Strategy Implementation Plan

2025-27

PRESIDENT'S RECOMMENDATION

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

- a total administrative expenses budget of £570.3 million (€673.0 million), comprising a:
  - general administrative expense budget of £507.8 million (€599.2 million) and
  - two extraordinary budget items of £48.6 million (€57.3 million) and £13.9 million (€16.4 million)
- the parameters and objectives contained in the 2025 corporate scorecard.

Odile Renaud-Basso

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Executive summary

The Strategy Implementation Plan (SIP) 2025-27 supports a bigger and better delivery for EBRD clients, as the Bank continues to invest significantly in wartime Ukraine, expands business volume, strengthens impact, meets key priorities in the last year of SCF 2021-25,[1] and prepares to start activities in Sub-Saharan Africa (SSA) and Iraq.

Although the general macroeconomic situation has improved since last year, with moderate growth expected across the EBRD regions and inflation down from its peaks, challenges remain, most notably in Ukraine and from persistent wage and price pressures, especially in services. Global tensions remain high, with unpredictable consequences for economic development in most EBRD regions.

Russia's unprovoked war on Ukraine has taken its toll on Ukrainian citizens and its infrastructure. As a major and committed long term investor, the EBRD has provided steadfast support to Ukraine during this time, deploying €5 billion of financing to assist Ukrainian businesses and giving advice on governance and market reforms.

Despite almost three years of conflict in Ukraine, there appears to be no quick end to the war, and the hoped-for phase of reconstruction cannot begin until Russia stops its assault. Given the importance of supporting the economy, the Bank's focus on Ukraine will continue, aided by the €4 billion General Capital Increase (GCI) agreed in 2023. The difficult security situation continues to constrain the Bank's activities and adds to the costs. Nonetheless, **this SIP's operational plan seeks annual business investment (ABI) in Ukraine of around €1.5 billion in 2025**, a comparable amount to 2024, before accelerating during the SIP period, provided reconstruction can begin at some point.

Alongside the substantial efforts in Ukraine, the Bank's activities have grown elsewhere. In the period just ahead of the Covid-19 pandemic ABI averaged around €10 billion. By 2022, it surpassed €13 billion, and 2024 is likely to comfortably exceed €14 billion, driven by high demand, especially in countries affected by the conflict. If achieved, this would be an increase of well over 30 per cent in just three years.

This pattern of strong activity is expected to continue and is reflected in the **2025 ABI scorecard target** which **is raised by €2.5 billion, to a range of €14 to €15 billion.** By 2027, ABI is likely to exceed €15 billion, an annual volume more than 50 per cent higher than when Covid struck. Some of the increase reflects higher prices but real Bank activity has grown rapidly and will continue to do so supported by its policy and advisory work.

The Governors decision to ask EBRD to expand its activities in a limited and incremental way to **SSA and Iraq** also implies additional growth for the Bank. Although this will be gradual initially, development of a healthy project pipeline **is projected to yield ABI of more than €1 billion by 2027**. To achieve this, considerable upfront investment is needed in setting up local offices, mapping investment opportunities, promoting the EBRD's value proposition and developing relationships with new clients and authorities.

As the Bank expands, it will continue to meet SCF objectives for green transition (GET), inclusion, digitalisation and the mobilisation of private capital. By the end of the third quarter of 2024, the Bank's green finance commitments were close to €5 billion, or 55 per cent of ABI. More than half of EBRD's business volume and mobilised finance is green certified, and all its investments are Paris aligned. The Bank's **aim to be a majority green bank** by the end of the SCF period **is confirmed in the GET 2025 scorecard target.**

The Bank's ambitions on inclusion and gender equality are also progressing well. Just over one-quarter of the Bank's projects this year are

[1] Strategic and Capital Framework 2021-25. None of the projections beyond 2025 in SIP 2025-27 prejudice any decision to be made by the Board of Governors in SCF 2026-30 or by the Board of Directors in future SIPs.

inclusive projects, a big increase on the same period in 2023, driven by the continued effort to protect human capital in Ukraine. The number of gender SMART investments has also increased, by more than one-third over the same period. For 2025, the Bank reaffirms its SCF commitment to mainstreaming gender by **raising the annual gender-tagged scorecard target to at least 40 per cent of projects**, up from a minimum of 35 per cent in 2024.

Under the Digital Transition Approach, launched two years ago, the EBRD has signed more than 120 investments with a digital component, approved over 80 policy engagements and provided over 2,000 advisory services to support SMEs' digital transformation. Plans are in place to further advance the Bank's digital offering by collaborating with banking teams and developing a tailored training programme for staff.

Delivery under the Mobilisation Approach has greatly strengthened EBRD's mobilisation capacity. Despite challenging economic circumstances, including the war on Ukraine, the EBRD achieved Annual Mobilised Investment (AMI) of €2.8 billion in 2023, of which more than half was GET AMI, and is on track to exceed this level in 2024. EBRD Private Indirect Mobilisation (PIM) has also risen sharply, reaching €23.4 billion in 2023, of which €19.4 billion was estimated as GET PIM. Comparable figures at end-September 2024 were €14.6 billion and €9.9 billion respectively. **A target of €2.8 billion AMI is set for 2025**, in line with the GCI commitment and continued ambition in this area.

In 2023, the Bank invested the substantial amount of €5.2 billion in priority countries and is on course to match and probably surpass this level in 2024. ABI reached €3.6 billion by the end of Q3 2024, an increase of 16 per cent on the same period in 2023. 56 per cent of EBRD projects by number were invested in these countries last year and so far in 2024, 223 projects have been signed, 28 per cent higher than in the same period a year ago. The Bank's efforts to improve delivery, including through the allocation of staff to resident offices, will continue in 2025 with a clear majority of the Bank's operational resources devoted to helping the transition of these countries.

The Bank reaffirms the SCF scorecard share target for priority countries of 48 per cent of total ABI and will endeavour to meet it in 2025. Despite record deliveries of volume and numbers of projects in priority countries, achievement of this ratio target has been made technically more difficult since 2022 as a result of the significant efforts to support Ukraine and countries affected by the conflict, most of which are not included in this group, thereby diluting the share ratio.

A growing Bank faces the challenges of additional processing volumes while maintaining its high control standards. A corollary of rising business volumes and sought-for impact is more processing and middle/back-office work. The consequential heightened workload is compounded by expanding sanctions and regulatory requirements, increasing reliance on donor support and especially the need for digital security across the Bank and physical security in many of its countries of operations. However, the major transformation work to improve and safeguard operations systems, reduce operational risks and deliver efficiencies, which has been a feature of recent SIPs including this one, continues. Operational risks remain but are kept under close scrutiny.

Financial projections are based on planned business volumes and related financial assumptions, including the proposed acceleration of investments in Ukraine and expansion to SSA and Iraq. Members' equity after income allocations is expected to grow steadily, capital utilisation (under the Bank's capital adequacy policy) remains stable - the effect of rising operating assets being mitigated by the GCI - and the Bank's financial metrics remain within key rating agency thresholds. With the GCI in place, the Bank is also within financial loss tolerance thresholds under simulated downside scenarios. The **EBRD's finances are sustainable over the SIP period.**

After a substantial gain in 2023, the EBRD is expected to show a smaller but still healthy rise in profitability in 2024 (estimated at €1.1 billion). A more moderate performance (a return of 3.3 per cent) is expected next year. Buoyed by the strong 2023 result, the **three-year rolling average rate for return on required capital (RoRC) is projected to be 12.2 per cent in 2025** before dropping back in 2026 and 2027, all of which are **above the long-run average minimum return of 3.5 per cent set in the corporate scorecard.** The target for the debt return on required capital, which focuses on the more stable part of Bank income, is set at a minimum of 9 per cent for 2025.

Based on planned activity levels in this year's business plan, a **Borrowing Programme Authority of up to €14.5 billion net new issuance is set for 2025.** This represents a €1 billion increase on the €13.5 billion Borrowing Programme in 2024. Additional borrowing is designed to address increased business needs, especially in response to Ukraine, and ensure that a liquidity cushion is consistently maintained above key policy ratios.

In approving the GCI, Governors agreed that the Bank should implement measures aimed at "…reinforcing the Bank's sustainable medium term budget framework … [and] to inform … SIP 2025-27". A top-down assurance of financial sustainability and appropriateness of the cost trajectory complements the shorter-term bottom-up SIP exercise.

The Bank already considers one relevant metric in SIPs, cost to debt income, which is a control parameter. There is nonetheless considerable value in monitoring the Bank's cost base against measures of operational deployment and income. The ratio of total costs to operating assets (including guarantees) plays a particularly important role in achieving this objective. Projections of this ratio to 2030 illustrate a proportionality between the expansion of costs and activities. **Administrative costs sit comfortably within levels required to maintain financial sustainability, including during the SIP period, and support real growth of the Bank's capital.**

SCF resource control parameters are projected to be met throughout SIP 2025-27. The cost to debt income ratio is expected to rise to 65 per cent in 2025 (from 59 per cent in 2024) as the costs of MYIP[2] and SSA and Iraq investments exceed the growth of debt income. A further small increase to 67 per cent by 2027 is projected. The SCF control parameter for the five-year average of the ratio of staff costs to total costs is projected to decline to 65 per cent by the end of the SIP period (from an estimated 69 per cent in 2024). Both ratios remain below their 70 per cent SCF thresholds.

While this year's UK inflationary backdrop to budget planning is less severe than last year, it remains somewhat challenging, with high pay awards boosting employee expectations and the pricing of many contracts and services lagging the drop in the headline inflation rates. As a result, **non-discretionary expenses increase by £7.0 million, reduced by £1.9 million from favourable FX movements**, and the **compensation proposal costs £15.3 million**. Along with **£2.0 million additional expenditure to strengthen cybersecurity**, these elements constitute **a 4.7 per cent increase on 2024 general administrative expenses**.

This constrains the room for manoeuvre in funding new resources and places a premium on finding efficiency savings. To that end, identified **gross additional resource needs of £11.7 million** for the response to the war on Ukraine, SCF priorities and support for delivery **were reduced to £5.3 million (1.1 per cent** of 2024 general administrative costs) **as a result of £6.4 million savings from efficiencies and reallocations**. Improvements to **governance and oversight functions** (Internal Audit, IPAM and IEVD) **cost a further £0.8 million (0.2 per cent)**.

In sum, these components **represent an increase of £28.5 million, or 5.9 per cent**, on the 2024 level of general administrative expenses.

Delivery in Ukraine and other countries of operations will remain the core focus of the EBRD, but it is important to ensure that the Bank is able to commence activities in potential new countries in SSA and Iraq as soon as the institutional process allows. Based on a careful assessment of needs for the start-up phase and subsequent business activities, SIP 2025-27 includes a ring-fenced annualised full year budget of £26.4 million for SSA and Iraq, covering 152 positions in seven Resident Offices and HQ. Recognising that it will take time to get up to full speed, **the SSA and Iraq net resource request for 2025 is £13.9 million.**

MYIP continues to yield efficiency savings, modernise the Bank's IT infrastructure and reduce operational risks. **MYIP's impact on the 2025 budget (operating expenses and depreciation) is £48.6 million**, rising to £64.0 million in 2026 and £69.2 million in 2027.

The Bank remains committed to an efficient use of resources and strict budgetary controls. Equally, to meet the goals of the SCF and sustain quality delivery at significantly higher levels of

[2] Multi Year Investment Programme.

business activity, make good the legacy of underinvestment in IT and begin expansion to SSA and Iraq, the Bank requires a commensurate increase in its budget.

For 2025, the Board is asked to approve a total administrative expense budget of £570.3 million (€673.0 million), comprising a:

- **General administrative expense budget of £507.8 million**;

and two extraordinary budget items:

- **MYIP implementation, amounting to £48.6 million**; and a
- **SSA and Iraq budget of £13.9 million**.

Based on SIP 2025-27, the Bank's aim to deliver more and better is ambitious while cost increases are proportionate to rising activity. The financial picture is strong and sustainable, supporting continued organic growth of the Bank's capital.

1. The External Environment

1.1 Moderate growth as inflation declines

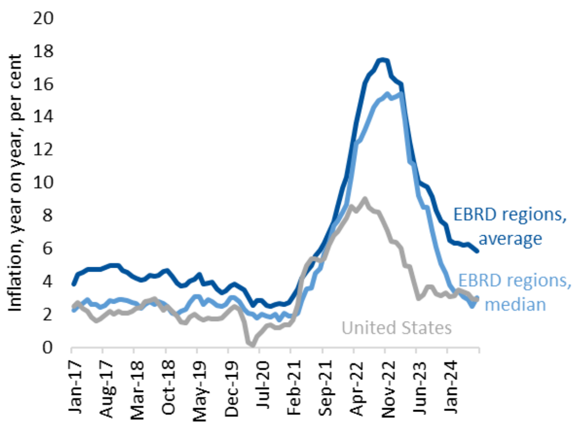
Global growth has stabilised in 2024, supported by lower levels of inflation, although further progress on disinflation has been held back by rising wages and persistent growth in prices of services. Nonetheless, in many economies, the period of tightening monetary policy since early-2022 ended, with the European Central Bank initiating interest rate reductions in June 2024 and the US Federal Reserve cutting its policy rate by half a percentage point on 18 September. More interest rate reductions have followed or are expected to follow across the OECD countries.

Growth in the EBRD regions slowed from 3.4 per cent in 2022 to 2.6 per cent in 2023, as the war on Ukraine took its toll, energy prices in Europe remained relatively high and the post-Covid recovery in the services sector ran out of steam. Growth is picking up slightly and is expected to reach 2.8 per cent in 2024, though may be slower than previously anticipated in Central Asia (due to stagnation in mining activities in some economies), in south-eastern European countries (a result of spillovers from weaker growth in advanced European economies) and in the southern and eastern Mediterranean (reflecting the impact of conflict and severe droughts). Higher growth of 3.5 per cent is forecast for 2025.

By September 2024, average inflation in the EBRD regions had fallen significantly and was broadly in line with expectations eighteen months earlier. While average inflation declined from 17.5 per cent at its peak in October 2022 to 5.3 per cent in September 2024, it remained 1.1 percentage points above the pre-pandemic average (see Figure 1.1). This broadly matches the pattern observed in advanced economies. Yet, in some cases, disinflation proved difficult (as shown in a substantial average-median difference), including as a result of depreciating exchange rates, and in several economies cumulative price increases since February 2022 have exceeded 30 per cent, exacerbating cost of living difficulties.

Monetary policy eased as inflation fell, though policy rates remain elevated. With a few exceptions, notably in Egypt, Ukraine and Romania, fiscal deficits have stabilised, albeit above pre-Covid levels. Debt to GDP ratios in EBRD regions have fallen, however. Market concerns remain in some areas. In a typical economy outside the EU in the EBRD regions spreads on 5-year government bonds relative to German bunds widened to 4.5 percentage points during 2024.

Figure 1.1 In a typical (median) economy inflation was at par with the United States by February 2024



Source: National authorities via Refinitiv and authors' calculations.[3]

1.2 The war-torn Ukrainian economy

After more than two and a half years since the unprovoked Russian invasion, extensive loss of life, widespread physical destruction and forced migration of millions of citizens, the Ukrainian economy has been under enormous stress. Despite a dramatic fall in 2022, when the economy shrank by almost one-third, businesses have shown remarkable resilience and adaptability, while external financial help has propped up macroeconomic balances.

Following a modest recovery in 2023, when the economy grew by just over 5 per cent, helped by

[3] Note: Headline CPI inflation is averaged across 33 economies in the EBRD regions.

a bumper grain and oilseed harvest, the positive trend continued into 2024. The Ukrainian economy expanded by an estimated 6.5 per cent (year on year) in the first quarter, driven by a recovery in exports and increased domestic military production.

However, the heavy toll from Russian attacks on Ukraine's electricity infrastructure since late March has wiped out half of the pre-war generating capacity, causing power shortages and increasing reliance on imported electricity at a much higher cost. As a result, growth has slowed and is likely to be subdued for the rest of the year.

Inflation stabilised below the 5±1 per cent target in the first half of 2024 but has since picked up, reaching 8.6 per cent in September. The National Bank of Ukraine's relaxation of monetary policy thus paused midyear following seven policy rate cuts in the year to June, when the rate was reduced from 25 per cent to 13 per cent.

The war has opened a huge gap in the public finances, as tax revenues fell and military spending skyrocketed. This increased the government's budget deficit from 4 per cent of GDP before the war to 27 per cent by 2023. The gap was covered by external financing from bilateral partners and the IFIs.

Continued external financing remains critical for macroeconomic stability. The authorities have performed well under the March 2023 IMF programme, successfully completing five reviews. Financing from the EU and the United States, which funded around 70 per cent of the $73.5 billion total in 2022 and 2023, was hit by delays at the start of 2024. The delays weighed on the exchange rate, which has weakened by around 10 per cent against the US dollar in the past year.

A new EU package of €50 billion for the period 2024-27 (about €16 billion to be released in 2024) was approved in February, followed by a US commitment of some $8 billion in April. Together with inflows from other bilateral and multilateral creditors, external financing is expected to fully cover the budget deficit in 2024, which is estimated to be $38.6 billion, or 20 per cent of GDP. Recently, G7 countries agreed a $50 billion loan secured with the income generated by immobilised Russian assets to provide funding for 2025.

Short-term economic prospects remain very uncertain. Improved exports, aided by the opening of a new Black Sea corridor, may be outweighed by electricity shortages. Labour shortages are acute, and further destruction of infrastructure and productive capacity is likely as the war continues. Amid these risks, GDP is expected to grow by 3 per cent in 2024 and 4.7 per cent in 2025.

1.3 Risks and uncertainties ahead

The crisis in Ukraine and escalating hostilities in the Middle East create uncertainties for projections covering the EBRD regions. Further geopolitical fragmentation poses another major risk to the outlook, which would impact trade, global supply chains and foreign direct investment flows. This would be particularly difficult for EBRD region countries that are strongly linked to international trade.

Persistently slow growth in Germany creates uncertainties for economies in emerging Europe, especially those which are deeply integrated with European supply chains. In Central Asia, economic prospects are threatened by weaker growth in China, as there may be less demand for these nations' exports and a consequent decline in foreign direct investment.

2. The Strategic Framework

2.1 Meeting the Bank's Mandate

The mandate of the Bank is to support the transition of its countries of operations towards a sustainable market economy. In delivering transition impact, the Agreement Establishing the Bank (AEB) requires the EBRD to adhere to two further principles: that the Bank should pursue sound banking, in keeping with the objective of financial sustainability, and be additional by providing finance on commercial terms not otherwise available from the market.

The EBRD's overarching transition goal is pursued through activities which are designed to improve the qualities that characterise a sustainable market economy. The application of the transition concept and associated transition qualities to the Bank's activities supports its countries of operations in developing economies which are competitive, well-governed, green, inclusive, resilient and integrated.

2.2 The Strategic Goals

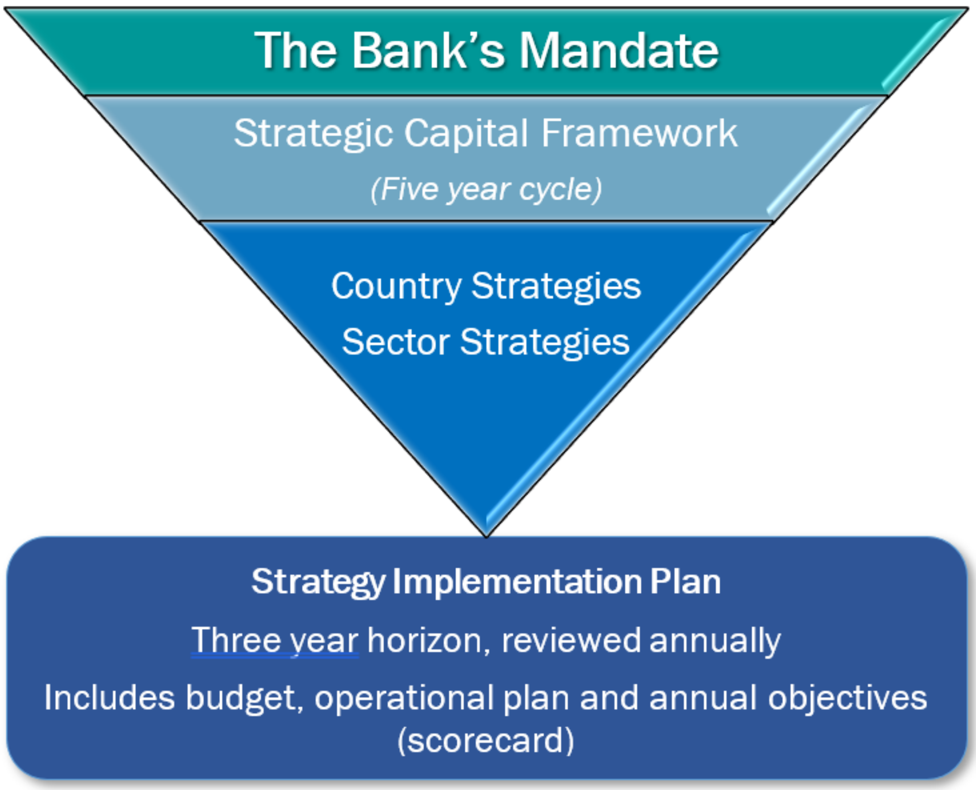
The fulfilment of the Bank's transition mandate is supported by a comprehensive strategic planning structure and a complementary set of strategic documents.

The foundation of the Bank's strategic approach is the Strategic and Capital Framework (SCF), which is anchored in an analysis of capital resources and the Bank's value added. This is approved by the EBRD's Board of Governors and sets the Bank's strategic orientation for the subsequent five years.

Country and sector strategies operationalise the directions provided by the SCF, by translating them into specific sets of actions and priorities tailored to the individual country or sector context. They are complemented by cross-cutting themed initiatives. Finally, the SIP sets out on an annual basis how the EBRD will implement these guiding tools in terms of specific business plans and the financial, resource and budgetary requirements to meet them. The SIP also defines Management's accountability to the Board for the year ahead, which is measured by a set of scorecard performance objectives.

The combination of medium term strategic orientation from the SCF with the annual

Figure 2.1 Strategic Planning: Building Blocks



implementation direction in the SIP gives the Bank the flexibility to pursue its goals even as circumstances change. The overarching theme of the SCF 2021-25 is for the EBRD to support its countries of operations in preserving and accelerating transition with a view to increasing resilience and sustainability.

The SCF contains a clear set of strategic operational, geographical, financial and institutional aspirations for the Bank in 2025 (for more details see the table in Annex 1). Together these goals provide the yardstick through which the Bank's success over the SCF period will be judged. Progress towards these aspirations was reviewed by the Board of Governors at the 2024 Annual Meeting. The overall conclusion was that the SCF approach had provided a consistent medium term anchor to the Bank's activities whilst allowing it be responsive to new and unexpected challenges including the unprovoked Russian invasion of Ukraine. In summary, the Bank's strategic direction across the SCF 2021-25 period has been to:

- **Be responsive and flexible:** in supporting all its countries of operations, with a particular emphasis on working with the private sector and increasing its activities in countries which are least advanced in transition, as well as enhancing the support available to any country that chooses to graduate.
- **Build on its strengths**: by expanding and deepening its work in supporting progress to a green, low carbon economy; further mainstreaming gender into the Bank's work and increasing its focus on combating inequality of opportunity.
- **Undertake new activity:** through the development of the Bank's systematic programmes to support digital transition and mobilise private finance and engaging in new countries of operations in its expanded geographic scope.
- **Strengthen its institutional capacity:** through enhancing the Bank's policy offer; invigorating its culture and conduct of monitoring, learning and evaluation; and putting in place the human and IT resources to deliver the strategy cost-effectively.

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 specific needs 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 annual Budget and Corporate Scorecard.

The achievement of transition is only fully realised at the individual country level. Accordingly, country strategies are integral to the 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.
- The **capacity** of the Bank to take advantage of those opportunities, based on its areas of expertise, business model 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. These dovetail with country strategies by outlining the ways in which the Bank will achieve transition impact, reflecting sector developments and transition challenges across countries of operations.

Box 2.1 Looking ahead to the Strategic and Capital Framework 2026-30

The Bank's next Strategic and Capital Framework (SCF) will be approved by the Board of Governors at the Bank's 2025 Annual Meeting in London and will be implemented through future Strategy Implementation Plans beginning in 2026. Preparatory work began following a discussion at the Annual Meeting in Yerevan in May 2024 and will continue to the end of the year. Reflecting the guidance provided in the approval of the 2023 capital increase the next SCF will broadly:

- Reaffirm the relevance and importance of the Bank's mandate to support the transition towards a sustainable market economy in its countries of operations and the approach to achieving impact.
- Confirm the Bank's ongoing commitment to exceptional support for Ukraine in wartime and reconstruction.
- Seek to deepen transition impact in the strategic areas of green transition, human capital and gender equality and economic governance, supported by the strategic enablers of the development and deployment of digital technology and private capital mobilisation.
- Reflect the Bank's commitment to a successful and impactful entry into new countries of operations in its expanded geographical scope of sub-Saharan Africa and Iraq.
- Continue the Bank's evolution and transformation to address the key concerns of shareholders efficiently and effectively working in close cooperation with others in the MDB system.

The SCF will set out the high level aspirations which the Bank will aim to achieve by the end of the period with delivery of those aspirations supported by individual strategies and approaches in specific areas.

2.3 Capital Needs

Shareholders provide capital to enable the Bank to deliver their objectives. This capital has been augmented over time with significant levels of retained earnings which together provide the basis for the EBRD's activities. This capital is leveraged to allow the EBRD to lend substantial sums and invest equity in its clients in countries of operations. Prudent limits are set to ensure that the Bank is financially sustainable and the risk of unexpected calls on further shareholder resources is minimised.

From time to time circumstances dictate the need for a higher level of capital in order that the Bank can meet shareholders' objectives. Russia's invasion of Ukraine in 2022 brought widespread devastation in that country as well as significant disruption to neighbouring economies. The EBRD is [one of] Ukraine's largest external investor[s] and has supported the country since its independence in 1991. As the war developed, its special role was supported generously by donors. Furthermore, in view of the ongoing conflict and the enormous future reconstruction task, the EBRD's shareholders approved a general capital increase (GCI) to provide a more stable source of funding for the Bank's activities in Ukraine. The GCI will allow the EBRD to use its balance sheet to continue supporting Ukraine during the war and significantly increase investment when security conditions improve, while also ensuring that the needs of other countries of operations are fully addressed.

2.4 Combining Policy Reform and Investments

A key feature of the Bank's approach is its capacity to engage effectively in policy work, which, when combined with investments, plays a critical role in driving long-term systemic change. The combination of policy work and investments is critical to advancing the Bank's strategic objectives, as promoting institutional reforms and enhancing the regulatory environment can lead to better business conditions and new investment possibilities. By working closely with local governments, the Bank provides expert assistance and helps guide reform efforts while remaining consistent with its investment activities.

The SCF underlined the importance of deepening this integration and enhancing the Bank's ability to monitor the impact of its policy engagement activities. Recent organisational reforms have streamlined policy coordination, improving how the Bank identifies priorities and the overall efficacy of its work. Strengthening the measurement of policy-related outcomes is a priority as part of the Bank's wider efforts to improve impact evaluation across all activities.

2.5 Country and Sector Strategies, and Market Transition

Country strategies provide a comprehensive framework for the Bank's efforts in each country of operations (CoO) over a five-year period. They describe the primary investment and policy objectives and are linked to the EBRD's Results Framework, giving a structured approach to decision-making based on transition qualities. The strategic directions established for each CoO include an analysis of economic and political impediments to market transition, as well as an assessment of complementarities with other IFIs and donor funding requirements.

Sector strategies complement country strategies by focusing on specific areas like energy, transportation and finance, while taking regional characteristics into account. Recently adopted country and sector strategies (including new Mining and Energy strategies approved in 2024) highlight SCF themes such as advancing the green transition, fostering inclusion and encouraging digitalisation. They also address new concerns, such as the long-term consequences of rising geopolitical uncertainty, financial instability, market disruptions and more frequent natural disasters induced by climate change.

Box 2.2 Improving the Qualities of Markets in Countries of Operations

Competitive

- The EBRD uses its specialist skills to help large corporations and SMEs develop and integrate into global value chains. This is accomplished through a range of financing methods, including direct lending, indirect finance, risk-sharing mechanisms, technical assistance and policy support.
- Improving governance and financial sustainability in state-owned enterprises (SOEs) remains a priority. Commercialisation and restructuring efforts remain at the forefront, along with encouraging greater private sector participation in state-dominated industries, particularly in countries in the earlier stages of economic transition.
- The EBRD is expanding its involvement in financial and capital market development, offering new financial products suited to evolving client needs, focusing on digitalisation and innovation.
- In line with SCF priorities, digital transformation is becoming a key part of new country strategies. This includes investments in digital infrastructure, along with advisory services to promote digitalisation in many sectors, improve data governance and strengthen cybersecurity.

Well-governed

- The EBRD focuses on improving the business climate in its regions by assisting with regulatory reforms in financial restructuring, insolvency frameworks, procurement practices, e-governance and digital trade initiatives, among others.
- Policy engagement activities, which are typically supported by donors, are elaborated in a variety of flagship programmes to advance the well-governed quality. Notable examples include the Investment Climate and Governance Initiative, the Green Cities Programme and the Legal Transition Programme.
- Furthermore, the EBRD prioritises efforts to attract foreign direct investment (FDI), which it achieves through better market infrastructure, legal reforms and tailored financing instruments for more sophisticated investors.

Green

- The EBRD's aim to invest 50 per cent of its Annual Bank Investment (ABI) in the Green Economy Transition (GET) is highlighted as a major priority in all new country strategies. The Bank actively helps countries reach climate commitments under nationally determined contributions, net-zero pledges and national adaptation plans.
- The EBRD's priority is to increase renewable energy capacity while also encouraging climate change mitigation and energy resilience improvements. Energy and resource efficiency are significant objectives that are supported by direct financing and flagship credit lines like the GEFF.
- The Green Cities Programme remains an important component of country strategies, addressing both investment and policy needs at the local level for green transitions.
- For countries more advanced in their transition, the focus is on innovation in green finance. This entails creating new financial instruments like green bonds, as well as establishing strong green commitments, accounting and monitoring systems.

Inclusive

- EBRD addresses inclusion gaps in its new country strategies by encouraging human capital development and access to economic opportunities. Key aims include increasing access to skills and employment, services and finance, as well as reducing regional disparities. These goals are reflected in country strategies through targeted investment programmes, technical assistance and a variety of innovative policy interventions.
- A focus is on assisting refugees, internally displaced people and communities whose livelihoods have been disrupted by conflict, as well as those affected by climate change and severe weather events.

Resilient

- New country strategies address resilience by focusing on climate-resilient infrastructure, disaster preparedness, and improving operational resilience at both the national and municipal levels.
- Countries most affected by the war on Ukraine and other regional conflicts have prioritised energy sector resilience and security.
- Market disruptions have resulted in a greater emphasis on resilience in country strategies, with an increased need for trade finance, working capital and other short-term financial resources.

Integrated

- Under the integrated quality, the EBRD's operational focus remains the development of sustainable transport, commerce and logistics infrastructure to improve economic and trade integration in its operating countries. This is supplemented by targeted technical assistance aimed at increasing institutional capacity for preparing and executing large infrastructure and energy projects.
- Telecommunications, technology-based solutions, cyber-secure systems and integrated ICT services all receive special attention. This is pursued through investments and policy engagement to assist digital transformation, including, where applicable, collaboration with SOEs. The EBRD remains committed to meeting the growing demand for digital infrastructure in underdeveloped and rural areas, as well as promoting digital accessibility across its regions.

2.6 Balancing Risks, Impact and Profitability

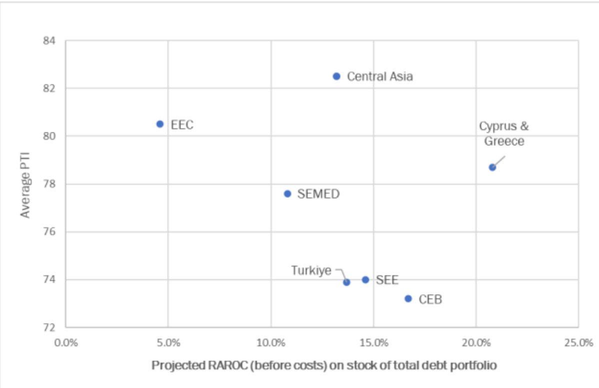
The EBRD is a development institution with a private sector focus. It is quintessentially an impact investor, taking on risks with its partners and making profitable investments which carry transition impact and are additional. Sound banking in its projects underpins medium term financial sustainability, ensuring that the Bank's administrative costs are covered and that it can gradually expand its operations based on its capital accumulation capacity.

This section illustrates how the dual objectives of impact and financial sustainability are balanced in the Bank's portfolio. The geographical pattern of the Bank's activity in some important strategic dimensions is also presented.

A balanced portfolio

The SIP looks forward to propose the Bank's annual objectives for a specific year in the context of a medium-term projection of the Bank's activity. This planning is informed by the state and performance of the Bank's current stock of activities – both investment and policy work – contained in its portfolio. This stock of activities determines the Bank's achievement of transition impact and its financial sustainability. The SCF also provides a number of thematic objectives for the Bank to pursue in its delivery of transition impact. Reconciling this multiplicity of goals requires the Bank to maintain a balanced portfolio.

Figure 2.2 Transition Impact and Financial Performance: Full Portfolio 2023



The Bank's financial strength supports and enhances its continued ability to achieve its transition mandate. The charts in this section show two views of the distribution of transition impact and financial performance by region. Figure 2.2 presents the relationship between transition impact and financial returns for the current debt portfolio, as measured by Portfolio Transition Impact (PTI)[4] and projected portfolio Risk Adjusted Return on Capital (RAROC) before costs.

The distribution shown in the chart illustrates the balancing of the Bank's objectives at the portfolio level. On the one hand, lower RAROC is accompanied by a higher and rising level of PTI in the EEC region, reflecting the recent war on Ukraine. On the other hand, RAROC has been strong in CEB with lower PTI. Returns are notably high in the Cyprus and Greece portfolio where there is a large share of low risk transactions in the financial sector.

Figure 2.3 Transition Impact and Financial Performance: New Projects 2023

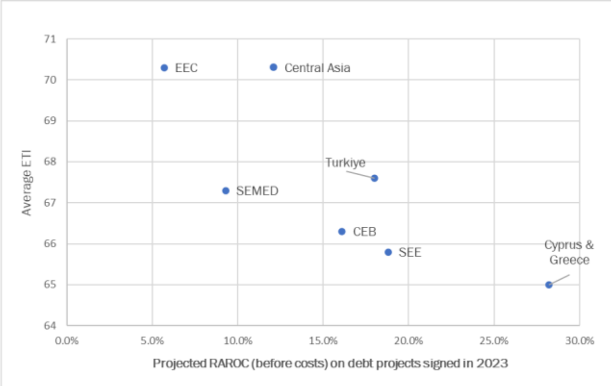


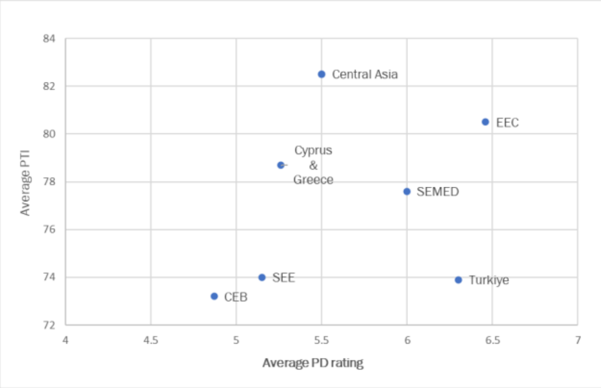
Figure 2.3 shows the financial and transition characteristics of new debt projects signed in 2023 by region. The picture is consistent with that presented at the portfolio level. Relative to 2022 the regional levels of Expected Transition Impact (ETI) are broadly similar although markedly higher in Central Asia and a little lower in SEMED. RAROC levels remain high in CEB and SEE but are lower than the exceptionally high returns last year perhaps suggesting a reduction in the level of market risk aversion in these regions.

As a complement to this analysis, Figure 2.4 shows the distribution of probability of default (PD) risk ratings and portfolio transition impact (PTI) by region within the portfolio, to assess the relationship between risk and impact, as opposed to financial return. It shows some

[4] PTI measures the performance of projects against transition ambitions set at the beginning of the project.

evidence that where the Bank takes on more risks transition impact tends to be higher. Nevertheless, analysis at the individual project level illustrates that better financial risk ratings and commercially strong clients are typically associated with a higher likelihood of transition success. This reflects the strong connection between good commercial outcomes and client alignment with positive changes supported under transition objectives.

Figure 2.4 Transition Impact and Client Probability of Default by Region 2023



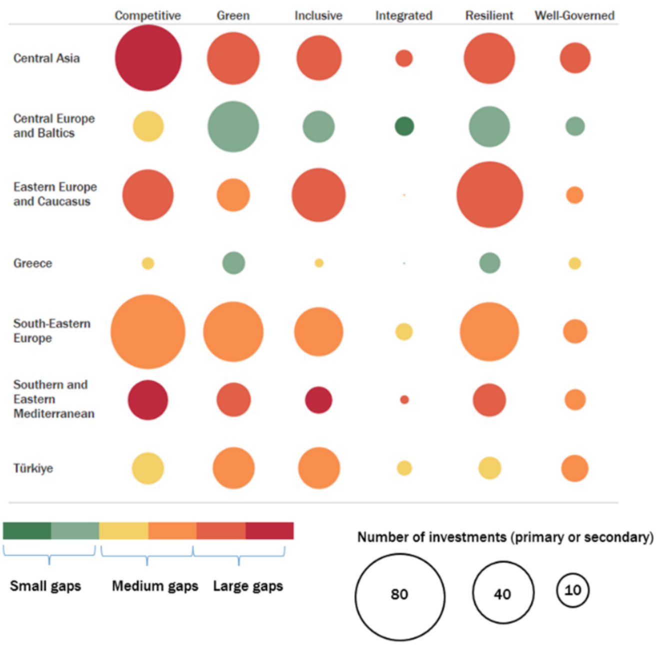
Delivering on multiple objectives and where it matters most

From a different perspective, Figure 2.5 shows the Bank's projects across transition qualities and regions. The bubble's size indicates the number of projects committed in 2023, and its colour represents the magnitude of the transition gap based on the annual Assessment of Transition Qualities (ATQ) exercise[5], with red suggesting big gaps, yellow and orange denoting medium gaps, and green illustrating lesser gaps. The chart shows how transition qualities connected with these signings vary by location, with the Bank actively addressing all six qualities (though less Integrated).

In 2023, the Bank devoted 89 per cent of its investments to countries and transition areas with medium or large transition gaps (low ATQ ratings), with 36 per cent aimed at large gaps. Large transition gaps are found in SEMED, Central Asia and the EEC regions.[6]

In the context of transition and crisis-related challenges, the most commonly targeted purpose of new projects was to boost competitiveness (Competitive transition quality), while the proportion of projects with Resilience objectives climbed to second highest. Projects supporting Integrated and Well-governed objectives, with a focus on improving client corporate governance and increasing trade and infrastructure connectivity between countries, featured less prominently in 2023. However, significant improvements in governance, at the national or subnational level, can be facilitated by policy initiatives that are not directly linked to specific investments and are not included in these data.

Figure 2.5 Annual Investment by Transition Quality (primary or secondary) and Region 2023



In addition to the foundational goals of achieving high levels of transition impact and maintaining the Bank's strong financial position, the SIP and the proposed plan for 2025 include specific objectives for the shares of green and private sector investment in ABI. These reflect commitments made in the SCF itself.

Table 2.1 presents the shares of each in ABI by region in the past two years. It shows that the GET share met the 2023 scorecard target, with climate finance accounting for half of the Bank's annual investment as the Bank maintained its focus on green economy financing. In 2023, the

[5] ATQ scores are based on a wide range of external and internal data sources. For each transition quality, progress is assessed on a scale of 1 to 10, where 1 denotes the worst possible performance (largest possible transition gap) and 10 corresponds to the standards of a sustainable market economy (no transition gap).
[6] Note that if a region has Medium gaps on average, individual countries within that region may still have Large gaps, e.g. Kosovo in the South-Eastern Europe region under the Green quality.

Table 2.1 GET and Private Sector Shares, per cent

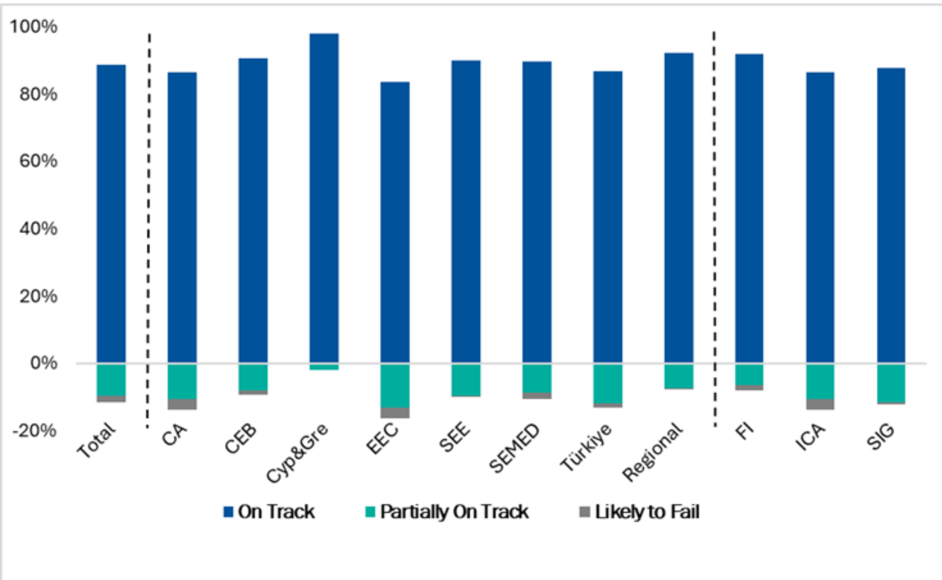
	GET Share in ABI		Private Share in ABI	
	2022	2023	2022	2023
Central Asia	67%	59%	58%	71%
Central Europe and Baltics	70%	76%	95%	93%
Cyprus and Greece	55%	53%	100%	100%
Eastern Europe and Caucasus	22%	30%	43%	61%
South-Eastern Europe	51%	48%	75%	60%
Southern and Eastern Mediterranean	42%	24%	70%	92%
Türkiye	51%	58%	95%	91%
EBRD	50%	50%	74%	80%

Bank's private sector share exceeded the SCF's aim of 75 per cent in ABI. Significant support for public sector activities in Ukraine, including on large energy infrastructure projects, continued to have a negative impact on both Green and private shares, as evidenced by the low shares in Eastern Europe and Caucasus in the table, though there was an improvement in 2023. The sharp drop in SEMED's GET share in 2023 was due to a concentration of activity in the financial institutions sector where green investments tend to be lower than elsewhere.

The successful implementation of transition objectives is an important indicator of the Bank's planning effort. Figure 2.6 shows that 88 per cent of the projects in the Bank's mature portfolio are on schedule to meet their transition goals. Geographically, projects are performing well in Central Europe and the Baltic States, South-Eastern Europe, and SEMED (as well as Cyprus and Greece where project numbers are small). More than half of the 27 projects that are likely to fail are in Central Asia and the EEC, which have higher transition gaps. The war on Ukraine has had a significant impact on EEC projects.

Performance is good in all sectors, especially so among financial intermediaries where more than 90 per cent of projects are on track. The corporate sector accounted for half of all projects which are likely to fail. These are primarily older projects (10+ years in implementation) that have been held back by several challenges, including political instability, the war on Ukraine, integrity and corporate governance issues, inadequate growth and financial difficulties.

Figure 2.6 Transition Impact Performance of mature[7] projects, 2023



[7] All projects which are active and at least two years post-signing as of the start of 2023. FI is Financial Institutions, ICA is the Corporate Sector, and SIG is the Sustainable Infrastructure Group.

Overall, the Bank's goals and portfolio balance are achieved by a combination of factors and diligent planning. The EBRD works hard to maximise its transition and financial success while balancing its objectives, taking into account the SCF's geographic, thematic and sectoral aspirations, as well as lessons learned from past performance. The SIP reflects the balance of these forces.

3. Responding to Client Needs: The Operational Plan

Introduction

Russia's unprovoked war on Ukraine has taken its toll on Ukrainian citizens, depriving them of peaceful and prosperous livelihoods, laying waste to swathes of land and enterprise, and destroying vital infrastructure on which the economy depends. Despite almost three years of conflict, there appears to be no quick end to the war, and the hoped-for phase of reconstruction cannot begin until Russia stops its assault. During this time, the EBRD has provided steadfast support to Ukraine, deploying €5 billion of financing to financial institutions and companies to assist Ukrainian businesses and giving advice on governance and market reforms.

The Bank's focus on Ukraine will continue, aided by the €4 billion capital increase agreed in 2023. The difficult security situation continues to constrain the Bank's activities and adds to the costs. Nonetheless, this SIP's operational plan seeks ABI of around €1.5 billion in 2025, a comparable amount to 2024, before accelerating during the SIP period, provided reconstruction can begin at some point.

Alongside the substantial efforts in Ukraine, the Bank's activities have grown elsewhere. In the period just ahead of the Covid-19 pandemic ABI averaged around €10 billion[8]. By 2022 it surpassed €13 billion, and in 2024 is likely to comfortably exceed €14 billion, if not more, driven by high demand, especially in countries affected by the conflict.[9] If achieved, this would be an increase of well over 30 per cent in just three years. Nearly all EBRD regions are contributing to this success. As the projections at the end of this Chapter show, this pattern of strong growth is expected to continue, with ABI at the upper end of the projection for 2027 well in excess of €15 billion. This would result in annual business volume more than 50 per cent higher than when Covid struck. Some of the increase reflects higher prices but real Bank activity has grown rapidly and will continue to do so supported by its policy and advisory work.

The Governors decision to ask EBRD to expand its activities in a limited and incremental way to SSA and Iraq also implies additional growth for the Bank. Although this will be small to start with, development of a healthy project pipeline is projected to yield ABI of more than €1 billion by 2027. To achieve this, considerable upfront investment is needed in setting up local offices, mapping investment opportunities, promoting the EBRD's value proposition and developing relationships with new clients and authorities.

As the Bank expands, it will continue to meet SCF objectives for green transition, inclusion, digitalisation and the mobilisation of private capital. More than half of EBRD's business volume and mobilised finance is green certified, and all its investments are Paris aligned. The Bank remains at the forefront of MDB action on climate change and is playing a leading role in MDB discussions on mobilisation. Higher investment volumes also apply in EBRD's priority countries, where the majority of projects are located. Inclusion and gender-tagged projects are rising sharply while digitalisation efforts are coming to fruition.

A growing Bank faces the challenges of additional processing volumes while maintaining its high control standards. A corollary of rising business volumes and sought-for impact is more processing and middle/back-office work. The burdens are compounded by expanding sanctions and regulatory requirements, increasing reliance on donor support and especially the need for digital security across the Bank and physical security in many of its countries of operations. However, the major transformation work to improve and safeguard operations systems, reduce operational risks and deliver efficiencies, which has been a feature of recent SIPs including this one, continues. Operational risks remain but are kept under close scrutiny.

As the Bank enters the final year of the SCF 2021-25, it is on course to deliver its objectives, setting the stage for a new SCF 2026-30. This Chapter presents the operational plan for 2025 and the rest of the SIP period in detail, without prejudice to decisions on SCF 2026-30. The Bank is delivering more and better, and the plan

[8] Average ABI during 2017-19 was €10.1 billion, and €10.6 billion between 2017-21.
[9] The volume of investment in these countries was up 19 per cent year on year at end Q3 2024.

shows how it will continue to do so in the coming years.

3.1 Supporting Ukraine and clients affected by the war

Shortly after Russia's launched its unprovoked war on Ukraine in February 2022 the Bank created a €2 billion Resilience and Livelihoods Framework (RLF) to support Ukraine and neighbouring countries affected by the conflict. The RLF was increased to €4.5 billion in March 2024, of which €3.1 billion or 69 per cent had been used by September 2024.

Since the start of the war, the Bank has deployed more than €5 billion in Ukraine, focusing on energy security, vital infrastructure, food security, private sector resilience and trade facilitation. The Bank's investments have been divided between public and private sectors, with nearly 90 per cent of projects in the private sector.

Public sector financing includes €878 million deployed in the energy sector, €689 million in natural resources, €558 million in transport and €109 million in municipal infrastructure. Private sector support includes €875 million in corporate sectors, €578 million in the financial sector and €165 million for sustainable infrastructure projects. In addition, turnover under the Trade Facilitation Programme (TFP) has exceeded €1.2 billion.

In 2024, the EBRD continued to support the real economy, with annual finance deployed to Ukraine reaching €1.3 billion by end-September through 44 projects mostly in the private sector, including TFP turnover of more than €0.3 billion.

In 2024 investments included €421 million for energy security, vital infrastructure and liquidity support through emergency restoration of two Ukrydroenergo hydropower facilities, as well as investments in Galnaftogas biofuel production, Nova Poshta's logistics network and equity in Goldbeck Solar power plant development. The Bank also provided finance to Ukrainian municipalities for infrastructure and winter preparation.

Support to the private sector, provided through direct investments, guarantee facilities and SME credit lines, amounted to €523 million, prioritising food security by supporting agribusinesses, along with investments in pharmaceutical companies and enhancing telecom infrastructure. A landmark transaction in the Telecommunications, Media and Technology sector involved financing for the merger of Datagroup-Volia and Lifecell. Signed facilities in the financial sector will enable €785 million in new lending by partner financial institutions (PFIs) in Ukraine. The Bank is considering supporting wood, paper, and building materials industries as they work to re-establish their production bases and exploring financing for private residential buildings to address acute housing shortages.

The Bank launched two new financing windows under its portfolio risk sharing instrument in 2024: Veterans Reintegration and Enterprise Renaissance, which supports MSMEs that suffered war damage and provides incentives for the reconstruction of their businesses as part of the EU4Business initiative.

An Energy Security Support Facility (ESSF), a €700 million dedicated programme to improve Ukraine's energy security through intermediated finance, was launched in September. The ESSF will aid MSMEs, corporates, SOEs and households in energy projects through PFIs, providing funding, technical assistance and incentives for vulnerable borrowers.

Throughout 2024, there has been significant progress in driving forward policy reform objectives outlined in the EBRD's GCI commitments. The SOE Corporate Governance Law was successfully adopted by Parliament, and governance support initiatives are advancing rapidly with a new State Ownership Policy designed to deliver better managed and more transparent SOEs. The Bank is also working to encourage no deviation from OECD principles and adoption of best corporate governance practices.

Furthermore, significant strides in anti-corruption measures and corporatisation at major SOEs, like Energoatom and Ukraine Railways, benefitted from focused EBRD's assistance. Despite political delays, efforts to improve transparency and procurement practices at the Agency for Restoration are continuing, while projects supporting financial resilience and EU alignment are on track. The Ukraine Reform and Recovery Architecture (URA) Programme has delivered critical support to public administration and facilitated international assistance and reform prioritisation.

By the end of 2024, the Bank will have strengthened human capital resilience, governance, financial capacity and the flow of domestic finance. It will have helped to preserve livelihoods and enable the government to meet policy reform deadlines under commitments such as the EU-Ukraine Plan. Going forward, the effectiveness of the Bank's contribution in Ukraine will depend on various factors, including the security situation and ability to repair war damage, workforce depletion, reform willingness and partner support.

In 2024 the Bank's regular missions to Ukraine became longer and more frequent, with more staff participating than in 2023. Despite ongoing conflict, the Bank will maintain its activity at a high level and focus on urgent needs. A prolonged war, however, may limit the scope of its goals. A better security situation and peace would allow the EBRD to focus its activities and financial commitments on reconstruction and the regeneration of Ukraine's economy.

Clients beyond Ukraine affected by the war

In addition to its dramatic impact on Ukraine, the conflict created significant challenges for neighbouring countries. These range from the impact of the forced displacement of people from Ukraine (most of them women and children) to the economic consequences of the conflict: inflation fuelled by an energy and food security crisis, increases in interest rates and reduced access to capital, shortages of affordable housing, the suspension of key trading routes and disruption to international supply chains.

As a result, investor sentiment towards countries affected by the conflict weakened, with a significant increase in demand for EBRD financing. In response, the Bank has pursued investments in these countries, focused on energy security, the sustainable provision of national infrastructure, capital markets and strengthening financial intermediaries. The Bank also financed projects which facilitated refugee integration in sectors such as manufacturing, agribusiness, property and tourism, engaging as appropriate at the city, region or country level.

This direct support generated an unprecedented increase in EBRD investment across the 12 affected countries of Central Europe and the Baltics (Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia), south-eastern Europe (Bulgaria and Romania) and Eastern Europe and Caucasus (Moldova). Demand for EBRD finance has remained strong throughout 2024, including for debt capital issuances in some markets, and this is expected to continue in the near term. Over time, as financial flows return to more typical levels and recovery proceeds, transition business opportunities and Bank activity in some of these countries may moderate. Going forward, the Bank expects to focus on energy security (including investments in renewables, transmission and distribution systems), infrastructure development (such as improved logistics and transport links, e.g. between Ukraine and Moldova) and access to finance and capital markets.

3.2 Progressing the SCF

3.2.1 Green Economy

The Bank's GET Approach 2021-2025 aimed to operationalise Paris alignment, increase the share of green investments to at least 50 per cent of ABI and enhance country and policy work in core thematic areas. Between 2021 and 2023, the Bank's green finance commitments exceeded 50 per cent of ABI each year. A record €6.5 billion of green finance was delivered in 2023, accompanied by record levels of direct and indirect private capital mobilisation totalling €21.2 billion. Meanwhile, so far in 2024 (to end-September), the Bank's green finance commitments totalled €4.9 billion, compared with €4.5 billion in the same period in 2023, confirming a strong position to again meet the scorecard target that at least 50 per cent of ABI is GET finance.

The world is approaching the final five years of what is described as the 'critical decade' for meeting the Paris Agreement temperature targets, with the carbon budget available before the 1.5°C goal is breached likely to be exhausted before 2030. The planet has already experienced its first 12-month period (May 2023 to April 2024) with an average temperature above the 1.5°C objective, reaching 1.61°C. Against this backdrop, countries will submit new Nationally Determined Contributions (NDCs) in early 2025 and, at COP29 in Baku this November, are expected to set a New Collective Quantified Goal on Climate Finance (NCQG) to replace the current $100 billion annual climate finance objective.

The Independent High-Level Expert Group on Climate Finance (IHLEG) estimates that low- and middle-income countries (excluding China) need an average of $2.4 trillion per year by 2030 for climate action. This implies that the EBRD region, including Sub-Saharan Africa and Iraq, may need climate finance of up to $0.5 trillion annually by 2030. This far exceeds the Bank's own investment capacity. Consequently, the EBRD intends to maintain its focus on mobilisation - particularly from the private sector, which is the largest and most scalable source - as well as increasing policy engagements to develop regulatory frameworks that unlock green investments.

In this context, as well as continuing to meet the SCF goal of positioning the EBRD as a majority green bank, priorities for 2025, the final year of the current SCF, are:

- **Scaling up**: The Bank is progressively focusing on programmatic approaches that combine policy dialogue with investments, such as country-sector platforms, Green Cities, Green Economy Financing Facilities and Renewable Energy Programmes. The Bank is currently funding two country-sector platforms in the energy sector, in Egypt and North Macedonia, and exploring others, such as an industrial decarbonization platform in Türkiye. The Bank assists its countries of operations to scale up by developing national and sectoral green transition strategies, low carbon pathways, sectoral regulations and green capital markets. It works with financial institutions and corporations to produce Paris-aligned transition plans, as well as with municipalities to develop Green City Action Plans. Innovative capital market tools, such as climate resilience bonds and sustainability-linked products, also help to raise private capital. Efforts by the Bank to scale up climate finance through policy work and client support are resource-intensive and require active in-country engagement as well as strong political ownership by governments.
- **Increasing adaptation and nature financing**: As the frequency of climate-related disruptions grows, the Bank anticipates rising demand for adaptation financing. Starting in 2023, the Bank has reviewed every new project for consistency with the Paris Agreement's adaptation goals, leading to an increase in adaptation projects, which reached 76 in 2023. However, adaptation and nature finance remain primarily public sector-led operations with difficult commercial business cases to support investment. The Bank followed its Climate Adaptation Action Plan published at COP27 with the launch of its first Approach to Nature at COP28. This prioritises the strengthening of due diligence practices, policy dialogue in key areas like blue-green infrastructure and the circular economy and disclosure of nature-related information by clients.

3.2.2 Equality of Opportunity

EBRD's strategies and initiatives prioritise equality of opportunity, thereby enhancing investments and supporting inclusive and gender-responsive policies. This is achieved through continuous review and updating of the Bank’s human capital contributions at project and country levels, alongside close cooperation with key partners like UNWomen and 2X Global.

Equality of opportunity can be impacted both by personal characteristics, such as gender and place of birth, and external circumstances like climate change, war, automation and natural disasters. Difficult situations like these, which have become increasingly prevalent, create additional challenges for individuals to realise their full potential and establish sustainable livelihoods. The EBRD’s Equality of Opportunity Strategy (EOS) and Strategy for the Promotion of Gender Equality (SPGE)[10] address these challenges by adopting a programmatic approach focused on people and protecting human capital rather than targeting specific groups. This better reflects the realities faced by clients and households in EBRD regions and offers a more relevant framework for designing effective support measures.

The war on Ukraine accelerated the need for a human capital approach, including support for war veterans’ reintegration and financial inclusion, placing the EOS at the heart of the Bank’s crisis response. But it applies elsewhere too, for example in reacting to earthquakes in

[10] Both strategies are for 2021-2025.

Morocco and Türkiye or the influx of refugees into Armenia. In the case of climate change, Just Transition plans, which are often part of larger country platforms (e.g. in North Macedonia, Egypt), support clients and policymakers in ensuring workers, communities and regions are not left with stranded skills and livelihoods during the green economy transition. Similarly, by promoting responsible AI and digital technologies, and equipping people with skills and access to new technologies and infrastructure as well as finance, the EBRD supports human capital development for a more equitable digital transition.

This approach has increased the number of inclusive projects substantially, with 102 projects signed by Q3 2024, or just over one-quarter of the Bank total. The improvement (15 per cent upon a year earlier) was driven mostly by the continued effort to protect human capital in Ukraine as part of the Bank's crisis response. The number of gender SMART investments has also increased, by more than one-third over the same period and is ahead of the 2024 scorecard target of 35 per cent. The increase was facilitated by new or enhanced operational models, including a client relationship approach in the FI sector which supports gender action plans, the scaling up of inclusive and gender smart infrastructure procurement, and a strong focus on gender smart green finance (e.g. as part of Green Cities programmes, GEFFs or Renewable Energy Frameworks). The Bank's capacity building programme, the Gender Academy, also supports this progress through a broad range of modules, contributions from 80+ Gender Champions across the Bank and engagement with sector and RO banking teams.

For 2025, the Bank reaffirms its SCF commitment to mainstreaming gender by raising the annual gender-tagged scorecard target to at least 40 per cent of projects, up from a minimum of 35 per cent in 2024. The Bank will continue to protect human capital development in Ukraine and other crisis-affected regions, scale up key programmes like Inclusive Finance, Just Transition and Inclusive Regions, and explore new opportunities through early engagement in SSA and Iraq. In addition, the Bank will deepen its engagement with clients across key thematic areas by aiming to:

- Protect livelihoods and jobs in response to crises, especially women, focusing on vital services, MSME finance and skills.
- Support companies to scale-up Just Transition through Green Cities and FIs.
- Expand client-led care economy solutions across countries of operations and scale up engagement on sexual orientation and gender identity (SOGI) inclusion across sectors.
- Promote skills governance and inclusive and gender-responsive financial systems (We-FI).

The Action for Equality and Gender (A4EG) Fund, created in 2023, has enabled effective resource mobilisation and deployment of donor funds, despite limited funding in some regions. The Bank's growing portfolio of inclusive and gender SMART projects, especially in crisis-affected regions, as well as its ambitions in SSA and Iraq, will put pressure on resources to deliver and monitor impactful projects and policy engagements. Whilst donor collaboration is good, the EBRD's GEI function remains fragile and highly donor dependent. Continued capacity building is another crucial element for the future design and delivery of impactful gender projects and policy engagements.

3.2.3 Digital Transition

The SCF 2021-25 launched a comprehensive set of activities to help countries of operations leverage the digital transition. The Approach to Accelerating the Digital Transition outlines how the Bank can use its investments, policy advice and advisory services to build and foster three areas of focus, ensuring digital transformation is an enabler of EBRD's transition mandate:

- **Foundations** of a sustainable and inclusive digital economy by promoting appropriate policies and regulation, access to connectivity through the creation of infrastructure and a skilled workforce.
- **Adaptation** in organisations by providing access to finance and knowledge to incentivise the digitalisation of services, assets, business processes and value chains.
- **Innovation** through start-up friendly ecosystems and meeting specific financing needs via debt financing and direct and indirect equity investments.

Between 2022, the first year of the Approach's implementation, and by end-September 2024, thanks to efforts across both Banking and Policy departments, the EBRD signed more than 120 investments with a digital component, approved over 80 policy engagements and provided some 2,200 advisory services to support SMEs' digital transformation.

Implementation of the Approach to Accelerating the Digital Transition is a Bank-wide initiative. Today, the Digital Hub oversees the integration of the Bank's digital objectives, assures programmatic delivery in collaboration with Banking teams, pilots new scalable and resilient initiatives, and leads engagement with internal and external stakeholders. In 2024, the Digital Hub targeted activities that continued to expand EBRD's business potential and reviewed the Approach's commitments with assistance from a Bank-wide working group to establish future priorities. These will be reflected in SCF 2026-30, which is expected to position the digital transition as a strategic enabler of the Bank's transition mandate.

The EBRD's Digital Hub is delivering products, toolkits, and guidance notes to incorporate digital dimensions into the Bank's investments and technical cooperation work and to support banking and policy units in implementation. Among its contributions are:

- The Cybersecurity Resilience Programme to assess cyber-risks in EBRD investments and suggest mitigation actions, while a new Digital Transformation Support Programme improves clients' digital capacity and risk management.
- Collaborations with the Sustainable Infrastructure Group to build digitalisation toolkits for clients across all infrastructure and energy sectors and with the HR Department to design and deliver a tailored learning programme for EBRD's 54 Digital Champions Network who play a key role in embedding digital transition objectives at a project level.
- Mainstreaming digital considerations across the Bank's transition impact architecture, enabling more effective measurement of results. To this effect, in February 2024, the Digital Hub and Impact team updated the assessment methodology to acknowledge the link between digital transformation and transition impact across EBRD investments in all sectors.

The Digital Hub will continue to monitor and leverage opportunities provided by new digital technologies for clients across its countries of operations, given the fast pace of technological change.

3.2.4 Mobilisation

The mobilisation of private resources allows the EBRD to increase its impact by multiplying the amount of finance it can make available to clients and through building new markets and expanding the range of investor classes in its regions.

The Bank's Mobilisation Approach, which operationalises the SCF 2021-25 commitment to develop a comprehensive approach to the mobilisation of third-party capital, set an ambition to double the level of Annual Mobilised Investment (AMI) by the end of the SCF period and was enhanced by policy commitments made under the GCI to reach at least €2.5 billion by 2025, with annual green AMI to be no less than half this amount.

Delivery under the Mobilisation Approach has progressed well and has strengthened EBRD's mobilisation capacity considerably. Despite challenging economic circumstances, including the war on Ukraine, the EBRD achieved AMI of €2.8 billion in 2023, of which more than half was GET AMI, and is on track to exceed the Bank's ambitions in 2024. A target of €2.8 billion for AMI is set for 2025, more than 10 per cent higher than the GCI commitment, illustrating the continued ambition in this area.

Mobilisation captures a wide range of EBRD aspirations by leveraging the Bank's balance sheet effectively, stimulating private sector appetite, serving as a risk management and benchmarking tool and by catalysing systemic change to economic structures. As the established KPI for measuring mobilisation in the corporate scorecard, AMI is a critical and necessary tool to incentivise some of these goals.[11] AMI is a mobilisation metric specific to

[11] As set out in the Review of Corporate Scorecard (BDS20-147/F) and in the Strategy Implementation Plan 2023-2025 (BDS22-175), AMI is attributed by management to financing which meets Board-approved AMI criteria. These are included for information, when known at the moment of Board submission, in Board documents for the relevant

the EBRD reflecting the Bank's direct involvement in mobilising finance while measures of direct and *indirect* private mobilisation are reported annually in a joint MDB report using a commonly agreed methodology.

The EBRD delivered €23.4 billion of Private Indirect Mobilisation (PIM), the harmonised MDB indicator, in 2023, of which €19.4 billion was estimated GET PIM. Comparable figures at end-September 2024 were €14.6 billion and €9.9 billion respectively.

The way EBRD and other MDBs and DFIs capture mobilisation evolves continuously, driven by stakeholder demands, market developments, measures to safeguard against crises and economic downturns and, most importantly, the need to leverage private investments effectively. In turn, EBRD's own mobilisation metric, AMI, requires refinement from time to time to adapt to these developments. Annex 2 provides an updated definition of AMI based on refinements to existing products, lessons learned, and new categories of private mobilisation not captured by the existing definition.

The AMI definition was adjusted in 2023 away from a narrow syndication-led view and towards a holistic interpretation of EBRD's overall activities in mobilising third party funds. EBRD is currently co-leading an MDB/DFI initiative to update the joint-MDB mobilisation definitions with an updated reference guide due in the first half of 2025. This will likely lead to further updates to EBRD's own AMI definition, to be presented as part of SCF 2026-30.

The innovation and deployment of new mobilisation products is ongoing. Non-Payment Insurance (NPI) was launched as a new insurer mobilisation product in April 2023, on an initial pilot basis. The Bank is currently considering mainstreaming the product. This will increase the pool of insurers which EBRD can access, in turn increasing mobilisation capacity, especially for ETCs and local currency transactions, while delivering operational efficiencies and premium competitiveness. Deployment of blended finance products launched in 2023, EFSD/+ for B loans and Climate Syndication Platform (CSP), is also progressing, with an additional donor-funded resource dedicated to the latter. These will broaden the scope for mobilisation to include transactions which would otherwise not be placeable with private investors.

Following efforts to grow EBRD's advisory business in the complex area of creating markets for PPPs and energy auctions, the Renewable Energy Auction Advisory programme generated €195 million AMI in 2023 and €118 million in 2024 so far.

On new product development, the Bank is assessing its operational capacity to accommodate Synthetic Risk Transfer (SRT) issuances, with a possible first EBRD SRT issuance in the second half of 2025. An external fund manager for EBRD's B loan debt fund is being sought to develop the concept, with a cost-benefit analysis and potential approval to proceed in the first half of 2025.

3.2.5 Support for Less Advanced Transition Countries

The Bank's mission to support the transition towards sustainable market economies is especially valuable in less advanced transition countries where development needs are high and capacity for reform is often limited. Over a long period, the Bank has worked to tailor its toolkit through innovation and adaptation to address the challenges in these nations. The SCF set out the Bank's aim to increase the proportion of its investment activities in these countries, recognising that investment levels depend on the overall business and reform environment.

Many less advanced transition countries are small economies facing difficult business environments. They require significant investment financing assistance, particularly in view of weak financial intermediation arrangements. Furthermore, SMEs form the largest part of the private sector and EBRD financing facilities can offer these enterprises vital support. Management pays particular attention to these dimensions in these regions through well-targeted country strategies and by investing in a wide range of sectors and supporting local entrepreneurs and reform-minded authorities.

Less advanced transition countries have relatively low incomes per capita and weak market structures, institutions and behaviours.

projects. All AMI amounts are reported in detail to the Board in the annual update from Debt Mobilisation to the FOPC. For details of the present definition of AMI see Annex 2.

Among the EBRD's countries of operations, Early Transition Countries (ETCs), SEMED and Western Balkans countries (ETC+ countries) broadly fit this category. SIP 2025-27 supports the Bank's engagement in these countries through its commitment of substantial resources and planned further investments and other activities.

The Bank's commitment to these countries is manifested by the fact that in 2023, 56 per cent of EBRD projects by number were invested in ETCs, SEMED and the Western Balkans; and so far in 2024, 223 projects have been signed, 28 per cent higher than in the same period in 2023. The Bank's effort to improve delivery, including through the allocation of staff to resident offices and development of local currency options, will continue in 2025 where a clear majority of the Bank's operational resources will be devoted to helping the transition of these countries.

Resources allocated to SCF priorities – in particular GET, energy efficiency, renewables activities, climate risk assessment, inclusion projects to support women businesses, training opportunities for young people and digital transition – are also making important contributions to developing the Bank's engagement in less advanced countries. Similarly, resources in key delivery enabling functions will continue to proportionally support finance, IT platforms, due diligence and control processes associated with transactions in ETC+ countries.

Furthermore, significant policy engagement continues to be focused on these countries, helping to drive policy reforms and open up investment opportunities, and thereby increases the Bank's systemic impact.

The Bank reaffirms the SCF scorecard share target for ETC+ countries of 48 per cent of total ABI and will endeavour to meet it in 2025. Despite record deliveries of volume and numbers of projects in ETC+ countries, achievement of this ratio target has been made technically more difficult since 2022 as a result of the significant efforts to support Ukraine and countries affected by the conflict, most of which are not included in the ETC+ group, thereby diluting the share ratio.

In 2023, the Bank invested the substantial amount of €5.2 billion in ETC+ countries and is on course to match and probably surpass this level in 2024 with ABI reaching €3.6 billion at the end of Q3 2024, an increase of 16 per cent on the same period in 2023.

Irrespective of the share target itself (which for now remains set nominally at 48 per cent), ABI volumes in ETCs, SEMED and the Western Balkans are expected to grow further in 2025 and thereafter, while the EBRD's efforts to support Ukraine and affected countries, as envisaged under the GCI, will continue to accelerate.

Discussions in preparation for SCF 2026-30 allow consideration of suitable metrics for future assessment of the Bank's progress in supporting the transition of less advanced countries.

3.3 The Role of Donors

3.3.1 Donor funds

Donor funds are a key financing source for the Bank's activities. In 2023 support from donors was pivotal in enabling EBRD to sign a record-breaking volume of investment transactions despite operating against the backdrop of a very challenging macroeconomic environment. By end-2023, the Bank was managing an active donor funds' portfolio of more than €5 billion. A further €1.4 billion of donor funds were deployed by end-September 2024. Over half the Bank's active investment projects benefit from the support of donor funds. In 2023, EBRD raised €1.6 billion in secured contributions from over 20 donors, and a further €0.6 billion was mobilised for funds managed by EBRD.

Beyond the further mobilisation and implementation of donor resources, priorities in 2025 and beyond include:

- Developing a new Donor Strategy 2026-30 aligned with the upcoming SCF 2026-30.
- Discussions with donors as the Bank expands into Sub-Saharan Africa and Iraq.
- New innovative funding vehicles and platforms, including the Climate Capital Markets Mechanism (CCMM).
- Internal reforms and transformation to optimise donor fund operations.

3.3.1.1 The important role of donor funds in Ukraine and other crisis settings

At the onset of the war on Ukraine, thanks to donor guarantees the EBRD became the first MDB to accept on-balance sheet risk by investing in the country despite the ongoing hostilities.

Donor guarantees enabled the Bank to de-risk around 50 per cent of its exposure in Ukraine, making it one of its most active financial and reform partners. EBRD's paid-in capital increase will allow it to use its own account capital to support Ukraine in the coming years. However, donor funds will still be crucial to address residual bankability constraints, mitigate risk in high-impact projects, channel grants or concessional loans and enhance the transition impact of projects beyond what EBRD can deliver through its own-account financing. Furthermore, EBRD is seen as a very effective delivery partner for many donors who are actively seeking to engage with the Bank in Ukraine across a variety of sectors and instruments.

In recent years, challenges also occurred elsewhere in the Bank's regions, with disastrous earthquakes in Türkiye and Morocco, as well as the crisis in Armenia and most recently violence in Lebanon. The conflict in Gaza has heavily affected the Bank's operations in the West Bank where it manages Trust Funds. Donor funds enabled the EBRD to respond quickly to these crises, providing vital emergency financing in afflicted countries.

Table 3.1 sets out estimates of donor funds required to support the Bank's Crisis Response to Ukraine in the coming year. In total, €482 million of co-investments funds and TC grants will be needed to support planned ABI of €1.5 billion in 2025.

Risk-sharing instruments and guarantees will continue to be the most important donor funded instrument and provide vital risk coverage for private sector clients - either directly to corporates or via financial institutions. Meanwhile, capex grants will continue to play a role in supporting public sector clients for emergency liquidity financing to address substantial infrastructure damage and maintain energy security. TC grants will continue to be needed to support important ongoing policy reform work in Ukraine including legal reform for SOEs, anti- corruption efforts and supporting Ukraine's EU accession process.

Table 3.1 2024 Donor Funds Indicative Mobilisation Plan for future use in Ukraine

Source	€ million
Grants	52.8
Concessional loans	197.2
Risk-sharing and guarantees	231.8
Total	**481.8**

Note: Grants include TC, incentive and investment grants.

3.3.1.2 Donor resources and their uses beyond Ukraine

Access to grants and concessional finance across the economies where the EBRD operates plays an important role in all regions, especially so in sectors such as sustainable infrastructure and in the Bank's less advanced regions, a factor that is compounded by volatile geopolitical and macroeconomic circumstances. Prolonged slower growth and a higher interest rate environment is squeezing borrowers and clients, stretching their capacity to repay debt.

At the same time, there is reduced fiscal space in donor countries, tighter aid budgets and less headroom in the EBRD shareholder countries to support the Bank and other IFIs through donor funds. A close partnership with donors, which encompasses new ways to leverage and optimise the use of scarce public resources, is required to support the delivery of the EBRD's business plan in 2025 and beyond.

Overall, EBRD expects to deploy €2.08 billion of concessional finance and Technical Cooperation (TC) grants to support its programming in 2025 (this includes the Ukraine estimates in Table 3.1 above). The estimates in Table 3.2 include support for initial preparation and operations in potential new countries of operation in Sub-Saharan Africa and Iraq.[12]

Table 3.2 2024 Donor Funds Indicative Mobilisation Plan for future use

Source	€ million
Grants	896
Concessional loans	423
Risk-sharing, including guarantees	760
Equity	2
Total	**2,080**

Note: Grants include TC, incentive and investment grants.

[12] The upcoming SSA expansion will predominately be supported by TC grants for preparatory activities to create an enabling environment for investment operations. This is estimated to be around €16 million, with a further €15-€20 million required to support initial EBRD transactions.

With respect to sectors, the largest expected conduit will be the FI sector, totalling €875 million. Approximately 75 per cent of usage in this sector is related to risk sharing guarantees, most of which will be supplied by existing EU programmes (InvestEU, EFSD+, Ukraine Financial Inclusion Recovery). South-Eastern Europe has the most needs for funding across all regions, €383 million. This is predominately driven by large infrastructure projects in the Western Balkans.

To meet this demand, the Bank has donor resources under management of about €1.1 billion (though specific eligibility requirements - sector, country, multi-year planning, for example - might preclude some of these resources from meeting new needs). Additionally, the proposed 2025 Shareholder Special Fund (SSF) workplan of €200 million will also be an important source of funds. The SSF remains an important resource for the Bank to respond flexibly to needs, complement donor finance and support key strategic priorities, including geographic expansion. This leaves a 'funding gap' of around €780 million, which will inform the Bank's fundraising plans for 2025.

Over the past few years, donor support has been growing at a significant rate with annual funds raised surpassing €1 billion every year since 2021. While much of this was channelled to support the Bank's work in Ukraine, the Bank also received large donor contributions for other regions.

There has also been a shift in the type of instruments favoured by donors. While they have continued to provide traditional grants, there has been an increase in concessional loans and risk-sharing guarantees. This move towards innovative and more complex financial instruments reflects donor aims to generate greater leverage from their own financing.

The Bank's network of donors continues to grow, demonstrating a commitment to diverse perspectives and effective donor representation. In 2024, for example, the Bank welcomed another country of operation, Uzbekistan, into its community of donors, and received a second contribution from the J.P Morgan Foundation. Further increase of the donor base can be expected as the Bank expands into new countries and works within a much more diverse donor landscape.

3.3.2 Donor fees

The Bank manages a large portfolio of donor funds. In accordance with the Bank's *Fees for Donor Funds* policy,[13] it charges donors a fee to cover the costs related to the management and administration of those funds, including the incremental costs associated with meeting donor obligations. The latest policy adjusts fees to ensure the Bank is covered for new costs of managing donor funds and to simplify the ways in which fees are charged.

Viewed from an accounting perspective, the Bank engages in the business of managing funds for which it receives income and incurs costs. Whereas the costs are incurred over a long period (the life of the fund), the income is paid mainly up front. The Bank each year releases an amount of fees to cover the anticipated costs to be incurred in that year.

To be aligned with the Bank's donor fee policy, the following key principles are applied when planning for the use of these fees:

- Relevance. Additional resources and costs should be relevant for donor activities. They must be related to and generated by projects implemented, or facilities managed, by the EBRD.
- Eligibility. Agreed resources and costs must meet the eligibility criteria of donors.
- Time-bound. Since fees are received in connection with donor funds/projects that follow a specific timeline, all costs charged to fees must be time-bound.

As part of the annual business planning process, teams involved in the donor funds business are invited to put forward a request for the use of donor fees. These cases are assessed against the criteria set out above and prioritised in relation to the needs of the business and availability of donor fees in that year, as determined by the Bank's fee income release model.

[13] An updated version was approved by the Board in July 2024.

Box 3.1 Blended Finance as a catalyst for the mobilisation of private capital

The EBRD updated its internal policy on blended finance in 2023 to align with fast evolving external best practices. The revisions improve alignment with the DFI Enhanced Blended Concessional Finance Principles for Private Sector Projects ("the DFI Enhanced Principles") and provide more resources for Bank staff as they consider concessional finance within blended finance structures. The policy also emphasises the role of blended finance in mobilising private capital in EBRD operations.

Blended finance is a valuable and flexible structuring tool for generating impactful investments, addressing bankability constraints for co-investment partners and attracting more commercial finance into emerging markets. It supports the replication and scaling of successful models or technologies until they are mature and can attract more commercial finance. Concessional finance instruments can take the form of concessional guarantees, loans or investment and incentive grants.

The EBRD launched two new concessional finance instruments in 2023 to support private sector mobilisation amid geopolitical challenges affecting investor interest in EBRD regions. The first instrument offers first-loss guarantees, provided by the European Commission under the European Fund for Sustainable Development Plus ("EFSD+"), to draw institutional investors into boundary-pushing deals via EBRD syndication. This led to a collaboration with the ILX Group, where ILX has been able to leverage the EFSD+ guarantee to co-invest with the EBRD.

The second instrument, the Climate Syndication Platform (CSP), is a €30 million guarantee product provided by the International Climate Initiative (IKI) of Germany's Federal Ministry for Economic Affairs and Climate Action (BMWK). The CSP provides 10-25 per cent first-loss risk cover and technical assistance support to boost climate finance in eastern Europe, the Caucasus, Türkiye, the southern and eastern Mediterranean and Central Asia. The guarantees benefit B lenders in EBRD A/B loan structures. CSP is expected to mobilise up to €225 million of climate co-financing from institutional investors over the next eight years, specifically for climate mitigation and adaptation projects that would otherwise not have benefitted from private-sector participation.

Both initiatives aim to scale the EBRD's ability to mobilise private capital for its projects at the limits of market feasibility and are aligned with the Bank's mobilisation objectives. TC financing can also support private capital mobilisation, for example by providing technical assistance and advisory services for structuring Public Private Partnerships (PPPs) and facilitating policy dialogue to enable legal and regulatory reform and create an environment conducive for private sector investors. The range of blended finance instruments which can mobilise private capital for the Bank's countries of operations is expected to grow in the coming years.

The model used to determine the amount of income released each year is based on a number of assumptions around which there are varying degrees of certainty. Therefore, it is likely the release each year will display some volatility. The expected release for 2025 is £21.1 million. Given the need for the Bank to deliver on its core priorities, including support for Ukraine and the green economy transition, and recognising the surpluses achieved in previous years, the Bank plans to run a small deficit in 2025, with expenses exceeding income by £1.6 million. (See Table 3.3.)

Table 3.3 Donor Fees 2023–2025 (£ million)

£ million	2023 Actual	2024 Estimate	2025 Estimate
Income	26.0	19.7	21.1
Expenses	17.2	20.0	22.7
Net impact	8.8	(0.3)	(1.6)

Of the total fee budget for 2025, over 80 per cent will cover the costs of existing staff (including extensions to positions) and ongoing non-staff costs, such as audit fees, bank charges and some costs related to communications. The remainder of the budget will be spent on:

- 14 new fee-funded staff positions, covering high priority needs to support the Bank's work on sustainable infrastructure, management of Western Balkans Investment Framework resources to address the greater complexity of administering new instruments such as unfunded guarantees and various roles in corporate services.
- Non-staff costs related to important internal functions such as legal counsel, reporting and donor communications.

3.4 Driving Internal Efficiencies and Effectiveness Forward

3.4.1 The Transformation Agenda

In 2020 the EBRD committed to undertake a Multi-Year Investment Plan (MYIP) aimed at modernising the Bank by addressing the recognised under-investment in its IT estate, simplifying and digitalising core business processes, while innovating to ensure the Bank remains relevant for the future.

By investing in systems, processes, data and people, MYIP is enabling a broader transformation across the Bank, thereby reducing operational risks, driving efficiencies and improving performance so that the Bank is well-positioned to deliver on current and future SCFs.

Investment under MYIP proceeded at pace in 2024 through the delivery of initiatives across four phases:

Phase 1. Fixing outdated systems through essential technology and the new HQ

- Landmark achievements under the first phase include the successful move to an award-winning, sustainable new HQ and the switch to two state-of-the-art data centres. There is now a resilient backbone for EBRD software applications, enhanced business continuity and reduced technology risk.
- In 2024, the Bank successfully completed the implementation of a suite of Microsoft programmes, such as Office 365 and Co-pilot to improve personal productivity, team collaboration and collaboration with external parties.
- Also in 2024, the "Year of the RO" programme to refresh IT infrastructure and equipment across all Resident offices was launched and completed.
- The last two programmes in this phase, a suite of next generation cyber-security upgrades and completion of the global network refresh are ongoing and will complete in 2025.

Phase 2. Investing in client-centric initiatives and frontline functions

- This phase focuses on business processes relating to business development and origination, lending and equity investments, advisory services, policy and donor co-financing, data governance and remediation.
- A key achievement in 2024 was the completion of the second round of upgrades to Monarch, the Bank's proprietary digital platform for processing investment and advisory projects. This included enhanced credit review and risk envelopes, green monitoring, reporting and verification, as well as integrity monitoring. Other highlights include the completion and full rollout of a new customer relationship management capability covering clients, partners, donors and shareholders.
- Priorities for 2025 include expanding the Monarch platform in areas such as Small Business Advisory, further improvements to Donor Partnerships, disbursements and covenant monitoring as well as strengthening environment and social data capabilities and reporting to support the Bank's revised E&S policy.

Phase 3. Improving corporate processes and platforms to achieve internal efficiencies and reduce operational risks

- Phase 3 projects prioritise future-proofing core corporate processes and controls, including major transformation initiatives in the Finance, Treasury, Operations, Procurement and HR departments. These initiatives in their entirety are referred to as the Compass Programme and they will impact every part of the Bank.
- In 2024, significant progress was made on the Bank's ERP replacement, HR transformation and Finance transformation activities with the selection of the ERP replacement system and onboarding of the chosen systems integrator completed by year end.
- 2025 will include delivery of two strategic early wins as well as the bulk of the work for completion of Phase 1 under the Compass programme.

Phase 4. Enhancing user experience and knowledge management for clients, partners and other stakeholders

- The Phase 4 envelope was endorsed by the Board as part of SIP 2024-26. The goal of this phase is to strengthen the Bank's interactions with its clients and partners and improve their experience as EBRD users.

- Initial scoping work was completed in 2024 for initiatives ranging from client interactions, client-led procurement and AI-enabled digital product offerings. Implementation of priority initiatives are on track to start in early 2025.

The Bank's transformation agenda under MYIP has been an important focus of the current SCF, with implementation on track and planned to continue at pace in 2025. Its completion will establish the basis for operations that are resilient and sustainable over the long-term. This legacy will be secured by continuing to use 'software as a solution' (SAAS) services to drive efficiency and reduce vulnerabilities, simplifying technology through strategic partnerships and developing in-house technology expertise to create a resilient workforce, underpinned by a budget post-MYIP to ensure long-term sustainability.

3.4.2 Operational Sustainability

The Bank's mission is dependent on its operating platform, which includes processes, systems and people. Investment in this platform is crucial for growth and meeting objectives in all operating environments, including unexpected events. Active identification and mitigation of material risks is a business necessity and seen as a core competence by stakeholders, rating agencies, clients and counterparties. The Bank has mechanisms in place to support risk management, including an operational risk management framework, a corporate scorecard measure and senior management operational risk accountability processes.

The Bank is prioritising investment in processes, data, and systems to improve efficiency, effectiveness, resilience and agility while reducing risk. Some issues are tackled locally, while others require coordinated efforts across departments or significant investments. Initiatives have made strides in resilience, modernising operating systems, boosting cyber security measures and addressing structural problems. However, achieving a comprehensive resolution requires a medium-term commitment, with elevated near-term non-financial risks and strains on resources from manual remediation and facilitation tasks in the interim. Examples include:

- **Cyber risk.** The EBRD is facing a notable increase in cyber-attacks and threats, necessitating significant technical improvements and staff training. Current upgrades are enhancing the Bank's defensive measures and internal control mechanisms, but additional investment in personnel, technology, and resources is needed for long-term service and technological advancements.
- **Technology risk**. While the Bank is addressing structural issues and functionality gaps in outdated infrastructure and applications, securing long-term sustainability requires an appropriate maintenance budget.
- **Complexities due to war and geopolitical tensions**. The Ukraine conflict and geopolitical tensions are demanding faster response times, restructurings, added integrity and sanctions tasks, greater complexities and urgency in processing client waivers, amendments, consents and notices and an increase in corporate recovery projects. The anticipated growth of operations in Ukraine will increase the need for effective transaction and loan management processing requirements. Furthermore, the Bank must take every precaution to ensure adequate physical security protection of its personnel or any people in its care while working in or undertaking travel to these regions, including an adequately resourced security team.
- **Donor funds risks**. The donor funds management process needs significant system changes to improve reporting efficiency and meet increasingly complex compliance requirements. A funded programme is in progress to streamline processes, with further planning for the replacement of legacy systems underway and will take several years. Manual workarounds are in place but rely on staff with extensive operational knowledge and place further strains on resources. A re-evaluation of recruitment for donor funded positions is needed, as the current short-term contracts have on occasions failed to attract suitable candidates. The donor funds' programme is thus running at elevated risk levels.
- **Risks associated with sustainability requirements.** The Bank faces operational risk due to its environmental, social, climate

change and sustainability commitments, including from disclosure and reporting requirements. The Bank decided to progressively meet ISSB standards for climate risk reporting and market expectations in areas like supply chain and contractor management or Gender Based Harassment Violence, all of which are increasingly complex. The upcoming revised Environmental and Social Policy includes additional standards for both the Bank and its clients, including on sustainability and child safeguards. The Bank must also assess its approaches to human rights and climate change on a regular basis and adapt its project preparation and due diligence processes to enable closer collaboration with IFIs. Although the Bank is implementing a multi-year digitisation programme to improve data collection, analysis, monitoring and reporting, further investments are needed to reduce high residual operational risks in this complex area.

- **Expansion to Sub Saharan Africa and Iraq.** This is being managed by various teams, including the Administrative Service Department, Security and OGC, where the Bank is assessing infrastructure, security and legal requirements in the different countries, and preparing for potential legal risks due to cultural differences and legal uncertainties. Teams across the Bank also need to enhance their knowledge and capacity to support operations in the new markets, with increased workload pressure expected in banking teams, OSM and Risk.
- **Workload pressures.** These remain high due to increased transaction volumes, complex manual processes and organisational change. A large volume of projects in 2025 will impact business processes, so to mitigate the risks of disruption, proactive management via planning, cross-functional engagements and resourcing reviews is under way.

The Bank faces challenges in maintaining stability due to its legacy of manual processes and fragmented systems. Progress has been made in replacing outdated infrastructure and improving networks, though manual solutions increase human error and resource strain. The outlook is cautiously optimistic. While most concerns are likely to be addressed, further investment is required to sustain the transformation initiatives and the Bank's operations.

3.4.3 Understanding and Communicating Impact

The Bank is committed to improving how it understands and communicates its impact. The Impact team provides a valuable feedback loop to front-line staff on ways to design and implement projects, strategies and work processes by understanding outcomes and impacts achieved at the stakeholder level and how the institution contributes to systemic change in its countries of operations. The Bank also conducts thematic impact assessments across a variety of sectors in response to demand from operational units and donors. These help to inform stakeholders on market-level outcomes.

To achieve real improvements in performance, information and data on past outcomes, as well as monitoring data, must be of high quality, which is a goal of the new impact management framework presently being developed. Summary performance assessments, the recently introduced self-evaluation product, also provide useful data and feedback from previous operations.

The EBRD works on developing novel impact analytics (e.g. index-based assessments, efficient frontiers, economic complexity), as well as innovative methodologies and tools (e.g., earth observation from space, social media analytics, artificial intelligence) to gather, interpret and understand its impact deepening efforts. Foresight methods (e.g. horizon scanning) will be used to link market trends and developments with impact opportunities.

Knowledge mobilisation, from programmes like Learning for Impact, strengthen feedback loops. Communication will be further enhanced with the introduction of a new flagship Impact Report in 2025. This will consolidate information on how the EBRD advances transition through its investments, advisory and policy work and help to address stakeholder demands for regular reporting on the Bank's impact, in keeping with the MDB reform agenda's focus on outcomes and results. The Impact Report will also clarify the definition of transition impact, which is central to the Bank's mandate, and serve as a valuable tool for institutional learning and knowledge sharing. The Report will cover:

- A narrative describing transition impact in plain terms and how it is managed at the EBRD.
- The Bank's impact across its portfolio, with links to the Sustainable Development Goals (SDGs).
- Deep dives into different areas of the Bank's work, with case studies to reflect real world impact.
- Insights from successes and lessons learned in other areas.

In parallel, the EBRD website will be augmented with additional information on transition impact. The improvements will allow users to view results in more detail and tailor impact content to their interests. This will serve as an important tool for enhancing the Bank's transparency, while also better showcasing to external audiences how the Bank delivers results in different regions, countries and sectors.

3.5 The Pace and Pattern of Investment Activity

This section presents the Bank's projected activity and portfolio over the period 2025 to 2027 in line with its operating principles and the strategic directions of the SCF.

Following the war on Ukraine and its economic ramifications for the Bank's regions of operations, the Bank's investment operations have grown substantially, both in volume and in number of projects. After a long period of steady investment levels, Annual Bank Investment (ABI) exceeded €13 billion in both 2022 and 2023, a 26 per cent increase on the average from 2017 to 2021. By the end of the third quarter 2024, annual investment had reached close to €9.2 billion for over 380 operations, up 8 per cent by volume and 22 per cent by number from the same period in 2023. Based on this performance and the pipeline outlook for the remainder of the year, ABI is expected to exceed the upper end of the 2024 business plan, while the number of operations will likely surpass the 2024 scorecard range of 395 to 435.

The projected levels of activity for the period 2025 to 2027 take into account the continuing challenging economic and financial environment described in Chapter 1, as well as business opportunities in countries of operations, with planned investment for 2025 and beyond assuming continued support to Ukraine and conflict-affected countries. With ratification pending, the SIP projections make an assumption for the Bank's operations in Sub-Saharan African countries and Iraq, where ABI is projected to grow gradually towards €1 billion in 2027. The upper end of the overall ABI range is projected at €15 billion for 2025, and €15.5 billion for 2026, rising to €16.5 billion in 2027, an annual volume more than 50 per cent higher than when Covid struck. The Bank's operational ambition beyond 2025 will be further considered as part of the SCF 2026-30 discussion. Projected activity is based on the following assumptions:

- Significant support to Ukraine and countries affected by the conflict. Annual volume in Ukraine is estimated to continue in 2025 at similar levels to 2024 of around €1.5 billion and grow towards €2.5 billion in 2026 and €3.0 billion in 2027. Activity levels from 2026 are in line with volumes anticipated in the GCI paper[14] with the timing of growth in investment dictated by reconstruction needs.
- Over the SIP period, the equity share of ABI is assumed to return gradually to pre-crisis levels of around 6 per cent, reflecting economic pressures and investment opportunities across regions of operation.
- Sovereign lending is projected at around 18 per cent of ABI, similar to the average for the period 2021 to 2023 (18 per cent) and in

Table 3.4 Number of Operations and Annual Bank Investment 2023-2027 (€ billion at plan rate €/$1.05)

	2023 Actual	2024 Estimate	2025 Projected	2026 Projected	2027 Projected
Annual Bank Investment	13.4	14.0-15.0	14.0-15.0	15.0	15.5
including SSA and Iraq	13.4	14.0-15.0	14.0-15.0	15.5	16.5
Number of Operations	464	425 - 475	430 - 480	up to 490	up to 500

14 'Report of the Board of Directors to the Board of Governors: Proposal for a paid-in Capital Increase', BDS23-116 (Rev 3).

Table 3.5 Annual Disbursements 2023-2027 (€ billion at plan rate €/$1.05)

	2023 Actual	2024 Projected	2025 Projected	2026 Projected	2027 Projected
Disbursements	10.0	8.5-9.5	9.0-10.0	up to 10.5	Up to 11.0

line with a private share ABI objective of 75 per cent.

- Trade facilitation is projected at around 15 per cent of ABI reflecting the importance of this instrument in delivering support across the Bank's regions and a consistent delivery of more than €2 billion ABI since 2022.

The development of the Bank's portfolio and operating assets is driven by a range of factors, including ABI and disbursements on the inflow side and portfolio reflows (repayments, pre-payments, divestments and cancellations) on the outflow side.

Annual disbursements reached a record level of €10.0 billion at planning rates in 2023, up from €8.9 billion in 2022. At the end of August 2024, annual disbursements were marginally below the level of the previous year, confirming the strong underlying trend in business activity across the Bank's regions, with 2023 involving disbursements from a number of very large projects. In line with upper end projected investment levels for 2025 to 2027, disbursements are projected to be in a range of €9.0 billion to €10.0 billion in 2025 before rising to up to €10.5 billion in 2026 and €11.0 billion in 2027.

Portfolio reflows have increased steadily since 2017, in line with the growth of the Bank's assets. This trend was aided by a reduction in new signed project maturities from slightly less than 10 years between 2014 and 2019 to 8.4 years from 2021, reflecting a growing share of projects with financial institutions and the private sector. Further, the Bank's response to the Covid-19 crisis in 2020 led to a significantly greater share of short-term financing. Individual reflow parameters, based on actual information (e.g. scheduled repayments on existing operating assets) or estimated ratios to operating assets (for prepayments, divestments and write-offs) and cancellations, lead to projections of reflows over the SIP period at an average of 15 per cent of the opening portfolio stock using the following assumptions:

- Annual repayments are projected at around 16 per cent of the unimpaired loan operating stock, reflecting the scheduled repayment of the Bank's current assets and expected impact of new signings. At the end of the third quarter 2024, repayments totalled €4.6 billion representing a broadly comparable share of unimpaired operating assets for the same period in 2023.
- Annual prepayments are projected at a prudent 5 per cent of unimpaired loan operating assets for the period 2025 to 2027. Prepayments slowed to an annual rate of 3 per cent in 2023 and were €0.4 billion at the end of the third quarter in 2024, lower than the total for the same period a year earlier.
- Annual divestments accounted for 15 per cent and 9 per cent of opening equity stock in 2021 and 2022 respectively, followed by 11 per cent in 2023. Divestments are assumed to average 12 per cent over the SIP period reflecting the current higher share of equity funds in the Bank's portfolio.
- Cancellations rose to 7 per cent of undrawn commitments in 2022, driven by the initial impact of the war on Ukraine and cancellation of outstanding commitments in Belarus, but fell to 5 per cent in 2023. At the end of the third quarter of 2024, cancellations of €0.3 billion were less than half those for the same period in 2023. Reflecting this trend, the ratio of cancellations is projected at an annual rate of around 5 per cent over the SIP period.

Based on these figures for annual disbursements, portfolio reflows and investment activity levels, the Bank's portfolio and operating assets are projected to increase by up to 24 per cent and 28 per cent respectively between 2023 and end-2027. Taking account of this portfolio

Table 3.6 Portfolio Reflows 2023-2027 (€ billion at plan rate €/$1.05)

	2023 Actual	2024 Projected	2025 Projected	2026 Projected	2027 Projected
Portfolio Reflows	7.8	8.4	up to 8.8	up to 9.5	up to 10.0

Table 3.7 Portfolio and Operating Assets 2023-2027 (€ billion at plan rate €/$1.05)

	2023 Actual	2024 Estimated	2025 Projected	2026 Projected	2027 Projected
Portfolio	55.9	up to 60.4	up to 64.3	up to 67.3	up to 70.5
Operating Assets	39.1	up to 43.0	up to 46.6	up to 48.9	up to 50.9
Active Portfolio Operations, number	2,333	2,405	up to 2,470	up to 2,530	up to 2,590

growth, historic trends and the anticipated average project size and projected reflows, the number of active projects in the Bank's portfolio is projected to increase by around 11 per cent from 2,333 at end-2023 to up to 2,590 by the end of 2027.

Driven by the sustained focus on private sector operations, exemplified by the share of private sector ABI rising to 80 per cent in 2023, and the shortening of public sector tenors observed since 2021, the share of private sector portfolio climbed to 64 per cent at end-2023 from 62 per cent a year earlier. Based on the preceding assumptions and the objective of a private sector ABI share of 75 per cent, the private sector's share of the Bank's portfolio is expected to stabilise at around 65 per cent between 2025 and 2027. Eastern Europe and Caucasus, along with South-Eastern Europe, are projected to retain the largest portfolio shares, while Eastern Europe and Caucasus, Central Europe and Baltics, Central Asia and the Southern and Eastern Mediterranean are expected to experience the highest portfolio growth rates.

Portfolio composition is determined by region-specific activity levels, which reflect transition opportunities as well as the Bank's additionality, product composition, reflow rates and portfolio maturity. Table 3.8 presents illustrative portfolio projections for the SIP period that take these parameters into account:

- The **Central Asia** portfolio is expected to grow by 26 per cent from €7.0 billion at end-2023 to €8.9 billion at end-2027. This reflects strong recent investment volume, with the portfolio at €7.5 billion by end-September 2024, and projected activity levels in the region for the remainder of the SIP period.
- The portfolio in **Central Europe and Baltics** is projected to rise to €11.9 billion by 2027, up from €9.4 billion in 2023, following an increase of over 13 per cent between 2022 and 2023 as a result of increased investment levels to support countries affected by the war.
- In **Cyprus and Greece**, the portfolio decreases from €2.5 billion to €1.4 billion by end-2027 due to amortisation of the current portfolio and the planned cessation of new activities in Greece after 2025.
- Driven by the intensification of support to Ukraine, the **Eastern Europe and Caucasus** portfolio is expected to grow 65 per cent from €9.1 billion in 2023 to €15.0 billion in 2027, assuming a reconstruction scenario starts before the end of the SIP period.
- The Bank's portfolio in **Russia** is expected to decrease further with efforts to divest the remaining equity portfolio.
- The **South-Eastern Europe** portfolio is projected to grow marginally to €12.2 billion by end-2027 reflecting a combination of new investment activity and the maturity of the Bank's assets in the region.
- The **Southern and Eastern Mediterranean** portfolio is projected to increase by 21 per cent over the course of the SIP period to reach €11.5 billion as a result of higher projected activity levels.
- The portfolio in **Türkiye** is projected to increase to €8.2 billion by end-2027. The increase follows strong activity in 2023 which boosted the Bank's portfolio in the country. Although new business activities will continue at pace, in coming years there will be reflow pressure from high levels of scheduled repayments on existing loans.

Table 3.8 Indicative Regional Portfolio Composition 2023-2027 (€ billion at plan rate €/$1.05)

Volume	2023 Actual	2024 Estimated (up to)	2025 Projected (up to)	2026 Projected (up to)	2027 Projected (up to)
Central Asia	7.0	7.7	8.4	8.6	8.9
Central Europe and Baltics	9.4	10.7	11.3	11.6	11.9
Cyprus and Greece	2.5	2.4	2.2	1.8	1.4
Eastern Europe and Caucasus	9.1	10.1	11.5	13.4	15.0
Russia	0.8	0.5	0.4	0.3	0.3
South-Eastern Europe	10.9	11.2	11.7	12.0	12.2
Southern and Eastern Mediterranean	9.4	10.0	10.8	11.2	11.5
Türkiye	7.8	7.8	7.9	8.0	8.2
Total, excluding SSA and Iraq	**56.7**	**60.4**	**64.2**	**66.9**	**69.4**
SSA and Iraq			0.1	0.4	1.1
Total	**56.7**	**60.4**	**64.3**	**67.3**	**70.5**

Share, per cent	2023 Actual	2024 Estimated	2025 Projected	2026 Projected	2027 Projected
Central Asia	12%	13%	13%	13%	13%
Central Europe and Baltics	17%	18%	18%	17%	17%
Cyprus and Greece	4%	4%	3%	3%	2%
Eastern Europe and Caucasus	16%	17%	18%	20%	22%
Russia	1%	1%	1%	0%	0%
South-Eastern Europe	19%	19%	18%	18%	18%
Southern and Eastern Mediterranean	17%	17%	17%	17%	17%
Türkiye	14%	13%	12%	12%	12%

Table 3.9 Indicative New Investment (ABI) Composition in 2025 (€ million at plan rate €/$1.05)

	BP2024 Indicative Share, per cent	BP2025 Indicative Share, per cent	BP2024 Indicative Lower End ABI	BP2024 Indicative Upper End ABI	BP2025 Indicative Lower End ABI	BP2025 Indicative Upper End ABI
Central Asia	11-12%	12%	1,300	1,500	1,700	1,800
Central Europe and Baltics	18%	17%	2,100	2,300	2,400	2,600
Greece	3-4%	2%	300	400	250	300
Eastern Europe and Caucasus	18-19%	20%	2,200	2,400	2,850	3,000
South-Eastern Europe	17%	18%	2,000	2,100	2,450	2,650
Southern and Eastern Mediterranean	17%	18%	2,000	2,100	2,450	2,650
Türkiye	14%	13-14%	1,600	1,700	1,900	2,000
Corporate	26%	26%	3,000	3,300	3,700	3,900
Financial Institutions	44%	44%	5,100	5,500	6,100	6,600
Sustainable infrastructure	30%	30%	3,400	3,700	4,200	4,500

3.6 Expansion into sub-Saharan Africa and Iraq

Supporting Ukraine and other countries of operations remains the core focus of the EBRD. Nonetheless, at the EBRD's 2023 Annual Meeting in Samarkand, Governors emphasised the importance of sub-Saharan Africa and Iraq for the international community's geopolitical and development priorities, the growing links between these countries and the Bank's current CoOs and the relevance of the Bank's mandate, business model and competencies in this region. On that basis, Governors approved an amendment to the Bank's AEB to allow for a limited and incremental expansion to SSA and Iraq.

For any of the seven candidates[15] to become a recipient country, the amendment of Article 1 must have entered into force, the applicant country must have completed the process to become a member of the Bank and the Board of Governors must have approved a Resolution granting recipient country status to the applicant country member. This process is well advanced, and it is plausible that a majority of the candidates will become recipient countries by mid-2025, with the rest following soon after that.

The Bank needs to be ready and equipped to respond to demands from the potential new countries so that it can commence activities in SSA countries and Iraq as soon as the institutional process allows. As part of this preparation, management has undertaken a comprehensive outreach and engagement programme in the candidate countries to understand local conditions and identify business opportunities and partners.

Transition gaps in SSA countries and Iraq are large. Developing the private sector and stimulating investment will be essential in closing them. There is ample scope for the Bank to leverage its private-sector-led business model and draw on its expertise to widen the pool of investable projects and build a healthy project pipeline.

At the initial stage, the EBRD can achieve impact in a number of areas: through its SME and trade finance programmes, by developing lending skills among financial intermediaries, in supporting clients from existing CoOs who wish to invest in SSA countries and Iraq, by increasing capacity for project preparation and engaging with policymakers to support reform and create better conditions for private sector development. The Bank's SCF priorities, notably green transition, inclusion and digitalisation, are highly relevant to this set of countries. In all these activities, donor support will be crucial.

A prerequisite for successful delivery in these countries will be to replicate a key and distinct component of the Bank's business model: its deep knowledge of countries of operations gained through a strong and locally staffed presence.

Other features of the EBRD's transition mandate and business model will be particularly valuable in SSA countries and Iraq, its:

- Distinct ability to combine policy engagement, technical assistance and financing for project preparation to unlock investment opportunities.
- Strong capacity to support capital market development and access to local currency financing.
- Demonstrated ability to design, structure and manage small projects. Existing development actors favour investments over €10 million whereas more than half of EBRD projects have a value of less than €10 million.
- Wide range of SME support instruments, from advisory services to various investment channels, which are crucial given the importance of SMEs for these economies.

As part of the initial phase, increased country visits will be required, among other things, to develop the Bank's network, gain deeper insights into local conditions, and identify the needs of potential clients, as well as to conduct integrity mapping. Recruitment efforts will also have to be launched.

The Bank's impact will grow and deepen with time as it gains experience and knowledge. The scope of activities will evolve naturally, from an initial focus on simpler, less risky financing products to a more complete deployment of the Bank's business model and instruments as knowledge grows and conditions permit. In accordance with its demand-driven business

[15] The list of SSA countries is Benin, Cote d'Ivoire, Ghana, Kenya, Nigeria and Senegal.

strategy, the Bank will tailor its activities to local conditions and client needs.

The EBRD will collaborate closely with existing IFIs and DFIs to maximise impact and mitigate risk. The Bank will learn from their experiences, work together on policy reforms, technical assistance and project preparation, and co-finance investments, ensuring that work complements each other's efforts.

ABI is expected to grow steadily and is now expected to exceed the levels envisaged at the time of the Article 1 amendment approval at Samarkand, as countries and clients in SSA and Iraq begin to engage with the Bank and EBRD's visibility grows. The projections in Section 3.5 show ABI in the seven countries above €1 billion by 2027. In steady state, by 2030, ABI is expected to be above €1.8 billion. Aided by strong financial results and organic capital growth in the Bank's capital base, the scale of the expected capital impact remains in line with the range indicated at Samarkand.

As in any start-up phase, the initial upfront need for investment in staff and non-staff resources is significant, for opening resident offices but also reinforcing relevant HQ teams, scaling up country visits to develop the Bank's network, gain deeper insights into local conditions and identify the needs of potential clients, and for undertaking integrity country mapping. (See Chapter 5, Section 5.4 for more detail.)

4. Maintaining Financial Sustainability

4.1 Financial Sustainability

Financial sustainability is an integral element of the EBRD's mandate which translates into the following three objectives:

I. Ensure organic growth of the Bank's capital base to enable the expansion of EBRD's mandate in CoOs.
II. Attract capital market financing at the lowest possible costs so that it can be passed on to borrowers.
III. Keep the Bank financially resilient, preserving minimum level of capital and liquidity to withstand unexpected events and the negative financial consequences due to potential vulnerabilities of its portfolio.

In order to achieve this, the Bank follows a three-pronged approach, namely to (i) target profitability, (ii) ensure capital adequacy and (iii) maintain a strong liquidity position. To make these objectives both quantifiable and measurable, the Bank uses 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 may be summarised as follows:

(i) Profitability

Project specific metric:

- **Investment Profitability Model (IPM)** allows assessment of projected risk-adjusted returns on new debt transactions at the point of origination.

Corporate scorecard metrics:

- **The Return on Required Capital (RoRC)** captures the overall return of the Bank (including debt, equity and Treasury activities); and
- **The Debt RoRC** (before costs) assesses risk-adjusted financial returns at the level of the debt portfolio.

(ii) Capital management

In line with the capital control parameters in the SCF, the Bank manages its capital adequacy based on:

- **The Capital Adequacy Policy (CAP)**, which provides an internal assessment of the Bank's capital adequacy (anchored specifically in the Standard & Poor's methodology). The policy is monitored using a utilisation ratio, defined as required capital divided by available capital. A 90 per cent prudential limit is defined to preserve a buffer above minimum requirements, providing shock absorption capacity.
- The Bank also monitors a wider set of capital ratios and related financial metrics - primarily defined by credit rating agencies - to ensure the highest standard and strength of capital adequacy is retained.
- In addition to the risk-based measure, the Bank also adheres to a **statutory capital**[16] metric that ensures 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.

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 (FLTTs). Stress test results are measured against these thresholds.

Finally, a **Framework for Net Income Allocation Proposals** guides the financial assessment underpinning net income allocation decisions, balancing the need to support delivery of the Bank's objectives with commitment to sustained growth in members' equity.

(iii) Liquidity management

Next to an effective capital management, the Bank's liquidity management is another key element in safeguarding financial stability in the medium term and supports the Bank's 'triple-A'

[16] At the 2023 annual meeting, the Board of Governors approved the removal of the statutory capital limitation from the Articles Establishing the Bank (yet to be ratified through parliaments). A new *nominal* capital constraint is now part of the CAP and retains the same form as the previous statutory capital limitation, although this will likely be revised in the future.

rating. The Bank also ensures that at any time it is able to meet each of the minimum liquidity requirements set out in the Bank's **Treasury Asset and Liquidity Policy (TALP).**

4.2 Profitability

4.2.1 2024 Financial Performance Estimate

In the first nine months of 2024, the Bank's capital base showed a gain of €1.4 billion, mainly driven by a strong equity performance and the net release of provisions for impairment:

- **Equity gains** of €0.6 billion were far ahead of the plan, continuing the positive trend in equity valuations since 2023. This reflected the rebound seen in global equity markets.
- An **impairment release** of €0.26 billion was mainly driven by stage 3 impairment releases, but also benefitted from a net release for Stage 1 and 2 impairments, driven by a reduction in the Post-Model Adjustment following a favourable change in loss assumptions.
- Additional stage 3 impairments are assumed in the fourth quarter for prudential reasons, resulting in a net profit before net income allocations **of €1.1 billion for full-year 2024.** Including other reserves movements and the GCI, the **Bank's capital base is expected to increase by €3.1 billion to €25.4 billion by the end of 2024.**

4.2.2 SIP 2025-27 Outlook

Net aggregate organic capital growth from operations of €2.4 billion over the three-year period of SIP 2025-27 is broadly in line with last year's SIP projections. This is supplemented by the additional €4.0 billion paid-in capital increase, with the first of five equal instalments expected in 2025.

Table 4.1 Profitability

Profitability (€ billion)	2021 Actual	2022 Actual	2023 Actual	2024 Estimate	2025 Plan	2026 Projected	2027 Projected
Operating income:							
Debt portfolio	0.85	0.75	0.81	0.99	1.01	1.08	1.13
Effective interest rate adjustments (EIR)	0.08	0.40	0.35	(0.30)	(0.32)	(0.20)	(0.00)
Debt operating income including EIR	**0.94**	**1.16**	**1.15**	**0.68**	**0.69**	**0.89**	**1.13**
Equity portfolio	1.66	(1.05)	1.00	0.59	0.51	0.53	0.55
Treasury activities	0.16	0.34	0.32	0.16	0.14	0.15	0.17
Treasury EIR adjustment*	0.00	(0.09)	0.08	0.00	0.00	0.00	0.00
Operating income by segment	**2.75**	**0.36**	**2.55**	**1.43**	**1.33**	**1.57**	**1.86**
Return on 'free' capital*	0.00	0.10	0.48	0.57	0.52	0.52	0.44
Financial reporting adjustments	0.06	0.38	(0.51)	(0.31)	(0.07)	(0.05)	(0.03)
Total operating income	**2.81**	**0.84**	**2.52**	**1.70**	**1.78**	**2.04**	**2.27**
Provisions for impairment	0.16	(0.87)	(0.02)	(0.10)	(0.28)	(0.30)	(0.34)
Post model adjustment (PMA)	0.00	(0.55)	0.14	0.10	0.10	0.10	0.10
Adminstrative costs	(0.47)	(0.54)	(0.54)	(0.62)	(0.68)	(0.75)	(0.78)
Total net (loss) / profit before NIA	**2.50**	**(1.12)**	**2.10**	**1.08**	**0.92**	**1.09**	**1.24**
Net income allocations	(0.08)	(0.12)	(0.13)	(0.18)	(0.13)	(0.14)	(0.14)
General capital increase**	0.00	0.00	0.00	2.00	2.00	0.00	0.00
Other reserve movements	0.03	0.23	0.96	0.20	(0.16)	(0.16)	(0.08)
Net (reduction) / growth in capital base	**2.45**	**(1.01)**	**2.93**	**3.09**	**2.63**	**0.79**	**1.02**
Total members' equity	**20.35**	**19.34**	**22.27**	**25.36**	**27.99**	**28.79**	**29.81**
Return on total members equity (%)	**14.2%**	**-7.4%**	**15.8%**	**5.5%**	**3.3%**	**3.6%**	**4.0%**

* Prior to 2021, the cost of free capital was not separated out from interest income but instead absorbed by Treasury.

** From a financial reporting perspective, the capital increase is recognised after the effective date (31st Dec 2024) and when subscriptions are received. As a modeling assumption subscriptions are assumed at €2 billion in 2024 and €2 billion in 2025. It is expected that rating agencies will recognise capital when payments are received so capital ratios (with the exception of the statutory ratio) reflect the GCI in line with the payment schedule.

The primary financial variables supporting the projections are as follows:

Debt

- The average margin on performing non-sovereign debt is assumed at 2.75 per cent across the planning period, unchanged from SIP 2024-26 despite increasing credit risks in the portfolio. Although the margins on new signings in 2023 were strong at 3.0 per cent (compared with 2.4 per cent in 2022), there have been signs of weakening margins in the first nine months of 2024, though this will take some time to influence stock levels. Average margins on new signings over the past three years have been 2.65 per cent.
- Including sovereign exposure, which attracts a uniform 1 per cent margin, the weighted average margin on the performing loan portfolio is projected at around 2.4 per cent across the SIP period and is broadly aligned with the returns achieved in the previous two years. In absolute terms, net interest income on the total loan portfolio including sovereign exposure is expected to increase over the period as Banking loan assets rise by 18 per cent (SIP2024-26: 17 per cent) from €43.0 billion in 2024 to €50.9 billion by the end of 2027.
- Stage 3 impairment charges are assumed to be €0.27 billion for 2025, rising over the planning period as exposure to Ukraine increases. A €0.1 billion annual benefit to the income statement is due to post model adjustment (PMA) releases. PD and LGD rates are based on current risk ratings, except for the LGD for Ukraine which is set based on expert judgement. The resulting net impairment charge outside Ukraine broadly corresponds to the one year expected credit loss, modelled in accordance with the IFRS 9 framework and subject to downside GDP growth sensitivity (GDP growth reduced by 5 percentage points).

Equity

- Overall equity returns (dividends received, realised and unrealised gains) are conservatively assumed at 8 per cent per annum across the planning period and projections remain in line with historic longer-term average reported returns. Forecasting equity returns is challenging, particularly during periods of economic turbulence, so average annual nominal returns are set uniformly across the planning period.

Return on own funds (members' equity)

- The Bank funds its assets through a combination of borrowings (bonds and other short-term securities) and its own funds (members' equity). When interest rates are zero, there is no material difference between the cost of these funding sources. However, as rates rise, members' equity becomes an important source of zero cost funding. This effect drives a benefit to the income statement as the Bank's invested assets typically generate a return via an underlying reference rate (e.g. Euribor) plus credit margin.
- The calculated return on own funds is modelled with reference to the market forward yield curve for Euribor.[17] As a result of changes to projections of market rates, these assumptions yield €0.35 billion less in accumulated interest income across the SIP planning period relative to last year's SIP.
- The Bank will continue to hedge its capital to lock-in the most favourable market rates.

Treasury activity

- Treasury assets are projected to increase from €30 billion by end-2024 to €42 billion in 2027. The increase is in response to a strong operational plan and maintaining a sufficient liquidity buffer under the 1-year stressed ratio.
- Treasury operating income before accounting adjustments, including the impact of higher interest rates, is projected to be €140 million for 2025 and to remain around this level to the end of the planning period. Historically, profits have been supported by significant gains from the Asset & Liability Management (ALM) desk, particularly from local currency activities. However, due to their unpredictable nature, ALM gains are set at prudent levels in this SIP. Returns on short term assets are

[17] The Bank's capital base is denominated in EUR.

increasing with higher market interest rates, supporting a higher overall contribution from Treasury business. Returns from the long-term portfolio remain broadly stable.

Effective interest rate (EIR) adjustment

- Given the sharp rise in interest rates, the combined size of EIR-related gains across both Banking and Treasury portfolios continued to rise in 2023. As a result, the assumed unwinding of these gains has been modelled to show an accumulated net loss of €0.5 billion in the SIP period. The unwinding occurs as the underlying loans reach maturity or will be reversed before maturity should interest rates decline.

Non-qualifying and ineffective hedges

- This category of the income statement mainly accounts for fair value movements on non-qualifying and ineffective hedges. At end-September 2024, the Bank had recorded a loss of €0.3 billion adding to the €0.5 billion loss in 2023 and reversing the significant gains recognised in 2022. This was mainly due to rising interest rates, creating a mismatch between derivative liabilities measured at fair value and the assets (loans) held at amortised cost as hedge accounting is not applied. This mismatch causes a temporary gain/loss to the income statement. For planning purposes, the expected unwind of previously recorded gains is modelled using market interest rate expectations during the SIP period.

Banking portfolio FX planning rate

- The planning rate used for converting US dollar denominated Banking assets into euros is €/$1.05 for SIP 2025-27 (unchanged from last year's SIP), slightly below the current spot rate (mid-October 2024: €/$1.08).

Other

- Administrative expenditure projections are based on the medium-term budget assumptions set out in Chapter 5.
- Net income allocations (NIA) for 2025-2027 are presented for illustrative purposes, with actual allocations subject to annual decisions guided by the Framework for Net Income Allocation Proposals, taken as a percentage of accumulated reserves (excluding paid-in capital). For planning purposes, annual allocations of approximately 0.8 per cent of accumulated reserves (excluding paid-in capital) are assumed.[18] This provides a more intuitive trajectory by increasing NIA amounts in line with an increasing capital base and overall balance sheet. Such illustrative amounts should not be seen as pre-empting any decisions on net income allocations that are taken by the Board of Governors on the basis of proposals from the Board of Directors.

[18] Note that the NIA Framework (BDS23-075 (Final)) sets the maximum allocation under normal circumstances, but not the expected level each year.

Table 4.2 Internal Capital Policy Projections

Planning rate (1) € billion (other than percentages)	2021 Actual	2022 Actual	2023 Actual	2024 Estimate	2025 Projected	2026 Projected	2027 Projected
Annual Bank investment	10.4	13.1	13.1	15.0	15.0	15.5	16.5
Portfolio	50.0	53.5	57.3	60.4	64.3	67.3	70.5
Operating assets at cost	**34.1**	**36.8**	**39.1**	**43.0**	**46.6**	**48.9**	**50.9**
Deduct accumulated stage 3 impairment	(0.7)	(1.3)	(1.3)	(1.1)	(1.2)	(1.3)	(1.4)
Adjusted net operating assets (a)	**33.4**	**35.5**	**37.8**	**41.9**	**45.4**	**47.6**	**49.5**
Total statutory capital (2) (b)	**42.5**	**43.0**	**44.6**	**47.6**	**49.9**	**50.3**	**51.0**
Statutory capital utilisation (a / b)	**79%**	**83%**	**85%**	**88%**	**91%**	**95%**	**97%**
SIP 2024-26				*84%*	*84%*	*87%*	
Capital adequacy:							
Required capital	13.3	12.6	13.9	15.1	15.9	16.8	17.9
Available capital	20.3	19.3	22.3	23.4	24.9	26.5	28.3
Capital utilisation (under CAP)	**65%**	**65%**	**62%**	**64%**	**64%**	**63%**	**63%**
SIP 2024-26				*65%*	*63%*	*62%*	

(1) Actuals at reported rates; projections at planning rate of €/$1.05 for SIP 2025-27.

(2) Statutory capital is reduced by accumulated stage 3 impairments (see 'Review of the Gearing Ratio Interpretation', 2015). The capital increase is recognised after the effective date (31st Dec 2024) and when subscriptions are received (assumed at €2 billion in 2024 and €2 billion in 2025).

4.3 Capital

4.3.1 Capital policy utilisation projections

The development of the Bank's actual and projected investment levels and capital utilisation is presented in Table 4.2.

As operating assets increase across the planning period, the rise in the statutory capital ratio is mitigated by the GCI from 2024 onwards[19]. In preparing for the next SCF, to be approved in 2025, the Bank may revise either the definition or limit of the nominal capital constraint. On a risk-adjusted basis, the Bank's CAP[20] is expected to reach 63 per cent by 2027 as the strong asset growth is mitigated by projected profitability and the receipt of GCI instalments from 2025 onwards.

4.3.2 External capital ratio projections

In addition to the development of the Bank's internal capital adequacy metrics, estimates of rating agency key capital assessment ratios are also projected for each year of the plan. (Table 4.3.)

The Bank remains above key thresholds throughout the SIP 2025-27 period. Planned asset growth is supported by profitability and

Table 4.3 External Capital Ratio Projections

	Boundary Threshold	2021 Actual	2022 Actual	2023 Actual	2024 Estimate	2025 Projection	2026 Projection	2027 Projection
NPL ratio	<6%/10%	5%	8%	9%	8%	8%	8%	9%
Moody's asset coverage ratio	< 2.5x	1.93	2.18	2.04	2.17	2.20	2.18	2.14
Fitch key capital metrics:								
Useable equity to risk adjusted ratio (FRA)	35%	40.3%	41.4%	41.7%	40.3%	40.2%	40.0%	40.0%
Equity to assets ratio	15%	27.7%	29.0%	31.7%	30.4%	30.6%	30.0%	29.3%
S&P's RAC ratio*	> 23%	30%	30%	30%	28%	28%	27%	26%

* A RAC ratio above 23% represents an 'Extremely Strong' standalone assessment.

[19] The statutory capital ratio considers total *subscribed* capital and not when cash payments are received, As a planning assumption, the GCI is assumed to be fully subscribed by end-2025.

[20] Risk-adjusted capital requirements range from an average of 15 per cent of debt exposure to 100 per cent of exposure in the case of equity investments. This contrasts with the nominal capital policy where exposure is considered with a 100 per cent contribution to capital requirements for all banking assets.

Table 4.4 Return on Required Capital

Return on required capital, %	2021 Actual	2022 Actual	2023 Actual	2024 Estimate	2025 Projection	2026 Projection	2027 Projection
Annual return basis (%)	20.1%	-6.8%	22.8%	8.7%	5.0%	5.8%	6.8%
3 year rolling average return (%)	11.9%	4.9%	12.0%	8.2%	12.2%	6.5%	5.9%
Minimum requirement		3.5%	3.5%	3.5%	3.5%	3.5%	3.5%

organic capital growth, together with the GCI (first payment from 2025 onwards).

As part of their comprehensive assessments, rating agencies also consider a range of non-financial factors when determining overall ratings, such as risk management practices, policy importance, business profile and the strength of shareholder support.

4.3.3 The Bank's overall return on capital

A target floor of 3.5 per cent for the three-year average **return on required capital** is set annually and has remained unchanged since it was introduced in the corporate scorecard in 2016. This minimum average return is projected to be comfortably exceeded throughout the SIP period. (Table 4.4.)

4.3.4 Financial resilience

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 and other key macroeconomic variables projections, whereas equity losses are calculated based on a Value at Risk approach applied to relevant regional equity indices. Growth in debt capital requirements 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 shareholder support and other qualitative considerations.

Based on the Severe stress (post institutional actions)[21] and maintaining planned investment levels outlined in the SIP operational plan, **peak risk adjusted capital utilisation during the planning period is projected at 74 per cent**, marking a 10 per cent increase relative to 64 per cent (estimated) at end-2024.

Whilst internal capital policies remain within current limits during the stress test, **some external rating agency metrics are expected to cross important threshold levels.** The Bank would, for example, exceed an important threshold under the Moody's asset coverage ratio. Other financial metrics monitored by rating agencies, such as the NPL ratio, would also rise well above boundary levels. This would be compensated for by the strong and unequivocal sign of shareholder support for the Bank, stemming from the approval (in December 2023) and subsequent subscriptions to the €4 billion paid in capital increase.

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.[22] Such losses are assessed under stressed conditions of differing severity. The results are then compared against boundaries, or financial loss tolerance thresholds (FLTTs), to ensure the risk associated with each

[21] Reduction in net income allocations after the first year of loss.
[22] See Risk Appetite Statement (CS/ARC/23-41) and 2023 Review of Financial Loss Tolerance Thresholds (CA/ARC/23-53).

plan is understood and within the expected appetite.

Under the FLTT framework, the Bank looks at Downturn and Severe stress scenarios to assess financial performance at different levels of severity. 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.

Results from these stress scenarios applied to the SIP 2025-27 plan are presented in Table 4.5 together with the FLTTs. The one-year impact on net earnings under both Downturn and Severe scenarios is within the defined FLTTs.

Table 4.5 Stress Test Results vs. Financial Loss Tolerance Thresholds

Scenario	Net Earnings 1 year (€m)	FLTT (€m)
Downturn	-1,127	-1,600
Severe (post-Institutional Actior	-5,570	-6,200

The Bank thus remains in compliance with internal capital policies and loss tolerance thresholds set within the Risk Appetite Statement for the Downturn and Severe scenario.

The stress testing analysis highlights the Bank's vulnerability to financial metrics considered by rating agencies. In adopting the operational plan set out in this document, the Bank accepts this elevated risk of rating downgrade in the current turbulent conditions in its countries of operations.

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

4.3.5 EBRD implementation of the G20 review of MDB Capital Adequacy Frameworks

In October 2022, the G20 commissioned an Independent Review of MDBs' Capital Adequacy Frameworks which made a wide range of recommendations designed to increase the financing capacity of MDBs individually and collectively. In reviewing these recommendations, the Bank recognises that each MDB has its own approach to managing its capital and that not all recommendations are universally applicable. The Bank is fully committed to implementing those recommendations which are relevant to it and has put in place an Action Plan for this purpose.

In some areas, the EBRD anticipated the recommendations of the CAF Review. Most significantly, the Bank has included the benefit derived from its substantial holding of callable capital and the preferred creditor treatment of its lending within its risk adjusted capital adequacy policy. Taken together, they provide an uplift to the risk bearing capacity of the Bank's capital, providing a theoretical[23] increase to its lending capacity. If credit rating agencies follow a further CAF Review recommendation to increase the credit given for these two factors, the Bank would benefit more.

To support this objective, the Bank has responded positively to the call by a number of shareholders to collaborate in analysing practical steps to be taken in the enhancement of the value of the support provided by shareholders through callable capital. As one of five participating development banks, the EBRD undertook an exercise to illustrate the potential triggers, processes and shareholder responsibilities around making a call on the Bank's callable capital shares. In addition, EBRD took a leading role in establishing, initially for the benefit of its shareholders, a peer comparison report of key financial data and metrics, following the relevant recommendation within the CAF report.

The Bank is implementing a number of other CAF Review recommendations which will be valuable in increasing the Bank's flexibility and capacity in certain circumstances in the future. The amendment of Article 12.1 of the Articles Establishing the Bank (AEB) approved by the Board of Governors at the 2023 Annual Meeting to relocate EBRD's statutory capital policy from the AEB and make it a Board of Directors' policy will, once accepted by members, provide greater scope to optimise the use of the Bank's available risk bearing capacity at all times.

[23] Whilst callable capital and PCT are considered within the risk-based CAP, the Bank is also subject to internal and external nominal capital constraints, which represent a binding constraint under certain growth scenarios.

On an ongoing basis, the Bank is also committed to capital optimisation and financial innovations to support this agenda. The EBRD has a growing and active programme of using Unfunded Risk Participations with private sector co-financiers to de-risk the balance sheet and mobilise private investment into its regions of operations. Building on such experience with risk-transfers to the private sector, the Bank is also exploring the possibility of portfolio level transactions such as a synthetic securitisation,

In terms of raising new capital, EBRD remains focused on completing the €4 billion paid-in capital increase, approved by the Governors in 2023 to enable and support the Bank's response in Ukraine. In parallel, the Bank is following peer institutions closely and may consider issuing hybrid capital to the private sector at some point in the future, market conditions permitting.

4.4 Liquidity and 2025 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 SIP. In determining liquidity requirements for the following year, the Bank sets an operating target for liquidity above minimum policy requirements.

Based on planned activity levels in this year's business plan, a **Borrowing Programme Authority of up to €14.5 billion (expected use, €13.5 billion) net new issuance is set for 2025.**

The €14.5 billion Borrowing Programme for 2025 represents a €1 billion increase on the €13.5 billion Borrowing Programme in 2024. Additional borrowing is designed to address increased business needs, especially in response to Ukraine, as well as to ensure that a liquidity cushion is consistently maintained above key policy ratios.

The planned borrowing authority for 2024 was €13.5 billion with an expected utilisation of €12.5 billion. The Bank had issued €13 billion of new debt by the end of September 2024 and is expected to raise an additional €0.5 billion by the end of the year.

The additional borrowing in 2025 will ensure adequate size of the Bank's liquid asset pool and support operational requirements related to banking activities. There is an adequate capital buffer on the nominal leverage ratios to accommodate the resulting slight growth of the balance sheet. Fitch recently announced an increased focus on their risk-adjusted (FRA) ratio and reduced the role of the equity to assets ratio in assessing an MDB's capital position, and therefore the size of the balance sheet is no longer a capital constraint for the Bank.

Treasury liquid assets at end-2025 are expected to be €31 billion, €1 billion higher than the end-2024 position.

With a **borrowing level of €13.5 billion (expected use) anticipated for 2025**:

- Liquidity ratios maintain a comfortable buffer above minimum levels required by the Bank's internal policies; and the Bank's liquidity position is assessed to be in the strongest category under external rating agency methodologies.
- There is flexibility in the implementation of the borrowing programme so that the Bank is not required to borrow funds in unfavourable market conditions.

Projected liquidity levels at the end of 2025 are designed to ensure the Bank achieves the strongest assessment rating on liquidity from rating agencies.

Table 4.6 presents the EBRD one-year stressed liquidity ratio over the medium term which broadly follows the approach considered by Standard & Poor's. At the end of 2025, it is estimated to be 127 per cent against a required ratio of 100 per cent (end-2024 estimate, 116 per cent). This ratio level ensures that the Bank's liquid funds are sufficient to meet its cash requirements against a one-year debt service plus 50 per cent of undrawn commitments.

Table 4.6 Projected One-Year Stressed Liquidity Coverage Ratio

€ billion	End 2022 Actual	End 2023 Actual	End 2024 Estimate	End 2025 Projected	End 2026 Projected	End 2027 Projected
Borrowing level (expected utilisation)	6.7	9.6	13.5	13.5	14.0	14.5
Cash in						
Gross Treasury assets [1]	30.0	28.1	30.7	31.3	35.8	41.7
Less: associated liquidity haircuts	(4.6)	(4.7)	(6.0)	(6.5)	(7.2)	(8.0)
General capital increase instalments	0.0	0.0	0.4	0.8	0.8	0.8
Adjusted Treasury assets	**25.5**	**23.4**	**25.1**	**25.6**	**29.4**	**34.5**
Discounted maturing Banking loans and gross interest income	5.8	7.2	7.2	8.4	9.1	9.5
Total discounted Treasury assets and maturing loans	**31.2**	**30.6**	**32.3**	**34.0**	**38.5**	**44.1**
Cash out						
Banking undrawn commitments (50%)	7.2	7.3	7.1	7.2	7.5	8.1
Guarantees (100%)	2.3	2.5	3.1	3.2	3.3	3.3
Total debt redemptions (short & long-term)	10.5	11.4	13.6	11.9	12.3	18.8
Other obligations [2]	1.8	3.7	4.0	4.4	4.9	5.1
Total obligations	**21.7**	**24.9**	**27.8**	**26.8**	**28.0**	**35.3**
1 year EBRD stressed ratio	**144%**	**124%**	**116%**	**127%**	**137%**	**125%**
Liquidity buffer to 100% minimum requirement (€ bn)	*9.5*	*5.7*	*4.4*	*7.2*	*10.5*	*8.8*

[1] From year 2023 onwards, includes the consolidation of the Shareholder Special Fund.
[2] Includes cost of borrowings, non-borrowed funds, administrative expenses and deferred net income allocations.

As reflected by the one-year EBRD stressed ratio, coverage is projected to strengthen (from 2024 levels) during the SIP period, reflecting a combination of increasing borrowing levels and the paid-in capital instalments of €0.8 billion. The assumed borrowing levels beyond 2025 are reviewed annually in the context of each SIP along with the operating target the Bank sets for liquidity ratios.

In line with the second requirement under the Bank's Treasury Authority and Liquidity Policy (TALP), it is projected that at the end of 2025 the Bank will have 169 per cent coverage of the next two years' net cash requirements (to end-2027), comfortably above the policy minimum of 75 per cent. (See Table 4.7.)

Liquidity performance under a one-in-100 stressed scenario is the third requirement under the TALP. In this scenario, under the 2024 Bank-wide Stress Test, the EBRD has **sufficient liquidity resources to meet net cash requirements for a minimum of 12 months** as set out in the TALP.

Both the EBRD one-year stressed ratio and the two-year net cash requirements outlined in Tables 4.6 and 4.7 include the benefit of paid-in capital under the GCI, which is expected to occur in five annual instalments starting in April 2025.

Table 4.7 Projected Two Years Net Cash Requirements Ratio

	End 2024 Estimate	End 2025 Projected
Gross Treasury Liquidity assets	30.7	31.3
Less short term borrowings [1]	(3.0)	(1.4)
Net Treasury Liquid assets	**27.7**	**29.9**
Net outflows	**Years 2025/2026**	**Years 2026/2027**
Net operational disbursements	(6.7)	(5.1)
Net profit (incl. Net income allocations)	2.2	2.3
General capital increase instalments	1.6	1.6
Debt redemptions [2]	(18.8)	(16.5)
Two years net cash requirements [3]	**(21.7)**	**(17.7)**
Net cash requirements ratio	**128%**	**169%**

[1] Includes non-borrowed funds.
[2] Represents total debt (incl. short term debt) maturing in the next 24 months. Assumes no new issuance in 2026 and 2027.
[3] Estimate for 2024 based on SIP 2025-27 projections.

5. Cost management, budget proposal and resourcing the plan

Introduction

The previous chapter emphasised the importance of financial stability for the EBRD and how the Bank meets market-based tests of financial health in assessing its business plan projections. This chapter focuses on how the Bank proposes to manage overall costs under this SIP, including the introduction of a new, ring-fenced budget to cover the Bank's proposed activities in SSA and Iraq.

As part of the approval of the General Capital Increase (GCI) in December 2023, Governors agreed that the Bank should implement measures aimed at "…reinforcing the Bank's sustainable medium term budget framework to guide implementation in the period 2026-30 and to inform the Strategic Investment Plan (SIP) 2025-27." This approach helps to reassure stakeholders that the EBRD is managing its costs effectively and is on a financially sustainable path, and whether there is room for manoeuvre or corrective action is required. Although the projections for such an exercise extend well beyond the SIP's three-year timeframe, they are necessary to prompt any early budgetary or other changes that may be required in the SIP.

The chapter first outlines the medium term cost management framework that has "informed the SIP 2025-27", including new measurement metrics, and then presents the 2025 budget proposal. This is followed by a more detailed look at efficiencies and resource needs, including a proposed extraordinary budget for the Bank's expansion to SSA and Iraq.

5.1 Medium term cost management approach

The annual SIP budget is primarily a bottom-up exercise, established through careful consideration of upcoming demands, priorities and potential efficiencies. This approach ensures that strong discipline is applied when costing the Bank's activities for the following year. To provide a top-down assurance of financial sustainability and appropriateness of the cost trajectory, this bottom-up exercise is complemented by a medium term view of the evolution of the Bank's costs and related cost metrics.

Two key questions arise: Are costs increasing in line with growth in the Bank's operational activity? And are administrative costs comfortably paid for by the Bank's income, thereby allowing a sustainable level of organic capital growth?

Determining precise measurements of the cost efficiency of the Bank's activities is challenging. Many activities (including policy engagements) do not result in balance sheet growth and even those that influence lending growth may have fundamentally different attributes and dynamics. There is nonetheless considerable value in monitoring the Bank's cost base against measures of operational deployment and income. While no single metric can comprehensively assess cost control and efficiency, certain financial ratios offer a lens through which to assess key developments in the evolution of costs: in particular, costs measured against operating assets, total income and debt income. These are looked at in turn, across this SIP and beyond.

The ratio of costs to operating assets including guarantees (Figure 5.1) shows a slight rise in the near term, driven by the Bank's efforts to deal with the legacy of underinvestment in IT infrastructure under the Multi-Year Investment Programme (MYIP) and expansion to Sub-Saharan Africa and Iraq, before stabilising and dropping back a little.

Total costs against total income (Figure 5.2, measured on a five-year rolling basis to minimise the effects of financial volatility), which provides the most complete indicator of financial sustainability, also shows a rise in the immediate future for the same reason with its path steadying at around 36 per cent in the later years of the decade, a level in line with historical norms.

Figure 5.1 Costs to operating assets

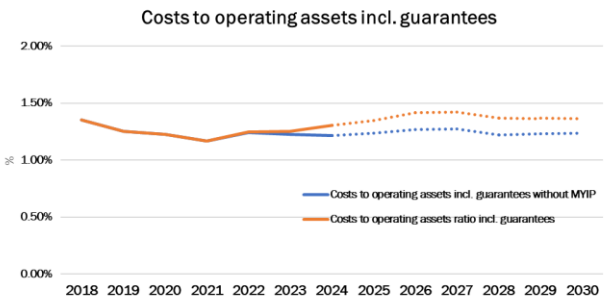


Figure 5.2 Total costs to total income

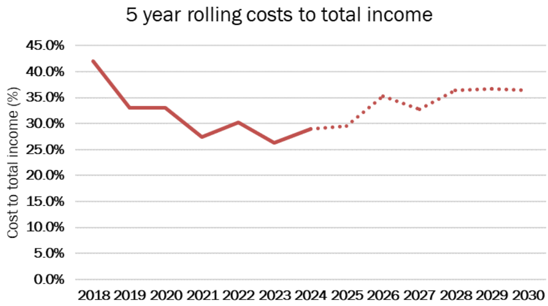


Figure 5.3 Medium term Cost to debt income

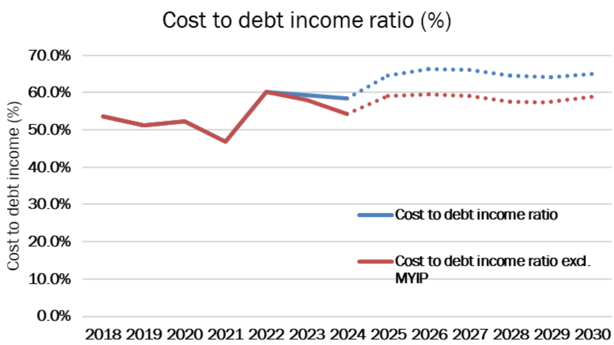
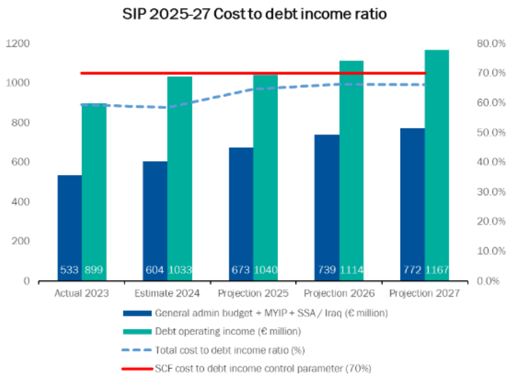


Figure 5.4 SIP Cost to debt income projection



When assessing costs against a narrower definition of income (debt only, Figure 5.3), which is the basis of the current SCF control parameter, the impact of increased IT investments under MYIP is once again evident within the projected profile. However, the projections show that the Bank remains within the SCF 2021-25 maximum limit of 70 per cent.

A more detailed view of the SIP profile is provided in Table 5.1 and Figure 5.4. Excluding MYIP, the projected cost to debt income ratio in 2027 falls to 59 per cent, in line with historical levels.

While the control parameters for SCF 2026-30 are yet to be decided, an emerging consensus suggests that a combination of two ratios could provide particularly useful guardrails for top-down assessment of cost appropriateness at the Bank. A higher cost to debt income ceiling at the level of the SCF could be supplemented by a tighter operational ratio relating costs to outstanding operating assets and guarantees, with the objective of ensuring reasonable proportionality between overall cost developments and the expected expansion of activities over the next SCF period. Once the SCF has been completed and the medium term cost

Table 5.1 SIP 2025-27 Cost Metrics

€ million	2021 Actual	2022 Actual	2023 Actual	2024 Estimate	2025 Plan	2026 Projected	2027 Projected
Total administrative expenses (incl. MYIP, SSA and Iraq)	431	489	533	604	673	739	772
Total costs*	474	538	537	622	682	749	784
Total debt operating income**	919	811	898	1,033	1,040	1,114	1,167
Total income	2,812	838	2,520	1,697	1,781	2,038	2,267
Operating assets incl. guarantees	36,807	39,277	42,578	46,174	49,882	52,234	54,203
Cost to debt income ratio†	46.9%	60.3%	59.3%	58.5%	64.7%	66.3%	66.2%
Total costs to total income ratio (5-year rolling)	27.4%	30.2%	26.4%	29.0%	29.6%	35.3%	32.8%
Cost to operating assets incl. guarantees	1.17%	1.25%	1.25%	1.31%	1.35%	1.41%	1.43%

* Includes non-budgeted, HQ transition costs and Libor project costs. **Before effective interest rate adjustment, deferral of fee income and the carryng cost of impaired loans.Therefore, debt operating income will differ from the Bank's published financial statements.
†Excludes non-budgeted, HQ transition costs and Libor project costs.
Note: Rolling 5-year calculation uses the preceding 5-year total income and costs.

Table 5.2 Projected Total Administrative Expense Budget 2025-27 (£ million)

	2024 Budget	2025 Budget	2026 Projection	2027 Projection
General Administrative Expenses, GBP	**479.3**	**507.8**	**531.7**	**550.4**
Extraordinary Budget Items GBP	**36.6**	**62.5**	**94.6**	**103.5**
SSA and Iraq	-	13.9	30.6	34.2
MYIP (opex and depreciation)	36.6	48.6	64.0	69.2
Total Administrative Expense Budget, GBP	**515.9**	**570.3**	**626.3**	**653.9**
GBP/EUR rate	1.17	1.18	1.18	1.18
General Administrative Expenses, EUR	**560.8**	**599.2**	**627.4**	**649.5**
Extraordinary Budget Items EUR	**42.8**	**73.8**	**111.6**	**122.1**
SSA and Iraq	-	16.4	36.1	40.4
MYIP (opex and depreciation)	42.8	57.3	75.5	81.7
Total Administrative Expense Budget, EUR	**603.6**	**673.0**	**739.1**	**771.6**

Note: The total expense budget in 2025 does not include non-budgeted items related to pension amortisation and retiree medical benefit, estimated at €9 million. These are included in Table 4.1 for completeness.

management framework has been established, the operational cost target for the subsequent annual budgets will be finalised in the context of the SIP 2026-28.

Across the SIP 2025-27 period, the Bank will now target a cost to operating assets ratio of around 1.4 per cent[24] or below, thus ensuring that cost growth does not disproportionally exceed the planned expansion in lending activity. In establishing this cost control discipline, the projected evolution of costs to total income is also maintained at a low level during the SIP period (32 per cent in 2027).

Administrative costs thus sit comfortably within levels required to maintain financial sustainability and support real growth of the Bank's capital. Responsible cost management will remain critical to the Bank's reputation and long-term efficiency. At these levels, the Bank's profitability and organic capital growth are expected to be strong, supporting increased operational activity and transition impact in the future.

5.2 The 2025 budget proposal

This SIP covers three years to 2027 and has a multi-year perspective. It builds on investments approved in the first four years of the SCF and reflects the impact of inflation, war-driven needs in Ukraine and beyond, as well as resources to support the delivery of SCF goals and other business requirements. In addition, the SIP includes dedicated funding for regional expansion into SSA and Iraq. Longer-term resourcing plans for the MYIP are discussed at the end of this chapter in section 5.6, and staff and workforce plans in Annex 3.

Figures used in the projections are based on prudent assumptions of cost growth and do not prejudge future budget proposals. Among other items, future budgets for general administrative expenses will need to take into account:

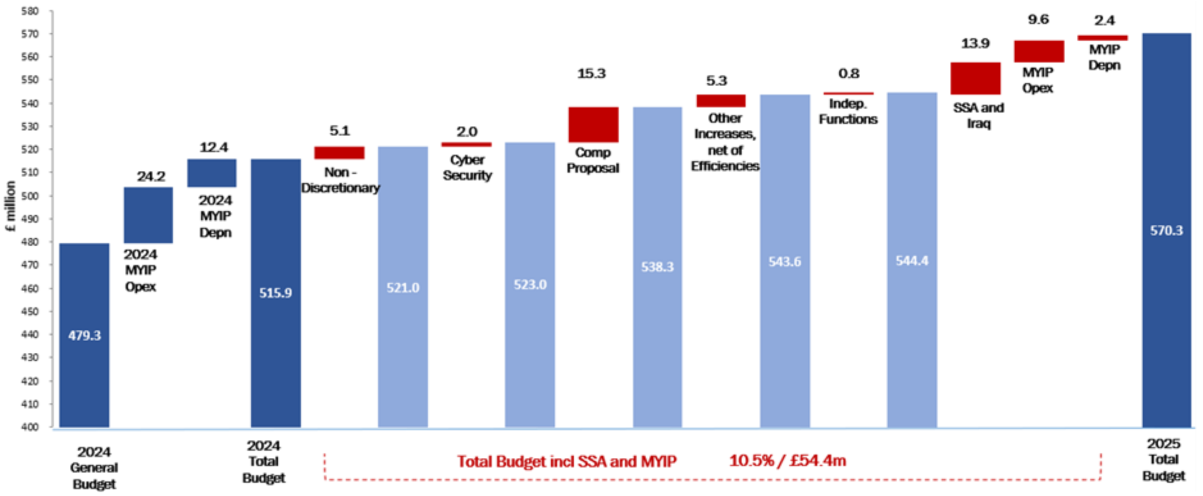
- Final SCF 2021-25 requirements and subsequent implementation of SCF 2026-30 priorities.
- Resources to support the Bank's operational delivery as it expands.
- Adjustments to compensation and benefits to allow the Bank to remain competitive in labour market.

Budgets beyond 2025 will be approved by the Board of Directors in subsequent SIPs.

The Bank remains committed to an efficient use of resources and strict budgetary controls. Equally, to meet the goals of the SCF and sustain delivery at significantly higher levels of business activity, make good the legacy of underinvestment in IT and begin expansion to SSA and Iraq the Bank requires a substantial increase in its budget. **For 2025, the Board is asked to approve a total administrative expense budget of £570.3 million (€673.0 million),** comprising a:

[24] Includes guarantees. The target reference may be exceeded in the event of significant unforeseen external shocks such as materially adverse movements in FX rates (in particular, EUR/GBP and EUR/USD), major write-off events impacting operating assets or a substantial spike in inflation.

Figure 5.5 Total Administrative Expenses: from 2024 to 2025



- **General administrative expense budget of £507.8 million;**

  and two extraordinary budget items:
- **MYIP implementation, amounting to £48.6 million**; and a
- **SSA and Iraq budget of £13.9 million.**

Table 5.2 summarises the budget proposal while Figure 5.5 presents its main components. The next section of this chapter looks at the drivers behind this request in more detail.

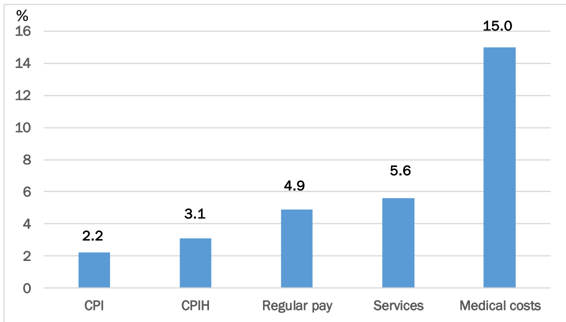
5.3 Resourcing the general plan

5.3.1 The impact of inflation

As noted in Chapter 1, general inflation has moderated from the double-digit levels seen in 2022. In August UK CPI inflation was 2.2 per cent and close to the Bank of England's 2 per cent target. From a Bank-wide perspective, inflation was somewhat higher at 2.8 per cent, reflecting the higher inflation experience of several countries of operations.

As with previous inflation episodes, changes in many important prices and costs lag headline rates. Figure 5.6 illustrates this. UK CPIH inflation, which includes owner-occupier housing costs, was higher than CPI at 3.1 per cent in August as the effects of higher interest rates put upward pressure on the cost of living. Annual increases in regular pay (excluding bonuses) in the three-month period to August amounted to 4.9 per cent as wage earners sought a catch up in real earnings. Meeting employee expectations on earnings and cost of living increases are important factors behind the SIP budget request.

Figure 5.6 Annual UK Inflation, August 2024



* CPIH = CPI including owner-occupied housing costs, Regular pay excludes bonuses. Sources: ONS and AON Global Medical Trend Rates Report 2025.

Pay forms the largest component of the administrative cost base. Based on market movement, the proposed increase of 4.3 per cent in the salary budget across the Bank (3.6 per cent in HQ, 8.0 per cent for Resident Offices), combined with the knock-on effects on benefits and other components, will cost £15.3 million in 2025, or more than half the increase in general administrative expenses. Detailed information on compensation and benefits proposals for next year is set out in a companion document.[25]

The Bank also faces escalating costs for unavoidable expenditures, including building and other service charges, business rates, software and market data licences, medical insurance, security contracts, depreciation and audit fees. Most of these items are experiencing higher than average inflation rates. Services inflation in

[25] 2025 Staff Compensation and Benefits Proposals.

August was 5.6 per cent, for example, while an estimate for medical costs showed an annual rate of increase of 15 per cent.[26]

These high rates of inflation complicate the management of overall costs. Changes from unavoidable costs amount to almost £7.0 million in 2025, although favourable exchange rate movements help reduce the rise to £5.1 million or 1.1 per cent.

The room for manoeuvre in funding new resources is heavily constrained in this environment and the Bank has accordingly planned the budget carefully.

5.3.2 Tackling Cyber Threats

The EBRD, like many other organisations today, faces regular threats from cyber criminals and other malign actors intent on disrupting its activities for financial gain or other purposes. These threats are serious and pose significant risks to the Bank's functionality and its clients. Without sufficient security measures, there is a risk of EBRD business being halted for a considerable period.

While the Bank has strong cybersecurity measures in place, and has invested significantly to enhance these defences, this is a fast-moving area with new and more dangerous threats emerging daily. Consequently, in addition to the very substantial investments already made, a further £2 million is allocated to cybersecurity in 2025 designed to mitigate these risks and ensure continuity of service.

5.3.3 Driving efficiencies forward

The EBRD ensures that existing resources are allocated to best use and streamlined before requests are granted for new resources. A strong management culture, which emphasises resource efficiency and effectiveness, has enabled the redeployment of substantial resources across activities and departments. This helps the Bank manage unexpected developments and cost pressures, while ensuring that it continues to deliver its priorities without losing sight of the need to improve existing activities, skills, and processes. The Transformation Office continues to lead on driving efficiencies throughout the Bank.

The EBRD faces multiple pressures on its resources, including from the ongoing war on Ukraine and increased business volumes. In seeking to optimise output and allocate resources to where they are most needed, management makes top-down reallocations and adjustments to budgets, stops low value work, reprioritises activities, including by making use of staff turnover and vacancies, and creates structural opportunities to redesign and automate processes.

This year, following a strict prioritisation process ahead of the SIP, the Bank identified a gross need of £12.8 million, made up of 105 headcount positions at a cost of £8.6 million and non-staff costs of £4.2 million, of which 46 headcount positions at a total cost of £3.6 million, were met through staff efficiencies and reallocations, while £2.8 million of non-staff costs were similarly resolved.

Within this total, the Client Services Group (CSG) reallocated 44 positions internally to meet incremental needs for SCF priorities and other operational demands. Some smaller departments with less budget flexibility were also creative in finding ways to reallocate resources. Nonetheless, given rising operational pressures and a 'snowballing' effect from accumulated resource shortages, there are limits to this process before strategic targets risk being compromised. Box 5.1 provides further details of the outcomes from this process.

[26] Estimate for the annual increase in gross medical costs in the UK in July. The equivalent European figure was 10.4 per cent. AON Global Medical Trend Rates Report 2025.

Box 5.1 Efficiencies by Enabler and by Business Area

The Bank has maintained its focus on delivering efficiencies. By enabler, these include:

- **Reviewing organisational structures**, leading to adjustment in the balance of staff resources
- **Reprioritising activities** (workload reallocations)
- Achieving **commercial savings** through provider or scope change
- Exploring opportunities related to natural **staff turnover**
- **Reviewing processes** with the aim of increasing efficiency, automating delivery or stopping an activity.

MYIP enabled £3.2 million of the overall £6.4 million efficiencies.

Efficiencies by Enabler and by Business Area (£ million)

		Headcount*	Staff Cost	Non-Staff Costs	Total
By:					
Enabler	Automation	-	0.0	(0.1)	**(0.1)**
	IT Decommissioning (hardware or software)	-	0.0	(2.6)	**(2.6)**
	Process re-engineering	(24)	(1.5)	(0.0)	**(1.5)**
	Workload reallocation	(22)	(2.1)	0.0	**(2.1)**
	Total by Enabler	**(46)**	**(3.6)**	**(2.8)**	**(6.4)**
Area	Banking Department	(44)	(2.9)	0.0	**(2.9)**
	Communications Department	(1)	(0.1)	0.0	**(0.1)**
	Office of the General Counsel	-	0.0	(0.1)	**(0.1)**
	VP, Chief Transformation Office	-	0.0	(2.6)	**(2.6)**
	VP Risk	(1)	(0.2)	(0.0)	**(0.2)**
	Unallocated	-	(0.5)	0.0	**(0.5)**
	Total by Area	**(46)**	**(3.6)**	**(2.8)**	**(6.4)**

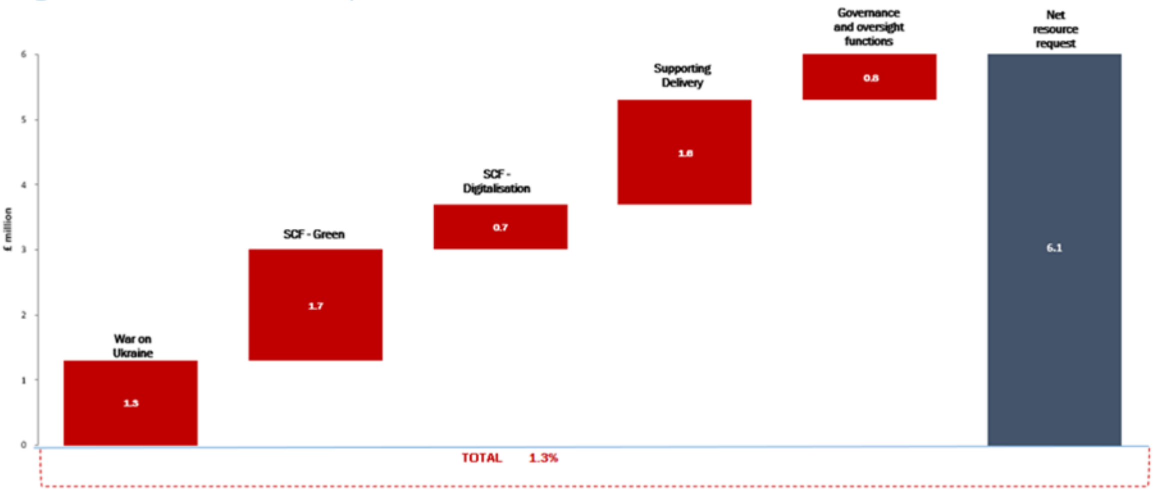
*Number Note: Figures in parentheses represent efficiencies and cost savings.

5.3.4 Net resource needs

The Bank's business priorities for 2025 are outlined in the operational plan in Chapter 3 and the economic context in Chapter 1. These chapters describe the many challenges the EBRD faces and how it is steering a path to deliver its objectives. This includes how the Bank plans to provide further support to its clients in Ukraine and other countries affected by the war, deliver its SCF priorities and begin activities in SSA and Iraq.

To meet these objectives, the Bank must be adequately resourced. In 2025, net of the £6.4 million efficiency savings above, resources for dealing with the war on Ukraine, SCF priorities and their delivery are expected to create incremental costs of £5.3 million, a 1.1 per cent increase on 2024's general administrative expense budget. A further £0.8 million, or 0.2 per cent, is envisaged for improvements to certain governance and oversight functions. The total **SIP 2025-27 net resource request is thus**

Figure 5.7 Net resource requests for 2025



£6.1 million. This is shown in Figure 5.7 along with the main components which are discussed below.

5.3.4.1 War on Ukraine

The EBRD has been committing significant resources to Ukraine and other affected countries since the start of the war. The Bank's Ukraine team is primarily based in Warsaw and Kyiv, where it has increased its presence despite significant staff safety concerns. Regular trips to Ukraine by the Bank's President, Vice Presidents, senior sector and country management, and key operational staff have materially increased, including meetings with donors and IFI/DFIs, and will continue to do so as the Bank steps up its efforts. This SIP therefore budgets for a significant increase in travel and security costs in 2025.

To maintain momentum in Ukraine, an incremental headcount of 13 is needed: 10 in Banking and an additional three in the Office of General Counsel, Risk Management, and Procurement Policy and Advisory. This covers operations, policy and legal work on Ukrainian transactions, including a war insurance product and assistance with complex financing structures. Non-staff funds are needed to finance third-party security costs for critical missions and the running costs of an armoured vehicle. A **net request of £1.3 million** is proposed, made up of £0.8 million (13 FTEs) and £0.5 million of non-staff costs.

5.3.4.2 SCF Priorities: Green economy, Equality of Opportunity and Digitalisation

SCF priorities on the green economy, equality of opportunity and digitalisation have led to higher resources in successive SIPs. In keeping with planned higher business volumes, SIP 2025-27 proposes a **net increase in resources for these priorities of £2.4 million** (£2.1 million for 32 FTEs and £0.3 million non-staff costs):

- The GET request includes 24 headcounts (£1.5 million) and £0.3 million non-staff funds. The resources will strengthen green policy efforts, PPP advisory and energy transition in Central Asia, portfolio and communications work, regularise unbudgeted positions and grow business activities in the Western Balkans and South-Eastern Europe. Funds are also allocated for SEMED policy support, a centre of excellence for buildings and a subscription for Task Force on Climate-Related Financial Disclosures (TCFD).
- The Bank continues to prioritise gender equality and equality of opportunity and has been successful in scaling up inclusive operations and gender mainstreaming across the Bank; no net resources are requested in this SIP.
- Digitalisation involves 8 headcounts (at a cost of £0.7 million) to support data analytics, portfolio and cybersecurity work and digital transformation.

5.3.4.3 Supporting Delivery

Amid a growing volume of activities, as set out in Chapter 3, there is a continuing need to strengthen the resilience of the Bank’s delivery model, including through decentralisation. The cumulative allocation of resources which have supported the expansion of front-line banking activities and the growing complexity of the EBRD’s business require parallel investments in data management and back office and other support. The majority of needs here have been met through efficiencies and reallocations.

Under the category of Supporting Delivery the SIP **net request is £1.6 million** for the funding of 14 incremental headcount, while 46 out of the initial headcount demand of 60 was covered through internal efficiencies and reallocations.

Banking identified 19 new positions located in priority regions, while VP Policy and Partnerships will support the delivery of the Impact Report and the Office of the General Counsel will boost travel budgets for RO-based lawyers and assistants. Elsewhere, Finance will support increased complexity in financial control activities, contracts, vendor management and synthetic risk transfers, Risk Management will cover additional security costs and HR will manage a Bank mobility programme. Further details of departmental costs are provided in Table A2 in Annex 4.

5.3.4.4 Governance and Oversight functions

SIP 2025-27 extends the EBRD’s governance and oversight functions **at a cost of £0.8 million**. Additional resources are provided for Internal Audit to support a growing work programme, the Independent Project Accountability Mechanism

Table 5.3 General Administrative Expense Budget for 2025 (£ million)

Administrative Expenses	2024 Budget	2025 Budget	2025 vs 2024 £ million	2025 vs 2024 Per cent
Operating Expenses	436.0	464.5	28.5	6.5%
Depreciation	43.3	43.3	(0.0)	(0.1%)
General Admin Expenses	**479.3**	**507.8**	**28.5**	**5.9%**

(IPAM) to strengthen its compliance function and the Independent Evaluation Department. These resources support the Bank's ability to deliver high quality results but are shown separately in Figure 5.7 to reflect their independent nature.

5.3.5 General administrative expenses

A total of £507.8 million is proposed for the general administrative expense budget in 2025, a 5.9 per cent nominal increase on the 2024 budget of £479.3 million (see Table 5.3). The increase is higher than UK CPI inflation of 2.2 per cent and Bank-wide aggregate inflation of 2.8 per cent (both August 2024 figures), for the reasons given earlier in this chapter.

Movements in general administrative expenses are set out in Table 5.4. In summary, the 5.9 per cent nominal increase is made up as follows:

- 1.1 per cent related to price and volume increases, FX impacts (mostly linked to US dollar weakening), and the consequences of a range of items such as service costs and benefits linked to medical cost inflation.
- 0.4 per cent to address risk mitigation within the Bank's cybersecurity capabilities.
- 3.2 per cent to fund the 2025 compensation proposal, consisting of market movement and Board and VP increases, as well as the impact of the benefit review.
- 1.1 per cent (net) for business needs linked to SCF priorities and support for delivery, after taking into account identified efficiencies and reallocations.
- 0.2 per cent to strengthen the Bank's governance and independent oversight functions.

Figure 5.8 General Administrative Expense Budget: from 2024 to 2025

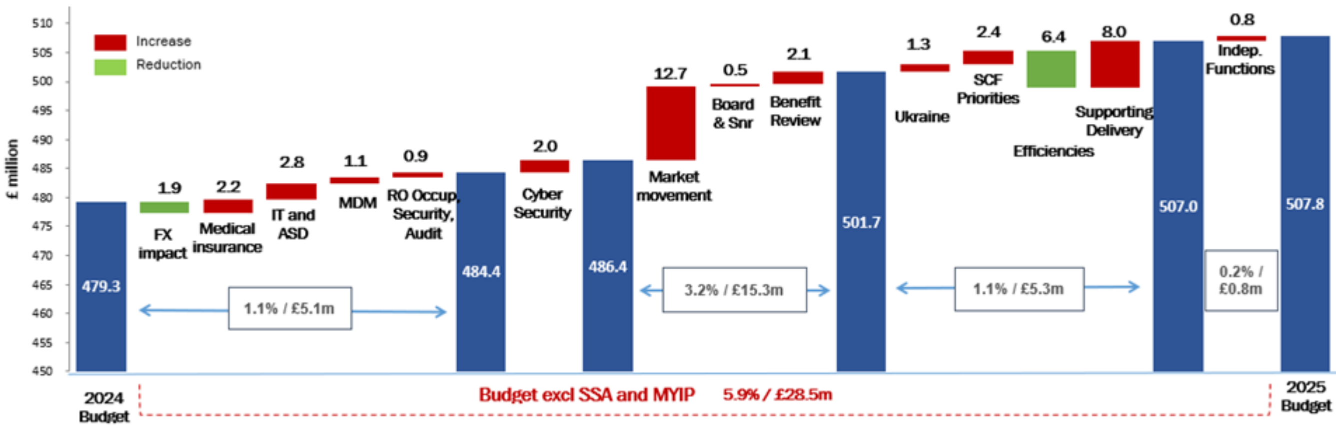


Table 5.4: Key Movements in the 2025 Budget (£ million)

2024 Budget (General Adminstrative Expenses)	479.3				
	Changes	Proposed	Saving	Net	Increase
A.	**Non-discretionary**	**7.0**	**(1.9)**	**5.1**	**1.1%**
	FX impact		(1.9)	(1.9)	
	General Staff Benefits	2.2		2.2	
	ASD	0.3		0.3	
	IT	2.5		2.5	
	Audit fees	0.2		0.2	
	RO occupancy costs	0.5		0.5	
	Security and other risk management	0.2		0.2	
	Market data management	1.1		1.1	
B.	**External Threats**	**2.0**	**-**	**2.0**	**0.4%**
	Cybersecurity	2.0			
C.	**2025 Compensation Proposal**	**15.3**		**15.3**	**3.2%**
	Market movement	12.7		12.7	
	Board & Senior Management	0.5		0.5	
	Reward Review	2.1		2.1	
D.	**Other Movements and Efficiencies**	**11.7**	**(6.4)**	**5.3**	**1.1%**
	War on Ukraine	1.3		1.3	
	SCF Priorities - Green	1.7		1.7	
	SCF Priorities - Digitalisation	0.7		0.7	
	Supporting Delivery	8.0	(5.9)	2.1	
	Additional effiiency measures		(0.5)	(0.5)	
E.	**Governance and oversight functions**	**0.8**	**-**	**0.8**	**0.2%**
	Internal Audit	0.3		0.3	
	Independent Project Accountability Mechanism	0.4		0.4	
	Independent Evaluation Department	0.1		0.1	
F.	**Total Movements**	**36.8**	**(8.3)**	**28.5**	**5.9%**
2025 Budget (General Administrative Expenses)	507.8				

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

In more detail:

- **£5.1 million additional budget for non-discretionary items** (factor A), includes:
  - **Price and volume changes.** This reflects £7.0 million of inflationary/contractual increases in centrally managed technology costs (£2.5 million); higher health insurance-related benefits (£2.2 million), driven by rising costs of medical services and long-term incapacity insurance;[27] and information services, security and audit costs (£1.5 million).
  - These are partially offset by a **favourable FX impact of £1.9 million**, which reflects a strengthening of sterling against US dollar.
- **£2.0 million additional budget for cybersecurity** (factor B) to align, coordinate

[27] These are partially offset by aligning the treatment of the provision for future Retirement Medical Benefit (RMB) payments to the provision for meeting future Final Salary Benefit liabilities. The adjustment has been necessitated by increasing materiality of the RMB provision, which is expected to exceed £30 million in 2025. Following the change, all cash payments related to RMB will be recognised in the budget, while accounting adjustments related to changes in the net present value of future RMB payments will go through other parts of the P&L, thus insulating the budget from the volatility inherent to these valuations. The change has no impact on the total costs of RMB benefits recognised in budgets over a long period of time.

and control security projects related to ransomware readiness, vulnerability management and security culture. In addition, the Bank will initiate a holistic three-year roadmap towards risk reduction aligned with the National Institute for Standards and Technology (NIST) Cybersecurity Framework.

- **£15.3 million additional budget for the 2025 compensation proposal** (factor C), including:
    - **£12.7 million for market movement** in staff costs, which is equivalent to a 4.3 per cent salary increase from January 2025 (3.6 per cent for HQ and 8.0 per cent across resident offices).
    - **£0.5 million** for Board, VP and senior management compensation increases.
    - **£2.1 million** to fund the Bank's Reward Review, including longer parental leave, child allowances and indexation, and non-flex changes mostly related to the mortgage subsidy.
- **Gross staff and non-staff resource needs of £11.7 million, partially funded through £6.4 million of efficiencies, resulting in net £5.3 million incremental budget allocations** (factor D), comprising:
    - **£1.3 million** linked to the Bank's response to the **War on Ukraine.**
    - **£2.4 million** business lead requests linked to **SCF Priorities** (see section 5.3.4.2).
    - **£8.0 million** related to **Supporting Delivery** to support ongoing needs (funded largely through reallocation and efficiencies).
    - **£6.4 million of *savings* from efficiencies and reallocations** (see section 5.3.3).
- **£0.8 million additional budget to strengthen the Bank's oversight and governance functions (factor E),** including:
    - **£0.3 million** to strengthen **Internal Audit, £0.4 million** and **£0.1 million** for the **Independent Project Accountability Mechanism** and **Independent Evaluation Department** respectively**.**

5.4 Resourcing expansion to SSA and Iraq

Delivery in Ukraine and other countries of operations will remain the core focus of the EBRD, but it is important to ensure that the Bank is able to commence activities in potential new countries in SSA and Iraq as soon as the institutional process allows. In keeping with EBRD's business model, a local presence will be established by setting up resident offices in each of the new countries of operations.

Based on a careful assessment of needs for the start-up phase and subsequent business activities, the SSA and Iraq **net resource request for 2025 is £13.9 million.** This amount is slightly higher than the preliminary indications presented at the AGM in Samarkand in May 2023, reflecting salary inflation in the region, increased security, travel, lease and IT costs, as well as better overall understanding of business and resource needs informed by in-depth discussions with other development actors and on-site due diligence which followed the Governors' decision in 2023. Table 5.5 shows the expected path for administrative expenses during this SIP.

Table 5.5 SSA and Iraq Administrative Expense Budget for 2025-27 (£ million)

Administrative Expenses	2025	2026	2027
Staff Costs	9.0	21.6	24.0
Non-Staff Costs	2.5	3.7	4.3
Centrally Managed Costs	2.4	5.3	5.9
Total Costs	**13.9**	**30.6**	**34.2**

This ring-fenced budget recognises that it will take time to get up to full speed and resources will be deployed commensurate with the progress in the ratification and country of operation onboarding processes. Should the country of operation status for any of the countries in SSA and Iraq be delayed beyond current expectations, the relevant part of the budget will not be deployed, leading to lower expenditure in 2025 which will not be available for reallocation to other activities of the Bank. For example, if two of the countries were not to obtain their recipient status in 2025, the ring-fenced SSA and Iraq expansion budget is expected to be underspent by around £2.0 million to £3.5 million.

The 2025 budget request for SSA and Iraq is based on an expected £26.4 million annualised

Table 5.6 MYIP Financial Implications, Phases 1-4 (£ million)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Operating Expenses	7.5	10.9	12.5	13.0	13.1	13.2	13.2	13.2	-	-
Depreciation	7.0	11.3	9.9	11.2	11.2	11.2	9.7	4.2	2.2	1.3
Phase 1	**14.5**	**22.2**	**22.4**	**24.2**	**24.3**	**24.4**	**22.9**	**17.4**	**2.2**	**1.3**
Operating Expenses	6.7	10.1	9.0	12.4	12.2	12.3	12.3	12.4	-	-
Depreciation	0.0	0.9	3.2	4.6	5.6	5.8	5.7	5.7	4.6	2.6
Phase 2	**6.7**	**11.0**	**12.3**	**17.0**	**17.8**	**18.1**	**18.0**	**18.1**	**4.6**	**2.6**
Operating Expenses	-	1.9	9.8	14.7	14.3	14.3	14.4	14.1	-	-
Depreciation	-	0.2	1.7	4.1	7.1	8.9	8.9	8.9	8.6	7.1
Phase 3	**0.0**	**2.1**	**11.5**	**18.8**	**21.4**	**23.2**	**23.3**	**23.1**	**8.6**	**7.1**
Operating Expenses	-	1.3	2.4	3.3	4.3	5.7	5.7	5.7	-	-
Depreciation	-		0.0	0.7	1.5	1.8	1.8	1.8	1.8	1.8
Phase 4	**0.0**	**1.3**	**2.4**	**3.9**	**5.8**	**7.5**	**7.6**	**7.6**	**1.8**	**1.8**
Total	**21.2**	**36.6**	**48.6**	**64.0**	**69.2**	**73.1**	**71.8**	**66.1**	**17.3**	**12.7**

Note: Total MYIP investment is £204.5m, of which PSB approved 63 per cent until August 2024. The rest will be spread over three year until end of 2027

full year cost of operations across all countries in the region, reflecting phasing of the activities in 2025 as outlined above. Approximately three-quarters of this is staff costs, covering 152 positions in seven Resident Offices and HQ, of which the regional component is a headcount of 108. Some flexibility of allocation will be retained to accommodate the recipient status timetable and local business needs. The majority of non-staff costs are expected to be spent on travel to and within the SSA region and Iraq as teams engage with clients to develop new business.

5.5 Multi-Year Investment Plan

In July 2020 the Board acknowledged the need for a multi-year investment plan (MYIP) of approximately £200 million over the period 2020-25. It was agreed that budgets for each phase of the programme would be subject to discussion and agreement as part of the annual SIP process and would be held separately from the core administrative budget until all projects in all phases went live. Each request for funding is presented to a Programme Steering Board (PSB) for approval.

The MYIP continues to be a priority for the Bank. **Capex of £78.3 million for Phase 1, £47.1 million for Phase 2, £62.9 million for Phase 3 and £16.2 million for Phase 4 was confirmed respectively in each of the last four SIPs, along with the financial implications for operating expenditure and depreciation.**

As noted in Chapter 3, these investments have delivered a series of successful initiatives, leading to an important reduction in the operating risks facing the Bank and helping to improve efficiency in many core functions and processes. Ongoing MYIP investments and initiatives in the pipeline will reduce risks, improve resilience and enhance the Bank's operational capabilities, further providing a more robust business platform that supports clients, stakeholders and staff effectively across key processes, data management and technologies.

The **impact of MYIP on the 2025 budget (operating expenses and depreciation) is £48.6 million**, rising to £64.0 million in 2026 and £69.2 million in 2027. (See Table 5.6.) In future years, costs will be partially offset by process efficiencies and reduced operational risk. The

Table 5.7: MYIP Investment and Benefits

Investment/Benefits	2020-22	2023	2024	2025	2026	2027	2028	2029	2030-33	Total
Investment	83.8	18.5	42.2	45.6	13.5	0.9	-	-	-	204.5
Benefits already committed	0.4	3.7	4.8	6.8	8.4	11.8	11.9	11.8	82.2	82.4
Future benefits	-	-	-	-	-	-	-	-	16.6	16.6
Total benefits available for reallocation	**0.4**	**3.8**	**4.8**	**6.8**	**8.4**	**11.8**	**11.9**	**11.8**	**39.2**	**98.8**

Table 5.8 Capital Expenditure (£ million)

Capital Expenditure	2024 Budget	2025 Budget	2026 Budget	2027 Budget	2024-27 Total
IT	8.7	17.2	TBC	TBC	25.9
HQ	0.9	0.8	TBC	TBC	1.7
Resident Offices	3.6	2.9	TBC	TBC	6.5
Business as usual	13.2	20.9	TBC	TBC	34.1
MYIP	42.2	27.6	26.0	6.4	102.2
SSA and Iraq	-	4.5	0.3	0.2	5.0
Extraordinary Budget Items	42.2	32.1	26.3	6.6	107.2
Total	55.4	53.0	26.3	6.6	141.3

expected value of these offsets will be identified as initiatives are developed.

In addition to a substantial reduction in IT risk resulting from MYIP, there have been considerable savings from other initiatives, such as Monarch. Efficiencies identified in MYIP business cases are expected to reduce annual costs by **around £10 million per year from 2027**, contributing to the Bank-wide effort in keeping costs down. Cumulative savings are estimated at £98.8 million by 2033 including future business case benefits. (See Table 5.7.) Non-financial benefits, including data quality and reporting capabilities as well as improved employee engagement, are also expected.

5.6 Capital expenditure

A summary of planned capital expenditure under this SIP is presented in Table 5.8. This includes capital expenditure for business-as-usual activities, as well as for strategic investments and projects including expansion to SSA and Iraq.

5.6.1 IT capex – business as usual (BAU)

Planned IT capital expenditure in 2025, excluding carried forward budgets and investment related to the multi-year investment plan, is £17.2 million, including:

- Non-discretionary expenditure of £10.6 million primarily to cover the refresh of desktops and other devices in headquarters and ROs (£2.3 million), upgrades of core infrastructure hardware (£7.3 million) and IT security infrastructure (£1.0 million).
- Business-led expenditure of £4.5 million primarily to manage the impact of new regulations (e.g. SWIFT), address new demands in CoOs as well as opportunities for application enhancement.
- Technology-led expenditure of £2.0 million to increase the efficiency and effectiveness of existing technology platforms.

The business case, scope and budget requirements for pipeline projects are finalised and approved by management.

5.6.2 HQ and resident offices (ROs)

Capital expenditure for offices is budgeted for and indirectly approved through its effect on depreciation, with a total of £3.7 million capital expenditure planned for HQ and resident offices (business as usual).

- **HQ.** £0.8 million for fitouts and furniture to ensure a safe and comfortable working environment.
- **ROs.** Planned capital expenditure for 2025 is £2.9 million and includes:
  - Relocation of offices in Amman, Kyiv, Pristina and Skopje.
  - Refurbishments in Istanbul, Bucharest, Tunis, Zagreb, Beirut, Belgrade, Ljubljana and Almaty.
  - RO sustainability work.
  - Replacement of 11 RO vehicles.

5.6.3 SSA and Iraq

Capex expenditure for SSA and Iraq is front-loaded in 2025 to reflect the initial impact of setting up resident offices. It is estimated at £4.5 million, comprising £3.0 million ASD and £1.5 million IT infrastructure costs. Subsequent capex is expected to be negligible.

6. Governance, incentives and accountability

Introduction

By design, the SCF is not prescriptive and allows the Bank to respond to opportunities and circumstances to deliver its objectives. This flexibility is exercised within a clear framework for accountability. Control parameters are set to provide assurance to shareholders that the Bank is pursuing its strategic objectives responsibly and Management is held to account for the Bank's performance on the basis of an annual Scorecard set out in the SIP and approved by the Board of Directors.

6.1 The control parameters

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 quality of 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 set maximum levels of capital utilisation, as measured both on a nominal basis and through the Bank's risk-based Capital Adequacy Policy (CAP).
- **Resources.** The resource parameters set maximum levels for annual level of the Bank's cost-to-debt income ratio and the five-year rolling average of the share of staff costs in total costs.

Projections for the development of the capital and resource control parameters are presented for the period covered by the SIP in Table 6.1. The table shows that the Bank has been performing within the constraints created under the current SCF control framework. However, that framework is approved only until 2025. The SCF 2026-30 will contain an updated control framework to apply in subsequent years.

Table 6.1 shows that for 2025 the Bank is projected to be in compliance with all control parameters. Looking forward, this remains true over the rest of the SIP period, confirming management's intention to keep the ratio of staff costs to total costs below 70 per cent, other than for the level of nominal capital utilisation which is projected to rise above the current limitations in 2026 and 2027. The nature of any nominal capital control parameter to apply in the period from 2026 will take into account the reallocation of the Bank's nominal capital measure from the Agreement Establishing the Bank to a policy at the Board of Directors level.

Table 6.1 Projected SCF Control Parameters 2022-2027

	Control Level	2022 Actual	2023 Actual	2024 Estimate	2025 Projected	2026 Projected	2027 Projected
Transition Parameters							
Expected Transition Impact	> 60	67	68.2	67.6	> 63	> 63	> 63
Portfolio Transition Impact	> 65	76.4	76.9	75.9	> 68	> 68	> 68
Capital Parameters							
Statutory Capital Utilisation	< 92%	83%	85%	88%	91%	95%	97%
Capital Adequacy Utilisation	< 90%	65%	62%	64%	64%	63%	63%
Resource Parameters							
Cost to Debt Income ratio	< 70%	61%	59%	58%	65%	66%	66%
Staff Cost to Total Cost ratio *	< 70%	69%	69%	69%	67%	66%	65%

* 5-year average

6.2 Corporate scorecard

The Board of Directors approved the template for the Corporate Scorecard in October 2020 to reflect the priorities of the SCF 2021-25. Whilst revisions to the Corporate Scorecard are being discussed as part of the forthcoming SCF 2026-30, the levels for each element in the Scorecard are presented below according to the 2020 approved structure. These parameters act as incentives for management and staff to deliver results and reflect the Bank's projections and ambitions for 2025, as set out in the rest of this document.

Transition impact

- **Average ETI is set as a range of 63-69:** The range for average ETI on all new projects rated over the course of the year is set at similar level to the 2024 scorecard reflecting the Bank's continuing ambition to deliver a strong impact.
- **Average PTI is set at a minimum level of 68**, also similar to last year's SIP. The three-year moving average of the difference between ETI and PTI is 7.7 points as transition impact is realised and the risks to future transition delivery decrease.
- **For each of the six Transition Qualities**, there will be a quantitative and qualitative assessment, as currently, through Composite Performance Assessments, each rated either Very Good, Good or Requires Attention.
- **Green Economy Transition is set as a percentage of ABI at 50 per cent.** The target matches, one year ahead, the strategic objective set out in SCF 2021-25 to reach 50 per cent by the end of 2025, reflecting the strong focus of the Bank on Green Economic Transition and successful delivery in that domain since 2021.
- **The target for Gender-tagged operations is set at a minimum share of 40 per cent of the total number of projects.** This is an increase on the 2024 Business Plan objective and in line with the Bank's commitment to reach 40 per cent of operations by 2025, the end of the SCF period.

Operational performance

- **The number of operations is set as a range of 430 to 480** reflecting projected activity composition levels and expected project size dynamics.
- **ABI is set as a range €14.0 to €15.0 billion,** an increase of €2.5 billion on the range set out in the 2024 Business Plan. The higher range reflects the Bank's ambitions and expected transition opportunities across the Bank's regions as well as support to Ukraine and countries affected by the conflict. With recipient membership still pending, this objective is not materially impacted by potential investments in Sub-Saharan Africa and Iraq.
- **Annual Mobilised Investment (AMI) is set at €2.8 billion,** an increase of €0.8 billion compared with the SIP 2024-26 objective, reflecting expected business opportunities over the period notwithstanding challenging market conditions. This level is more than 10 per cent higher than the enhanced goal under GCI policy commitments of reaching €2.5 billion annually by end-2025.
- **Annual disbursements are set as a range of €9.0 billion to €10.0 billion** reflecting expected investment levels in 2025 as well as the projected end-2024 stock of undrawn commitments taking into account the historically low level of the undrawn ratio at the end of the third quarter 2024 (26 per cent).
- **The 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 maintained at a minimum of 48 per cent of ABI,** reflecting the continued focus on investment in priority regions as set out in the SCF. As in recent years, the immediate operational objective to invest in Ukraine and affected countries is expected to substantially impact the share of activity outside priority regions in 2025 and beyond. With the loss of Belarus, an ETC country, and limited investment opportunities in several priority countries, delivery of this scorecard objective, based on a share of total volume, is likely to be negatively impacted in 2025 as a result.

Financial performance

- **Return on required capital is set as 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 9.0 per cent.** The target is set at a level similar to the 2024 objective, reflecting continuing uncertainty of the economic environment.

Institutional performance

- **Productivity is set as a range of 1.2-1.4**, reflecting the proposed budget and operational plan for 2025. 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 pounds sterling).
- **Cost to debt income is set at a maximum level of 70 per cent.** The level is set slightly above the 2024 objective to allow for potential fluctuations in debt income and the growth in costs from the Bank's increased presence in Ukraine and initial costs of expansion to Sub-Sahara Africa and Iraq.
- **Operational risk assessment.** This measure is designed to assess the Bank's progress in achieving the goal of creating an organisation where management and staff show accountability and leadership in proactively identifying, mitigating and reporting risks to ensure the risk profile remains within adequate tolerance. The assessment is made annually through a mix of quantitative and qualitative measures, rated as either Very Good, Good or Needs Improvement, and is shared with the Board of Directors.
- **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.

Resource framework

- **The administrative expense budget** is set at €673.0 million (£570.3 million).

Corporate scorecard 2025

	2025	30/09/2024		2024	2023	
	BP and budget	Actual	Plan rate (€/$1.05)	BP and budget	Actual	Plan rate (€/$1.05)
TRANSITION IMPACT						
Expected transition Impact	63 – 69	67.6		63 – 69	68.2	
Portfolio transition Impact	Min 68	75.9		Min 68	76.8	
Transition qualities						
Competitive, innovative economies	CPA*	CPA*		CPA*	Good	
Well-governed economies and firms	CPA*	CPA*		CPA*	Good	
Environmentally sustainable, green economies	CPA*	CPA*		CPA*	Very Good	
Inclusive, gender-equal economies	CPA*	CPA*		CPA*	Very Good	
Resilient economies and firms	CPA*	CPA*		CPA*	Good	
Well-integrated, connected markets	CPA*	CPA*		CPA*	Good	
Green Economy Transition (% ABI)	50%	55%		50%	50%	
Gender-tagged operations (% No. of ops)	min 40%	46%		min 35%	44%	
OPERATIONAL PERFORMANCE						
Number of operations	430 – 480	388		395 – 435	464	
Annual Bank Investment (€ billion)	14.0–15.0	9.0	8.4	11.5-12.5	13.1	13.4
Annual Mobilised Investment (€ billion)	Min 2.8	2.0		Min 2.0	2.8	
Private sector share (% ABI)	Min 75%	79%		Min 75%	80%	
Disbursements (€ billion)	9.0-10.0	6.7	7.1	8.0 – 9.0	9.8	10.0
Activity in the ETCs, Western Balkans and SEMED (% ABI)	Min 48%	40%		Min 48%	40%	
FINANCIAL PERFORMANCE						
Return on required capital (three-year rolling average)	Min 3.5%	8.6%		Min 3.5%	10.30%	
Debt return on required capital before costs	Min 9%	21.4%		Min 9%	16.80%	
INSTITUTIONAL PERFORMANCE						
Productivity (number of operations based)	1.2-1.4	Annual		1.2-1.4	1.4	-
Cost to debt income ratio (12 months rolling average)	Max 70%	55.3%		Max 65%	59.30%	
Staff engagement ratio	tracked	Annual		tracked	7.2	
Operational risk assessment	tracked	Annual		tracked	Adequate	
RESOURCE FRAMEWORK						
EXPENDITURE						
Administrative expense budget						
Euro (million)	673.0	603.6		560.8	509.4	
Pound sterling (million)	570.3	515.9		479.3	447.9	

*Composite Performance Assessment

Annex 1. The Bank in 2025

SCF 2021-25 Box 1[28]

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[29] (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.

[28] The EBRD's Strategic and Capital Framework 2021-25, p. 18.
[29] Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan.

Annex 2. Definition of annual mobilised investment

The definition of Annual Mobilised Investment (AMI) may be summarised as follows:

1. Annual mobilised investment automatically includes the following, provided a relevant and meaningful fee is earned or skimmed by EBRD:
    - All funds – public and private – mobilised through the B loan programme, parallel financing, secondary sales, or similar.
    - Unfunded mobilisation via Unfunded Risk Participations (URPs) and Non-Payment Insurance (NPI).
2. Annual mobilised investment automatically includes the following without the need for a fee:
    - Investments from partner financial institutions (PFIs) under the Risk Sharing Framework (RSF), Resilience and Livelihoods Framework (RLF) or similar risk-sharing frameworks.
    - Debt and bond frameworks and significant risk transfer (SRT) structures EBRD invests in where on-lending multiples are covenanted in the legal documentation.
    - All private funds mobilised in the Trade Facilitation Programme (TFP) on both funded and unfunded bases, as applicable.
    - Guarantee instruments provided on an unfunded basis, including those backed by concessional instruments, which trigger larger on-lending portfolios.
    - All private funds mobilised through a securitisation programme (or similar) issued by the EBRD.
3. Annual mobilised investment also includes, subject to certain conditions, commercial finance in the context of:
    - Equity and equity funds.
    - Bonds in certain circumstances where EBRD was instrumental in the facilitation or creation of the financial instrument.
    - All amounts (debt and equity) co-invested in projects supported through dedicated advisory services such as the Infrastructure Project Preparation Facility (IPPF) or the Renewable Auctions Programme.
    - Amounts triggered by EBRD-administered concessional finance instruments such as guarantees or other de-risking structures.
4. Mobilisation by Decision: activities not eligible above may receive recognition by decision of the Operations Committee (Ops Com), as advised by the Director, Head of Debt Mobilisation and the Associate Director, Head of OSP and Data Analytics.

Annex 3. Staff and workforce planning

The Bank's workforce

The Bank's workforce increased by a headcount of 174 (net, including externally funded positions) during the year to the end of September 2024, an increase of 5.6 per cent on the prior year. The staff mix among sub-groups remained broadly unchanged, with Banking accounting for 48 per cent of the total workforce.

Table A3.1 The Bank's Workforce in 2024, end-September

	2022 Q3		2023 Q3		2024 Q3	
	Headcount	Per cent	Headcount	Per cent	Headcount	Per cent
Headquarters	1913	65%	2041	66%	2157	66%
Resident office	1016	35%	1046	34%	1104	34%
Banking	1563	53%	1620	52%	1579	48%
Non-Banking	1366	47%	1467	48%	1682	52%
Regular	2219	76%	2336	76%	2432	75%
Fixed-Term contract	554	19%	612	20%	682	21%
Short-Term contract	156	5%	139	5%	147	5%
Non-Overtime Eligible (male)	1188	41%	1285	42%	1349	41%
Non-Overtime Eligible (female)	1296	44%	1365	44%	1468	45%
Overtime Eligible (male)	86	3%	82	3%	87	3%
Overtime Eligible (female)	359	12%	355	11%	357	11%

Ukraine

The war on Ukraine led the Bank to make a number of policy decisions to ensure that staff affected by the crisis were safe and could continue to meet business requirements. Although the majority of the assistance was deployed in 2022, financial support providing a subsistence amount continued to be delivered to 46 employees in 2023. The Bank put in place policies to ensure affected staff were able to plan for the longer term and the package of help agreed earlier has been extended by 12 months.

Hybrid working

The Bank initially moved to a hybrid way of working after the Covid-19 pandemic based on staff attending the office for two days per week or eight days per month. After a review in the first half of 2022, a revised approach was adopted based on a strong belief that working together in person is critical for business effectiveness and should be underpinned by principles of trust, flexibility and connectedness.

The new framework, whereby staff spend at least half their time on average working in an office or in person with clients and partners and are assisted with supporting tools, continued in 2024. The overall arrangements are regarded by staff as a positive step forward in improving work-life balance.

Wellbeing

A material number of staff (some 15 per cent) continue to be directly or indirectly impacted by the war on Ukraine and with the humanitarian crisis in Gaza also impacting staff, the geopolitical situation remains a constant watch item for our staff wellbeing. With the ongoing events in Lebanon, the Bank has also been supporting our staff there, with 18 members impacted directly, the Bank has provided voluntary evacuation support and alternative accommodation to ensure their safety.

The overall number of sick days in the year to date has risen by 5 per cent compared with the previous year, with stress-related absences remaining largely static within the total at around one-third, although the total number of staff absent for this reason remains low. A wellbeing programme and mental health first aiders offer ongoing support to the Bank's workforce. The Bank has defined its 'workplace behaviours' and rolled out corresponding awareness and training sessions for all employees during 2024, with further embedding planned for 2025.

Annex 4. 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 the five-year trend of:

- Table A.1: Detailed General Administrative Expense Budget (2021-25), including a further breakdown of staff costs (benefits lines)
- Table A.2: Direct Costs by Department (2021-25)
- Table A.3: HQ and RO occupancy.

Board Online Information (BOI) report this data and is updated to also reflect budget and actual costs for extraordinary items (MYIP, SSA and Iraq).

The following table is included to provide indicative resources and costs for SCF priorities during the SIP 2025-27 period. Resources and costs for 2026 and 2027 are estimated at a high level and are subject to further refinement in subsequent SIP documents.

- Table A.4: Additional Priority Investments for 2025-27 (£million)

Table A.5 is included to show that efficiencies identified for 2025 are retained over the SIP 2025-27 period. It is expected that further efficiencies will be identified in future SIPs.

- Table A.5: Efficiencies by Enablers 2025-27 (£ million)

Table A.1 General Administrative Expense Budget for 2025 (Detailed), 5-year view (£ million)

Administrative Expenses	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget	2025 vs 2024 £ million	2025 vs 2024 Per cent
Salaries	147.5	155.1	172.6	182.8	194.0	11.2	6.1%
Total Benefits	107.1	110.1	121.8	130.0	139.4	9.4	7.3%
Performance Based Compensation	16.7	20.7	23.3	24.9	26.3	1.4	5.8%
Other Staff Costs	1.5	1.5	1.5	1.5	2.8	1.3	83.0%
Staff Costs	**272.8**	**287.5**	**319.2**	**339.2**	**362.5**	**23.3**	**6.9%**
Consultancy/Legal	10.7	11.5	12.1	12.6	12.9	0.2	1.6%
Travel/Hospitality	10.6	10.1	10.1	11.4	11.4	0.0	0.2%
Other Direct Costs	13.8	13.8	14.6	15.0	16.4	1.3	8.8%
Non Staff Costs	**35.2**	**35.4**	**36.9**	**39.1**	**40.7**	**1.6**	**4.0%**
Direct Costs	**307.9**	**322.9**	**356.1**	**378.3**	**403.2**	**24.9**	**6.6%**
Occupancy Costs	11.0	10.1	13.3	15.5	16.0	0.5	2.9%
Technology (License, Hosting & Vendor)	23.2	24.0	25.6	28.6	30.9	2.3	8.0%
Annual Meeting	1.2	1.2	1.5	1.5	1.5	-	-
Central Staff Expenses	5.7	5.9	7.2	8.4	8.7	0.3	3.7%
Institutional Fees	2.1	2.2	2.4	2.3	2.9	0.6	25.4%
Depreciation	43.1	43.6	41.8	43.3	43.3	(0.0)	(0.1%)
Contingency	0.3	0.3	0.3	1.3	1.3	-	-
Total Centrally Managed Costs	**86.6**	**87.2**	**92.1**	**101.0**	**104.6**	**3.6**	**3.6%**
General Administrative Expenses	**394.5**	**410.1**	**448.2**	**479.3**	**507.8**	**28.5**	**5.9%**

Table A.2: Direct Costs by Department, 5-year view (£ million)

Department	2021 Budget	2022 Budget	2023 Budget	2024 Budget	2025 Budget	Variance 25 vs 24
Client Services Group	144.5	155.2	171.6	178.0	178.4	0.4
Finance	26.3	28.0	32.1	35.1	36.7	1.6
VP CTO	14.6	15.9	17.5	19.8	21.0	1.2
VP CRO	26.6	30.2	33.6	35.6	36.7	1.1
Compliance Department	4.3	4.9	4.9	6.2	6.4	0.1
Office of the General Counsel	16.7	17.6	19.4	20.8	21.1	0.3
Office of the Chief Economist	2.4	2.8	3.4	4.4	4.4	(0.0)
Internal Audit	1.6	2.0	2.2	2.5	2.8	0.3
Corporate Strategy	1.6	1.9	2.1	2.2	2.2	(0.0)
Communications	4.3	4.5	4.0	4.4	4.4	(0.0)
Office of the Secretary General	4.6	4.7	5.0	5.5	5.6	0.1
President's Office	1.7	1.7	1.8	2.0	2.0	0.0
Human Resources Department	8.1	7.7	8.7	10.1	10.5	0.4
Indep. Project Account. Mechanism	1.1	1.2	1.4	1.6	2.1	0.5
Evaluation Department	3.3	3.4	3.7	4.3	4.4	0.0
Board of Directors	*13.8*	*14.1*	*15.2*	*16.5*	*16.7*	*0.2*
Unallocated	140.8	151.8	170.4	29.4	47.9	18.5
Total Direct Costs	**416.2**	**447.8**	**497.0**	**378.3**	**403.2**	**24.8**

Note: 2025 unallocated budget includes funding for the 2025 Compensation and Reward Review proposals, estimated Performance Based Compensation pool (including the impact of 2025 Compensation and Reward Review proposals), Centralised Geographical mobility budget and Market Premium. This table reflects the most recent structure of the Bank with restated historic data in case of reorganisations/restructuring, if applicable.

Table A.3: HQ and RO Occupancy (£ million)

Administrative expenses	2024 Budget	2025 Budget	2025 vs 2024 £ million	2025 vs 2024 Per cent
HQ Occupancy	13.3	13.0	(0.3)	(1.9%)
HQ Lease Depreciation	12.2	12.0	(0.2)	(1.6%)
HQ Fixed Asset Depreciation	7.7	7.9	0.2	3.0%
Subtotal - HQ Occupancy	**33.2**	**32.9**	**(0.2)**	**(0.7%)**
RO Occupancy	2.2	2.9	0.7	32.2%
RO Lease Depreciation	6.4	6.3	(0.1)	(1.1%)
RO Fixed Asset Depreciation	2.1	2.1	(0.0)	(0.3%)
Subtotal - RO Occupancy	**10.7**	**11.4**	**0.6**	**5.9%**
Total HQ and RO Occupancy	**43.9**	**44.3**	**0.4**	**0.9%**

Table A.4 Additional Priority Investments for 2025-27 (£ million)

	2025 Request	2026 Estimate	2027 Estimate	2025-27 Total
War on Ukraine				
Admin Expenses (£ million)	1.3	1.3	1.3	**3.9**
FTE (average)	13.0	13.0	13.0	**13.0**
Supporting Delivery				
Admin Expenses (£ million)	8.1	8.2	8.2	**24.5**
FTE (average)	55.0	55.0	55.0	**55.0**
SCF Priorities - Green				
Admin Expenses (£ million)	1.7	1.7	1.7	**5.2**
FTE (average)	24.0	24.0	24.0	**24.0**
SCF Priorities - Digitalisation				
Admin Expenses (£ million)	0.7	0.7	0.7	**2.1**
FTE (average)	8.0	8.0	8.0	**8.0**
Governance and Oversight functions				
Admin Expenses (£ million)	0.8	1.7	2.6	**5.1**
FTE (average)	6.0	10.0	14.0	**10**
Total Priorities				
Admin Expenses (£ million)	**12.7**	**13.6**	**14.5**	**40.7**
FTE (average)	**106.0**	**110.0**	**114.0**	**110.0**

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

Table A.5: Efficiencies by Enablers 2025-27 (£ million)

	2025 Request	2026 Estimate	2027 Estimate	2025-27 Total
Automation				
Admin Expenses (£ million)	(0)	(0.1)	(0.1)	**(0.3)**
Headcount (average)	-	-	-	-
IT Decommissioning (Hardware or software)				
Admin Expenses (£ million)	(2.6)	(2.6)	(3.2)	**(8.4)**
Headcount (average)	-	-	-	-
Process re-engineering				
Admin Expenses (£ million)	(1.5)	(1.5)	(1.8)	**(4.8)**
Headcount (average)	(24)	(24)	(27)	**(25)**
Workload reallocation				
Admin Expenses (£ million)	(2.1)	(2.1)	(2.1)	**(6.4)**
Headcount (average)	(22)	(22)	(22)	**(22)**
Stopping an Activity				
Admin Expenses (£ million)	(0.04)	(0.04)	(0.04)	**(0.1)**
Headcount (average)	-	-	-	-
Total Efficiencies				
Admin Expenses (£ million)	**(6.4)**	**(6.4)**	**(7.3)**	**(20.1)**
Headcount (average)	**(46)**	**(46)**	**(49)**	**(47)**

Glossary

ABI – Annual Bank Investment
AMI – Annual Mobilised Investment
CAP – Capital Adequacy Policy
CEB – central Europe and the Baltic states
CoOs – Countries of operations
EEC – eastern Europe and the Caucasus
EOS – Equality of Opportunity Strategy
ETCs – early transition countries
ETI – Expected transition impact
FI – financial institution
FLTT – financial loss tolerance threshold
FTE – full time equivalent
GCI – general capital increase
GET – green economy transition
GEFF – Green Economy Finance Facility
IFI – international financial institution
IPM – investment profitability model
KPI – key performance indicator
MYIP – Multi-Year Investment Plan
NDCs – nationally determined contributions
OCI – other comprehensive income
PD – probability of default
PTI – portfolio transition impact
RAROC – risk-adjusted return on capital
RO – resident office
RoRC – return on required capital
SCF – Strategic and Capital Framework
SEE – south-eastern Europe
SEMED – southern and eastern Mediterranean
SPGE – Strategy for the Promotion of Gender Equality
URA programme – Ukraine Reform Architecture programme