Strategy Implementation Plan

2023-25

PRESIDENT'S RECOMMENDATION

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

- An Administrative Expenses Budget of £482.6 million (€550.2 million), comprising a
  - Core Administrative Expense Budget of £448.2 million (€510.9 million) and
  - Extraordinary Budget Items of £34.4 million (€39.2 million)
- The parameters and objectives contained in the 2023 Corporate Scorecard.

Odile Renaud-Basso

Executive Summary

SIP 2023-25 supports Ukraine and maintains a steady course to deliver the Bank's strategic goals in troubled times

After two years of debilitating impacts from the Covid-19 pandemic a recovery was underway in 2022 when Russia's unwarranted and unprovoked invasion of Ukraine in February came as a profound shock to the world. The ramifications for many EBRD countries of operations were enormous and much of the region was thrown into crisis once again.

Not only was the war devastating for Ukraine, a major EBRD country of operations for over 30 years, but it also impacted neighbouring countries significantly as trade became severely disrupted and huge swathes of displaced Ukrainians – mostly women, children and the elderly – crossed its borders and sought refuge in the west. EBRD countries of operations such as Poland and the Czech Republic hosted large numbers of refugees as did for example, as a proportion of its population, Moldova.

The Bank took swift action in response to these events. A €2 billion Resilience and Livelihoods Framework for Ukraine and countries affected by the war was quickly agreed and its first operations began in April. Since then, and confirmed in SIP 2023-25, the EBRD has **committed to invest up to €1.5 billion annually** with donor help over two years, amounting to up to €3 billion over 2022 and 2023. Over €1 billion has already been committed this year and disbursements are accelerating.

There were costs for the Bank too in taking actions to protect the welfare of its staff caught up by the war and in reconfiguring resources to manage the new situation.

The war is continuing, with no end in sight. This has meant a further need to support Ukraine and affected clients in the face of their economic difficulties. The Bank now expects Ukraine's economy to shrink by 30 per cent in 2022 and in the most affected regions - CEB, SEE and EEC - growth in 2023 is expected to be some 2 to 3 percentage points lower compared with this year.

Among the consequences of the war was a surge in energy and food prices. This prompted a renewed concern over food and energy security in EBRD regions and has been – and will continue to be - a focus of the Bank's response, with significant liquidity support already provided to Naftogaz and Ukrenergo in Ukraine and to several agribusinesses for example.

SIP 2023-25 proposes that the Bank continues to invest at close to record levels in 2023. Given the uncertainties surrounding Ukraine and the economic situation **an ABI range of €10.5 billion to €11.5 billion is projected for 2023**, with between **395 and 435 projects expected to be signed**. The Bank also aims to **mobilise €1.4 billion of private co-finance in 2023**, an ambitious target in view of tightening financial conditions and an unfavourable investment climate outlook.

Notwithstanding the critical importance of supporting Ukraine, the EBRD continues to be at the forefront of financial institutions willing and able to devote significant resources to tackling climate change and adaptation, and has a unique focus on the private sector. The UN Secretary General has said of climate change, following publication of the latest UNEP Emissions Gap Report, "It is the defining issue of our time … [its] impact … is already devastating". As Chair of the Climate Heads' Group of MDBs, the EBRD played a prominent role at COP27 in Egypt in November.

After finalising procedures to align EBRD operations with the goals of the Paris Agreement further important actions are planned for 2023, notably on scaling up policy engagements with countries of operations to create low carbon and climate-resilient pathways, increased application of digital solutions, further 'green' mobilisation and address demand for climate adaptation and nature finance.

In 2021 the SCF goal for the EBRD to become a majority green bank by 2025 was achieved. However, the large resources expected to be devoted to supporting clients affected by the war on Ukraine, especially for energy security and publicly-owned companies, will likely restrict the Bank' ability to achieve the 50 per cent GET target in 2023, as it has in 2022. While the Bank remains steadfast in seeking to be a majority green bank this prospect looks beyond reach in 2023 so the **GET target has been kept at 45 per cent**, the 2022 level, which itself implies EBRD green finance of some €5 billion next year. The **private sector share objective is maintained at 75 per cent** of ABI.

SIP 2023-25 also ensures the rollout of the Equality of Opportunity and Gender strategies continues at pace, though resource pressures limit the development of new products and approaches. Gender-tagged operations are already increasing in number and the **scorecard target for 2023 has been raised to 30 per cent** of operations (from 25 per cent), building progressively towards the 40 per cent aim advocated in the SCF.

The SCF goal of improving the Bank's contribution to the digital transition has been enhanced by the introduction of a 'digital hub' to coordinate and encourage Bank activities in the digital space in 2023. In parallel, internal strengthening of digital capabilities within the Bank will lend credibility to the Bank's external efforts on the digital transition agenda.

While implementing core SCF priorities, the Bank remains focused on helping the least advanced countries. The corporate **scorecard target of 48 per cent of ABI allocated to ETCs, the Western Balkans and SEMED is retained for 2023** although reaching it, given the effort on Ukraine, will be very difficult to achieve. This is especially the case since the Bank has stopped transactions in Belarus (an ETC country) and with business in Lebanon and Turkmenistan heavily constrained. Although Algeria is expected to become a SEMED country of operations in 2023, and provision in SIP 2023-25 is made for the setting up of a local office, it is unlikely to contribute much to this target for some while.

The Bank's business model makes good use of **donor funds**. Indeed, support **for Ukraine** and other countries affected by the war could not have been achieved without it. Very generous contributions and pledges by the Bank's donor community have **already reached nearly €1.4 billion**, including an unprecedented contribution of $500 million from the United States. On a wider front, additional indicative donor funds mobilised for future use in 2023 and beyond are at high levels, with donor fees also able to support new fee-funded staff positions to help with the deployment of donor funds.

SIP 2023-25 provides additional resources (a gross investment of £2.1 million and 22 FTEs) for the Bank's efforts on the war on Ukraine in 2023. It does so in a context that is both important – the Bank's mission to help countries become sustainable market democracies has never been more relevant than today – but difficult given the exceptional economic backdrop of high inflation and rapidly rising costs.

The war has fuelled inflation in all countries. 'Bank-wide' inflation (a measure including ROs) reached 10.3 per cent in August and UK CPI inflation of 9.9 per cent was recorded for that month. These are the highest figures for many decades and around three times higher than a year ago. Rising costs for a good part of the Bank's budget are unavoidable, such as inflation-linked contracts, licence fees and so on. The problem is compounded by the fact that well over 70 per cent of salaries paid to RO staff are linked to the US dollar, which has strengthened considerably against sterling in the course of 2022.

Against this backdrop of intense cost pressures, **management has sought to maximise efficiency savings and reallocate resources to new priorities** in seeking a budget that maintains the Bank's financial sustainability. **The proposed administrative budget request of a 9.3 per cent increase is below inflation, and involves a significant real reduction in the salary budget.**

The considerable resources allocated in SIP 2022-24 have been deployed this year to core SCF front-line activities above. While SIP 2023-25 adds to this total in a small way, mostly on GET, this year there is an enhanced **focus on reinforcing delivery** capacity through resources devoted to delivery-enabling 'back office' activities. Some of these allocations, such as on corporate recovery, are simply a corollary of the war on Ukraine, while others, like sanctions compliance, climate risk assessments or ensuring that human rights are respected, follow the general trend for stronger regulation and accountability. However, as the portfolio grows and with it greater dependence on items like donor funds and associated reporting requirements, the complexities of managing the Bank's business increases. As do operational risks. **SIP 2023-25 thus takes steps to address some of these issues with a gross allocation in 2023 of 37 FTEs and £5.2 million to reinforcing delivery (the great majority of which is financed by efficiencies and reallocations).**

The major investment under the MYIP also helps improve the Bank's delivery capability. After some delays linked to Covid-19 and supply chain disruptions, the results of MYIP investments so far are beginning to be felt, with for example the risk profile of technology in the Bank expected to be materially reduced by end-2022 (from Very High to High/Medium). Improvements are being made on multiple fronts with further enhancements to Monarch, connectivity and networks in ROs, automation and preparations for the end of SAP among them with many components to be implemented in 2023. **MYIP capex for Phase 3 is confirmed at £62.9 million, with up to £16.8 million invested in 2023.** Taken together with Phases 1 and 2, MYIP investment will total £57.5 million next year.

Projections based on planned business volumes and related financial assumptions show that the **EBRD's finances are sustainable over the SIP period**. Members' equity after income allocations is expected to grow from next year onwards, capital utilisation should remain broadly stable and the Bank's financial metrics remain above key rating agency thresholds. Whilst stress test results are expected to remain within Financial Loss Tolerance Thresholds (FLTT) based on the Bank's internal capital policies, a number of rating agency ratios are expected to be breached in the Severe stress test. Under such a scenario, it is expected that the Bank's triple-A rating would come under significant pressure. This is the highest level of risk that the Bank has accepted in its business plan since the introduction of formal stress testing of the SIP.

A substantial full year loss expected in 2022 which, while smaller than net profits achieved in 2021, means that the **three-year rolling average rate for return on required capital (RoRC) is projected to fall below the long run average minimum return of 3.5 per cent** set in the corporate scorecard. Although annual returns are projected to be well above 3.5 per cent from 2023 on (7.9 per cent is projected for 2023 for example) the three-year rolling return on required capital is only expected to exceed the minimum level by 2025 when the deeply negative return in 2022 is no longer included in the calculations. The debt return on required capital, which focuses on the more stable part of Bank income, is set at a minimum of 12 per cent for 2023.

SCF resource control parameters are projected to be met throughout SIP 2023-25. After a sharp increase in the cost to debt income ratio in 2022 to 60.4 per cent, predominately driven by unrealised losses from the loan portfolio measured at fair value to counterparts with exposure to Ukraine, Belarus and Russia, the ratio is expected to increase by 7.1 percentage points by end-2025, reflecting inflationary pressures and MYIP expenditures. It nonetheless remains below the 70 per cent SCF control parameter limit. The other SCF control parameter, the five-year average of the staff cost to total cost ratio, is projected to remain stable at around 68 per cent and below the 70 per cent threshold.

After last year's large Borrowing Programme, planned activity is lower in 2023, with a proposed **Borrowing Programme of up to €10 billion**, of which €8 billion is expected to be used. Liquidity ratios maintain a comfortable buffer above required minimum levels, meeting the relevant stress tests, and net cash requirements are well covered.

In preparing SIP 2023-25 management have addressed resource effectiveness holistically and sought to find ways of doing things better. This has been helped by the introduction of a new Transformation Office. Even after initial discussions, some 99 headcount positions at a total cost of £10.8 million (including non-staff) were judged to be needed to support the Bank's business in 2023. An exhaustive review process (without the advantages of the mobility enhancement programme) resulted in **two-thirds of the identified needs, or 66 headcount positions at**

a total cost of £6.6 million, being met through staff and non-staff efficiencies and reallocations.

The Budget Proposal of a Core Administrative Expense Budget of £448.2 million for 2023 represents an increase of 9.3 per cent, and is **below Bank-wide and UK CPI inflation**. Non-discretionary budget increases arising from inflation and carryover impacts, the weakness of sterling and costs associated with Ukraine account for the largest component of the change (4.3 per cent) followed by increases in staff costs (3.2 per cent) associated with proposals on compensation and benefits. A one-off alignment of the compensation budget to a calendar year basis, which increases the transparency of the annual budget process, accounts for a further small part of the increase (1.0 per cent), **£10.8 million of overall resource needs are reduced by £6.6 million of savings from efficiencies and reallocations**, leaving a **net resource request of £4.2 million (1.0 per cent)** for additional support for business priorities. In addition, the Bank will undertake additional efficiency measures of £1.0 million (-0.3 per cent) linked to staff and non-staff cost structures, underscoring the commitment to ongoing efficiency gains.

The new request is a culmination of a very disciplined approach and imposes tight constraints on resources needed to deliver SCF ambitions in a complex and challenging operating environment.

The **Total Administrative Expense Budget for 2023 is £482.6 million**, and includes £34.4 million for extraordinary items (LIBOR transition, £2.7 million, and MYIP Phases 1, 2 and 3 opex and depreciation, £22.9 million, £8.5 million and £0.2 million respectively).

SIP 2023-25 is designed to deliver the Bank's operational priorities within a responsible financial envelope that protects the EBRD's financial standing. It is underpinned by a concerted management effort to use resources efficiently and effectively. **This SIP ensures the Bank will be able to continue to support Ukraine and other countries affected by the war and maintain a steady course to deliver the Bank's strategic priorities, despite potential turbulence ahead.**

1. The External Context: Pressures on Output and Inflation

Introduction

As 2022 draws to a close, the economies of the EBRD regions, like their more advanced counterparts, are facing threats from inflation, higher interest rates and a slowdown in global growth.

1.1 Recovery from Covid-19

After a Covid-19 driven contraction of 2.4 per cent in 2020, output recovered in 2021 and increased by 6.8 per cent. Mobility in the EBRD regions picked up earlier than elsewhere, industrial production and retail sales rebounded, exports of goods and services rose despite supply chain disruptions, while remittances and tourist arrivals exceeded expectations.

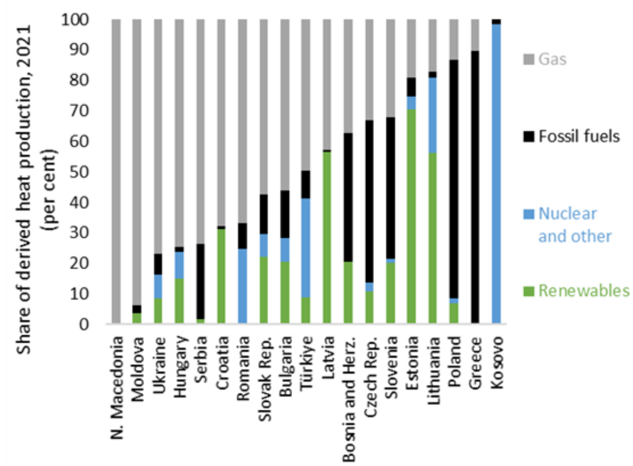
However, high prices for natural gas, oil and other commodities weighed on the trade balances of energy importers, in particular in the southern and eastern Mediterranean, and pushed up inflation across the regions. Fiscal vulnerabilities also increased, as governments implemented large stimulus packages in response to the Covid-19 crisis.

1.2 The Impact of the War on Ukraine

The war on Ukraine, which began on 24 February this year, interrupted the post-Covid economic recovery, with a profound impact across the EBRD regions in terms of economic disruption, displacement of people and inflationary consequences.

Many economies in the EBRD regions are highly dependent on Russian gas. Gas prices in Europe rose sharply as Russia cut supplies reaching exceptional levels in September, some seven times higher in real terms than on average in the past decade. Gas is the largest source of derived heat production for many economies and for some it is also important for electricity generation (see Figure 1.1). Even where it is not directly used to produce electricity, prices of electricity and gas tend to move together. Electricity consumption is high in the EBRD regions relative to countries' level of development; and its GDP is typically more energy-intensive than in advanced Europe.

Figure 1.1 In some economies gas accounts for over three-quarters of derived heat production



Sources: Eurostat and authors' calculations. Note: 2020 for Ukraine.

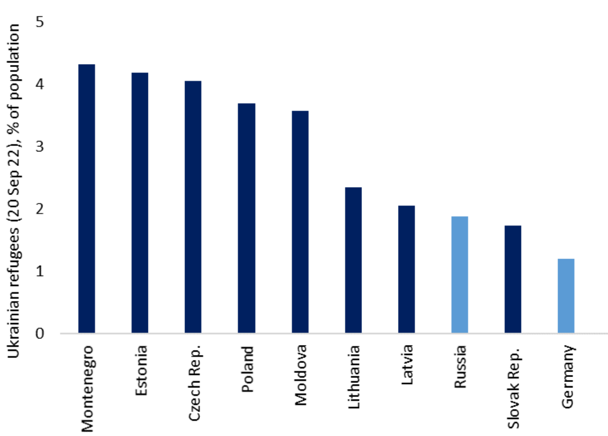
The devastating impact of the war on Ukraine's economy has resulted in almost one-third of its population displaced or abroad and GDP likely to decline by 30 per cent this year. External financing remains critical, though the recent resumption of some grain exports has eased the immediate pressures. With Ukraine closely integrated into the manufacturing supply chains in Central Europe there have been additional negative spillover effects on European output.

Increased geopolitical risks pushed up borrowing costs in the EBRD regions, in addition to the effect of interest rate hikes in advanced economies. By end-October, the median (typical) yield on 5-year government bonds in the EBRD regions was 3.5 percentage points higher than nine months earlier, with the greatest increases in Lebanon, Mongolia, Tunisia and Tajikistan, as well as Belarus, Russia and Ukraine, while yields in Germany and the United States increased by 2.2 and 2.6 percentage points respectively over the same period.

Most currencies in the EBRD regions, as well as the euro, have weakened against the US dollar since the start of the war, though some initial currency depreciations have been reversed (for instance, in the Caucasus and Central Asia). Some economies, such as Hungary and Romania, have experienced significant capital outflows, though on average the magnitude of these is not unprecedented.

The conflict resulted in the largest movement of people seen in Europe since the Second World War. By end-September, more than seven million Ukrainians had fled the country (see Figure 1.2). The difficult economic situation in Ukraine combined with a harsh winter, damaged housing stock and inadequate heating may result in a further wave of refugees. In the short term, the refugee influx requires host governments to find additional financing for schooling, health care and housing, and puts pressure on municipal services, in a context where public willingness to help may be more limited than it was in March. However, in the longer term refugees can provide a boost to economies with rapidly ageing populations.

Figure 1.2 Several economies in Europe house large numbers of refugees from Ukraine



Source: UNHCR and authors' calculations.
Note: Figures as at 20 September 2022.

Output in the EBRD regions is projected to grow by 2.3 per cent in 2022 and 3.0 per cent in 2023 as the war and the impact of mounting global inflationary pressures weigh on the economic outlook.

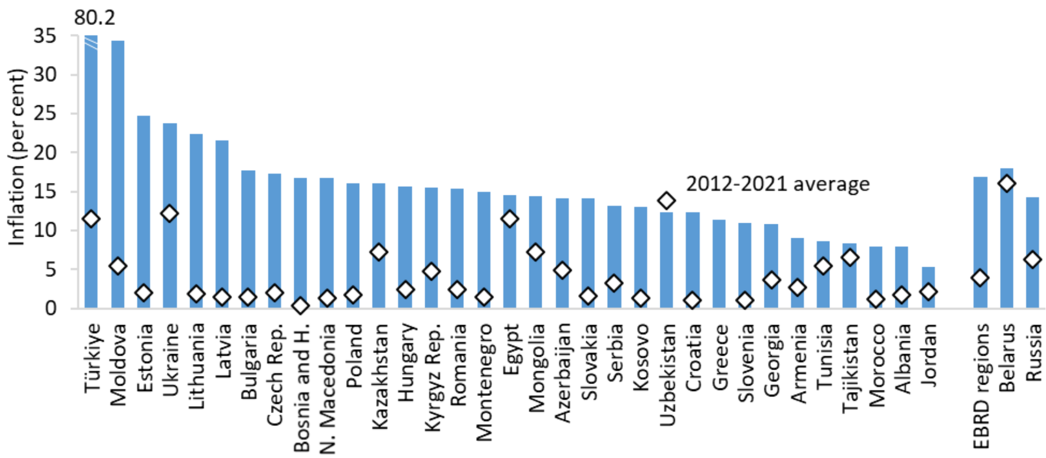
1.3 Rising Inflation and its Consequences

The war on Ukraine resulted in the greatest commodity supply shock to the global economy since at least the early 1970s, prompting a rapid rise in inflation across all economies.

Prices of oil and gas increased sharply. Brent oil prices, which jumped to average more than $100 per barrel until end-August, remain below their historical peaks. However, gas prices in Europe are far above historic highs and multiples of the level in the United States, putting European producers at a disadvantage and wreaking havoc in electricity markets. With Russia and Ukraine accounting for more than a quarter of global wheat exports, wheat prices spiked following the invasion and temporarily surpassed their 2008 peaks in inflation-adjusted terms. While they have largely returned to their pre-war levels renewed uncertainties over grain exports pose risks.

High energy and food prices added to inflationary pressures, with average inflation in the EBRD regions reaching 16.9 per cent in August, a level not seen since the transition recession of the 1990s (see Figure 1.3). Inflation reached almost 80 per cent in Türkiye and exceeded 20 per cent in the Baltic states, Moldova and Ukraine. It approached the 10 per cent mark in a number of advanced economies, including the United States, the United Kingdom and the eurozone.

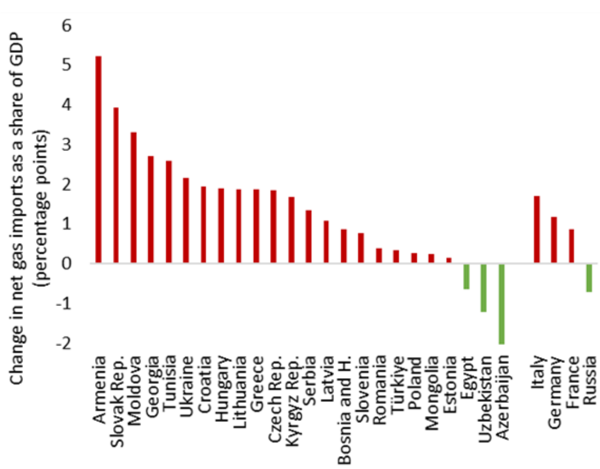
Figure 1.3 Average inflation in the EBRD regions reached 16.9 per cent in August



Source: National authorities and authors' calculations. Note: Simple average across economies. Türkiye 80.2 per cent.

High inflation erodes the purchasing power of households and the effects of high energy and food prices are even more marked in the EBRD regions than in advanced Europe. Energy and food typically account for higher shares of household spending in poorer economies, and for poorer households within countries. For instance, in 2021, food accounted for between 30 and 37 per cent of the consumer price index in Egypt, Jordan, Romania and Serbia compared with just 15 per cent in Germany.

Figure 1.4 Higher gas prices imply significantly larger import bills



Sources: IMF, UN Comtrade, World Bank via CEIC and authors' calculations.[1]

In response to inflationary pressures, nearly 9 out of 10 economies in the EBRD regions hiked policy interest rates between May 2021 and August 2022. Fiscal and external vulnerabilities facing economies in the EBRD regions have increased significantly over the course of the year, reflecting higher gas import bills, with increases reaching 4 to 5 per cent of GDP in some economies (see Figure 1.4).

Policymakers also turned to a wide range of measures to mitigate the effects of higher energy and food prices on firms and households, often facing complex trade-offs between the extent of support afforded to lower-income households, the overall fiscal cost, the environmental impact of such measures and their public appeal. Over two-thirds of economies in the EBRD regions introduced fuel subsidies per unit of consumption, also seen in comparator and advanced economies. These measures have significant fiscal costs. Over half the economies in the EBRD regions have also introduced price controls with this type of measure much more widespread in the EBRD regions than in comparator economies.

[1] Difference between estimated 2022 net gas balance and 2021 net gas balance. 2022 estimate based on 2021 net gas balance multiplied by 2.5 (the ratio of the real price since the start of the war in 2022 and the average real price in 2021).

1.4 Risks and Uncertainties Ahead

High inflation, Russia's invasion of Ukraine, tightening financial conditions and the lingering Covid-19 pandemic prompted the IMF to revise down again its predictions for global growth in October, noting that downside risks continue to dominate the outlook and that some countries are facing recession.

Projections in the EBRD regions are subject to particularly serious downside risks, should hostilities escalate or exports of gas or other commodities from Russia be further restricted. In a scenario envisaging the full suspension of supply of Russia's gas to Europe, GDP growth in 2023 would be almost half its currently expected level and output per capita more than 2 per cent lower over the next couple of years than in the baseline scenario.

Risks of social tensions in the context of the sharp rise in energy and food prices and consequential declines in real wages further cloud the outlook.

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 to a sustainable market economy. In delivering transition impact, the Agreement Establishing the Bank (AEB) provides for two further principles: that the EBRD should pursue sound banking at the project and institutional level, 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 made operational through its investments, which are designed to improve the qualities that drive a sustainable market economy. The application of the transition concept and associated transition qualities to the Bank's activities supports its countries of operations develop as economies which are competitive, well-governed, green, inclusive, resilient and integrated.

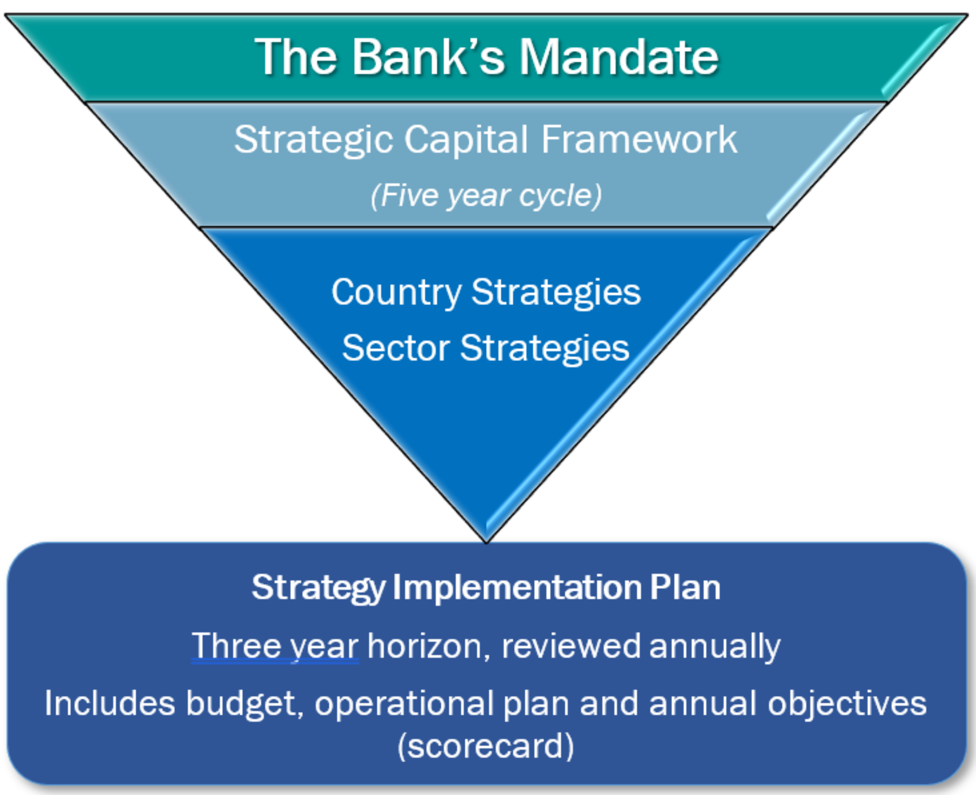
2.2 The Strategic Goals

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. Country Strategy Delivery Reviews assess progress against

Figure 2.1 Strategic Planning: Building Blocks



country strategy objectives annually in accordance with Article 11.2 of the Agreement Establishing the Bank and highlight challenges and opportunities for future delivery of transition. Country strategies are complemented by sector strategies and cross-cutting thematic initiatives. 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.

Finally, the Strategy Implementation Plan (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 current SCF runs from 2021 to 2025 and reaffirms the enduring relevance of the EBRD's transition mandate and business model. Its overarching aim is for the EBRD to support its countries of operations in preserving and accelerating transition to build a more resilient and sustainable future in an uncertain and unpredictable context.

The SCF contains a clear set of strategic operational, geographical, financial and institutional aspirations for the Bank in 2025 (for more details see Annex 1). Together these goals provide the yardstick through which the Bank's success over the SCF period will be judged. In summary, the Bank is expected 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 activity 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 mainstream gender into the Bank's work and increase its focus on combating inequality of opportunity.
- **Undertake new activity** through the development of the Bank's first systematic programmes to support digital transition and mobilise private finance and - in the event of shareholders' agreement - engaging in new countries of operations either within the existing SEMED region or possibly beyond its current geographic scope.
- **Strengthen its institutional capacity** through enhancing the Bank's policy offer; invigorating its culture and conduct of monitoring, learning and evaluation; strengthening risk and compliance awareness; and putting in place the human and IT resources to deliver the strategy cost-effectively.

The SCF is designed to be able to accommodate and respond to unforeseen developments. The war on Ukraine was not anticipated at the time of approval and has changed the context in which the SCF's aspirations are being pursued. However, although some modification of specific goals may be needed during the SCF period, the overall thrust set out in the current SCF remains relevant and will continue to guide the direction of the Bank's activity.

The **Strategy Implementation Plan (SIP)** translates the SCF's medium term aspirations into near term priorities, sequencing delivery of the SCF as appropriate based on country demand and institutional readiness. Approved by the Board of Directors, the SIP provides a three-year rolling perspective on the implementation of the SCF and the context for the EBRD's proposed annual Budget and Corporate Scorecard.

The 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; and
- 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.

2.3 Investment and Policy

A key component of the Bank's delivery architecture is its capacity for policy engagement. It has long been recognised that it is the combination of policy engagement with investments that is at the centre of the Bank's capacity to achieve and sustain systemic transition impact including through its cross-cutting strategic themes. Institutional and regulatory reforms are critical components behind improvements in business environments and in creating new investment opportunities. The Bank's policy engagement with authorities in its countries of operations offers new ideas and dedicated expertise that supports their reform efforts and complements the practical inputs that come from EBRD investments.

The SCF set the overall aspiration for the Bank to strengthen its impact through further integrating policy engagement and investment activity, and reinforced its ability to measure the effectiveness of its policy work. Building on a strong foundation and following a thorough review of the Bank's policy function, a number of improvements have been made to the Bank's approach to policy. Structurally, the organisation of policy engagement has been streamlined. In content, the planning and prioritisation of policy activity has been refined to increase the complementarity with investment activity, whilst improvements to the measurement of impact from policy work are being taken forward in the context of strengthening the Bank's overall impact measurement processes.

2.4 Country and Sector Strategies, and Transition Qualities

The EBRD targets transition impact at the country level by setting priorities based on comprehensive diagnostics of countries' progress against the six transition qualities. Country strategies reflect the results of these assessments and determine the Bank's investment and policy priorities over the strategy period. Sector strategies complement country strategies by providing granularity in areas such as energy, transportation and financial institutions.

Recent country strategies reflect the core themes of the SCF, including an emphasis on policy engagements alongside investments, and highlight the Bank's support for recovery efforts from the effects of the Covid-19 pandemic, as well as the impact of the war on Ukraine, and measures aimed at combatting increased macroeconomic vulnerabilities across all countries of operations.

Box 2.1 Advancing Transition Qualities in Countries of Operations

Competitive

- In many countries, the Bank supports SME development and expansion, including improvements in business skills and the adoption of new technologies, through dedicated credit lines to financial institutions, risk sharing, advisory assistance, as well as via selected direct investments.
- Commercialisation and restructuring of state-owned enterprises improve efficiency and productivity and are a focus of country strategies in less advanced transition economies.
- Innovation, digitalisation and new financial products, including capital market instruments and equity for high-growth companies are particularly valuable in larger and more advanced transition countries.
- Strengthened business and managerial skills, and higher business standards, are especially important for transition countries with larger transition gaps.

Well-governed

- Improved governance features strongly in country strategies for less advanced transition countries in South-Eastern Europe, Central Asia, and Eastern Europe where large infrastructure transactions provide an important anchor for governance improvements.
- The Investment Climate and Governance Initiative, Green Cities programme, Legal Transition activities, policy engagement on procurement practices as well as support for e-government form part of country strategies focused on the well-governed transition quality, highlighting the importance of policy engagement to delivery.

Green

- Green dimensions are prominent in most country strategies, reflecting their importance and the Bank's expertise in this area. The EBRD supports efforts by countries in its regions to meet their commitments and targets under Nationally Determined Contributions, Economy-wide Net-zero Pledges and National Adaptation Plans.
- The impact of the war on Ukraine on the energy sector has led to an enhanced emphasis on energy sector reforms, including strong a focus on resource efficiency, renewables and decarbonisation.
- An expanding Green Cities programme and emerging Just Transition activities, reflected in recent country strategies, showcase the importance of comprehensive approaches to addressing climate change challenges.
- Green financial products, such as green bonds, emphasise the role of innovation in green transition financing.

Inclusion

- The goal of equal opportunities is seen in new country strategies, particularly in countries with the largest inclusion gaps – in SEMED, Türkiye, South-Eastern Europe, Caucasus and Central Asia.
- Well-established financial and advisory products targeting inclusion have been introduced in new regions in innovative ways to increase access to finance and strengthen skills.
- New policy programmes have supported the creation of inclusive financial systems in Central Asia, a more effective care economy in Türkiye, and enhanced national standards for digital/green skills.
- Special attention is being paid to support refugees, internally displaced persons and livelihoods in the context of the war on Ukraine.

Resilient

- Adjustments to the implementation of country strategies as a result of the Covid-19 pandemic and the war on Ukraine have emphasised the importance of resilience.
- Disruption to energy markets, food market disturbances, strong inflationary pressures and refugee flows have led to increased need for trade finance, working capital and other credit lines to bolster clients' ability to face shocks.

Integrated

- Market disruptions and economic uncertainties resulting from the war on Ukraine have expanded the demand for financing for investments which maintain integration by redirecting trade and energy flows.
- Regional integration continues to be an important part of country strategies in less advanced transition countries in South-Eastern Europe and Central Asia.
- Large investment requirements for engagements targeting integration reinforces the importance of cooperation with other IFIs and donors, including the EU and its institutions.

2.5 Balancing Risks, Impact and Profitability

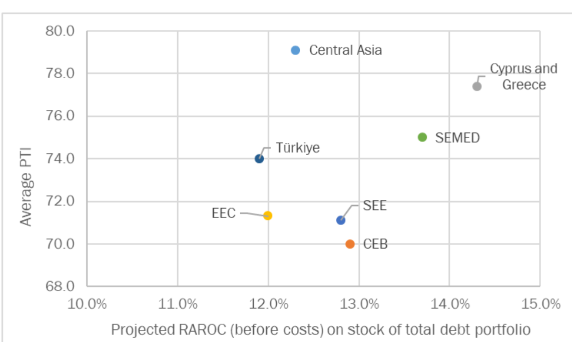
The EBRD is a development institution with a private sector focus. It is quintessentially an impact investor, taking on risks with its partners and making profitable investments which carry transition impact and are additional. Sound banking in its projects underpins medium term financial sustainability,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

This section illustrates how the dual objectives of impact and financial returns 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 activity – both investment and policy work – contained in its portfolio. This stock of activity determines the Bank's achievement of its transition impact and 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 Full Portfolio 2021



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 the transition impact and the financial returns of the current debt portfolio, as measured by Portfolio Transition Impact (PTI) and projected portfolio Risk Adjusted Return on Capital (RAROC) before costs. It shows that the pattern of financial returns performance is relatively narrow which suggests that the Bank has been pricing for risk in a broadly consistent manner across regions. In two regions (SEMED, Cyprus and Greece) the portfolio has seen a better transition performance accompanied by relatively higher projected RAROCs on average, indicating that delivery of transition objectives can go hand in hand with a healthy financial return of projects.

Figure 2.3 New Projects 2021

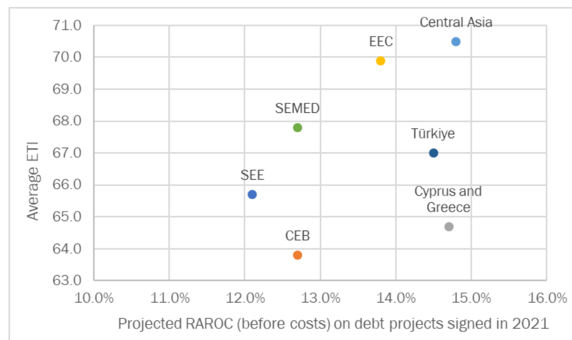
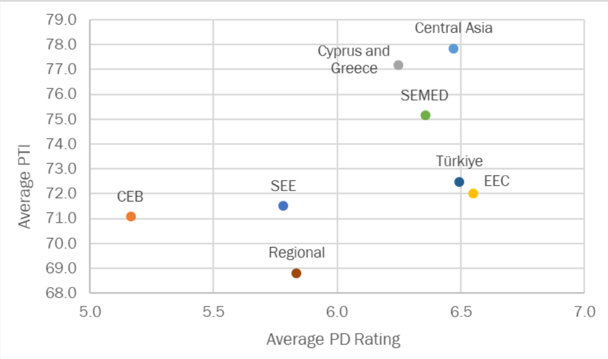


Figure 2.3 shows the financial and transition characteristics of new debt projects signed in 2021 by region. The relationship between expected transition impact (ETI) and financial performance for these projects is largely similar to those in the portfolio. The range of projected financial returns is broader, reflecting the nature of various EBRD tools and instruments to support countries during the crisis.

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. It shows some evidence that where the Bank takes on more risks transition impact tends to be higher. Nevertheless, analysis at the individual project level shows that better financial risk ratings and commercially strong client firms 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 PTI and Client Probability of Default by Region 2021



Delivering on multiple objectives and where it matters most

From a different perspective, Figure 2.5 shows the Bank's projects across qualities and regions. The size of the bubbles reflects the number of projects signed in 2021 and the colour the size of the transition gaps, with red denoting larger gaps. The chart illustrates how these signings are balanced, with the Bank active in addressing all six qualities in its regions with a focus on areas and countries with larger gaps and challenges.

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 2023 has 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 in 2021 the GET share recovered sharply – exceeding half the Bank's investment for the first time – as the focus moved away from short-term crisis response to the pandemic. The GET share was especially high in CEB. The Bank's private sector share in 2021 also rose above the goal of 75 per cent in ABI set in the SCF for the first time in four years.

Figure 2.5 Annual Investment by Transition Quality (primary or secondary) and Region 2021

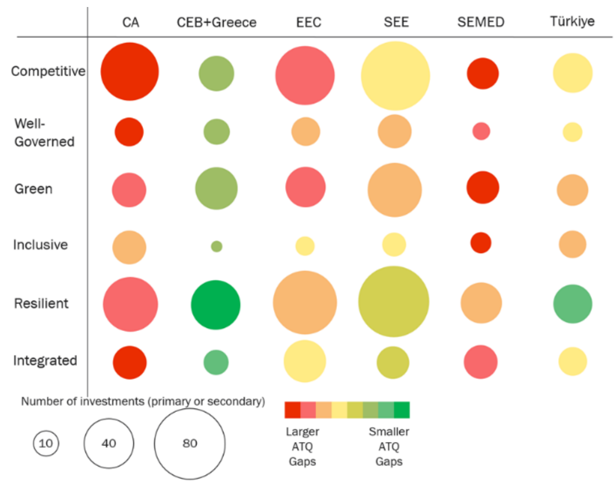
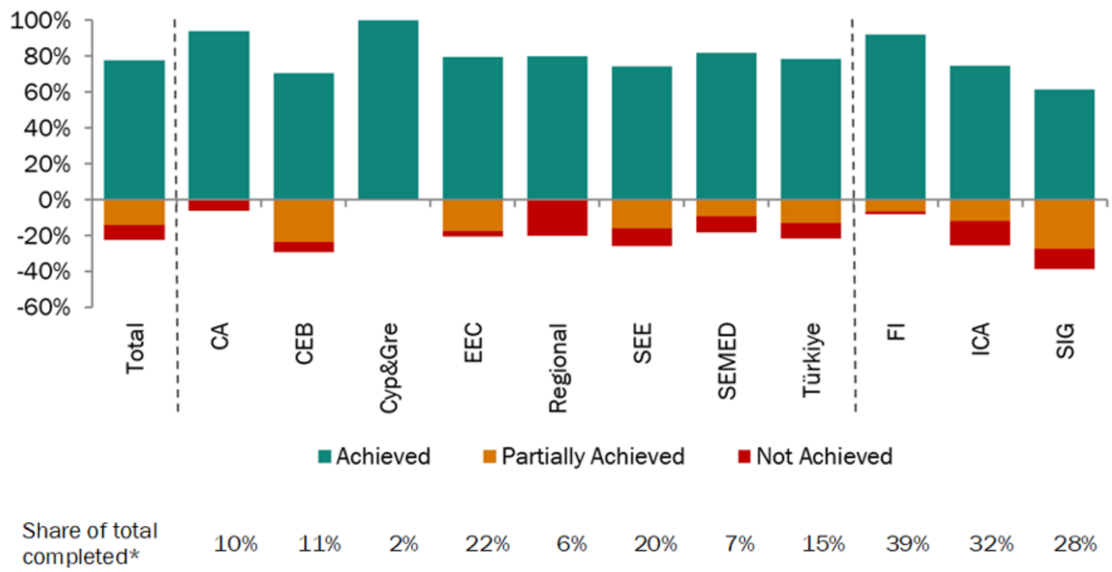


Table 2.1 GET and Private Sector Shares, per cent

	GET Share in ABI		Private Share in ABI	
	2020	2021	2020	2021
Central Asia	29%	36%	57%	67%
Central Europe and Baltics	64%	78%	87%	92%
Cyprus and Greece	37%	52%	74%	100%
Eastern Europe and Caucasus	34%	50%	65%	45%
South-Eastern Europe	19%	48%	68%	69%
Southern and Eastern Mediterranean	11%	42%	65%	70%
Türkiye	23%	55%	89%	100%
EBRD	29%	51%	72%	76%

Figure 2.6 Transition Impact Performance of Projects Completed in 2021



*Note: regional shares do not add up to 100%, as the chart does not include completed projects in Russia.

Successful delivery of transition objectives is a key positive indicator of the results of the Bank's planning. Figure 2.6 shows that just under 80 per cent of projects completed in 2021 achieved their expected transition objectives, a slight reduction on the high level achieved in 2020. Geographically, the proportion of projects fully achieving transition objectives was strong in Central Asia (and in Greece and Cyprus where project numbers are small), whilst the lowest proportions were seen in CEB.

Sectorally, the proportion of fully successful projects was greatest among financial intermediaries. Eight per cent of the 2021 completions failed to achieve their envisaged transition objectives, up from six per cent in 2020. The majority of these were in the corporate sector, where the projects were generally of sufficient maturity for the poor transition outcomes to reflect factors other than the impact of the pandemic.

Overall, when considering the consistency of any set of annual objectives with the Bank's goals and achievement of portfolio balance, it is important to emphasise that across the Bank's planning process no single factor dominates. The EBRD works to maximise its transition and financial objectives subject to the geographic and sectoral aspirations contained in the SCF and reflecting past performance. It is the balance between these forces which is reflected in this plan.

3. Responding to Client Needs: The Operational Plan

Introduction

The operational situation in 2022 has been challenging and the outlook for activities in 2023 remains uncertain. A return to more normal business conditions after the deleterious impact of the Covid-19 pandemic was rudely interrupted by Russia's unprovoked war on Ukraine, one of the countries at the heart of the Bank's mission. The consequence for the on-going rekindling of business activities in the region was severe and instead required a return to crisis support, with a large number of clients facing substantial liquidity shortfalls as a result of the disruptions brought on by the war.

As the biggest foreign investor in Ukraine, and with many business activities affected by the war, the EBRD responded immediately to the situation by reallocating resources to support affected clients and people displaced by the conflict. The main vehicle for support, the €2 billion Resilience and Livelihoods Framework, was in place by April. By end-September, over €1 billion of committed financing by the Bank - €0.6 billion of which had already been disbursed or issued in the form of guarantees - provided emergency finance and liquidity support to the most critical sectors in Ukraine.

The war on Ukraine strengthened the need for resilience, not just in Ukraine but in all EBRD countries of operations. Food and energy security issues leapt up the agenda as prices of foodstuffs and energy costs hit record levels. Widespread high inflation has brought on a cost of living crisis that shows no signs of abating. And real risks of recession ahead in many countries make for an unfavourable investment climate.

Yet the need for help is clear. And the Bank is responding, as this Chapter shows in some detail. Already by the end of the third quarter the Bank had signed investments amounting to €7.3 billion, 16 per cent more than in the same period a year ago, and in eastern Europe it was ahead by more than 50 per cent. It seems likely that Annual Business Investment (ABI) will finish the year at over €11 billion, the highest or second highest level ever. Despite the resource pressures, and physical and other disruptions, the Bank has steered a path through the mayhem without losing sight of its core tasks.

The SCF's concern with resilience – and with improving the underpinnings of the transition journey of the Bank's countries of operations – has proved apposite, though it could not be foreseen that central and eastern Europe would be forced onto the backfoot here in such a dramatic way. It means that the EBRD mission to foster the transition of its countries of operations towards open market-oriented democracies is as relevant as ever: both in supporting Ukraine and clients affected by the war to be able to cope, pending a return to properly functioning market conditions, stability and growth, and in continuing to pursue critically important actions on climate change and other objectives, such as inclusion, across EBRD regions as set out in SCF 2021-2025.

3.1 Supporting Ukraine and Clients affected by the War

Following the Russian invasion, the Bank pledged to invest more than €1 billion in Ukraine over the course of 2022, focusing its investment activities on five key areas: trade finance, energy and food security, municipal and vital infrastructure and private sector companies. This complements vital budget support to the Ukrainian government provided by other partners.

By end-September, €1 billion of the Bank's financing provided emergency finance and liquidity support to the most critical sectors in Ukraine, while continuing to help existing corporate and municipality clients. For example, there was finance for emergency gas purchases by Naftogaz, liquidity to Ukrenergo and the Ukrainian railway company, trade finance for essential supplies, guarantee and risk-sharing packages for agricultural companies and lending for the production of essential medicines. In the face of difficulties resulting from the on-going war, the

Bank also applied a constructive approach to forbearance, deferrals and restructuring.

As a result of the war, the financial risks associated with investing in Ukraine are very high. By leveraging donor funds the Bank can assist with the urgent needs of the Ukrainian economy. So far, on average 50 per cent of EBRD financing has been risk-shared with donor-funded resources, for example via the EBRD Crisis Response Fund. Pledges of well in excess of €1 billion by key shareholders (including a $500 million contribution from the US Treasury) demonstrate strong support for EBRD's response for Ukraine and other war-affected countries.

The EBRD intends to remain a devoted investment partner to Ukraine, seeing it through the current situation to its reconstruction in due course. Over the coming period, based on continuing donor support, the Bank plans to invest up to €1.5 billion in Ukraine annually. As well as the need for liquidity, there is a growing demand from private businesses and public sector entities, particularly in infrastructure, for longer-term financing which could be combined with working capital to restore and expand production facilities, relocate and develop new businesses and markets. The scale of the Bank's interventions will depend on the course of the invasion and the ability of the Government to make the business environment attractive enough for investors.

The Bank will engage proactively with the Ukrainian Government, in line with its priorities, to promote reforms, including those which improve the investment climate, and will focus on the following areas, coordinating closely with international partners, stakeholders and donors:

- **Rebuilding vital infrastructure** – including transport, logistics, communications, municipal services, housing and urban regeneration;
- **Strengthening energy and food security** – through Ukraine's integration with European energy networks, renewable energy and energy efficient technologies; and via a comprehensive suite of food chain financial products, along with help to increase cross-border trade and export capacity;
- **Restoring corporate activities and support for SMEs** – scaling up activities of private companies, state-owned enterprises and banks through funding and recapitalisation, seeking higher value added production and integration into international value chains, exploiting new market opportunities arising from low carbon transition, such as green steel, hydrogen and bioenergy, and deploying advisory assistance and access to finance through local partner banks to SMEs;
- **Promoting a stable financial sector** and its regulatory alignment with the EU in partnership with the National Bank of Ukraine;
- **Supporting human capital resilience** to help ensure companies have the workforce to operate and maintain jobs and livelihoods.

Making full use of its private sector focus and expertise in transforming state-owned entities the EBRD will work with Ukraine and its partners to rebuild investors' confidence and align its economy with low carbon transition and best practices in corporate and institutional governance, including through the Bank's flagship Ukrainian Reform Architecture public administration programme.

The Bank will continue to combine its investments with reform and policy initiatives and will play a central role in coordinating and implementing the subsequent reconstruction phase working with the Ukrainian authorities, domestic and international stakeholders. The goal will be to establish an effective governance process and ensure resources devoted to reconstruction are deployed effectively, efficiently and in a transparent manner.

Box 3.1 Food and Energy Security

Russia's invasion of Ukraine and the consequent surge in prices and disruption to food and energy supplies prompted renewed concerns over food and energy security in EBRD regions, especially in countries across Europe and North Africa.

In the case of food, SEMED countries were particularly severely affected. They are among the largest grain importers globally, with Egypt, Jordan, Lebanon, Tunisia and Morocco accounting for around 6.5 per cent of global grain imports. Not only has the Bank focused on supporting agribusiness companies in Ukraine with an overall package of some €100 million so far this year (direct, intermediated finance and trade finance) but it has also helped finance food security needs in SEMED with €350 million through the TFP programme (and close to €300 million elsewhere in EBRD regions).

Tunisia is one country particularly exposed to food security issues since it is almost entirely dependent on imports of soft wheat and barley and where Ukraine supplied almost half its wheat import needs. A €150.5 million EBRD loan to the Office des Céréales in Tunisia provided for purchases of soft wheat, durum wheat and barley and was linked to a region-wide high level dialogue co-led by the EBRD and FAO to strengthen the region's food security.

Many EBRD countries in Europe have been heavily dependent on Russian gas. The war came as a profound shock leading to a rapid reduction in the share of Russian gas in European gas demand. Chaos in gas and electricity markets and risks of energy shortages have accelerated moves to bolster energy security, such as boosting gas storage, reducing demand and diversifying gas sources.

In Ukraine, the Bank has supplied almost €0.5 billion of energy security support to Naftogaz and Ukrenergo. A further €0.3 billion of financial help is being provided to the Government of Moldova for diversification of gas supplies and to build a strategic reserve, with €275 million earmarked for similar purposes to Bulgargas and Bulgartransgas of Bulgaria; and there has been liquidity support of €160 million for energy companies in Slovenia, North Macedonia and Romania.

At the same time, the Bank has continued to emphasise the importance of green energy solutions and substituting away from fossil fuels, in line with the Paris Agreement. The €3.4 billion of Bank investment in green finance by Q3 2022 is contributing to the energy security of EBRD's countries of operations and under this SIP will continue to do so.

Clients beyond Ukraine affected by the War

Russia's war on Ukraine created new and significant security, economic and humanitarian challenges for neighbouring countries, particularly in Central Europe and the Baltic States (CEB). Poland became the prime destination for people from Ukraine fleeing the war with more than three million Ukrainians now living in Poland, including those that migrated to Poland before the war. Additionally, the 2020 political crisis in Belarus and the war on Ukraine triggered a wave of emigration of Belarusians and Belarusian businesses to the CEB region.

The influx of refugees, including into poorer countries like Moldova which has seen the biggest inflow as a proportion of population,[2] put enormous pressure on cities and local governments who provide access to healthcare, education and accommodation. Furthermore, economies neighbouring Ukraine have been roiled by disrupted supply chains, higher costs and tighter financing constraints.

Three consequences of the war have been important: inflation, rising interest rates and reduced access to capital. Increases in energy and food prices fuelled high inflation – reaching 16 per cent on average in CEB (20 per cent in the Baltic states) – and energy security has become a prominent concern after Russia cut off natural gas supplies to Poland in April and curtailed supplies to Eastern Europe. Sharp increases in interest rates in response to inflation are contributing to a squeeze on domestic demand and limiting growth prospects while access to international and domestic capital markets has been severely reduced due to the proximity of the war and its effect on market sentiment. Higher costs of energy and raw materials, wage pressures and increased costs of funding have impacted companies and EBRD clients adversely, and continue to do so.

[2] See Figure 1.2, Chapter 1, p.10.

In response, the EBRD through its Resilience and Livelihoods Framework has provided:

- Help for companies affected by higher energy and raw material costs and confronted by a significantly constrained funding environment;
- Support for municipalities facing increased infrastructure service requirements from hosting refugees, and for private developers working to alleviate the housing crisis;
- Resilience investments in energy and food markets to compensate for discontinuation of imports from Russia, Belarus and Ukraine;
- Infrastructure finance to reduce bottlenecks and allow west to east trade (for reconstruction) and unlock exports from Ukraine via Poland;
- Contributions to financial sector resilience with newfound additionality in the face of shrinking domestic and international capital market access.

Going forward, the Bank will continue to pursue projects which address the impact of the war and refugee influx by:

- Supplying working capital to energy companies to cope with the higher cost of gas and electricity;
- Working with private developers on the housing crisis and with private sector employers, hiring agencies and CSOs to improve access to the labour market for Ukrainian refugees;
- Financing private renewable developers in the region to further energy independence and standing ready to support new offshore wind development in the Baltic Sea (which will bring online some 8 GW of renewable capacity) and the Just Transition Initiative (JTI) for areas dependent on fossil fuels;
- Promoting energy and resource efficiency in industries affected by high input costs as well as the electrification of transport;
- Enabling access to alternative and innovative financing instruments, such as green and sustainability-linked bonds and loans, and supporting fintech, digital services and capital market development.

3.2 Progressing the SCF

3.2.1 Green Economy

The Green Economy Transition (GET) Approach 2021-25, approved in July 2020, set out the plan for the EBRD to become a majority green bank by 2025. Since then, the Bank has seen good progress on its green, environmental and climate ambitions. In 2021, green finance accounted for 51 per cent of €10.4 billion ABI, a record reached ahead of the 2025 target date. With the Bank committed to full alignment of its operations with the goals of the Paris Agreement from end-2022, the EBRD finalised its methodologies and is applying them to confirm alignment of both its direct and indirect investments. As Chair of the Climate Head's Group of MDBs, the Bank played a prominent role at COP27 in Egypt in November, including as lead partner on Egypt's Nexus for Water, Food and Energy which mobilises more than $500 million from international partners to help close 5GW of old conventional generation, invest in a just transition programme and accelerate Egypt's renewable development.

Maintaining the same level of delivery and ambition in the current regional and global operational context is important but difficult. On the one hand, the effects of the climate crisis become increasingly evident each year, with many countries witnessing record-breaking hot temperatures in 2022. The latest Intergovernmental Panel on Climate Change (IPCC) reports speak of the widespread impact on nature and people from human-induced climate change and of emissions in the 2010s being the highest of any decade. Climate adaptation and nature preservation measures are increasingly prominent in the face of growing climate vulnerability and deteriorating natural ecosystems. On the other hand, Russia's war on Ukraine and its energy and food security implications, inflationary pressures and global supply chain bottlenecks add additional layers of complexity. In some areas too, there has been a step back towards cheaper fossil fuels to maintain energy supplies.

In this context, and under a new institutional set-up, the Bank's green agenda will continue to be pursued with vigour and determination. Key priorities over the strategy period to 2025 are:

- **Operationalisation of Paris Agreement alignment**. Methodologies for screening investment operations which help steer Bank projects into activities aligned with the mitigation and adaptation goals of the Paris Agreement have been rolled out. These carry implications for internal processes and resources as the Bank scales-up its support to clients to enhance their capacity to assess and manage climate risks, integrate climate considerations into business decisions and prepare and implement decarbonisation and climate resilience action plans. For financial intermediaries supported by the Bank, transition planning will be the central tool to implement Paris alignment, with the ambition of reaching some 350 of them in the course of the next five years.
- **Scaled up policy engagement with countries of operations (CoOs) on ambitious low carbon and climate resilient pathways and regulatory frameworks.** The Bank achieves its impact through diverse private and public sector investments in its CoOs and spearheads green transition by helping to develop and implement nationally-determined contributions, long-term strategies, sectoral low-carbon pathways and Green City action plans. The Bank will further scale up its work in these areas including via system-wide interventions in carbon markets (as under Article 6 of the Paris Agreement), greening financial systems and the creation of green technology markets and value chains. In doing so, it will build on its partnerships with other MDBs, international development partners, private sector organisations and local stakeholders.
- **Enhanced in-country coordination and local partnerships.** Implementation of the Paris Agreement requires close engagement with country-level coordination platforms, including Bank-supported investment councils. Implementation of comprehensive multi-stakeholder Just Transition projects - where limited public funding aims to crowd-in private sector investment[3] - will entail enhanced engagement with the authorities and international development partners, resources for project preparation and technical assessment, as well as project coordination and management. The EBRD also intends to increase co-operation with public and private financiers through in-country platforms.
- **Increased application of digital solutions.** Growing demands for public reporting and disclosure, such as under the Task Force on Climate-Related Financial Disclosures (TCFD), and widescale adoption of digital technologies in projects will significantly increase the need for data and digital solutions, both internally and externally. The Bank will prioritise support for the deployment of digitalised systems to generate, capture and translate results into operational and investment insights. For example, the EBRD is leading the development of digitalisation of monitoring, reporting and verification (D-MRV) in carbon markets and result-based climate finance. Scaling this up with MDBs and others can enhance access to finance by reducing the costs of transactions.
- **Addressing the increasing demand for climate adaptation and nature finance.** Tackling climate change involves an enhanced emphasis on adaptation and resilience in CoOs, as well as on integrated nature-based solutions to increase environmental co-benefits and preserve ecosystems, manage risks and foster disclosures connected with the Taskforce on Nature-related Financial Disclosures. In this context, the Bank will closely follow developments at COP15 in Montreal and review the implications for CoOs and Bank activities of the Global Biodiversity Framework, as well as the recent focus on this topic by stakeholders such as the Network for Greening the Financial System (NGFS).

[3] Nexus for Water, Food and Energy in Egypt is one such example.

- **Driving innovative climate finance forward, including through mobilisation.** Product innovation and engagement with a broader universe of financiers and actors in the climate finance space remains key to achieving GET targets and fostering a broader, systemic impact in CoOs. This includes green capital markets with a considerable increase in the number and volume of transactions, their complexity and diversity of instruments (from standard green bonds to sustainability-linked bonds and sustainable bonds). In 2022 the EBRD reached the milestone of having invested more than €1 billion directly in pioneering green bonds since 2017. The EBRD's Action Plan on Mobilising Private Capital for Climate Finance will continue to play a vital role. The latest MDB Climate Finance report (published in October) shows that the EBRD mobilised climate finance totalling $17.8 billion last year, of which $14.0 billion was private mobilisation.[4]

3.2.2 Equality of Opportunity

The EBRD launched distinct but interlinked Strategies for the Promotion of Gender Equality (SPGE) and Equality of Opportunity (EOS) in November 2021. Together, they set out the Bank's expanded vision and ambition to promote gender equality, human capital development and inclusion across three areas: (i) improving access to skills, jobs and livelihoods; (ii) creating inclusive financial systems that open up access to entrepreneurship and finance to all; and (iii) scaling up inclusive and gender equal access to infrastructure and public services. Both strategies focus on supporting people, communities and businesses affected by large scale shocks and crises, including climate change, digitalisation, conflict – notably the war on Ukraine - and fragility. The SPGE also seeks to deliver a more effective care economy and tackle gender-based violence and harassment in all its forms.

The SPGE introduced a corporate scorecard target for gender mainstreaming, with the aim by 2025 that 40 per cent of annual operations integrate specific gender components. A gender SMART process led to a new gender tagging and monitoring approach as well as standardised gender diagnostics for projects. An interactive course designed to strengthen the EBRD's gender-responsive investment culture across sectors and CoOs was launched under a new Gender Academy in May 2022. Ongoing support is provided by the Gender and Economic Inclusion Team, including through an increased presence across ROs, as well as via a Network of Gender Champions.

These measures resulted in a significant increase (1.5 times) in gender smart operations in the year to Q3 2022, with 37 per cent of newly signed operations so recorded this year.[5] Connected to this improvement has been a scaling up of policy engagement programmes, including on tackling gender-based violence and harassment (Ukraine and refugee-affected countries), the care economy (Türkiye), gender equal financial systems and gender smart value chain finance (SEMED and Central Asia) and the integration of gender into climate governance (Egypt).

The implementation of the EOS has expanded the Bank's operations in two critical areas. First, it has formed a central element of the **EBRD's response to the war on Ukraine**, placing a focus on human capital resilience, preservation of livelihoods (including for refugees and displaced people) and access to gender equal and inclusive services (vital infrastructure as well as food and energy security) under the Bank's Resilience and Livelihoods Framework. Second, the strategy has expanded the Bank's approach to **tackle inequalities arising from climate change, digitalisation, widening regional disparities and associated migration flows**. In this context, the Bank is scaling up its operational and policy approaches to promote a just and gender equal transition towards greener and more digital economies (for example through the new Energy Wealth Initiative in Egypt), investments in skills for the future across high growth sectors in Central Asia, Inclusive Regions in Egypt and the application of digital technologies for safer, more inclusive transport solutions in Türkiye and the Western Balkans.

[4] Figures include direct and indirect mobilised amounts.
[5] 48 per cent of operations in SIG sectors, 38 per cent in FI, and 28 per cent in ICA.

The implementation of the EOS is supported by a review and update of the inclusive approach at a project and country level, continued capacity building of banking teams and clients, sectoral guidance notes and tool kits, and via close cooperation and knowledge sharing with MDBs and other key partners.

However, notwithstanding the progress made in gender mainstreaming and scaling up of inclusive operations, the multiple global difficulties of today continue to widen inequality gaps, including in relation to gender. The Bank faces the challenge of delivering on its current commitments while also expanding the scale and scope of its activities on gender and equality of opportunity. For 2023 and beyond, the key objectives will be to:

- Manage **the share of gender tagged operations** across sectors to meet the 2025 scorecard target;
- Ensure the **full integration of human capital, equality of opportunity and gender into the Bank's Ukraine response** as it evolves towards recovery and reconstruction;
- **Maintain inclusive investment and policy approaches** in some areas such as Just Transition, Gender and Climate Governance and Finance, Inclusive Financial Systems, Care Economy, and investments in digital and vocational skills as well as inclusive transport solutions.
- Continue to offer **capacity building**, including via the Gender Academy, and through knowledge-sharing with other MDBs and international partners.

Resource pressures in 2023 will limit the scale of ambition in relation to the development of new products and policy engagements; and there will be continued reliance on donor-funded positions.

3.2.3 Digital Transition

The 2021-2025 Approach to Accelerating the Digital Transition was approved in November 2021 with a specific focus on what the Bank can do for its clients and countries of operations. The Approach presents digital transformation as an enabler of EBRD's transition mandate and outlines how the Bank can deploy its toolkit of investments, policy advice and advisory services towards building, supporting and fostering:

- **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** of organisations by providing access to finance and knowledge transfer in technical and advisory services that support the digitalisation of services, assets, business processes and value chains.
- **Innovation** to support friendly start-up ecosystems and allow companies to grow in a safe space, as well as meeting specific financing needs for debt and direct and indirect equity investments.

A Digital Hub within the Vice Presidency for Policy and Partnerships (VP3) was established in January 2022 to support the operationalisation and implementation of the Approach across the Bank. The Hub leads on the planning of the Bank's digital objectives, ensuring their delivery in cooperation with Banking teams, and pilots new initiatives, develops scalable and resilient programmes and prepares regular updates for senior management and the Board. It offers thought leadership on key digital trends, opportunities and risks to advance the Bank's transition agenda. The Digital Hub operates with various colleagues across the Bank contributing a portion of their time to help with the launch and operations of the Hub via the Skill Sharing Initiative.

Over the course of its first year of operations, the Digital Hub prioritised activities that sought to:

- **Deliver products, toolkits and guidance notes** designed to help incorporate digital dimensions within the Bank's investments and technical cooperation work;
  - In particular, in response to the growth of cybercrime, the Digital Hub is designing a **Cybersecurity Toolkit** to help clients assess their cyber capabilities and information security management systems, advising on cybersecurity action plans, and offering

training with awareness raising programmes and IT personnel upskilling. In this regard, the Digital Hub recently launched a project to support the digital transition in Moldova and to promote cybersecurity awareness in the private sector through a Cybersecurity Awareness Raising Workshop for SMEs.

  - In order to systematically track the Bank's digital activities, the Digital Hub issued new guidance on defining and **tagging EBRD investments with a digital component**. Going forward, the guidance will be expanded to capture EBRD policy dialogue and advisory services with a digital component. This will allow the Bank to develop a deeper understanding of the breadth and depth of the interventions it is promoting.

- **Build digital competences** in staff across key digital themes, in particular through e-learning modules, senior leadership masterclasses and the targeted acquisition of skills (for example, on cybersecurity);
  - Building on previous digital upskilling campaigns implemented by various EBRD departments, the Digital Hub collaborated with the Human Resources and Organisational Development team to build a dedicated e-learning, self-paced pathway on LinkedIn Learning. '**Go Digital 101**' targets all EBRD staff and seeks to provide a broad understanding of key digitalisation themes and trends affecting the Bank's countries of operations and clients. Further learning products with a similar format are under development, as well as targeted learning programmes for select cohorts of EBRD staff.

- **Advance the mainstreaming of digital considerations** across the Bank's existing Transition Impact architecture and enable the effective measurement of results.
  - Following the restructuring of VP3, the Digital Hub is pursuing with the Impact department new opportunities for collaboration and formalising the relationship between digital transformation and the Transition Qualities into clearly defined impact pathways across the EBRD's ex ante and ex post assessment systems.

Going forward, the Digital Hub's activities will continue to focus on these three areas, with particular attention being paid to the development and standardisation of digital products for Bank investments. This includes establishing a comprehensive methodology for digital audits and assessments for corporate clients and city-wide initiatives; and working to support the digitalisation of financial institutions and SMEs, including through the promotion of digitalisation credit lines and digitalised supply chains.

3.2.4 Other Priorities

3.2.4.1 Operational Sustainability

The successful delivery of the Bank's mission depends on the capability and capacity of its operating platform. This comprises the processes involved in executing the Bank's business, the Bank's employees and the systems that support its processes and people. To deliver for its clients the Bank needs an effective, efficient, sustainable and secure banking operating platform. By investing in each of these critical components, the Bank can supply business regular services and create capacity for growth to meet its objectives in all operating environments – including when faced with unexpected internal or external events. The Bank's exposure to material risks leading to financial loss or reputational damage is thereby reduced.

Active and robust identification and mitigation of material risks impacting the Bank's operating platform is a business necessity and is seen as a core competence by stakeholders, rating agencies, clients and counterparties. The Bank has several mechanisms in place that support the review of material risks and which foster a sound and sustainable risk management culture. These include an operational risk management framework, a measure of operational risk in its corporate scorecard, and the commitment to review operating platform needs and place them on a path towards a strategic funding approach. This is in the process of being incorporated into the senior management operational risk accountability process. However, it will not be fully implemented until all risk and control self-assessments (RCSA) have been completed across all senior management areas over 2022/2023.

Management recognised that past underinvestment has led to significant deficiencies in core IT infrastructure of the Bank and therefore in 2020 agreed with the Board a multi-million pound, phased multi-year investment programme (MYIP) to resolve material risks arising from inadequate systems and processes. Work is progressing well on upgrading the Bank's IT infrastructure and platforms. This includes the data centre migration, business-critical applications' upgrades, e.g. SAP/Summit, Monarch ecosystems, updating operating systems, hardware and networks. As a result, the Bank expects to see significant improvements in its network and system resilience and performance in 2023.

However, some risks remain to be addressed. Whilst funding has been identified within the MYIP budget it will take time, pending the specific allocation of funds and development of appropriate mitigation plans, to reduce these risks. Furthermore, adequate human resources will be needed to identify solutions, select systems and re-engineer processes. For example, ongoing IT system enhancements will result in timely and accurate Integrity/AML/CTF escalations to OCCO and, once in place, should improve integrity information and reduce human error. IT business process enhancements to donor fund processes (including Climate funds) and investment management and advisory services, which ensure policies, procedures and guidelines are consistently applied and kept up-to-date in accordance with international best practice, also fall into this category.

Improvements will be evident once the MYIP addresses an updated strategy for IT business applications and modernisation of business-critical applications covering enterprise resource planning (ERP), data and related processes across the Bank.

Increasing donor policy requirements, additional due diligence considerations across AML/CFT, sanctions, human rights issues and aligning with the Paris Agreement pose a number of material risks where some mitigation components require further funding to cover process engineering, people, further IT enhancements and automation. For example, funding is needed for adequate staffing to implement a control-operating model which: (i) ensures adequate project monitoring, reporting and verification of green, inclusive investments and policy support commitments; (ii) demonstrates to donors and investors that commitments have been met; (iii) allows the ability to undertake climate risk assessments; (iv) strengthens the management of information and cybersecurity risk; and (v) provides for sound due diligence/integrity surveillance processes to identify sanctioned entities or potential human rights issues across Bank and donor funded projects, preventing reputational damage.

Many of the Bank's identified risks are currently mitigated through tactical short-term solutions or manual controls which are time-consuming and prone to errors and inaccuracies. Together with the Bank's complex bespoke products, the operational challenges stemming from NPLs, corporate recovery, sanctions following the war on Ukraine and the application of regulatory change and commitments to emerging best practices intensifies risk, legal and compliance management.

As such, the Bank continues to experience operational risks materialising within its day-to-day activities, including process failures, human error and system outages. Further investment to reengineer processes and increase staff capacity through automation will be required to improve the Bank's operational risk profile, as well as to mitigate continued threats to the Bank's strategic plan.

3.2.4.2 Mobilisation of Private Finance

The mobilisation of private resources allows the EBRD to increase the level of transition impact it is able to achieve 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 was approved in December 2021[6] fulfilling a commitment in the SCF to develop the Bank's first comprehensive approach to the mobilisation of third-party capital, primarily from the private sector. The Bank's ambition is to double the level of Annual Mobilised Investment (AMI) by the end of the SCF period in 2025 to at least €2 billion per year, with GET AMI to be no less than €1 billion a year.

The Approach envisages that this will be achieved through: (i) substantial growth in the use of existing products such as B loans, parallel loans and unfunded risk participations; (ii) scaling up mobilisation via the relatively new Sustainable Infrastructure Group advisory programme; (iii) a marked increase in the use of private insurance capacity under the Trade Facilitation Programme; and (iv) the establishment of a new debt co-investment fund, amongst other measures.

Following Russia's invasion of Ukraine, the economic situation in most EBRD countries of operations has deteriorated markedly and with it opportunities for the mobilisation of private finance. Commercial interest in Ukraine has disappeared and the impact of the war, for example on energy and food security, has heightened investor concerns over neighbouring countries. FDI and lending on a syndicated basis by commercial banks in EBRD countries shrank through a withdrawal of commercial banks active in the region and the absence of new institutional investors. Even though the EBRD has been steadfast in supporting Ukraine and other affected countries its investments have been in projects for which there can be no expectation of commercial investor appetite. Delivery of the Bank's mobilisation ambitions has thus become more challenging.

Based on the current outlook, it will be a substantial challenge to achieve the 2022 AMI target of €1.4 billion set at the beginning of the year and it is very unlikely that the 2021 level of €1.7 billion AMI will be reached considering the difficult market conditions. Delivery is likely to remain subdued whilst such conditions last.

Nonetheless, the Bank is preparing a number of actions over the coming year aimed at institutional investors, new product development and other enabling factors.

- **Institutional investors**
  - An MoU was signed at the beginning of the year with newly created Dutch private debt impact fund and B loan investor ILX, calling for an investment of €500 million over a three to five year period.
  - Preliminary legal and market due diligence is being undertaken in relation to the proposed establishment of an EBRD debt fund. Both are expected to be completed by year-end and will be complemented by sessions with leading institutional investors in late 2022 and early 2023.
- **New product development**
  - A non-payment insurance (NPI) product pilot launched in August is currently being tested with insurers and is expected to result in material additional interest by new insurers in providing cover for EBRD projects which meet market requirements.
  - Discussions are being held with insurance brokers and individual insurance companies to assess the potential for the establishment of an unfunded risk participation co-investment programme to support transactions with certain pre-specified investment criteria.
- **Other enabling factors**
  - The Debt Mobilisation team is working with OSP and GECA on the introduction of a GET AMI tracking methodology and with the Impact team to consider mobilisation in transition impact assessments.

As explained in the Bank's Mobilisation Approach, the definition of AMI requires periodic adjustment to ensure effective reporting of Bank activities and to remain aligned with reporting by other MDBs and DFIs.

[6] BDS21-121 (Rev 3).

With these aims in mind, the Bank, on the basis of agreed pre-conditions, will automatically include in AMI all private funds (i) raised by new mobilisation products or via dedicated funds; (ii) triggered by on-lending multiples beyond EBRD's own contribution (such as in FI on-lending frameworks); and (iii) all mobilisation of private risk capacity in TFP. In addition, on a case-by-case basis (presented to the Board for approval in project documents), private co-financing triggered by EBRD-administered concessional finance instruments, including guarantees, which de-risk operations for commercial co-investors who would not otherwise provide finance will be included in AMI, along with all co-investment[7] resulting from the Infrastructure Project Preparation Facility (IPPF) and renewable energy auctions.

3.2.4.3 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.

SIP 2023-25 supports the Bank's engagement in Early Transition Countries, SEMED and the Western Balkans through a scorecard target of 48 per cent of ABI. Achievement of the target has been made technically more difficult this year as a result of the significant efforts to support Ukraine and other countries affected by the war, most of which are not among the less advanced transition countries. However, both the number and volume of projects in ETCs, SEMED and the Western Balkans have increased so far in 2022 compared with the same period last year and this is expected to remain the case at year-end.

Many of these countries are small, face difficult business environments and 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 important help. 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.

Almost 60 per cent of the number of projects the Bank makes annually are invested in the Early Transition Countries, SEMED and the Western Balkans with an average of around 250 projects annually over the 2019-2021 period (the average over the period 2016-2018 was 224). This implies that SIP 2023-25's scorecard objective for the overall number of operations reflects a large number of below average size projects to be expected in less advanced transition countries, notwithstanding the higher average unit investment costs involved.

The Bank's effort to improve delivery, including through the allocation of additional staff to ROs and continued development of local currency options, will assist these countries in 2023. Further 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 – will also make important contributions to developing the Bank's engagement in less advanced countries. Similarly, resources in key delivery enabling functions will proportionally support finance, IT platforms, due diligence and control processes associated with transactions in less advanced countries.

In all, except for the resources directly allocated to the response to war on Ukraine, more than one-half of net new resources in this SIP are expected to directly or indirectly support Early Transition Countries, SEMED and the Western Balkans.

[7] Including DFI and MDB co-investment.

Significant policy engagement will continue to be focused on these countries, helping to drive policy reforms and open up investment opportunities, thereby increasing the Bank's systemic impact.

3.2.4.4 Knowledge Management and Self-Evaluation

Learning from experience makes an important contribution to institutional development. In 2022 a new Impact team was created within the Policy Vice Presidency to be responsible for developing an integrated system of ex-ante assessment, monitoring, self-evaluation and knowledge management of the Bank's transition impact and to improve communication of their findings within the Bank and externally. The department now hosts the new self-evaluation function that is being established.

Efforts are underway to develop an approach to self-evaluation, including the necessary processes and products to make it fully operational, and to establish a work programme for 2023 and beyond. Progress has been made on the design of a new project self-evaluation template (Summary Project Assessment, SPA), in close consultation with the independent evaluation department.

Management has also finalised a theory of change-based approach to better articulate how EBRD operations contribute to higher-level outcomes and to improve impact measurement, including through self-evaluation. Steps have been undertaken to operationalise the approach, including through the enhancement of IT systems.

A phased approach to Learning and Knowledge Management (LKM) is being taken to improve knowledge management practices within the Bank. This will be achieved by laying the foundation for LKM through implementing a data strategy and digital transformation agenda, as well as by further enhancing the knowledge management function, disseminating products to improve learning and developing external outreach on impact issues.

3.2.4.5 Algeria

Governors approved Algeria's EBRD membership application in July 2020. Algeria fulfilled the membership requirements to become the 73rd official member of the Bank on 19 October 2021. The Recipient Country process is on-going with the expectation that it meets with Governors' approval in Q1 2023.

In keeping with practices adopted hitherto, notably in recent years in SEMED, the Bank intends to establish a small resident office in Algiers in the course of 2023, staffed primarily by local employees.

3.3 The Role of Donors

3.3.1 Donor funds

Donor funds have always been a key financing source for the Bank's activities. Until early 2022, nearly half the investments in EBRD's active portfolio (by number) benefitted in some way from the support of donor or net income funds; while many other activities, such as advisory services, project preparation or policy reform, are fully funded by donor resources.

With the onset of the war on Ukraine, the importance of donor support has only increased with most operations in Ukraine being backed by donor-funded guarantees. This trend is likely to continue into 2023 and beyond. Once all Ukraine transactions are included, the 2023 Annual Donor Report (to be published next May) will reflect an even greater extent of donor support for the Bank's work.

Access to grants and concessional finance continues to play an especially important role in sectors such as sustainable infrastructure and in the Bank's less advanced regions,[8] a factor that is compounded by the present volatile geopolitical and macroeconomic situation.

[8] Almost three-quarters of funds used in 2021 were allocated to Eastern Europe and the Caucasus, SEMED and Central Asia.

Box 3.2 Mobilising Donor Funds for Ukraine

Donor funds allow the Bank to address affordability constraints, improve market outcomes in the presence of significant externalities, build capacity, provide advisory services and steer investments towards improved sustainability and transition outcomes across the EBRD's regions. As the refugee crisis and the coronavirus pandemic demonstrated, such funds are critical in times of crisis. Under these exceptional circumstances, the role of donor funds changes: they help to absorb substantially-increased credit risk, mitigate the impact of external shocks, offset the lack of private finance due to high levels of uncertainty and maintain the EBRD's financial standing and protect its AAA credit rating by providing capital relief.

Between the onset of the war on Ukraine and late October 2022, EBRD mobilised some €1.4 billion from its community of donors for the Resilience Package to support Ukraine and other countries most affected by the war. Around €780 million of this has been signed and a further €590 million has been pledged, most of which will be signed by the end of 2022.

The initial response has focused on providing emergency liquidity financing to the Bank's existing Ukrainian clients across a range of sectors, with a particular focus on maintaining energy and food security, extending financing to municipalities and supporting local businesses through private financial institutions. The Bank was quick to adapt its funding architecture to accommodate the inflow of new donor support: the EBRD Crisis Response Special Fund has become the main vehicle for channelling donor support. The EBRD has also earmarked €43 million of the SSF for Ukraine and is looking to target parts of the SSF there in 2023 and beyond.

Many donors have, or are planning to contribute to the Bank's efforts in Ukraine with the United States making a landmark contribution of $500 million in August 2022, paving the way for other donors. Financial support has been provided in the following ways:

- Around 70 per cent of the total has been through contributions to a number of funds managed by the EBRD: the Crisis Response Special Fund, Small Business Impact Fund, Ukraine Multi-Donor Account and others;
- Some 30 per cent has been in the form of unfunded guarantees attached to the EBRD's existing or future projects.

To ensure proper data collection and tracking of all crisis response inflows and outflows, the Bank's Donor Co-Financing team (DCF) created the Ukraine Financing Group to deliver regular updates on new contributions and EBRD projects to which the funds are being committed. DCF is also providing key data about mobilised donor support on the Bank's website and will include a dedicated analysis of this in its forthcoming Annual Donor Report for 2022.

As the war is expected to continue into next year, the Bank estimates an extra need for donor financing of several hundred million euro in 2023. This amount will be critical for the EBRD to maintain the pace of its current support and investments in Ukraine and to start financing Ukraine's reconstruction, once conditions allow. Funding needs for the latter will be assessed separately when the time comes, and will take account of any future role the Bank may play in broader reconstruction coordination efforts currently under discussion.

DCF's recent SSF needs analysis[9] found that higher borrowing costs in the Bank's countries of operation means higher funding needs in 2023 compared with 2022. The main drivers of this include inflation, a lack of available alternative funds and the continuing need to push forward to deliver SCF strategic objectives, in particular the transition to green, low carbon economies, Paris Alignment and the Gender and Equality of Opportunity strategies. Tackling the food security crisis is also a factor in SEMED.

At the same time, the challenging global outlook is leading to decreased fiscal space in donor countries, reduced aid budgets and less headroom in EBRD's shareholding countries to support the Bank and other IFIs. Warning signs are already visible in the diversion of donor funds to priority domestic policy needs. A close partnership with donors will therefore remain essential to the delivery of the EBRD's 2023 business plan, especially given the Bank's exposure to Ukraine relative to other IFIs.

In view of these factors, funding needs remain high for 2023. Table 3.1 shows the current indicative funds mobilisation plan for use in 2023 and beyond, which amounts to an expected €1.8

[9] 'EBRD Shareholder Special Fund (SSF) 2023 Needs Analysis', CS/BU/22-39.

billion. This does not include funds of almost €1.4 billion raised for Ukraine so far this year (see Box). Funds will be mobilised for a variety of purposes and instruments to match project needs now and as they are implemented in the future. A significant part of mobilised support will come in the form of unfunded guarantees.

Table 3.1 Donor Funds Indicative Mobilisation Plan in 2022 for future use (excluding funds for Ukraine)

Source	€ million
Grants	745
Concessional loans	325
Unfunded guarantees	730
Total	**1,800**

Note: Figures are best estimates, based on exchange rates at 1 November 2022.

There has been a notable shift in support from the Bank's donors towards more sophisticated financial instruments, particularly unfunded guarantees. The number of Bank-funded operations benefitting from these instruments increased threefold in the five years to 2022. This trend is likely to continue, especially as the Bank has received, and is currently negotiating, large amounts of support for Ukraine where these instruments are an important component of total support.

Looking to the future, the Bank envisages a high demand for grants, concessional loans on flexible terms and additional access to unfunded guarantees from the EU and bilateral donors. These can be drawn upon as risk-mitigating instruments over several years and eventually as the current resilience response turns towards reconstruction.

The EBRD's donor community has grown and the Bank has welcomed contributions from several new donors in recent years. To date increasing volumes of donor inflows have come from multilateral donors, such as the EU and the global climate funds. Given the strong support for Ukraine from bilateral donors this trend may change in 2023. In addition to its Ukraine response, the Bank will concentrate next year on raising and channelling bilateral funds into multi-donor vehicles, for example the climate finance vehicle HIPCA and the new multi-donor Gender and Inclusion Fund. This will take place alongside regular outreach to the Bank's multilateral donors. It is likely, however, that the bulk of donor support will focus on Ukraine in 2023 and may mean fewer resources are available for other countries of operation compared with recent years.

The Bank will also mobilise net income to blend with its investments and for policy reform and advisory services. The SSF will remain a vitally important resource to the Bank that flexibly responds to Bank needs, complements donor finance and focuses on the Bank's core SCF priorities. The 2023 Funding Outlook will consider both SSF and other donor fund needs.

3.3.2 Donor fees

The Bank manages over 200 funds on behalf of donors. In accordance with the Bank's *Fees for Donor Funds* policy 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.

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 of time (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:

- Relevant: additional resources and costs should be relevant for donor activities (must be related to and generated by projects implemented, or facilities managed, by EBRD).
- Eligible: agreed resources and costs must meet the eligibility criteria of donors.
- 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 business case 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.

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 uncertainty. Therefore, it is likely the projected release each year will display some volatility. As such, the Bank holds some projected fee income back in reserve against such volatility in future years. The projected release for 2023 is £21.3 million. The amount held in reserve is £3.7 million, leaving £17.6 million to be used for expenditure in 2023 (See Table 3.2).

Table 3.2 Donor Fees 2021-2023 (£ million)

£ million	2021 Actual	2022 Estimate	2023 Estimate
Income	15.3	18.8	21.3
Reserve	6.8	5.9	3.7
Expenses	8.5	13.0	17.6

Of the total fee budget for 2023, 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:

- Up to 32 new fee-funded staff positions, covering high priority areas related to areas of historical underinvestment and capacity building, and to meet new cross-cutting donor demands such as gender and economic inclusion and a number to support the Bank's response to the war in Ukraine.
- Non-staff costs related to important internal functions such as procurement, legal counsel, reporting and donor communications.

3.4 The Pace and Pattern of Investment Activity

This section presents the Bank's projected activity and portfolio over the period 2023 to 2025 in line with its operating principles and the strategic directions of the SCF.

The projected activity for the SIP period reflects a strong focus on supporting the Banks' Countries of Operations that are affected by the ongoing war in Ukraine, inflation and the cost of living crisis, energy and food security issues and the lingering effect of the Covid-19 pandemic. An increased focus on delivery has seen the Bank sign 276 projects totalling €7.3 billion in the first three quarters of 2022 with large investment volumes in energy projects. This represents an increase of 11 per cent and 16 per cent respectively on end-September 2021 activity. As a result, Annual Bank Investment for 2022 is expected to reach the upper end of the BP2022 range, while the number of operations is likely to remain within the scorecard range of 395 to 435.

The projections presented take account of the challenging business environment as well as the pursuit of projects in Countries of Operations in line with the Bank's strategic priorities. The projections also take into consideration the recent fluctuations of the €/$ exchange rate where the US dollar has strengthened in recent months to hit parity with the euro for the first time since 2002. The Bank introduced the planning rate in the Medium Term Strategy Update 2004-2007[10] as a constant exchange rate assumption for the planning period to provide a consistent basis for projections and analysis of historic trends of the Bank's portfolio, capital utilisation and headroom. As a result of exchange rate movements over the past year and the current outlook, the SIP2023-25 projections are based on a €/$ planning rate of €/$1.05 compared with the previous planning rate of €/$1.15 adopted in the SIP2016-2018.[11]

The upper end of the Annual Bank Investment (ABI) range is projected to be €11.5 billion for each SIP

[10] BDS03-054.
[11] BDS15-230 (Final).

Table 3.3 Number of Operations and Annual Bank Investment 2021-2025 (€ billion at plan rate €/$1.05)

	2021 Actual	2022 Estimate	2023 Projected	2024 Projected	2025 Projected
Annual Bank Investment	10.7	10.8	10.5–11.5	11.5	11.5
Number of Operations	413	395-435	395-435	up to 435	up to 435

year (2023, 2024 and 2025). Projected activity is based on the following assumptions:

- Planned investment for 2023 and beyond assumes a continuation of significant support to Ukraine and countries affected by the conflict. Specifically, annual volume in Ukraine is estimated to be in a range of €1.0-1.5 billion, subject to continued support from shareholders and donors. This does not include any provision for investment to support a coordinated reconstruction effort in Ukraine to be implemented when conditions allow.
- Reflecting the Bank's ambition to grow its equity portfolio in support of its transition impact and profitability, the equity share of ABI is assumed to be around 7 per cent over the SIP period, reflecting a gradual return to pre-crisis levels (2016-2019 average of 7 per cent) with the share of equity ABI for 2021 reaching 6 per cent after a drop to 4 per cent in 2020.
- Sovereign lending is projected at around 18 per cent of ABI, slightly below the average for the period 2018 to 2021 (19 per cent) in line with a private share objective of ABI at 75 per cent.
- The share of trade facilitation is projected at around 15 per cent of ABI, a similar level to the average of the 2017 to 2021 period (15 per cent) whilst below the peak of 2021 (18 per cent).

Activity under the Bank's response to the Covid-19 crisis led to large provisions for liquidity to the Bank's clients in 2020 and resulted in the average project size peaking at €26 million at end-August 2020. The average size of projects decreased to €21 million in 2021, largely in line with pre-crisis years. Activity so far in 2022 indicates average project size increased to €23 million for the first nine months of the year reflecting the impact of support provided in the context of the conflict, including energy security projects. Based on ABI growth and a projected average project size above pre-crisis levels the number of operations is projected to remain in the range of 395 to 435 projects annually during the SIP period.

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

Annual disbursements reached €5.7 billion at end-September 2022, 14 per cent above the 2021 level for the same period but below the 2020 crisis response level. Reflecting activity at the upper end of the range for the period 2023 to 2025, disbursements are for projection purposes assumed to be in a range of €7.0 billion and €8.0 billion in 2022 and 2023, and up to €8.3 billion and €8.5 billion in 2024 and 2025 respectively.

Portfolio reflows are projected at around 16 per cent of the opening portfolio stock in 2022, above the 2021 level, reflecting the combined impact of a concentration of repayments in the first eight months of 2022 driven by deferred payments and repayments of short term liquidity signed in 2020 under the Covid Resilience Framework. This trend is amplified by high cancellations and prepayments as a direct impact of the conflict. Based on an analysis of individual reflow parameters which are either estimated on the basis of actual information (this is the case for scheduled repayments on existing operating assets) or ratios to operating assets (for prepayments, divestments, and write-

Table 3.4 Annual Disbursements 2021-2025 (€ billion at plan rate €/$1.05)

	2021 Actual	2022 Projected	2023 Projected	2024 Projected	2025 Projected
Disbursements	7.5	7.0-8.0	7.0 – 8.0	up to 8.3	up to 8.5

Table 3.5 Portfolio Reflows 2021-2025 (€ billion at plan rate €/$1.05)

	2021 Actual	2022 Projected	2023 Projected	2024 Projected	2025 Projected
Portfolio Reflows	7.8	8.1	up to 7.7	up to 8.4	up to 8.3

offs) or portfolio (cancellations), reflows are projected to continue at an average of 16 per cent of opening portfolio stock over the SIP period with the following assumptions:

- Annual repayments are projected at around 17 per cent of the unimpaired loan operating stock, similar to the 2021 level. While the current schedule of repayments shows a peak over the next two years, reflecting a concentration of repayments under the Financial Intermediaries and Resilience Frameworks, the projections also reflect limited growth in percentage terms due to the rise of impaired assets in 2022.
- Annual prepayments are projected at around 5 per cent of unimpaired loan operating assets for the period 2023 to 2025. After a sharp decline in 2020 due to the pandemic, prepayment levels have recovered to pre-crisis levels reaching €0.9 billion at end-September 2022, up from €0.3 billion and €0.6 billion in the same period of 2020 and 2021.
- Annual divestments accounted for 10 per cent and 15 per cent of opening equity stock in 2020 and 2021 respectively following an average of 14 per cent during the period 2016 to 2018. Divestments are assumed to average 14 per cent in the SIP period.
- Cancellations accounted for 4 per cent of undrawn commitments in 2021 and are expected to reach a peak of 7 per cent driven by the initial impact of the conflict and the cancellation of outstanding commitments in Belarus. The ratio of cancellations is projected at an annual rate of around 6 per cent over the SIP period.

Based on the above trends and projections of annual disbursements, portfolio reflows and investment activity levels, the Bank's portfolio and operating assets are projected to increase by up to 5 per cent and 9 per cent respectively from 2021 to end 2025. Taking into account projected portfolio growth, historic trends of the average project size and projected reflows, the number of active projects in the Bank's portfolio is projected to increase by around 9 per cent from 2,234 at the end of 2021 to up to 2,450 by the end of 2025.

From a regional perspective, Southern and Eastern Mediterranean, Eastern Europe and Caucasus and South Eastern Europe regions are projected to remain the three largest portfolio shares, while the highest portfolio growth rates during the SIP period are projected to take place in the Southern and Eastern Mediterranean and Central Asia region. Portfolio composition is a function of region-specific activity levels reflecting transition opportunities and the Bank's additionality, product composition, reflow rates and the maturity of the portfolio. Reflecting these parameters, the illustrative portfolio projections for 2022 to 2025 presented in Table 3.7 show that:

- The **Central Asia** portfolio is expected to grow by 21 per cent from €6.4 billion at end 2021 to €7.8 billion at end-2025 reflecting projected rising activity levels in the region.
- The portfolio in **Central Europe and Baltics** is projected to rise to €7.7 billion by 2025 from €7.0 billion at end-2021 as a result of increased investment levels to support

Table 3.6 Portfolio and Operating Assets 2021-2025 (€ billion at plan rate €/$1.05)

	2021 Actual	2022 Estimated	2023 Projected	2024 Projected	2025 Projected
Portfolio	51.4	51.6	up to 52.9	up to 53.5	up to 54.2
Operating Assets	35.1	35.9	up to 37.0	up to 37.6	up to 38.5
Active Portfolio Operations, number	2,234	up to 2,300	up to 2,350	up to 2,390	up to 2,450

countries affected by the conflict in the earlier part of the SIP period.

- In **Cyprus** and **Greece**, the portfolio is projected to decrease from €2.5 billion to €2.2 billion in 2025 reflecting the growing reflow rate over the period and lower activity levels planned since the cessation of new project activity in Cyprus at the end of 2020.
- **The Eastern Europe and Caucasus** portfolio is expected to grow by 8 per cent from €8.7 billion to up to €9.4 billion in 2025.
- The Bank's portfolio in **Russia** is expected to decrease by 40 per cent over the SIP period to €0.6 billion, reflecting expected divestment levels on the outstanding equity portfolio and the amortisation of the remaining debt portfolio.
- The portfolio in **South-Eastern Europe** is projected to grow gradually over the period to €9.8 billion in 2025 due to the combination of the expected flow of new projects over the period and the maturity of the Bank's assets in the region.
- The portfolio in the **Southern and Eastern Mediterranean** region is projected to grow by 15 per cent between end 2021 and end 2025 to reach up to €10.2 billion, reflecting new activity levels in the region.
- The portfolio in **Türkiye** is projected to gradually decrease to €6.6 billion at the end of 2025 reflecting increased reflow pressure with high scheduled repayments on existing loans in 2022, 2023 and 2024.

Table 3.7 Indicative Regional Portfolio Composition 2021-2025 (€ billion at plan rate €/$1.05)

Volume	2021 Actual	2022 Estimated (up to)	2023 Projected (up to)	2024 Projected (up to)	2025 Projected (up to)
Central Asia	6.4	6.5	6.8	7.2	7.8
Central Europe and Baltics	7.0	7.8	8.4	8.1	7.7
Cyprus and Greece	2.5	2.5	2.5	2.4	2.2
Eastern Europe and Caucasus	8.7	8.7	9.2	9.3	9.4
Russia	0.9	0.8	0.7	0.6	0.6
South-Eastern Europe	9.6	9.4	9.5	9.7	9.8
Southern and Eastern Mediterranean	8.8	9.0	9.3	9.7	10.2
Türkiye	7.4	6.9	6.6	6.5	6.6
Total	**51.4**	**51.6**	**52.9**	**53.5**	**54.2**

Share, per cent	2021 Actual	2022 Estimated	2023 Projected	2024 Projected	2025 Projected
Central Asia	12%	13%	13%	14%	14%
Central Europe and Baltics	14%	15%	16%	15%	14%
Cyprus and Greece	5%	5%	5%	4%	4%
Eastern Europe and Caucasus	17%	17%	17%	17%	17%
Russia	2%	2%	1%	1%	1%
South-Eastern Europe	19%	18%	18%	18%	18%
Southern and Eastern Mediterranean	17%	17%	18%	18%	19%
Türkiye	14%	13%	13%	12%	12%

Table 3.8 2023 Indicative Regional and Sectoral Annual Bank Investment (€ million at plan rate €/$1.05)

	BP2022 Indicative Share, per cent	BP2023 Indicative Share, per cent	BP2022* Indicative Planning Level ABI	BP2022* Indicative Upper End ABI	BP2023 Indicative Lower End ABI	BP2023 Indicative Upper End ABI
Central Asia	14%	13%	1,350	1,450	1,350	1,450
Central Europe and Baltics	12%	16%	1,200	1,250	1,650	1,850
Greece	5%	4%	500	550	450	500
Eastern Europe and Caucasus	18%	17-19%	1,800	1,850	1,800	2,150
South-Eastern Europe	17%	17-18%	1,700	1,800	1,900	2,000
Southern and Eastern Mediterranean	21%	18-19%	2,100	2,200	1,950	2,050
Türkiye	13-14%	13%	1,350	1,400	1,400	1,500
Corporate	27%	28%	2,700	2,800	2,900	3,200
Financial Institutions	37%	39%	3,700	3,900	4,100	4,500
Sustainable infrastructure	36%	33%	3,600	3,800	3,500	3,800

* As per SIP 2022-24 document using plan rate of €/$ 1.15

4. Maintaining Financial Sustainability

4.1 Financial Sustainability

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

(i) Profitability

Project specific metric:

- **Investment Profitability Model (IPM)** allows assessment of projected risk-adjusted returns on new debt transaction 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.
- In addition to the risk-based measure, the Bank also adheres to a **statutory capital** metric that ensures that total Banking exposure does not exceed the capital base (including callable capital). A prudential limit is set at 92 per cent against this nominal measure. The SCF 2021-2025[12] provided that the Bank will plan to operate at levels of statutory capital utilisation below 90 per cent in order to provide an additional capital buffer.

The Bank's existing capital policies are supplemented by forward looking macroeconomic stress testing. High level financial and risk management objectives have been articulated in a Risk Appetite Statement, including a quantification of the risks associated with the Bank's business plan through Financial Loss Tolerance Thresholds (FLTT). Stress test results are measured against these thresholds.

Finally, a **Framework for Net Income Allocation Proposals** guides the financial assessment underpinning the 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

The Bank's liquidity policy is a key element in safeguarding financial stability in the medium term and supporting the Bank's 'triple-A' 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).**

[12] BDS20-030 (Final).

Box 4.1 Return on Capital and Net Income Allocation

Across the SIP 2023-25 period, the Bank is expected to remain within the financial policies and scorecard metrics listed above, with the exception of the following:

- **RoRC:** As a result of the substantial loss expected for full year 2022, the 3-year rolling RoRC is projected to fall below the long run average minimum return of 3.5 per cent set within the Corporate Scorecard from 2022 to 2024 (inclusive). Although annual returns are projected to be well above 3.5 per cent after 2022 the three-year rolling return on required capital is only expected to exceed the minimum level by 2025 when the deeply negative return in 2022 is no longer included in the calculations.

- **NIA:** The NIA (Net Income Allocation) Framework outlines a set of guiding principles to formulate proposed allocations from net income to "other purposes". The anticipated sizeable financial loss in 2022 triggered by the war on Ukraine means that the threshold to retain at least 75 per cent of the growth in reserves over 3 years is likely to be exceeded during 2023.

  In line with its commitment to financial sustainability, the Bank is considering a change in the rules of the NIA-funded Shareholder Special Fund (SSF) that would consolidate SSF's net assets into the capital base of the Bank, thus strengthening overall capital ratios while at the same time supporting donor funds essential to the Bank's core delivery. This innovative measure to support the Bank's capital in difficult financial conditions dovetails with the recommendations of a recent review of capital adequacy frameworks of multilateral development banks (MDBs) commissioned by the G-20, which calls on MDBs to maximise the use of capital resources at their disposal.

4.2 Profitability

To ensure sufficient capital headroom, the detailed financial projections are based on the 'upper-end' of the planning range of ABI during the SIP period.

2022 financial performance estimate

In 2021, the Bank recorded the highest profit in its history at €2.5 billion, of which €2.4 billion was retained in reserves adding to the already sizeable capital buffer. However, in 2022 profitability (estimated €1.63 billion net loss) has been severely impacted following the invasion of Ukraine with the Bank expected to record a net reduction in members' equity of €2.3 billion[13].

This unprecedented event has impacted:

- The **loan portfolio**, with a significant increase in impairment charges, expected to amount to €1.4 billion by end-2022. This is comprised of a post-model adjustment (PMA)[14] of €0.6 billion while the remaining €0.8 billion relates to stage 3 impairment. As a result, the NPL ratio is expected to rise to around 8 per cent by year-end 2022 (end-2021, 4.9 per cent).

- The **equity portfolio** recorded substantial downward revaluation of €1.4 billion, with the majority of the remaining exposure in Russia being marked-down by up to 90 per cent.

- A substantial unrealised loss in **other comprehensive income** of €0.6 billion relating to the fair value of cross-currency swaps – particularly historic rouble issuance swapped into US dollars - which will reverse as the bonds near their maturity, as well as fair value of certain banking debt instruments.

The estimated net reduction to capital in 2022 reflects preliminary financial results for the first three quarters of 2022.

[13] Includes a proposed €122.25 million net income reallocation from previously allocated surplus.
[14] Post model adjustment (PMA) increases the modelled impairment charges that are not captured by the Bank's expected credit loss model to reflect the additional risks flowing from the war in Ukraine. PMA reflects full life expected credit losses as opposed to 1 year.

Table 4.1 Profitability

Profitability (€ billion)	2019 Actual	2020 Actual	2021 Actual	2022 Plan	2023 Projected	2024 Projected	2025 Projected
Operating income:							
Debt portfolio*	0.81	0.73	0.94	0.99	0.91	0.92	0.93
Equity portfolio	1.14	0.32	1.66	(1.37)	0.25	0.24	0.24
Treasury activities	0.17	0.18	0.16	0.31	0.14	0.14	0.14
Operating (loss) / income by segment	**2.12**	**1.24**	**2.75**	**(0.07)**	**1.30**	**1.30**	**1.31**
(Cost) / return on 'free' capital**	0.00	0.00	(0.08)	0.00	0.35	0.23	0.24
Financial reporting adjustments	(0.23)	(0.00)	0.06	0.38	(0.05)	(0.05)	(0.05)
Total operating (loss) / income	**1.89**	**1.24**	**2.74**	**0.30**	**1.60**	**1.49**	**1.50**
Provisions for impairment	(0.02)	(0.48)	0.16	(0.75)	(0.51)	(0.21)	(0.22)
Post model adjustment (PMA)	0.00	0.00	0.00	(0.63)	0.41	0.00	0.00
Adminstrative costs	(0.44)	(0.47)	(0.47)	(0.55)	(0.57)	(0.61)	(0.65)
Total net (loss) / profit before NIA	**1.43**	**0.29**	**2.43**	**(1.63)**	**0.94**	**0.67**	**0.63**
Net income allocations	(0.12)	(0.12)	(0.08)	(0.12)	(0.08)	(0.08)	(0.08)
Other reserve movements	0.00	(0.11)	0.03	(0.58)	0.00	0.00	0.00
Net (reduction) / growth in capital base	**1.31**	**0.06**	**2.38**	**(2.33)**	**0.86**	**0.59**	**0.56**
Return on total members equity (%)	**10%**	**1%**	**14%**	**-11%**	**5%**	**4%**	**3%**

* Debt operating income for actual results include effective interest rate adjustments but is not considered in the planning period.

** Prior to 2021, the cost of free capital was not separated out from interest income but instead absorbed by Treasury. The return on 2022 is assumed at EURIBOR flat.

SIP2023-25 outlook

Compared with SIP 2022-24, net aggregate capital growth over the three-year period is approximately €0.7 billion higher at €2.0 billion. The stronger than expected outlook is driven predominately by an acceleration in market interest rates, which generate a positive return on the Bank's 'free' capital denominated in euros. This is expected to contribute around €0.84 billion to the Bank's capital during the SIP 2023-25 period, based on expected EURIBOR interest rates.

Moderately higher administrative costs, as a result of inflationary pressures, will also impact profitability.

The primary financial variables behind 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 2022-24, despite increasing credit risks in the portfolio. This reflects evidence of a recent stabilisation in average margins on stock (2020, 2.82 per cent; 2021, 2.77 per cent; up to September 2022, 2.77 per cent). Note that since annual business investment replaces only a portion of operating assets each year, margins on new signings (2020, 2.35 per cent; 2021, 2.61 per cent; up to September 2022, 2.65 per cent)[15] take time to impact average stock margins.
- 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. In absolute terms, net interest income on the total loan portfolio including sovereign exposure is expected to increase over the period as the Bank increases its

[15] A significant portion of investment activity in 2022 was directed towards short term liquidity provision to financial institutions (where margins are typically tighter).

Banking loan assets from €31.5 billion in 2022 to €34.1 billion by end-2025.

- Stage 3 impairment charges are assumed at €0.51 billion for 2023 before reducing to around €0.2 billion for the remainder of the SIP period. The higher levels of stage 3 impairment modelled in 2023 assumes €0.3 billion of the PMA transitions to stage 3 impairment, and €0.1 billion is released as a benefit to the income statement. The projection is based on the (externally audited) IFRS 9 expected credit loss (ECL) model, using GDP projections from OCE[16] for the baseline scenario, with an added minus 5 per cent GDP sensitivity. In addition, the higher impairment reflects incremental lending in Ukraine since the invasion after taking account 50 per cent support by donor funds and guarantees. Modelled credit losses translate into a projected NPL ratio of around 7 per cent by end-2025, compared with 4.9 per cent at end-2021. This is lower than the position estimated to end-2022, mainly reflecting assumptions around write-off of unrecoverable assets and those assets modelled which return to performing status.

Equity

- Overall equity returns (dividends received, realised and unrealised gains) are conservatively assumed at 6 per cent per annum across the planning period. With volatile markets and a rising interest rate environment in the face of inflation the cumulative real return is conservatively projected to be negative in the short term. Forecasting equity returns is challenging, particularly during periods of economic turbulence, and average annual nominal returns are set uniformly across the planning period. Whilst annual nominal returns are unchanged from SIP 2022-24, absolute income is planned lower due to the lower opening fair value of equity investments at the start of the planning period following significant write-downs on equity valuations during 2022.

Return on euro-denominated capital

- The Bank funds its Banking and Treasury assets using paid-in capital, accumulated profits (reserves) and money borrowed from the market through the issuance of bonds and other short term securities. Paid-in capital and reserves (total members' equity) are a non-interest bearing liability and, as a result, represent a 'free' source of funding for the Bank (in the sense that the Bank does not have to pay interest on it).
- On the asset side of the balance sheet, debt assets will earn the Bank an underlying reference rate (e.g. EURIBOR) plus a credit margin. When market interest rates were around or below zero, there was no economic benefit from the Bank's members' equity as a non-interest bearing source of funding given that debt assets only earned the credit margin.
- However, as rates turn positive, as seen in rising interest rates in the majority of developed markets in 2022, these debt assets earn both a credit margin and a positive reference rate while the Bank's members' equity remains 'free'. As a result, the Bank can expect to generate an additional positive return on its euro-denominated capital.[17] The current forward EURIBOR rate is over 2.8 per cent for 2023. To secure future income, the Bank has entered into an interest rate swap to 'lock-in' the rate of return on its 'free' capital for 2023. This provides certainty over an important element of the income statement in 2023 during highly uncertain economic conditions, and translates into an annual increase in interest income of around €0.5 billion for 2023. The Bank has not locked-in the rate for the remainder of the planning period where the projected contribution of €0.2 billion per annum is conservatively set below the current forward EURIBOR rates.[18]

[16] Office of the Chief Economist (OCE).
[17] This is defined as total members' equity less equity investments and represents a free source of funding.
[18] Returns in 2024 and 2025 are set at 1 percentage point below current EURIBOR forward rates.

Treasury activity

- Treasury assets are projected to decline over the SIP period from an estimated €33 billion at end-2022 to around €29 billion by end-2025. This reflects the Bank's strategy to maintain strong levels of liquidity whilst avoiding undue pressure on the nominal leverage ratio, notably including the Fitch equity to assets ratio, in the short to medium term.
- Treasury operating income before accounting adjustments and the impact of favourable interest rates on the Bank's 'free' capital is projected to be €140 million for 2023 and to remain around this level to the end of the planning period. Historically, profits have been supported by gains from the Asset & Liability Management (ALM) desk, particularly from local currency activities. However, due to their unpredictable nature, further exacerbated by the volatile interest rate environment, ALM gains are set at prudent levels in the Plan. Returns on short term assets are increasing with market interest rates, supporting a higher overall contribution from the Treasury business segment. Returns from the long-term portfolio are expected to remain in line with past performance. However, income from this share of the portfolio is expected to be lower reflecting the managed reduction of the portfolio.

Financial reporting adjustments

- This category of the income statement predominately accounts for the fair value movements on non-qualifying and ineffective hedges. At end-September 2022, the Bank had recorded a gain of €0.5 billion. 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 causes a temporary gain/loss to the income statement. As the Bank is fully hedged against interest rate risk, the temporary gains on hedging instruments in 2022 will reverse over time as the underlying loans approach maturity and thus carries no economic implications. For planning purposes, €50 million per annum is expected to unwind during the SIP period. This level reflects the maturity of the underlying loans. The expected (partially) offsetting impact of unwinding of losses on cross-currency swaps associated with the funding instruments (and recorded through other comprehensive income) is conservatively excluded from the projections.

FX planning rate

- The planning rate, which is used for converting US dollar denominated Banking assets into euros, for the SIP 2023-25 period has been amended to €/$1.05 (from €/$1.15 in previous SIPs) reflecting the sustained weakening of the euro in relation to the US dollar.

Other

- Administrative expenditure projections are based on the medium-term budget assumptions set out in Chapter 5.
- Net income allocations for 2023-2025 are presented for illustrative purposes, with actual allocations subject to annual decisions guided by the **Framework for Net Income Allocation Proposals** in the context of net capital growth. 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.

4.2.1 Cost to debt income ratio

Matching administrative costs against planned debt income allows projections of the cost to debt income metric (SCF control parameter) to be made, as set out in Table 4.2.

A sharp increase in the ratio to 60.4 per cent estimated for 2022 is predominately driven by unrealised losses from the loan portfolio measured at fair value to counterparts with exposure to Ukraine, Belarus and Russia.

During the planning period, the cost to debt income ratio is expected to increase by a further 7.1 percentage points by end-2025 to reach 67.5 per cent. Rather than due to an expansion of activities the increase is mainly driven by inflationary pressures and Multiyear Investment

Table 4.2 Cost to Debt Income Ratio

€ million	2019 Actual	2020 Actual	2021 Actual	2022 Plan	2023 Projected	2024 Projected	2025 Projected
Total administrative expenses (incl. MYIP)	435	466	474	548	568	605	647
Exclude: Exceptional & non-budgeted items to adjust:							
Libor opex	-	(1)	(3)	(6)	(3)	-	-
HQ transition costs	-	-	(10)	(25)	-	-	-
Staff mobility	-	(11)	-	-	-	-	-
Operational effectiveness and efficiency (OE&E)	(6)	(0)	-	-	-	-	-
Non-budgeted items (e.g. FSP acturial adjustment)	(14)	(16)	(31)	(18)	(18)	(18)	(18)
Sub-total	(20)	(28)	(43)	(49)	(21)	(18)	(18)
Adjusted expense base	415	438	431	500	547	588	629
Total debt operating income	811	837	919	826	913	919	932
Cost to debt income ratio*	51.2%	52.4%	46.9%	60.4%	59.9%	63.9%	67.5%

*Before effective interest rate adjustment and deferral of fee income.Therefore, debt operating income will differ from the Bank's published financial statements.

Plan (MYIP) expenditures within the administrative expense budget. The ratio remains below the SCF control parameter limit of 70 per cent throughout the SIP period.

Costs have been modelled to increase by 5 per cent per annum plus MYIP in 2024 and 2025. This assumption is prudent when set against the base case inflation forecast from the Bank of England Monetary Policy Report November 2022, where UK CPI inflation is expected to fall from its current high level to 1.4 per cent by end-2024 and 0.0 per cent by end-2025. While the cost to debt income ratio deteriorates in the planning period, increases in ABI levels within the planning period (and beyond) will translate into higher assets and will bring in higher income in the future.

Although this ratio is projected to increase year on year, it does not include other income streams such as Treasury operating income and income generated from the Bank's euro-denominated capital, described in detail earlier in this section. The Bank's overall profitability includes these factors and is expected to be stable throughout the planning horizon. Whilst the cost to debt income metric is an important parameter to monitor the efficiency of the debt portfolio at an overall Bank level (and one of the SCF control parameters), total cost to total income is expected to remain at around 50 per cent throughout the SIP period. Mindful of the inflationary pressures, the Bank remains committed to managing cost and income dynamics to ensure the financial sustainability of the Bank and will consider all appropriate measures to control its cost to debt income ratio over the medium term. Control parameters will be maintained at ambitious levels. Continued growth of operating assets, commitment to market-based pricing, and focus on efficiencies and reallocation in the budget planning context all contribute to these objectives.

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 4.3.

The marginal improvement in the projected statutory capital utilisation over the planning period (2023-2025) compared with SIP 2022-24 is mainly stemming from the significant interest income expected from the Bank's 'free' capital.

The capital and financial projections incorporate an implied risk profile for the projected portfolio. On the basis of the indicative changes in the regional shares within the portfolio by end-2025 and assuming that the average risk rating for each

Table 4.3 Internal Capital Policy Projections

Planning rate (1) € billion (other than percentages)	2019 Actual	2020 Actual	2021 Actual	2022 Projected	2023 Projected	2024 Projected	2025 Projected
Annual Bank investment	10.1	11.0	10.4	10.5	11.5	11.5	11.5
Portfolio	46.1	48.4	50.0	51.6	52.9	53.5	54.2
Operating assets at cost	**31.8**	**33.3**	**34.1**	**35.9**	**37.0**	**37.6**	**38.5**
Deduct accumulated stage 3 impairment	(0.7)	(0.8)	(0.7)	(1.4)	(1.6)	(1.5)	(1.5)
Adjusted net operating assets (a)	**31.1**	**32.5**	**33.4**	**34.5**	**35.4**	**36.1**	**37.0**
Total statutory capital (2) (b)	**41.2**	**40.0**	**42.5**	**42.8**	**43.3**	**44.0**	**44.6**
Statutory capital utilisation (a / b)	**75%**	**81%**	**79%**	**81%**	**82%**	**82%**	**83%**
SIP 2022-24				*82%*	*83%*	*84%*	
Capital adequacy:							
Required capital	11.8	12.0	13.3	12.0	11.9	12.0	12.1
Available capital	17.8	17.9	20.3	18.0	18.9	19.5	20.0
Capital utilisation (under CAP)	**66%**	**67%**	**65%**	**67%**	**63%**	**62%**	**60%**
SIP 2022-24				*65%*	*64%*	*63%*	

(1) Actuals at reported rates; projections at planning rate of €/$1.05 for SIP 2023-25 (previous SIP was €/$1.15).

(2) Statutory capital is reduced by accumulated statge 3 impairments (see 'Review of the Gearing Ratio Interpretation' (BDS15-018)).

region remains constant,[19] the average capital requirements for debt would be 15.0 per cent of debt exposure by end-2025 (September 2022, 15.2 per cent).

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 assessments are also projected for each year of the plan. See Table 4.4.

The Bank remains above key thresholds throughout the SIP 2023-25 period. This excludes the anticipated benefit of consolidating the SSF's net assets[20] into the capital base of the Bank. As part of their overall assessments, rating agencies equally consider a range of non-financial factors when determining overall ratings, such as risk management practices, policy importance, business profile and strength of shareholder support.

Table 4.4 External Capital Ratio Projections

	Boundary Threshold	2020 Actual	2021* Actual	2022 Estimate	2023 Projection	2024 Projection	2025 Projection
Moody's asset coverage ratio	< 2.5x	2.12	2.00	2.26	2.19	2.15	2.12
Fitch key capital metrics:							
Useabale equity to risk adjusted ratio (FRA)	35%	40.3%	40.3%	41.4%	43.3%	44.5%	44.8%
Equity to assets ratio	25%	26.1%	27.7%	26.7%	28.4%	29.4%	30.3%
S&P's RAC ratio**	> 23%	30%	30%	28%	28%	28%	29%

* End 2021 positions are based on estimates.

** A RAC ratio above 23% represents 'Extremely Strong' stand-alone assessment.

[19] See section 4.3.4 on financial resilience where the Plan is subject to macroeconomic stress tests, resulting in rating downgrades and losses across the debt and equity portfolios.

[20] In 2023, the Bank will be reporting the EBRD SSF within the Bank's financial statements. This is expected to improve the Bank's external capital ratios, namely: the Fitch equity to asset ratio by 0.6 percentage points, Moody's asset coverage ratio by 4.2 percentage points and the S&P's RAC ratio by 0.8 percentage points. Additionally, the Bank's risk-adjusted capital policy metric improves by 1.6 percentage points.

The **Moody's asset coverage ratio**[21] is expected to increase significantly in 2022 as a result of the large financial losses arising from the invasion of Ukraine but to remain within the key threshold range.[22] From this point, the ratio is expected to improve as the Bank starts rebuilding its capital resources during the SIP period.

The **Fitch equity to assets ratio,** [23] is expected to improve over the medium term and to exhibit a sizeable buffer above the 25 per cent threshold by 2025. The improvement in capitalisation is driven by careful management of the size of the Treasury balance sheet, whilst ensuring that appropriate liquidity levels are retained (see section 4.4), and by profitability and resultant capital growth over the SIP period.

Overall, the point of greatest pressure to the Bank's capital position is likely to occur in the short term as losses from the invasion of Ukraine are realised. Beyond that, it is expected that core profitability will strengthen capital ratios to support and implement the Bank's plans in the period to 2025. Nonetheless, significant downside risks remain as illustrated under simulated stressed conditions (see section 4.3.4).

4.3.3 Return on capital

The **return on required capital** (corporate scorecard measure) on a rolling three-year basis is projected to exceed the minimum required 3.5 per cent by 2025 (Table 4.5). However, due to significant losses in 2022 it is expected to fall below 3.5 per cent from 2022 to 2024 (inclusive).

The annual return is subject to significant volatility arising from the fair value of equity investments and levels of impairment. Although annual returns are projected to be well above 3.5 per cent after 2022 the three-year rolling return on required capital is only expected to exceed the minimum level by 2025 when the deeply negative return in 2022 is no longer included in the calculations.

A floor for the three-year average is set annually and has remained unchanged since the metric was introduced in the scorecard in 2016.

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 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

Table 4.5 Return on Required Capital

Return on required capital, %	2019 Actual	2020 Actual	2021 Actual	2022 Estimate	2023 Projection	2024 Projection	2025 Projection
Annual return basis (%)	14.1%	1.5%	20.1%	-17.5%	7.9%	5.6%	5.3%
3 year rolling average return (%)	7.7%	5.9%	11.9%	1.4%	3.5%	-1.3%	6.2%
Minimum requirement				*3.5%*	*3.5%*	*3.5%*	*3.5%*

[21] Defined as development-related assets and Treasury assets rated A3 or lower in relation to useable equity.
[22] Next threshold boundary is a leverage ratio greater than 2.5 times.
[23] This compares total members' equity to total assets net of fair value of derivative instruments recorded on the balance sheet. The calculation of total assets includes outstanding guarantees.

macroeconomic shock with resulting capital ratios consistent with retaining a 'triple-A' rating under rating agency methodologies (with particular focus on the Standard and Poor's risk adjusted capital metric), whilst relying on perceived shareholder support for such a rating. Under the Bank's CAP, this equates to a capital utilisation level of 100 per cent after stress.

Based on the Severe stress (post institutional actions)[24] and maintaining planned investment levels outlined in the SIP operational plan, **peak capital utilisation during the planning period is projected at 78 per cent**, marking an 11 per cent increase relative to 67 per cent (estimated) at end-2022.

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 Fitch equity to assets ratio would fall to 23 per cent (minimum 25 per cent). The Bank would also exceed an important threshold under the Moody's asset coverage ratio. These increased risks are primarily driven by a deterioration in the external risk environment triggered by the unprovoked invasion of Ukraine by the Russian Federation.

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.[25] 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 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 2023-25 plan are presented in Table 4.6 together with the FLTT. The one-year impact on net earnings under both Downturn and Severe scenarios is within the defined FLTT. This is the highest level of risk that the Bank has accepted in its business plan since the introduction of formal stress testing of the SIP.

Table 4.6 Stress Test Results vs. Financial Loss Tolerance Thresholds

Scenario	Net Earnings 1 year (€m)	FLTT* (€m)
Downturn	-245	-1,000
Severe (post-Institutional Actions)	-3,780	-4,000

*The FLTT was increased ahead of SIP 2023-25 from €3 billion to €4 billion thereby accepting higher volatility in the income statement.

The Bank thus remains in compliance with internal capital policies and loss tolerance thresholds set within the Risk Appetite Statement. However, the stress testing analysis highlights the Bank's vulnerability to financial metrics considered by rating agencies. In the event of a Severe scenario, it is highly unlikely the Bank could retain triple-A accreditation across all three rating agencies. In adopting the operational plan set out in this document, the Bank also 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 out of a multitude of possible adverse paths the future can take. Whilst any projected financial outcomes are subject to model risk, the risk of underestimation of losses is considered low due to the number of conservative modelling assumptions applied.

4.4 Liquidity and 2023 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.

[24] Reduction in equity share of ABI and reduction in net income allocations.
[25] See 'Risk Appetite Statement', CS/AU/21-19 and '2020 Review of Financial Loss Tolerance Thresholds' CS/AU/20-051.

Table 4.7 Projected One-Year Stressed Liquidity Coverage Ratio

€ billion	End 2020 Actual	End 2021 Actual	End 2022 Estimate	End 2023 Projected	End 2024 Projected	End 2025 Projected
Cash in						
Gross Treasury assets	31.7	34.0	33.4	30.9	29.8	28.9
Less: associated liquidity haircuts	(6.6)	(6.3)	(5.7)	(5.2)	(5.2)	(5.2)
Adjusted Treasury assets	**25.1**	**27.7**	**27.7**	**25.7**	**24.6**	**23.7**
Discounted maturing Banking loans and gross interest income	4.3	4.5	4.6	4.4	4.9	4.9
Total discounted Treasury assets and maturing loans	**29.4**	**32.2**	**32.3**	**30.0**	**29.5**	**28.6**
Cash out						
Banking undrawn commitments (50%)	6.8	7.1	7.0	7.1	7.1	7.1
Guarantees (100%)	1.6	1.7	1.7	1.7	1.6	1.5
Total debt redemptions (short & long-term)	13.4	10.9	11.2	12.1	13.8	13.1
Other obligations [1]	1.7	0.9	1.4	1.4	1.5	1.5
Total obligations	**23.5**	**20.6**	**21.3**	**22.4**	**24.0**	**23.2**
1 year EBRD stressed ratio	**125%**	**156%**	**152%**	**134%**	**123%**	**123%**
Liquidity buffer to 100% minimum requirement (€ bn)	*6.0*	*11.6*	*11.0*	*7.7*	*5.5*	*5.4*

[1] Includes cost of borrowings, non-borrowed funds, administrative expenses and deferred Net income allocations.

Based on planned activity levels in this year's Business Plan, **a Borrowing Programme Authority of up to €10 billion (expected use, €8 billion) net new issuance is set for 2023.**

The borrowing authority for 2022 was €11 billion with an expected utilisation set at the time of €10 billion. This has subsequently been lowered, with the Bank currently targeting a €7.0 billion utilisation for 2022 and €8.0 billion for 2023 in order to manage the size of the Bank's balance sheet and avoid undue pressure on nominal leverage ratios, including the Fitch equity to assets ratio, over the short to medium term.

The Bank had issued €6.3 billion of new debt by the end of September 2022. The planned strategy to moderate balance sheet size through a lower borrowing programme utilisation will somewhat weaken the Bank's liquidity profile under all rating agency assessments, though this will broadly bring the Bank back in line with historical levels.

As a result, Treasury liquid assets are expected to decline from €34 billion at end-2021 to €33.4 billion by end-2022 before settling at around €30.9 billion by end-2023.

With a **borrowing level of €8 billion** anticipated for 2023:

- 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 2023 are designed to ensure the Bank achieves the strongest assessment rating on liquidity from rating agencies.

Table 4.7 presents the EBRD 1-year stressed liquidity ratio over the medium term which broadly follows the approach considered by Standard & Poor's. At the end of 2023, it is estimated to be 134 per cent against a required ratio of 100 per cent (end-2022 estimate, 152 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 4.8 Projected 2 Years Net Cash Requirements Ratio

	End 2022 Estimate	End 2023 Projected
Gross Treasury Liquidity assets	33.4	30.9
Less short term borrowings (1)	(0.9)	(1.7)
Net Treasury Liquid assets	**32.5**	**29.2**
Net outflows	**Years 2023/24**	**Years 2024/25**
Net operational disbursements	(2.3)	(2.1)
Net profit (incl. Net income allocations)	2.0	1.8
Debt redemptions (2)	(21.5)	(22.4)
2 years net cash requirements (3)	**(21.8)**	**(22.7)**
Net cash requirements ratio	**149%**	**129%**

(1) Includes non-borrowed funds.

(2) Represents total debt (incl. short term debt) maturing in the next 24 months. Assumes no new issuance in years 2024 and 2025.

(3) Estimate for 2022 based on SIP23-25 projections.

Coverage is projected to be even lower by the end of the SIP period mainly due to the planned reduction in Treasury liquid assets and higher debt service requirements. The level of coverage is also reflective of the size of the borrowing programmes assumed in 2024 and 2025, which is reviewed annually in the context of each SIP.

In line with the second requirement under the Bank's TALP, it is projected that at the end of 2023 the Bank will have 129 per cent coverage of the next two years' net cash requirements (to end-2025), comfortably above the policy minimum of 75 per cent. (Table 4.8).

Liquidity performance under a one-in-100 stressed scenario is the third requirement under the TALP. In this scenario, under the 2022 Bank-wide Stress Test, the EBRD has sufficient liquidity resources to meet net cash requirements for at least 24 months, compared with a minimum of 12 months set out in the TALP.

5. Resourcing the Plan and Budget Proposal

Introduction

Exceptionally high inflation, strengthening of the US dollar and the war on Ukraine provide an unusually arduous context for the Budget and resourcing of the SIP this year. None of these circumstances was fully foreseeable and they each carry significant consequences for the Bank's expenses and resource plans. This Chapter describes these challenging circumstances and sets out the SIP 2023-25 Budget proposal while further details related to compensation and benefits are presented in a companion paper.[26]

A high-level overview of the net resource needs to meet the Bank's operational goals for 2023 and the drivers behind the request are discussed first. After a short commentary on staff and workforce planning, the core budget proposal for 2023 is set out in full, including a medium-term view based on illustrative assumptions of prudent growth in costs. Two exceptional items beyond the core administrative budget are also presented: the latest phases of the Multi-Year Investment Plan (MYIP), including Phase 3 to be confirmed in this SIP; and a proposed carryover of the unused LIBOR Transition Project budget to meet updated Financial Conduct Authority (FCA) timelines.

5.1 Resourcing the Plan

The Bank's business priorities for 2023 are outlined in the Operation Plan in Chapter 3 and the economic context in Chapter 1. These Chapters describe the serious challenges the EBRD faces and the path towards delivery of its objectives, including how the Bank plans to support its clients in Ukraine and other countries affected by the war, deliver critical impact on SCF priorities, and reinforce its delivery model.

In order to meet these objectives, the Bank needs to be adequately resourced. **Although business volumes are projected to remain at close to record levels, and despite the disruptions and costs associated with a war in Europe, the EBRD's core budget will marginally decrease in real terms.**

This is achieved by a continuing effort to reallocate resources within the Bank and extract efficiency savings (no longer with the benefit of the Mobility Enhancement Programme, MEP) and a significant real reduction in the salary budget. Net new resources amounting to a 1.0 per cent increase on last year's core administrative expense budget, or £4.2 million, in particular for the effort on the war on Ukraine and to reinforce the Bank's delivery, are requested.

5.1.1 The Impact of Inflation and Sterling Depreciation

As many institutions around the world are currently experiencing, high inflation feeds through to costs on all fronts, in a way impossible to avoid or manage in the short run. Rocketing energy costs, reasonable salary demands on the back of sharply rising living costs and higher service fees from inflation-inked contracts all take their toll on budget lines and complicate budgetary processes.

The Bank is no exception. UK inflation of 9.9 per cent and 'Bank-wide' inflation of 10.3 per cent are at their highest levels for decades. The first segment of the budget 'bridge' in Figure 5.5 in the detailed Budget section (5.4) shows how the price impact on core administrative costs is significant even before any real adjustments are made.

[26] 'Staff Compensation and Benefits Proposals for 2023', BDS22-184.

Figure 5.1 US Dollar Appreciation against Sterling

For the EBRD, the effects are compounded by the strengthening US dollar, and in particular the weakness of sterling which has fallen by some 20 per cent against the US dollar this year (see Figure 5.1). The Bank has a large exposure to US dollars as many ROs use it as a contractual currency for their salaries.

Figure 5.2 Currency Impact on Budgeted Costs

70 per cent of RO salaries are set in US dollars, while in the case of Türkiye the Bank supports a protection mechanism for staff remunerated in Turkish lira which is set against US dollars, making the overall impact of dollar strengthening on the Bank's budget even bigger. The effect is estimated to result in a £6.9 million increase to the budget (see Figure 5.2). Together with the impact of domestic inflation on base costs, these effects total around £12 million, or 2.9 per cent on the last year's total administrative expense budget.

5.1.2 Driving Efficiencies forward

Sound financial management ensures that existing resources are first reallocated to best use and streamlined, before requests are made for new resources. The Bank continues its mission to instil a management culture, which embeds resource efficiency and effectiveness as part of everyday thinking and to ensure effective resource management. It has created the capacity to redeploy substantial resources across activities and within departments. ExCom members have benefitted from regular discussions on optimising the use of existing resources and from updates on progress. This has been an important enabler for managing through unexpected developments and cost pressures, and for delivery of new priorities without losing sight of the need to improve existing activities, skills and processes.

The process has been further enhanced by the creation of the Transformation Group and introduction of the Transformation team in September 2022. The Group is responsible for ensuring the Bank has the right governance, processes, facilities, working space and technology in place to perform at its best and deliver the Bank's strategy and vision. It oversees the MYIP, supports transformation through better use of data and digitalisation, and provides high quality services, technology and change expertise that help departments achieve their core operational objectives.

The EBRD faces multiple pressures on its resources – particularly as a result of the war on Ukraine - leading management to consider every aspect of the Bank's business as it seeks to optimise output and redeploy resources where they are most needed. Common tools have involved top down reallocations and adjustments to budgets, stopping low value work and reprioritising activities, making use of staff turnover and vacancies, and creating structural opportunities to redesign and automate processes.

Within this wider context, driving efficiency forward was a clear goal when assessing budgetary needs for 2023. A rigorous internal prioritisation of needs was conducted department by department to ensure that SIP requests were both realistic and necessary. The gross value of requests far exceeded what was viewed as acceptable, so Finance worked with departmental managers to reprioritise and reduce asks. The Box below gives a detailed picture of the changes made as a result of this process.

The refined list that remained showed a gross need of 99 headcounts at a total cost £10.8 million (including non-staff). In contrast to SIP 2022-24 the advantages of the mobility enhancement programme MEP – which enabled nearly half of the 2022 efficiency savings - were no longer available, forcing budget holders to dig deeper in order to identify efficiencies. An exhaustive review process resulted in **two-thirds of the identified needs, or 66 headcount positions at a total cost of £6.6 million, being met through staff and non-staff efficiencies and reallocations**.

Box 5.1 Efficiencies by Enabler and Business Area

Departmental managers were asked to take a holistic view of operations in order to seek out efficiencies. These were then grouped together:

By Enabler:

- **Review of organisational structures** (spans, the number of direct reports of a given employee and layers, the number of different levels of reporting), leading to adjustment of the balance in staff resources.
- **Reprioritising activities** and reallocating workloads accordingly.
- Achieving **commercial savings** through provider or scope change.
- **Closure** of RO offices.
- Exploring opportunities related to natural **staff turnover.**
- Reviewing processes with the aim of increasing **efficiency**, **automating** delivery or **stopping** an activity.

Efficiencies by Enabler and by Business Area (£ million)

By:		FTE*	Staff Cost	Non-Staff Costs	Total
Enabler	Spans & Layers	(33)	(2.9)	-	(2.9)
	Workload Reallocation	(25)	(2.1)	-	(2.1)
	Commercial Savings	-	-	(0.9)	(0.9)
	Office Closures	-	-	(0.5)	(0.5)
	Stopping an activity	-	-	(0.1)	(0.1)
	Automation	-	-	(0.1)	(0.1)
	Total by Enabler	**(58)**	**(5.0)**	**(1.6)**	**(6.6)**
Area	VP, Chief Transformation Office	(1)	(0.1)	(1.4)	(1.5)
	VP, Risk and Compliance Group	(10)	(1.3)	-	(1.3)
	HR and Organisational Development	(14)	(0.9)	(0.2)	(1.1)
	Banking Department	(16)	(1.0)	-	(1.0)
	VP, Policy & Partnerships	(12)	(0.8)	-	(0.8)
	Office of the General Counsel	(3)	(0.5)	-	(0.5)
	Evaluation Department	(2)	(0.2)	-	(0.2)
	Office of the Secretary General	-	(0.1)	-	(0.1)
	Internal Audit	-	(0.0)	-	(0.0)
	Total by Area	**(58)**	**(5.0)**	**(1.6)**	**(6.6)**

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

By Area:

VP Chief Transformation Office: Mainly non-staff commercial savings from decommissioning of legacy IT systems, scope changes in third party IT support, rationalisation of print devices, cancellation of memberships, closure of the Minsk, Moscow and Washington offices and staffing efficiencies from the reallocation of RO focused work.

VP Risk and Compliance: All staff efficiencies, through the internal reallocation of staff to strengthen corporate recovery work, utilising salary headroom released from staff movements, creating multiple positions through the split of existing positions, and repurposing budget released by leavers.

HROD: Mainly staff efficiencies, through an expected move of recruitment and mobility activity to an RO location and centralisation of query management activity and capability. Non-staff efficiencies include lower face-to-face training costs from a higher ratio of virtual delivery through the Enterprise Learning Management System and commercial savings from a change of provider for executive assessments used in executive selection processes.

Banking: All staff efficiencies, from the Monarch platform (linked to MYIP), reallocation of resources in HQ to support Algeria, and the transfer of staff to Risk Management to strengthen corporate recovery work.

VP Policy & Partnerships: Assessment and reallocation of resources to high priority activities across CSG.

Office of the General Counsel: Repurposing of existing vacancies budgets and reassessing grades after the transfer of activities within and across departments.

Evaluation, Office of the Secretary General and Internal Audit: Reallocation of budget released from leavers and salary headroom released from staff movements

5.2 Net Resource Needs

In SIP 2023-25 the **net resource request amounts to £4.2 million or a 1.0 per cent increase in the Core Administrative Expense Budget.**[27]

The total Core Administrative Expense Budget increases by 9.3 per cent. This is slightly less than UK CPI inflation (August 2022 figure)[28] and below Bank-wide aggregate inflation[29] of 10.3 per cent (August 2022).

The pattern of net resource requests is shown in Figure 5.3 below, with £10.8 million of requests for the war on Ukraine, SCF priorities, reinforcing delivery and opening an office in Algeria offset by £6.6 million of resource efficiencies and reallocations. The new request is a culmination of a very disciplined approach and imposes tight constraints on the resources needed to deliver SCF ambitions in a complex and challenging operating environment.

5.2.1 War on Ukraine

In March 2022 the Board of Directors endorsed an emergency response package in the face of the Russian invasion of Ukraine. The package included an immediate and substantial Resilience and Livelihoods Programme to provide fast support to Ukraine and affected countries, and for Ukrainians impacted by the crisis, such as the mostly women, children and elderly who have become refugees.

Alongside the operational approach was the prioritisation of staff safety.

The impact of the war on Ukraine on the Bank's operations was unexpected and unbudgeted for, and is continuing with little prospect of a definitive resolution in the near future. The EBRD's commitment to supporting Ukraine and affected clients has required a reprioritisation of effort and resources. Support for this critical activity has been recognised through a **gross investment of £2.1 million** (22 FTEs), made up of **£1.2 million** (11 FTEs) **incremental investment** and **£0.9 million of reallocations**.

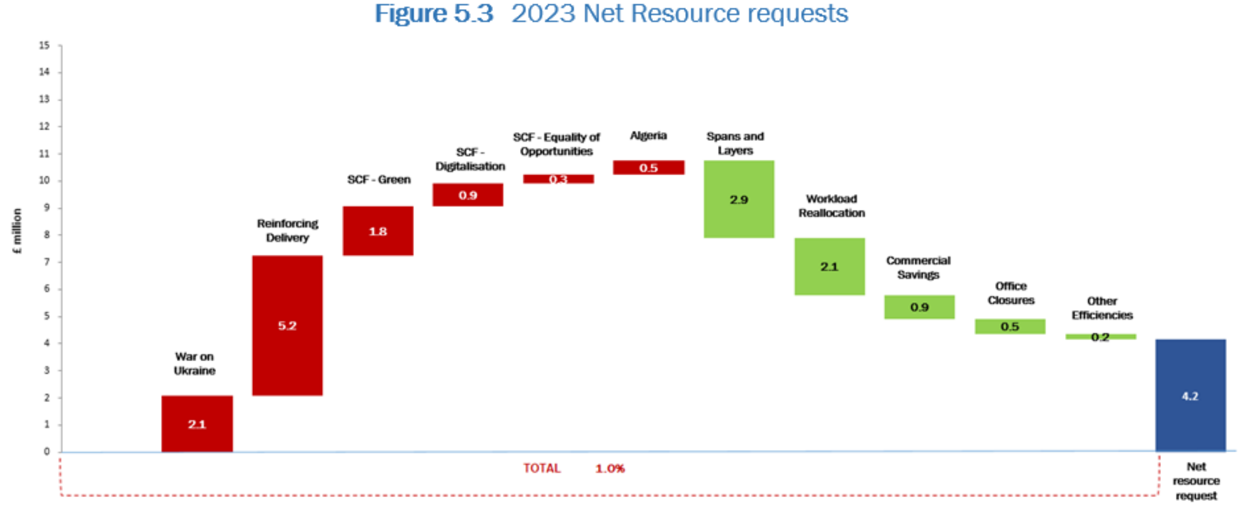
5.2.2 SCF priorities

While the war on Ukraine has become a central focus, the Bank continues to pursue core SCF priorities, leveraging resources approved in the first two years of the SCF.

SIP 2022-24 further increased resources for GET and provided additional capacity for other priorities – Equality of Opportunity, the Bank's Approach to the Digital Transition and Mobilisation, and a strengthened self-evaluation function.

In line with this trend, SIP 2023-25 further increases the amount of **new resources going to SCF priorities** - Green, Equality of Opportunity and Digitalisation - by **£3.0 million**. However, **£1.8 million of reallocations** have been identified to

Figure 5.3 2023 Net Resource requests



[27] This increase is indicatively equivalent to staff costs of £2.8 million/33 FTEs and £1.4 million of non-staff costs, prior to internal reallocations to fund SCF priorities (for more details, see section 5.4.3).
[28] UK CPI inflation was 9.9 per cent in August 2022 (and 10.1 per cent in September).
[29] This figure includes higher inflation affecting the costs of Resident Offices.

ensure continued investment, resulting in a **net request of £1.2 million**.

5.2.3 Reinforcing delivery capability

The need to strengthen the resilience of the Bank's delivery model has become increasingly clear in recent years. In particular, the cumulative allocation of resources which have supported the expansion of front-line banking activities, and the growing complexity of EBRD's business, requires parallel investments in back office and related support. The majority of needs here have been met through efficiencies and reallocations.

There are a number of factors that make this urgent. For example, rising numbers of portfolio transactions to manage, an increasing proportion of donor-funded projects with more complex structuring and reporting requirements, maintaining alignment with the latest market standards, e.g. in environmental and climate-related issues (Paris alignment, TCFD, procurement), compliance with sanction regimes, AML/CFT and the cross-cutting requirements of EU guarantee programmes. These all put pressure on the services that enable front-line banking and increase the risks to their smooth-running.

Under the comprehensive category of Reinforcing Delivery there is a net request of £1.6 million. The majority of the £5.2 million gross staff and non-staff budgetary needs here however have been satisfied through reallocations of £3.6 million. 29 FTEs out of a total 37 FTEs requested, i.e. almost 80 per cent, have been resolved through internal efficiencies and reallocations, leaving a net incremental request of 8 FTEs. Incremental staffing needs have been identified in CSG for a product ownership team to support the Monarch platform, in Finance to support capital and liquidity resilience analysis and to bolster CSG business partnering, in Communications for the increased demand for Business Information Services (BIS), in Internal Audit to build a digital and data analytics capability, and for the Independent Project Accountability Mechanism to support caseload volume.

Ensuring a robust operating platform, while keeping disruptions and delays to a minimum, is a critical enabler for front-line delivery, especially with the Bank operating at close to record business volumes. Reinforcing delivery capability forms an important part of the effort in this SIP to support the Bank's operational priorities.

5.2.4 Algeria

Algeria is new member of the EBRD and expected to become a country of operations in 2023. It is a large country – with a GDP comparable to Kazakhstan – and involves a complex political environment. The context differs significantly from the other EBRD North African countries of operations. Establishing a local presence has been the first step in all new EBRD countries of operations and forms an integral part of the EBRD business model.

The SIP proposal is that a limited presence is established in Algiers, consisting of 7 FTEs, mostly local staff, to support initial business development, TC and SME advisory. This would amount to **a new investment of £0.3 million, or less than 0.1 per cent of the Bank's overall administrative budget.** Additional non-staff costs and 3 FTEs for HQ sector support of **£0.2 million will be absorbed through efficiencies and reallocations**. The total cost of EBRD's initial presence (including reallocations) is not expected to exceed 0.2 per cent of the Bank's administrative budget.

5.3 Staff and Workforce Planning

5.3.1 The Bank's Workforce

A total of 355 staff joined the Bank in the last 12 months (a mix of new and replacement positions), representing a 0.65 per cent increase in net staff headcount relative to the previous 12-month period.

5.3.2 Ukraine

The war on Ukraine meant that the Bank made a number of policy decisions to ensure staff impacted by the crisis were safe and could continue to meet business requirements:

- Temporary financial support providing a subsistence amount was designed and communicated quickly to support 79 staff in February, 108 staff in March and 111 staff in April.

Table 5.1 The Bank's Workforce in 2022, end-September

	2020 Q3		2021 Q3		2022 Q3	
	Headcount	Per cent	Headcount	Per cent	Headcount	Per cent
Headquarters	1858	65%	1895	65%	1913	65%
Resident office	985	35%	1018	35%	1016	35%
Banking	1541	54%	1561	54%	1563	53%
Non-Banking	1302	46%	1352	46%	1366	47%
Regular	2111	74%	2198	75%	2219	76%
Fixed-Term contract	567	20%	560	19%	554	19%
Short-Term contract	165	6%	155	5%	156	5%
Non-Overtime Eligible (male)	1144	40%	1193	41%	1188	41%
Non-Overtime Eligible (female)	1157	41%	1238	42%	1296	44%
Overtime Eligible (male)	90	3%	87	3%	86	3%
Overtime Eligible (female)	452	16%	395	14%	359	12%

- The Bank's decision to close its Moscow office meant that staff had to be relocated outside of Russia or to sever ties with EBRD. A number of staff were transferred to a variety of geographic locations based on business need.
- After the Bank's decision to halt all operations in Belarus support was provided to Minsk colleagues. Staff were given the option of a transfer to work in another office location based on business need or, if they chose not to accept, enhanced redundancy terms.

After the initial crisis period, the focus switched towards ensuring affected staff had clarity to plan longer term and that the Bank has policies in place to support this.

5.3.3 Hybrid Working

The Bank moved to an integrated way of working based on attending the office for two days per week or eight days per month from October 2021, paving the way for the mainstreaming of hybrid ways of working. The Bank's approach towards new ways of working has been that management and staff will adapt, learn and grow together. After a review in the first half of 2022, a revised hybrid working approach was agreed 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 approach, launched in July 2022, introduced a framework whereby staff work at least 50 per cent of their time on average in an office or in-person with clients and partners, and are helped with supporting tools and learning. Attendance will only be tracked at an aggregate level to understand trends as the Bank trusts its people and teams to do what is right for the business and to take individual responsibility and accountability for delivery.

5.3.4 Wellbeing

A material number of staff (some 15 per cent) continue to be directly or indirectly impacted by the war on Ukraine. An upward trend in number of sick days booked by staff for stress-related absence continues, although the number of staff absent for this reason remains small. Sick days booked for Covid-19 related symptoms accounted for one quarter of all such days booked so far this year.

Actions taken to address wellbeing include a wellbeing programme, mental health awareness training and a mental health app. Specialist mental health support has also been provided face-to-face in Lublin for Ukraine staff and their dependents while staff in other locations have been able to access support remotely.

5.4 Budget Proposal

5.4.1 The Medium-Term Budget Perspective to 2025

This SIP covers three years to 2025 and has a multi-year perspective. It builds on investments approved in the first two years of the SCF and reflects needs driven by the war on Ukraine and

Table 5.2 Projected Total Administrative Expense Budget 2023-25 (£ million)

	2022 Budget	2023 Budget	2024 Projection	2025 Projection
Core Administrative Expenses, GBP	**410.1**	**448.2**	**470.6**	**494.1**
Extraordinary Budget Items GBP	**22.1**	**34.4**	**35.9**	**48.2**
LIBOR Transition	5.3	2.7	-	-
MYIP (opex and depreciation) - Phase 1	11.3	22.9	23.5	23.5
MYIP (opex and depreciation) - Phase 2	5.5	8.5	9.2	14.3
MYIP (opex and depreciation) - Phase 3	-	0.2	3.2	10.5
Total Administrative Expense Budget, GBP	**432.2**	**482.6**	**506.6**	**542.4**
GBP/EUR rate	1.17	1.14	1.16	1.16
Core Administrative Expenses, EUR	**479.9**	**510.9**	**545.9**	**573.2**
Extraordinary Budget Items EUR	**25.9**	**39.2**	**41.7**	**56.0**
LIBOR Transition	6.2	3.1	-	-
MYIP (opex and depreciation) - Phase 1	13.2	26.1	27.3	27.3
MYIP (opex and depreciation) - Phase 2	6.4	9.7	10.7	16.5
MYIP (opex and depreciation) - Phase 3	-	0.3	3.7	12.1
Total Administrative Expense Budget, EUR	**505.7**	**550.2**	**587.6**	**629.2**

the reinforcement of delivery, as well as resources to support SCF goals and other business requirements. Multi-year resourcing plans have been developed for the Multi-Year Investment Plan (MYIP), discussed in section 5.5, and SCF themes as illustrated in Table A.5 in Annex 2.

Over the course of SIP 2023-25 the Bank's resources will shift towards the priorities advanced in Chapter 3. As described in the SCF, the Bank first seeks to reallocate capacity to invest in these priorities and to create capacity to respond to higher workloads, greater complexity and new tasks within similar resource envelopes. This means continuing to upskill, innovate and encourage staff mobility within the existing resource base, facilitated by resource effectiveness initiatives, such as streamlining structures and processes, redeploying resources and developing skills.

In order to deliver the SCF, however, the Bank will require budget increases in each year of the SIP. These are shown in Table 5.2, with increases beyond 2023 based on an illustrative conservative (above inflation) 5 per cent nominal growth in the core budget in 2024 and 2025 and a mild strengthening of GBP. In addition to core expenses, current and future SIPs are affected by extraordinary items, in this case the MYIP and remaining LIBOR transition (also shown in the table). This illustration is provided purely to assess financial sustainability under prudent assumptions of cost growth and does not pre-empt future budget proposals. Budgets beyond 2023 will be approved by the Board of Directors in subsequent SIPs.

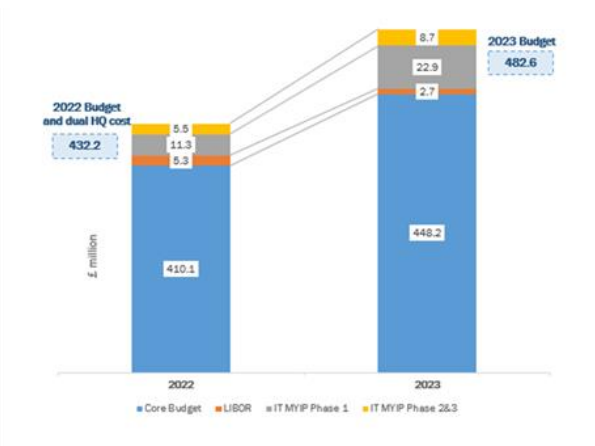
The Bank remains committed to an efficient use of resources and strict budgetary control. The projections here do not prejudge development of the budget over the medium term. Among other items, future budgets for core expenses will need to take into account:

- Phased implementation of the SCF 2021-2025 priorities.
- Resources to support the Bank's operational delivery and possible regional expansion.
- Adjustments for reward to remain competitive and address inflationary pressures.

Table 5.3 Core Administrative Expense Budget for 2023 (£ million)

Administrative Expenses	2022 Budget	2023 Budget	2023 vs 2022 £ million	2023 vs 2022 Per cent
Operating Expenses	366.6	406.4	39.8	10.9%
Depreciation	43.6	41.8	(1.8)	(4.1%)
Core Admin Expenses	**410.1**	**448.2**	**38.1**	**9.3%**

Figure 5.4 Total Administrative Expense Budget for 2023



5.4.2 2023 Total Administrative Expense Budget and extraordinary items

The Board is asked to approve the 2023 Total Administrative Expense Budget consisting of a core budget and two extraordinary strategic items amounting to £482.6 million (€550.2 million). This comprises:

1. Core Administrative Expense Budget of £448.2 million.
2. LIBOR Transition Project budget of £2.7 million.
3. Multi-year Investment Plan implementation impact of £31.7 million.

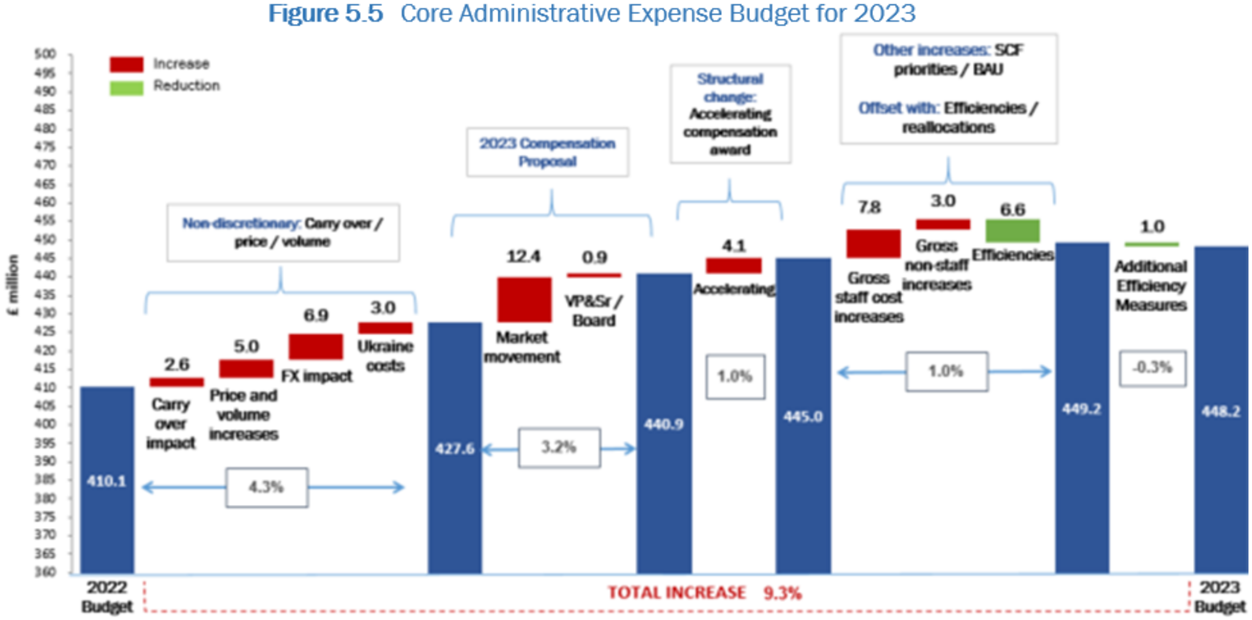
5.4.3 Core Administrative Expense Budget

A total of £448.2 million is proposed for the Core Administrative Expense Budget in 2023, a 9.3 per cent nominal increase from the 2022 Budget of £410.1 million (see Table 5.3).

The proposed 9.3 per cent nominal growth in Core Administrative Expenses Budget is made up of the following increases and reductions:

- 4.3 per cent to fund carry over impacts, price and volume increases, FX impacts mostly linked to US dollar appreciation, and the impact of staff reallocations necessitated by the war on Ukraine;

Figure 5.5 Core Administrative Expense Budget for 2023



- 3.2 per cent to fund the 2023 Compensation proposal, consisting of market movement and Board and VP increases;
- 1.0 per cent to fund a one-off alignment of the compensation budget to a calendar year basis, bringing forward the compensation award from April 2023 to January 2023;
- 1.0 per cent (net) for priority needs for the war on Ukraine and SCF themes;
- -0.3 per cent from additional efficiency measures.

5.4.3.1 Core Budget – Key Movements and Reallocations

Movements in the Core Administrative Expense Budget are driven by a number of factors which are set out in detail below and in Table 5.4:

- **£17.5 million additional budget for non-discretionary items** (factor A), including**:**
  - **Carry over impact.** This includes the full year impact of previous decisions, i.e. full year impact of 2022 Compensation adjustments (three months impact January–March 2023) of £2.6 million;[30]

Table 5.4 Key Movements in the 2023 Budget (£ million)

2022 Budget		410.1			
	Changes	**Proposed**	**Saving**	**Net**	**Increase**
A.	**Carry over / price / volume:**	**17.5**		**17.5**	**4.3%**
	2022 Comp&Benefits proposals (full year impact, Jan-Mar 2023)	2.6		2.6	
	FX impact (USD appreciation)	6.9		6.9	
	Price and volume increases (non-discretionary)	5.0		5.0	
	War on Ukraine (decisions already made)	3.0		3.0	
B.	**2023 Compensation Proposal**	**13.3**		**13.3**	**3.2%**
	2023 Compensation - market movement (Apr-Dec 2023)	12.4		12.4	
	Board, VP and other (Apr-Dec 2023)	0.9		0.9	
	2023 Compensation - 70% Compa-ratio	-		-	
C.	**Structural Changes**	**4.1**	**-**	**4.1**	**1.0%**
	2023 Compensation - accelerating (3 months phasing, Jan-Mar 2023)	4.1		4.1	
D.	**SCF priorities**	**10.8**	**(6.6)**	**4.2**	**1.0%**
	War on Ukraine	2.1		2.1	
	SCF Priorities - Green	1.8		1.8	
	SCF Priorities - Equality of Opportunities	0.3		0.3	
	SCF Priorities - Digitalisation	0.9		0.9	
	Reinforcing Delivery	5.2		5.2	
	Algeria	0.5		0.5	
	Efficiencies		(6.6)	(6.6)	
E.	**Budget reductions / adjustments**		**(1.0)**	**(1.0)**	**-0.3%**
	Additional efficiency measures		(1.0)	(1.0)	
F.	**Total movements**	**45.6**	**(7.6)**	**38.1**	**9.3%**
2023 Budget		448.2			

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

[30] See 'Staff Compensation and Benefits Proposals for 2022', BDS21-159, Section 1.4.1.

  - **FX impact of £6.9 million**. This reflects strengthening of the US dollar against all major currencies. The Bank has a large exposure to the US dollar as many ROs use it as a contractual currency for their salaries.
  - **Price and volume changes**. This includes £5.0 million reflecting inflationary/contractual increases in real estate expenditures (£3.7 million) related to increased electricity and other occupancy costs in the new HQ building, higher centrally managed technology costs (£0.8 million) and other staff cost increases (£0.5 million) including out of cycle salary adjustments in selected ROs triggered by persistently high inflation.
  - **Ukraine costs of £3.0 million.** This relates to recurring cost increases following decisions made in 2022 to relocate staff impacted by the war on Ukraine.
- **£13.3 million additional budget for the 2023 Compensation proposal** (factor B), including:
  - **£12.4 million cost of market movement** in respect of the 2023 forecast staff cost budget increase, equivalent to about a 6.6 per cent salary increase from Q2 2023. In order to contain the overall budget and staff cost growth, the Bank will seek to fund promotions out of additional savings within the budget to be identified in the course of the year.
  - **£0.9 million** for Board, VP and Senior Management compensation increases using the same assumption as above.
- **£4.1 million additional budget for a one-off structural alignment of the compensation budget to a calendar year basis** (factor C):
  - **£4.1 million** to allow the April staff compensation increases to be paid from January. This is a one-off increase which will align the compensation and financial years and avoid carry-over impacts in future years.
- **Gross staff and non-staff resource needs of £10.8 million, funded through £6.6 million of offsetting efficiencies and reallocations, resulting in £4.2 million of incremental budget allocations** (factor D), comprising:
  - **War on Ukraine.** £1.2 million budget, including 11 incremental FTEs, is proposed for supporting corporate recovery, sanction compliance, strengthening evaluation capacity, donor engagement and headcount in corporate functions with increased workloads linked to the war on Ukraine.
  - **Green**. £0.5 million funding, including four incremental FTEs, is proposed. Three FTEs are for enhancing a permanent foundation for the delivery of Task Force on Climate-related Financial Disclosures (TCFD) and one FTE is to meet human rights compliance requirements through enhanced due diligence (DD) in relation to forced labour in photovoltaic (PV) supply chains and DD in agribusiness supply chains and extractive industries. Non-staff budget consultancy for specialised skills needed for complex evaluation of EBRD alignment with the Paris Agreement and database access for TCFD is also allocated.
  - **Equality of Opportunity.** £0.1 million budget is proposed for consultancy support and partnerships with universities and think-tanks and an annual subscription to the Development Data Partnership (DDP) to enable Impact, the Evaluation Department, OCE and others to gain access to valuable data pools covering sustainability, climate change, gender, agriculture and regional inequality.
  - **Digitalisation.** £0.6 million budget, including three incremental FTEs, is proposed to support the increased demand for software delivery to improve EBRD's own digital stance, cloud security, IT Service Integration and Management (SIAM) and non-staff funds for the hybrid delivery of the Annual Meeting.
  - **Reinforcing Delivery.** £1.6 million budget, including eight incremental FTEs, is proposed. Incremental staff are so that the product ownership team in CSG can continue supporting the Monarch Platform, support for increased demand for Business

Information Services, to enhance compliance caseload volume throughput to meet policy timeframes, build digital and data analytics capacity for control functions and Finance support for capital related issues and CSG business partnering. Non-staff budget will be for conducting and publishing economic surveys, a yield curve framework for valuation and local currency market building in nascent markets, and additional database and BIS services' licenses and subscriptions.

- **Algeria.** £0.3 million budget, including seven incremental FTEs, is proposed to hire local staff and set up a new regional office to start Banking operations in Algeria.

- **£1.0 million additional efficiency measures** (factor E):
  - **£1.0 million additional efficiency measures** to support the ongoing commitment to efficiency gains. This efficiency will target a review of staff and non-staff cost structures and evaluate the impact of a possible relaxation of sterling's weakening earlier in the year.

As part of the process of driving efficiencies forward, flexible reallocations of staff and budgets are implemented throughout the year to support operational requirements. Reallocations or adjustments since the beginning of 2022 have included:

- Efficiencies delivered from senior position cancellations following the VP3 reorganisation in Q2 2022 (£2.1 million), external office changes in Tokyo, Washington and Cyprus (six positions and £0.6 million staff costs) as well as transfers between partnering departments for CSG, e.g. transfer of four FTEs and £0.4 million from Banking to Risk Management under SIP 2022-24.

- Use of negative salary drifts and other provisions for further restructuring (HROD), team changes and new roles (OSM, EVD) and transfer of negative salary drift to VP level, facilitating optimal resource utilisation.

- The Mobility Enhancement Programme (MEP), which was a one-off event, facilitated team reinforcement and support for new roles with a diversified skillset:
  - Finance (Treasury) used the MEP to strengthen the local currency team by three people, building capability in local currency finance and support for market development policy dialogue (£0.7 million). While in OSM MEP and Target Operating Model (TOM) efficiencies were successfully reused within the team (£1.1 million).
  - In OGC the MEP triggered the redeployment of 10 positions, focusing mainly on spans and layers and the redeployment of resources towards new and increasing priority areas, reducing staff seniority, examining potential Resident Office reallocations and exploring greater use of paralegal staff (£1.2 million).
  - The CRO used the MEP to redirect resources to new or expanded activities, often at more junior levels, as well as, on a smaller scale, stopping activities, streamlining processes and seeking system improvements (£1.0 million).

- Non-staff efficiencies of £6 million were achieved through travel reduction (5 per cent of overall travel), consultancy, legal and other direct costs reductions, RO footprint optimisation, RO closure, ASD central and central benefits reductions, as well as FX efficiencies and decreases in benefits.

The above measures implemented saving and reallocation objectives set out in the SIP 2022 -24 and provided solid foundation for the efficiency measures set out in section 5.1 and underpinning the delivery of SIP 2023-25.

5.4.3.2 Core Budget – Details

By cost line

An increase of £38.1 million or 9.3 per cent is proposed for the 2023 Core Administrative Expense Budget. The total budget of £448.2 million is broken down in Table 5.5.

Table 5.5 Detailed Administrative Expense Budget for 2023 (£ million)

Administrative Expenses	2020 Actual	2021 Actual	2022 Budget	2023 Budget	2023 vs 2022 £ million	2023 vs 2022 Per cent
Salaries	145.5	143.5	155.1	172.7	17.5	11.3%
Total Benefits	106.3	110.0	110.3	121.9	11.6	10.5%
Performance Based Compensation	20.2	22.2	20.7	23.3	2.6	12.7%
Other Staff Costs	1.7	2.1	1.4	1.3	(0.0)	(1.6%)
Staff Costs	**273.7**	**277.8**	**287.5**	**319.2**	**31.7**	**11.0%**
Consultancy/Legal	9.2	14.6	11.6	12.1	0.5	4.6%
Travel/Hospitality	2.1	1.6	10.1	10.1	0.0	0.3%
Other Direct Costs	13.1	14.5	13.7	14.6	0.9	6.5%
Non Staff Costs	**24.5**	**31.4**	**35.4**	**36.9**	**1.5**	**4.1%**
Direct Costs	298.2	307.1	322.9	356.1	33.2	10.3%
Occupancy Costs	9.6	13.1	10.1	13.3	3.2	31.8%
Technology (License, Hosting & Vendor)	21.3	24.0	24.0	25.6	1.6	6.8%
Annual Meeting	0.6	1.1	1.2	1.5	0.3	24.8%
Central Staff Expenses	3.9	6.4	5.9	7.2	1.3	22.6%
Institutional Fees	1.5	1.7	2.2	2.4	0.2	8.3%
Depreciation	43.9	40.7	43.6	41.8	(1.8)	(4.1%)
Contingency		-	0.3	0.3	-	-
Total Centrally Managed Costs	80.9	87.0	87.2	92.1	4.9	5.6%
Core Admin Expenses	379.1	396.2	410.1	448.2	38.1	9.3%

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

Total staff costs budget increase of £31.7 million or 11.0 per cent reflects the full year impact of previous decisions (£2.6 million for 2022 Compensation and Benefits proposals), increases for the 2023 Compensation and Benefits Proposals (£12.2 million for salary increases), acceleration of compensation increases (£4.1 million), staff costs linked to the war on Ukraine (£2.8 million), net incremental resource requests for business priorities (£2.8 million), non-discretionary increase linked to the FX impact on local staff costs (£5 million), as well as other movements such as minor price and volume increases, and Board and VP compensation and benefits (£2.8 million), partially offset by impact linked to additional efficiency measures (£0.6 million).

Total non-staff costs budget increase of £1.5 million or 4.1 per cent is driven by £1.1 million non-staff costs budget requested under business priorities, FX impact (£0.8 million), contractual price increases for audit fees and higher information services costs (£0.3 million), and the impact of the war on Ukraine (£0.2 million) less reallocation from realised efficiencies in staff costs within CSG (£0.8 million) and additional reduction driven by impact linked to additional efficiency measures (£0.1 million).

An increase of £4.9 million or 5.6 per cent in centrally-managed costs mainly relating to a SIP request to support the hybrid delivery of the annual meeting (£0.3 million), the price impact for centrally managed IT (£0.8 million) resulting from increases in technology licensing and managed services costs offset by lower IT depreciation, increased central staff expenses due to two new catering units in 5 Bank Street and the impact of inflation on catering goods and services (£1.3 million), increases in occupancy costs mainly related to higher service charges (£2.5 million), costs of electricity (£0.8 million) and additional expected cleaning charges offset by lower maintenance costs from the move to 5 Bank Street, higher institutional fees (£0.2 million) offset by a decrease in depreciation (£0.5 million), reduction in HQ lease costs offset by an increase in

RO lease costs, and a decrease in other centrally managed expenditure from efficiencies realised and FX variances (£0.4 million) and impact from additional efficiency measures (£0.1 million).

Total contingency funds included in the 2023 Budget are £1.3 million, or around 0.3 per cent of the Core Administrative Budget. This includes a Management Reserve of £1.0 million (held against Consultancy) together with the existing £0.3 million General Contingency (use of the latter is subject to Board approval).

Departmental budgets

An increase of £33.2 million or 10.3 per cent is proposed for direct costs. The total direct costs budget of £356.1 million for 2023 is broken down by department in Table 5.6. Variance against this column for the proposed 2023 Budget is explained in this section.

CSG: Direct costs increase by £5.8 million. £0.4 million is for the CSG Monarch platform project team, £0.3 million for a new RO in Algeria, FX impact of £3.0 million, £1.3 million of 2022 carryover compensation increases, and £0.8 million for increases in allocated staff benefits for 2023.

Finance: Direct costs increase by £1.9 million. £0.3 million for four FTEs, £0.3 million in contractual increases for audit fees, £0.3 million in consultancy costs for the yield curve framework necessary for valuation and market building in nascent local currency markets, a £0.1 million non-discretionary price increase for a third-party IT contract and £0.1 million for database licences. There is also FX impact of £0.5 million, £0.1 million for increase in allocated staff benefits for 2023 and £0.2 million of 2022 carryover compensation increases.

VP CTO: £0.5 million increase due to a new SIP 2023-25 request of £0.3 million which includes three FTEs to support increased demand for software delivery, cloud security and SIAM and £0.1 million of 2022 carryover compensation increases with £0.1 million for increases in allocated staff benefits for 2023.

Table 5.6 Direct Costs by Department (£ million)

Department	2022 Budget	2023 Budget	Variance 23 vs 22
Banking Department	126.1	130.6	4.6
VP, Policy & Partnerships	29.2	30.4	1.2
Client Services Group	**155.2**	**161.0**	**5.8**
Finance	25.1	26.9	1.9
VP, Chief Transformation Office	15.9	16.5	0.5
VP, Risk and Compliance Group	35.1	36.8	1.7
Office of the General Counsel	17.6	18.4	0.8
Office of the Chief Economist	2.8	3.3	0.4
Internal Audit	2.0	2.1	0.1
Corporate Strategy	1.9	2.0	0.1
Communications (incl. BIS)	7.4	7.7	0.3
Office of the Secretary General	4.7	4.8	0.1
President's Office	1.7	1.7	0.0
Human Resources and Organisational Department	7.7	8.2	0.5
Independent Project Accountability Mechanism	1.2	1.3	0.1
Evaluation Department	3.4	3.6	0.1
Board of Directors	14.1	15.2	1.1
Unallocated	27.0	46.6	19.6
Core Direct Costs	**322.9**	**356.1**	**33.2**

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

VP, Risk and Compliance: Direct costs increase by £1.7 million, including £0.3 million of 2022 carryover compensation increases, £0.9 million for SCF priorities, FX impact of £0.3 million and £0.2 million for increases in allocated staff benefits for 2023. The £0.9 million additional funding provided for SCF priorities and business needs reflects an additional six FTEs and non-staff costs:

- £0.4 million which includes three FTEs under the Green theme to support TCFD compliance requirements and one FTE focused on human rights enhanced due diligence in relation to forced labour in photovoltaic supply chains.
- £0.3 million which includes two FTEs for the war on Ukraine to support corporate recoveries from increased NPLs as a result of the war.
- Additionally, £0.2 million non-staff costs are allocated to cover the costs of an increased subscription fee to the Global Emerging Markets Risk Database (GEMS), access to sector classification (GICS) and TCFD databases and PPAD training.

Office of the General Counsel: Direct costs increase by £0.8 million, including £0.2 million for 2022 carryover compensation increases, FX impact of £0.1 million, £0.1 million for increases in allocated staff benefits for 2023 and £0.4 million to support new requests for business. New SIP requests include:

- £0.4 million which includes four FTEs to support corporate recovery, EU work streams and sanctions issues related to Ukraine.

Office of the Chief Economist: Direct costs increase by £0.4 million, including an annual subscription to the Development Data Partnership for self-evaluation in addition to EBRD's flagship surveys conducted jointly with the World Bank Group and the EIB.

Internal Audit: £0.1 million increase in direct costs budget for one additional FTE to add digital and data analytics capability to increase efficiency and effectiveness.

Corporate Strategy: Increase of £0.1 million in the direct costs budget reflects a strengthening of our presence and engagement with EU stakeholders.

Communications (including Business Information Services Unit): An increase of £0.3 million for two FTEs to support increasing demand for Business Information Services and FX impact of £0.1 million.

Human Resources: £0.5 million increase in direct costs from £0.1 million for two FTEs for additional payroll resources, £0.1 million of 2022 carryover compensation increases and £0.3 million for the International Professionals Programme.

IPAM: £0.1 million increase in direct costs for one FTE to support compliance case load volume to meet timeframes laid out in the Project Accountability policy.

Evaluation Department: The £0.1 million increase in direct costs reflects consultancy costs related to SCF priorities and the war on Ukraine.

Board of Directors: £1.1 million additional budget for the 2023 Compensation and Benefits Proposal.

Unallocated: The £19.6 million increase includes £4.1 million to allow for April staff compensation increases to be paid from January as a one-off adjustment to align compensation and financial years and avoid carry-over impacts in future years, £12.5 million in respect of the 2023 forecast increase in salary budget (yet to be allocated across departments), PBC increases of £2.7 million from last year's carry over and new hires planned for 2023. There is also an increase in mobility of £0.5 million and £0.7 million for war on Ukraine costs, offset by £0.9 million impact linked to additional efficiency measures.

Table 5.7 Capital Expenditure (£ million)

Capital Expenditure	2022 Forecast	2023 Budget	2024 Budget	2025 Budget	2023-2025 Total
IT	9.5	5.6	TBC	TBC	15.1
HQ	0.1	0.8	TBC	TBC	0.9
Resident Offices	2.5	3.9	TBC	TBC	6.4
Business as usual	**12.1**	**10.3**	**TBC**	**TBC**	**22.4**
HQ Project	**111.0**	**-**	**-**	**-**	**111.0**
MYIP - Phase 1	60.2	18.1	-	-	78.3
MYIP - Phase 2	8.4	22.6	16.1	-	47.1
MYIP - Phase 3		16.8	27.0	19.2	62.9
Sub-total MYIP (Phases 1, 2 and 3)	**68.6**	**57.5**	**43.1**	**19.2**	**188.3**
LIBOR Phase 1	1.0	-	-	-	1.0
LIBOR Phase 2	5.0	-	-	-	5.0
Sub-total LIBOR (Phases 1 and 2)	**6.0**	**-**	**-**	**-**	**6.0**
Strategic investment and projects	**185.6**	**57.5**	**43.1**	**19.2**	**305.3**
Total	**197.7**	**67.8**	**43.1**	**19.2**	**327.8**

Note: MYIP Phase 1 and LIBOR forecasts in 2022 include capex spend in 2020, 2021 and 2022. MYIP Phase 2 and LIBOR Phase II capex spent across 2022 is indicative, to be updated in 2023 based on the actual capital expenditure incurred in 2022. MYIP Phase 4 is within the £200 million agreed envelope is not shown as it is not yet approved and profiled. HQ project is expected to be completed in 2022 and includes capex spend for the years 2019-2022; to be updated based on actual capital expenditure in 2023. Numbers rounded to one decimal and sum of subtotals may not exactly add up to aggregate numbers.

5.5 Capital Expenditure

In line with requests by Board Directors for enhanced information disclosure, Table 5.7 presents a summary of planned capital expenditure under the current SIP. This includes capital expenditure for business as usual activities, as well as for strategic investments and projects.

5.5.1 HQ and Resident Offices

Capital expenditure is budgeted for and indirectly approved through its effect on depreciation, with a total of £4.7 million capital expenditure planned for HQ and Resident Offices (business as usual).

- **HQ.** Post-relocation review and remedial works to ensure a safe and comfortable working environment and replacement of HQ car.
- **Resident Offices.** Planned capital expenditure for 2023 is £3.9 million and includes:
  - Office expansions in Bishkek and Tashkent;
  - Expansion and fit out of the Istanbul office;
  - Refurbishment and fit out of Ismailia, Alexandria, and Sofia;
  - Replacement of seven RO vehicles.

New HQ Capex

The HQ project is expected to be completed by the end of 2022. Budgets related to 5 Bank Street, including the depreciation impact of the HQ project, are therefore now incorporated in the core Budget. An expected reduction in lease costs from the move to 5 Bank Street has been reflected in a budget reduction in HQ lease costs but is offset by increases in service charge and electricity costs (see section 5.4).

5.5.2 IT Capex – Business as Usual (BAU)

Planned IT capital expenditure in 2023, excluding carried forward budgets and investment related to the multi-year investment plan, is £5.6 million, including:

Table 5.8 MYIP Phase 1 Financial Implications (£ million)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Operating expenses	1.2	8.5	12.4	12.4	12.4	12.4	12.4	12.4	12.4	9.0	0.0
Depreciation	0.4	2.8	10.5	11.2	11.2	11.2	9.8	5.0	4.4	1.1	
Phase 1	**1.6**	**11.3**	**22.9**	**23.5**	**23.5**	**23.6**	**22.3**	**17.4**	**16.8**	**10.1**	**0.0**

Note: Phase 1 estimates are based on operating expenses for ongoing and pipeline projects. The depreciation forecast does not include contingencies and allowance for unknown deviations and so does not add up to the approved capex.

- Non-discretionary expenditure of £1.8 million for 2023 to cover ROs and new hardware requirements to align with the increase in demand for mobile phones, new starter laptops, expansion and relocation of ROs, and to fix and replace IT equipment.
- Business pipeline projects of £1.0 million in 2023 for urgent intra-year business-led demand, with funding allocation to be reviewed and approved by the IT Governance Committee (ITGC).
- £2.0 million in IT transformation capacity for staff to work on a backlog of small enhancements and improvements of systems to support business demand.
- Tech-led pipeline projects of £0.8 million for deferred development work, tactical performance enhancements and emergency remediation.

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

5.6 Extraordinary Items

5.6.1 Multi-Year Investment Plan

In July 2020 the Board acknowledged the need for a multi-year investment plan amounting to approximately £200 million over the period 2020-25. It was agreed that budgets for the three phases of the programme would be subject to a full discussion and agreement in the annual SIP process and would be held separately from the core Administrative Budget until all projects in all phases go live.

Phase 1

Capex of £78.3 million and the associated financial implications (operating expenditure and depreciation for future periods) were confirmed in SIP 2021-23. The programme is on track, with many initiatives successfully completed despite the difficulties brought about by disrupted supply chains, inflation and Covid-19 related challenges. This work continues to have a positive impact on the underlying risk profile of technology in the Bank and will have materially reduced this risk (from Very High to High/Medium) by the end of 2022.

Emphasis has been on essential technology upgrades, new and upgraded platforms to reduce outages, improved security and ensuring platforms are supported by vendors. This phase has enabled the move to the new HQ and delivered strategic platforms for Monarch and Pegasus and implementation of Client Relationship Management (CRM).

Phase 2

Capex of £47.1 million and the associated financial implications (operating expenditure and depreciation for future periods) were confirmed in SIP 2022-24. The programme is making good

Table 5.9 MYIP Phase 2 Financial Implications (£ million)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Operating expenses	3.1	8.1	7.2	8.5	8.6	8.6	8.6	8.6	8.6	8.6
Depreciation	0.0	0.4	2.0	5.7	6.7	6.7	6.7	6.7	6.3	4.7
Phase 2	**3.1**	**8.5**	**9.2**	**14.3**	**15.4**	**15.4**	**15.4**	**15.4**	**14.9**	**13.4**

Note: Budgets are fungible within the approved phase, including across cost types. Internal EBRD governance will ensure that combined costs for all projects remain within the approved budget for the phase.

Table 5.10 MYIP Phase 3 Financial Implications (£ million)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Functional Process and Technology	**0.1**	**1.8**	**5.3**	**6.9**	**6.9**	**6.9**	**6.9**	**6.9**	**2.2**	**0.9**	**-**
Annual operating expenses	-	1.2	3.5	4.3	4.3	4.3	4.3	4.3	-	-	-
Depreciation	-	0.4	1.8	2.7	2.7	2.7	2.7	2.7	2.2	0.9	-
HR	**0.0**	**0.1**	**0.1**	**1.3**	**4.1**	**4.1**	**4.1**	**4.1**	**1.7**	**1.7**	**1.4**
Annual operating expenses	-	-	-	1.0	2.4	2.4	2.4	2.4	-	-	-
Depreciation	-	-	-	0.3	1.7	1.7	1.7	1.7	1.7	1.7	1.4
Finance	**0.0**	**0.9**	**2.6**	**5.8**	**10.1**	**10.1**	**10.1**	**10.1**	**3.2**	**2.3**	**1.5**
Annual operating expenses	-	0.6	1.5	4.0	6.7	6.7	6.7	6.7	-	-	-
Depreciation	-	0.2	1.1	1.9	3.4	3.4	3.4	3.4	3.2	2.3	1.5
Workflow/ Portals	**0.1**	**0.4**	**2.4**	**2.8**	**2.8**	**2.8**	**2.8**	**2.8**	**1.2**	**0.3**	**-**
Annual operating expenses	-	0.3	1.4	1.5	1.5	1.5	1.5	1.5	-	-	-
Depreciation	-	0.0	1.0	1.2	1.2	1.2	1.2	1.2	1.2	0.3	-
Project delivery expenses	**0.2**	**0.4**	**0.2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Depreciation	**-**	**0.7**	**3.8**	**6.1**	**9.0**	**9.0**	**9.0**	**9.0**	**8.3**	**5.2**	**2.9**
TOTAL Admin Expenses	**0.2**	**3.2**	**10.5**	**16.9**	**23.9**	**23.9**	**23.9**	**23.9**	**8.3**	**5.2**	**2.9**

progress although its pace was impacted by the global events surrounding the war on Ukraine.

Business design activities have been prioritised to define a future business platform that will support our clients, shareholders and donors most effectively across the key dimensions of people, process, technology and data. Phase 2 work provides a clear route for the modernisation of business processes and technologies. In 2022 the focus has been on enterprise-wide design for Finance (including the future of SAP) and HR functions. A central transformation team to provide consistent Bank-wide guidance has been established. There has also been work to improve connectivity and networks in all ROs and bring them into line with modern standards for hybrid working. The programme will continue building on current capabilities such as Monarch, CRM and Rapid Process Automation (RPA) to deliver further value.

Phase 3 and SIP 2023 Request

Experience gained from Phases 1 and 2, particularly delays brought on by unforeseen external events, suggests the need to balance workloads and ensure the capacity is there to deliver change well.

Phase 3 will be split into two parts: Phase 3 and Phase 4. The more modest Phase 3 will allow a focus on immediate priorities – such as the replacement of Enterprise Resource Planning (ERP) to achieve the mandatory move off the SAP estate which has an end of life date in 2027 - and continue to only request funding for initiatives that start in the following year. This reduces complexity and increases the likelihood of success by breaking the sequence into manageable blocks and is in keeping with the principle to plan realistically for success.

The revised Phase 3 aims to transform corporate processes and internal ways of working and will occur in parallel to critical work being undertaken in Phase 2. **Capex of £62.9 million is confirmed for Phase 3, with up to £16.8 million to be invested in 2023.** The cost impact on the 2023 Budget (operating expenses and depreciation) is £0.2 million, rising to £3.2 million in 2024 and £10.5 million in 2025. This will be partially offset in subsequent years by lower costs from increased process efficiencies and reduced operational risk. The expected value of these offsets will be identified as initiatives are initiated.

Table 5.11 List of Potential Initiatives for MYIP Phase 3 (£ million)

Activity	Initiative	CapEx
Functional Process and Technology	• Availability of E2E Testing Environment • Client Led Procurement - Upgrade Procurement Systems & End to end process re-design • Corporate Procurement - Improvements to procure to pay • Enhancing Operating Platform and Process - Phase 3 • Trade finance process review and upgrades	18.6
HR	• Self-service - query management & workflow automation • Upgrade HR Systems (linked to Finance Transformation)	12.0
Finance	• Automated Payments • Finance Transformation Part 1 Implementation (Core Ledger & Reporting) • Finance Transformation Part 2 Implementation (Sub Ledger) • Financial Modelling • Limit Management Framework and controls (inc. trade finance lens) • Middle Office Finance (Cash management, hedge accounting) platform • Structured Product Pricing • Trading/ lending platform assessment and improvements (Summit)	23.7
Workflow/ Portals	• CRM - Develop automated workflow and availability of key data including donor contracts • External Interactions - Develop a single point of entry for partner interactions	8.7

A list of potential initiatives for Phase 3 is shown in Table 5.11. Only initiatives that deliver accelerated business value and well-articulated benefits (subject to business case approval by the Programme Steering Board) will be prioritised for each activity within approved budget envelopes.

5.6.2 LIBOR Transition Project

The UK Financial Conduct Authority (FCA) originally proposed that financial institutions would no longer be compelled to publish LIBOR (London Inter-Bank Offered Rate) rates after December 2021. In March 2021 the FCA announced that the **US dollar LIBOR cessation date would be extended from December 2021 to June 2023.** LIBOR has or will cease to exist from:

- 1st January 2022 for all tenors for GBP, CHF, JPY and EUR LIBOR currencies and lesser used tenors (1 week and 2 months) for US dollar LIBOR. New loans issued are referenced to a new replacement rate, e.g. SOFR.
- 1st July 2023 for main US dollar LIBOR tenors (overnight, one, three, six and twelve months), though no new US dollar LIBOR trading will be permitted, other than some exceptions, after 31 December 2021.

A large number of EBRD transactions are impacted, from derivatives and bonds to Banking loans (around £10 billion). All LIBOR-linked instruments within EBRD have been examined to see if and how the documentation needs updating, negotiating and transitioning to alternative rates, and agreeing pricing with counterparties. There is an operational impact on upgrading IT systems to take into account replacement benchmark rates and the redesign of booking processes. The Bank signed the ISDA protocol that facilitates LIBOR amendments for derivative contracts.

The majority of the work has been finished, with two-thirds of the sovereign portfolio completed and two-thirds of the private portfolio agreed in principle or undergoing amendment, as well as rebooking of both Treasury and Banking non-US dollar products. Nonetheless, outstanding work will remain until the finalisation of the project and backend legal fees can be expected towards the project completion date.

Project implementation delays relating to the FCA announcement, Covid-19 pandemic restrictions, evolving regulatory and market positions, the complexity of portfolio amendments and a lack of strong market consensus on the syndicated loan portfolio have resulted in annual budget underruns, with activities and associated spending to finalise implementation in line with the US dollar LIBOR cessation date shifting into 2023.

Total funding to complete the project in 2023 is estimated at £2.7 million, funded by a proposed carry forward of the unused 2021 and 2022 project budgets. Future activities will predominantly focus on the finalisation of the new replacement reference rate into existing agreements - in particular syndication and co-financed projects (rebooking of all US dollar LIBOR instruments such as loans, bonds and swaps) and agreements with EBRD partner banks under the Trade Facilitation Programme and Risk Sharing Facility. 47 per cent (£1.3 million) of the 2023 proposed project budget is for legal amendments and consultancy costs, 16 per cent (£0.4 million) for staff costs with the remaining budget mainly for IT costs (33 per cent for operating expenses and deprecation) and travel (3 per cent).

The project is being delivered by nine workstreams. The Accounting and Risk workstreams are expected to be completed by the end of 2022. Remaining activities and associated costs are presented in Table 5.12.

Budget savings in 2021 and 2022 will not be used to support 'business as usual' (BAU) activities but will be carried forward to finalise the project in 2023. Similarly, any remaining budget savings in 2023 will not have fungibility with the core budget and BAU. Capital investments required for LIBOR system changes will result in incremental annual operating expenditure and depreciation which will be consolidated into core EBRD expenses from 2024 (£0.9 million). In 2023, project costs will continue being ring-fenced and treated as a one-off element within Core Administrative Expenses and tracked and reported on separately.

A total of **£6.0 million capital expenditure** was approved to support the project. System changes were planned to be carried out in two phases: (i) an upgrade of the core Summit software; and (ii) LIBOR enhancement with relevant upstream/downstream systems and interfaces impacted by Summit and LIBOR changes. The Phase 1 Summit upgrade was completed in August 2021 (six months later than planned) and slightly below budget, at £1.0 million out of £1.3 million planned. Phase 2 LIBOR enhancement has been further re-scoped with £2.0 million instead of £3.0 million in 2020 and 2021 and £3.0 million instead of £1.7 million in 2022 (including a carry-over of £0.3 million from LIBOR Phase 1) in line with the approved total budget. Phasing of related depreciation has been adjusted accordingly, with the first two years of depreciation becoming a project cost funded and from within the project budget.

Table 5.12 LIBOR Transition Project

Banking Stream
£0.2 million

- Outreach to sovereign and bilateral counterparties, syndication, TFP, RSF negotiations (fallback language)
- Introduction of the Bank's preferred product to the client & co-lenders (new centralised team)

Treasury Stream
£0.1 million

- Managing economic risk associated with IBORs
- Building of new market data framework
- TAG development (analytics, interfaces migration)

Communication Stream
£0.1 million

- Internal/external communication
- Workshops and seminars with central banks and regulatory bodies
- Material for Bankers/Clients
- Banking training workshops

IT - Summit Stream
£0.9 million (Opex)

- Summit development - infrastructure and staff support
- Version update of Summit Finastra software
- Depreciation

Accounting Stream
£0 million

- IFRS9, IFRS13 impact
- Hedge accounting
- Transfer pricing methodology between Banking and Treasury - new RFR model

OSM/Market Data Stream
£0.3 million

- System update for new market data requirements
- Assessing booking and billing implications
- Rebooking IBOR products to new RFR
- Cash management process for new RFR trades
- Amendments process

OGC - Finance Stream
£0.05 million

- Amendments to bond documentation

OGC - Banking Stream
£1.0 million

- Fallback language introduced into existing and new loan agreements (and other relevant instruments)
- Development of a loan template with new reference rate mechanism
- Transactions portfolio amendments (bilateral, syndicated)

Risk Stream
£0 million

- Model validation
- Valuation and modelling (funds transfer pricing, curve building/market data application and systems updates)

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

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.

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 statutory basis and through the Bank's Capital Adequacy Policy (CAP).
- **Resources.** The resource parameters set maximum levels for annual levels 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 set by the control framework and is projected to continue to do so within the period of this Plan.

- The levels of ETI and PTI at 67.0 and 73.8 at the end of September 2022 are well above the control levels of 60 and 65 respectively set out in the SCF.
- Levels of capital utilisation are below the control levels of 92 per cent for statutory capital utilisation and 90 per cent for the Bank's Capital Adequacy Policy.
- Both resource parameters are currently below the control levels of 70 per cent for the cost-to-debt income ratio and 70 per cent based on a five-year rolling average for the ratio of staff costs to total costs. The projections show that this will continue over the period covered by the SIP, with the cost-to-debt income ratio rising steadily on the back of record high inflation and the five-year rolling average of the staff cost to total cost ratio remaining stable.[31]

[31] Due to high uncertainty over the split of IT MYIP operating expenses into staff and other costs, the staff costs to total costs calculation takes into account the Core Administrative Expense Budget only.

Table 6.1 Projected SCF Control Parameters 2020 to 2025

	Control Level	2020 Actual	2021 Actual	2022 Estimate	2023 Projected	2024 Projected	2025 Projected
Transition Parameters							
Expected Transition Impact	> 60	66.9	67.7	67	> 63	> 63	> 63
Portfolio Transition Impact	> 65	71.2	72.8	73.8	> 68	> 68	> 68
Capital Parameters							
Statutory Capital Utilisation	< 92%	81%	79%	81%	82%	82%	83%
Capital Adequacy Utilisation	< 90%	67%	65%	67%	63%	62%	60%
Resource Parameters							
Cost to Debt Income ratio	< 70%	52.4%	46.9%	60.4%	59.9%	63.9%	67.5%
Staff Cost to Total Cost ratio *	< 70%	68.4%	68.4%	68.4%	68.5%	68.3%	67.1%

* 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 2021-2025. The levels for each element in the Scorecard are presented below and in the attached Table. They act as incentives to Management and staff to deliver results and reflect the Bank's projections and ambitions for 2023, as set out in the rest of this document.

6.2.1 Transition Impact

- **Average ETI is set as a range of 63-69:** The range for average ETI of all new projects rated in the course of the year is set at similar level to the 2022 scorecard reflecting the Bank's continuing ambition to deliver a strong impact during the crisis.
- **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 4.6 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 45 per cent.** The target is set at a similar level to SIP 2022-24 reflecting the key immediate objectives of supporting energy security, liquidity needs and trade across countries affected by the conflict. Maintaining a high proportion of GET finance in this difficult environment remains a challenge and thus constitutes a strong statement of the Bank's on-going commitment to a GET share of ABI of more than 50 per cent in 2025.
- **The target for Gender-tagged operations is set at a minimum share of 30 per cent of the total number of projects**: a five percentage point increase on the SIP 2022-24 goal and in line with the Bank's commitment to reach 40 per cent of operations by the end of the SCF period.

6.2.2 Operational Performance

- **The number of operations is set as a range of 395 to 435** reflecting projected activity composition levels and expected project size dynamics.

- **ABI is set as a range €10.5 to €11.5 billion,** reflecting continuing efforts to support Ukraine and other countries affected by war and anticipated transition opportunities across the Bank's regions.
- **Annual Mobilised Investment (AMI) is set at €1.4 billion,** similar to the SIP 2022-24 objective. This target remains a stretching one in current market conditions and where projects supporting Ukraine and affected countries, for which there can be no expectation of commercial investor appetite, impact the pace of delivery towards the annual €2 billion AMI goal by end-2025 set in the Bank's first Mobilisation Approach.
- **Annual disbursements are set as a range of €7.0 billion to €8.0 billion** reflecting expected ABI in 2023.
- **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. The immediate operational objective to invest in Ukraine and affected countries and the loss of Belarus, an ETC country, combined with limited investment opportunities in Turkmenistan and Lebanon, are expected to substantially affect the delivery of this objective in 2022 and 2023.

6.2.3 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 12.0 per cent.** This financial measure provides a focus on the more stable part of the Bank's income flows from the debt portfolio. This greater stability allows the setting of an annual goal. Reflecting the significant uncertainties relating to the war in Ukraine, the target is set at a level assuming no further release of post model adjustment (PMA) to the impairment charges during 2023.

6.2.4 Institutional Performance

- **Productivity is set as a range of 1.3-1.5**, reflecting the proposed budget and operational plan for 2023. 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). The lower level for 2023 is proposed reflecting core budget pressures driven by high inflation.
- **Cost to Debt Income is set at a maximum level of 63 per cent.** While costs are expected to be highly predictable, the level is set 3 percentage points above the central forecast for 2023 to allow for potential fluctuations in debt income.
- **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 will be made annually through a mix of quantitative and qualitative measures, rated as either Very Good, Good or Needs Improvement, and will be 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.

6.2.5 Resource Framework

- **The Administrative Expense Budget** is set at €510.9 million (£448.2 million).

Corporate Scorecard 2023

	2023	30/09/2022		2022	2021	
	BP and Budget	Actual	Plan rate	BP and Budget	Actual	Plan rate
TRANSITION IMPACT						
Expected Transition Impact	63 – 69	67		63 – 69	67.7	
Portfolio Transition Impact	Min 68	73.8		Min 68	72.8	
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)	45%	46%		45%	51%	
Gender-tagged Operations (% No. of ops)	min 30%	37%		min 25%	35%	
OPERATIONAL PERFORMANCE						
Number of operations	395 – 435	276		395 – 435	413	
Annual Bank investment (€ billion)	10.5-11.5	7.7	7.3	10.0-10.5	10.4	10.4
Annual mobilised investment (€ billion)	Min 1.4	1.0		Min 1.4	1.8	
Private Sector Share (% ABI)	Min 75%	76%		Min 75%	76%	
Disbursements (€ billion)	7.0 – 8.0	5.9	5.7	7.0 – 8.0	7.3	7.3
Activity in Early Transition Countries, Western Balkans and SEMED (% ABI)	Min 48%	42%		Min 48%	38%	
FINANCIAL PERFORMANCE						
Return on Required Capital (3 year rolling average)	Min 3.5%	3.0%		3.50%	11.90%	
Debt Return on Required Capital before Costs	Min 12%	-8.2%		12.00%	21.30%	
INSTITUTIONAL PERFORMANCE						
Productivity (number of operations based)	1.3-1.5	Annual		1.4 – 1.6	1.6	-
Cost to Debt Income Ratio (12 months rolling avg)	Max 63%	58.5%		Max 60%	46.9%	
Staff Engagement Ratio	tracked	Annual		tracked	7.3	
Operational Risk Assessment	tracked	Annual		tracked	n/a	
RESOURCE FRAMEWORK						
EXPENDITURE						
Administrative Expense Budget						
Euro (million)	510.9	347.0		479.9	439.9	
Pound Sterling (million)	448.2	296.6		410.1	394.1	

*Composite Performance Assessment

Annex 1. The Bank in 2025

SCF Box 1

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[32] (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.

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

Annex 2. 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: Core Administrative Expense Budget (2019-23)
- Table A.2: Detailed Core Administrative Expense Budget (2019-23), including a further breakdown of staff costs (benefits lines)
- Table A.3: Direct Costs by Department (2019-23)
- Table A.4: HQ and RO occupancy

This data will be available at Board Online Information (BOI). The structure of BOI reporting is updated to also reflect budget and actual costs for extraordinary items (LIBOR, MYIP), as well as a temporary treatment of 5 Bank Street HQ costs outside Core Administrative Expenses.

The following table is included to provide indicative resources and costs for SCF priorities during the SIP 2023-25 period. Resources and costs for 2024 and 2025 are estimated at high level, and are subject to further refinement in subsequent SIP documents.

- Table A.5: SCF Priorities Multi-Year Investment for 2023-25

Table A.6 is included to show that efficiencies identified for 2023 are retained over the SIP 2023-25 period. It is expected that further efficiencies will be identified in future SIPs.

- Table A.6: Efficiencies by Enablers 2023-25 (£ million)

Table A.1 Core Administrative Expense Budget for 2023, 5-year view (£ million)

Administrative Expenses	2019 Budget	2020 Budget	2021 Budget	2022 Budget	2023 Budget	2023 vs 2022 £ million	2023 vs 2022 Per cent
Operating expenses	327.4	339.8	351.4	366.6	406.4	39.8	10.9%
Depreciation	42.6	43.6	43.1	43.6	41.8	(1.8)	(4.1%)
Core Admin Expenses	**370.0**	**383.4**	**394.5**	**410.1**	**448.2**	**38.1**	**9.3%**

Table A.2 Core Administrative Expense Budget for 2023 (Detailed), 5-year view (£ million)

Administrative Expenses	2019 Budget	2020 Budget	2021 Budget	2022 Budget	2023 Budget	2023 vs 2022 £ million	2023 vs 2022 Per cent
Salaries	135.1	141.3	147.5	155.1	172.7	17.5	11.3%
Expat/ IHS	9.7	9.5	9.8	9.5	10.4	0.9	9.7%
Medical Plan	9.0	10.3	9.6	9.6	10.5	0.9	9.7%
Gross Retirement Costs	50.0	53.5	58.9	61.4	68.3	6.9	11.2%
Other Benefits	28.7	28.9	28.8	29.8	32.6	2.9	9.6%
Total Benefits	97.4	102.1	107.2	110.3	121.9	11.6	10.5%
Performance Based Compensation	15.5	16.1	16.7	20.7	23.3	2.6	12.7%
Other Staff Costs	1.4	1.4	1.4	1.4	1.3	(0.0)	(1.6%)
Staff Costs	**249.4**	**260.9**	**272.8**	**287.5**	**319.2**	**31.7**	**11.0%**
Consultancy/Legal	12.5	11.1	10.7	11.6	12.1	0.5	4.6%
Travel/Hospitality	13.0	13.2	10.6	10.1	10.1	0.0	0.3%
Other Direct Costs	13.3	12.9	13.8	13.7	14.6	0.9	6.5%
Non Staff Costs	**38.9**	**37.2**	**35.2**	**35.4**	**36.9**	**1.5**	**4.1%**
Direct Costs	**288.2**	**298.1**	**307.9**	**322.9**	**356.1**	**33.2**	**10.3%**
Occupancy Costs	10.9	11.0	11.0	10.1	13.3	3.2	31.8%
Technology (License, Hosting & Vendor)	19.3	21.9	23.2	24.0	25.6	1.6	6.8%
Annual Meeting	1.2	1.2	1.2	1.2	1.5	0.3	24.8%
Central Staff Expenses	5.3	5.4	5.7	5.9	7.2	1.3	22.6%
Institutional Fees	1.7	1.9	2.1	2.2	2.4	0.2	8.3%
Depreciation	42.6	43.6	43.1	43.6	41.8	(1.8)	(4.1%)
Contingency	0.8	0.3	0.3	0.3	0.3	-	-
Total Centrally Managed Costs	**81.8**	**85.3**	**86.6**	**87.2**	**92.1**	**4.9**	**5.6%**
Core Admin Expenses	**370.0**	**383.4**	**394.5**	**410.1**	**448.2**	**38.1**	**9.3%**

Note: 2022 unallocated budget includes funding for the 2022 Compensation and Reward Review proposals, estimated Performance Based Compensation pool (including the impact of 2022 Compensation and Reward Review proposals), as well as the Management Reserve of the Bank. This table reflects the most recent structure of the Bank with restated historic data in case of reorganisations/restructuring, if applicable.

Table A.3 Direct Costs by Department, 5-year view (£ million)

Department	2019 Budget	2020 Budget	2021 Budget	2022 Budget	2023 Budget	Variance 23 vs 22
Banking Department	118.7	123.6	118.2	126.0	130.6	4.6
VP, Policy & Partnerships	26.1	27.0	26.3	29.2	30.4	1.2
Client Services Group	**144.9**	**150.6**	**144.5**	**155.2**	**161.0**	**5.8**
Finance	21.9	22.7	23.5	25.1	26.9	1.9
VP, Chief Transformation Office	15.0	13.6	14.6	15.9	16.5	0.5
VP, Risk and Compliance Group	27.9	29.3	30.9	35.1	36.8	1.7
Office of the General Counsel	16.3	16.8	16.7	17.6	18.4	0.8
Office of the Chief Economist	2.3	2.4	2.4	2.8	3.3	0.4
Internal Audit	1.2	1.3	1.6	2.0	2.1	0.1
Corporate Strategy	1.7	1.7	1.6	1.9	2.0	0.1
Communications (incl. BIS)	6.9	7.0	7.1	7.4	7.7	0.3
Office of the Secretary General	4.3	4.6	4.6	4.7	4.8	0.1
President's Office	1.8	1.8	1.7	1.7	1.7	0.0
HR and Oprganisational Department	7.2	8.2	8.1	7.7	8.2	0.5
Indep. Project Accountability Mechanism	0.7	0.8	1.1	1.2	1.3	0.1
Evaluation Department	3.1	3.1	3.3	3.4	3.6	0.1
Board of Directors	13.4	13.8	13.8	14.1	15.2	1.1
Unallocated	19.6	20.2	32.5	27.0	46.6	19.6
Total Direct Costs	**288.2**	**298.1**	**307.9**	**322.9**	**356.1**	**33.2**

Note: 2022 unallocated budget includes funding for the 2022 Compensation and Reward Review proposals, estimated Performance Based Compensation pool (including the impact of 2022 Compensation and Reward Review proposals), as well as the Management Reserve of the Bank. This table reflects the most recent structure of the Bank with restated historic data in case of reorganisations/restructuring, if applicable.

Table A.4 HQ and RO Occupancy (£ million)

Administrative expenses	2022 Budget	2023 Budget	2023 vs 2022 £ million	2023 vs 2022 Per cent
HQ Occupancy	8.0	11.2	3.2	40.1%
HQ Lease Depreciation	15.0	12.1	(2.8)	(18.9%)
HQ Fixed Asset Depreciation	6.4	8.1	1.7	26.2%
Subtotal - HQ Occupancy	**29.4**	**31.4**	**2.0**	**7.0%**
RO Occupancy	2.1	2.1	0.0	0.4%
RO Lease Depreciation	6.0	6.3	0.2	4.1%
RO Fixed Asset Depreciation	1.5	1.7	0.2	11.5%
Subtotal - RO Occupancy	**9.6**	**10.1**	**0.4**	**4.5%**
Total HQ and RO Occupancy	**39.0**	**41.5**	**2.5**	**6.4%**

Table A.5 SCF Priorities Multi-Year Investment for 2023-25 (£ million)

	2023 Request	2024 Estimate	2025 Estimate	2023-25 Total
War on Ukraine				
Admin Expenses (£ million)	2.1	2.1	2.1	**6.3**
FTE (average)	22	22	22	**22**
Reinforcing Delivery				
Admin Expenses (£ million)	5.2	5.2	5.2	**15.6**
FTE (average)	37	37	37	**37**
SCF Priorities - Green				
Admin Expenses (£ million)	1.8	1.8	1.8	**5.4**
FTE (average)	19	19	19	**19**
SCF Priorities - Digitalisation				
Admin Expenses (£ million)	0.9	0.9	0.9	**2.6**
FTE (average)	7	7	7	**7**
Algeria				
Admin Expenses (£ million)	0.3	0.3	0.3	**0.9**
FTE (average)	4	4	4	**4**
SCF Priorities - Equality of Opportunity				
Admin Expenses (£ million)	0.5	0.5	0.5	**1.5**
FTE (average)	10	10	10	**10**
Total Priorities				
Admin Expenses (£ million)	**10.8**	**10.8**	**10.8**	**32.3**
FTE (average)	**99**	**99**	**99**	**99**

Note: Admin Expenses include staff and non-staff costs (£1.0 million consultancy for Digital to provide specialist expertise and client facing support, and £0.2 million consultancy under Self-Evaluation for impact and more complex cluster studies).

Table A.6 Efficiencies by Enablers 2023 - 2025 (£ million)

	2023 Request	2024 Estimate	2025 Estimate	2023-25 Total
Spans & Layers				
Admin Expenses (£ million)	(2.9)	(2.9)	(2.9)	**(8.7)**
FTE (average)	(33)	(33)	(33)	**(33)**
Workload Reallocation				
Admin Expenses (£ million)	(2.1)	(2.1)	(2.1)	**(6.4)**
FTE (average)	(25)	(25)	(25)	**(25)**
Commercial Savings				
Admin Expenses (£ million)	(0.9)	(0.9)	(0.9)	**(2.6)**
FTE (average)	-	-	-	**-**
Office Closures				
Admin Expenses (£ million)	(0.5)	(0.5)	(0.5)	**(1.6)**
FTE (average)	-	-	-	**-**
Stopping an Activity				
Admin Expenses (£ million)	(0.1)	(0.1)	(0.1)	**(0.2)**
FTE (average)	-	-	-	**-**
Automation				
Admin Expenses (£ million)	(0.1)	(0.1)	(0.1)	**(0.2)**
FTE (average)	-	-	-	**-**
Total Priorities				
Admin Expenses (£ million)	**(6.6)**	**(6.6)**	**(6.6)**	(19.7)
FTE (average)	**(58)**	**(58)**	**(58)**	**(58)**

Note: Numbers for Administrative Exepnses are rounded to one decimal place and subtotals may not add up to aggregate numbers exactly. Figures in parentheses represent efficiencies and cost savings.