

SPECIAL STUDY

The EBRD Shareholder Special Fund – Interim Evaluation

November 2014

EBRD EVALUATION DEPARTMENT



European Bank
for Reconstruction and Development



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An external peer review was performed by Dr Catherine Gwin, consultant.

The valuable inputs provided by Management and in particular its Donor Co-Financing Unit are acknowledged with thanks.

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Foreword

Independent expert opinion

For accountability purpose and quality control of this Study, an external peer reviewer, Dr Catherine Gwin, has been contracted to comment on the report in its draft phase and to provide an independent opinion in written form on its final version. Dr Gwin's independent opinion is provided below.

Dr Gwin is an international development expert having worked for institutions including the United States Government, the Rockefeller Foundation, and the World Bank's independent evaluation department. She is currently an independent consultant with a focus on effectiveness in international development assistance.

"The SSF Interim Evaluation is a strong report well designed and executed in response to its stated purpose to inform Management and Board strategic planning with respect to grants and donor support in the framework of the Capital Resources Review 5. It clearly describes the situation that led to the establishment of the SSF in 2008, the main features of the overall SSF portfolio, and how the fund has operated. Moreover, the report's findings on its three evaluation questions —regarding the SSF's support for the EBRD's evolving strategy for grant co-financing, the governance and efficient use of fund resources, and the efficiency of the fund's management—are well supported by available evidence.

In particular, the report presents a well substantiated overarching finding that the SSF has focused predominantly on filling funding gaps in complementarity with donor funds at the expense of advancing its original purpose of maximizing the EBRD's transition impact by focusing on the most important transition challenges. As the report clearly documents, the gap filling orientation is reflected in the planning, prioritizing, governance and accountability of the SSF's use of resources. This assessment leads convincingly to the report's main recommendation for a "rebalancing" of the SSF's role in favour of a more systematic focus on key transition challenges and a distinctive role in this regard.

Importantly, the report also identifies specific changes that would be needed to implement a "rebalancing." Notably, it suggests that the SSF plan resources strategically with a view to greatest transition needs and impact by adopting a 5-year strategy and related 3-year rolling plans. It highlights the need for a much enhanced accountability mechanism to monitor the fund's contribution to the EBRD's transition impact (to overcome existing weaknesses in data and reporting largely focused on resource use rather than transition results). Moreover, it calls for the production of an operations manual with provisions related to the 5-year strategic planning and 3-year rolling plans as well as rules related to the management and approval of grant commitments. Though not elaborated, this manual would presumably aim to overcome problems identified by the report stemming from the current "unofficial distribution" and "sense of entitlement" by teams to shares of fund resources.

Two additional issues, suggested but not developed by the report, might warrant attention in a move to a more strategic use of the SSF. First, it would seem reasonable to assume that the proposed approach —by focusing on high priority transition challenges—would lead to a reduction in the gap that has existed overtime between the level of allocations to the SSF and level of its commitments. However, the newly articulated operations guidelines would need to be deliberately designed to avoid new inefficiencies of resource earmarking that could result from strategically planning of resource use focused on selected transition challenges. Second, the report recommends that the SSF continue to be used to strengthen dialogue and partnership with donors and asserts that "a multi-year SSF strategy and three-year rolling plans will be better aligned with the cycle of donor priority setting thus enhancing the EBRD's leverage in the dialogue with donors." A question that this recommendation raises is whether the EBRD ought to actively encourage a move to more multi-donor funds in the context of a SSF five-year strategy."

(Dr Catherine Gwin, October 2014)

Abbreviations

BAAC	Budget and Administrative Affairs Committee
EBRD	European Bank for Reconstruction and Development
ETC	Early transition countries
EU	European Union
EvD	Evaluation Department
MEI	Municipal & Environmental Infrastructure
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
SBS	Small Business Support
SEMED	Southern and Eastern Mediterranean
SSF	Shareholder Special Fund
TC	Technical Cooperation
WP	Work Plan

Defined terms

Concessional loans (Annex 2)	Donor finance through Special Funds for subsidised lending, allocated to each client together with the EBRD loan.
Investment grants (Annex 2)	Co-financing of the capital costs of a project, allocated on a project by project basis.
Non-TC (Annex 2)	Grant or concessional funds provided by donors in support of an EBRD investment project. This can be in the form of performance fees, risk sharing facilities, investment grants or concessional loans.
Operation team	EBRD teams user of grant resources – Banking and non-Banking
Performance fees (Annex 2)	Incentive payments in finance facilities for the benefit either of the partner financial institutions or of the sub-borrower under each facility. Mostly utilised to support energy efficiency finance facilities.
Risk-sharing facilities (Annex 2)	EBRD uses risk sharing to expand its investment outreach in countries or sectors where poor market conditions render financing difficult for borrowers or where EBRD is intending to launch new products or expand successful initiatives on a regional or thematic basis. Risk sharing is often provided by donors in conjunction with lending (particularly local currency lending).
Special Funds (Art. 18 EBRD Agreement)	<p>1. i) The Bank may accept the administration of Special Funds which are designed to serve the purpose and come within the functions of the Bank in its recipient countries and potential recipient countries. The full cost of administering any such Special Fund shall be charged to that Special Fund.</p> <p>ii) For the purposes of subparagraph (i), the Board of Governors may, at the request of a member which is not a recipient country, decide that such member qualifies as a potential recipient country for such limited period and under such terms as may seem advisable. Such decision shall be taken by the affirmative vote of not less than two-thirds of the Governors, representing not less than three-fourths of the total voting power of the members.</p> <p>iii) The decision to allow a member to qualify as a potential recipient country can only be made if such member is able to meet the requirements for becoming a recipient country. Such requirements are those set out in Article 1 of this Agreement, as it reads at the time of such decision or as it will read upon the entry into force of an amendment that has already been approved by the Board of Governors at the time of such decision.</p> <p>iv) If a potential recipient country has not become a recipient country at the end of the period referred to in subparagraph (ii), the Bank shall forthwith cease any special operations in that country, except those incident to the orderly realization, conservation and preservation of the assets of the Special Fund and settlement of obligations that have arisen in connection therewith.</p> <p>2. Special Funds accepted by the Bank may be used in its recipient countries and potential recipient countries in any manner and on any terms and conditions consistent with the purpose and functions of the Bank, with the other applicable provisions of this Agreement, and with the agreement or agreements relating to such Funds.</p>

	3. The Bank shall adopt such rules and regulations as may be required for the establishment, administration and use of each Special Fund. Such rules and regulations shall be consistent with the provisions of this Agreement, except for those provisions expressly applicable only to ordinary operations of the Bank.
SSF stakeholders	SSF shareholders, EBRD Management, EBRD operation teams
Technical Cooperation (TC Committee ToRs 2013)	All assistance to clients, where there is a lack of know-how, technical skills, expertise; to facilitate capacity and institution building; policy, legal and structural reform, and all other incidental activities and necessary components of support to deliver that assistance. This shall include (a) all externally (including donor) funded activities with the exception of those activities that the Bank has excluded from the remit of the TC Committee and (b) all TC funded by Bank budget, provided the estimated value of the proposed TC is EUR 75,000 or higher. Transactional TC: TC projects in direct support of Bank operations. Non-Transactional TC: TC projects not in direct support of a Bank operation.
TC Commitment (Annex 2)	An allocation of donor funds for a specific use, either to a TC project or to activities under a TC project. Each TC commitment has a financial limit and is assigned a unique reference number.
TCOPID	Identification number assigned to all TC commitments.

Executive summary

The Shareholder Special Fund was established in 2008 by the EBRD Board of Directors to “broaden the scope and deepen the intensity of the Bank’s transition impact, focussing on the most important transition challenges.” Intended to focus on technical assistance and other initiatives such as investment grants, the SSF would complement donor funding, drawing its resources from allocations of EBRD net income. Now in its seventh year it has received a total of € 385 million and committed over € 250 million. The SSF has come to play a major role in supporting Bank initiatives and affects a wide cross section of Bank operational activities. SSF operations and issues have also been an area of very substantial Board engagement, interest and concern.

EvD prepared this evaluation at Management’s request to assess specific issues of SSF operations and management upstream of important Management and Board strategic and operational planning work, including with respect to grants and donor support. The following key merits of the SSF have been identified:

- The SSF has operated in a changing context for the entire EBRD donor co-financing structure, characterised by a desire for more strategic and streamlined use of resources and an array of strategic initiatives. In that setting, the SSF has played a key role in the Bank’s partnership with donors, including with respect to structural changes, and it has contributed to substantial changes in the planning and reporting processes for grants.
- The SSF has also brought considerable value added by providing untied resources, acting as a fund of last resort, supporting strategic initiatives, and serving as a co-financing and bridge funding tool.
- The SSF has been managed efficiently given the limited human resources and inadequate technical resources available for grants management in EBRD.
- SSF governance has been fully integrated into existing EBRD mechanisms for grants planning and approvals; all stakeholders are complying with rules and roles.

The evaluation draws specific attention to important SSF operational, planning and governance issues flowing in large measure from divergent views on its intended priorities and how best to operationalise them. The SSF’s unambiguously stated prime purpose is to “broaden and deepen the Bank’s transition impact,” using its incremental funds to complement those of other donors. This has been interpreted by Management largely as filling funding gaps for ongoing operational activities, the transition merits of those activities having already been determined. Many on the shareholder side, however, see the SSF’s founding proposition as providing high-value incremental resources specifically to make a distinctive and strategically prioritised transition contribution. This tension or duality – between selective use as an extender of the Bank’s transition impact versus general use as a source of incremental funding – is well known but has never been clearly addressed and resolved. It has in turn powerfully shaped the Fund’s practices and operations, and the concerns that exist between Shareholders and Management on SSF issues.

EvD’s main findings in these areas are as follows:

- SSF planning and use in practice overwhelmingly reflects a complementarity function, interpreted as filling funding gaps. If this is accepted as the Fund’s principal objective, then it can be said to have largely been achieved thus far. The SSF planning process has contributed to improved funding outlooks and processes for coordination of donor funding planning; allocation of funds within pre-identified ‘strategic areas’ has ensured that virtually no funding request from the Bank has been unmet; and, SSF funds provide supplemental off-budget funding for various Board-approved initiatives.

-
- On the other hand, this approach effectively makes the SSF primarily a supplemental source of funding largely indistinguishable from others, and dedicated to covering gaps outside donor priorities
 - It also raises important questions about using off-budget funds for core priorities and new initiatives intended to be of long duration.
 - It is likely that the predominance of the complementarity perspective undermines support for efforts to demonstrate a distinctive incremental SSF contribution to transition impact, which would likely be highly valued by shareholders who are the ultimate source of the funding.

The lack of basic agreement on priorities has also affected governance matters. In the absence of a more clearly shared view of purpose, trust-related issues arise. The current governance structure, including the process by which SSF work plans are developed and understood, places the Board in the role of front-line quality assurance provision in the grants approval processes; absent better accountability mechanisms delegation of greater authority from Board to Management is unlikely to gain support.

Overall recommendation

Irrespective of the size of future resource allocations, divergent views on SSF purpose and priorities should be reconciled.

An operational reinforcement of SSF's originally stated prime purpose would require rooting programmatic management and operation more clearly in identified transition objectives and playing a more clearly distinctive role in their support.

These issues should be addressed specifically in a strategic dialogue between Management and Board and resolved unambiguously in 2015; they are directly relevant to the wider discussion about EBRD strategic directions.

While the SSF should remain a source of finance that is responsive to demand, it should become more selective by responding more clearly to those demands that align with clearly defined priorities. These priorities may be identified in and drawn from the transition gap analysis already intended to be part of the Bank's sector and country strategies. The definition of SSF priorities on a medium-term basis should be specific enough to provide the shareholders with sufficient assurance that the objective of transition impact maximisation remains at the heart of SSF and to allow for reconsideration of the Fund's governance.

This overall recommendation is the essential foundation for a set of more specific recommendations, clustered in three main areas.

Recommendations on SSF planning

- Align SSF planning to the new EBRD planning cycle, with a five-year approach and three-year rolling plans
- Base SSF strategic planning on existing transition gap analysis
- Better clarify EBRD's priorities in dialogue with Donors

Recommendations on SSF management and governance

- Review SSF governance structure: consider more delegation of authority to Management provided an improved adequate accountability mechanism is in place
- Produce a binding SSF Operations Manual
- Approve and enforce accountability mechanisms for non-TC grants
- Review adequacy of human resource allocation to SSF administration
- Evaluate the results of the future SSF Strategy on a regular basis

Recommendations on SSF reporting and data management

- Enhance quality of reporting on SSF results
- Present an Action Plan for interim solutions to urgent IT issues
- Create a data-sharing platform for EBRD shareholders and SSF users

1. Introduction

The EBRD Board of Directors established the Shareholder Special Fund (“SSF”, “the Fund”) in 2008 as an additional instrument of support for operational activities to “broaden and deepen the intensity of the Bank’s transition impact.”¹ The SSF is resourced mainly through special allocations of net income decided by the Board of Governors and governed by ad hoc rules and regulations.²

This is an interim evaluation of SSF prepared by the EBRD’s independent Evaluation Department (EvD). It was added to the [Evaluation Work Programme 2014/15](#) at the request of Bank Management and with the support of the Board Audit Committee to inform the wider strategic planning process launched in 2014 in the framework of Capital Resources Review 5. An initial review of the SSF was carried out by EvD in 2010 ([Initial Review of the EBRD Shareholder’s Special Fund 2010](#)).

The focus of the evaluation as set out in a detailed EvD [Approach Paper](#) approved in July 2014 was to assess:

- SSF support for the Bank’s evolving strategy for grant co-financing;
- Whether SSF governance contributes to efficient use of the Fund; and,
- Whether management of the SSF has been efficient.

The evaluation assesses the operation of the SSF against several criteria for relevance and efficiency, specifically its role and added value within the EBRD’s business model and strategic objectives; and, its efficiency in terms of governance, management, administrative procedures, and reporting. The evaluation provides findings derived from analysis of operational data and documentation, and the views of participants in the SSF process; and, it presents conclusions and recommendations intended to inform the Board and Management’s forthcoming review of the Fund in the context of wider strategic reflections.

This report is structured as follows:

- Section 2 outlines the scope of the evaluation and briefly summarises the methodology used, and provides a snapshot of the recommendations and Management follow-up from EvD’s 2010 Initial Review of the SSF;
- Section 3 discusses SSF’s founding purposes, key design and operational features, and governance; it also presents a summary analysis of the SSF portfolio;
- Section 4 presents the evaluation’s main findings; and
- Section 5 presents conclusions and recommendations.

¹ Establishment of the EBRD Shareholder Special Fund and Work Plan for the period July 2008 – June 2009

² In accordance with Article 36.1 of the Agreement establishing the Bank that allows the Board of Governors to allocate portion of the net income for “other purposes”. In 2008 the Board of Directors proposed to the Board of Governors an allocation of 2007 net income for “other purposes” in a total amount of €250 million of which €115 would go to the SSF. The Board of Governors approved the proposal at the 2008 Annual Meeting held in Kiev (RESOLUTION NO. 112 - 2007 Net Income Allocation - 19 May 2008) and rules and regulations in Annex 1.

2. Evaluation scope and methodology

The evaluation reviews SSF use, processes, management and governance from its inception in April 2008 until June 2014. By agreement it explicitly does not consider SSF operational results in view of the perceived high value to both the Board and Management of a timely contribution to the current critical strategic planning exercise.

Details of the methodology used for this evaluation may be found in various Annexes. The team used a Bank Headquarters based approach relying mainly on the following:

- Review of all relevant available documentation (Annex 3);
- Interviews with SSF stakeholders, including Board, Operations teams, and non-banking units (see Annex 4);
- Extensive portfolio analysis based on all available data (see Annex 5 and Annex 6).

2.1 Challenges and limitations

A lack of reliable documentation and data about technical cooperation (TC) and non-TC grants implemented by the EBRD has been a significant challenge as the Bank's databases do not provide accurate information on grants. This is an issue that EvD and others (such as Internal Audit) have raised in the past. Management is addressing this issue following its Grant Co-financing Strategic Review.³ More details about this issue and how it has affected the portfolio analysis are described in Annex 5 and Annex 6. The evaluation team carried out the portfolio analysis on a best effort basis; nevertheless, in the view of the system deficiencies, incompatibility and sometimes conflicting data, the statistics presented in this report should be treated as an approximation.

A lesser issue is the staff turnover of the SSF stakeholders. In terms of operation team users of the SSF the evaluation team did not encounter any difficulty. On the other hand some shareholders offices could not be interviewed because lack of institutional memory.

2.2 The 2010 SSF Initial Review – follow-up to EvD recommendations

This section presents follow-up actions taken by Management in respect of the recommendations in EvD's 2010 Initial Review of the SSF. That review was meant to assess whether the fund had been successfully established and meeting expectations; it arrived at a *Successful* rating.

Box 1: SSF initial review – key findings (2010)

- The Fund's governance and management arrangements are well established and executed. Nonetheless, quality of reporting and monitoring should be strengthened and some overly cautious provisions might be relaxed to improve the efficiency of its administration.
- The Fund proved to be additional overall, helping to maintain and slightly increase the available donor funds at the Bank. While its co-financing with other multi-lateral funds is widely praised, the evaluation team could not evidence a multiplying effect of such activities.
- The Fund's individual assignments show overall similar patterns to the rest of the TC population over the first two years of the establishment. Specific features consist of smaller project sizes, fewer direct linkages to investment operations and larger shares of sector work.

The report provided five main recommendations to Management and was discussed at length at an Audit Committee meeting in November 2010. Management subsequently provided formal comments and

³ In the framework of the directions provided by Capital Resources Review 4, the EBRD's Management engaged in 2011 in an exercise aimed at reviewing the grant co-financing structure in the EBRD. The Grant Co-financing Strategic Review produced an Interim Report and a Final Report (January 2013) that set proposals in terms of governance, grants management, planning and prioritisation, reporting, and donor partnerships.

included them in its proposed SSF Work Plan 2011 (WP3). Out of the five recommendations, Management acted immediately on two, one was put on-hold awaiting other conditions to materialise, one was deemed not possible to address, and one was considered already under consideration.

Table 1 summarises the current status of implementation of the 2010 recommendations from an EvD perspective. Annex 8 presents in full the five recommendations, the minutes of the 2010 Audit Committee discussion, an update provided by Management as of July 2014 and the evaluation team's evidence on the same topics.

Table 1: Follow-up on 2010 SSF Initial Review

Recommendation	Status / follow-up (2014)
<p>Recommendation 1</p> <p>Similar to other TC work in the Bank, the fund could benefit from a more rigorous monitoring of its transition impact. This is particularly necessary with regard to the Fund's non-TC projects that are currently only partly captured by the given monitoring systems.</p>	<p><i>Under implementation</i></p> <p>To date EvD has no evidence that the EBRD is systematically monitoring transition impact of transactional TCs using its existing Transition Impact Monitoring System. No system is in place to link transition impact and non-transactional TCs. EvD is unaware of any Management report about TC contribution to transition impact.</p> <p>TC design, impact and donor visibility have improved thanks to the Grant Co-financing Strategic Review (that is, the introduction of a results framework for TCs), but so far this has not been connected with the existing monitoring system.</p> <p>Monitoring of non-TC in the existing monitoring system is not possible yet. The non-TC component of an investment is blended with the EBRD project.</p>
<p>Recommendation 2</p> <p>Pool the remaining resources from the fund's WP1 and WP2 together with newly allocated amounts for the year 2011 and beyond, without further restrictions in respect of sector categories, or the distinction between ODA and non-ODA recipients.</p>	<p><i>Not implemented</i></p> <p>Amalgamating the balance from WP1 to other WPs was not possible because of the different conditions for use coming from the Board of Governors Resolutions. Only in 2013 Board of Governors Resolution N. 161 approved the variation in condition of use of previous Resolutions.</p> <p>The ODA/non-ODA distinction has been kept over the years and repeated in all Board of Governors Resolutions allocating net income to the SSF. Such distinction has been used to maintain the focus of the EBRD's interventions through the SSF on the poorest countries of operations.</p> <p>Management is in contact with the OECD about the ODA/non-ODA classification, which would potentially allow reporting SSF TC as ODA flows. However, this is not the primary reason for the ODA focus, and the condition has remained in place regardless of the current status of the OECD position on the issue.</p>
<p>Recommendation 3</p> <p>An increase of threshold amounts for TC projects requiring Board approval to >€500,000 would save a substantial amount of administrative effort.</p>	<p><i>Not implemented</i></p> <p>Raising the threshold for Board approval of TC has not been agreed. Of additional Management proposals for more delegation of authority only a few have been approved (non-TC funded by other multi-donor funds managed by the Bank).</p>
<p>Recommendation 4</p> <p>Decrease the quantity and increase the quality of reporting. Enlarge the cycle of reporting on the fund's implementation by adopting a bi-annual sequence instead of the current quarterly one. At the same time, management should seek to include all relevant aspects in its reporting in order to give a complete picture of the fund's utilisation.</p>	<p><i>Fully implemented</i></p> <p>The Board of Directors approved Management proposed changes in SSF Rules (Section 3.04 (a) that now reads "The Board of Directors shall be provided with a semi-annual report on the current status of approved, committed and disbursed uses of the resources of the Fund".</p> <p>Accordingly, Management has submitted Semi-Annual Reports which name has been recently changed into the Grant Co-financing Report.</p>

Recommendation	Status / follow-up (2014)
<p>Recommendation 5</p> <p>Simplify the current handling of the project pipeline and SSF project list. Electronic handling of the project pipeline and an updated list of all SSF projects on the Bank's intranet is recommended, with access provided to shareholders/ donors as necessary.</p>	<p><i>Partly implemented</i></p> <p>IT systems have not been enhanced since 2010 and this has affected planning, monitoring, and accountability of the SSF and all other donor funds. After the Final Report of the 2013 Grant Co-financing Strategic Review, Management approved an IT project that will eventually serve the purpose.</p> <p>The quarterly project pipeline (a simple list of TCs and non-TCs in pipeline) was formally replaced in January 2013 with a semi-annual outlook, though implementation actually preceded the rule change.</p> <p>A newsletter is sent to the donors every month to keep them informed about the funding gaps.</p> <p>However, shareholders and donors do not have access to information about grants in a common space on the EBRD intranet or any other type of platform.</p>

3. The Shareholder Special Fund

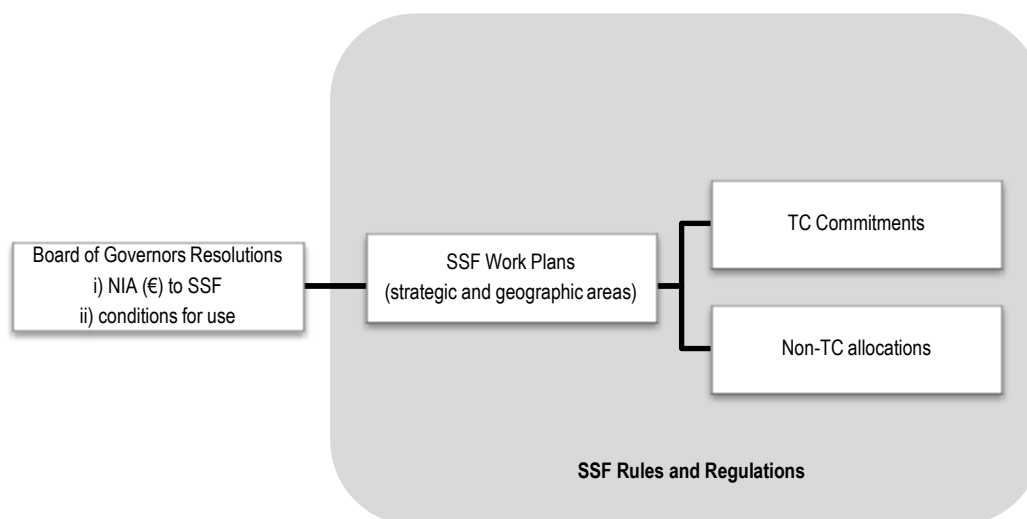
The SSF establishment document describes the Fund as follows:

The SSF's "prime objective [is] to broaden the scope and deepen the intensity of the Bank's **transition impact**.... The use of funds [...] would be focused accordingly on the most important transition challenges from both a geographical and sectorial point of view."

"[T]o support the EBRD's operation work and other designated activities. The Fund would **complement funding from bilateral and multilateral donors** and would be used to finance **technical assistance** (or cooperation) as well as **non-technical assistance** (or cooperation) initiatives such as investment grants and incentive payments."

Chart 1 illustrates the context in which the SSF is governed and administered. The SSF is governed by Resolutions of the Board of Governors that set the conditions attached to use of funds allocated as EBRD net income contributions to the SSF. The Board of Governors' Resolutions and SSF Rules and Regulations provide the framework in which the annual SSF Work Plans (WP) are designed and approved. According to the EBRD Operations Manual (10.7 and 10.8), the Bank will consider using the SSF only if the proposed grant is in line with the SSF Work Plan for the current period and if donors are not in position to partly or fully finance a specific assignment with the appropriate type of funding.

Chart 1: Framework documents under which SSF operates



Source: EvD

3.1 SSF financial endowments and conditions for use

Since 2008, five allocations or reallocations from the net income have been made to the SSF for a total of € 435 million as shown in Table 2.

The first Resolution (No. 112) set the general conditions for use of the SSF resources (€115 million), namely: supporting [ODA eligible countries](#) (not less than 80 per cent); and providing technical assistance not less than two thirds of the overall grants portfolio. The same conditions were applied also by Resolution N. 127 (€ 150 million) and Resolution N. 161 (€65 million). The repetition of the same general conditions over the SSF replenishment reflect the intention of the Board of Governors and Directors to focus the attention of the EBRD on the countries with the biggest transition challenges and to use the

technical assistance instrument as the main vehicle, with non-TC attached to investments as the lesser instrument.

In addition, Resolution No. 112 specified other limitations to the general ones, namely: not less than €45 million for Early Transition Countries (ETCs); not less than €25 million for the Western Balkans; and not less than €10 million to support initiatives under the Northern Dimension Environmental Partnership. These additional limits have been reflected in the rigidity of the related SSF Work Plan 1 (see 3.3.2).

The conditions for use of the second net income allocation to the SSF as specified in Resolution No. 122 (€30 million) reflected the exceptionality of the allocation to be devoted on support of the financial sector hit by the crisis in the poorest EBRD countries of operations.

Finally, Resolution No. 149 (€75 million) is specifically focused on the transfer of resources to the SSF to support the new countries of operations, namely the South-Eastern Mediterranean (SEMED).

Table 2: Board of Governors resolutions on net income allocations to SSF and conditions for use

Date	Resolution No. & Title	Net income amount (€m)	SSF Work Plans amount (€m)	Conditions for use SSF resources
05/2008	No. 112 – 2007 Net Income Allocation	115	112.5	<ul style="list-style-type: none"> – Not less than 80% to support ODA countries – Not less than two thirds for technical assistance – Not less than €45 million for the ETCs – Not less than €25 million for the Western Balkans – Not less than €10 million to support initiatives under the Northern Dimension Environmental Partnership
05/ 2009	No. 122 – Reallocation of Net Income	30	29.7	<ul style="list-style-type: none"> – Not less than 80% of such amount shall be used to support ODA countries – The entire amount for technical assistance
05/2010	No. 127 – Reallocation of Net Income	150	148.5	<ul style="list-style-type: none"> – Not less than 80% to support ODA countries – Not less than two-thirds for technical assistance.
05/ 2012	No. 149 – Net Income Allocation	75	25.0	Transfer up to €75 million of the resources of the SEMED Investment Special Fund to the SSF for use in any SEMED Potential Recipient Country or in any SEMED Potential Recipient Country that has become a recipient country, subject to the Rules of the SSF having been amended to provide for such use
05/2013	No. 161 – 2012 Net Income Allocation	65	64.4	<ul style="list-style-type: none"> – Not less than 80% to support ODA countries and – Not less than two-thirds for technical assistance – The same conditions applied with immediate effect to unutilised balance, returns, reflows, reimbursements, incomes and/or other resources of the SSF deriving from the former net income allocations to the SSF made pursuant to Resolutions N. 112, 121, and 127.
Total		435	380.1	

Source: The EBRD's official documentation

3.2 SSF Rules and Regulations

The rules of the SSF, which were adopted at its establishment, covered the sources of funding, the use of the resources (including its planning), the administration of the fund (including reporting), and the

conditions for its effectiveness, termination and amendments. Over the years, the SSF Rules have been amended and Regulations No.1 (approval process for incentive payments, investment grants and lending, guarantee or investment operations) and No.2 (creation of sub-accounts) have been added as well as amended. The latest version of SSF Rules and Regulations is available in Annex 1. Table 3 provides a snapshot of the changes as approved up to September 2014 by the EBRD Board of Directors. It is worth mentioning that over the years Management has proposed additional changes aimed at granting more delegation of authority from the Board, but only a few requests have been actually approved.

Table 3: Chronology of SSF Rules and Regulations adoption and amendments (as of September 2014)

Date	Type	Content
04/2008	Adoption of SSF Rules	– Provisions about the SSF establishment and resources, use, administration, and miscellaneous.
11/2008	Add Regulation N.1 to the SSF Rules	– Regulation No.1 regulates the approval process for incentive payments, investment grants and lending, guarantee or investment operations.
01/2011	First amendment to the SSF Rules (Section 3.04 – Reports)	– Following EvD recommendations included in the 2010 SSF Initial Review, reports on the current status of the approved, committed and disbursed uses of the SSF resources will be semi-annual rather than quarterly.
10/2011	Second amendment to SSF Rules (Section 1.02 Resources of the Fund and Section 1.03 Sub-Accounts) Add Regulation N.2 Amend Regulation N.1	– In order to put in place the newly introduced mechanism for client cost-sharing – Regulation N.2 regulates the creation of two sub-accounts for cost-sharing purposes (TAM sub-account and General sub-account) – Non-TC activities to be financed by the SSF which are co-financed by multi-donor cooperation funds administered by the Bank shall be submitted directly to the Board for approval (no need to be discussed at BAAC first).
01/2013	Third amendment to the SSF Rules (Section 1.02 Resources) and Amendment to Regulation N.2 Third amendment to the SSF Rules (Section 2.02 Resources) and Regulation N.1	– To accept the funds from the SEMED Investment Special Fund to the SSF for use in any SEMED potential recipient country – To replace the quarterly pipeline to a semi-annual outlook, as proposed in the Grant Co-financing Strategic Review ⁴
07/2014	Amendments to Regulation N.2	– To specify the resources of the SEMED Sub-Account can now be used to support operations in Jordan, Morocco and Tunisia, as these countries have become recipient countries of the EBRD – TAM sub-account is replaced with SBS sub-Account to reflect the rebranding of the team.

Source: EBRD's official documentation

3.3 SSF work plans

The EBRD Board of Directors has approved six SSF annual work plans each designed to be in compliance with the Board of Governors' resolutions. The approval process of the SSF Work Plans is a critical feature of its overall operation and is therefore described in some detail below.

3.3.1 SSF work plans: the design process

The process through which SSF Work Plans are developed and agreed is not set out formally in SSF Rules and Regulations. The SSF Rules (section 2.02 and Annex 1) only provide that:

⁴ The evaluation team notes that the semi-annual outlook was already in place since mid-2012 as piloting measure in the framework of the Grant Co-financing Strategic Review.

-
- a) The resources of the Fund shall be applied to the various categories of expenditure or reserve referred to in a Net Income Allocation Resolution or as may be approved by the Board of Governors pursuant to any subsequent resolution adopted by the same majority as is applicable to decisions of allocation of net income to other purposes pursuant to Article 36.1 of the Agreement. The Board of Directors may provide for further specificity regarding a Net Income Allocation Resolution.
 - b) The President shall submit for approval by the Board of Directors, a work plan (the "Work Plan") a period of at least twelve months and identifying the priority areas for the proposed use of the Fund's resources during such period.
 - c) Each Work Plan shall provide information on: (i) the countries or regions where spending is proposed; (ii) the main focal sectors; and (iii) the various use categories proposed.
 - d) The Board of Directors may, on the recommendation of the President, approve a reallocation of resources as between the focal sectors identified in the Work Plan, provided that any such reallocation shall not be in breach of any specificity of allocation made in a Net Income Allocation Resolution.
 - e) Up to 10% of the resources in the Fund may be designated as "unallocated" for the purposes of the Work Plan. (On a semi-annual basis, the Board of Directors shall be provided with a report containing an outlook of the funding needs for the next six months in respect of technical assistance, investment grants and other activities that can be financed from the resources of the Fund in accordance with Section 2.01; such document shall be shared with donors' representatives in accordance with the Bank's normal practices and subject to applicable confidentiality requirements.

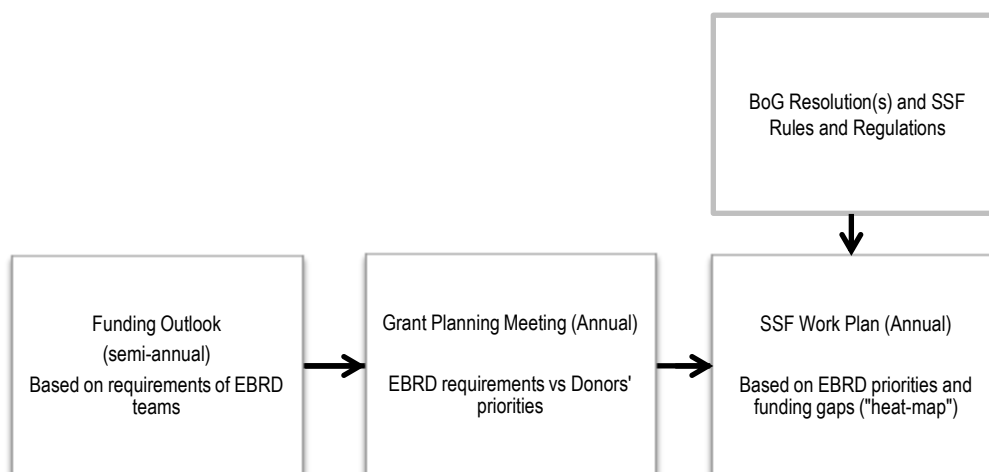
No information is provided in the rules on the process to identify priority areas and design work plans.

The document establishing the SSF also introduced additional substantive arrangements. Among them it was proposed to establish a Grant Planning Meeting with donors:

"to be held at the beginning of each year, starting 2009, so as to maximise complementarity and coordination. To prepare for this meeting, the EBRD will inform donors of co-financing opportunities and will consult with them regarding their own country and sector priorities. An assessment of these priorities and funding gaps that remain will be reported to the planning meeting as discussed. On the basis of the outcome of this meeting, the EBRD will devise its Work Plan for the next period, which will include an outline of potential donor contributions."

Based on available documentation plus interview findings Chart 2 presents a notional schematic of the SSF work plan design process. Over the years the process has been integrated into the EBRD donor co-financing architecture and the strategic orientations given by the Grant Co-financing Strategic Review.

Chart 2: SSF Work Plans design process



Source: EvD

As indicated above the Board of Directors is provided with a semi-annual report, called funding outlook, containing a projection of the funding needs for the next six months in respect of TC and non-TC grants.⁵ The funding outlook is based on the EBRD operation teams' stated needs and pipelines. In its coordination role with the donors, the Donor Co-Financing Unit strives to match the demand (funding outlook) with the offer (multi or bilateral donors' existing funds and expressed priorities). The Donor Co-Financing Unit produces an analysis of funding gaps (the "heat-map") to be put before donor representatives at the annual Grant Planning Meeting.⁶ The heat-map was introduced in 2012, as output of the Grant Co-financing Strategic Review, and is a matrix based on the Bank's pre-identified strategic areas.

The Donor Co-Financing Unit then coordinates a final phase to draft the annual SSF Work Plan taking into account the following elements/drivers:

- The indicative budget for the next year SSF Work Plan based on availability from the net income allocation and "carried over" from the past years;
- The conditions for use of the SSF resources as indicated in the relevant Board of Governors Resolution;
- Three regional and seven sectorial Strategic Areas for grant co-financing pre-identified during the Grant Co-financing Strategic Review;⁷
- The heat-map, as adjusted after the grant planning meeting;
- An analysis of the use of the previous year SSF Work Plan.

⁵ Originally this requirement was on a quarterly basis and changed to a semi-annual basis in the SSF Rules in January 2013. The evaluation team observes that the semi-annual funding outlook was actually already piloted in May 2012 in the framework of the Grant Co-financing Strategic Review and brought to full implementation already in October 2012.

⁶ The SSF Work Plans have been aligned to the calendar year since 2011, when WP3 was approved. In fact, WP1 and WP2 were originally designed to last July-June (see 3.3.2).

⁷ The interim report of the the Grant Co-financing Strategic Review (May 2012) identified the following Strategic Areas – Three regional areas: ETC, Western Balkans, SEMED SEI (including SEFF), and seven sectorial areas: Small Business Finance & Advisory Support (including financial institution MSME support, LEF, ETCI & SBS), financial institutions and local capital markets, Infrastructure, Private Sector for Food Security Initiative, Legal transition, environment and generic policy dialogue, Gender and inclusion.

The Donor Co-Financing Unit designs an indicative work plan based on those elements/drivers and facilitates a meeting of all operation teams, in which they negotiate their shares within the available budget allocations. The outcome of the meeting is a final SSF Work Plan to be submitted for approval, but also an “unofficial distribution” of the SSF budget lines among operation teams.

The Board of Directors subsequently approves the SSF Work Plan as submitted by Management (the Donor Co-Financing Unit), following a preliminary discussion at the Budget and Administrative Affairs Committee (BAAC).

3.3.2 *Approved SSF work plans*

Table 4 below provides a snapshot of the SSF work plans approved up to 2014 against the relevant Board of Governors Resolutions.

Table 4: Net income allocations and SSF work plans

Year	Board of Governors Res	Net income allocation to SSF work plans (€ million)	SSF work plan	SSF work plan (€ million)	SEMED SSF	Work plan timeframe	Extension
2008	N. 112	112.50	WP1	112.50		Jul08-Jun09	To availability
2009	N. 122	29.70	WP2	29.70		Jul09-Jun10	To Dec 2010 & roll over to WP3
2010	N. 127	148.50	-	-	-	-	-
2011	N. 127	-	WP3	50.00		Jan-Dec11	Roll over to WP4
2012	N. 127	-	WP4	50.00		Jan-Dec12	Roll over to WP5
2013	N. 149	-	WP5	-	24.75	Jan-Dec13	Roll over to WP6
2013	N. 161	64.35	WP5	50.00		Jan-Dec13	Roll over to WP6
2014	N. 161 & 149	-	WP6	65.00	-	Jan14-Dec15	-
	Total	355.05		357.20⁸	24.75		

Source: The EBRD's official documentation

The six work plans are presented in the tables below based on latest official versions.

Because of the very detailed provisions coming from Resolution N. 112 (see 3.1), SSF WP1 was designed around three main sector areas (Infrastructure TC and non-TC, Sustainable Energy Initiative TC and non-TC, and Enterprise and Other TC), each one broken down into three to five budget lines, to be combined with the geographical distribution between ODA (broken down into ETC, Western Balkans, Ukraine and other ODA) and non-ODA (Russia) countries (see Table 5). SSF WP1 was meant to last from July 2008 to June 2009, but, due to its very rigid structure, it needed to be extended and amended several times to allow more flexibility (in particular around resources to be used in ETC countries and the Western Balkans).⁹ Operations under WP1 were not fully committed until 2013, when Governors Resolution (No. 161) provided for an amalgamation with other work plans.

⁸ The difference in total is due to the fact that the balance from previous work plans was rolled over to the next years, thus contributing to a bigger total.

⁹ SSF WP1 was amended: in March 2009, in October 2009, in February 2010, in April 2010, in January 2011 and in February 2014. For more details see Annex 9.

Table 5: SSF Work Plan 1 (€ million)

Areas	Sub-areas	ODA			Non-ODA	Total
		ETC	Western Balkans	Ukraine and other ODA	Russia	
Infrastructure TC	Project Preparation and Implementation Support	7.5		3.5	3.5	14.5
	WB Infrastructure Initiative (TC)		6.0			6.0
	ETC Multi-Donor Fund					
	<i>Subtotal Infrastructure TC</i>	7.5	6.0	3.5	3.5	20.5
Infrastructure non-TC	WB Infrastructure Initiative (non-TC)		4.0			4.0
	Investment Grants (water and sanitation)	4.5	1.5	1.0		7.0
	the Northern Dimension Environmental Partnership sponsored projects				10.0	10.0
	<i>Subtotal Infrastructure non-TC</i>	4.5	5.5	1.0	10.0	21.0
SEI TC	Buildings Energy Efficiency	1.5		1.0	1.0	3.5
	Power Generation Energy Efficiency	1.0		1.0	0.5	2.5
	Sustainable Energy Financing Facilities				1.0	1.0
	Municipal Infrastructure Energy Efficiency	3.5		1.5	1.0	6.0
	ETC Multi-Donor Fund					
	Other Initiatives	1.5		1.5	0.5	3.5
	<i>Subtotal SEI TC</i>	7.5		5.0	4.0	16.5
SEI non-TC	Buildings Energy Efficiency	1.0	2.0	1.5		4.5
	Sustainable Energy Financing Facilities		1.0	4.0		5.0
	Municipal Infrastructure Energy Efficiency	2.5	2.0	1.0		5.5
	<i>Subtotal SEI non-TC</i>	3.5	5.0	6.5		15.0
Enterprise and Other (TC)	Enterprise Sector Support	2.0				2.0
	MSME Support	3.0		1.0		4.0
	Agribusiness			1.0	1.0	2.0
	TAM/BAS	4.5	1.5	2.0	1.0	9.0
	ETC Multi-Donor Fund					
	Other Initiatives	3.0		2.0	0.5	5.5
	<i>Sub-total Enterprise and Other (TC)</i>	12.5	1.5	6.0	2.5	22.5
ETC (added in October 2008)		10.0				10.0
Western Balkans (added in October 2008)			7.0			7.0
Total		45.5	25.0	22.0	20.0	112.5
%		40.44%	22.22%	19.56%	17.78%	100%

SSF WP2 was based on the “exceptionality” of intervening to support the financial sector in the time of crisis, as provided in Resolution No. 122. WP2 was constructed around three very mixed areas (crisis response financial institutions and small and medium sized enterprises; ETC/Belarus/Turkmenistan; Western Balkans) to be combined with the ODA/non-ODA condition. SSF WP2 was amended five times

mainly to roll-over its balance to the next years and to extend its use to promote the recovery to the real sector and not only to the financial sector.

Table 6: SSF Work Plan 2 (€ million)

Areas	ODA			Non-ODA		Total
	ETC	Western Balkans	Other ODA	Russia	EU	
Crisis Response – financial institutions / SME TC			9.9	2.0	4.0	15.8
ETC / Belarus / Turkmenistan	7.9		2.0			9.9
Western Balkans		4.0				4.0
Total			23.8		5.9	29.7
%			80.00%		20.00%	100%

SSF WP3 was the first to be aligned to the calendar year and the EBRD budget cycle, and was designed and approved following Capital Resources Review 4 guidance. Allocations were split among four areas; ETC region; Western Balkans region; climate change / energy efficiency / environment including MEI; and others. WP3 was amended twice to reallocate resources across categories (from Western Balkans to others) and to roll-over its balance to WP4.

Table 7: SSF Work Plan 3 (€ million)

Areas	€ million
ETC Region	16.0
Western Balkans Region	5.0
Climate Change / Energy Efficiency / Environment (including MEI)	20.0
Others	9.0
Total	50.0

SSF WP4 was designed along very similar lines as WP3, but with further detail. The regional and sectorial areas were clearly distinguished. The regional areas included ETC and Western Balkans. The sectorial areas included: climate change / energy efficiency / environment including MEI; private sector development (broken down into SBS, financial institutions/ capital market development, agribusiness); and market analysis/ policy dialogue/ capacity building and gender. Moreover, it was specified that SSF resources for non-TC grants under WP4 will be limited to ETC and Western Balkans regional windows. SSF WP4 was amended to roll-over its balance to WP5.

Table 8: SSF Work Plan 4 (€ million)

Areas	Sub-areas	€ million
Regional	ETC (of which € million 7.0 to co-finance ETC Fund)	18.0
	Western Balkans (of which € million 5.0 to co-finance WBIF)	9.0
Sectorial	Climate Change / Energy Efficiency / Environment (including MEI) (of which € million 2.5 to co-finance with the Eastern Europe Energy Efficiency and Environment Partnership)	12.5
	Private Sector Development:	
	SBS (€ million 2.0)	
	Financial Institutions / Capital Market Development (€ million 3.0)	
	Agribusiness (Food Security Initiative) (€ million 2.0)	7.0
	Market analysis, Policy dialogue, Capacity Building and Gender	3.5
Total		50.0

WP5 was the first approved after the Grant Co-financing Strategic Review and therefore incorporated the “heat-map” as well as the pre-identified strategic areas (see 3.3.1). Regional areas were: ETC, Western

Balkans, and SEMED.¹⁰ Sectorial areas were expanded considerably to include: SEI (including SEFFs); small business finance / advisory support (MSME finance, Local Enterprise Facility, DIF/DLF/MCFF, SBS); Building stable financial sectors (Local currency, Financial Institutions); Transition in infrastructure; Food Security; Legal Transition / Environment / Policy Dialogue; and, Gender / Inclusion. WP5 too was amended to roll resources into WP6.

Table 9: SSF Work Plan 5 (€ million)

Areas	Sub-areas	€ million
Regional	ETC (of which 5.0 to co-finance ETC Fund)	18.0
	Western Balkans (of which 5.0 to co-finance WBIF)	7.0
	SEMED (with details of implementation)	24.8
Sectorial	SEI (including SEFFs)	5.0
	Small business finance / advisory support (MSME finance, Local Enterprise Facility, DIF/DLF/MCFF, SBS)	5.0
	Building stable financial sectors (Local currency, Financial Institutions)	2.0
	Transition in infrastructure	5.0
	Food security	2.0
	Legal Transition / Environment / Policy Dialogue	4.0
	Gender / Inclusion	2.0
	Total	74.8

WP6 is the first to cover two years. In addition a split was introduced between a “catalytic window” with longer term (two years spanning 2014-2015) and more defined focus on pre-identified co-financing (Small Business Initiative, ETC Fund, Eastern Europe Energy Efficiency and Environment Partnership, Kazakh Fund), and a “core window” to be used for the same priorities as set out in WP5. WP6 was amended a few months after approval to free up €5 million (out of 10) pledged for the Small Business Initiative Fund and reallocate €4 million to Small Business and €1 million to a new budget line for contingencies.

Table 10: SSF Work Plan 6 (€ million)

“Core window”			“Two-year catalytic window”	
Areas	Area	€ million	Areas to co-fund	€ million
Regional	ETC (of which 5.0 to co-finance ETC Fund)	14.00	Small Business Initiative	5.0
	Western Balkans (of which 5.0 to co-finance WBIF)		ETCF	4.0
	SEMED (with details of implementation)		The Eastern Europe Energy Efficiency and Environment Partnership	2.0
		14.75		
Sectorial	SEI (including SEFFs)	4.00	Kazakh Fund	4.0
	Small business finance / advisory support (MSME finance, LEF, DIF/DLF/MCFF, SBS)	7.00	Total	15.0
	Building stable financial sectors (Local currency, financial institutions)	2.00		
	Transition in infrastructure	7.50		
	Food security	2.00		
	Legal Transition / Environment / Policy Dialogue	5.50		

¹⁰ At the 2012 Annual Meeting, the EBRD Board of Governors approved a net income allocation of € 1 billion to the SEMED Investment Special Fund. Subject to certain conditions being met, the Board of Directors would have the authority to transfer up to € 75 million from the SEMED Investment Special Fund to the SSF for the use in any SEMED recipient or potential recipient country, subject to the Rules of the SSF having been amended as done in January 2013. SSF WP5 is the first one including an allocation for the SEMED region.

"Core window"			"Two-year catalytic window"	
Areas	Area	€ million	Areas to co-fund	€ million
	Gender / Inclusion	1.00		
	Contingency (<i>introduced in July 2014</i>)	1.00		
	Total	64.75		

3.4 SSF governance

The SSF is governed by the Resolutions of the Board of Governors and administered in accordance with the SSF Rules and Regulations and annual WPs. While its implementation is subject to any other EBRD operational and strategic document about grants as approved by the EBRD Board of Directors, the SSF, as any other Special Fund administered by the Bank, has its own specificities in terms of governance and grants approval procedures that are outlined in Box 2.

Box 2: Snapshot of SSF Governance and approval processes

Body	SSF related main responsibilities
Board of Governors	Net income allocation of the Bank to the SSF and conditions for its use
Board of Directors and BAAC	<ul style="list-style-type: none"> – Establishes and terminates the SSF – Approves SSF Rules and Regulations following discussion at BAAC – Approves the SSF Work Plans and its changes following a discussion at BAAC – Approves on a non-objection basis TCs >€ 300 thousand or, regardless the size, in EU countries – Approves any proposal for non-TC grant following a discussion at BAAC (except those co-funded by another multi-donor fund managed by the EBRD) – Receives SSF semi-annual reports following a discussion at BAAC
Management	<ul style="list-style-type: none"> – Submits SSF Work Plans and its changes – (Vice Presidency Strategy and Policy) approves (through a two-step process) SSF financing of TCs <€ 300 thousand – The Donor Co-Financing Unit performs quality control on the fiches submitted to the Board for TCs >€ 300 thousand and the fiches submitted to the BAAC for non-TCs – Submits a semi-annual report on the status of the SSF Work Plans

3.5 SSF portfolio overview

Since 2008 the SSF has committed over €250 million, out of which almost €200 million for TC.¹¹ An overview of SSF commitments by year is presented in Table 11, Chart 3 and Chart 4. Also shown are 'non-TC uncommitted allocations' – projects or frameworks already approved by the Board for an allocation from the SSF, but not yet committed. As they represent rather large financial volume due to the nature of the non-TCs, they are given to complete the information on overall SSF commitments.

Annual commitments do not necessarily correspond to work plan allocations as commitments for each work plan can be made with delay in the following years (such as under frameworks/facilities).

Table 11: Total SSF commitments – TC and non-TC

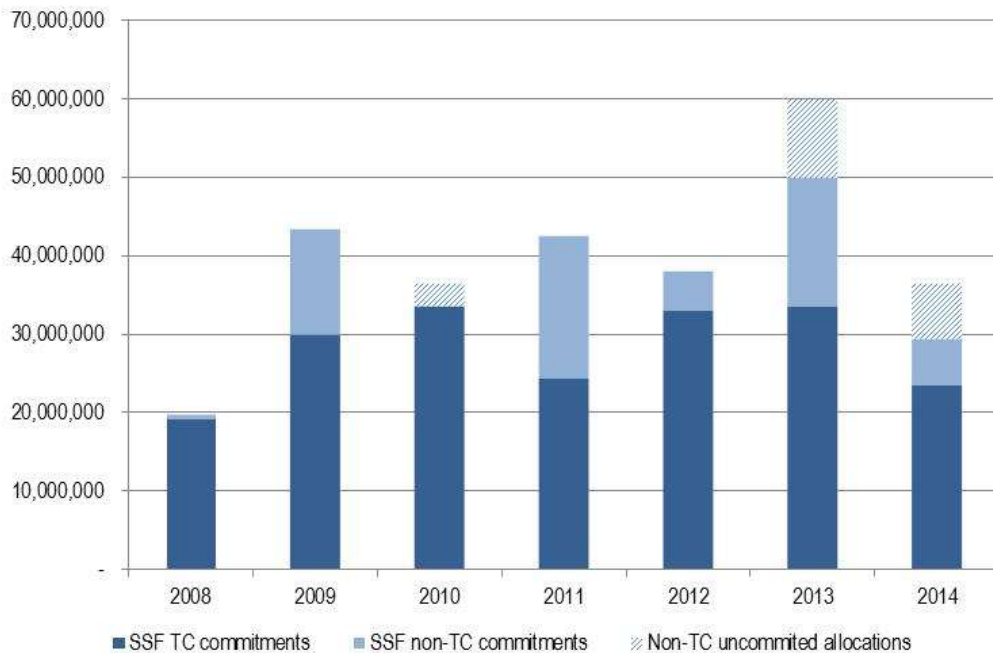
Year	SSF WP (€)	SSF TC commitments (€)	SSF non-TC commitments (€)	SSF non-TC uncommitted allocations (€)	Total SSF commitments (€)
2008	112,500,000	19,240,018	493,066	-	19,733,084
2009	29,700,000	29,909,043	13,469,945	-	43,378,988
2010	0	33,599,497	0	2,920,000	33,599,497
2011	50,000,000	24,504,333	18,114,341	-	42,618,674
2012	50,000,000	33,086,175	5,000,000	-	38,086,175

¹¹ Where data for 2014 are presented in this section, they are data available as of June 2014.

2013	74,750,000	33,598,540	16,333,697	10,000,000	49,932,236
2014	89,750,000	23,498,602	5,931,799	7,160,000	29,430,401
Total	406,700,000	197,436,207	59,342,847	20,080,000	256,779,054

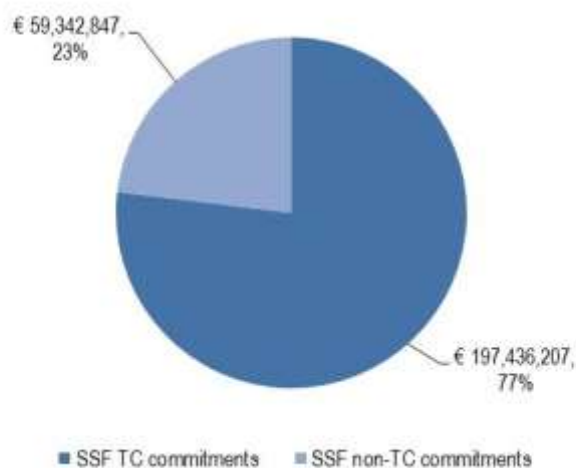
Source: EvD analysis from data extracted from EBRD databases - Note: Data about 2014 are as of June

Chart 3: Total SSF commitments (€) – TC and non-TC



Source: EvD analysis from data extracted from EBRD databases - Note: 2014 figures for January to June only

Chart 4: Total SSF commitments – TC and non-TC



Source: EvD analysis from data extracted from EBRD databases

There is no discernible trend in the volumes of either total commitments or in TCs/non-TCs. There was an increase in total SSF commitments in 2013, which was caused mainly by increase in non-TC as TC remained virtually the same as in 2012. However, with 2014 figures still only partial (until June 2014), there is no indication of underlying growth of the portfolio over time. This observation is consistent with the way income allocations to the SSF are distributed through the work plans, for example, the 2010 €150 million net income allocation for the SSF was spread evenly among the following three WPs.

Charts 3 and 4 present the detailed findings of the portfolio analysis of TC and non-TC grants respectively and summarised in Box 3 and Box 4.

Box 3: Main findings from portfolio analysis of TC grants (2008-2013)

- Between 2008 and 2013 a total of almost 1,000 individual TC commitments were funded by the SSF for almost €174 million. In the same timeframe, almost €500 million was committed and funded by other donor funds, meaning that the SSF contributed by around 26 per cent to the overall TC portfolio of the Bank (see Table 26 and Chart 5).
- There is no clear trend in overall TC commitments over time. However, the average yearly TC commitment for 2000 to 2007 was € 76.5 million, and this increased to € 111.9 million for 2008 to 2013 (SSF included) (see Table 26 and Chart 5).
- The share of TC targeted to ODA-eligible countries from the SSF was around 81 per cent and from other sources was around 78 per cent. The share of TC targeted to ETC countries from the SSF was around 42 per cent and from other sources was around 33 per cent (see Table 27).
- There are no large differences in the regional allocations between the commitments funded by the SSF and all other donor funds (see Chart 6, Table 28, Chart 7 and Chart 8).
- In terms of TC to individual countries, the top five recipients were the same for the SSF and other funds from 2008 to 2013 – Kazakhstan, Kyrgyz Republic, Russia, Tajikistan and Ukraine, albeit in different order (see Table 29). Detailed findings regarding the distribution of TC within the EBRD regions of operations are presented in Annex 6.
- The distribution of TCs across sectors is also similar for the SSF and other funds over the 2008 to 2013 period. The biggest five sectors are energy, finance & business, manufacturing, local authority services, and transport & storage (see Table 30).
- In terms of the Bank's operational teams, the biggest user of SSF TC was MEI (22 per cent), followed by SBS (14 per cent), Energy Efficiency and Climate Change (13 per cent), Financial Institutions (12 per cent) and Transport (11 per cent) (see Table 31).
- With respect to the type of TC, project implementation accounted for 51 per cent of other TC compared to 38 per cent of SSF; while advisory services accounted for 41 per cent of SSF TC compared to 35 per cent for others (see Chart 9 and Chart 10).
- Policy dialogue has not been systematically tracked as a type for TCs; therefore no data are available on its funding from the SSF.
- Co-financing analysis was based on identification of TCs with the same TC operation ID¹² financed both by the SSF and other funds (see details in Annex 5). A total of 161 TC operation IDs were co-financed by other funds, out of the total 549 TC operation IDs financed by the SSF (29 per cent). In financial terms this represented over €128 million in commitments from other funds, complemented by €59 million from the SSF.
- Based on the analysis of shared TC operation IDs, the largest source of the co-financing with the SSF were bilateral funds (37 per cent of co-financing commitments), the EU (34 per cent) and multi-donor funds (28 per cent). Multi-lateral and private sources were negligible in comparison (Table 32 and Chart 12). The largest contributors in terms of individual funds were the Early Transition Countries Fund (13 per cent of all co-financing commitments), the EBRD Western Balkans Fund (8 per cent) and the Japan-EBRD Co-operation fund (6 per cent) (see Table 33)

¹² In order to create any TC commitment it is necessary to register the operation in the Bank's systems. An ID is assigned and the initiative is classified as TC. One TC ID could be linked more than one TC commitments.

Box 4: Main findings from portfolio analysis of non-TC grants

- Since 2008, the SSF has made commitments for non-TCs of almost €60 million, which represented 23 per cent of the total SSF commitments (see Table 34).
- Regional ETC projects have the biggest share of 37 per cent of SSF non-TC, followed by regional Western Balkans 11 per cent share in commitments. Tajikistan and Kyrgyzstan are the largest single-country recipients (17 per cent both), followed by Russia (13 per cent) (see Chart 56)
- The largest share of non-TC commitments was made by the MEI team (47 per cent), which contributed to investment grants being the largest category by type of non-TC (54 per cent). The Energy Efficiency and Climate Change team (7 per cent of commitments) also received investment grants from the SSF (see Table 37, Chart 58, Chart 59).
- Risk-sharing accounted for 34 per cent of non-TC commitments, largely attributable to a large ETC Local Currency Fund transfer (Table 38, Chart 60, Chart 61).

4. Main evaluation findings

The agreed Approach Paper for this Study proposed a focus on three broad issues:

- The extent of SSF support for the Bank's evolving strategy for grant co-financing;
- Whether SSF governance contributes to efficient use of the Fund; and,
- Whether management of the SSF has been efficient.

The balance of this chapter presents EvD's findings on these issues; additional detail on judgement criteria and indicators may be found in Annex 2.

4.1 SSF support for strategic agenda on grant co-financing

The SSF was established in the framework of Capital Resources Review 3 guidance, and subsequently implemented under Capital Resources Review 4 which also set the directions for a review of the entire EBRD donor co-financing structure. Findings on the role of the SSF in that overall changing context are summarised below.

Box 5: Summary Findings for Evaluation Issue 1

- The SSF is a key element of the Bank's wider partnership with its donors.
- It has contributed to substantial changes in the planning and reporting processes for grants, particularly in the framework of the Grant Co-financing Strategic Review.
- It has provided considerable value added within the existing donor architecture by providing untied resources, acting as a fund of last resort, supporting strategic initiatives, and serving as a co-financing and bridge funding tool.
- Divergent views exist on the SSF's intended priorities – providing incremental support for activities to extend the Bank's transition impact, or filling funding gaps for ongoing operational activities.
- SSF planning and operational activities have been built to accomplish the latter purpose.
- There is no formal SSF-specific strategic planning process. As a result there is no basis on which the Fund can now demonstrate a distinctive contribution to transition.

4.1.1 Clarity and consistency of understanding of core SSF objectives

The prime objective of the SSF was set out clearly at its founding: *“to broaden the scope and deepen the intensity of the Bank's transition impact”* with the Fund *“focused accordingly on the most important transition challenges from both a geographical and sectorial point of view”*. It was further stated that *“to support EBRD's operation work and other designated activities, the Fund would complement funding from bilateral and multilateral donors.”*

The basic proposition for the SSF at its inception was thus, broadly: the SSF is intended to focus on priority transition challenges and provide distinctive and incremental transition impact; and, the funds mobilised for this purpose should reinforce already available funding for multiple existing purposes.

Since the Fund's inception there have been competing views as to how most properly to interpret these two core propositions, and how best to design, manage and assess the operational programmes intended to give them effect. In one view, the Fund is a wholly new creation of shareholders, established specifically to accelerate transition in some discrete way, and in many ways a new instrument. In another view, the Fund is primarily an incremental source of funding for operations that for the most part fall within

the Bank's overarching transition objectives. The evaluation team's extensive analysis of documentation and interviews confirms that these different perspectives about the SSF have become deeply embedded and remain unresolved despite the Fund's high institutional profile and importance.

The second view has in fact been the dominant shaper of the SSF operations, and is clearly in evidence in processes, programmes and documentation. For instance, Capital Resources Review 4 described the Fund to have the following aims: to complement the work of existing donors; to provide flexible and timely funding to support banking operations; to introduce a strong element of funding predictability; and to work as bridge funding mechanism, where necessary. After Capital Resources Review 4 the majority of documents about the SSF read that "*the SSF was established with the aim to complement donor financing, to introduce an element of funding predictability, and to respond to the most important transition challenges*". It is clear that the *de facto* interpretation of SSF's purpose and priorities is a substantial re-shaping of the original formulation of its founding objectives, with major implications for assumptions under which SSF work plans are to be designed and the grants eventually committed.

When viewed principally a 'source of financing', the SSF's objective of transition impact is self-evident, as it is present in everything that the EBRD does. The Bank's activities are rooted in country and sector strategies and in strategic initiatives and by default this ensures that they contribute to achievements in terms of transition impact. Accordingly, this view holds that the orientation, planning and governance of the SSF should be centred on fulfilling its role of complementarity against other donor resources. The SSF is a source of finance much like various donors' funds, but one that follows the Bank's priorities; there is no requirement for or indeed any additional value in a separate strategy or additional mechanisms of accountability.

It should be also added that the element of complementarity itself has been interpreted in different ways by the SSF stakeholders. The evaluation team has identified at least three different ways, namely: (1) co-funding with other donors (such as leveraging funds for a common purpose); (2) funding proposals where there is no interest from other donors (i.e. filling funding gaps, fund of last resort); and (3) not crowding out other donors (that is, additionality of funding).

On the other hand, there is a view of SSF as a shareholders' fund. This view stems from the origins of the establishment of the SSF, whereby the shareholders were considering different options for dealing with growing net income of the Bank. At that time, the payment of dividends was under consideration, but eventually was decided against, and the shareholders chose (among other things) to allocate the net income to the SSF.¹³ From this point of view, the SSF is a 'shortcut' between paying dividends to shareholders and allocating these dividends back to the Bank through various donor funds. This perception creates a strong sense of ownership of the Fund among some shareholders, and contributes to the belief that the use of the SSF should be guided by shareholders' priorities, and corresponding planning and accountability mechanisms should be in place to ensure their fulfilment. In this understanding of the SSF, the specific focus on transition needs, opportunities and impact is paramount. SSF should be treated as a scarce resource and the decisions on its utilisation should be rooted in weighing different options by their transition impact potential. Doing so would require the SSF to plan its resources strategically with the view of the greatest identified needs in terms of transition gaps.

¹³ Resolution N. 112 – 2007 Net Income Allocation provides that the Bank's net income of 2007 of €1.080 billion shall be allocation to: (1) €830 million to be allocated to surplus, specifically to the strategic reserve referred to, and whose purposes are set out in, the Report of the Board of Directors; (2) €250 million to be allocated to other purposes, specifically: (a) €135 million, as a grant to Special State Enterprise Chernobyl NPP, and (b) €115 million, as a contribution to the EBRD Shareholder Special Fund established in accordance with the Rules approved by the Board of Directors on 15 April 2008.

4.1.2 Alignment of SSF planning with its objectives

The process of preparing annual SSF work plans, and the resulting operational choices reflect a clear and consistent priority being given to filling assessed funding shortfalls. While Work Plans are centred around seven strategic sectors and three regions pre-identified by the Grant Co-financing Strategic Review, the operational choices within these areas are fully based on filling projected donor funding shortfalls relative to the projected needs of operation teams. Considerations related to transition objectives, gaps or opportunities are not integrated in any observable way. A reference in the latest SSF Work Plan to the “strategic assessment of funding needs” is the closest reference.

As discussed already at some length, this underlying tension between SSF operational planning and its intended wider purposes has been a matter of ongoing concern and regular comment by many shareholders. For instance, the minutes of the BAAC meeting discussing the SSF WP5 (covering the period Jan-Dec 2013) read:

“The analysis for demand and supply for donor funds, given in “heat-map” format [...] was the subject of much comment, with several Directors expressing the view that identified areas of under-funding should not necessarily imply that these gaps should be filled by the Bank.”

In an effort to respond, Management put forward to the BAAC and the Board a new approach for Work Plan 6, introducing a two ‘window’ approach (see 3.3.2). A ‘core’ window, with a one year timeframe (Jan-Dec 2014) is standard planning based on funding gaps within the ‘strategic areas’. Additionally, a new ‘catalytic’ window was introduced allocating SSF resources for two years (2014 to 2015) to co-finance (match funding) two EBRD strategic initiatives (Eastern Europe Energy Efficiency and Environment Partnership and Small Business Initiative) and two donor funds (ETC fund and the Kazakh fund). However, this approach too embeds the existing operational interpretation of SSF’s complementarity function. In fact, the SSF already has the capacity to: (1) co-fund with other donors as in the new catalytic window (that is, leveraging/matching funds for a common purpose); (2) fund proposals where there is insufficient support from other donors as in the core window (such as filling funding gaps). All of these, according to the interpretations, should be done without crowding out other donors.

The WP6 document sets out the core issues clearly:

“...the model has worked well to enable the SSF to complement donor funds to support core funding requirements in strategic areas. [The WPs] in-built flexibility allowed the Bank to respond to the bottom-up approach and implement projects when projects did not match donor priorities. The Board of Directors has indicated, however, its wish for the SSF to be more strategic, and move towards a more strategic planning of the use of SSF resources. [...] The two distinct objectives of the SSF are in tension in that it is difficult for the SSF to be strategic and at the same time be a core fund complementary to donors, unless specific windows are created to meet the two different objectives.”

Whether multiple windows are a solution is less clear. The second window is only a temporary “*transitional arrangement*” and not an ultimate solution to the underlying friction. The general expectation was that the upcoming strategic planning cycle (former Capital Resources Review 5) will provide less ambiguous guidance with respect to the priorities of the SSF, which would be translated into directions for planning the use of the Fund. Thus the report of the Chair of BAAC on the WP6 emphasises:

“...strategic issues surrounding the SSF should not be lost sight of during the Capital Resources Review 5 discussions. It would be important, from

this discussion, to reach conclusions on size, strategic use of funds and the approach to defining appropriate envelopes for TC and non-TC activities.”

Some concern has been found to exist among shareholders about the inclusion of the Kazakh fund within the catalytic window, and the fact that the ‘catalytic’ allocation for the Small Business Initiative has already been re-allocated to the ‘core’ window due to delayed launch of the Small Business Initiative. It remains to be seen how the catalytic window approach in general satisfies the calls for more strategic planning of the SSF. In the previous years, the SSF presented itself as strategic based on the fact that its financing supported agreed strategic initiatives and that it co-financed activities with multi-donor funds in strategic regions (ETC and Western Balkans), while the funding allocations were still primarily based on the unavailability/absence of other financing. How financing decisions made under the ‘catalytic’ allocation of the ETC Fund will differ from the previous Work Plans allocations for the ETC as a strategic region, where co-financing with the ETC Fund in principle already took place, remains to be seen. WP6 itself is not specific on the details, and its implementation has not yet been long enough to provide evidence.

The underlying duality with respect to SSF objectives and core purpose is also reflected in disparate expectations for the type of interventions that the SSF should focus on. Some interviewed shareholders argue that the SSF should follow the demand and client-driven approach of any other EBRD technical assistance operation and accommodate maximum flexibility for operation teams. Others prefer that the SSF particularly support areas that are new to the Bank and/or where donor support is limited, such as policy dialogue. Still others want the SSF to prioritise funding based on transition needs and prospective impacts. There is a clear majority in support of the view that the SSF grant component should not be used as the only transition impact vehicle of an EBRD investment.

A reading of the records and results of interview conducted for this evaluation strongly suggest the following: using multiple-year planning windows without simultaneously strengthening links to strategic transition needs and priorities and allocation mechanisms to better capture these is unlikely to be seen as sufficient by a substantial body of shareholders. On the other hand, co-financing with strategic initiatives or multi-donor funds which have a well-developed strategy on their own, and governance processes in place to ensure the delivery on their objectives (such as the Eastern Europe Energy Efficiency and Environment Partnership), could provide the SSF shareholders with enough confidence on the strategic use of their contribution.

4.1.3 *SSF value added to existing donor mechanisms*

The portfolio analysis makes clear that the SSF is an important source of funding for operation teams (see 3.5, Annex 5 and Annex 6). However, it also confirms a very high degree of overlap between SSF and other donor resources in terms of geographic distribution, sector, and type. The evaluation team has sought to identify a distinctive SSF value-added value from multiple perspectives.

Through the interviews held by the evaluation team with 10 teams users of the SSF (see Annex 4), the following have been identified as main elements of SSF additionality: (i) untied resources; (ii) funding of last resort; (iii) supporting new initiatives; (iv) co-financing other bilateral or multi-donor funds and providing bridge funding where necessary.

Source of untied resources

Stakeholders unanimously appreciate that SSF is providing untied resources. This is valued operationally by the SSF users because it avoids complications in the selection of the consultants and enhances

competition. It is also appreciated by the shareholders because it diminishes the interference of donors' priorities over EBRD interventions.

This specific element of added value will decline in future given the Bank's commitment to ending tied procurement by 2015.¹⁴

Fund of last resort

The SSF work plan development process described at length in Section 3.3.1 confirms that its essential driver is funding gaps as identified following the annual Grant Planning Meeting.

Another way to look at the SSF as fund of last resort is in terms of the actual commitments. In fact, as indicated in Annex 11, the operations teams get access to SSF resources only where other donors are not interested or resources are not available in a timely manner, and where the proposed TC or non-TC operation is in line with the budget lines of the SSF Work Plan as well as the "unofficial distribution" mentioned in section 3.3.1 and later on in section 4.2.1. All TCs in need of funding are published in a monthly newsletter sent by the Donor Co-Financing Unit to the donors.¹⁵ Following that step, as well as the direct donor search carried out by Donor Co-Financing Unit Managers, a TC project could be considered for SSF funding (provided that the TC Committee has approved it on its merits). The operation teams interviewed for the purpose of this evaluation confirm that the question of pursuing other sources of funding before the SSF is systematically part of the process, before allocation can be made from the SSF.

The evaluation team has identified no specific mechanism or process to track the donor search funding process. A database or common space to track requests and outreach to donors is not in place yet (although reportedly to be developed). Some operation teams track contacts with donors in their own spreadsheets also because they have established direct contacts with them in order to complement the donor search work done by the Donor Co-Financing Unit. However, precise information on the donor search (such as number of requests, to which donors, number of positive and negative responses) before actually addressing SSF is not available. This issue has been also mentioned by shareholders dissatisfied with the amount of information they receive in the summaries (fiches) presented for non-objection approval for technical assistance proposals.

Shareholders have also expressed concern about SSF funding to support some EBRD core products, arguing that such activities ought properly to be covered by the ordinary budget of the Bank. Specific citations on this issue include surveys and research carried out by the Office of the Chief Economist, as well as some full time staff positions for newly created strategic initiatives.

The Donor Co-Financing Unit's 2013 Grant Co-Financing Report presents a useful analysis to assess the SSF's added value as fund of last resort. Assuming that what has been approved by the TC Committee in a given year (2013) provides a measure of the operation teams' needs in terms of TCs (demand), the Donor Co-Financing Unit compared the 2013 TC Committee approvals with all TCs committed in the same year (excluding those funded by SSF) as a measure of the TC supply. The shortfall or surplus in funding (the difference between demand and supply) was then compared with SSF commitments in 2013. The comparison confirms a clear pattern of SSF use as a vehicle to minimise funding gaps and finance operation team's needs.

¹⁴ "During the '90s, donor funding was often in the form of tied technical assistance. The trend towards unttying in the EBRD was boosted by shareholder pressure and in Capital Resources Review 4 the Bank committed to ending tied procurement by 2015"

¹⁵ The Donor Newsletter has been in place since 2010.

Support for new initiatives

The evaluation also examined evidence of SSF added value in supporting new initiatives. In short, the SSF has been very directly deployed to assist with new initiatives; these include in particular the Strategic Gender Initiative;¹⁶ the Local Currency and Capital Markets Initiative;¹⁷ and the Private Sector for Food Security Initiative.¹⁸ Additionally, the SSF WP6 has allocated a substantial amount of resources in the “two-year catalytic window” to the Small Business Initiative.¹⁹ In fact, each of these initiatives is currently largely dependent on SSF resources.

Other important existing initiatives have been supported by the SSF since its establishment, such as the Sustainable Energy Initiative (SEI)²⁰ and the Early Transition Countries Initiative (ETCI)²¹, although in these cases SSF has not been the sole funding source.

The fact that the SSF is supplying essentially all of the funding for new initiatives may be another manifestation of its funder of last resort role assuming that an effective donor search was carried out before approaching the SSF. It is a substantial question why major new initiatives intended to become a part of the core fabric of the Bank’s activities are funded by SSF resources rather than being allocated their own budget at their approval.

Co-financing and bridge funding – crowding-in or crowding-out

SSF has co-financed TC operations with many donor funds (Annex 5). The analysis carried out by the evaluation team reveals that the SSF has been used to complement the activities funded by bilateral as well as multi-donor funds. This is one of the expectations coming from the SSF Work Plans, in particular when it comes to the ETC countries and the Western Balkans. Moreover, as noted earlier the new “two-year catalytic window” is exclusively meant to co-finance selected programmes.

A specific form of co-financing is bridge funding, where the SSF serves as an intermediate source of financing for a project when another source of finance is not yet available (for example due to longer approval processes of donors). This means that the SSF can in principle contribute only very small initial amounts compared to the overall value of the TC. In some cases the SSF did not actually disburse any payments at all and the SSF contribution was fully de-committed when another donor fund took over. Nevertheless, the importance of such bridge funding reaches beyond its financial value, as the SSF involvement allows the operation to go forward (with for example the procurement process) when financing is secured, and therefore increases the timeliness of TC implementation. This could actually also be considered as an incentive for donors to get involved in EBRD operations while the process of securing donor funds in their own capitals is taking place. In fact, this could be considered a way in which the SSF is crowding-in donors.

Shareholder concern about crowding-out other donors has been present since establishment of the SSF. However a careful examination of TC commitments over the years fails to yield a clear answer. As evident from Table 26 and Chart 5 (in Annex 5) the overall TC commitments from sources other than the SSF over the period of 2000 to 2013 did not have a clear trend. Therefore the evaluation team does not have

¹⁶ As approved by the Board of Directors at its meeting on 16 April 2013

¹⁷ Launched at the 2010 EBRD Annual Meeting, to which followed the establishment a cross departmental team of experts (the Local Currency and Capital Markets Development Team) as a centre of excellence for the Initiative in December 2012

¹⁸ Launched in November 2011

¹⁹ Launched at the 2013 EBRD Annual Meeting

²⁰ Launched at the 2006 EBRD Annual Meeting as a component of the third Capital Resource Review (Capital Resources Review 3) (BDS06-21 Final) and already at Phase 3 of its implementation

²¹ Launched in 2004

evidence of the effect of the establishment of the SSF on TC operations funded by other donors. Some stakeholders are of the opinion that the existence of the SSF may affect the behaviour of some donors when it comes to individual funding decisions of projects. However, no hard evidence of that can be presented. Another way of looking at donors' behaviour is to consider their total contribution agreements to various donor funds (as opposed to commitments to specific projects from these funds each year). Even according to this measure, donors' contributions have been not stable or had a clear trend over the years and it cannot be argued if donor contributions have been disrupted by the existence of the SSF or the contrary.²²

4.1.4 SSF role in strategic planning and prioritisation of the EBRD donor co-financing structure

According to the Grant Co-financing Strategic Review, "*The structure of the Bank's partnership with donors changed radically in 2008 with the creation of the EBRD Shareholder Special Fund*".²³ Before that, the EBRD did not have its own grant instrument; it was administering donor resources through the Special Funds and the Cooperation Funds; and its dialogue with donors was driven by donors' priorities and how they matched with EBRD needs.²⁴

The SSF has brought new elements to the overall use and management of donor funds in terms of planning and prioritisation. The following have been either introduced or enhanced directly as a result of the SSF:

- Pipelines for TC and non-TC grants are now set out in semi-annual reports presenting funding needs/outlook for the next six months;²⁵
- Regular reports (quarterly, now semi-annual) on the status of the SSF consolidating information about all grants managed by the EBRD;²⁶
- A new mechanism for more systematic Bank/donor coordination, the Grant Planning Meeting. The funding outlook and the outcome of the Grant Planning Meeting feed into an analysis of funding gaps (the "heat-map") that forms the context for Management's proposal for the SSF Work Plan (see 3.3.1).

The annual SSF Work Plan process requires the EBRD to conduct a broad and sustained operational planning and prioritisation exercise that was not systematically done before. This was evident in the 2010 Capital Resources Review 4 decision to align the SSF to the EBRD budget cycle and in many elements of the Grant Co-financing Strategic Review concluded in 2013. The results of the Grant Co-financing Strategic Review confirm the added value of the SSF and its role in identifying the strategic areas of intervention of the EBRD in terms of sectors and geographical distribution.

Management and Board agreed broad EBRD priorities in early 2014 in "*Re-Energising Transition: Medium-Term Directions for the Bank*".²⁷ The paper acknowledges the important role of grants in the EBRD business model. It recognises that

"the SSF has been effective and responsive to demand mostly on a case by case basis (...) [however] support for the Bank's key strategic

²² 2013 Grant Co-Financing Report

²³ Grant Co-financing Strategic Review Final Report, page 52

²⁴ As per article 18 and article 20 of the Agreement establishing the Bank

²⁵ Before the establishment of the SSF, the EBRD carried out annual *TC Project Pipelines*, introduced in 2001.

²⁶ Since mid-2006 Management was producing quarterly *TC Status Reports*

²⁷ As approved by the Board of Directors at its Meeting on 8 April 2014

objectives (...) calls for a more programmatic approach going forward, in full partnership with donors and shareholders including a cost-sharing review”.

As was the case during Capital Resources Review 4 in order to launch the Grant Co-financing Strategic Review, the SSF will be the vehicle to ensure the conversation about the role of grants during Capital Resources Review 5.

4.2 SSF governance and efficient use of the fund

Box 6: Summary findings on Evaluation Issue 2

The governance structure of the SSF has been fully integrated into the existing EBRD mechanisms for grants planning and approvals.

All stakeholders are complying with rules and their responsibilities.

The Board is playing a substantial role in quality assurance and assessing the transition case in the grants approval processes in the absence of other accountability and oversight mechanisms.

4.2.1 SSF internal approval processes and operational guidelines

In all aspects other than those specifically stipulated for the SSF, the governance of SSF-funded grants (TC and non-TC) does not differ from grants funded by any other source. These general governance processes have undergone changes in the recent years, especially following the Grant Co-financing Strategic Review. The Grant Co-financing Strategic Review identified a number of areas where the practice of grant governance could be strengthened, and proposed corresponding recommendations to alleviate identified shortcomings. The review of the general grant governance arrangements is not within the scope of this evaluation, which focuses on the aspects of governance and management applicable only to the SSF.

Assessment of the efficiency of SSF governance and processes depends, like much else, on understanding its objectives and priorities; different interpretations of its operational priorities leads to differing expectations for governance and processes that are not easily reconciled.

Conditions for use

The conditions for the use of the SSF stipulated by the Board of Governors resolutions were clearly defined. The key limitation on the use of the SSF imposed by the Governors related to the minimum shares to be allocated to ODA countries, and the minimum shares being allocated for TCs (as opposed to non-TCs). This condition for use was in all Board of Governors's Resolutions, except the second one that was intended to be a crisis response measure and focused only on TC type of assistance (see 3.1).

The portfolio analysis performed by the evaluation team reveals that overall the conditions have been respected as presented in Table 27 (in Annex 5) and Chart 4 (section 3.5). The compliance of the individual SSF Work Plans with the conditions could not be retrospectively verified due to inadequate data management (see 4.3.1) other than by the information provided by Management in the semi-annual reports.

While not explicitly mentioned in the Board of Governors resolutions, it is fair to conclude that the primary intention of targeting the use of the SSF to ODA countries was to assure funding activities in countries with greater needs. Shareholder interviews confirm this is still valid. Some shareholders would limit the SSF for use in ODA countries only, or exclude EU countries from receiving SSF funds. Beyond this

specific view the sentiment to keep the SSF focus on the countries with most needs is not disputed. An additional element in this respect is that some shareholders are interested in maintaining the ODA/non-ODA condition due to the fact that the use of net income for the purpose of the SSF could potentially be considered by the OECD as counting for individual donors ODA statistics. This intention behind the ODA split was not directly mentioned by any of the shareholders consulted, and is likely not the decisive factor behind this restriction on the use of SSF.

The rationale behind the condition on the minimum share of TC is less clear. From interviews and documentation review, it appears that the ceiling for the use of non-TCs was motivated by the generally cautious attitude of the shareholders to the use of grants, and the desire to protect the SSF from being used too much for this purpose. In fact, the document establishing the SSF included the *'Principles for the use of Investment Grants'* (prepared by the Office of the Chief Economist) as an annex, which represented a formalised attempt to establish financial discipline with respect to the use of non-TCs.²⁸ An additional element to consider for the split among type of grants is that, given the generally larger budgets of non-TC grants, setting a limit to their use would have prevented the SSF Work Plans being exhausted too quickly through non-TCs.

The TC/non-TC split of the SSF funding showed less consensus among shareholders. Some are in favour of keeping the limit on non-TC, to discourage excessive recourse to 'soft money' by the Bank; others would consider potentially increasing the limit provided that certain conditions are met, namely: the net income allocation to the SSF is increased; the grants will be used to responding to emerging needs in new countries of operations; and, the accountability mechanism about grants will be enhanced.

Allocation of resources through WPs – internal processes

Some implications of the practice of the planning/design of the SSF Work Plans (described in section 3.3 and discussed in section 4.1.2) deserve further mention. Matching funding needs identified in the outlook with preliminary donors' interests during the Grant Planning Meeting leaves uncovered projected needs larger than the total allocation of the SSF for the upcoming year. This partially reflects the fact that individual teams have an incentive to overstate their expected needs to maximise their stake in the SSF planning. Reconciliation is accomplished through a non-transparent process coordinated by the Donor Co-Financing Unit in which operation teams are invited to present funding gaps against an available SSF budget for the coming year. The result is eventually an informal 'agreement' among operation teams, so that the total of the teams' shares distributed within the strategic areas does not exceed the total SSF yearly allocation. This agreement on the distribution and size of the teams' claims on the SSF is then proposed in the Work Plan (in the form of 'strategic areas') presented to the BAAC and the Board.

The 'unofficial distribution' among teams is not specified in any Management document. The Donor Co-Financing Unit's view is that this approach introduces an element of competition to the planning process, whereby operation teams have to justify their claims for the SSF shares; and indeed it likely does produce this. However, there is no evidence that this competition is based on any specific criteria, strategic or otherwise, and it has clearly contributed to widespread concerns about its transparency and primary decision-drivers. A consequence of the 'unofficial distribution' is that each operation team is aware of its SSF allocation for the next year, and sees the allocation as a given.²⁹ A positive feature is that this arrangement may encourage teams to use SSF budget line(s) cautiously; and it may motivate a more

²⁸ Annex 3: Principles for the Use of Investment Grants. Extended version of these principles was published in April 2008: Staff Guidelines for the Use of Non-TC Grants from the Shareholder Special Fund

²⁹ In the initial years of the SSF, a "first come, first served" approach was applied to eventually commit the resources of the Work Plans to the grants in need for funding. This approach was considered by the Donor Co-Financing Unit as too administratively demanding.

active search for other sources of funding before using 'their' share of the SSF. It also allows for closer monitoring of the actual commitments by the Donor Co-Financing Unit and the relevant team user of the SSF. On the other hand, this process introduces rigidity in the use of the allocations under each 'strategic area'. For instance, if a team would like to implement a TC that fits within one of the SSF strategic areas it will not be able to use a part of the allocation of the respective budget line, unless an agreement is made with the team that 'owns' that budget line. Additionally, as with most budgeted resources there will be some degree of incentive to 'use-up' yearly allocation lest subsequent allocations will be reduced.

Against the relative rigidity of the allocation of the work plan (sub-areas) is the comparative flexibility of allocations for regional areas. As the WP6 document notes: "[t]he overlap between the regional and sectorial allocations permits flexibility in managing resources to meet evolving demand." The Donor Co-Financing Unit explained to the evaluation team that the regional allocations are more flexible to be used for *ad hoc* projects, while also based on the pipelines to some extent. In fact, based on the reading of the three last Work Plans, the regional allocations are often considered for the use of non-TCs, which have much larger budgets and their pipeline is known with more clarity at the end of the previous year already. Some teams have expressed concerns about the transparency of the commitments for *ad hoc* projects from the regional allocations.

The last observation in this regard, based on the interviews with operation teams, is that towards the end of the calendar year the Donor Co-Financing Unit offered operation teams the opportunity to commit unused allocations of the SSF for their needs. This is despite the fact that unused SSF allocations are not 'lost', but transferred to the next year's WP.³⁰ Such last-minute spending does not promote allocative efficiency and raises questions among the SSF users about how projects for this final scramble for resources are selected.

Grants approval process

The approval process for the individual TCs and non-TCs commitments to be funded by the SSF is fairly well defined and understood (see Annex 11).

There are some aspects of the processes which are a matter of internal arrangements and practice but are not in fact formalised in the Rules of the SSF. This concerns the two-step approval of TC under €300 thousand between the Executive Counsellor and the Vice President Policy; and the necessity for any TC in an EU country to be approved by the Board on a no-objection basis, no matter the size.³¹ Some parts of the EBRD Operations Manual briefly touch upon the specific approval process of grants to be funded by the SSF. However, a 'procedure manual' specifically for the SSF does not exist.

The SSF approval processes for grants are in general consistently applied, which is ensured by the Vice Presidency Strategy and Policy through its Donor Co-Financing unit. Some stakeholders interviewed by the evaluation team expressed the view that in some cases the SSF users might try to bend the rules in their favour, for instance by splitting larger TC projects into smaller components to avoid the need for a Board approval. The evaluation team has not found evidence that such approach is a common practice. Moreover, the recent introduction of results matrices for all TCs should further discourage such behaviour, because it promotes a project approach rather than a contract by contract one that was prevailing in the EBRD before the Grant Co-financing Strategic Review.

³⁰ Not necessarily carried over under the same strategic/regional area, rather 'melted into' the new work plan.

³¹ This rule was in fact formally stipulated only for the use of WP1 and WP2 allocations; it has however remained in place as a matter of practice and never incorporated in the SSF Rules and Regulations.

While the theory and practice of the SSF approval process are clear and consistent, the opinions on its efficiency are very different. Perhaps surprisingly, the users of the SSF did not express any major complaints to the evaluation team. They are overwhelmingly very appreciative of the opportunity that the SSF provides, and in many cases they are certain that much of their activities would not be possible to be implemented without the SSF. They usually characterise the SSF approval process as reasonable and not representing much additional burden, especially when compared to some processes related to other bilateral or multi-lateral funds. Even if the preparation of the 'mini-fiche' (for TCs below € 300 thousand) or 'fiche'³² (for TCs above € 300 thousand) poses some additional work, this is in their views outweighed by the benefits that the SSF provides – fast approval process, untied funding, flexibility, bridge funding, and funding for areas where donors are not interested (see also section 4.1.3). In fact, operation teams perceive that the burden is not on the SSF specific approval process, but on the generally applicable rules for approvals of grants.³³ The most difficult parts of the SSF TC approval process are those which are not SSF specific – such as the preparation of the documentation for approval by the Operations Committee, Strategy and Policy Committee and TC Committee..

In contrast, at the level of Fund management (the Vice Presidency Strategy and Policy and the Donor Co-Financing Unit) the approval process is seen as excessively bureaucratic and burdensome. The preparation of the fiches, in which the Donor Co-Financing Unit plays a coordination and quality control role, becomes too time-consuming with the total amount of SSF projects every year.

A key identified point of concern is the involvement of the Board for approvals (on no objection basis) of TCs with budget over €300,000 or, regardless of the budget, to be implemented in EU countries, with a consistent Management-side view that the Board should in principle deal with strategic issues and could allow for more delegation of responsibility over the SSF financing decisions. Following the initial review of the SSF in 2010, Management proposed to increase the threshold for technical assistance to be approved by the Board from €300,000 to €500,000 thousand. However, a consensus did not emerge. In 2011, Management requested more delegated authority to streamline the approval process. After extensive discussions at the BAAC, authority was delegated only for grants co-financing with other multi-donor funds management by the Bank. Management cites the fact that virtually no request for SSF funding has ever been rejected by the Board to support the case for further delegation.

Many shareholders have different view, summarised as: the accountability mechanisms and allocation processes in place are not sufficient to ensure the higher level of 'trust' needed to allow the Board to authorise the delegation Management seeks. Again, this argument is rooted in part in the different interpretation of the SSF's purpose and priorities. If the priority is filling funding gaps there would be little necessity for close Board review and approval of individual projects. However, if the SSF's purpose and priorities are to be found in a distinctive contribution to transition challenges, current processes fall short and on their own provide shareholders with insufficient assurance and evidence that these purposes are adequately prioritised. As a result direct engagement and oversight by the Board is required. A *de facto* decision to leave these tensions unresolved has resulted in process inefficiencies, ambiguous lines of responsibility and accountability, and difficulty in connecting operational activities to a transition story.

It is also worth noting that no shareholders considered the amount of work related to the approval of the grants funded by the SSF to be overwhelming. The evaluation team counted a total of over 350 fiches

³² As specified in Annex 11 mini-fiches and fiches are completed by the operation team and quality checked by the Donor Co-Financing Unit before SSF allocation approval by the Vice Presidency Strategy and Policy or the Board.

³³ The entire approval process for grants was reviewed in 2012 in the framework of the Grant Co-financing Strategic Review and included new arrangements and distribution of responsibilities among Management committees. For instance, some operation teams claim that there is not enough clarity on the conditions under which a TC will have to go through the Strategy and Policy Committee approval and it has to be decided on a case-by-case basis.

having been submitted to the Board for an approval on a non-objection basis since the Fund's establishment, up to July 2014. Some argue that the fact that the Board has never rejected a request for funding from the SSF is also due to the fact that the presence of the Board in the approval process imposes a certain degree of discipline on the proposals, and without it, the decisions on the SSF funding would be even less focused on transition impact. Nevertheless, the involvement of the Board in the approval process is primarily for case-by-case decision-making on the basis of pre-determined larger choices, rather than through more active strategic planning and priority setting.

According to this view, there can be a certain degree of incompatibility in the management's (especially banking teams') objectives in the preparation of projects – the incentive structure motivates the implementation of high volumes of deals, with the objective of transition impact becoming a secondary consideration in some cases. In an environment of high competition in some of the markets where the Bank operates, represented sometimes by other IFIs who offer less restrictions and softer conditions compared to the Bank's 'market approach', the possibility to add a component of grant to a project can make the difference in closing the deal. There is thus a clear risk that the SSF operates as a source of 'free money' without a clear focus on transition achievements. Another, related, source of consideration for some shareholders is the existence of cases where the TC or non-TC represents the sole source of transition impact.

Most of the shareholders who share this view would be willing to delegate more responsibility to the management, if appropriate mechanisms to ensure prioritisation of funding were in place and accompanied by corresponding accountability mechanisms.

Non-TC grants

Funding for non-TC grants represents in some aspects a specific area of governance for the SSF. The use of non-TC grants can be inconsistent with operations based on market principles, and therefore is subject to additional scrutiny within the Bank. With respect to the SSF specifically and on the occasion of its establishment, the Office of the Chief Economist elaborated staff guidelines for the Use of Non-TC Grants from the Shareholder Special Fund. These guidelines introduce the overall principles for the utilisation of investment grants within investment projects, which stem from the rule that grants should be targeted at transition objectives that would otherwise not be achieved (principles of subsidiarity, leverage, and sustainability), and that grants should be subject to disciplines aimed at minimising the potential for waste and market distortions (principles of consistency, focus, and economy). They also contain more detailed guidelines for three sectors (Municipal Infrastructure, Energy Efficiency and Renewable Energy, and Financial Intermediaries).

As previous studies pointed out, these principles have not been consistently applied to support the justifications for the requests for grant funding from the SSF.³⁴ This has been confirmed to the evaluation team through interviews with the key stakeholders involved in the process. Currently, there is no evident difference in the treatment of SSF and non-SSF grants in terms of their compliance with the core principles. The Office of the Chief Economist noted that they provide comments on the grant component of an investment at the Operations Committee (regardless of the source of funding) and if they find some aspects of the grant problematic, this can be negatively reflected in their assessment of the overall project's transition impact potential. Nevertheless, at the final review stage, when the project is developed in sufficient detail for the Office of the Chief Economist to be able to assess all the relevant aspects, the BAAC decision on the SSF allocation has already been made. Under the current provisions of the

³⁴ E.g. the 2010 Initial Review of the SSF by EvD and the Grant Co-financing Strategic Review

Operations Manual (par 10.8) the endorsement of BAAC precedes the preparation of the final review memorandum for final approval. In principle, the project together with the grant could still not be approved by the Operations Committee at final review or ultimately by the Board, but if the project is approved, the SSF allocation is included. Some stakeholders question the current structure of BAAC involvement, noting that prior to the final review BAAC typically would not have enough detailed information to make an informed decision. Management reportedly will update the Operations Manual to place the BAAC decision after the final review has taken place.

The Grant Co-Financing Strategic Review and the EBRD Internal Audit Department previously recommended that the current Guidelines be extended to cover all non-TC grants (not only those funded by the SSF), and that they be operationalised to facilitate their implementation³⁵. According to the information provided by the Office of the Chief Economist, this process has already been started. They are now reviewing and updating the guidelines, which will apply to all non-TCs and will include improved governance processes. They are also preparing the provisions for the operationalization of the guidelines through checklists, which will lead the teams through the issues that need to be considered in the grant justification.³⁶

Similarly as with the Board involvement in the TC approval process, the BAAC's approval of the SSF allocation for each non-TC is a consequence of the shareholders' intention to introduce discipline in the use of the SSF in the absence of a strategic process, which would ensure that the grants will be used in accordance with some priorities. This was also indicated in the change of SSF rules relating to non-TC approval process, whereby non-TCs which are co-financed by the SSF with multi-donor funds administered by the Bank can be submitted directly to the Board for approval without BAAC endorsement. In those cases, the EBRD shareholders are comfortable with the approval processes of the other multi-donor funds' managed by the EBRD, so as not to require further oversight by the BAAC.

4.3 Efficiency of SSF management

Box 7: Summary Findings for Evaluation Issue 3

The SSF has been managed efficiently given the limited human and technical resources available for grants management. However governance, planning and implementation of the SSF has been shaped almost exclusively by its supplemental funding role.

Thus SSF reporting has emphasised resource use and allocation rather than specific priorities funded or results achieved.

4.3.1 Adequacy of internal resources for SSF management

The efficiency of the management of donor funds is a Bank wide issue that has been reviewed on several occasions by EvD (and Internal Audit) and by Management through the Grant Co-financing Strategic Review³⁷. These reports presented findings and recommendations (EvD summarised earlier), many of which are now in the stage of follow-up and gradual implementation. It is not within the scope of this evaluation to duplicate these other reviews and/or comment on the general developments in the grant co-financing. This section strives to assess whether EBRD internal resources are adequate to manage the SSF efficiently.

³⁵ Internal Audit Department: Investment Co-financing Grants

³⁶ The evaluation team was informed about the existence of the draft of the new guidelines, but was not provided with the draft itself.

³⁷ Internal Audit Department Report: TC Funds Administration; Internal Audit Department Report: Special Funds Administration; Internal Audit Department: Investment Co-financing Grants

Human and technical resources

The management of the SSF has its own specificities in terms of governance that are addressed in section 4.2. In terms of administration of the SSF, the central coordination point in Management is the Vice Presidency Strategy and Policy Policy with its Donor Co-Financing unit, supported by all other teams that are normally involved in the management of grants. In particular the Donor Co-Financing Unit is in charge of: keeping all the relevant records relating to the SSF, even (and especially) where they fall outside the usual set of records that is being kept for other funds; leading the planning exercise that guides the design of the annual SSF Work Plan; keeping track of the allocations and commitments being made against individual SSF Work Plans' strategic areas, to be able to identify remaining resources based on which eventually propose changes to the Work Plans; check the quality of mini-fiches to be submitted to the Vice Presidency Strategy and Policy; check the quality of the fiches to be submitted to the Board; check the quality of the fiches and presentations to the BAAC for non-TCs proposals; report on the use of the SSF in quantitative and qualitative terms; any other SSF related matter.

This considerable amount of work is managed in the Donor Co-Financing Unit by the Head of the Pillar Bilaterals/SSF and an Associate Manager. Depending on the task, other Donor Co-Financing Unit staff are involved in the process (for instance for the planning exercise or reporting). At establishment of the SSF it was agreed to use its management fees to cover a total of nine human resources positions (in the Donor Co-Financing Unit, TC team, the Office of the Chief Economist, Controller, Infrastructure, and the Energy Efficiency and Climate Change team) needed for the inception and implementation of the Fund. These positions were internalised in 2010 and 2011. Due to time constraints of this evaluation, it was not possible to carry out an in-depth assessment of the human resources needed today to efficiently manage the SSF. However, the figures in Table 12 could give a measure of the workload in terms of commitments related to the SSF compared to other donor funds (a total of 174 active between 2008 and 2013). The average number of SSF commitments per year is five times that of the Early Transition Country Fund commitments, which ranks as second in the list in terms of absolute number of commitments; and more than twenty times than the Global Environment Facility II, which ranks as tenth in the list. This information, coupled with the limitations of the IT systems, could give room to argue that additional human resources, fully devoted to the SSF, would be needed.

Table 12: Number of TC commitments per year (2008-2013)

Fund Code	Fund Name	2008	2009	2010	2011	2012	2013	Total	Average yrs in operation
EBSF	EBRD Shareholder Special Fund	91	171	172	156	159	207	956	159
ETCF	Early Transition Countries Fund	41	47	40	24	20	28	200	33
ECEP	SBS Programme in Eastern Partnership Countries	-	-	-	30	37	27	94	31
JPN	Japan-Europe Co-operation Fund	-	26	21	19	10	13	89	18
WEBF	EBRD – Western Balkans Fund	26	34	8	-	1	-	69	17
ECWB	Private Sector Support Facility for the Western Balkans	-	-	31	17	10	10	68	17
SEMD	Southern and Eastern Mediterranean Multi-Donor	-	-	-	-	28	39	67	34

Fund Code	Fund Name	2008	2009	2010	2011	2012	2013	Total	Average yrs in operation
Account									
TWTC	Taiwan Business – EBRD TC Fund	12	10	8	17	8	12	67	11
LUDA	Luxembourg – ODA Technical Co-operation Fund	-	7	7	10	10	23	57	11
GEF2	Global Environment Facility II	4	1	4	8	14	14	45	8

Source: EvD analysis from data extracted from EBRD databases

Looking at the internal technical resources in support of the management of grants, these have been already described as unsuitable (see 2.1, Annex 5, Annex 6 and also previous studies³⁸). This is a Bank wide issue that Management is currently addressing. To support that and to bring a stronger call for quality, the evaluation team confirms that the current IT system is not ideal to implement, monitor and eventually evaluate any technical and non-technical assistance grants managed by the EBRD. Further evidence for that is provided below.

The SSF Work Plans allocations are monitored with great effort by the Donor Co-Financing Unit, however, given the lack of an IT system to support that, the Donor Co-Financing Unit is forced to use spreadsheets updated manually for the accountability system. Based on those spreadsheets and information available from the existing databases, the evaluation team has tried to allocate all SSF actual commitments to the relevant Work Plans and within the correct pre-identified strategic area. The exercise was not completed as the reference spreadsheet is not suited for use by external users.

It does not come as a surprise that also at the level of individual commitments the evaluation team found that the data was not always managed in the most efficient way possible even under the circumstances, and additional iterations were required with the Donor Co-Financing Unit. The evaluation team has complemented the data gathered from DCF with the records of the operation teams' interviewed for the purpose of this evaluation. The operation teams familiar with grant processes are keeping their own records in a diligent way, but still manually through spreadsheets. The operation teams less familiar with grant processes rely totally on the information provided them by DCF.

Despite this effort of the Donor Co-Financing Unit and other teams in the planning of the SSF Work Plans and its actual commitments, less energy is devoted to the monitoring of the implementation of the grants. This is left completely to the operation teams and this affects the reporting as outlined in section 4.3.2.

This is also evident with respect to de-commitments about which there is often no clear explanation in the Donor Co-Financing Unit spreadsheets. Sometimes a de-commitment relates to the fact that the SSF is serving only as bridge funding, with another donor later taking over (see 4.1.3). Other times it is because the operation teams decide to change the type of commitment (from standard to framework or vice versa) thus leading to a de-commitment. There are also cases in which the TC is not taking place anymore because the investment to which it was attached was cancelled or delayed, or simply because the TC recipient was not interested. This might seem a trivial issue but it becomes more important when looking at the figures. From the information and data available, the evaluation team has counted a total of 95 SSF de-commitments for an amount of more than € 27 million. No information can be provided on when and

³⁸ For instance the 2014 Internal Audit Report on "Investment Co-Financing Grants" notes "It has long been recognised that the internal management of donor funds is hampered by outdated and dispersed IT systems that limit the Bank's capacity to radically improve efficiency, information management and reporting".

how these funds have been re-committed and, most importantly, in which Work Plans did they fit. On a broader scale, this issue adds evidence on the need to enhance the accountability mechanisms to report confidently on the actual implementation of the SSF.

Another issue identified during the interviews is that the operation teams do not receive any updates on the use of the current SSF Work Plan and they can only monitor and 'defend' their own budget line. This is for the Donor Co-Financing Unit another way to control the actual commitments *vis a vis* the Work Plan allocations, but there is a danger in terms of transparency. For instance sometimes the allocations are split among different sectors or regions on a discretionary basis in order to meet the conditions set in the Board of Governors resolutions.

4.3.2 Quality of reporting on implementation

SSF Rules require that the "*Board of Directors shall be provided with a semi-annual report on the current status of the approved, committed and disbursed uses of the resources of the Fund*". The semi-annual reports were introduced in 2010 following a recommendation in EvD's 2010 Initial Review of the SSF.

In fact, the approach used in the semi-annual reports was to expand the reporting to the Board providing comprehensive information about all EBRD grant co-financing (including the SSF). Since the first semi-annual report submitted in 2011, its format has changed and improved in order to include additional information (such as statistical analysis, grant co-financing processes, cost-sharing, donor visibility, funding outlook). In 2013, the semi-annual report was renamed as the Grant Co-Financing Report.

The semi-annual reports include a specific section about the SSF that normally updates the shareholders about the net income allocations transferred to the SSF and how this has been translated into the Work Plan of the current year. Information is provided about the on-going Work Plan utilisation (in terms of allocations) and the compliance with the relevant Board of Governors Resolution (in terms of ODA/non-ODA and TC/non-TC split). As mentioned in section 4.1.3, the 2013 Grant Co-Financing Report also included an interesting exercise aimed at providing evidence of the SSF being used as fund of last resort.

The evaluation team understands the challenge of producing a comprehensive report that encompasses the entire EBRD grant co-financing. However, in some aspects, the specific reporting on the SSF misses some opportunities to provide maximum value to the shareholders. Little quantitative information is provided on the cumulative SSF utilisation across sectors, regions and types of grant, which would help to give a better overview of the whole Fund. Moreover, the past reports claim the crucial role of the SSF in terms of co-funding, but evidence for that has not been provided. Some information on the pre-booked co-financing with the Early Transition Country Fund, the Kazakh Fund, the SEMED Multi Donor Account is included; however, co-financing with other donor funds or information about the SSF as a source of bridge funding, which might be of interest to shareholders and donors, is not covered. Some quantitative information about the utilisation in terms of allocations of the Fund is provided in a narrative way, which is difficult to compare/add up across the reports.

Moreover, looking at the type of grants, no information is available about the non-transactional TCs. In particular, the current IT systems do not allow categorisation of TCs as policy dialogue (see Box 3 and Annex 5). During the interviews, a number of stakeholders expressed the request for this evaluation to comment on the use of the SSF for the purpose of policy dialogue. However, with this type of TC not being systematically recorded, the evaluation team cannot present any findings or observations about that.

A key issue in terms of reporting (one on which some shareholders expressed dissatisfaction) is the focus of the SSF reports on the quantitative aspect of reporting (such as allocations, commitments, number of

projects) while not providing any information on aggregate results achieved (or contributed to) by the SSF. Again, this relates to the differing views on the SSF's objectives. Currently, the reporting reflects the orientation of the SSF as a source of financing with the objective of filling funding gaps. The information presented focuses on the achievements in that respect; one example is the already mentioned exercise providing evidence of the SSF being used as fund of last resort (see 4.1.3). However, for those who share the view that the SSF should also focus on maximising transition impact, the current reporting only goes part of the way. Currently, where there are no specific priorities that the SSF should follow, and its planning is based entirely on projected funding gaps, it would admittedly be difficult to report on aggregate achievements of the SSF in terms of transition impact. However, should the SSF in the future assume a more strategic approach to planning, as many shareholders would welcome, with specific priorities in terms of transition gaps it aims to address, the reporting would also need to be extended accordingly.

In terms of individual technical assistance operations funded by the SSF, these follow the same reporting as any other TC managed by the Bank.³⁹ In terms of non-TC grants the EBRD does not have in place any specific reporting mechanism and information is to be found in the reporting of the investment to which the non-TC grant is attached. The EBRD system that tracks the transition impact at investments level (the Transition Impact Monitoring System) should also capture the effect of the TCs and non-TCs attached to that. At present there is no evidence that this is systematically taking in place (see Table 1 and Annex 8).

As a last point in terms of reporting, the majority of shareholders interviewed stressed the need to have a common space on the EBRD intranet or a database where shareholders could access and extract the information about the SSF when needed and in the form required (for instance filtered by country, sector, budget, time, fund). As mentioned in section 4.1, a common space that keeps record of donor search is not in place thus not allowing monitoring of donors' priorities versus operation teams' requests, and eventually identifying funding gaps properly. In the same way, there is no mechanism/system in place for running reports in terms of co-financing, which is one of the expected added values of the SSF (the only way to do that for the evaluation team was to look at TC operation IDs, as indicated in Box 3 and Annex 5).

4.3.3 Management fees

In compliance with SSF Rules the EBRD has retained the fixed amount of €1.25 million from the first net income allocation to the SSF and subsequently a share of one per cent of the allocated resources to cover administrative expenses related to the management of the Fund itself.⁴⁰

Table 13: SSF management fees

Board of Governors Resolution	Year	Total net income allocation to SSF (€)	SSF management fees (€)
No. 112	2007	115,000,000	1,250,000
No. 122	2008	30,000,000	300,000
No. 127	2010	150,000,000	1,500,000
No. 149	2013	25,000,000	250,000

³⁹ Each year, under the Bank's Consultant Assignment Reporting (CAR) system, operation teams of active TC assignments are requested to prepare a Progress Report and, while operation teams of assignments completed in the previous calendar year are requested to prepare a Project Completion Report (PCR). This is with the exception of the SBS team and some specific programmes where different reporting arrangements have been agreed. Reporting has been subject of a major revision in the framework of the Grant Co-Financing Strategic Review and that resulted in the introduction of results matrices at TC project level as tool to enhance design and reporting on results. According to the information available to the evaluation team a new reporting system will replace CAR in 2015.

⁴⁰ Annex 13 provides additional information on the inflow of resources to the SSF.

Board of Governors Resolution	Year	Total net income allocation to SSF (€)	SSF management fees (€)
No. 161	2013	65,000,000	650,000
No. 149	2014	25,000,000	250,000
Total		410,000,000	4,200,000

Source: Data extracted from EBRD documentation, and provided by Funds Accounting Unit

The amount of management fees retained by the EBRD for the use of this Special Fund is lower than for any other donor fund managed by the Bank. None of the stakeholders interviewed for this evaluation has found the size of management fees unsuitable.

The outflow of SSF management fees has been monitored by the relevant EBRD department up to when it was decided to transfer management fees from all donor funds to a common account. This explains why the data provided to the evaluation team about the balance of the SSF management fees is based on a different inflow (see Table 14).

Table 14: Outflow of management fees from SSF General Account

Amounts spent against SSF management fee	€
Inflow	3,050,000.00
Outflow: Reimbursement of bank charges	-53,750.79
Outflow: Salary recharges ⁴¹	-794,197.72
Outflow: Audit fee recharge	-30,547.49
Balance	2,171,504.00⁴²

Source: EBRD Funds Accounting (as of 23 July 2014)

The not negligible volume of the amount of resources available from the management fees justifies the question what could be its most efficient and effective use. The stakeholders interviewed by the evaluation team do not question the management fee being charged to the SSF, and do not have strong views about its use.

⁴¹ In the early days of implementation of the SSF it was expected that any directly required personnel resources for the SSF would be initially covered by fixed-term positions and charged against the Fund's management fee. Staff resources have been all internalised in the context of the Bank's Supplementary Budget 2010.

⁴² The actual balance from the total of inflows of EBRD Management fees is € 3,070,504.00

5. Conclusions and recommendations

5.1 Overall conclusion and recommendations

The SSF's unambiguously stated prime purpose is to "broaden and deepen the Bank's transition impact," using its incremental funds to complement those of other donors. This has been interpreted by Management largely as filling funding gaps for ongoing operational activities, the transition merits of those activities having already been determined. If complementarity is accepted as the Fund's principal objective, then it can be said that this was largely achieved: improved funding outlooks, and processes for coordination of donor funding planning, coupled with careful analysis of gaps within strategic areas have ensured that virtually no funding request from the Bank has been unmet.

Many on the shareholder side, however, see the SSF's founding proposition as providing high-value incremental resources specifically to make a distinctive and strategically prioritised transition contribution. This tension or duality – between selective use as an extender of the Bank's transition impact versus general use as a source of incremental funding – is well known but has never been clearly addressed and resolved. It has in turn powerfully shaped the Fund's practices and operations, and the concerns that exist between Shareholders and Management on SSF issues.

Overall recommendation

Irrespective of the size of future resource allocations, divergent views on SSF purpose and priorities should be reconciled.

An operational reinforcement of SSF's originally stated prime purpose would require rooting programmatic management and operation more clearly in identified transition objectives and playing a more clearly distinctive role in their support.

These issues should be addressed specifically in a strategic dialogue between Management and Board and resolved unambiguously in 2015; they are directly relevant to the wider discussion about EBRD strategic directions.

While the SSF should remain a source of finance that is responsive to demand, it should become more selective by responding more clearly to those demands that align with clearly defined priorities. These priorities may be identified in and drawn from the transition gap analysis already intended to be part of the Bank's sector and country strategies. The definition of SSF priorities on a medium-term basis should be specific enough to provide the shareholders with sufficient assurance that the objective of transition impact maximisation remains at the heart of SSF and to allow for reconsideration of the Fund's governance.

This overall recommendation is the essential foundation for a set of more specific recommendations.

Recommendation 1 – Align SSF planning to the new EBRD planning cycle, with a five-year approach and three-year rolling plans

Regardless of its future size, SSF strategic planning should be aligned with the new planning cycle of the Bank which comprises a five-year Strategic and Capital Framework and a Strategy Implementation Plan, which will be approved annually by the Board and reflecting the implementation of the strategic objectives through a three-year rolling business plan. Accordingly the same planning cycle should be applied to the SSF.

Recommendation 2 – Base SSF strategic planning on existing transition gap analysis

Management should provide the Board of Directors with a range of options on how to integrate existing transition gap analysis into SSF strategic planning. Accordingly, the design process of the three-year rolling SSF plans should follow a strategically-driven planning exercise, anchored in the SSF strategy in conjunction with existing country and sector strategies, integrated approaches and Bank policies. These drivers should be complemented by an assessment of the link between distribution of SSF resources and performance. A full review of existing SSF Rules will be required.

5.2 Donor co-financing structure (based on 4.1 and 4.2)

The SSF has played a central role in re-shaping the EBRD donor co-financing structure. For instance, the need to develop an SSF Work Plan every year has required a Management-led planning and prioritisation exercise that was not systematically done before. Nevertheless the annual planning cycle of the SSF has worked against the EBRD's articulation of its own priorities for donor co-financing. As a consequence, the SSF has been dependent to a large extent on the donors' 'non-priority' areas.

Recommendation 3 – Better clarify the EBRD's priorities in dialogue with donors

The SSF should continue to be used as a means to develop partnerships and structured dialogue between EBRD shareholders, donors and grant recipients. A strategically-driven multi-year SSF approach coupled with three-year rolling plans will give EBRD priorities greater prominence in the dialogue with donors.

5.3 Governance (based on 4.2 and 4.3)

The governance structure of the SSF has been fully integrated into the existing EBRD mechanisms for grants planning and approvals, but never formalised in all its aspects into any Operations Manual.

Some of the features of the current SSF governance structure are reflected in the role of the Board essentially providing quality assurance in the grants approval processes. This is caused by the absence of adequate accountability mechanisms for transition impact maximisation which has resulted in the reluctance of the Board to delegate more authority to Management.

Recommendation 4 – Produce a binding SSF Operations Manual

Management should produce an SSF Operations Manual to formalise all processes and clarify roles and responsibilities related to the SSF implementation to enhance transparency and accountability. The Operations Manual should cover strategic planning; the design process of three year rolling plans; management of the SSF; and, consideration and approval of grant commitments and related internal processes.

Recommendation 5 – Review SSF governance structure: consider more delegation of authority to Management provided an improved adequate accountability mechanism is in place

Should the objectives of the SSF be rebalanced and a new SSF accountability mechanism acceptable to the Board put in place, significantly greater delegation of approval authority to Management could be considered. Under this scenario the role of the Board would shift from approving individual transactions to approving the policies and priorities for the Fund's use (directed at ensuring the greatest transition impact) and holding Management to account for its performance in fulfilling these. This would provide for a clearer and pertinent separation of roles and a better basis for the exercise of accountability.

5.4 Non-TC grants (based on 4.2)

The SSF has contributed to a more focused attention by the Bank on the issue of non-TC grant provision. Nevertheless, concerns among some shareholders remain about the consistency of the application of existing guidelines for the use of this instrument, also with regard to the SSF. It is the understanding of the evaluation team that, following the recommendations of previous studies, the SSF guidelines for the use of non-TC grants and the related governance processes are under revision and will be extended to all non-TCs.

Recommendation 6 - Approve and enforce accountability mechanisms for non-TC grants

More precise directions on priority areas for non-TCs grants should be provided within the SSF planning. This could imply higher non-TC share than the current one-third, in narrowly specified priority

programmes/initiatives. The existing SSF guidelines for the use of non-TC grants should be more consistently applied, and there should be clear responsibility assigned for compliance.

5.5 Reporting (based on 4.3)

Reporting about the SSF has been overwhelmingly focused on the accountability for its complementarity function and reflects the poor management for results related to grants management. In line with the recent efforts of the Bank for all TC grants, SSF funded operations have included results matrices; however the Board has not yet been provided with any report at aggregate level against the SSF objective.

Recommendation 7 – Enhance quality of reporting on SSF results

Should the EBRD rebalance the objective(s) of the SSF to maximisation of transition impact and develop its strategy, reporting will need to be adjusted accordingly. SSF reports should provide an account of the SSF contribution to achievements against its strategy.

5.6 Technical resources for grants management (based on 4.3)

The limitations and challenges of the EBRD IT system to manage grants have been already identified by previous studies and confirmed by all stakeholders interviewed for this evaluation. The evaluation team confirms that the current system is not ideal to implement, monitor and eventually evaluate any technical and non-technical assistance managed by the EBRD. This is a Bank wide issue that is currently being addressed by Management.

Recommendation 8 – Present an action plan for interim solutions to urgent IT issues

The evaluation team strongly supports Management's efforts to address the weaknesses of the EBRD IT systems. Management should produce an action plan setting out interim solutions to the most pressing issues to ensure good standards of accountability. Among other needs to be addressed is the lack of a central repository of non-TC grants.

Recommendation 9 – Create a data-sharing platform for EBRD shareholders and SSF users

Management should develop an intranet platform for shareholders through which they could access: (i) updated information on grants in need for funding; (ii) a database of SSF commitments. This database should allow running reports in terms of SSF allocations against its Work Plans (for instance filtered by country, sector, priority area) but also information about its co-financing with other donor funds.

5.7 Human resources for SSF management (based on 4.3)

At SSF establishment, ad hoc human resources were planned and the cost covered by the management fees of the Fund. Such resources have since been internalised in the EBRD budget and their original SSF focus lost. At present, there are no human resources fully devoted to the SSF which is, in terms of commitments, the most demanding donor fund administered by the Bank.

Recommendation 10 – Review adequacy of human resource allocation to SSF administration

Given the considerable amount of work related to the administration of the SSF coupled with the limitations of the technical resources, Management should reassess the human resources needed to efficiently manage the SSF with the view to potentially increase resources fully devoted to SSF.

5.8 Evaluation of the effectiveness of the SSF

The assessment of the achievement of the SSF results was not the subject of this evaluation. Nevertheless, there is a certain desire among shareholders for an additional evaluation that will assess the achievement of the SSF results.

Recommendation 11 – Evaluate the results of the future SSF Strategy on a regular basis

Should the Bank adopt the recommended five year strategy and three-year rolling SSF plans, an evaluation of the results associated with the new approach would be desirable.

The evaluation team would not recommend an assessment of the SSF effectiveness up to date. This is based on the fact that the SSF has not had its own strategy which would outline its expected results (achievement of transition impact), and that the portfolio analysis carried out by this evaluation does not highlight any differentiation of the SSF against other donor funds. Under these conditions an assessment of the results at the Fund level would provide any meaningful findings. As an alternative, the Evaluation Department would see more potential for the evaluation of EBRD strategic initiatives (such as the Sustainable Energy Initiative, Eastern Europe Energy Efficiency and Environment Partnership, Strategic Gender Initiative) to which the SSF has contributed.

Management comments

Management appreciates the EvD's speedy response in completing this special study requested by Management within a limited time frame. The special study provides a comprehensive review of the operations, governance and management of the EBRD Shareholder Special Fund (SSF). Management considers the report very timely and values the quality of the review, and its findings and recommendations as an input into the new SSF approach to be proposed within the context of the Bank's new planning cycle for 2016 and beyond. Management intends to put forward proposals for a revised SSF in early 2015, in close consultation with all stakeholders, building on the recommendations of this evaluation.

Management broadly supports the recommendations of this evaluation and concurs in principle with the overall finding that SSF's purpose and priorities, and the way funds are allocated, needs to be revised and more clearly defined. The perceived duality between the SSF objective as an extender of the Bank's transition mandate (to "broaden and deepen the Bank's transition impact") and its use as a complement to other donor funding in supporting Bank's investments and other activities also needs to be elucidated further. Such objectives may have not been clearly/explicitly and evenly reflected in the management of the Fund, with the use of funds driven by opportunity/demand for financing. Although Management believes that these two dimensions of SSF are not mutually exclusive, as the Bank's normal business for which SSF funding is requested and justified on transition terms.

Management supports the need to realign the SSF with the Bank's new planning cycle with a stronger dimension of multi-year planning, and to make SSF annual planning more aligned to the annual business planning process and managed differently. A clear alignment at a higher level of SSF defined priorities with the main transition challenges reflected in the transition gap analysis (similar to Bank's strategic sector and country strategies) would support the operational reinforcement of SSF's prime purpose to "broaden and deepen the Bank's transition impact". Nevertheless, Management believes that the SSF should not be seen to be leading or setting the organisation's priorities, nor be made into a completely purpose-specific fund with clear targets and hard-wired allocations. SSF remains largely a source of finance that is responsive to demand and as such it should come in support of the Bank's priorities as set elsewhere in strategic and operational documents.

Management broadly agrees with the recommendations on management and governance of SSF, including more delegation of authority from the Board to Management, provided an accountability mechanism is in place, enforce accountability mechanisms for non-TC grants, and undertake a review to the human resource adequacy for SSF administration. Management notes however, that while reporting on results of SSF financed programme / project is important, a fund level results framework for SSF is not possible. SSF is a multi-country / multi-sector fund supporting almost all countries and sectors of the Bank. This set-up does not lend itself to a fund level results framework.

Management broadly agrees with the findings and recommendations for improved reporting and data management in relation to SSF. Improvement of the donor related information system, Donor Funds IT Programme, is ongoing and will also facilitate data sharing for the Bank's shareholder and SSF users. Management agrees that there is a need for improved reporting related to SSF. This reporting however, would be based on results from projects and other supported Bank activities, as well as special programmes and initiatives, and not on a fund level results framework, as argued above.

Detailed Management comments on the specific recommendations are listed below:

Recommendation 1: Align SSF planning to the new EBRD planning cycle, with a five-year approach and three-year rolling plans

Management partly agrees with this recommendation:

Management supports the need to realign the SSF with the Bank's new planning cycle with a stronger dimension of multi-year planning, and to make SSF annual planning more aligned to the annual business planning process and managed differently. This chimes well with the idea to introduce a more programmatic approach of the SSF and a request for a multi-year net income allocation funding this. Indeed, within the context of the Strategic and Capital Framework and a Strategy Implementation Plan, management will propose a reformed SSF Work Plan, including a portion for a more programmatic multi-year approach where this is applicable.

Rules of the SSF will also be reviewed and an amendment may be requested.

However, the SSF's ability to plan and allocate resources according to concrete plans will only ever be as good as the Bank's ability to plan. The Bank's business model (and certain operational teams) cannot always accommodate multi-year planning and Management is still likely to keep an annual allocation for some areas. The five year Strategic and Capital Framework of the Bank, by its nature does not clearly specify the operational priorities of the Bank, while the three-year rolling Strategy Implementation Plan would. Management intends to put forward a three-year net income allocation request for SSF in alignment with the Strategic Implementation Plan. A reformed SSF would be based on this time frame. As such, Management believes, that a five year strategy or approach for the SSF is unlikely.

Recommendation 2: Base SSF strategic planning on existing transition gap analysis

Management partly agrees with this recommendation:

Management supports the notion that SSF should be guided by the Bank's transition mandate and its Work Plan defined priorities should be aligned with the main transition challenges reflected in the assessment of transition challenges. However, the use of transition challenges' assessment to guide SSF allocations would have to be set at a higher strategic planning level, as the application of transition gaps to overall SSF planning would not be practical or appropriate, also because the Fund supports a wide range of activities including multi-year activities under specific initiatives, regional initiatives, or other non-investment activities. Management believes that the SSF should not be seen to be leading or setting the organisation's priorities, nor be made into a completely purpose-specific fund with own targets and related hard-wired allocations.

The SSF contributes to transition by supporting Bank operations which are determined based on set priorities within the Country and Sector Strategies and the Bank's key strategic initiatives, and subsequently allocated through SSF's strategic areas as established by the Grant Co-financing Strategic Review.

Recommendation 3: Better clarify the EBRD's priorities in dialogue with Donors

Management seeks further clarification on this recommendation:

Management believes that the SSF is not the main tool for dialogue with donors, but an additional funding source working in parallel with donor funds. The EBRD has a very rich dialogue with donors. It is multifaceted, regularly on-going and comprehensive. In addition, the Donor Co-Financing team organises two donor meetings annually, in addition to numerous exchanges during the year, to formally inform them of the donor activities and the priority areas of the Bank. Donors' priorities are first and foremost guided by their foreign aid policy, rather than by an EBRD fund such as the SSF.

Recommendation 4: Produce a binding SSF Operations Manual

Management agrees with this recommendation:

The fiche template and a description of the process of applying for SSF funding are uploaded on the Donor Co-Financing Unit intranet page. An Operations Manual will be developed by end of 2015 based on this work.

Recommendation 5: Review SSF governance structure: consider more delegation of authority to Management provided an improved adequate accountability mechanism is in place

Management agrees with this recommendation:

Management welcomes higher levels of delegated authority by the Board and believes this goes hand in hand with a programmatic approach. In the context of the programmatic component within the new SSF, higher levels of delegated authority, that is, approval of the funding at the programme level with improved reporting will be considered by Management. Rules of the SSF may need to be revised.

Recommendation 6: Approve and enforce accountability mechanisms for non-TC grants

Management agrees with this recommendation:

The existing non-TC guidelines are currently under revision by the Office of the Chief Economist, and will be finalised by the end of 2014. These guidelines will be used not only for SSF non-TC funding but also for all non-TC grants provided for by other donors.

Recommendation 7: Enhance quality of reporting on SSF results

Management partly agrees with this recommendation:

Management agrees that there is a need to improve on reporting, focusing on results on a programme / project basis. However, this reporting would not be based on a fund level results framework. The SSF is a multi-country / multi-sector fund supporting almost all countries and sectors of the bank. This setup does not lend itself to a fund level results framework. In the context of the programmatic component within the new SSF, achievements / results will be captured better against the objectives of the programmes. The reporting would be mainly based on results and measurement systems that Bank has for underlying supported investments, initiatives and other activities, as well as the TC results system.

Recommendation 8: Present an Action Plan for interim solutions to urgent IT issues

Management partly agrees with this recommendation:

Management believes that a fully-fledged interim solution is not necessary, as an interim solution for the management of TC projects has already been put in place through Technical Cooperation Results System. Furthermore, the scope of the Donor Funds IT Programme, which is expected to be implemented over the course of 2015 and go live in early 2016, includes components that address accountability, visibility and transparency. Additional interim measures to ensure that all non-TC grants are captured in the EBRD's systems have also been put in place, more specifically the requirement to issue funding commitments in TC system for all non-TC grants (this does not include concessional loans and investments as these are already captured in bank systems).

All non-TC grants, including those funded by SSF, are now captured in the EBRD's systems.

Recommendation 9: Create a data-sharing platform for EBRD shareholders and SSF users

Management partly agrees with this recommendation:

Management notes that an internal system for information sharing already exists (TCNet) for all donor funds. The system is however rarely accessed and has fallen out of regular usage. The level of information that can be presented in this existing system is also limited by current data availability on the past portfolio. This will be addressed in the Donor Funds IT Programme to ensure that data is able to be filtered and classified more flexibly and that it becomes possible to run reports using specific filters on an ad-hoc basis. Once the new IT system is established (in 16 months' time) and all data are cleaned and migrated into the new IT systems, it will be possible to review the information sharing platform.

Recommendation 10: Review adequacy of human resource allocation to SSF administration

Management agrees with this recommendation:

One person has already been recruited by the Donor Co-Financing Unit to support the administration of the SSF. In the course of 2015, Management will discuss the use of the management fees received from donor contributions. The Donor Co-Financing Unit will also initiate an assessment of the cost of managing donor funds and a fee policy review, all of which could potentially enable the increase of human resources to manage the SSF.

Recommendation 11: Evaluate the results of the future SSF Strategy on a regular basis

Management partly agrees with this recommendation:

Management supports the conclusion that an evaluation of the results of the current SSF is not appropriate. Nevertheless, as already discussed above, Management is reluctant to turn SSF into a purpose-driven fund with clear targets and very specific allocations. Management would also suggest changing the wording "SSF Strategy" in this recommendation to "SSF approach" as elsewhere in the document reflecting our earlier comments to the study.