 2021. The metric is based on 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).

- **Cost to Debt Income is set at a maximum level of 55 per cent.** While costs are expected to be highly predictable, the level is set 2 percentage points above the central forecast for 2021 to allow for potential fluctuations in debt income.

- **Staff Engagement** is a tracked indicator that has no specific target associated with it, but informs the annual assessment of the performance of the Bank against the Scorecard.

[19] As set out in *BDS20-147/F* and constituting the share of ABI 2018-Q3 2020 to allow consistent calculation in future years

Corporate Scorecard 2021

	2021	30/09/2020	2020	2019
	BP and Budget	Actual	BP and Budget	Actual
TRANSITION IMPACT				
Average Expected Transition Impact	**63-67**	66.2	Min 63	66.4
Average Portfolio Transition Impact	**Min 67**	70.6	Min 65	70.9
Transition Qualities				
Competitive, innovative economies	**CPA**	**Very Good / Good / Requires Attention**	CPA	Good
Well-governed economies and firms	**CPA**	-	CPA	Very Good
Environmentally sustainable, green economies	**CPA**	-	CPA	Very Good
Inclusive, Gender-equal economies	**CPA**	-	CPA	Very Good
Resilient economies and firms	**CPA**	-	CPA	Good
Well-integrated, connected markets	**CPA**	**-**	CPA	Good
Green Economy Transition (% ABI)	**40 %**	25 %	40 %	46 %
Gender-tagged Operations (% / No. of ops)	**Min 18 %**	**-**	-	-
OPERATIONAL				
Number of Operations	**395-435**	274	395-445	452
Annual Bank Investment (€ billion)	**10.0– 11.0**	7.9	9.7-10.7	10.1
Annual Mobilised Investment (€ billion)	**Min 1.2**	0.9	Min 1.1	1.3
Disbursements (€ billion)	**7.0 – 8.0**	5.7	6.9-8.2	7.2
Private Sector Share (% ABI)	**Min 75 %**	75 %	n/a	74 %
Activity in Early Transition Countries, Western Balkans and SEMED (% / ABI)	**Min 48 %**		n/a	
FINANCIAL				
Return on Required Capital (3 year rolling average)	**Min 3.5 %**	4.7 %	Tracked	3.3 %
Debt Return on Required Capital before Costs	**Min 10.3 %**			
INSTITUTIONAL				
Productivity (number of operations based)	**1.5-1.7**	-	1.5-1.7	1.7
Cost to Debt Income Ratio	**Max 55 %**			
Staff Engagement Ratio	**tracked**	-	Tracked	
RESOURCE FRAMEWORK				
EXPENDITURE				
Core Administrative Expense Budget				
Euro (million)	**441.8**		437.0	415.0
Pound Sterling (million)	**394.5**		383.4	370

Annex A: Budget Data Disclosure Reporting

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 Annex provides a five-year trend of:

- Table A.1: Core Administrative Expense Budget (2017-2021)
- Table A.2: Detailed Core Administrative Expense Budget (2017-21), including a further breakdown of staff costs (benefits lines)
- Table A.3: Direct Costs by Department (2017-21)
- Table A.4: HQ and RO occupancy

This data will equally be available on Board Online Information (BOI). Structure of BOI reporting will be updated to also reflect budget and actual costs for extraordinary items (LIBOR, IT MYIP), as well as a temporary treatment of 5 Bank Street HQ lease recognition outside of the Core Administrative Expenses.

In addition, the following table is included to provide indicative resources and costs for GET2.1 during the SIP2021-23 period. Resources and costs for 2022 and 2023 are estimated at high level, based on a GET delivery functional analysis, and are subject to further refinement in following SIP documents.

- Table A.5: GET2.1 multi-year investment for 2021-23

Table A.1: Core Administrative Expense Budget for 2021 - 5 year view

Administrative Expenses	**2017**	**2018**	**2019**	**2020**	**2021**	**2021 vs 2020**	
£m	**Budget**	**Budget**	**Budget**	**Budget**	**Budget**	**£m**	**%**
Operating expenses	327.6	338.6	327.4	339.8	351.4	11.7	3.4%
Depreciation	18.4	20.9	42.6	43.6	43.1	(0.5)	-1.2%
Core Admin Expenses	**346.0**	**359.5**	**370.0**	**383.4**	**394.5**	**11.1**	**2.9%**

Table A.2: Core Administrative Expense Budget for 2021 (Detailed) – Five-year view

Administrative expenses £m	2017 Budget	2018 Budget	2019 Budget	2020 Budget	2021 Budget	2021 vs 2020 £m	2021 vs 2020 %
Salaries	127.4	130.2	135.1	141.3	147.5	6.2	4.4%
Expat/ IHS	10.1	9.5	9.8	9.5	9.8	0.4	4.0%
Medical Plan	6.8	8.2	9.0	10.3	9.6	(0.7)	(6.7%)
Gross Retirement Costs	43.3	48.1	50.0	53.5	58.9	5.5	10.2%
Other Benefits	26.8	27.9	28.7	28.9	28.8	(0.0)	(0.1%)
Total Benefits	*87.0*	*93.7*	*97.4*	*102.1*	*107.2*	5.1	5.0%
Performance Based Compensation	14.2	14.5	15.5	16.1	16.7	0.6	3.6%
Other Staff Costs	1.6	1.5	1.4	1.4	1.4	(0.0)	(0.2%)
Staff Costs	**230.1**	**240.0**	**249.4**	**260.9**	**272.8**	**11.9**	**4.6%**
Consultancy/Legal	19.2	16.5	12.5	11.1	10.7	(0.3)	(3.0%)
Travel/Hospitality	13.3	12.6	13.0	13.2	10.6	(2.6)	(19.8%)
Other Direct Costs	12.8	13.3	13.3	12.9	13.8	0.9	7.1%
Non Staff Costs	**45.2**	**42.4**	**38.9**	**37.2**	**35.2**	**(2.0)**	**(5.5%)**
Direct Costs	**275.4**	**282.4**	**288.2**	**298.1**	**307.9**	**9.9**	**3.3%**
Occupancy Costs	31.6	32.6	10.9	11.0	11.0	0.0	0.1%
Technology (license,hosting & vendo	12.3	14.9	19.3	21.9	23.2	1.4	6.2%
Annual Meeting	1.2	1.5	1.2	1.2	1.2	-	-
Central Staff Expenses	4.7	4.9	5.1	5.3	5.3	0.0	0.4%
Institutional Fees	2.1	2.0	1.9	2.1	2.5	0.4	20.4%
Depreciation	18.4	20.9	42.6	43.6	43.1	(0.5)	(1.2%)
Contingency	0.3	0.3	0.8	0.3	0.3	0.0	0.0%
Total Centrally Managed Costs	**70.7**	**77.1**	**81.8**	**85.3**	**86.6**	**1.3**	**1.5%**
Core Admin Expenses	**346.0**	**359.5**	**370.0**	**383.4**	**394.5**	**11.1**	**2.9%**

Table A.3: Direct Costs by Department – Five-year view

Direct Costs £m	2017 Budget	2018 Budget	2019 Budget	2020 Budget	2021 Budget	Variance 21 vs 20
Banking Department	120.0	122.2	125.2	130.3	130.4	0.1
VP, Policy & Partnerships	19.4	19.1	20.1	20.8	20.6	(0.2)
Client Services Group	***139.4***	***141.3***	***145.3***	***151.1***	***151.0***	(0.1)
Finance	9.3	11.3	12.6	14.2	14.4	0.2
VP, HR and Corporate Service	34.9	34.7	31.5	30.4	32.3	1.9
VP, Risk and Compliance Group	24.6	26.4	27.9	29.3	30.9	1.6
Office of the General Counsel	15.7	16.2	16.3	16.8	16.9	0.1
Office of the Chief Economist	2.3	2.3	2.3	2.4	2.5	0.2
Internal Audit	1.0	1.1	1.2	1.3	1.6	0.3
Corporate Strategy	0.9	1.1	1.2	1.3	1.3	(0.0)
Communications (incl. BIS)	6.6	6.8	6.9	7.0	7.3	0.2
Office of the Secretary General	4.1	4.2	4.3	4.6	4.6	(0.0)
President's Office	1.5	1.7	1.8	1.8	1.7	(0.0)
Indep. Project Account. Mechanism	0.1	0.1	0.7	0.8	1.1	0.3
Evaluation Department	3.0	3.0	3.1	3.1	3.3	0.2
Board of Directors	12.8	13.1	13.4	13.8	13.8	(0.1)
Unallocated	19.3	19.0	19.6	20.2	25.3	5.1
Total Direct Costs	**275.4**	**282.4**	**288.2**	**298.1**	**307.9**	**9.9**

Note: 2021 unallocated budget includes funding for the 2021 Compensation and Reward Review proposals, estimated performance based compensation pool (£16.7 million including the impact of 2021 Compensation and Reward Review proposals), as well as the Management Reserve of the Bank. This table reflects the most recent structure of the Bank with restated historic data in case of reorganisations/restructuring, if applicable.

Table A.4: HQ and RO occupancy

Administrative expenses £m	2020 Budget	2021 Budget	2021 vs 2020 £m	2021 vs 2020 %
HQ Occupancy	8.8	8.8	0.0	0.1%
HQ Lease Depreciation	15.0	15.0	-	-
HQ Fixed Asset Depreciation	5.8	6.1	0.2	4.2%
Subtotal - HQ Occupancy	***29.6***	***29.8***	***0.3***	***0.9%***
RO Occupancy	2.2	2.2	0.0	0.2%
RO Lease Depreciation	6.3	6.4	0.1	1.3%
RO Fixed Asset Depreciation	1.6	1.6	(0.0)	(1.3%)
Subtotal - RO Occupancy	***10.1***	***10.2***	***0.1***	***0.6%***
Total HQ and RO Occupancy	**39.7**	**40.0**	**0.3**	**0.8%**

Note: 5 Bank Street lease Depreciation and other related centrally managed costs will commence when the project completes 3Q 2022. Lease costs for the 5 Bank Street office will be treated outside of the Core Administrative Budget in 2021/22.

Table A.5: GET2.1 multi-year investment for 2021-23

GET2.1 resources	2021 Request	2022 Estimate	2023 Estimate	SIP21-23
Admin Expenses GBPm	4.9	3.4	1.2	9.5
Estimated FTE	34	24	2	60

Note: Admin Expenses include staff and non-staff costs (training and upskilling, communication and visibility, partnerships/ membership fees, IT systems, including software and license costs). Resources and costs for 2022 and 2023 are estimated at high level, based on a GET delivery functional analysis, and are subject to further refinement in following SIP documents.

Annex B: Treatment of New HQ Lease

Although the lease for 5 Bank Street will contractually only start in mid-2022 and no rental payments will be made before 2026, accounting standards require the recognition of the cost from April 2021 when the building becomes available which will coincide with the commencement of construction works.

- This accounting requirement results in recognising two rental costs in 2021 (£9.6 million) and 2022 (£13.3 million).
- To avoid artificial distortions in the lease expense budgets, for the period of overlap from April 2021 – December 2022, it is proposed that the new lease depreciation costs are reflected outside of the Bank's Budget (but reported to the Board in the QPR). As the current HQ lease ends in December 2022, there will therefore be 20 months during which the Bank is recognising costs under both leasing contracts. During the majority of this period of overlap, the new HQ will not be occupied by the Bank

It should be noted that new HQ lease depreciation is a current best estimate as some variables may change, for example, the precise commencement date and prevailing discount rates. In addition, the Bank may also have to incur up to £0.3 million service charges in 2021 linked to the 5 Bank Street.

From 2022 Bank's Core Administrative Expenditure Budget will reflect £13.3 million annual costs as HQ Lease Depreciation (based on the current estimate/underlying assumptions as described above).

Annex C: The new Gender Score Card Target and Gender SMART tagging tool

In the Corporate Scorecard section of the SIP 2021-2023, the text on Gender-tagged operations reads:

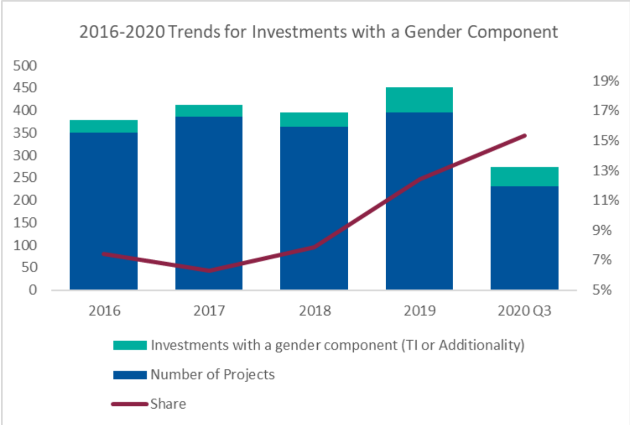
***Gender-tagged operations is set at a minimum 18 per cent share of total projects**: a three percentage point increase over the current level of gender operations, as the start of a sustainable growth path over the SCF period.*

This short explanatory note provides additional detail on (1) the proposed gender score card target of 18 percent of the Bank's total number of projects in 2021, and (2) the new gender SMART process that will promote gender mainstreaming.

1. Gender score card target

In the 2021 Corporate Scorecard, the EBRD sets out to increase its share of gender-tagged operations to 18 percent of the total number of projects, with a positive upwards trajectory envisioned year on year for the remainder of the SCF period. This target includes projects with Gender TI and / or Gender Additionality.

This target is proposed as a 3 percentage point increase from the baseline of 15 percent of Gender TI / Addditionality projects as a share of the Bank's total number of projects at the end of Q3/2020. It also reflects recent increases of Gender TI/Additionality projects, from 7 percent in 2016 to 12 percent in 2019.



The 2021 target is a first step in greater ambition for the Bank –similar increases will be envisaged over the coming years. This Corporate Scorecard target, as with other targets, will be cascaded to teams across the EBRD.

2. Gender SMART process

The gender-tagged operations will be measured through a newly developed *Gender SMART process* and related *Gender SMART tag*, to be hosted on the Bank's Deal Tracking Module (DTM) system. The *Gender SMART process* will support bankers in introducing gender considerations earlier in the project design stages to contribute to improving the sustainability of the investment, as well as expected transition impact. The process is based on the OECD Gender Marker categories (see Figure 1), and establishes a standardised, systematic approach to addressing gender in projects, including at sector-level interventions.

The goal of introducing the *Gender SMART process* is to embed gender equality fully in the investment culture of the Bank, from the earliest possible stage (pre-CRM) of project development through to the whole project cycle.

The Gender SMART process consists of:

- **Gender SMART Diagnostics**. A standardised project-level gender diagnostic will be available for all eligible projects to identify existing gaps between men and women in terms of the proposed activities and objectives. The Gender SMART Diagnostic will identify actionable recommendations to reduce the identified gaps. The ultimate aim is for the majority of EBRD projects to undergo the Gender SMART Diagnostic, sensitising clients to the importance of gender and providing clear entry points for gender smart programming.

- **Gender SMART Design**. Based on the results of the Gender SMART Diagnostic, the project will incorporate recommendations into at least one clearly defined action that is directly related to addressing one of the identified gaps. The identified action will need to be properly budgeted within the project financing structure (including capacity building and gender sensitive communications, where applicable). Indicators will be required for actions for appropriate monitoring during project implementation as part of the EBRD's existing project monitoring systems.

- **Gender SMART Tag.** The Tag will be triggered at the project Board approval stage and re-assessed on an annual basis based on performance against the identified indicators. The Tag will be hosted within the existing DTM solution and integrated in Monarch as part of upcoming updates. This will allow for the seamless aggregation of results as part of the current Business Performance Navigator (BPN) data capture and into the Bank's reporting architecture.

The Gender SMART Process will provide Bank staff, specifically banking teams, with a clear method to explore opportunities and provide solutions to close gender equality gaps through investments and policy objectives. The Gender SMART Tag will be attached to an investment that provides a clear solution to an identified gender equality gap, thus signalling to all decision-making levels that the investment is making an important contribution in promoting gender equality. In order to incentivise gender mainstreaming, there will be no 'hierarchy' of importance between projects with Gender TI and Gender Additionality. This principle also reflects the OECD guidance (see Figure 1).

Projects that undergo the Gender SMART Diagnostic, but do not integrate any further actions as per the resulting recommendations will not receive the Gender SMART Tag but will be classified as 'Gender Informed'. The Diagnostic may serve as an initial entry point to sensitise a client to gender issues and help pave the way for future gender smart measures.

Figure 1: OECD Gender Marker Categories translated into EBRD Gender SMART levels