EVALUATION SYNTHESIS

The long journey of the EBRD's Transition Impact

Evaluation Synthesis of the EBRD's approach to Transition Impact (2017-23)

EBRD EVALUATION DEPARTMENT • November 2023

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Contents

Executive Summary: The long journey of the EBRD's transition impact

1. Understanding the transition journey

Article I of the Agreement Establishing the Bank states, *"the purpose of the EBRD shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative"*. **Over the last year, EBRD's independent Evaluation Department (IEvD) and the Impact Team have substantially increased dialogue and exchange. Their common objective is to strengthen the Bank's approach to transition impact (TI).**

The formalization of the concept of TI dates to 1997 and it has been adjusted steadily to the changing context since. In 2016, after a significant overhaul, the current concept of TI emerged with six detailed Transition Qualities (TQs). These TQs incorporate insights on the role of markets and align with the international community's ambition for the private sector to make major contributions to achieving the 2030 Agenda for Sustainable Development. Therefore, in the current context set by the key policy commitments[1] included in the proposal for a paid-in capital increase, **understanding how and why transition occurs and measuring the extent of the Bank's contribution to it are more important than ever.**

EBRD is now in the process of reviewing its approach to the ETI methodology. As outlined in its Work Programme 2023-25, IEvD aims to support these efforts by providing evaluation findings and lessons about the Bank's transition methodology and implementation.

Management and the IEvD consider this a timely moment to take stock of evaluation findings and use them to support the review of the TI assessment and results architecture going forward. A compelling evidence-based story of EBRD's impact at country and institutional levels using thorough end-to-end impact assessment and measurement is important and well understood at the Bank. It is also clear that additional effort is required to address some of the outstanding challenges identified by the robust body of evidence presented by evaluation products since 2017.

This realist evaluation synthesis aggregates relevant evaluation findings from a broad evidence-based body of evaluation knowledge covering 2017 - when the TI concept and operationalization were last reviewed – to 2023. It identifies how some of the most recent work addressed outstanding recommendations from evaluation findings but not other recommendations that warrant attention during the TI review.

The topic's complexity and ongoing evolution led the evaluation team to adopt a

[1] These include: 1) Publication of Bank's first annual report on impact by the time of the Bank's 2025 Annual Meeting; 2) TI assessment system fully grounded in well-articulated theories of change for each TQ by end 2025 to strengthen evaluability and increase the focus on the outcomes of the Bank's work, and 3) Data quality upgraded to enable better assessment of the impact of the Bank's work by allowing the aggregation of impact across projects within each quality

phased approach to this assessment. This report is the output of the first phase. A second phase, to be defined in consultation with Management, will focus on providing evaluation insights into the implementation of the revised TI methodology.

The scope of this synthesis is broad. It encompasses findings from over twenty evaluations, six special studies, four discussion papers and evaluability assessments, more than forty-five information notes and several knowledge products produced between 2017-23.

These findings were complemented and expanded by new insights emerging from greater engagement and exchange with Management during the preparation of this synthesis. In addition, an external assessment, "*Measuring Transition in Transition: Review, Assessment and Innovation*" provides a fresh look at the findings and issues outlined in the report and proposes a way forward.

2. The IEvD contribution: five evaluation insights to move forward

This report is organized around five key messages — three concerning strategy and two operational. The messages rely on eleven evidence-based evaluation findings.

1 The EBRD was first among IFIs to focus on impact since its inception, enshrining a TI objective in its mandate and establishing impact measurement.

- **The concept of TI is a milestone in the Bank's existence, operations, and intellectual environment.** Over the last decades, the EBRD has undertaken several incremental updates of the transition concept and methodology to capture TI stemming from the broad range of its activities.

- **The recent institutional reorganization setup, including the creation of a dedicated Impact Team within VP3, is expected to be more conducive to enhancements in measuring and reporting TI.** The organisational restructuring helps clarify roles and responsibilities related to impact ex-ante measurement, monitoring and reporting. The Impact Team is *a hub* responsible for upholding the Bank's TI mandate and ensuring that it is communicated in a compelling and credible way. The new team has also played a key role in implementing the recommendations made by the Internal Audit report (at the time of this synthesis, twelve of the 14 audit actions have been completed).

2 The Bank's ability to understand and communicate its impact externally remains weak.

- **The definition of the TQs is abstract and its operationalisation should be further clarified.** As highlighted by the 2019 external evaluation of EBRD's evaluation function (the Kirk Report, 2019) the TQs are broad and abstract, making it very challenging to translate them into a coherent programme. The papers articulating their operationalisation are a good starting point but important work is required to overcome certain limits.[2] For instance, evidence from evaluations points to the need for clear impact pathways that include casual links, hypotheses and assumptions describing not only WHAT TI has been achieved but also HOW and WHY the transition works.

- **Evaluation has, in many instances, suggested grounding the TI assessment system in well-articulated theories of change** (TOC) **for each TQ of the Bank's work.** However, the work on the TOC of the TQs has been delayed for several reasons, including the internal reorganisation. It has also been refocused to some extent in line with the ongoing revision of the ETI methodology. Currently there is ongoing work and significant progress on the TOC of the Inclusive quality, but the extension of this revamped approach is long overdue.

- **There is a lack of consistent and systematic external TI reporting that could lead to reputational risk for the EBRD.** The EBRD is among the only MDBs committed to Managing for Development Results (MfDR) that does not publish a development effectiveness impact report that clearly presents the results of its activities against ex-ante estimates, and building, among other things, on a robust project-level self-evaluation system. Management has recently discussed the creation of a new impact and sustainability report. Once created, this report will make it possible to determine whether the outstanding gap is properly filled.

- **Internally, evaluation has also flagged the need several times to improve country-level reporting.** Country strategies are not designed from the perspective of transition results accountability and evaluability. Specific objectives are broad and not calibrated by any targets. The absence of strategic targets against which progress can be measured means that reporting – such as in the Country Strategy Delivery Reviews (CSDRs) – is merely a bottom-up aggregation of Bank activity. It is there unclear in most cases how the scale of the aggregated activities relates to the scale of the challenges and the extent to which Bank activity contributes to alleviating them.

3 The transition results architecture does not capure and measure the impact generated by EBRD interventions fully and coherently.

- **The main limitation of EBRD's results architecture is its inability to coherently and systematically capture both indirect project outcomes and market outcomes (systemic change) whereas the latter is at the very core of the Bank's transition mandate.**

- Regarding project outcomes, there is no ability to fully capture a project's

[2] i.e., SGS17-114, SGS18-238, SGS17-079, CS/FO/17-01, CS/FO/17-02 and BDS14-217

indirect and induced effects and no relationship – quantitative or qualitative – between transition gaps and results measurement (the "missing middle"). Project-level impact refers to project outcomes/effects on stakeholders, the economy, and potentially on the environment and society. There is no measurement of indirect effects, which undermines the Bank's ability to manage for development results, including by measuring wider impacts and linking its contribution to country progress.

- Systemic change, unlike project-level outcomes, refers to fundamental changes to structures, behaviours, or relationships by market participants. Driving systemic change often involves changing the roles, norms, structures, and incentives underlying a market system rather than focusing on the outputs of an individual project.

- **The Bank's TOC should clearly articulate the distinction between project outcomes (direct and indirect) and systemic change (market outcomes).**

4 The ETI methodology is a key tool to keep the Bank's focus on impact. However, the stratification of multiple priorities dilutes it such that it does not fully capture the TI generated by EBRD's policy work that is not associated to investments.

- **Evaluation evidence (i.e., Evaluation of the SIPs under the SCF 2021-25) confirms the importance of an ex-ante assessment of TI in keeping the focus on impact.**

  Earlier evaluation work confirmed a key issue that was also identified by an internal audit report in 2022[3]: the current mechanism of ETI uplifting is the result of a stratification of different priorities that are not always coherent.

- **Furthermore, evaluation stressed in several instances that there is no consistent method for measuring and monitoring TI stemming from policy dialogue not linked to investments[4].** Moreover, evaluation work highlighted the need to distinguish between transactional policy work (associated with investments) and policy dialogue not linked to investments. What is more, the need to capture TI stemming from non-transactional policy clearly emerged since the ETI methodology already incorporates the former only.

- Management is currently working to review the nature of non-transactional TC and develop the approach about when such work could be considered policy engagement.

[3] IAR 21/01 Transition Objectives Measurement System (TOMS, including Monarch) for new Banking and Donor-funded standalone operations (all sectors) (2022)

[4] The report often refers to policy work not linked / associated to investments as "non-transactional policy work", though there are nuances as explained in Ch. 3

5 The ETI methodology has not evolved meaningfully to adapt to a changing context.

- **The ETI methodology and the TQs framework more broadly are not adequate to capture TI in contexts of crisis.** The multi-crises context exacerbates the unresolved tension between strengthening resilience pre-crisis and preventing reversals post-crisis. The TQs do not capture the shock elements as currently defined: the Resilience TQ is relevant primarily to operations in a non-crisis context. The TI indicators (benchmarks) in the Compendium of Indicators focus on improving client resilience in the event of an exogenous shock (financial and energy-related), which supposes that the client is not sufficiently resilient to withstand a shock that has not occurred. Evaluations highlighted that if crisis response assistance serves to prevent transition reversals, the current toolbox does not offer suitable indicators under the Resilient TQ or the other TQs.

- **The transformation agenda confirms the central role played by the ETI, but approximately 70 per cent of EBRD projects (around 250+ investments per year) benefit from streamlined TI assessment under frameworks.** This raises questions around the trade-off between efficiency vs. rigour in understanding and measuring TI, differences in scrutiny, both ex-ante and ex-post and the how TI is measured at framework level.

3. Suggestions: four key proposals to improve EBRD's ability to capture its impact and tell its "Transition story."

The synthesis presents four key suggestions that build on the report findings and go an "extra mile" by providing additional ideas for further reflection to inform Management's ongoing efforts to equip EBRD with a more robust, reliable system.

Suggestion 1: Re-focus efforts on measuring systemic change (market outcomes); this may include: 1) articulation of impact pathways per each TQ, based on theory of change (TOC) at thematic/sector level; and 2) Review the Assessment of the Transition Qualities (ATQs) to better understand and reflect sectoral transition gaps.

- **Thematic/Sector frameworks can help define an articulated TOC (development impact thesis) for each sector and for the project outcomes reflecting the key impacts expected from EBRD interventions in the sector.**

- Lessons from other IFIs may be relevant. The IFC, for example, has developed "explicit" sector-level TOCs that are embedded in its Anticipated Impact Measurement and Monitoring (AIMM) system on which the rationale of single projects can be based. AIMM mainstreams the ex-ante selection of projects based on their direct outcomes and systemic market effects. The ex-ante impact of investments is assessed at project level by assessing project outcomes for the stakeholders, the government, and for environmental and social sustainability. At market level (systemic change), the project's contribution to market creation is the basis for assessment.

- **This should also lead to a review of the ATQs – from country-level to sector/thematic level.** The issue of the "missing middle" can be solved and systemic change measured in the context of a "relevant market" (or sector).

Suggestion 2: Pilot modelling to bridge the "missing middle" and better understand the wider impact of Bank interventions.

- **Modelling tools are largely used across MDBs and IFIs to make estimations and/or measure externalities induced by interventions**. This has been driven mainly by a growing need (and demand from shareholders) to examine the broader impact of operations or portfolios beyond direct results. For instance, the European Investment Bank (EIB), Proparco, the Dutch Entrepreneurial Development Bank (FMO) and others use the Joint Impact Model (JIM), an approach based on social accounting matrices to estimate the impact of their interventions on indirect results.
- **Modelling holds the promise of expanding the scope of captured effects.** For example, the JIM enables the quantification of indirect jobs, value added, and greenhouse gases (GHG) emissions related to the investments of financial institutions. The JIM has a harmonised and transparent methodology and assumptions, is publicly available, collaborative, uses up-to-date macro-economic statistics, has security features and a user-operated style. Other types of modelling (i.e., Economic Fitness) may help rethink the approach to measuring progress across the TQs.

Suggestion 3: Review the definition of the TQs and its operationalization, starting with the Resilience TQ, to better understand, monitor, and measure TI in a context of crises.

- **In the current context of multiple crises, evaluation work suggests rethinking and coordinating the content of TQs, starting from the TQ Resilient.**
- There is a clear need to develop a better understanding of TI in a context of crises and to create a transition narrative that enshrines operations to address the consequences of the COVID-19 pandemic, support for Ukraine and future emergency operations in EBRD's mandate.

Suggestion 4: Recalibrate the ETI as a simple tool to incentivize and measure impact and consider developing a "dedicated ETI" to capture non-transactional policy work.

- **The ETI score should measure impact rather than crediting strategic priorities or specific instruments "per se". The mechanism of uplifting should be reviewed to be able to provide a higher score for more impactful projects.** Furthermore, the assessment of risk should be reconsidered to differentiate project level TI, e.g., calibrating risk according to contractual enforcements or take past project performance into account.

- **Evaluation is working to finalize an important assessment of the EBRD's policy work's results and performance.** What has emerged from the evaluation work of the last years clearly points to identifying feasible ways to capture the impact stemming from policy dialogue that is not linked to investments, for example, by developing a "dedicated ETI methodology" for this type of policy work.

Other suggestions from the external assessment (Technical Note) include, inter alia, automatizing and streamlining TOMS by leveraging Machine Learning tools to update Monarch and centralize the data function to coordinate the collection of statistical information across the Bank in support of self-evaluation and results reporting. Those suggestions may require more work to understand the implications and resources.

Finally, this evaluation commends the Impact Team's recent more holistic efforts to enhance the Bank's ability to measure and report its transition impact.

IEvD remains deeply supportive and looks forward to collaborating with the Impact Team by continuing to ensure the timely provision of evidence-based evaluation insights to inform the implementation of the revised TI methodology and support the Bank in fostering transition in its region.

1. Introduction: Background and Context

1.1. The evolution of EBRD's approach to transition impact

1. The Bank's mandate is "**to foster transition towards open market-oriented economies and to promote private and entrepreneurial initiative in its countries of operation**". The Bank updated its transition concept in November 2016 and defined the six key qualities of a modern, sustainable market economy: Competitive, Well-governed, Resilient, Integrated, Inclusive, Green (Table 1).

Table 1: The 2017 Transition Impact concept

Transition Quality	*Component*	Definition
COMPETITIVE	***Market competition for competition and business standards***	Market structure for competition reflects dynamic economic structures that promote competition and diversification, widen choice, improve the quality of goods and services, and provide fair prices to customers.
	Capacity to add value and innovate	The capacity to generate value added captures the availability of fundamental production factors, ensuring connectivity within the country and abroad, a skilled workforce, and the use of new/more sophisticated technologies and ultimately the development of innovative products.
WELL-GOVERNED	***National/sub-national level governance***	The focus in national- and subnational-level governance is on three main distinct yet closely interlinked concepts: i) the quality of public governance and relevant institutions; ii) the rule of law, and iii) public sector integrity and the control of corruption. These broadly describe the outcomes that the Bank aims to see in a well-governed economy.
	Corporate level governance	Corporate-level governance is centred on the long-standing notion of "corporate governance," most often described as the system by which companies are directed and controlled. It is strengthened by more detailed attention to other integrity-related initiatives that strengthen corporate integrity – companies' implementation of the EITI, adoption of AML/CFT standards, anti-corruption measures, corporate and social responsibility, and other integrity-related business standards.
RESILIENT	***Financial stability***	A resilient market economy is one that develops an efficient financial sector and a system of infrastructure that support growth while avoiding excessive volatility, supply disruptions and lasting economic reversals.
	Energy sector resilience	Resilience in the energy sector relates to the availability of the requisite market structures and institutions to provide reliable and transparent energy

Transition Quality	*Component*	Definition
		price signals to which private investors can respond by building the right type of infrastructure at the right time and in the right place.
INTEGRATED	*Openness to foreign trade, investment, and finance*	Economic integration can boost competition, help anchor economic reforms and provide political leverage for government policies aimed at greater liberalisation.
	Domestic and cross-border infrastructure	An integrated market economy has the policies, institutions, and connectivity (energy, infrastructure, and IT links) to minimise the transaction costs of trade, support competition in product and services markets and tap a wide range of financing channels.
INCLUSIVE	*Gender equality* *Regional development* *Opportunities for young people*	An inclusive market-based system ensures that all population groups have fair and full access to labour markets, finance and more generally to equal economic opportunity, irrespective of gender, age, geographic location, or other characteristics. This quality takes into consideration gender gaps, regional gaps, and gaps in terms of opportunities for young people across our COOs.
GREEN	*Climate change mitigation* *Climate change adaptation* *Other environmental areas*	The TQ Green concerns the interconnection between the market economy, human welfare and environmental sustainability, the natural assets for human welfare, including minerals, water resources, various forms of life and the atmosphere, which provide value as inputs for direct consumption and production, as a sink for pollution and waste and as a source of amenity value.

2. **These TQs are meant to provide guidance so that EBRD activities contribute to its mandate.** They also incorporate insights on the role of markets and align with the international community's ambition for the private sector to make major contributions to achieving the 2030 Agenda for Sustainable Development (SDGs.) Understanding how and why transition occurs and measuring the extent of the Bank's contribution is therefore of utmost importance.

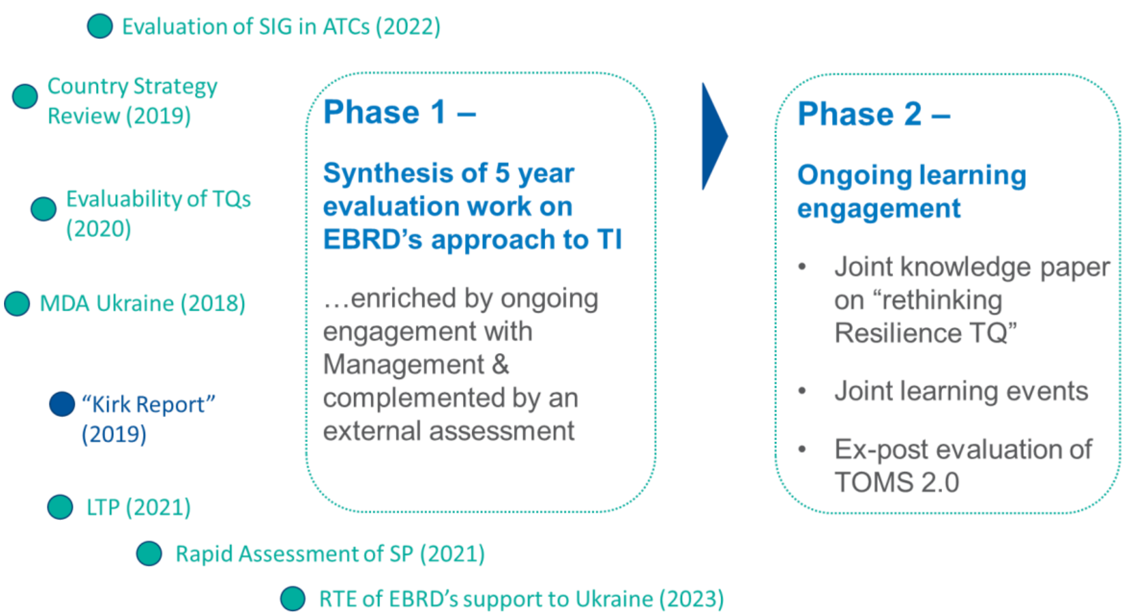
3. **The revised concept of transition is based on three propositions: i) The Bank's mandate is to foster sustainable market economies; ii) A sustainable market economy is competitive, well governed, green, inclusive, resilient, and integrated, and iii) The framework of priorities and measurements against which the TI of Bank operations is assessed should reflect country circumstances.** While the market economy continues to be the essence of TI, the revised concept looks at the market process from the perspective of outcomes.

4. **The revised transition concept has two main pillars: i) a Transition Impact (TI) Methodology and ii) a Transition Results Management Architecture.** These contain the key elements of what is referred to here in aggregate as a Transition Qualities Framework (TQF). The work of embedding the TQs in Bank systems has been ongoing since 2016, when the concept was revised.

1.2. Rationale for this synthesis: a phased evaluation of the Bank's approach to TI

5. The EBRD is currently reviewing its approach to measuring TI. **As outlined in its Work Programme 2023-25, IEvD aims to evaluate the Expected Transition Impact (ETI)/Project Transition Impact (PTI) approach including its methodology and implementation.** TI is complex and dynamic, so the evaluation has taken a phased approach to this assessment to maximise its usefulness (Figure 1).

Figure 1: A two-phased approach



6. **This report is an evidence-based synthesis of evaluation work on the Bank's overall approach to TI covering the period 2017-23**, and the output of the first phase of this assignment.

7. The second phase of the assessment includes: i) engagement through ongoing support; ii) collaboration on specific suggestions (without undermining the independence of EVD), and iii) a full-fledged ex-post evaluation of the upcoming TOMS 2.0.

1.3. Methodological framework of this evaluation synthesis

8. **An evidence synthesis is a research method in which all relevant information on a given question is gathered to identify gaps in knowledge, establish an evidence base for guiding best practice or help inform policymakers and practitioners.** An evaluation synthesis captures evaluative knowledge and lessons learned on a given topic from a variety of existing evaluations,

aggregating, and distilling evidence to draw better informed conclusions (and recommendations at times) on that topic or question.

9. **This is a *realist evidence evaluation synthesis*. It logically aggregates relevant evaluation findings from a broad body of evidence-based evaluation knowledge covering the period 2017-23.** This timeframe maximizes relevance and usefulness as the TI concept and operationalization were fully reviewed in 2017 (Box 1).

Box 1: Realist Synthesis

	Definition	Methodology
Realist synthesis	Synthetizing all relevant existing research to make evidence-based policy recommendations. Focus on understanding the mechanisms by which an intervention does or does not work.	• Identify review questions • Search for primary studies • Quality assessment • Extract data • Synthetize data • Disseminate

10. **The evaluation sources reviewed encompass almost ninety evaluation products including full-fledged evaluations, discussion papers, info notes and knowledge products presented to or shared with the ARC** (Annex 1). In addition, available position papers from Management illustrating the evolution of the EBRD Results Architecture were thoroughly consulted.

11. **This synthesis offered the opportunity to take a fresh look by engaging with staff and Management.** It offers two levels of analysis: strategic and operational.

- The strategic level covers the evaluation insights on issues related to TI measurement, the definition and purpose of the TQs, and the "missing middle" to effectively link Bank activities to results on the ground and provide a sense of the transition journey.

- The operational level addresses issues related to TI in the context of frameworks, the TI approach during crisis, the impact measurement of policy work and the opportunity that micro and macro modelling offers to ascertain the wider direct and indirect effects and systemic impacts of EBRD operations.

12. **The synthesis does not provide prescriptive recommendations. It does provide suggestions that are logically derived from the key insights that have emerged from substantial evaluation work over the years.** Its overarching goal is to inform Management's ongoing efforts to equip EBRD with a more robust and reliable system. Finally, this report includes an external technical note ("Measuring Transition in Transition: Review, Assessment and Innovation") that provides an additional view of the findings and issues outlined in the report and a potential way forward. Its key highlights are included in the synthesis.

2. Strategic-level evaluation insights

1 The EBRD was first among IFIs to focus on impact since its inception, enshrining a TI objective in its mandate and establishing impact measurement.

Key Insights

- *The concept of TI remains a milestone in the Bank's existence, operations and intellectual environment.*
- *The recent institutional reorganization setup is expected to be more conducive to enhancements in measuring and reporting TI.*

i) The concept of TI and its measurement remain a milestone in the Bank's life, operations, and intellectual environment.

13. **Over the past decades, the EBRD has made several incremental updates of its transition concept and the methodology for measuring project impact.** It redefined the concept and adapted its methodologies for measuring impact to respond to new challenges and scopes of work, CoOs, and innovations. In so doing, the Bank developed a distinctive approach to project financing and a unique intellectual environment and dedicated framework to formalize, measure, and assess its TI.

14. **The current conception of TI that emerged in 2016 reflected a significant overhaul of the original, with six TQs aligned with the Bank's mandate, market focus, and strong private sector character.** It was operationalized for project evaluation at the same time, which led to the introduction of an ex-ante TI -- the Transition Objectives Measurement System [TOMS] --and ex-post TI delivery (Transition Impact Monitoring System [TIMS]) -- as part of a broader architecture of results assessment and evaluability.

15. **The adoption of the Monarch information technology system was another critical moment in the evolution of TI measurement.** Significant resources were invested in Monarch and its pilot project, Cristopher, to make TI measurement and evaluation more transparent, general, objective, and implementable.

16. **Transition impact remains a distinguishing feature of the EBRD and a milestone in the Bank's existence, operations, and intellectual environment.** Several recent evaluations stressed the importance of a compelling evidence-based story of EBRD's TI, using thorough end-to-end

impact assessment and measurement. It is also clear that more effort is required to address some of the outstanding challenges that have been identified by the robust body of evidence presented by evaluation products since 2017.

ii) The recent reorganization of VP3 and the creation of the Impact Team are important signals that reaffirm EBRD's commitment to TI.

17. **The institutional reorganization is expected to be more conducive to enhancements in measuring and reporting TI.** The current institutional setup is expected to be more conducive to enhancements in measuring and reporting TI.

18. As of 2021, the VP Policy and Partnerships (VP3) was restructured and reorganized into three key pillars: (i) Policy; (ii) Donor Partnerships, and (iii) Impact, Results & Knowledge Management. The third pillar, which comprises Impact, Results Management, Knowledge Management and Self Evaluation, is accountable for the Bank's entire results chain, providing a single point of engagement for project teams.

19. **This is expected to respond to the concerns of overlapping organisational responsibilities that were also raised by an internal audit** by clarifying roles and responsibilities and consolidating results management and TI project origination within a single department.

20. The new Impact Team has launched a comprehensive review of the impact methodology, establishing a robust dialogue with relevant internal stakeholders including IEvD and leveraging the expertise of external experts from the DFI and private sector investing community.

21. This shows EBRD's commitment to achieving real TI across its current (and future) COOs. The TI methodology is also at the centre of the transformation agenda, but it remains unclear clear whether the focus on efficiency will be complemented by effectiveness considerations.

2 The Bank's ability to understand and communicate its transition impact externally remains weak.

Key Insights

- *The definition of the TQs is abstract and its operationalisation requires additional effort; the work on the Theory of Change (TOC) of the TQs has been delayed due the internal reorganisation and the ongoing revision of the ETI methodology.*
- *There is still a lack of consistent and systematic TI external reporting that may lead to reputational risk for the EBRD, which is now one of the few IFIs that does not publish an impact or development effectiveness report*
- *In addition, country strategies are not designed from the perspective of transition results accountability and evaluability and there is no country-level transition reporting in place.*

iii) The definition of the TQs is abstract[5] and its operationalisation remains unfinished; this is worsened by the delay of the work on the Theory of Change (TOC) for each TQ, due to several factors, i.e. Covid-19, internal reorganisation, ongoing revision of the ETI methodology, etc.

22. **The transition framework based on qualities is abstract, and the mapping between qualities and transition objectives and indicators has largely been done empirically** (reverse engineering), **rather than with proper research underpinning the operationalisation of the transition qualities.** In 2029, the Kirk Report assessed the TQs at the core of the Bank's results architecture as broad and abstract and thus very challenging to translate into a coherent programme. It remains unclear whether the TQs' operational components are sufficient and how they trace back to each quality.

23. **The papers articulating the operationalisation of the TQs** (**i.e. SGS17-114, SGS18-238, SGS17-079, CS/FO/17-01, CS/FO/17-02 and BDS14-217**) **are a good starting point but with some limits requiring important work to be overcome.** The TQ Resilient is a key area where shortcomings are evident. The Transition Concept Review (BDS16-181) states, "…a resilient market economy is about the ability of markets and market-supporting institutions to resist shocks, about policy predictability and about balance and sustainability in financial and economic structures. Resilience objectives would be most associated with the nature, conduct and

[5] Source: "External Evaluation of the EBRD's Evaluation function" (Kirk Report), 2019

structure of financial systems, but also with economic diversification as well as with food and energy security considerations."

24. **This broad definition would have been able to support external shocks** (e.g.., COVID-19, the war on Ukraine, etc.) but it has been translated into two very specific operational components: financial sector stability (resilience in the financial sector relates to the health and stability of banking systems), and energy sector resilience (resilience in the energy sector relates to the availability of the requisite market structures and institutions to provide reliable and transparent energy price signals).

25. **No information is available about the process or rationale for translating the Resilient TQ into these two components or about how they were translated into specific transition objectives[6].** While these components are intended to be useful at the country level, they are not well aligned with either the conceptual definition or the sub-set of operational definitions.

26. **It remains unclear how country-level objectives are identified.** For instance, it is not clear why "Developed local capital market" and "local currency financing solutions" or "Liberalisation of the energy sector" fall under Resilient rather than Competitive. Similarly, "Reinforced networks for domestic and inter-country connectivity" is identified as Resilient whereas "Domestic and cross-border infrastructure" is one of the main components of Integrated.

27. The current approach lacks some formalisation of the thinking behind the attribution. Evaluation work sees identification as a two-step process: i) of the components underlying each TQ and ii) of the objectives underlying each component (Table 2).

Table 2: Defining the TQs: a complex undertaking

Six Transition Qualities	14 Operational components	45 Transition Objectives from the Compendium
Competitive	1. Market structures for competition and business standards	1. Increased competition through entry/consolidation and levelling playing field
		2. Strengthened role of SMEs in economy
		3. Enhanced value chains and linkages
	2. Capacity to add value and innovate	4. Diversified and deepened financial system products
		5. Improved product and process innovation and levels of technology penetration (including ICT)
		6. Improved business skills, standards, and business sophistication
		7. Increased private sector ownership and participation
		8. Commercialisation and restructuring of SOEs
		9. Conducive environment for market efficiency, commercially sound decision making and sustainable infrastructure funding
Well-governed	1. National level governance	1. Strengthen the corporate governance of firms
		2. Enhance national corporate governance frameworks
	2. Corporate level governance	3. Strengthened policies and institutions to fight and prevent corruption

[6] Some information is available in "Transition Results Management Architecture" Overview and Update (SGS18-402).

Six Transition Qualities	14 Operational components	45 Transition Objectives from the Compendium
		4. Improve the quality of institutions
		5. Strengthen the rule of law
Resilient	1. Financial stability	1. Strengthened resilience of financial sector including capitalisation, sustainable funding structure and sound risk management practices of banking sector
	2. Energy sector resilience	2. Increased variety and sophistication of non-banking financial products and services
		3. Developed local capital market and local currency financing solutions
		4. Liberalised energy sector with effectively improved market liquidity
		5. Reinforced networks for domestic and inter-country connectivity
		6. Improved regulatory standards to promote energy resilience
Integrated	1. Openness to foreign trade	1. Enhanced trade through process upgrades/ improved global value chains
		2. Improved institutional arrangements between countries for trade and investments
	2. Domestic and cross-border infrastructure	3. Increased FDI and associated production enhancements
		4. Increased capital markets integration
		5. Improved quality and connectivity of infrastructure for effective/efficient economy interactions
		6. Enhanced legal, regulatory, and institutional frameworks for improved use of infrastructure and reduced transaction costs
Inclusive	1. Gender Equality	1. Increased access to employment opportunities
	2. Regional Development	2. Access to skills development (incl. skills mismatch reduction)
	3. Opportunities for young people	3. Improved quality of institutions (for employment and education)
		4. Improved procurement standards/HR practices to favour inclusion of target groups
		5. Increased access to infrastructures unlocking economic opportunities for inclusion target group
		6. Increased access to finance and entrepreneurship
		7. Increased access to water & wastewater
		8. Improved regulation for financial inclusion
		9. Improved regulations for access to services
Green	1. Climate change mitigation	1. Increased energy efficiency (EE)
		2. Increased renewable energy (RE)
		3. Reduced GHG emission
	2. Climate change adaptation	4. Improved land management and agribusiness value chain
		5. Increased water efficiency
		6. Reduced vulnerability to climate change
	3. Other environmental areas	7. Pollution prevented and controlled
		8. Improved water quality
		9. Increased resource efficiency (incl. waste reduction & recycling)
		10. Improved waste and wastewater treatment

(*Source*: BDS16-181)

28. **The available evidence is not sufficient to explain the linkages between the operational definitions of each TQ and the country level transition objectives articulated by the strategic priorities in Country Strategies (CS).** The causal pathways to narrowing the transition quality gaps at country level are implicit but not clearly articulated, which makes them difficult to assess.

29. **Evaluation work consistently highlights EBRD's ongoing difficulties in telling a well-substantiated, compelling story of its impact despite the wealth of experience gathered during more than 35 years of activity delivering over 5000 projects.** The evidence gathered over the years suggests that no common understanding exists of the ultimate measure of Bank success. Internally a set of different incentives lead some to see ABI as a measure of success where others see narrowing transition gaps identified at country level as measures of success, while still others see maximized TI parameters.

30. **In addition, the evaluation provided evidence of the need for a well-articulated and comprehensive TOC for the TQs to clarify the process and objectives and ultimately to measure results by remaining focused on why and how the Bank finances each and every project.** For instance, the recent IEvD evaluability assessment of EBRD's green financing[7] suggests that a solid Theory of Change articulating the Green Economy Transition (GET) vision of pursuing "systemic change" and its linkages with the Green TQ would provide a better understanding of systemic change, behavioural change, and the results of policy dialogue, all of which are long-term objectives (Box 2).

Box 2: Transition-related findings from the "Evaluation of Public Sector Operations, 2022"

- TQs do not provide meaningful information on costs relative to benefits at the country or project level that can inform decision-making, create properly aligned staff incentives, or provide a basis for monitoring and evaluation.
- Projects are prepared without information about country infrastructure plans or the government's institutional capabilities.
- These data sources are critical for making decisions on resource allocation at country level and on project designs that create value for money for countries of operations.
- ATQs and ETI scores are not transparent. They lack TOCs that provide a basis for evaluation.
- The *compendium of indicators* has no TOC to inform the timing and scale of project costs and benefits or the sources of value for money. Most public sector operations finance inputs without making any reference to outputs and benefits. PTIs measure milestones and activities only rather than ex post net project benefits.

31. **Management is aware of these issues and of the challenges in understanding how the Bank contributes to reducing transition gaps and achieving TI.** In June 2015, Management proposed to develop explicit results chains at sector/subsector level to build a holistic TOC for EBRD interventions (SGS15-145).

32. **Evaluation work suggests the enormous value of explicit results chains at sector/subsector levels for outlining broader causal chains of TI.** This would enable individual projects to find their specific contributions and subsequently allow for a more cumulative view of a portfolio of projects implemented in the same country, which is the underlying logic of doing individual projects in support of country priorities.

[7] Report discussed at the June session of the ARC soon to be published.

33. **In recent years, important work has been done to embed a TOC (TI pathways) in the TQs framework but implementation has been delayed by the ongoing revision of the ETI methodology.** The recently developed TOC for the Inclusion TQ, which supports the assessment of the Equality of Opportunities Strategy and of the Strategy of Promotion of Gender Equality (SPGE), goes further in articulating the TOC and its operationalization in Monarch. A similar approach and speedy operationalization are advisable and welcome across all other TQs.

34. **The issue is exacerbated by the current approach to measuring "transition gaps" through the ATQs.** Evaluation work demonstrated the very limited adequacy and relevance of the ATQs to the Bank's mandate. ATQ scores measure the performance of one economy against that of a comparator advanced economy and of other economies in EBRD regions. Scores range from 1 to 10 where ten represents a synthetic frontier corresponding to the standards of a well-functioning market economy.

35. **The composite indices or ATQs combine macro-level information from many external indicators and assessments in an insufficiently consistent way to measure transition gaps with respect to the frontier.** This is a "country level framework" and its assessment of gaps and progress is problematic because no clear link between project and frameworks level objectives ("missing-middle") can be established. This should lead to greater emphasis on sector/thematic approaches, which should be used for a proper gap analysis and for monitoring progress at a more aggregate level.

iv) The lack of consistent and systematic reporting on Impact, both ex-ante and ex-post, may pose reputational risk for the Bank.

36. When it comes to reporting on TI, **evaluation work has highlighted the absence of an overarching flagship report.** There is neither systematic external reporting on transition results nor a single institutional "locus" for comprehensive performance assessment and reporting.

37. **The EBRD is the only MDB that does not publish a development effectiveness report.** Responsibility for reporting on TI is currently scattered across several departments that produce the Annual Report on Transition Performance (Impact), the Transition Report (OCE) and the Sustainability Report (ESD), the Donor Report (DCF), etc.

38. **This could create reputational risks for the Institution.** TI is at the very core of the Bank's mandate and important efforts have been made over the years to improve the Bank's ability to measure and monitor it. However, the lack of reporting on TI, especially externally (internally the ARTP is quite broad, although it focuses on performance rather than on results), remains an important issue of which Management is aware

39. **In July 2023, Management presented a proposal to the** Budget and Administrative Affairs Committee **for an annual report on Bank impact** combined with the Sustainability Report. It is expected to summarise achievements and lessons learnt and explain EBRD's vision of TI by

providing a narrative, data, and case studies. This would help better communicate the Bank's impact externally, including its alignment with the SDGs.

40. **IEvD welcomes reflections about how to better report on impact.** This is timely and comes after recent progress on tools such as the Monitoring, Reporting and Validation instrument and the discussion in May 2023 at the ARC of the GET 2.1 Evaluability Assessment. IEvD suggested ways to improve evaluability in use, including through better reporting. "A strategic, comprehensive and transparent approach about how to use the ex-post data, both internally (i.e., how ex-post data may inform future project design, the mechanism of incentives, etc.) and externally (i.e., reporting integrated Green ex-ante and ex-post data, etc.) is key to ensure evaluability." This will be an opportunity to create a truly results-focused report that gives a full picture of results.

41. **The shape and format of the report remain unclear currently (November 2013), given several new initiatives regarding the use of the EU taxonomy and recent requirements arising from the International Financial Reporting Standards**[8]. The EU taxonomy is a classification system that defines criteria for economic activities aligned with a net zero trajectory by 2050 and broad environmental goals beyond climate. It is a cornerstone of the EU sustainable finance framework and an important market transparency tool that helps direct investments to those economic activities most needed for transition, in line with the European Green Deal objectives.

42. In addition, looking at internal reporting, evaluation work has **stressed** several times **that country strategies are not designed from the perspective of transition results accountability and evaluability and that there is no** country-level transition reporting**.**

43. Overall, no final country strategy reviews on transition results are in place to assess the cumulative transition results of the Bank's activities and the achievement of strategic transition objectives over one or more strategic periods. A country-focused element of the results architecture is the most obvious missing piece in the Bank's transition mandate and country strategies.

44. The annual "transition performance" reports that are in place do not incorporate a country perspective.[9] The newly proposed joint impact and sustainability report is a welcome and necessary initiative, but it does not appear to consider introducing transition results reporting at country level.[10]

[8] The creation of the ISSB was announced at COP26, the 2021 UN Climate Change Conference in Glasgow, with the role of creating a global baseline for sustainability reporting. The ISSB is a standard-setting board of the International Financial Reporting Standards (IFRS) Foundation, a not-for-profit organisation that sets global, corporate reporting standards, through the International Accounting Standards Board (IASB). ISSB published its first 2 new standards on 26 June 2023. They are: 1) IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information; and 2) IFRS S2: Climate-related Disclosures.

[9] See e.g. the last published report: CS/BU/22-15: Annual Report on Transition Performance 2021.

[10] CS/BU/23-21: Emerging thinking on joint impact and sustainability reporting - Selective showcase of 2022 Transition Performance and Results.

45. A **recent note prepared by IEvD ("Limited value added: The merits of CSDRs reviewed, the case of Uzbekistan") provides substantial evidence that CSDRs are ill-suited for the results reporting function.** To accommodate the results perspective, CSDRs present the data on CSRF indicators, which represent project outputs aggregated over a strategic period to date. When introducing CSRFs in country strategies, Management noted that "the discussions and assessment of Bank's contribution to the identified specific objectives will remain qualitative and be supported by logical and plausible arguments as well as illustrations from quantitative indicators."[11]

[11] BDS14-217 (Final): Country Strategy Results Framework: Design Implementation and Reporting; p.6.

3 The broader transition impact generated by the Bank's interventions is not systematically and consistently captured by the transition results architecture.

Key Insights

- *The ability of the Bank to fully capture a project's indirect and induced effects (e.g. "project-level outcomes") remains weak; there is no relationship -- either quantitative or qualitative – between transition gaps and results measurement (the "missing middle").*
- *Systemic change (e.g. "market outcomes") is not yet coherently captured by the transition results architecture.*

v) *Project-level outcomes:* The ability to measure indirect and induced project-level effects remains weak.

46. **Evaluation work over the years has highlighted the issue of the "missing middle:" no clear link between project and frameworks level objectives can be established.** The SCF 2021-25 also acknowledges that there is "...no connection between transition gaps over time and Bank activities" (CS/FO/19-38, p. 16). There is therefore a missing middle between Bank activities and their aggregate contribution to "moving the needle" at country level, to narrowing or closing the transition gaps.

47. The issue is twofold and relates to both project-level and market-level outcomes (Box 3).

Box 3: Understanding project-level outcomes vs market-level impact
Impact should be understood along two dimensions — a project's impact (or project outcomes) and systemic change (or market outcomes) The project outcomes dimension includes a project's effects on stakeholders, the economy, and the environment and society. • **Stakeholder effects assess the net incremental benefits that accrue from an EBRD intervention.** Stakeholders include the customers, suppliers, and employees of the company receiving financing, as well as local communities. In cases where the client is a financial intermediary, stakeholders will include recipients of loans or other financial services (attempted to be measured by current ti architecture) • **Economy-wide effects are those indirect or induced economic outcomes, including externalities and spillovers that are generated by the project's linkages to the economy.** When relevant, ebrd may use economic modeling tools to estimate these effects, mainly on value added and job creation (neither included in the current ti architecture nor measured).

Box 3: Understanding project-level outcomes vs market-level impact

- Environmental effects relate to environmental and social sustainability outcomes such as the reduction or avoidance of greenhouse gas emissions, improved water efficiency, reduced pollution, biodiversity effects, and/or improvements in social welfare not captured as part of a stakeholder or economy-wide effect. (neither included in the current ti architecture nor measured)

For market outcomes, the degree to which an intervention improves the structure and functioning of markets by the TQs is relevant. (Neither is included in the current TI architecture or measured).

- For example, take competitiveness: Competitive markets are those where firms can effectively enter, exit, and compete, innovating and striving for efficiency under essential regulatory and government intervention. These markets also support product or process innovation, improved management practices, and/or lower product cost.
- Generating systemic change is difficult and often takes multiple coordinated interventions that involve upstream activities and market enabling work at the sector level. To deliver one or more market objective, EBRD’s interventions may rely on at least four channels through which sector-wide or systemic market changes flow:
    1. Market Enabling: Create the frameworks within which markets can function, including policy, regulation, platforms, financial, and other interventions
    2. Demonstration and Replication: Provide demonstration effects, encouraging replication and more generally the spillover of ideas
    3. Innovation and Competition: Promote competition through innovation, improved management, cost reductions, and efficiencies that encourage other market players to continue improving their products and services
    4. Capacity Building: Build capacity and skills and create standards that open new market opportunities and support market development

(Source: IEvD elaboration based on IFC AIMM documentation, 2023*)*

48. **A project’s contribution to overcoming development gaps should be measured by its intensity.** Along the project outcomes dimension, project effects are assessed for the degree to which they are contributing to a solution. The assessment is based on sector-specific benchmarks that are normalized to avoid penalizing small but well-targeted projects.

49. **Once a gap assessment is paired with an intensity assessment, an overall potential impact rating is assigned.** The potential for a particular effect to generate impact is a function not only of the scale of the problem (how wide the gap) but also of the efficiency of the intervention (its intensity). This approach gives greater weight to projects addressing wider development gaps and/or to projects that are innovative or creatively designed to deliver outcomes efficiently.

50. **This should lead to emphasising sector-level indicators, which should be used for a proper gap analysis and for monitoring progress at a more aggregate level.** There is still work to be done to identify how sector-level gaps and sector-level indicators would help fill the gap and address the missing middle problem as they would still be sector indicators rather than country-level indicators.

51. **The evidence shows that the transition results architecture focuses mainly on direct project-level results.** The Bank is therefore still unable to capture and meaningfully report above project level and on the medium-term outcomes of its activities.

52. Several evaluations provide evidence of this important issue. The special study on the *EBRD Trade Facilitation Programme*[12] emphasizes the lack of a results chain linking outputs to outcomes or impacts, the absence of on-the-ground monitoring and the general lack of comprehensive data on contributions to performance objectives, TQs, or country-level impact. The evaluation of *the EBRD's Public Sector Operations*[13], for example, found that weak results frameworks can lead to a misallocation of resources and that inefficient estimated portfolio TI scores can be aligned with measures of expected value creation for clients.

53. **Lastly, the *Evaluability Assessment of the TQs* (2020) takes stock of the experience of other IFIs in managing for development results (MfDR).** The results agenda, including in the EBRD, typically focuses on what is measurable and reasonably directly linked to a project. Measurement quickly becomes impossible or prohibitively expensive when it comes to an intervention's forward and backward linkages, the indirect effects of additional employment or wages, or the impact of facilitating trade or fostering economic development, etc. This is where modelling can help account for results beyond direct effects.

54. **What and how much can be modelled credibly is still being discussed and the data situation is limiting in many cases.** However, several examples do exist, such as the in-house modelling, or Joint Impact Model (JIM), etc. With more available data and a greater demand for looking at indirect effects, modelling will likely become a more important tool for the results agenda and could affect several conceptual aspects (on impact, attribution, and on additionality, etc.

vi) *Market-level outcomes*: Systemic change is not fully captured by the transition results architecture.

55. **The main limitation of the current EBRD's results architecture is its lack of ability to capture in a coherent, consistent way market-level outcomes (or "systemic change") whereas this is at the very core of the Bank's mandate.** It should be noted here that systemic change is different from project-level outcomes/impact and indirect/induced effects.

56. **Systemic change refers to fundamental changes to structures, behaviours, or relationships by market participants.** Driving systemic change often involves changing the underlying roles, norms, structures, and incentives within a market system rather than focusing on the outputs and outcomes of an individual project.

[12] Special Study, EBRD Trade Facilitation programme, May 2021

[13] Thematic Evaluation, EBRD Public Sector Operations: Mobilising Private Sector Participation in Infrastructure, May 2022. The short title, "Evaluation of Public Sector Operations" is used in this paper.

57. **Market-level outcomes are difficult to measure and attribute given the complexity of market systems, the wide range of actors, the context-specific factors, and the long timeframes that can be needed for systemic change to materialise.** As a result, monitoring frameworks frequently do not collect data on how projects have contributed to systemic change. Development organisations focus on systemic change for two reasons of scale and sustainability.

58. By catalysing systemic change, IFIs can effectively leverage and scale up the impact from their own financing. Systemic change can also improve the sustainability of results, by changing norms, behaviours, and relationships to embed results rather than relying on temporary development or concessional financing.

59. **The EBRD's own TI mandate is defined as a contribution to systemic change.** As an example, the 2023 Joint Impact and Sustainability Report plans to present the results of EBRD's activities across the six transition qualities linked to systemic change. Similarly, at the project level, the rationale for project selection is often predicated on systemic changes (e.g. by "providing positive demonstration effects"[14] or by "catalysing further renewable energy developments in the country."[15])

60. **The transition results architecture does not allow for a coherent, consistent assessment of the contribution to systemic change of Bank activities, although the current ETI methodology does capture some of this.** For example, projects with large innovation capabilities receive a high ETI score, as do projects with policy dialogue or skills transfer, because the contribution to systemic change is recognised and rewarded. What is missing is a coherent treatment, an approach that clearly distinguishes between project and market outcomes (systemic change). Also missing is a set of market-level indicators to monitor market outcomes in a coherent way when relevant (for example, for large or highly innovative projects, or for frameworks achieving impact through scale).

61. **This is a missed opportunity for telling the full story of EBRD's impact.** This challenge is well known and the Bank would benefit by monitoring externalities. Even if the Bank supports individual private sector clients and the total volume of its investment is not significant compared to sector size, positive changes spread through client interactions with other market players. Cumulatively they have a systemic effect that could be identified and claimed.

62. **Management did attempt to use more rigorous methods to assess broad impact on at least two occasions.** First, in 2015, while discussing key lessons from country strategy updates, Management noted that it would explore ways to better "track demonstration effects (e.g., surveys, market research)". Again, in 2017 when introducing the *Compendium of Indicators*, the limitations of the proposed system -- of gathering only client level data -- were acknowledged. It was noted that systemic effects (demonstration effect/multipliers) of Bank activities would be assessed at country/ sector/ thematic level through more rigorous evaluation methods (e.g.,

[14] Hamkorbank 2021 BM.

[15] Karakalpastan WPP BM.

surveys). Evaluation work also confirmed in several instances that monitoring and measuring systemic change is needed to understand and tell the "Bank's transition story" for greater accountability and learning.

3. Operational-level evaluation insights

4 The ETI methodology, a key measure of EBRD's impact, reflects the stratification of multiple priorities and does not cover the whole range of Bank activities.

Evaluation findings

- *There is a lack of clarity about the ETI purpose and methodology that dilutes its central role in incentivising and measuring impact.*
- *There is no consistent method to measure and monitor TI stemming from non-transactional policy work.*

vii) The ETI methodology plays a key role in helping the Bank focus on highly impactful activities; however the current stratification of incentives dilutes, to some degree, its central role in incentivising and measuring impact.

63. **Evaluation evidence confirms the importance of an ex-ante assessment of TI in keeping the focus on TI.** For instance the "Evaluation of the SIPs under the SCF2021-25" emphasizes the role of the ETI score as a fundamental tool to maximize TI. Over the years, evaluations have looked closely at the mechanics of the ETI computation and shared insights with Management.

64. A key issue identified is that the current mechanism of ETI uplifting is the result of a stratification of different priorities that are not always coherent. **It would be important to reflect on how the transition parameters fit into a broader context of the Bank's strategic relevance.** Evidence suggests a need to clarify the link between ETI and the Strategic Capital Framework (SCF) ahead of the preparations for the upcoming SCF, to ensure that strategic priorities are conducive to TI and vice versa. There is a sizeable challenge in implementing a consistent yet lean approach to TI as the current lively debate on performance and results measurement challenges across the IFI system and in individual shareholder governments confirms clearly.

65. Furthermore, a recent Internal Audit Report[16] extensively discussed the primary issues with the ETI methodology, providing important recommendations: so far, 12 out 14 audit actions have been completed, including among others: i) add Inclusive questions for standalone FI operations;

[16] IAR 21/01 Transition Objectives Measurement System (TOMS, including Monarch) for new Banking and Donor-funded standalone operations (all sectors) (2022)

ii) develop a classification of project impact ambition based on ETI scores; and iii) develop actionable scenarios to better capture non-transactional TCs in the ETI score of related projects. The latter is of particular importance and is discussed in the next section.

66. **The introduction of Monarch is a major innovation in the ETI scoring process, which has the potential to make its computation more transparent, clear, and streamlined.** The qualitative evidence gathered by evaluations over the last year indicates general satisfaction with how this process functions despite some minor complaints about small and fixable glitches (e.g., the need to restart the TI assessment to verify how changing one question affects the ETI score).

67. **Evaluation also highlights the sizeable investment made to develop proprietary and core information technology (IT) infrastructure through Monarch as one of the most promising EBRD initiatives over the past decade.** However, despite the Data Governance team's important work to define appropriate data standards and practices, there has been no equivalent effort to centralize, coordinate and structure the Bank's statistical information and datasets.

viii) There is no consistent method to understand and capture impact stemming from policy work non-associated to investments.

68. **The enhanced structured approach to policy dialogue (EAPD, 2015) states that the EBRD recognizes policy reform dialogue as a core activity on a par with investment projects and technical assistance.** It also defines policy dialogue at the EBRD and differentiates between reform advocacy[17], policy advice [18] and technical assistance to support the implementation of reforms.[19]

69. IEvD evaluated policy dialogue specifically as a thematic topic in EBRD policy work in SEMED, published in late 2020, the first ever thematic evaluation of policy dialogue, and EBRD's "Experience with Policy Dialogue in Ukraine", published in 2014. An evaluation of the Bank's engagement in policy dialogue focussing on results and performance is currently ongoing and will be delivered in 2024.

70. **Evaluation work highlights the need to distinguish between policy work associated with investments and policy dialogue non-associated with investments.** The need to capture TI

[17] From IEvD's 2020 Policy Work in SEMED evaluation: Rooted in robust country diagnostics and thematic/sector analytical work, reform advocacy represents regular EBRD interaction with relevant authorities with or without the involvement of the private sector, at national or regional level. Reform advocacy aims to further general or reform agenda points, providing analytical evidence of problems, sharing knowledge, including on best practice, and to nudge thinking and gauge reform appetite and commitment. EBRD may also assist with establishing and maintaining platforms for public sector – private sector dialogue on policy reform.

[18] From IEvD's 2020 Policy Work in SEMED evaluation: Policy advice is provided by or under the leadership of EBRD experts on policies and legal/regulatory framework, based on analytical work and experience elsewhere. EBRD offers policy options to authorities who are committed to reform in the given area and who have requested such services from it.

[19] From IEvD's 2020 Policy Work in SEMED evaluation: Complementing policy advice, the Bank may provide capacity-building technical assistance to institutional counterparts to support the implementation of policy reforms.

stemming from the latter one clearly emerged as the ETI methodology only incorporates the former one (Box 4).

71. **Policy work non-associated with investments remains at the margins of the Bank-wise incentive mechanism.** For instance, in the corporate scorecard, transactional policy dialogue is somewhat captured by the ETI/PTI whereas the non-transactional policy activities are not included, except for some qualitative highlights in the Composite Performance Assessments (CPAs), which are aggregate measures representing each TQ through a set of indicators and some narrative.

Box 4:	Understanding policy work (non-)associated with investments
•	When it comes This report uses interchangeably the terms "(non-) transactional" and "(non-) associated with investments"
•	However, there is a need to nuance the use of this terms between transactional vs. non-transaction, as some non-transactional policy is credited in project-related ETI.
•	The example here is the renewable energy auction TC, which represents one of the largest components of the Bank's non-transactional policy work.
•	As this policy work is in effect investment enabling, it has been credited in the past as policy engagement in the Bank's follow-on renewable energy transactions.
•	Its impact will therefore be captured in project-specific ETI scores.

72. **There is much recent IEvD work on the challenges around the evaluability of policy dialogue in the Bank** covering definitions, assessment methods, IT resources, incentives, indicators, and reporting with respect to investments. A stocktaking analysis showed that, over the last three years, twenty validations looked at policy dialogue issues and most of them found that policy objectives either were not tracked and therefore not reported on or were not reported on fully in self-evaluations.

73. **Recent evaluation work has highlighted the critical nature of often intense policy dialogue in new areas, such as solar projects and** mentions that the contributions of policy dialogue to EBRD can achieve the desired transition.

74. The 2023 *Food for Thought in Challenging Times: Evaluation of the Agribusiness Strategy 2019-23* and the early results of its implementation found evidence of the "impactfulness" of the Bank's policy dialogue in Egypt, which was geared towards increasing the efficiency of Egyptian grain imports and unblocking its horticultural exports. It also found evidence of successful capacity building among Tunisian olive oil producers to increase value-added exports (see Section 4.2 of the evaluation). The policy work contributed to enhanced food security in countries vulnerable to commodity price shocks. Evaluations also found that EBRD clients welcomed policy advice particularly and that it was used as non-financial additionality in project approval documents.

75. In 2022 VP3 was restructured and policy dialogue work in the group was reallocated for a new start. There is ongoing work in VP3 on developing a TOC development and looking at

improving evaluability, with efforts to develop a better approach for capturing the expected impact of policy projects. Specifically, there is a commendable attempt to improve its practices for monitoring, capturing, and evaluating the results of its transaction-linked policy and reform engagements and to align with the best available practices in this area.

76. **Management is currently working to review the nature of policy work and to develop an approach concerning when such work could be considered policy engagement.** Work is also underway to implement a system for setting tracking, monitoring, and assessing policy objectives through the new Policy Compact, which replaces the system of policy priority objectives[20] tracked in sector scorecards, whose weaknesses are also discussed in earlier evaluation work.

5 The ETI methodology has not evolved meaningfully to adapt to a changing context.

Evaluation highlights

- *The ETI methodology, and the TQs framework more broadly, are not fully adequate to capture impact in contexts of crisis.*
- *The transformation agenda confirms the central role played by the ETI, but approximately 70 per cent of EBRD projects[21] benefit from streamlined TI assessment under frameworks.*

ix) The TQs framework, and to some extent the ETI methodology, are not suited to fully capture transition impact in contexts of crisis.

77. **Multiple crises over the last two years have once again highlighted how the TQs framework, and subsequently the ETI approach, is not suited to estimating TI in the current development landscape.**

78. Furthermore, as already discussed in Message 2, the Resilience TQ provides no clarity on any expected incremental effects of crises, counter reversal or otherwise, against which outcomes can be assessed. The multi-crises context exacerbates the unresolved tension between strengthening resilience pre-crisis and preventing reversals post-crisis.

[20] Taken from the SEMED paper: Country strategies identify five-year investment and policy objectives. From the five-year CS priorities, medium-term priority policy objectives are set out to be achieved through annual policy milestones (formerly Priority Policy Objectives [PPO]).
[21] Around 250+ investments per year.

79. **The TQs do not capture the elements of shock as currently defined: the Resilience TQ is relevant primarily to operations in a non-crisis context.** The TI indicators (benchmarks) in the Compendium of Indicators focus on improving client resilience in the event of an exogenous shock (financial and energy-related), which supposes that the client is not sufficiently resilient to withstand a shock that has not occurred. Evaluations highlighted that if crisis response assistance is to prevent transition reversals, the current toolbox does not offer suitable indicators under the Resilience TQ or the other TQs.

80. **Evidence shows that the Bank's current approach to TI is not designed for a crisis response, and certainly not for emergency liquidity support.** Recent evaluations including the rapid assessment of the Solidarity Package (SP) and the real-time evaluation of EBRD support to Ukraine highlighted the inadequacy of the Bank's approach to TI in times of crisis, especially for emergency liquidity support.

81. **For example, the SP rapid assessment found that the available means of verification do not allow for any firm conclusion about SP effectiveness beyond the information about projects being on or off track.** All Tier 1 projects implemented between March 2020 and June 2021 are on track to achieve their transition objectives and, based on the available transition portfolio data, only a very small fraction (2 per cent) of Tier 2 projects are off track.

82. **The average expected and portfolio TI of SP projects shows rates higher than the target range in the Corporate Scorecard, but information is lacking on the rules assigning the ETI rating.** Overall, the SP projects display an average PTI of 70.0, above the new 67 scorecard floor; at 70.5, the average PTI of the 39 projects completed in Q1 2021 is higher than the ETI at signing (63.6).

83. **Inconsistencies have been found, particularly in the rules assigning the ETI rating under the RF, and the rationale for operational guidelines remain unclear.** For instance, no explanation is available as to why new FI operations should be rated as follows: EU countries + Turkey: 60; EEC and SEMED: 70, CA: 80 -- or why corporate and sub-sovereign projects get the same PTI rating as the most recent operations whereas FI projects get a new ETI that is fixed for the region.

84. Evaluation work also flagged the decision not to develop a specific measure for SP projects, despite the significant limitations of the current tools (ETI/PTI and Compendium of Indicators), as for example, regarding jobs-related measurement, including job retention.

85. **The recent Real-time Evaluation of EBRD support to Ukraine also confirmed that the ex-ante measurement of TI in Ukraine is somewhat inconsistent with the overarching TI approach.** In many cases, the TI benchmarks listed in Board approval documents will not provide a meaningful assessment of impact.

86. **The ETI computation of support provided as part of a crisis response under the Resilience and Livelihoods Framework (RLF) remains limited.** For legitimate reasons of expediency, the RLF sets a standardised ETI score of 70 for all projects in Ukraine having two TQs. The implication is

that ETI is effectively not used to screen and select projects in Ukraine and that the subsequent analysis of the ETI of projects in Ukraine will not provide meaningful conclusions.

87. **This together with the shortcomings of the TQ Resilient raises questions about the appropriateness of the Bank's measurement system in crisis situations.** As a potential follow up of this Evaluation Synthesis (Phase 2), there are discussions with Management to collaborate on preparing a deep dive on the Resilience TQ, which may also inform a review of the ETI approach in a context of crises.

x) The large majority of EBRD interventions[22] benefit from a streamlined assessment of TI. This raises questions around the trade-off between efficiency vs. rigour in understanding and measuring TI, differences in scrutiny, both ex-ante and ex-post, and methodological issues on measuring TI at framework level.

88. **The issues highlighted by recent evaluation work regarding the ETI methodology in times of crisis[23] should be seen in the broader context of the difficulty of measuring the TI of projects with streamlined TI assessments under frameworks.** For example, the evidence from the IEvD EBRD Green Cities Programme Interim Evaluation (2016-21) shows that, for widely successful programmes, the Bank has thus far missed the opportunity to monitor TI in a way that is commensurate with programme size and importance.

89. **More generally and based on a preliminary internal analysis, the project share that receives a standalone assessment is around one-third[24], while the share that benefits from a streamlined assessment is around two-thirds.** Other institutions (i.e. IFC) require much more scrutiny on a project-by-project level, raising the question of whether the EBRD has gone too far in terms of efficiency.

90. **Frameworks in the EBRD currently take different approaches to ex-ante impact assessment and monitoring: some are rated at framework level, both ex-ante and ex-post while others allow individual assessments of projects.** For the former type, for example, the Women in Business (WiB) and the Green Economy Financing Facility (GEFF), evaluation work noted a risk of sub-optimal data collection practices at sub-project level.

91. For the latter type, the Green Cities programme provides an example. While the monitoring and reporting is on a sub-project basis, the recent *EBRD Green Cities Programme Interim Evaluation (2016–21)* demonstrated that the EBRD is still unable to capture the full impact of such a successful programme at the municipal level.

[22] Approximately70 per cent (Source: Impact team data ri-elaborated by IEvD)

[23] For example, the SP Tier 1 Resilience Framework in 2020 and 2021, the Resilience and Livelihood Framework for Ukraine and other affected countries and the recent package to support Türkiye's earthquake-hit region.

[24] Source: Impact team, 2023

92. **The second issue relates to measuring TI at a framework level and the discrepancy in the scrutiny of stand-alone projects and of projects under framework, both ex-ante and ex-post.** Evaluation work highlighted that the derivation of the ETI for them remains unclear as does how TQs are assigned and the extent to which frameworks are leveraged to deliver specific branches of the TOC of the six TQs.

93. **There is a serious risk of providing a partial picture of performance given that understanding the TI of frameworks requires a different approach to collecting and analysing data.** This affects EBRD's self-evaluation system and its results architecture.

4. Conclusions and suggestions

94. **Whereas the EBRD was the first to evaluate "impact" beyond financial returns by enshrining the TI objective in its mandate, its transition results architecture is not yet fully fit for purpose.** It has been refined over the years through a complex and, to some degree cumbersome, system of incentives and checks and balances to guide the Bank's operations through the triangle of sound banking, TI, and additionality.

95. **This synthesis confirms the relevance of the findings of the Kirk Report and of the evaluation work of the last years and of the need to address them.** Improving the overall approach to estimating, measuring, monitoring, and reporting TI remains complex but essential for the institution. The issues highlighted by evaluations and summarized in this synthesis require analysis and reflection followed by senior level decision-making and adequate resources.

96. **The following suggestions build on the findings of this synthesis of the recommendations provided thus far by independent evaluations.** They also go an extra mile by offering additional ideas for further reflection. The overarching goal is to inform Management's ongoing efforts to equip EBRD with a more robust and reliable system.

Suggestion 1: Re-focus efforts on measuring systemic change (market outcomes), which may include 1) articulating "transition pathways" for each TQ based on Theory of Change at sector level; and 2) reviewing the ATQs to better understand transition gaps by sector.

97. **The current transition architecture does not produce enough information, understanding or monitoring of the Bank's contribution to country-level transition.** Management recognized this shortcoming in 2015 and proposed to develop explicit results chains at sector/subsector levels as part of the standardised TI assessment methodology (SGS15-145).

98. **Thematic/sector frameworks can define a TOC (development impact thesis) for each sector and for project outcomes reflecting the key impacts expected from EBRD interventions in the sector.** Each project outcome touches on one or more core sector outcome (e.g., for the power sector, increasing access and cutting emissions) and is substantiated by pre-defined indicators in the sector framework.

99. **Project outcomes are typically sector specific. There may be more than a single outcome – such as job creation – and cut across all transactions for which the relevant indicators are tracked and reported.** This should also lead to a review of the ATQs – from country level to sector/thematic level. The issue of the "missing middle" could be solved and systemic change should be measured in the context of "relevant market" (e.g. sector).

100. **Lessons from other IFIs may be relevant:** The IFC, for instance, has developed "explicit" sector-level TOCs that are embedded in its Anticipated Impact Measurement and Monitoring (AIMM) system, on which the rationale of single projects can be based. AIMM mainstreams the ex-ante selection of projects based on their direct outcomes and systemic market effects. The ex-ante impact of an investment is assessed at project level by assessing project outcomes for its stakeholders, the government, and for environmental and social sustainability, and at market level (systemic change), by assessing the project's contribution to market creation.

Suggestion 2: Modelling may greatly help better understand the wider impact of the Bank's interventions and bridge the "missing middle"; it is suggested to undertake a feasibility study to understand what and how modeling tools are suitable for the EBRD.

101. **The Bank could consider introducing modelling tools that can make estimations and/or measure externalities induced by its interventions.** Project-level information and results do not suffice for assessing transition performance and the aggregate contribution to an objective/strategic theme/country.

102. Other types of modelling (i.e. Economic Fitness) may help in rethinking the approach to measuring progress across the TQs.

103. **Modelling as an aspect of impact measurement and especially its use for impact assessment, has often been the object of lively debate at the Bank, in the OCE and on the Impact Team.** This complex issue has been revisited more recently by looking at the concept of Economic Fitness and complexity, which Management is considering adopting to enhance its suite of impact management and analytical tools.

104. **Other MDBs and IFIs have identified a growing need to examine the impact of their operations or portfolios more broadly, beyond direct results.** For instance, the European Investment Bank (EIB), Proparco, the British International Investment (BII, former CDC), the Dutch Entrepreneurial Development Bank (FMO) and other MDBs use the Joint Impact Model (JIM), a modelling approach based on social accounting matrices, to estimate the impact of interventions on indirect results (Box 5).

105. **Modelling tools hold the promise of expanding the scope of captured effects. However, modelling needs to be implemented gradually in a phased approach.** Therefore, this evaluation synthesis encourages Management to undertake a study on the feasibility of modelling, identifying the most suitable models and establishing priorities in terms of modelling for EBRD.

Box 5: The modelling most used by IFIs: the Joint Impact Model (JIM)

The JIM enables the quantification of indirect jobs, value added, and greenhouse gas (GHG) emissions related to investments of financial institutions. The aim of the initiative is to bring comparability, accountability, and transparency to the financial industry by measuring key impact indicators in a harmonised way.

- WHY - Measuring and reporting on impact in a consistent and comparable way is essential to evaluate progress towards global development needs and priorities, assess effectiveness of investments and drive impactful actions.
- Prior to 2019, approaches to measuring and reporting on the indirect impacts of investments have varied from one organisation to the next. Even though indirect impacts are fundamental to understanding the development effects of investments, measuring them is complex, and even more so for a full portfolio of investments.
- Several IFIs recognized this challenge and explored opportunities to align their approaches on indirect impact modelling. As a result, in January 2021, the DFIs launched the JIM.
- WHAT - Using input data such as revenue and power production from investment portfolios, the JIM enables users to estimate financial flows through the economy and its resulting economic (value added), social (employment) and environmental (greenhouse gas emissions) impact.
- These impacts can be used to measure and report on the contribution of individual institutions to the Paris Agreement and the UN SDGs.
- HOW - The JIM is characterised by its harmonised, transparent methodology and assumptions, public availability, collaborative nature, up-to-date macro-economic statistics, security features and user-operated style.

(*Source:* JIM, 2023)

Suggestion 3: Rethink the conceptual definition of the TQs and their operationalisation, for example starting from the Resilience TQ, to better understand, capture and measure transition impact, including in a context of crises.

106. **Evaluation evidence suggests redefining and coordinating the content of TQs to create objective observable and quantifiable benchmarks.** This would promote the design of ambitious projects addressing such benchmarks, in line with the recent reorganization of the Inclusion TQ led by the Gender and Inclusion Unit.

107. **This could also expand the definition of the Resilience TQ to create a transition narrative that enshrines operations to address the COVID-19 pandemic, support for Ukraine and future emergency operations in EBRD's mandate.**

108. **The Resilience TQ should be reviewed to provide clarity on any expected incremental effects of crises, counter reversal or otherwise, against which outcomes can be assessed.** That would also help review the current approach to measure impact in the context of crisis response (i.e. in relation to emergency liquidity support.)

109. This evaluation notes that Management appreciates the need to better assess and strategically engage with the Bank's activities for strengthening resilience. A recent Impact

Horizon note on resilience thinking describes gaps between the current approach to resilience at EBRD and how the latest academic literature understands resilience.

Suggestion 4: Review the ETI methodology as the key tool to incentivise and measure impact, and include it in the context of crisis. This can be complemented by developing a dedicated assessment to capture TI stemming from policy work non-associated with investments.

110. **This evaluation synthesis confirmed the importance of the role played by the ETI methodology and the need to re-focus it as a tool to incentivize and measure Impact.** For instance, this would mean that the score should only measure impact rather than crediting strategic priorities or specific instruments "per se".

111. **The mechanism of uplifting might be reviewed to provide a higher score for more impactful projects, which would imply removing uplifts that reward country strategy fit as well as specific financial instruments per se.**

112. **The ETI assessment may be reviewed also to consider the possibility of a negative TI component and the presence of positive/negative externalities.** Together with the characteristics of these projects, this would contribute to training algorithms embedded in Monarch to automatically score future projects. The assessment should assist in selecting the questions in the TOMS questionnaire that successfully predict project ETI, eliminating those with low predicting power and thereby shortening this procedure.

113. **Finally, reflecting on policy work is also proposed,** including i) better identifying policy work associated with investments vs. policy dialogue non-associated with investments; and ii) eventually considering the development of a dedicated ETI methodology for the latter.

Other potential ideas for further consideration from the "external assessment"

114. Other suggestions from the external assessment (Annex 1) include automatizing and streamlining TOMS leveraging Machine Learning tools to update Monarch and centralizing the data function to coordinate the collection of statistical information across the Bank in support of self-evaluation and results reporting. This evaluation acknowledges the current limitations of using AI.ML, including data paucity, timing and economic complexity, among other things. Further reflection, including on resources, may be needed to ensure that the EBRD can effectively capture potential TI.

115. Regarding the centralization of the data function to coordinate the collection of statistical information across the Bank, it should be noted that the EBRD has undertaken an unprecedented effort to design a core IT infrastructure by developing Monarch and its predecessor project, Christopher. This was accompanied by an effort to standardize data governance across the Bank

by establishing a dedicated unit to set data governance standards. However, the ownership of data and input processes is highly decentralized; the fact that each team inputs and is responsible for its own data somewhat limits the access to datasets scattered across the Bank and a consistently applied standardized and comparable process of data collection.

116. The suggestion, therefore, is to consider a more centralized approach to data collection and management to enable better data quality using centralized data-quality checks and consistent data collection processes. This would help Management strengthen data availability, fruition, and quality over time, which are key for making it possible to tell a compelling story of the Bank's impact.

117. There has been momentum these past years to coordinate data management, with the data committee and the appointment of the Chief Transformation Officer. This essential function plays an important role in two critical areas. First, in promoting integrity, transparency and uniform standards across the Bank's data sources, with an associated mandate to supervise, collect, manage, and systematize data and centralize the statistics function that is dispersed across the Bank. Second, this data source and statistical foundation would facilitate impact and results measurement at the institutional level for EBRD as a whole.

Annexes

Annex 1. Technical Note - External Assessment of the EBRD's approach to transition Impact

Annex 1. Reference list

Annex 1 - Technical Note - External Assessment of the EBRD's approach to transition Impact by Prof Limodio

Measuring Transition in Transition: Review, Assessment and Innovation[25]

Report for the EBRD Evaluation Department

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Outline

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1. Introduction

The mandate of the EBRD spans three essential elements: sound banking, transition impact and additionality. The consideration of a transition impact component made this institution a first mover in the market for impact investing, which currently spans a growing number of DFIs and impact investors. The concept of transition impact is a landmark in the Bank's life, operations, and intellectual environment. As the first Transition Report in 1994 stated in its introduction: "*the measurement of transition will remain a central theme (...) in the years ahead*". In fact, the bank has invested significant resources in elaborating and formalizing the concept of transition impact by introducing a sophisticated system of transition qualities, country strategies, evaluability frameworks and systems of result assessment. All of this was implemented with the objective of moving transition impact from ambitious to achievable.

At the same time, the EBRD stands out with respect to other MDBs, DFIs and Impact Investors due to its unique combination of a business-oriented mind, through the banking units, and role of thorough economic analysis. The presence of a lively and spirited debate enriches the EBRD in its ability to speak to the mandate, while simultaneously undertaking pioneering banking projects and contributing intellectually on transition and impact. This interaction is also due to the formal system of incentives, checks and balances, which reinforce the interaction between bankers and economists, making it productive and systematic in its operations. The presence of the ETI in the scorecard and its interaction with project approval provides a comforting commitment to a project selection that actively promotes transition impact.

At the same time, it would be disingenuous to disregard the existence of frictions and discord considering the formidably complex nature of its ultimate transition goal. While the three objectives of the bank (sound banking, transition impact and additionality) have equal standing in principle, sound banking is the most prominent in practice, through the cycles and operations of the bank (page 48, Evaluability Assessment EBRD TQ). At the same time, the definition and measurement of transition impact undergo periodic revisions partly due to the presence of vestigial legacies emerging from the gradual accumulation of reforms and adjustments. On the contrary, part of these revisions is necessary considering the ever-changing concept of transition impact.

The original notion of transition was set to promote a move towards "open market-oriented economies and to promote private and entrepreneurial initiative" (Article I, Agreement Establishing the Bank) and focus on countries formerly belonging to the Soviet bloc. However, over time, this concept quickly broadened to novel countries of operations (southern and eastern Mediterranean countries) and different objectives (sustainable development and green economy), further shaped in the last years by the Covid19 pandemic and the Ukrainian war. At the same time, some central topics in the business of the EBRD have undergone profound reconsideration over the past few years, like the role of the state in the economy, with a corresponding reflection in the notion of transition impact.

In light of this "transition in transition", the EBRD has been undertaking several incremental updates of the transition concept as well as methodology to measure project's impact. The formalization of the concept dates back to 1997 and has been steadily adjusting to new challenges and scopes. Around 2000, procedures for assessing expected transition impact (ETI) and portfolio transition impact (PTI) were developed and implemented in an earlier information management system known as PAM (project assessment and monitoring). A significant overhaul occurred in 2016 when the current concept of the impact of the transition emerged through the six qualities (competitive, well-governed, green, inclusive, resilient, and integrated). This moment also saw the operationalization of the updated concept in terms of project evaluation, which led to the introduction of the ex-ante transition impact (Transition Objectives Measurement System – TOMS) and the ex-post transition impact delivery (Transition Impact Monitoring System – TIMS), which are part of a broader architecture of result assessment and evaluability.

Another critical moment in the evolution of transition impact measurement is represented by the adoption of Monarch, an information technology (IT) system. In fact, the EBRD retains a technological advantage with respect to other MDBs, DFIs and Impact Investors operating in this area. The significant resources invested in Monarch, and its pilot Project Cristopher, made the measurement and evaluation of transition impact more transparent, general, objective, and implementable. This system has profoundly shaped the workflow of transition impact measurement. The experience of Monarch gives the EBRD a technological advantage in transition evaluation and impact scoring, with this investment potentially able to deliver financial returns in the future by making this product a commercial success.

Section 2 presents a brief history of evaluation. In section 3, I offer an assessment of the current system, including some recommendations for reforms and innovation. Concluding remarks are found in section 4.

2. History of Transition

Defining the concept of transition has represented a central focus and challenge for the EBRD. Over the years, the Bank's approach to defining and measuring transition has significantly developed, with strategic and operational implications. Initially, transition was conceptualized and assessed largely at the level of individual projects, and systems of assessment and measurement were built accordingly. However, over time some crucial external developments brought new perspectives on transition and the Bank's mandate. (Source: Evaluability assessment Of EBRD's Transition Qualities)

The concept of transition was first defined in a paper by paper by Nicholas Stern and Hans Peter Lankes in 1997. It provides an instrumental framework in guiding project selection, identifying transition priorities at national and sectoral level and for ex post project evaluation. According to the authors, "transition concerns bringing economic interactions onto a market basis and promoting private and entrepreneurial initiative." Accordingly, they identify three key dimensions (and seven sub-areas), crucial to assess the contribution of the projects to transaction impact: 1) the creation, expansion, and improvement of markets; 2) the establishment and strengthening of institutions, laws and policies that support the market (including private ownership); 3) the adoption of behaviour patterns and skills that have a market perspective.

With the refinement of this procedure, a typology was created that classified project characteristics by sector into those that would have a stronger or weaker impact, giving the Bank's economists the opportunity to assess a project's relative merits using an ordinal scale. Additional improvements included the notion of risk (of not achieving impact) and, in 2013, the introduction of the Expected Transition Impact (ETI) metric which combines transition potential and risk (Source: 2016 Transition Concept Review).

Therefore, the initial transition rating system has been designed to capture the strength of the Transition Impact contribution of each project – the transition impact potential – and the likelihood that such a contribution will happen – the risk to transition impact. These two elements have been utilized to evaluate the quality of the flow of new projects and track changes in the stock of projects' quality as they are implemented (Source: 2018 Transition Impact Methodology

Update). The transition impact checklist also provided the basis of the Assessments of Transition Challenges (ATCs), with the purpose of measuring, sector by sector, the progress a country in the transition to a market economy.

This framework has faced several challenges over the years, requiring the expansion of the Transition Impact Checklist to update or add the following:

118. *Role of institutions:* the 1997 framework underplayed the role of the state, or of state capacity, in a market economy. The financial crisis, however, showed that transition is about refining the state as opposed to minimising it. It should aim at improving the quality of public and private institutions and ensuring that they work well together;

119. *Environmental considerations:* although the environmental issue was central to the Bank's operations, its link to the transition concept was not straightforward. In 2009 (SC/FO/10-16) the transition methodology was updated to emphasize energy efficiency and low-carbon growth in CoOs, to contribute to combat the climate change. What is more, a growing understanding of environmental challenges led to the implementation of a dedicated strategy in 2015 addressing these issues under the Green Economy Transition (BDS15-196) (Source: 2016 Transition Concept Review).

Gender and inclusion: until 2013, considerations about the role of inclusion were formally absent from the framework. In 2013, the transition methodology was updated to make the relationship between transition and "economic" inclusion more explicit (Source: 2016 Transition Concept Review).

2016 Transition Concept Review

In 2016, there has been a review of the framework in light of two key developments. First, the evolution of the economies of the Bank's region, also because of the Bank's expansion in the Mediterranean area. Second, the evolution of the understanding of what constitutes a well-functioning market economy and expectations of what it should deliver.

In light of these advances, the Bank commissioned a panel of experts to review the transition concept and provide recommendations. The panel was chaired by Tim Besley (LSE) and included Sergei Guriev (Sciences Po) and Beata Javorcik (Oxford), to which I offered support throughout the process. In addition, the Board of Directors held informal discussions about the transition concept and its application and produced an informal note on the proceedings explicit (Source: 2016 Transition Concept Review). The 2016 Transition Concept Review Paper (BDS16-181), deriving from this work, introduced a new transition assessment framework that is more suited to the current challenges in the expanded Countries of Operation.

After retracing the history of the transition concept, its evolution, and limitations, the 2016 Transition Concept Review Paper sets out the broad definitions of the six qualities of a well-functioning market economy (Source: 2018 Transition Impact Methodology Update). The revised transition concept is based on three propositions:

1. The Bank's mandate is to foster sustainable market economies;

2. A sustainable market economy is competitive, well-governed, green, inclusive, resilient and integrated;
3. The framework of priorities and measurements against which the transition impact of Bank operations is assessed should reflect country circumstances (Evaluability assessment Of EBRD's Transition Qualities)

While the previous TI methodology emphasised the promotion of "structural" aspects of a market (such as through private ownership, expansion of competition), the new methodology focuses on the revised transition concept of promoting six key "qualities" of a sustainable market economy, that are competitive, well-governed, resilient, integrated, inclusive and green (Source: 2018 Transition Impact Methodology Update). The application of the new transition concept to the evaluation of the transition impact takes place through a tool called TOMS (Transition Objectives Measurement System).

A prototype of this new tool was made available to EPG economists in November 2016, for internal testing, leading to feedback and refining. A Compendium of Standardised Indicators has been also introduced to provide consistent, joined-up objective setting and results measurement. The Compendium is a catalogue of indicators (output, outcome, and impact) for measuring projects' performance that are compatible with the principles of TOMS and the revised TI methodology. In practice, the system finds an indicator automatically for each question and answer entered in TOMS that relate to a particular quality.

In January 2017, directors received a presentation of the new methodology and tool, along with an explanation of how to use them to create an TI narrative, develop monitoring indicators and derive a score for each case. Soon after, the banking teams became more formally involved in using the TOMS prototype. Effective July 1, 2017, all submitted projects switched to the new TI evaluation methodology.

3. Review of documents, Assessment and Recommendations

The main limitations of the TQ framework and possible solutions to improve the evaluation process have already been the focus of a lively debate at the EBRD. In this regard, one of the main areas for improvement highlighted by the Evaluation Department is the monitoring and reporting of results, which limits the Bank's ability to demonstrate its impact in terms of transition.

According to the IEvD there is a critical need for a consolidation of results-related functions, simplification of existing tools and processes, and the collection of novel and more accurate data. (Source: Improving Transition Evaluability to achieve the priorities set in the SCF 2021-2025 – IEvD discussion paper 23-9-2020). Significant improvements have been made in this respect in recent years and further promising initiatives have just been launched. However, there are still several advances that could be implemented to further strengthen the overall system.

In light of the major issues identified thus far and the suggestions already discussed by the IEvD and other EBRD units, in this section, I critically assess and discuss some of the frictions that exist in the methodology for measuring transition impact. Hence, I propose a comprehensive intervention with the objective of further automatizing the transition impact methodology in application to Monarch, making its structure leaner and addressing the issues of overlaps between TQs, quantify TI risk and negative effects, and implement a feasible theory of change.

The overall intent of this proposal is to simplify, automatize and operationalize the methodology of transition impact measurement.

Each item in this section presents a solution, as indicated in the executive summary, and expands its discussion with details and content.

Automatize and streamline TOMS introducing Machine Learning methods on Monarch

Problem: One of the most important issues that emerged during the interviews and review of documentation is the opinionated consideration of the ETI score at the Bank.

During most meetings and conversations, views were quite balanced on this issue, with a core support for the overall process combined to a healthy dose of skepticism. At the same time, there appeared also to exist a non-negligible share of radical views.

On the one hand, some officials and units wholly support the process and objectives of the ETI scoring and hold a devout view of the transition impact measurement system. On the other hand, other officials and units are genuinely hesitant, hostile, or in some instances appear to conduct their job without a practical relation to the transition impact measurement.

The primary issues with this measure are thoroughly discussed in the Internal Audit Report IAR 21/01. The principal problem highlighted in the report is the lack of clarity of the ETI rating, which prevents this measure from being a useful tool for decision making. ETI seems to have become an ordinal scale with no shared understanding of what it is supposed to represent. In addition, the transformation of the methodology and the significant investments for designing and implementing Monarch do not yet appear to have realized the expected capacity creation benefits. Crossing three interrelated dimensions of TOMS - Methodology, Model and System - the audit highlights, among other issues, some weaknesses of the ETI methodology, model and consequently automation in Monarch.

1. The scoring mechanism is inc, without a shared understanding of the impact value proposition coming from it across departments;

2. Ambiguities in role and responsibilities in assessment of projects and approval of new ones; low control and lack of independent oversight over changes to the TI scoring model (e.g., new questions, changes to score values); limitations in the validation of data entered in Monarch and, in the general, system-enforced controls.

3. Challenges in validating the realization of benefits deriving from TOMS methodology and automation, mainly due to the still limited adoption of the new methodology. The review revealed that many operations were not evaluated in Monarch or were subsequently adjusted outside the system.

At the same time, the meetings highlighted that the introduction of Monarch constituted a major innovation in the ETI scoring process, which made its computation more transparent, clear and general.[27] During the meetings and interviews, there emerged a general feeling of satisfaction with the functioning of this process, despite some minor complains related to small and fixable

[27] For example, see the following: "ETI calculation functionality has been implemented correctly in the Monarch system and is understood and used correctly by bankers and economists" (page 2, IAR 21/01); "decrease from 9% to 6.5% of bankers' project time spent on TI" (page 6, IAR 21/01)

glitches (e.g., the need to restart the evaluation to verify how changing one question affects the ETI score).

From an independent perspective, two critical and separate issues emerge as influencing the spirited conversation on ETI and by a lesser extent PTI:

a. There is scepticism on the ability of the ETI score, and generally the TOMS/TIMS process, to accurately quantify the underlying transition impact induced by a project;

b. The extensive nature of the questionnaire and quantification in Monarch make the process exceedingly onerous and disappointing.

A final shared concern related to the ETI score that emerged from the review is the evaluation of the risk. The risk to transition impact is set by default to always be high, thus lowering the ETI score, while TI "reversion risk" is not systematically assessed. Some possible solutions to differentiate the transition impact at the project level (e.g., calibrating the risk according to contractual enforcements or take into an account performance of past projects) are presented in the summary of the discussion on the assessment of expected TI by Alexander Plekhanov.
To account for this factor, below, I also provide an alternative and viable way to incorporate the risk to transition impact into the ETI score.

Recommendations

Recommendations 1) and 2) aim at addressing both points a. and b. reported above by introducing the application of machine learning (ML) techniques in the transition impact measurement system and a novel unit tasked with a Transition Impact Measurement (TIME). I will describe the application of ML to Monarch here and leave the discussion of TIME for the next section.

4.1.1 Machine Learning and Monarch

Machine Learning is a branch of Artificial Intelligence that focuses on creating algorithms with predictive power and requiring negligible human intervention. By leveraging a sample of data, known as training data, various methods belonging to the machine learning literature allow to identify some unrecognizable patterns, which are then validated in the testing phase, and then used in additional datasets.

The increasing availability of large datasets combined with the long-term decline in computing costs has made these methods both impactful and popular in many fields of applications, both commercial (Amazon, Netflix et cetera) and research in social and natural sciences. Among several valuable applications, machine learning is particularly valuable for measuring objects that were previously unmeasurable, like the tone of a text, the colors of a picture and many more.

The current ETI calculation system, as already discussed, has several shortcomings and significant improvements could be made to reduce its complexity and make it easier to appreciate. In particular, using the cutting-edge ML techniques, this process could be automated and streamlined, thereby making the ETI score simpler, more accurate, and leaner.

It is important to note that there may be considerable advantages to entirely substituting the present ETI scoring methodology with an ML model trained on previous project performance. However, being a time- and resource-intensive activity, it may prove unfeasible and/or too risky for the bank at this moment. Therefore, instead of completely change the system, my advice is to revise the current methodology to 1. increase the level of automation and 2. Take into account the evaluation and performance of past projects. Indeed, for the ETI to be able to speak in a credible and concrete way about the Bank's impact, it is essential that the system that computes this value is rooted in real data and evidence.

The application of the new methods to the assessment process should be accompanied by a comprehensive ex-post evaluation on which to apply a ML algorithm, which then is made available through Monarch.

I will present the objectives of this recommendation and then describe its details. The combination of this evaluation and ML would be applied beyond this recommendation to:

A. Produce a novel measure of transition risk

B. Quantify the impact to transition risk and components of negative transition impact

C. Automatically detect transition qualities (Recommendation 3)

D. Promote a feasible theory of change (Recommendation 4)

4.1.2 Comprehensive Ex Post Evaluation

To introduce an algorithm to further automatize the measurement of transition impact in Monarch and revise the current system, it is essential to elaborate a sample of projects that are used for the phases of training and testing. During these moments, statistical models are applied to a database of projects, which are evaluated and present the "ideal" measure of transition impact.

Specifically, it would be essential to launch a large ex post analysis of more than 25% of all projects executed by the EBRD over the past decade to guarantee a high accuracy of the algorithm. This assessment exercise is to be executed by Economists, Bankers, and the Impact team, which evaluate each project using the tools available, reconcile their views and quantify the expected transition impact.

The ex-post evaluation should allow for refinement of the various stages of the current ETI scoring system, using accurate evidence-based information. It should begin with a thorough examination of each project, assessing both the impact goals established in advance and their accomplishment, as well as any additional potential project-related areas that may be affected. Through the assessment, the team should also identify any negative impacts previous projects may have had, directly or indirectly, and decide what (if any) additional factors to monitor accordingly. In practice, given the proposal description, the project's development and the results obtained, the evaluation would return the transitions qualities to assign to the projects (without the two TQs restriction, as explained in section 4.3), the most appropriate questions – among a revised set of questions available in Monarch - given the project's objectives, the answer to the questions, the score, and the weight for each question. Finally, the team will verify and, if necessary, correct the resulting benchmarks and eventually add more. The score of each answer can change between different projects based on the number of qualities assigned but also on the characteristics of the project (for example, the country of interest, its political situation, etc.). In this way, higher score could be assigned to the most ambitious but riskiest objectives.

Along with validating and adjusting the existing approach based on lessons learned from previous projects, this comprehensive evaluation should also consider field missions to evaluate the completion of the project, assess and quantify the negative transition impact components and positive externalities, in line with the processes already implemented by IEvD. At the same time, the evaluating team of economists and bankers should bound the evaluated expected transition impact with ranges, based on similar projects performance, which go beyond the current point estimates which may not convey sufficiently meaningful information.

For example, two projects could both have an ETI of 60, but one of these would be evaluated as belonging to the 55-65 bound and another to the 50-70 bound. The first would have a lower risk than the second and this may convey information on both the risk to transition impact, and the potential negative components of transition risk. These bounds may be symmetrical, as in the example above, or asymmetrical depending on market conditions and an assessment of the evaluating team.

It should be complemented by a survey to the stakeholders of projects and collect their evaluation on the ability of projects to steer transition and impact, it would also be essential to survey all the personnel that has overseen each project and collect feedback on the best practices (and the worst practices) which are associated to each project.

4.1.3 Machine Learning Algorithms for Transition Impact Measurement

Upon completing the definition of the training data of existing projects, their evaluation should be merged with projects characteristics, benchmarks, and indicators to make the prediction of projects possible. In particular, each project should contain beyond the evaluation metric: a) the characteristics of projects (country, sector, borrower, EBRD team); b) the narrative of projects; c) financial data of the projects; d) the questions of TQ survey from Monarch, beyond other quantities.

After the comprehensive evaluation, the following steps lead to construct an algorithm quantifying transition impact:

A. Split the existing data from the comprehensive evaluation in a training and testing sample, these will be typically 80% and 20% of the overall population of projects belonging to the comprehensive evaluation;

B. Use existing algorithms based on supervised learning and natural language processing to back out the statistical regularities of both the textual and quantitative variables of projects and their ETI. Various algorithms should be used (random forest, trees, neural networks et cetera);

C. Apply the algorithms run on the training sample to the testing sample and verify their ability of predicting the transition impact measures defined during the comprehensive evaluation.

D. Use a different algorithm for different variables that are to be predicted: i) the expected transition impact measure; ii) the symmetrical range around the ETI measure that is a proxy of risk; iii) the likelihood that the project presents a negative transition impact component; iv) the likelihood that the project presents a positive externality on the market and economy. Define for each algorithm an accuracy score as well as a mean square error;

E. Use these variables to pick the algorithm that more accurately matches the results of the ex post comprehensive evaluation for each of the measures described in i), ii), iii) and iv).

F. Use the algorithm on new projects to quantify the ETI score, the risk of transition, the likelihood of a negative transition impact and positive externalities.

For the sake of simplicity, I have described a single validation, but of course a cross-validation should be implemented. This phase leads to replicate Step A multiple times and produce multiple cuts of the initial data into training and testing. Beyond these technical issues which should be addressed in a successive phase, this method effectively replicates the work of thousands of evaluators and bankers in marking each project with a measure of ETI, risk, negative transition impact and positive externalities.

Regarding the risk variable, I would recommend to define a symmetrical range around each project and let the algorithm estimate, based on project characteristics this range. This process could also include various measures of risk, which Monarch has been collecting and that have not been fully analyzed and used yet. This data could be used to feed the main algorithm to introduce an ex-ante measure of risk.

The last two variables (negative transition impact and positive externalities) could be managed in various ways. I would recommend to make these as simple as possible and create binary variables (a zero for no negative impact and no positive externalities, and a one for the other case) and let the algorithm predict the probabilities that these two independent events take place. Then a cut-off threshold could be decided (for example a probability exceeding 75%), upon which the system would raise a red flag of a potential threat of negative transition impact, or a green flag of potentially positive externalities to the market and the economy. These would join the final scoring of a project. Furthermore, the algorithm should be able to identify parameters that need to be closely monitored during the project lifetime in order to avoid potential negative impacts.

Once this algorithm is defined and implemented, it would be possible to study which variables affect its performance. This step would allow the experts working on this algorithm to indicate the components of the TOMS questionnaire that have a zero, or very low, predictive power and should be therefore dropped. In an effort to reduce the number of questions, various experiments could be performed in which questions are iteratively deleted from the initial dataset, to verify how robust the algorithm is to the elimination of this information.

Advantages

The introduction of Machine learning methods in Monarch, and so the automation and streamline of TOMS, have several advantages, including:

1. Improve the accuracy of the ETI computation process;
2. Streamline the questionnaire in Monarch ;
3. Create a system that automatically updates itself.

The fundamental exercise of collecting good quality performance and impact data by rigorously analyzing past projects and figuring out what actually worked and what didn't and why, would also be crucial to reviewing the PTI measure. In particular, it could allow the introduction of a measure of the risk and the identification of characteristics that indicate potential negative impact.

As mentioned above, the algorithm built to quantify the impact of the transition could be used to understand the components of the TOMS questionnaire that most determine its performance and eliminate those that have zero or very low predictive power. This would reduce the complexity of the evaluation process and shed light on the factors driving the impact of successful transition.

An additional advantage is that the use of ML techniques would allow the use of new data on phenomena hitherto impossible to study due to their lack of quantification.

4.2 Develop a novel system of transition impact evaluation

Problem
In the recent years, the EBRD has made important steps to develop a stronger and more organized approach to transition measurement. However, according to IEvD, the "systems and processes still do not, in aggregate, provide a sufficient basis for effective performance assessment and evaluation". The fundamental issues in this respect are: 1) The intended high-level goals with respect to the TQs are not clearly defined; 2) The causal relationship between inputs/activities and final goals is not explicitly explained (Source: Evaluability Assessment of EBRD TQ, SS20-160).

Among those officials and units holding a skeptical view of the ETI/PTI measurement process, there prevails doubts on the ability of this measure to capture any concrete real-world change in transition. This position cannot be easily dismissed, given the intrinsically noisy nature of this score, the presence of other valuable measures of social impact of projects at the Bank and the existence of cases in which the data processed by the institution may be of erratic accuracy. In this respect, according to the IEvD, "EBRD monitoring system's ability to show whether the achievement of expected results is on- or off-track is very limited; and particularly, it does not verify the information provided by the client" (Evaluability Assessment of EBRD TQ, SS20-160, pag. 32).

A problem underlined in the "Evaluability Assessment of EBRD Transition Qualities, SS20-160" is the inability of current monitoring systems to provide the mid- and long- term observation of projects' impact required to detect systematic change. Although transition outcomes are often achieved years after physical/financial completion, the projects are only monitored until they are finished/repaid. In addition, the existing approach fails to capture positive externalities, demonstration effects, indirect and induced results as well as any multiplier or additional effect related to collaboration with other institutions. A further crucial point, is the lack of integration of policy work and technical cooperation into the outcomes architecture, despite their relevance in the prediction of the transition effects. Finally, despite the many successful transactions, the EBRD struggles to communicate its transition story and provide a narrative of results based on the TQs, including its contribution to the SDGs.

Recommendations:

The recommendations I provide for these concerns are motivated by what the Evaluation Department has already proposed in two documents.

First, the discussion paper "Improving Transition Evaluability to achieve the priorities set in the SCF 2021-2025 " a positive agenda of 5 main priorities, two of which are closely related to the problem defined:

1. Create a single Transition Results Management Unit and consolidate results reporting into an annual "Transition Effectiveness Review". The establishment of a unique result function would overcome the problems deriving from the dispersion of result-related functions, such as low clarity on responsibilities and accountabilities. Furthermore, an annual publication on the impact of the Bank's portfolio on transition would improve performance reporting, dissemination and the reinforcement of a shared culture of monitoring.

2. Monitor and measure medium- to long-term effect of the Bank's interventions, going beyond direct results and look into the broader impact of operations/portfolio: this would enable a more effective communication of EBRD transition story.

Second, the last part of "Evaluability assessment Of EBRD's Transition Qualities (SS20-160)", proposes some feasible actions, which have the potential to produce specific improvement, including the introduction of innovative tools for estimating both the long-term impact of projects and the externalities induced by the Bank's activities. Some examples of instruments are randomizing controlled trials (RCTs), big data, remote sensing data, web harvesting, mobile phone surveys and block chain MRV.

In line with these suggestions, to reinforce the message of the EBRD mandate and conduct a rigorous and operationally-relevant study of projects performance, I propose the institution of a Transition Impact Evaluation unit (TIME).

This would build on the success of the Women in Business (WiB) program in Turkey and the corresponding study conducted by Aydin, Bircan and De Haas and presented in September 2022. The interesting aspect of this project was the tight coordination between bankers and economists and ability to provide rigorous and causal estimates of the economic effects of projects on social returns, as well as quantify measures of transition impact.

This project aimed at studying whether directed lending durably increased the bank lending to female entrepreneurs and which types of women-owned businesses gain better access to credit. Its transition impact component was the measurement of the real economy implications of directed lending and easing of credit constraints. Its quantitative study employed a variety of administrative datasets, like the credit register from the Central Bank, the firm-level VAT tax records and firm financials from the Ministry of the Treasury and Finance. All of these were coupled with rigorous state-of-the-art techniques in econometrics and causal analysis, which make the results of this estimation original and convincing.

The analytics of project data is another task that this unit would develop. In essence, the TIME unit would analyse and merge several datasets of project preparation, implementation, and performance to produce short memos on valuable correlates of various aspects of project development. This would produce brief memos that could assist bankers and other officials in the field on their work.

The interviews and discussions with the different units provided insight into the work that the EBRD is currently undertaking to improve the evaluation function. To begin with, the Office of Chief Economist periodically conduct rigorous, ad hoc research on the bank's projects and publish them in EBRD's Working Paper series and leading economics journals, and collect the main findings in the annual Transition Report. What is more, recently the Impact team has introduced a unit, called Impact Assessment and Foresight (IAF), aimed at assessing both performance and impact of projects. While these initiatives have proven particularly successful, establishing a unit entirely dedicated to this work could involve increased resources and efforts that could make this exercise more systematic and impactful. To strengthen this work, it is also important that the research economists closely collaborate with the Bankers, Impact Team as well as the Evaluation Department.

Advantages

This unit could add significant value to the operations of the Bank by targeting each year a small number of projects that can be replicated across the EBRD portfolio and use alternative data to measure their impact and returns. This would produce a rigorous measure of ex post transition impact, and join the current Portfolio Transition Impact (PTI) score that mostly measures delivery rather than transition impact. These measures should iteratively be used to improve the accuracy of the ETI algorithm and could assist the bank in studying its effects over the long-run.

4.3 Reorganize transition qualities (TQs) and drop the constraint mandating 2 TQs per project

Problem

The structure of TQs benefitted the overall project development of the Bank, as it defined some groupings that shaped the organization and appraisal of projects. Nevertheless, there appear to be some critical aspects of their operationalization both on the conceptual and practical grounds. For example, as the Evaluability Assessment clarified that the "choice of the six transition qualities has not been clearly explained, conceptual definitions of the individual qualities remain ambiguous".

At the same time, there are also operational limits to their use since the same project is in principle assignable to multiple TQs and this shapes the corresponding benchmarks that are going to be measured during the execution. This appears to be one of the key reasons behind the low appetite for projects in certain TQs. The "Internal Audit Report IAR 21/01" reflects a broad perception that many project ratings are mostly dependent on EPG judgment and that among the projects revised there is an uneven distribution of TI qualities. For instance, according to the report, "well-governed" and "integrated" account only for 9% and 7% of all projects respectively. This reflects the shortcomings of the current ETI methodology - which limits ETI to two TI qualities - in articulating and scoring the benefits of the transition qualities.

The risk of this constraint, in fact, is to incentivize the strategic selection of qualities, to the expenses of the full representation of the impact value of the project, creating a wedge between the value of ETI as a strategic alignment tool for impact and the impact value of the project.

Overall, I envision three essential issues with the current system of TQs:

1. The heterogeneous presence of barriers in TQs;
2. The narrow definition of the Resilience TQ;
3. The mandatory assignment of 2 TQs per project.

I will address each point in detail below and develop recommendations accordingly.

Recommendations

4.3.1 The heterogeneous presence of barriers in TQs and narrow definition of the Resilience TQ

The officials and bankers working on projects should be able to develop projects addressing gaps in each TQ, regardless of differences in benchmarking. For example, it emerged clearly that the Competitiveness TQ is popular also due to the simplicity of ex post measurement relying on the use of proceeds. At the same time, other TQs present harder-to-quantify objectives and deliverables, which discourage their adoption and project development.

For this reason, such misalignment should be terminated with a restructuring of TQs to secure conditions for an internal market for ideas without barriers to the development of projects targeting certain TQs. Therefore, a process of redefinition and coordination of the content of TQs should take place to create objective and measurable benchmarks, which are observable and quantifiable to promote the design of ambitious projects addressing these. In this respect, the recent reorganization of the Inclusion TQ led by the Gender and Inclusion Unit appears to be a best practice to follow.

This process of redefinition should also expand the content of the Resilience TQ. According to the "Rapid Assessment of the Solidarity Package," the Resilient TQ as it is currently developed and operationalized is mostly applicable to activities in a non-crisis scenario. At the moment, this TQ applies the notion of resilience exclusively to the financial and energy sectors. Indeed, the current major goal of the TQ Resilient benchmarks in the Compendium of Indicators is to increase the ability of Operating Countries to be resilient in the face of external financial or energy shocks. This means that the currently available toolbox does not offer adequate indicators, either under the resilient TQ or other TQs, to provide crisis response assistance capable of preventing transition reversals.

The report clearly acknowledges that the Covid-19 crisis has called into question the EBRD's concept of resilience and, therefore, it is critical to revise the approach to this transition quality, to include crisis-related dimensions. Likewise, the "Evaluability assessment Of EBRD's Transition Qualities" highlights the large gap between the conceptual and operational definitions of transition qualities. The current operational design of the Resilience TQ, for instance, does not provide a framework for identifying investment opportunities that would enhance preparedness for epidemics, natural disasters, etc. For this reason, Resilience TQ has not provided the bank with sufficient information on how to react to COVID19 both in the short and long term.
This is conceptually restraining and risks jeopardizing the transition impact initiatives undertaken by the EBRD over these years to address the Covid19 pandemic and the Ukrainian war.

As a solution to this issue, this TQ could be merged with the Integrated TQ and together these two TQs could include crisis preparedness and response, with the term "crisis" including both national security, conflicts and disasters and expand resilience towards. This reinforced TQ could also encompass the concept of resilience to supply chain shocks, which was arguably one of the causes of the recent inflation burst in many countries from 2022 onwards.

4.3.2 The mandatory assignment of 2 TQs per project

The restriction imposing the mandatory selection of 2 TQ should be deleted. The bank currently operates in more than 38 countries, spanning multiple continents and cultures. Its projects tend to be very diverse and complex. In light of this, the current system defining the transition impact undersells its transformative force and projects to a uniform standard that clashes with the complexity and diversity of the Bank's operations.

In preparation for this report, I performed a Latent Dirichlet Allocation (LDA) procedure on a few project documents. LDA is a statistical model using natural language processing to analyze observations, words in a project document in this case, which defines unobserved groups to which words belong to. It is useful to understand the content of a text and comprehend which topics characterize it. It was interesting to use this tool to understand whether there was correspondence between the TQs of a project and the most important topics (bag of words) included. As a careful reader may probably anticipate, there was a frequent discrepancy between these two elements, with projects presenting 2 TQs but actually addressing more than those (or focusing on a topic which was a better fit with another TQ beyond the 2 selected ones).

For all of these reasons, I recommend to remove this mandatory 2 TQ restriction and the associated 75%/25% weighting. My suggestion is to replace this system with a 3-track system in which:

a) projects are allowed to have a single TQ, in this case all projects with a single TQ automatically get a Direct Track with a fixed highest Expected Transition Impact (ETI). Given that it is always desirable to choose only one quality (i.e., assign 100% of weight to the one with the highest impact score and exclude other qualities from the weighted average), a brief paragraph explaining the reasons behind the choice of a single quality should be provided and approved by the EPG. In addition, the project is Accepted for Direct Track only if the percentage assigned by the ML to the first quality is equal to or greater than 90%

b) the officer in charge of the project has the flexibility to assign projects to multiple TQ with percentages summing up to 100. To avoid strategic choices around weighting the qualities, flexibility is limited in the choices of percentages. When the project arguably equally touches upon different qualities, bankers can assign equal weight (for instance, 50%-50% or 33%-33%-33% for projects with respectively two and three qualities) up to four qualities (25% each). For projects that are predominantly focused on one quality, the weighting is 80%-20% for two qualities and 70%-15%-15% for three qualities. These weights are then used in TOMS for to calculate the ETI;

c) introduce a tool in Monarch that automatically detects TQs using ML and assigns shares. In this case, a banker would simply input a short narrative of the project at concept, and the system would automatically rate the corresponding TQs.

The removal of this limit on TQs will also require an analysis of benchmarks to be collected in the ex-post phase. In fact, projects with multiple TQs should not be penalized by requiring excessive measures of performance. A balance should be struck between 1 TQ projects that require few benchmarks, but with detail, versus multi-TQ projects that require more benchmarks, with less depth.

Advantages

This system creates a "policy tool" available to management to promote the selection of projects in line with the needs and objectives of the bank in that specific circumstance. In fact, by altering the wedge in ETI score between the fixed maximum ETI of projects with 1 TQ versus creating an uplift for project with multiple TQs, management can promote the undertaking of "narrow" projects, which target 1 TQ in great detail, versus "multidimensional" projects, which address several TQs at the same time. For example, during a conflict like the invasion in Ukraine, there could be a temporary boost to the highest fixed ETI of the resilience TQ.

4.4 Promote a feasible theory of change with an Amazon-style system of recommendations in Monarch

Problem

The Theory of Change (TOC) approach is an expression of why and how change is expected to come about. Its origins draw from the theories of social change in context of complex evaluations. The introduction of the Transition Qualities has been the first step toward the identification of a link between project-level assessments and country-level objectives. However, according to IEvD, the Theory of Change, required for the evaluability of projects remains unfinished and highly generic. The "Evaluability Assessment of EBRD's Transition Quality" report emphasizes that the Transition Quality Framework (TQFW) does not give enough information to analyze and monitor the Bank's contribution to country-level transition.

One of the main issues underlined is the lack of results framework which enables the clear identification of relevant outputs, short-term outcomes, long-term outcomes, and impact indicators. An effective way to identify the larger causal chains of the transition's effects is to introduce an explicit results chain, an idea that the Management was presented in 2015 but whose implementation was severely limited. Without claiming to cover the entire transition logic alone, this would demonstrate the distinctive contributions of each project.

Recommendations

My approach to this idea is that the formal transmission of knowledge and best practices within the bank, which qualify loosely into TOC, should be as simple and straightforward as possible.

For this reason, the simplest way to execute it in the current system would by modifying Monarch. In particular, this process should also rely on machine learning and past projects, repeating the conceptual steps highlighted in 4.1 for estimating ETIs.

By matching to each project, a set of best practices, an algorithm could be designed which provides recommendations given a set of specific project characteristics. The ex-post evaluation should fulfill a specific task in this sense, which is crucial to develop a correct Theory of Change according to the IEvD, i.e., explain what observable circumstances or features characterize the transition and what factors are needed to change those features over time.

Therefore, I suggest to expand Monarch and allow bankers to receive recommendations on the best practices related to a project early on at the concept level. Once a professional enters in the system the description of the project with a certain number of words, this new tool would generate an Amazon-style system, recommending 2-3 suggestions (i.e., "Similar projects successful in the past did…", "Your project may also consider…").

Advantages

In principle, once a fully ML-reliant Monarch is in place, this system would be able to automatically sow into the system the "missing link" between the ex-post monitoring of projects and the provision of recommendations for the ex-ante set up of projects. This would allow to better understand how changes happens, thus how bank's investments results are liked to country or sector level objectives. Finally, highlighting "best practices" would facilitate bank's communication of its performance and transition impact.

4.5 Centralize the Data function to coordinate statistical information across the Bank

Problem

The large investment in developing a proprietary and core information technology (IT) infrastructure through Monarch is one of the most interesting organizational successes achieved by the EBRD over the past decade. At the same time, this large effort in a key function of the bank has not been coupled by an equal effort in centralizing, coordinating, and structuring the statistical information and datasets of the Bank.

Recommendations

In the last years, the bank has taken significant steps towards organizing information and data. The process of cleaning and systematizing Bank data from scratch started about five years ago by the Management Data team. Very recently, there have been important changes and significant effort has been put to strengthen this function. This led to the creation of a Data Committee and the introduction of a Chief Transformation Officer in 2022.

Although these updates have been crucial steps forwards, I believe it is crucial to stress the importance an independent source at the bank that puts data to work for the operations and the transition impact measurement process.

This data management unit should work at improving the quality, accessibility, and use of data through innovation, technical expertise and effective partnerships.

This function should promote integrity, transparency, and uniform standard across the data sources at the Bank, by giving a mandate to this function to supervise, collect, manage, and systematize data that is dispersed across the bank. At the same time, this could be the place to encourage staff at the bank to use and analyse big data, as well as promote the adoption of machine learning and artificial intelligence techniques for operational work.

Advantages

First, the availability of a central hub containing all data on past and ongoing projects on the banks, databases used for analyses and many other information would offer greater transparency for donors, customers and all people working within of the bank. It would facilitate communication and information sharing between units/departments which would make work more efficient and smoother. Clearly, a high level of information also helps to quickly identify problems and avoid repeating specific errors.

What is more, a particularly interesting feature of the EBRD is the presence of unique datasets and statistical production, which are of high quality and dispersed with exceptional granularity across the institution. This is a valuable feature and underlines the attention of the bank to process of information gathering and processing, which coupled with Monarch, could create a commercial tool used by the bank in providing a platform for impact investors to assess their project selection.

4. Conclusions

The EBRD enjoys an exclusive role in the complex and ever-evolving landscape of MDBs, DFIs and impact investors. The institutional attention to defining the concept of transition impact and refining its measurement, assessment and evaluation make the Bank relevant and fit for purpose twenty-five years after its foundation, despite the evolving challenges faced by its countries of operation.

The EBRD's distinctive operations and intellectual environment are combined with a unique system of incentives and checks and balances that guide the institution to achieve sound banking, transition impact and additionality. This process of aiming at an ambitious objective provided the EBRD with a distinguishing advantage in its operations, further reinforced by a strategic and visionary investment in developing an innovative IT system resulting in Monarch.

At the same time, the resolve to advance the EBRD system of transition impact measurement requires sporadic improvements to streamline the process and keep it relevant. For these reasons, this report recommends strengthening the transition impact measurement system by investing in technology further and restructuring the internal organization.

It is vital that the EBRD refreshes its structure and interprets its goals to achieve a long-term, transformative, and systemic change. This institution presents an energetic ability to restructure itself and keep the bar high in terms of effectiveness and ambition. Most of the recommendations in the report validate a desire for change already expressed at Bank rather than prescribing a revolutionary overhaul of conduct. The desire to remain relevant and grow in this expanding sector needs gradual, constructive and patient work, which is likely to require a medium-term of more than 5 years. However, most of these recommendations can be implemented without reservations and through a process of creative and inclusive contribution by the exceptional staff of the Bank.

5. Appendix

With the development of the new approach for the evaluation of TI, the Bank have undertaken a deep overhaul of its IT systems, through the IT Roadmap for Operational Effectiveness and Efficiency (OE&E). The goal of the new system, called Monarch, is to enable the banking teams to identify the TI objectives of projects and self-assess their ambition against the criteria incorporated in the TOMS evaluation logic, leading to a faster and more efficient rating process. The gradual introduction of the Monarch system led to a new phase in the application of TOMS and TIMS across the entire Banking department. The first release of Monarch, available in December 2019, enabled automated TI assessment for standalone projects, while the August 2020 release also integrated framework sub-operations. Further information on the ETI scoring process (TOMS) and PTI monitoring (TIMS) is provided in the following sections, based on "Transition Impact Methodology Update" (SGS18-238).

a. Current ETI process

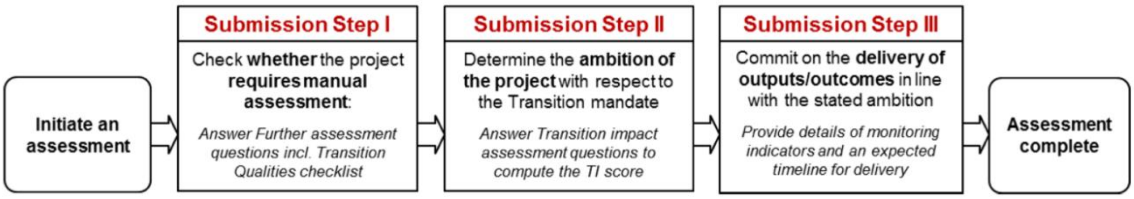
i. Ex Ante Transition Objectives Measurement System (TOMS)

The Transition Objective Measurement System was introduced to "operationalize the six qualities of transition and create the right set of incentives to achieve a higher and more meaningful Transition Impact through the Bank's operations". TOMS identifies and evaluate the transition impact of the projects, ensuring that they are in line with Bank's mandate and carry sufficient value in terms of transition. It based on the six qualities framework, but relies also on the results of the Assessment of Transition Qualities (ATQ) and of the Country Strategies (CS).

TOMS In practice

The Transition Goal Measurement System consists of three steps:

Figure 1: TOMS Submission Steps



Notes: This figure represents the three steps within the Transition Objectives Measurement System (TOMS) submission. It is taken from "Transition Impact Methodology Update" SGS18-238 (Addendum 1), 6 July 2018

It is important to note that these description focuses on standalone projects. In the case of Frameworks, the score, TI narrative and monitoring indicators are assigned at the framework level.

THE STEPS AND SCORE CALCULATION OF TOMS

STEP 1: Screening

In the first phase, TOMS users answer a list of questions to describe the project, identifying the general characteristics of the project, specific approaches/initiatives that are of interest to the

Bank, and going through a "transition qualities checklist". This checklist aims to 1. ensure that all projects meet basic transition quality standards in all six qualities; and 2. early identify any potential issues that can be attributed to a given quality and will need to be addressed by the final review (FRM).

The information provided by the OLs to describe the project determines whether the intervention of an Economist is needed in the evaluation. In addition, they can help the identification of elements that will be taken into consideration in the calculation of the final score (e.g., equity and local currency adjustments).

STEP 2: TI assessment

The second step entails three modules:

1. Selection of two out of the six Transition Qualities. The banker also selects a primary Transition Quality that is the most important one in determining the final score associated with the project.

2. Providing of information regarding the project's fit with Country Strategies (CS). In particular, the user has to select an objective applicable to the project from a list of Country Strategies Objectives. For some of them, there is an option to indicate the Strong Strategic Fit. The system includes also questions identifying two financing instruments that carry TI potential that is not fully captured through other assessment questions - local currency lending and equity.

3. Finally, the user answers a series of multiple-choice questions for each TI quality to assess the level of ambition and scope of the project. Elements of delivery risk are included in the questions. All of this information is used to calculate the TI score.

STEP 3: Commitments on outputs/outcomes delivery

In the last step the system guides the user in the selection of relevant indicators from a pre-populated list of standardized indicators, i.e., the Compendium of Indicators. The users select baseline, milestones, and targets coherently with the level of ambition of the answers to the quality-specific questions. These constitute key data used for the monitoring and evaluation phase (TIMS) of the project and for monitoring the delivery at portfolio level.

SCORE Calculation

The score is based on the answers selected at Step 2, as well as on the country where the project takes place. The score calculation consists in four steps:

I. First, all scorable-answer options within each quality are averaged, providing the unadjusted quality level score. All answer-options have equal weight is given and it is possible to only have one TI objective per quality;

II. Second, adjustments are made within each quality depending on the ATQ gap in the country and quality (within the range of +/- 10%). After this step, a weighted average is calculated between the two quantities: 75% for the first Quality and 25% for the second;

III. Adjustments based on the fit with country strategies, with 2% uplift for projects that fit one of the objectives and an additional 5% uplift (total of 7%) for those that correspond to the strong Strategic Fit Shortlist;

IV. Finally, a further level of positive adjustments (5%) is made in the case of local currency and equity projects.

As a deliverable, TOMS provides a summary of the project's TI objectives, its ambition, the project score, associated monitoring indicators, and other relevant key information. This final assessment summary is included in the project submission package for final approval.

ii. Ex-post Transition Impact Monitoring System (TIMS)

The Transition Impact Monitoring System accomplishes two main functions:

1. monitoring progress against transition goals during project implementation and facilitating remedial actions;

2. the basis for assessing and reporting on the progress of the Bank's transition and the results achieved, and the lessons learned.

Projects are monitored at regular intervals up until completion/repayment of the project or the time when all monitoring indicators have had a final assessment[28]. The system also accommodates monitoring of Frameworks and IAs at regular intervals. The reporting takes place in two phases: 1. Monitoring for ongoing projects; and 2. Evaluation for finalized projects.

Step-by-step guide to the TIMS process

1. TOMS assigns a set of TI indicators from the Compendium to a project, that are linked to two Transition Qualities identified in the project. Origination Operation Leaders (OLs) provide further details on the assigned indicators, as well as a timeline for their delivery;

2. During the project, the OLs report on progress on the relevant IT indicators;

3. reported progress is compared against commitments for both quantitative and qualitative TI indicators;

4. A percentage-based achievement score for each indicator is calculated. For *quantitative* indicators, the calculation is automatic, while for *qualitative* ones through self-assessment by OLs;

5. These scores are then averaged to produce Quality-level scores. These are then averaged using Quality weights derived from TOMS (75%/25%) to produce an overall percentage-based achievement score for the project. In addition, the PTI rating is computed and a short narrative may be required to summarise and explain the rating;

[28] There is an option for OLs, in consultation with the EPG/CSRM, to decide an early closure of monitoring, for example in the case of projects which have achieved most of their indicators and when the TI has been deemed substantially achieved by EPG.

6. In case of too many lagging indicators under its primary TI quality, the project is flagged for Banking and EPG's remedial action.

In each TIMS review, the PTI rating for a project will be calculated as:

$$\left(\%delivery\ score * PTI_{fullpotential}\right) * \frac{t}{T} + ETI * \frac{T-t}{T}$$

where, t denotes time elapsed in the project; T is the total lifetime of the project; *% delivery score* is the percentage-based TI achievement score in the given monitoring period for the whole project; $PTI_{fullpotential}$ is the full potential of the assigned *ETI* rating at Negligible risk, and *ETI* is the ex-ante rating given to the project at origination. This formula uses time weights to recognize TI achievements to date for the given monitoring period (*% delivery * PTI*) and account for TI yet to be achieved.

PTI ratings measures how a project is performing vis-a-vis its TI indicators during its monitoring phase (by comparing progress against intermediate targets) and at the evaluation phase (by comparing progress against its full targets).

In order to ensure the continued integrity and well-functioning of the new TIMS during the monitoring phase, EPG performs both random and non-random annual checks.

b. ATQ

An important aspect of assessing the transition impact of projects is to consider each country's progress along the transition path. Since the 1990s, this progress has been measured and documented in the Annual Transition Report in the form of transition indicators. In their earlier form, these transition indicators measured the state of each country's economy in the Bank's region at a sectoral level (the Assessment of Transition Challenges or ATC).

With the update of the transition concept, the Assessment of Transition Qualities (ATQ) was introduced. The ATQ's principal goal is to identify areas of relative need and possible impact for each country and, as a result, to establish a transparent and consistent basis for setting strategic priorities. To this end, the ATQ identifies transition gaps using the distance-to-frontier method, i.e., comparing the state of each economy with a frontier that reflects the best potential characteristics of a sustainable market economy.

The ATQ enters the ETI score through an uplift - the value of which is determined by a formula based on the distance between the ATQ score of a specific quality and country and the median score of all countries and qualities. The formula attributes an adjustment coefficient to the score, ranging from -10% (most advanced cases) and +10% (least advanced cases).

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