

New challenges and opportunities for measuring impact and additionality

Bruegel-EIB Workshop
30 June 2020



European Bank
for Reconstruction and Development

Agenda



European Bank
for Reconstruction and Development

- 1 EBRD: basic operational principles
- 2 Transition Impact assessment and monitoring
- 3 Enhanced Approach to Additionality
- 4 Questions for further consideration



Sound Banking
Principles

Additionality

Transition Impact

The EBRD has a new definition of a modern economy, which includes the six Transition Qualities



European Bank
for Reconstruction and Development

Competitive

Building dynamic and open markets that stimulate competition, entrepreneurship and productivity growth.

Well-governed

Promoting the rule of law, transparency, and accountability, and stimulating firms to adequately safeguard and balance the interests of their stakeholders.

Inclusive

Building inclusive market economies which ensure equal economic opportunity for all and leave no group behind.

Integrated

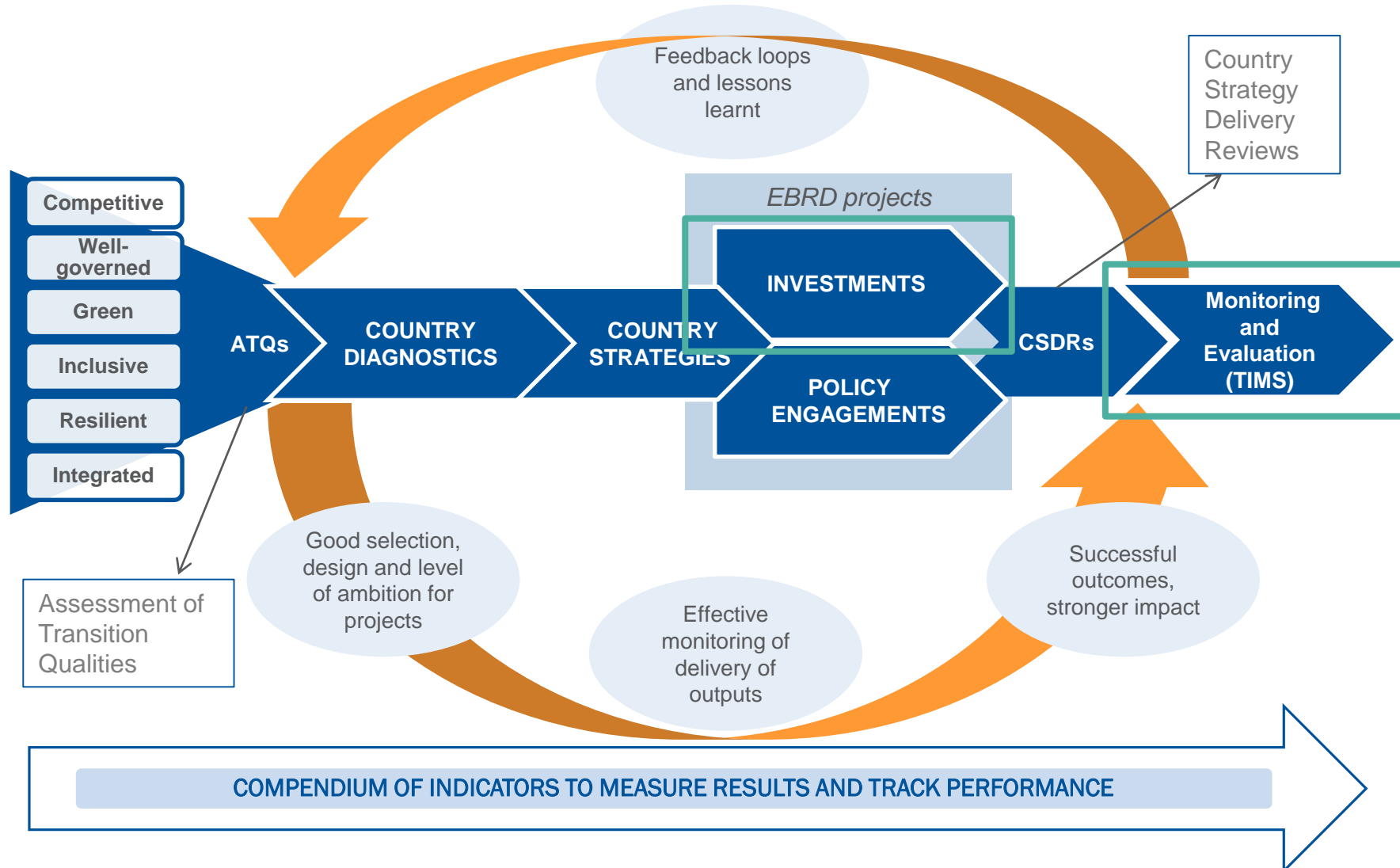
Building geographically integrated domestic and international markets for goods, services, capital and labour.

Resilient

Building resilient market economies that can withstand turbulence and shocks.

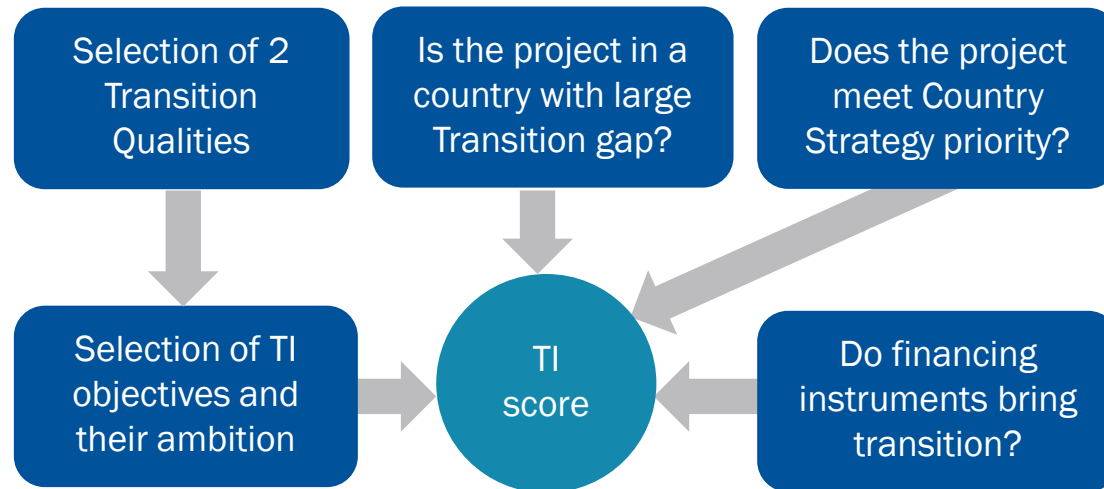
Green

Building green, sustainable market economies which preserve the environment and protect the interests of future generations.



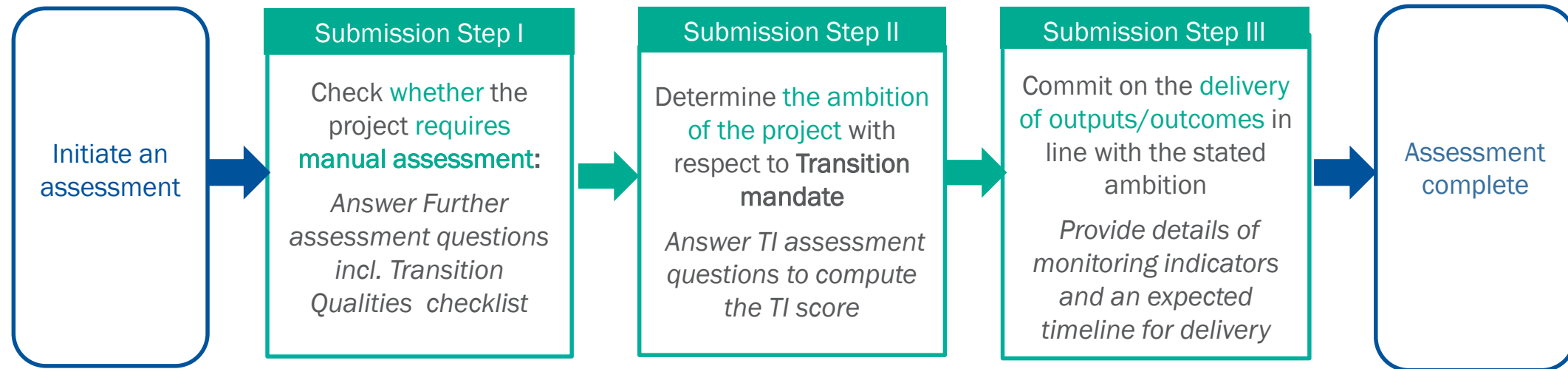


Project Transition Impact assesses the expected effects of a project's contribution to the six qualities of a sustainable market economy



For standalone projects, scoring is derived through a combination of:

- The **ambition of TI objectives** including policy dialogue activities (*what the project does*) calibrated against **realism of delivery**
- The **country context** (*where the impact is delivered*) and the **Assessment of Transition Qualities (ATQ) challenges** addressed
- The **strategic relevance** of the project (*whether the project matches the Bank's strategic priorities*) as seen through:
 - **Country Strategy (CS)** priority objectives
 - Bank-wide strategic instruments
- **The financing instruments:** local currency (LCY)/equity uplifts
- **Additional elements** manually factored in the assessment for more complex projects



The Transition Impact Scorecard Methodology:

- Relies on an ex ante score **Expected Transition Impact (ETI)** and on a monitoring score **Portfolio Transition Impact (PTI)**
- Scoring system gives more credit to projects with higher expected impact...
 - ... and strong incentives to pursue TI delivery to the end, especially for higher TI projects...
 - ... targeting overall impact while maintaining quality control via floor on average impact of both flow (ETI) and portfolio (PTI)

Transition Impact Monitoring System (TIMS)



- Annual TIMS reviews are based on Project Monitoring Module reporting, i.e. self assessment by bankers of performance against benchmarks, validated by sector economists.
- Reporting to the Board is done a quarterly basis via Quarterly Performance Review (QPR)



Year 0

Annually

We use performance monitoring of existing clients when deciding on whether to do new projects with them



- *The interventions made by MDBs to support private sector operations should make a contribution **beyond what is available** in the market and **should not crowd out the private sector**. (MDB Report, 2018)*
- Additionality, along with transition impact and sound banking, is one of the three core operating principles of the EBRD. The additionality principle is **rooted in the Agreement Establishing the EBRD**, Article 13 on Operating principles and explanatory notes of the Chairman's Report:

vii) the Bank shall not undertake any financing, or provide any facilities, when the applicant is able to obtain sufficient financing or facilities elsewhere on terms and conditions that the Bank considers reasonable; [...]

...the Bank should not compete with other organisations; rather, it should complement or supplement existing financing possibilities.

- The EBRD approach to Additionality is **fully in line with the Multilateral Development Bank Principles to Support Sustainable Private Sector Operations** (agreed in 2012), which are: (1) additionality, (2) crowding-in, (3) commercial sustainability, (4) reinforcing markets, and (5) promoting high standards.
- Operationalisation of the methodology needs to be carefully implemented to ensure comparability with other IFIs.

EBRD's Enhanced Approach to Additionality: a more structured and transparent assessment



- The key aim of the Enhanced Approach to Additionality introduced in October 2018 is to provide banking teams **with more structure, guidance and supporting evidence on the overall financing conditions** in a country/sector.
- There will be always an **element of judgment** in the additionality assessment, as it relies on an unobservable counterfactual. Therefore, the additionality assessment cannot be captured in an exact score.
- However, the additionality argument in the projects can be **better substantiated**, including through a more transparent, and structured presentation and the support of data-backed evidence.
- Projects are split into **two groups**:
 - Additionality is **clear**: a simple process of **noting** the key sources of additionality is sufficient.
 - Additionality is **less clear**: additionality needs to be **more strongly evidenced**.



Sources	Description
Financing structure	<ul style="list-style-type: none"> • EBRD offers a tenor and/or a grace period above the market average, which is necessary to structure the project. • EBRD offers a large volume instrument that fills a market funding gap. Such financing is required for the project to materialise. • EBRD offers local currency financing on terms not readily available in the market. • Crisis response: EBRD financing effectively bridges a financing gap due to adverse market conditions. • EBRD contributes to a restructuring package that is not available from other financiers. • [Public sector] EBRD investment is needed to close a funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.
Innovative financing structures and/or instruments	<ul style="list-style-type: none"> • EBRD offers an innovative financing structure (e.g. mezzanine financing) on commercial terms not available from other banks.
EBRD's own account equity	<ul style="list-style-type: none"> • Lack of adequate local equity markets: EBRD's financing is required for the project to materialise.
Resource mobilisation	<ul style="list-style-type: none"> • The EBRD project mobilises additional commercial funding through an A/B loan structure otherwise not achievable • The EBRD project mobilises additional commercial funding through a local parallel financing structure otherwise not achievable



Sources	Description
Risk mitigation	<ul style="list-style-type: none"> • EBRD's preferred creditor status (PCS) reduces the perceived risk of the project and therefore allows it to materialise • EBRD's long-term relationship with a client provides comfort to the client to take more risk, enabling outcomes such as innovation or expansion into new markets • EBRD provides comfort to clients and investors by mitigating non-financial risks, such as country, regulatory, project, economic cycle, or political risks • EBRD's ability to absorb risk in a certain country/region, where other IFIs/commercial financiers reached their limit exposure
Policy, sector, institutional, or regulatory change	<ul style="list-style-type: none"> • Project designed to trigger a change in policy, sector, institutional or regulatory framework, or enhance practices at a sector or country level that improve substantially the business environment
Standard-setting: helping projects and clients achieve higher standards	<ul style="list-style-type: none"> • Client seeks EBRD expertise on corporate governance improvements • Client seeks EBRD expertise on higher environmental standards, above 'business as usual' • Client seeks EBRD expertise over energy efficiency audits • Client seeks EBRD expertise on higher inclusion and gender standards and/or equal opportunities action plans • Client seeks EBRD expertise on best international procurement standards • Client seeks EBRD expertise on higher financial standards, including through financial covenants
Knowledge, innovation, and capacity building	<ul style="list-style-type: none"> • EBRD provides expertise, innovation, knowledge and/or capabilities that are material to a timely realisation of the project's objectives, including support to strengthen client's capacity



- Crisis response packages – additionality assumed if projects satisfy crisis response criteria?
- Additionality: what is the counterfactual? Would the client have done something without the Bank's support?
- Counting jobs created vs supporting opportunities for job creation?



Contacts



European Bank
for Reconstruction and Development

Mattia Romani

Managing Director

Email: RomaniM@ebrd.com

EBRD, One Exchange Square
London, EC2A 2JN
United Kingdom
www.ebrd.com

Find us on social media

