SPECIAL STUDY

Credit Lines - Lending through financial intermediaries

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EBRD EVALUATION DEPARTMENT

European Bank for Reconstruction and Development

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Report prepared by Victoria Millis, Senior Evaluation Manager, Bea Perez-Timermans, Principal Evaluation Manager, and Hiromi Sakurai, Principal Evaluation Manager, EvD. It was internally reviewed by Barry Kolodkin, Deputy Chief Evaluator. An independent opinion was prepared by external peer reviewers Roland Michelitsch and Alejandro Soriano of the Office of Evaluation and Oversight at the Inter-American Development Bank.

One Exchange Square
London EC2A 2JN
United Kingdom
Website: www.ebrd.com

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Abbreviations and defined terms

ASB	Advice for Small Businesses
ATC	Assessment of transition challenges
Bank, the	European Bank for Reconstruction and Development
BEEPS	EBRD-WBG Business Environment and Enterprise Performance Survey
BEPS	EBRD Banking Environment and Performance Survey
CA	Central Asia region
CEB	Central Europe and the Baltics region
CO2	Carbon dioxide
CSO	Civil society organisation
DFI	Development finance institution
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ETC	Early transition country
EU	European Union
Evaluation Team	Victoria Millis, Hiromi Sakurai, Beatriz Perez-Timermans
EvD	Evaluation Department
FI	Financial institution; the Bank's Financial Institutions Group
FIF	Financial Intermediaries Framework
GDP	Gross domestic product
GEFF	Green Economy Finance Facility
GET	Green Economy Transition
ICA	Industry, Commerce and Agribusiness sector group
IDB	Inter-American Development Bank
IFI	International financial institution
MDB	Multilateral development bank
MENA ES	WBG-EBRD-EIB Middle East and North Africa Enterprise Survey
MSME	Micro, small and medium sized enterprise(s)
NPL	Non-performing loan
OECD	Organisation for Economic Cooperation and Development
PFI	Partner financial institution (i.e. EBRD client bank or non-bank financial institution)
RAROC	Risk-adjusted return on capital
REUP	Rational energy utilisation plan
SBI	Small Business Initiative
SEA	Sustainable energy assessment
SEE	South-East Europe region
SEFF	Sustainable Energy Finance Facility
SEMED	Southern and Eastern Mediterranean region
SME	Small and medium-sized enterprise(s)
TC	Technical cooperation
WBG	World Bank Group
WiB	Women in Business

Executive summary

Lending through financial intermediaries, widely known internally as "credit lines," has been a significant part of the Bank's operations since its inception. Credit lines have allowed it to reach larger numbers of smaller borrowers than possible through direct lending, and alongside other forms of support have contributed to financial sector development and growth of strong partner intermediaries. They have also evolved significantly over time and are critical instruments for delivery by the Bank on a wide and ambitious range of new commitments. This evaluation examines the design, targeting, execution, monitoring and effects of a large sample of recent credit lines, defined for its purposes as "*term loans extended to financial intermediaries with a defined use of proceeds*."

In its first decade the Bank's lending to financial intermediaries was primarily either of two sometimes overlapping types: direct loans to specific banks to *strengthen them as individual institutions* and with them the *wider financial sector;* and, "wholesale" lending through credit lines with the objective of *intermediation.*[1] With development of the financial sectors in many Bank countries of operation the main challenges for micro, small and medium-sized enterprises (MSMEs) around access to finance are now often non-financial. Instead they often lie more in regulation and supervision, risk perceptions, and wider macroeconomic and investment climate issues - all much less easily addressed through bank-specific transactions. The maturing of the Bank's client base has also sharply reduced the amount of technical cooperation (TC) funding used for general institution building and credit and risk training.

The Bank has actively broadened its use of credit lines to target specific challenges and perceived new opportunities in other areas - such as clean energy - frequently using credit lines incorporating blended finance. These specifically targeted operations typically build the traditional credit line model into a broader package including elements of concessionality and TC. They have become central to the Bank's delivery on an array of new commitments and initiatives, such as with respect to climate and the Sustainable Development Goals.

The abundance of low-priced liquidity and the presence of able competitors in many countries of operation in recent years were recognised by the Bank's Financial Sector Strategy 2016-2020 as major challenges to traditional (unblended) credit lines. While unblended credit lines remain an important instrument in several countries with large access to finance gaps, other countries have effectively graduated from intermediated EBRD finance. In some large markets intermediation via blended finance appears to have supplanted unblended credit lines.

This report focuses principally on the market context, strategic approach and signed operations of the period 2011-2015. This period was considered recent enough to reflect the changes in approach summarised above, but also with operations mature enough to allow a review of monitoring and other aspects of delivery. It corresponded with the term of the 2010 Financial Sector Strategy and covered a period of recovery after the initial, acute phase of the 2008-09 financial crisis. The Financial Institutions Group identified 672 facilities committed during this period, of which 374 were new approvals. These operations formed the basis of EvD's review of the portfolio and of operational relevance, design and monitoring.

Main Findings

Despite the importance and ubiquity of credit lines in Bank operations and strategic commitments **the Bank lacks a clear definition of what they are; there is no formal strategic framework setting out their role** in contrast to other types of engagement with financial intermediaries (such as equity, quasi-equity, bonds)

[1] "Institutional strengthening, i.e. to promote efficient and profitable financial sector institutions, thereby supporting the development of the financial sector, to better serve the emerging market economies of the region....
Intermediation, i.e. to expand the availability of finance and the range of financial products to smaller, privately owned companies whose resource requirements are smaller than the Bank can efficiently provide directly." (Financial Sector Operations Policy 1996, BDS96-092, p.11)

or with MSMEs (direct finance, equity funds); nor is there clarity on integrating credit lines with other activities such as policy dialogue or technical assistance.

There has been a **major evolution in the objectives and design of EBRD's credit line instrument**, reflecting both demand and strategic drivers, which has resulted in rapidly expanding use of blended finance and related need for supplemental concessional funding.

There are **fundamental distinctions between blended finance facilities and other credit lines** in terms of purpose, structure and potential for monitoring and reporting.

- **Purpose:** Traditional credit lines contribute to the Financial Institutions Group's core mandate of building the financial sector in countries of operation, while also channelling finance directly to the real economy. Blended finance facilities use the financial sector as an instrument to address other strategic objectives.
- **Structure:** Although many credit lines have donor finance attached, blended finance facilities are a package of interdependent components, of which the credit line itself is only one. Their complex structure has implications for resourcing, design, and management.
- **Monitoring and reporting:** Blended finance facilities bring additional potential for monitoring and reporting on effects at the level of the sub-borrower. This is because of an increased ability to track individual sub-borrowers for such narrowly targeted instruments, and the often substantial use of donor-funded consultancy support for implementation.

Treating credit lines with and without blended finance as variants on a single instrument brings a lack of clarity on what the Bank is trying to achieve, where it should focus its efforts, and whether it is achieving desired outcomes; it also represents a missed opportunity in these areas.

The use of credit lines without blended finance is not strongly correlated with the assessed transition challenges at the country level. A large proportion of finance is directed to a small number of countries that do not necessarily have the greatest transition gaps. Significant challenges identified at country level, such as competition and market structure, are seldom targeted by individual operations. Many challenges are hard to translate into bankable projects and are better addressed through integrating finance with policy dialogue and training.

Enhanced monitoring has been used to good effect in specific cases of purpose-focussed blended finance such as Green Economy Financing Facilities (GEFFs) and in Advice for Small Business (ASB). However this higher level of ambition on targeting and monitoring has not been widely applied.

There is significant unrealised potential for clear targeting, monitoring and reporting for blended finance facilities at the sub-borrower and wider economy level.

Blended finance facilities have discrete and incremental resource costs compared with other credit lines. These are intrinsic to the implementation of the operations and are primarily of benefit to the Bank rather than to clients or sub-borrowers. Therefore they should be seen as regular operational costs for the Bank rather than special donor-funded enhancements to the Bank's offering.

Recommendations

1**. The Bank's next Financial Sector Strategy, due by 2021, should incorporate a strategic review of credit lines.** It should include the following specific elements:

- Define and clarify the two types of credit lines (with and without blended finance), including: what they are; their purpose; when they should be used; expectations for results; the use of technical cooperation, grant co-financing and policy dialogue with different types of credit line; management and organisational arrangements already in place (or to be introduced) to manage the two types of credit lines, monitor them and report their results in an effective manner.
- Clarify the selectivity criteria for the use of credit lines without blended finance, specifically in countries where financial sector development or increased access to finance for MSMEs are identified

as key transition challenges and strategic priorities through focused, country-specific diagnostic work. Where agreed, finance should be combined with specific policy dialogue and donor-supported activities such as training, in close cooperation with other IFIs wherever possible, and in support of clearly identified country-level objectives. These issues should be specifically identified in Country Strategies.

– Examine alternative administrative/management arrangements including separate management of credit lines with and without blended finance, with coordination through the existing Financial Institutions Group relationship manager. The Bank should develop distinct processes for improved target setting, monitoring and reporting at the level of the partner financial institution (PFI) and sub-borrower which address the different objectives and focus.

– The Bank should report separately on the two types of product either within or in parallel to the Financial Intermediaries Report.

2. **In the case of blended finance facilities, the Bank should review a sample of sub-borrowers to report on outcomes at that level**. As a minimum, the process should be modelled on the review process it has developed for ASB assignments, where the Bank follows up each assignment one year later to measure changes in the client's business performance, compared with the baseline assessment it conducted at project initiation. Following up over a longer period, or more than once, would provide more information; the Bank should explore novel approaches and use of technology to make this practicable and not overly burdensome.

3. **The Bank should consider more widely applying its Partnership for Growth model** under which it engages in a multi-year agreement with a client to provide finance in tranches subject to normal credit considerations and the client's satisfactory performance against agreed performance objectives. At country level a relatively substantial medium-term package tailored to individual local PFIs could combine finance with TC funds and policy dialogue objectives closely associated with country diagnostics. This could be an attractive "offer" to government and key local players to focus efforts on desired policy objectives.

4. **Management should clearly identify the resource implications of these changes**, including the incremental marketing, monitoring and control costs of blended finance facilities. Activities that are effectively core business should be funded by the regular budget. Consolidation should be considered for activities and donor funding now done on *ad hoc* basis.

1. Introduction

EBRD lending through financial intermediaries, generally known internally as "credit lines", has been a core strategic and business line, used widely and heavily across sectors and regions for many years. It features prominently in the Bank's ambitious medium-term planning and Strategic Capital Framework commitments, including those for inclusion, gender, and wider sub-regional reach. Despite this there is no clear definition of credit lines or strategic document setting out their role in contrast to other types of engagement with financial intermediaries (such as equity, quasi-equity, or lending for other purposes) or with MSMEs (direct finance, equity funds). This report is a thematic study of credit lines, defined for this purpose in discussion with the Financial Institutions Group as *term loans extended to financial intermediaries with a defined use of proceeds*. In practice this is slightly narrower than *all intermediated lending*, which would include subordinated loans to banks, sovereign lending, and some facilities for specific uses such as factoring. It does include MSME-targeted lending and loans aimed at other sub-borrower categories such as consumers, medium-sized corporates and municipalities.

Nomenclature and Definitions

This study considers *credit lines* as the term is understood in the multilateral development bank (MDB) system, and as it is widely used and understood in the EBRD. That is: loans to financial intermediaries intended for on-lending to a target group or for a specified purpose. In the financial world outside MDBs, *credit line* has a very different meaning: *an arrangement between a bank and a borrower establishing a maximum loan balance that the bank will permit the client to maintain. The advantage of a credit line over a regular loan is that the client only pays interest on the utilised part of the credit line. Funds can typically be borrowed again later after the money is repaid.* (EBRD Business Glossary). This is not the definition used in this study.

For the purposes of this evaluation the Financial Institutions Group offered the definition, *term loans extended to financial intermediaries with a defined use of proceeds*, to be abbreviated to *intermediated lending*. Similarly, a stand-alone MSME credit line provided on a completely commercial basis with no subsidy element would correctly be described as *market-standard MSME term debt.* This would be in contrast to blended finance facilities, which would be *DFI-specific MSME term debt with embedded incentives*.

Technically precise descriptions such as these have value to staff on the front line of loan negotiation, and in the context of highly detailed internal discussions. However, in the interests of brevity and clarity for the expected readership (Board and senior Management) around broader issues EvD chose to use terms that are simpler and more commonly used and understood - *credit lines* and *blended finance facilities*. These terms are found very often in operation names and descriptions, Financial Sector Strategies and Financial Intermediaries Reports. For want of a better alternative, the majority of operations that do not fall into the *blended finance* category are called *credit lines without blended finance* or *traditional credit lines.*

An alternative proposed by the Financial Institutions Group was to refer to *broad-focus* and *narrow-focus* intermediated lending. The report uses this terminology where attention is on the focus (i.e. targeting) of the credit line. But different types of credit line are also distinguished by important features of their design, which these terms do not capture.

Given these issues around nomenclature and definitions the report seeks at all points to be as simple and clear as possible.

The approach and methodology used for this review and agreed with Management are set out in the Approach Paper.[2] The review took the form of a desk study focusing mainly on the credit line operations signed during the period 2011-15.

The evaluation team devised three evaluation questions to guide the review:

- Relevance: How is financial intermediation determined to be an appropriate and effective solution to transition and market challenges?
- Design: How are targets and benchmarks structured and aligned with project objectives?

[2] See further details in Annex 1.

– Monitoring and effectiveness: What can we conclude about the effectiveness of the Bank's use of financial intermediaries?

The report is structured as follows:

– Section 2 provides a brief historical overview of the Bank's developing use of credit lines.

– Section 3 reviews the market context and the Bank's strategic response in 2011-2015.

– Section 4 defines broad types of credit lines in common use at the Bank, with a primary distinction between blended finance facilities and credit lines without blended finance.

– Sections 5 and 6 discuss these two types of credit line in turn.

2. Historical overview

Lending through financial intermediaries has been a significant part of the Bank's operations since its inception. In the earliest days, the Bank faced a virtual absence of effective financial institutions in most countries of operation. Banking sectors were overwhelmingly dominated by state-owned banks created out of the former "monobank" system, which retained strong operational ties to large state-owned enterprises and carried significant levels of non-performing loans. There was no tradition of lending to smaller or private companies and an associated lack of basic banking skills. At the same time, the small and medium-sized enterprise (SME) sector was identified as a priority in the transition process because of its potential to absorb the labour released from the restructuring of inefficient state-owned enterprises, provide goods and services that were in short supply, and expand quickly to contribute to economic growth. Therefore there was a need both to develop the commercial financial sector and, while this was happening, to channel finance directly to the SME sector through credit lines, guarantee mechanisms or specialist institutions.[3]

Given the lack of creditworthy intermediaries, the very earliest operations were in the form of APEX, Co-financing or Agency lines in order to limit the EBRD's credit risk.

Early approaches to intermediated lending

APEX lines: EBRD made a loan to the central bank for on-lending to individual financial institutions; EBRD took on the credit risk of a sovereign loan to the central bank.

Co-financing lines: EBRD made sub-loans jointly with a local bank; both were lenders of record for part of the loan, and EBRD approved individual sub-loans.

Agency lines: EBRD and a (western) partner bank provided loans to sub-borrowers identified by the partner bank's local subsidiary (the Agent); EBRD was the lender of record and retained approval of each sub-loan.

By the mid-1990s the EBRD was able to identify creditworthy intermediaries in countries of operation with a developing track record of lending to smaller private enterprises. It was able to build relationships and achieve greater efficiency by making loans directly to these partner financial institutions (PFIs) and delegating individual credit decisions to them. The familiar EBRD credit line was born.

[3] Financial Sector Issues BDS92-029

Chart 1 EBRD annual business investment in credit lines

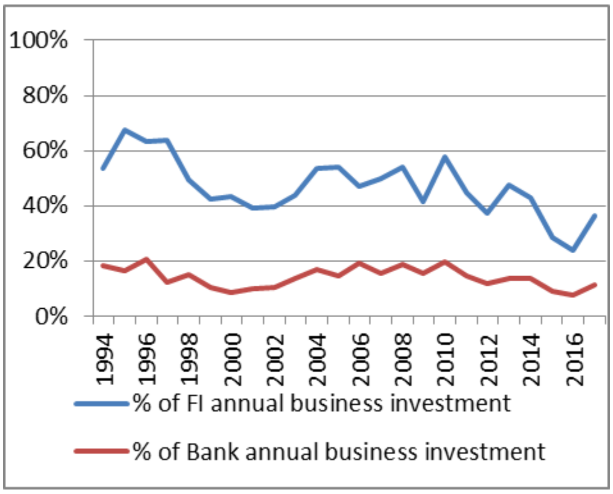
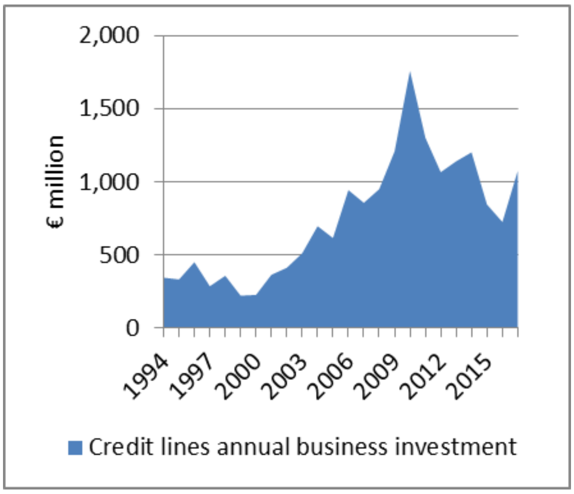


Chart 2 Credit lines as a percentage of Bank activity



Since then, credit lines have been a mainstay of the Bank's operations, reaching up to 20 per cent of total annual business volume and around half the annual business volume of the Financial Institutions Group. In nominal volume terms their use peaked in 2010 in the aftermath of the financial crisis. In relative terms, despite an upturn in 2017, the use of credit lines over the last three years has been at an all-time low. The drop in 2015-16 was driven by a fall in Russia and Turkey, with some other countries heavily affected by economic performance in Russia and Ukraine.

There is an interesting contrast between the Bank's response to 1998 Russian financial crisis and the 2008-09 international financial crisis. The 1998 crisis led to a temporary suspension of EBRD business in Russia and reduced lending opportunities afterwards following the failure of many banks, including EBRD partner banks. In contrast, the EBRD and the international financial community responded to the 2008-09 crisis with large-scale counter-cyclical finance to try to support banks in time to help prevent their failure.

The main attraction of credit lines has been their efficiency: they allow the EBRD to reach larger numbers of smaller borrowers than it could through direct lending. In the 1990s the Bank distinguished clearly between direct loans to banks aimed at the *institutional strengthening* of PFIs and the financial sector as a whole, and "wholesale" lending through credit lines. The latter, "although they will always contain elements of institutional strengthening, will primarily be set up to fulfil the objective of *intermediation*."[4] Even then, some operations (APEX lines and micro and small business programmes) were seen as serving both objectives simultaneously. The distinction between direct and wholesale lending was lost after the 1990s when the two objectives became intertwined. But the dual purpose has remained visible in the rationale and design of credit line operations ever since. The response to the 2008 crisis boosted the use of credit lines as a means of simultaneously supporting the liquidity of financial institutions that were existing EBRD clients and channelling counter-cyclical finance to the real economy, effectively for the first time at any scale.

Another key aspect of credit lines since the early 1990s has been their use for specific, targeted purposes. Early lines focused on agricultural lending, tourism and energy efficiency. Indeed, the very first intermediated loan was to WBK Poznan, Poland, in 1991 for district heating loans - which could be considered EBRD's first ever Green Economy Transition operation. Later, the Bank experimented with retail lending and mortgages and developed local currency lending. Microfinance entered the portfolio as a targeted objective as early as 1994 with the Russian Small Business Fund; this special fund lent through regional Russian banks, incorporating substantial technical cooperation (TC) funds and risk sharing, and was 50% co-financed by the G-7 and Switzerland. This was a very early example of the blending of EBRD

[4] Financial Sector Operations Policy 1996 (BDS96-092)

and donor funds, and the model was later extended to other countries. In 2005 the Bank started working with non-bank microfinance institutions in an effort to reach smaller and poorer borrowers, particularly in rural areas in early transition countries. Some of the EBRD's early non-bank partners have since acquired full banking licences. MSMEs have been the main target of EBRD credit lines. This report considers them as the default category of end borrower, but the facilities reviewed here also include lines directed towards medium-sized enterprises, consumers/households and municipalities.

In recent years, the Bank has built on its history of tailored lending for specific purposes by developing a "blended finance model". This combines loans with TC and subsidies or risk sharing, and is often bundled with an Advice for Small Businesses (ASB) programme.[5] It has become a favoured, even critical, instrument for delivery of new strategic priorities. The original and largest area of focus is green economy lending, initially through Sustainable Energy Finance Facilities (SEFFs) and later Green Economy Finance Facilities (GEFFs). The Women in Business programme, value chain financing and competitiveness support facilities have taken a similar approach. However, credit lines without the full blended finance model described in this paragraph remain in the majority so far, although an increasing number incorporate some element of risk sharing or interest rate subsidy, especially through the SME Local Currency Programme.

Broadly, credit lines have provided value for both the Bank and its clients by combining a means to develop specialised MSME lending capacity, a conduit of financial resources and a core business line. They have also served as a means for the Bank to initiate additional targeted objectives, particularly in recent years and in the wake of the Bank's 2013 “Stuck in Transition” report.

3. The market context and strategic response in 2011-15

By the period covered by this study, 2011-2015, most countries of operation had a substantial commercial banking sector, an established framework of regulation and oversight, with MSME lending well established as part of the mix. Exceptions are some early transition countries (e.g. Belarus) and new countries of operation (notably Egypt) where there is still potential for basic skills development and demonstration effect from MSME lending without any additional narrow focus. But many other countries, especially in south east Europe, faced excess liquidity with MSME lending constrained by financial institutions' risk perceptions or by wider macroeconomic or business climate problems.

3.1 Survey findings on market perceptions

The Bank uses different regional surveys to learn about the business environment in countries of operation from participants on the ground. They provide substantially different results and insights depending on the perspective of the target respondents.

BEEPS and MENA ES

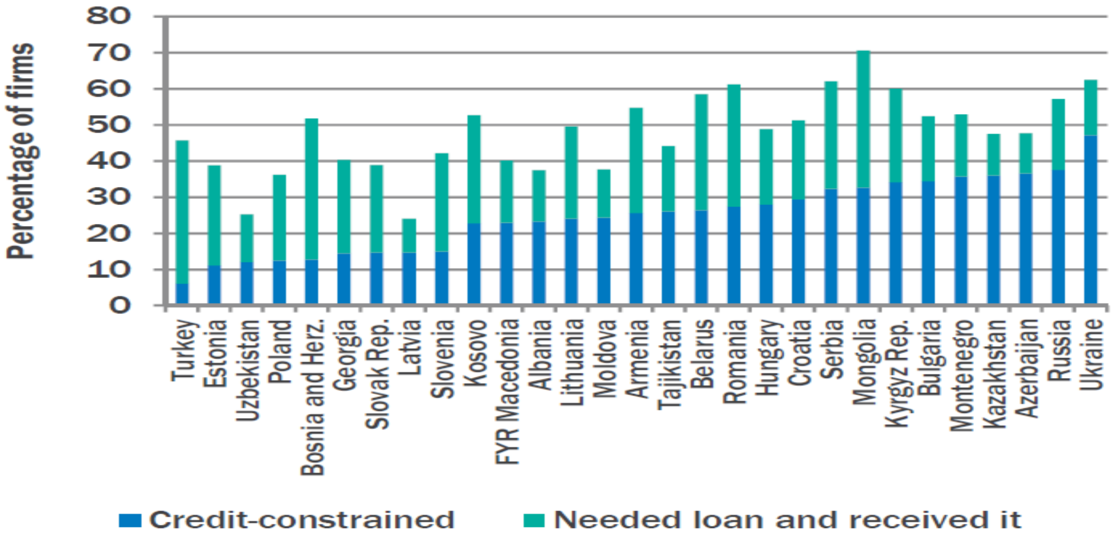
Business Environment and Enterprise Performance Surveys (BEEPS) across the Bank's "older" (non-SEMED) countries of operation and the corresponding Middle East and North Africa Enterprise Survey (MENA ES) in SEMED countries assess constraints on doing business from the perspective of businesses.[6] BEEPS surveys consistently find access to finance in the top three obstacles to doing business, alongside

[5] See the box on page 13 for a more complete description.

[6] The fifth Business Environment and Enterprise Performance Survey (BEEPS V) was conducted jointly by the EBRD and World Bank in 29 of the Bank's countries of operation in 2011-14 (SEMED and Turkmenistan were excluded). Senior managers were interviewed at more than 15,500 randomly selected firms. The results reflect the situation in countries of operation during the 2011-15 period. The BEEPS IV survey was conducted in 2008-09 and informed strategy papers relevant to the 2011-15 period.
The first joint WBG-EBRD-EIB MENA Enterprise Survey was conducted in 2013-15 and covered the four existing EBRD SEMED countries plus new countries of operation Lebanon, West Bank and Gaza, as well as Djibouti, Israel and Yemen. It was based on interviews with more than 6,500 randomly selected firm managers from a range of countries. The EBRD analysis covers only the four then-existing SEMED countries: Egypt, Jordan, Morocco and Tunisia.

issues such as competitors' practices in the informal sector and electricity supply. In BEEPS V, four countries (Armenia, Croatia, Russia and Mongolia) reported access to finance as the top constraint, with another 14 putting it in the top three. In contrast, the MENA ES survey found that only in Jordan was access to finance a top three constraint. An OCE analysis used data from the fifth BEEPS survey (BEEPS V) to try to produce an objective estimate of the percentage of credit-constrained firms in each country. Their findings are summarised in Chart 3 below, reproduced from the BEEPS V report.[7] Of the four countries reporting access to finance as the top constraint, only Russia appears in the top five by this more objective analysis.

Chart 3 Proportion of credit constrained firms by country



BEPS

The Banking Environment and Performance Survey (BEPS) in contrast assesses barriers to lending from the perspective of banks, and produces a substantially different picture.[8] In most (18 of 31) countries it found a lack of credit demand or a lack of creditworthy customers as the main constraint on lending in 2010. This is often especially acute among SMEs. These 18 countries include several, such as Russia, Azerbaijan, Kazakhstan, Bulgaria and Croatia, which BEEPS shows in the top 10 countries for credit constraints on firms.

The Bank draws on both surveys for its annual Assessment of Transition Challenges (ATC), with BEPS contributing especially to indicators relating to the financial sector. The more recent Assessment of Transition Qualities which replaced the ATC draws on the BEEPS and MENA ES but not on BEPS, as do the 2015 Financial Sector Strategy and recent country strategies and country diagnostics. The following sections consider some of these assessments in more detail.

3.2 The Bank's assessment

The evaluation team analysed "Key Challenges" for Banking and for MSMEs from the annual Assessment of Transition Challenges (ATC) for 2011-15. It found that just over 40% of the challenges related to a lack of suitable finance, but the majority targeted other issues: capacity building, MSME sector development, financial sector market structure and regulation. Many of these issues are less easily translated into bankable projects than funding issues.

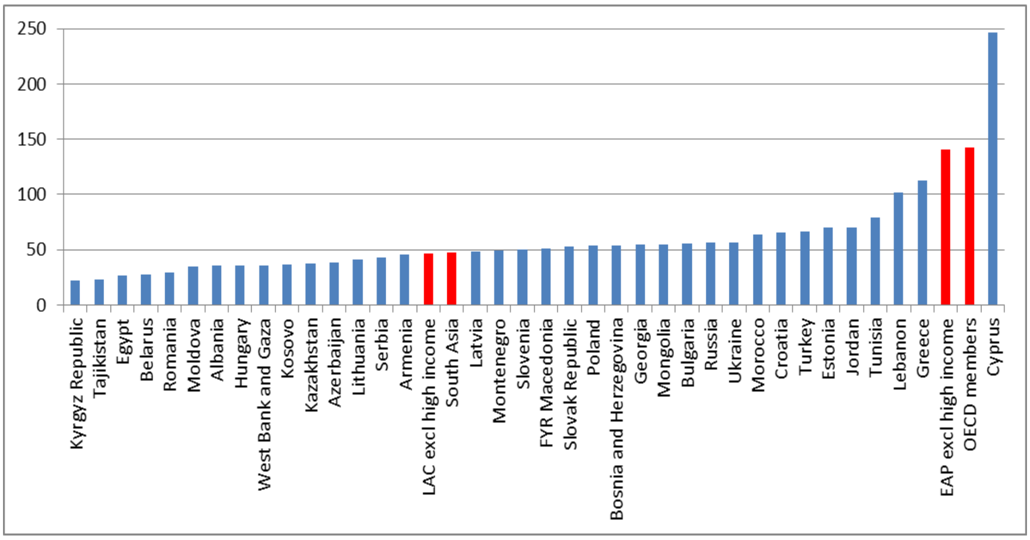
[7] 'The Business Environment in the Transition Region'.
[8] The second round of the EBRD Banking Environment and Performance Survey (BEPS II) was conducted in 2010 and comprised a questionnaire to the CEOs of 611 banks in 32 countries of operation. It enabled a comparison with the results of BEPS I from 2007.

Analysis in the 2010 Financial Sector Strategy confirms this viewpoint.[9] Remaining challenges to access to finance vary considerably according to country but broadly include:

- banking supervision and enforcement capacity for regulatory framework;
- underdeveloped local capital markets and limited access to wholesale funding by banks;
- weak risk management and liquidity management, high levels of non-performing loans (NPLs), weak action on resolution of bad debts;
- a lack of infrastructure such as credit information services and collateral registries;
- lack of a framework or weak enforcement of collateral and bankruptcy;
- internal variance in access to finance by region, city/rural, and for some borrower types (e.g. women, farmers).

These challenges contribute to a result across the board that the scale of lending as a proportion of GDP is lower than in OECD countries and in many cases lower than in countries at a similar level of development in other regions of the world.

Chart 4 Domestic credit to the private sector in 2015, % of GDP



Source: World Bank data, OECD data, evaluation team calculation
"LAC" = Latin America and the Caribbean (World Bank classification)
"EAP" = East Asia and Pacific (World Bank classification)

Annex 3 presents more extensive data supporting the statements in this section.

3.3 Strategic response

There has never been a single strategic document setting out the Bank's approach to credit lines and their uses. The Bank's strategic response and activities over the period 2011-15 were governed by multiple documents:

- country strategies for all the Bank's countries of operation;
- sector strategies for the financial sector and the SME sector;
- papers relating to specific Bank initiatives such as the Sustainable Energy Initiative and the Strategic Gender Initiative;
- the Capital Resources Review 4 and annual business plans and budgets

[9] BDS10-219 (F)

The interplay between these documents is important because, as shown in Table 1 and Table 2 below and in Annex 4 (Tables 3 and 4), financial and operational pressures push the Bank in a different direction from its strategic priorities, including towards lower-risk regions and countries with a high absorption capacity for business volume. Over many years, credit lines have played an important role not only for the Financial Institutions Group but also for the entire Bank in providing relatively low-risk volume with a reliable return. Table 1 below, reproduced from the 2017-19 Strategic Implementation Plan, illustrates the role of Financial Institutions Group generally in generating relatively low-risk, high-return business volume at the expense of below-average transition potential.

Table 1 Summary of strategic portfolio management dimensions by sector

	Energy	FI	ICA	Infrastructure
Transition	Highest	Below average	Lowest (still above floor)	Above average
Risk	Moderately high	Lowest	Highest	Medium
RAROC	High	Highest	Lowest	Moderately low
Pipeline Strength	Strong	Weaker	Relatively weak	Strong

Source: Strategy Implementation Plan 2017-19 (BDS16-190 (F)), page 30

Table 2 Summary of strategic portfolio management dimensions by region

	CA	CEB	Cyprus and Greece	ETC	Russia	SEE	SEMED	Turkey
Transition	Above average	Below average	N/A*	Below average	Well above average	Lowest	Below average	Highest
Risk	Moderately high	Lowest	N/A*	Highest	Medium	Moderately high	Moderately high	Medium
RAROC	Low*	Moderately low	N/A*	Medium	Highest	Moderately low	Lowest	High
Pipeline Strength	Strong	Relatively weak	Strong	Weaker	N/A	Relatively weak	Strong	Strong
Strategic Priority (SCF)	Priority	Not emphasised	Grow to potential	ETCs a priority	Not emphasised	Western Balkans a priority	Grow to potential	Not emphasised

Source: Strategy Implementation Plan 2017-19 (BDS16-190 (F)), page 28
Note: this analysis is Bank-wide, not specific to the FI sector

In summary:

- While strategic analysis is conducted at the country level, operations are governed by a balance of country and sector strategies but in practice are primarily driven by the scorecard.
- Analysis may identify the largest transition gaps in ETCs and Central Asia, but operational and financial imperatives tend to push the Bank towards regions such as Turkey and CEB
- Financial and risk considerations make FI an important part of the business mix, although it has below average expected transition.

Sector strategies

Financial sector strategies and policies in the 1990s established a clear dual purpose to lending through financial intermediaries:

– developing specific intermediaries and the financial sector; and

– channelling finance to MSMEs and the real sector through intermediaries in order to achieve greater efficiency and reach smaller borrowers.

Credit lines were originally intended to address the second objective only. The 1999 Financial Sector Operations Policy and SME Strategy, and all subsequent strategies, blurred the distinction so that the two objectives came to be seen as inseparable. Therefore, since 1999 we cannot look at credit lines as simply a means of channelling funds to SMEs; this element cannot be disentangled from the institution building of PFIs and the capacity of the financial sector generally.

EvD analysed strategy documents relevant to the 2011-15 period, including the 2010 Financial Sector Strategy, 2006 MSME Strategy, 2013 Small Business Initiative (SBI) Review and 2015 SBI Restructuring paper, besides approval documents for specific initiatives such as Gender and Green Economy Transition. They identify a number of different objectives and priorities. EvD has grouped the various objectives into broad categories shown in Table 3 below. Table 5 of Annex 4 presents further details of how the evaluation team mapped objectives from the strategies to this summary.

Table 3 Strategic objectives 2011-15

Focus/Instrument	Financial sector development	Support to real economy (non-GET)	Impact on other sectors (GET)
Finance (loans and incentives)	Provide long-term funding and balance sheet support to selected PFIs, including in LCY - to support general growth strategy and boost competition	Channel long-term funding through PFIs to the real economy, including in LCY - MSMEs, consumers, women-led firms, rural borrowers	Channel funds through credit line mechanism to support specific objectives other sectors (e.g. green economy)
Skills and governance (mostly transactional TC)	Promote better governance, improved business standards and skills in selected PFIs	Develop skills and entrepreneurship among MSMEs or specific target group	Skills development to support the desired objective in the wider economy (e.g. sub-borrowers and local consultants trained in EE/RE)
Regulatory and business environment and market structure (policy dialogue)	Support development of financial regulation, environment for financing and market structure	Improve business environment for MSMEs or specific target group	Support development of legal and regulatory environment governing sector, e.g. green tariffs

The 2013 SBI Review maps possible EBRD interventions to priorities and challenges. This is something that the 2010 Financial Sector Strategy does not do. Pillar 1 interventions - i.e. indirect financing - are expected to address SME lending capacity building at the intermediary level, specifically:

– supporting new entry / restructuring of partner institutions to address the lack of competition;

– credit lines with TC to develop financial institutions' capacity, to address weak capacity of intermediaries and lack of specialised skills and products in SME lending;

– loans accompanied by TC and advisory services to individual SMEs to address their skills and corporate governance, low level of market linkages, restructuring and product innovation.

– Advisory (Pillar 4) support is also expected to contribute to the last two bullets.

It notes that credit lines allow the EBRD to finance smaller loans more efficiently than it could directly, to direct PFI lending to desirable or under-served populations, and through associated TC to improve the capacity and skills of PFIs. It also emphasises that the Bank's activities must induce systematic change: "The EBRD must demonstrate not the channelling of funds *per se*, but permanent or knock-on effects on the sector that are expected to survive after the Bank's lending stops."

4. Types of credit line operations

The Financial Institutions portfolio team provided EvD with a list of credit line commitments made in 2011-15. This period was selected for several reasons:

– It corresponded with the term of the 2010 Financial Sector Strategy, approved October 2010 and superseded by a new strategy from January 2016.

– It post-dated the initial financial crisis response which featured some atypical, crisis-specific operations and funding packages in 2009-10.

– It is recent enough to be relevant - specifically including the growth of blended finance facilities - but mature enough to permit review of monitoring approaches as well as design and structuring.

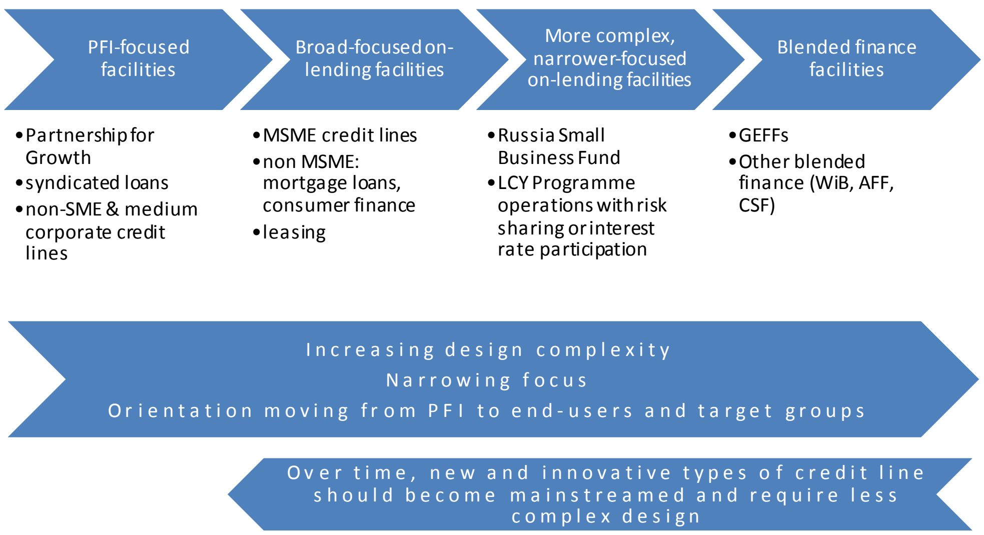
The list comprised 672 individual commitments, of which 374 were new approvals and the remainder with incremental amounts under existing (previously approved) operations. This list formed the basis of a detailed review of the development of the portfolio, and of the objectives of individual operations. The detailed analysis is in Annex 5.

4.1 Classification of credit lines

Operations tended to fall into identifiable sub-groups based on their objectives and intended transition impact, nature of the instrument, intended ultimate beneficiaries, monitoring capacity, and resource requirements for the Bank.

Figure 1 presents the different types of credit lines based on these criteria.

Figure 1 Credit lines typology



All facilities had a defined use of proceeds in the form of on-lending. The difference between the small number of facilities which EvD considered "PFI-focused facilities" and the much larger number that were "broad-focused on-lending lines" was one of emphasis. The former had a much broader range of eligible sub-borrowers[10] combined with objectives and benchmarks relating largely to the strengthening or expansion of the PFI (i.e., the EBRD's client); while the latter focused more on increasing lending to a defined target group (i.e., the clients of EBRD's client) such as SMEs. The more complex lines were often accompanied by TC or concessional funding for an interest rate subsidy or first loss risk cover to promote and facilitate specific types of lending such as in local currency. Beyond this are the blended finance facilities, amongst which there are some differences between the GEFF and non-GEFF sub-types (see also section 6). Hence the difference between the types of credit lines shown in Figure 1 is one of both focus and design complexity.

While the operation types are on a spectrum, the blended finance facilities show some particular, qualitative differences that set them apart. Some key features and differences between facilities with and without blended finance are summarised below.

What do we mean by "blended finance" in EBRD credit line operations?[11]

Blended finance facilities are packages of components, of which a credit line is one. They seek to take a more holistic approach to tackling an issue which goes beyond simple access to finance or broad financial sector development. While there is some variation, the package normally comprises most or all of the following components:

- a credit line;
- significant TC support which may be directed to the PFI (for skills transfer or implementation assistance), the target group including but not limited to sub-borrowers (for marketing, awareness raising, skills transfer and advice), or used for verification and monitoring of the use of proceeds;
- a non-TC, donor funded subsidy which may fund incentives for the PFI and the sub-borrower or a first-loss risk cover for the PFI;
- a tie-in with the Advice for Small Business (ASB) Programme to support the target group (again, including but not limited to sub-borrowers);
- often a policy dialogue element.

One or more of these elements may exist in lines that the evaluation team has categorised as not blended finance; for example, a degree of concessionality in local currency lending facilities in ETCs. Similarly, the fact that a credit line has a narrow focus (such as rural lending or microfinance) is not the defining factor.

The combination of elements in a deliberately multi-pronged approach tackling both supply and demand, with a greater focus on a target group or specific use of funds, is what makes a package that is recognisably blended finance.

By this standard the main blended finance programmes deployed by FI are the Green Economy Finance Facility (GEFF), Women in Business Programme (WiB); SME Support Competitiveness and other MSME-related programmes; and the Agriculture Finance Facility.

Financial Intermediaries Reports show such blended finance facilities growing from 44 in 2015 to 56 in 2016 and 66 in 2017.

[10] For example, "private clients including individuals, corporates and SMES" (BDS11-158); "companies, individuals and possibly municipalities to support [the PFI's] mid-term growth strategy" (BDS11-285); "Romanian private SMEs and Medium Sized Corporates in EUR and/or RON" (BDS12-323); "[the PFI's] clients" (BDS13-010).

[11] This box explains how the term "blended finance" has been used within the Bank in relation to credit line operations in recent years (including during 2011-15), and therefore how it is used in this study. More recently, in 2017, the Development Finance Institutions Working Group on Blended Concessional Finance adopted a different definition, to which the EBRD has subscribed. The Bank's internal terminology is expected to adjust to the new definition.

Table 4 Blended finance facilities versus facilities without blended finance

	Credit lines without blended finance	Blended finance facilities
Broad objectives	Development of the financial sector, individual PFIs and access to finance. May have a broad focus (e.g. SMEs) or a narrower focus (e.g. rural borrowers, microfinance, local currency lending)	Development of a specific new product, addressing both supply and demand to target an issue beyond the financial sector. Usually builds on an existing SME lending market and skills built through prior (non-blended) credit lines.
Approach	Provision of funds for expansion of PFI portfolio generally or in specific regions or segments. May be accompanied by TC for capacity development. The more complex facilities may have non-TC grants for risk sharing or interest rate subsidy.	Provision of funds for on-lending to specified types of clients or for specified uses. Supported by substantial TC for training of PFIs and sub-borrowers (ASB), marketing, implementation support, verification and monitoring. TC beneficiaries are often a wider group than the loan sub-borrowers Usually non-TC grants for PFI and sub-borrower incentives or risk-sharing.
Transition objectives (old indicators)	Market expansion 97% Business standards 35% Skills transfer 34% Demonstration effect 25%	Skills transfer 96% Demonstration effect 83% Market expansion 41%
Transition objectives (new qualities)	Competitive, Resilient	Green, Competitive (GEFFs) Competitive, Inclusive (WiB)
Approval body	43% approved at Board level.	56% approved at Board level.
Portfolio distribution	More common in ETCs and SEMED.	More common in Turkey and EU countries.
New/old clients	Directed towards new and existing clients; normal entry point for new clients.	Almost entirely with existing clients who have built lending capacity through less complex facilities.
Client ownership	Various types of ownership, with local non-state ownership the most common classification.	High proportion of operations with subsidiaries of western banking groups; relatively few with local commercial FIs or CSO/IFI-owned institutions.
Monitoring indicators	Overall portfolio growth and quality. Growth in particular areas/segments. Specific activities related to institution building where applicable.	Lists of sub-projects or sub-borrowers. Presence of consultants and concessionary funding allows greater monitoring of outcomes that interest us - overcoming intermediation/fungibility issue.

Based on the differences shown in Table 4 the evaluation team identified some strengths and weaknesses of the different approaches.

Table 5 Strengths and weaknesses of blended finance facilities versus credit lines without blended finance

	Credit lines without blended finance	Blended finance facilities
Strengths	Broad-focus credit lines without concessional finance are fundamental to the development of MSME lending capacity in new PFIs and form the indispensable basis for more focused or complex facilities including blended finance facilities. Particularly well-suited to new or less-developed clients, to the EBRD's initial engagement (or re-engagement[12]) in new countries, and to on-going engagement in countries with large access to finance gaps. Reliance on PFI credit decisions encourages development of commercial practices and specialised credit analysis skills. Efficient way to reach larger numbers of smaller businesses than EBRD could reach directly. The facilities without embedded incentives have additionality and sound banking "built in" to a large extent - through market demand for our non-concessional lending, and continued portfolio quality of PFIs.	The loan is only one element of a larger package to address a problem holistically. Can overcome reluctance to engage in commercially viable market segments. Adapts well-established credit line structure for specific / other purposes. Attractiveness (concessional funding) allows EBRD to maintain market presence and client relationships in otherwise unviable markets. Structure allows for quantification and monitoring of specific targets, including intended final beneficiaries. Additional monitoring brings potential for internal learning in the Bank and for demonstration of the Bank's effectiveness.
Weaknesses / Risks	Limited ability for EBRD to define very specific target group or require enhanced PFI reporting on sub-borrowers (intermediation/fungibility issue). Do not attempt to address non-funding issues affecting SMEs' access to finance. Decreasing demand in countries of operation with smaller access to finance gaps and more developed financial systems. Commercial approach and unsubsidised structure of the more broad-focus facilities constrains the Bank's ability to demand additional, detailed reporting from clients.	Directed lending and subsidy elements undermine the commerciality. Risk of becoming ongoing subsidised funding if grant elements are not carefully controlled. Dependent on continued availability of donor funds. Potential benefits of specific monitoring can only be realised through deliberate add-on processes and resources to ensure adequate monitoring and reporting.

What is the "intermediation/fungibility" issue?

Tables 4 and 5 mention the "intermediation/fungibility" issue in several places. Briefly, lending through financial intermediaries has certain characteristics that can present particular challenges for design and monitoring:

- the two-layer structure (i.e. intermediation) - the fact that at least some of the effects are intended to be achieved at the level of the sub-borrower, one or more remove from the direct client;
- the fungibility of PFI funding - which makes it harder to attribute results specifically to EBRD funds.

The two-layer structure creates an agency effect: EBRD does not have direct control of the use of proceeds but must rely on the PFI to apply agreed standards and conditions. And EBRD cannot directly monitor the impact of its finance on sub-borrowers but must rely on the information that the PFI reports to it. MDBs have traditionally monitored credit lines by requiring the PFI to provide lists of sub-borrowers financed from the facility - the "list" approach.

The EBRD mostly abandoned the "list" approach many years ago for reasons reinforced by the recent IDB study on financial intermediation:[13] the fungibility of funding, especially in private sector FIs, makes it impossible to attribute specific sub-loans to EBRD funding. The PFI can simply supply a list of compliant sub-loans with no assurance that their lending behaviour has changed as a result of the MDB loan. Therefore, in most cases, the EBRD monitors the PFI's portfolio growth and composition to ensure that the EBRD funding results in a net increase in lending to the target segment.

Some blended finance facilities, particularly GEFFs, overcome the fungibility issue because verification of projects is required for the payment of client incentives, and so it is possible to identify which sub-loans are financed by the EBRD facility. The evaluation team has observed that EBRD makes some use of the "list" approach in these cases.

[12] For example, "In December 2017 EBRD signed a USD 20 mln MSME loan with HamkorBank, one the first credit lines provided by EBRD in Uzbekistan after the Bank’s re-engagement with the country." (Financial Intermediaries Report 2017, CS/FO/18-13)
[13] Evaluation of IDB Group's Work through Financial Intermediaries, March 2016

The typology described above was based entirely on the evaluation team's review of the list of credit lines provided by the Financial Institutions Group as there was no strategy document that teased out these differences beyond the partial mapping in the 2013 Small Business Initiative Review.

Finding. Despite the importance and ubiquity of credit lines in Bank operations and strategic commitments the Bank lacks a clear definition of what they are; there is no formal strategic framework setting out their role in contrast to other types of engagement with financial intermediaries (such as equity, quasi-equity, bonds) or with MSMEs (direct finance, equity funds); nor is there clarity on integrating credit lines with other activities such as policy dialogue or technical assistance.

4.2 Conclusions on the different types of credit lines

The summary above shows substantial differences in purpose, design and objectives as well as structure. There has been a profound evolution over time in the purpose and objectives of the specialist, narrow-focused credit line instrument, largely on a demand-driven and ad hoc basis. This has resulted in the development and expansion of the blended finance model. The differences between these and more traditional types of line are so great that EvD considers that they should be regarded as separate products, albeit using a similar delivery mechanism. Sections 5 and 6 below therefore consider the two types of operation separately.

Despite the differences identified, many of the processes have not evolved sufficiently to keep pace with this evolution. In many ways the Bank still handles all its credit lines similarly.

- Approval documents do not differ in any appreciable way between the two types of credit line.
- The monitoring approach is broadly similar, apart from the collection of aggregate CO2 savings for GEFFs (Green Economy Finance Facilities). Other than this, the monitoring and metrics established for an instrument designed to develop the capacity of the financial sector to supply necessary finance to the real economy have not evolved materially despite the creation of a more complex and demanding instrument to advance a very different, but also in many ways more quantifiable, set of goals. Hence most of the benchmarks and reporting on blended finance facilities are still based on the PFI reporting on its portfolio growth and quality, and specific actions undertaken at PFI level (for example, in areas such as corporate governance or risk management).
- The Bank's organisation and reporting do not clearly separate the products. Blended finance is not treated as a separate category in the Bank's databases, although the Financial Institutions Group is able to identify and count blended finance facilities for reporting in its annual Financial Intermediaries Report to the Board. The different products with a given client are handled by the same Operation Leader in Financial Institutions Group in line with its client relationship approach to business generation and portfolio management. The Financial Intermediaries Report describes GEFFs and Women in Business operations along with other kinds of credit lines and other activities under the heading "Enhancing Financial Intermediation". It reports separately on blended finance only in the context of its use of donor funds.

Treating the two types of operation as variants on a single product prevents clarity on what the Bank is trying to achieve; where it should focus its efforts; how design and delivery will advance specific objectives; and whether it is achieving desired outcomes.

The Bank currently faces an additionality challenge in several of its core countries of operation with high liquidity and competition from the EIB, particularly in central and south eastern Europe. EvD finds that this has tended to push it towards using blended finance to maintain volume in large, important markets where it is no longer able to sell credit lines without concessional funding or to come close to pricing at market rates. EvD's recent paper on Additionality included a relevant finding on distinguishing between the additionality at the client (PFI) level and at the sub-borrower level.

Additionality in the EBRD - Review of Concept and Application (CS/AU/18-01) - extract

The approach to discussing the additionality of finance for financial intermediaries could be adjusted to be more suitable to their specificity. This relates in particular to cases where the additionality of the finance does not in fact lie with the direct client (PFI) but with the intended final borrowers (most commonly SMEs or borrowers for energy efficiency investments). In some high liquidity markets the projects face difficulties to demonstrate the need for the finance at the level of the client, and in some cases resort to transition-type arguments. EvD special study on the EBRD's use of subsidies noted that in most cases the Bank's incorporation of subsidies in operations or facilities is intended to make them sufficiently attractive to clients (and in some cases also sub-borrowers) to be agreed and implemented successfully. There is a case for focusing the additionality discussion on the additionality of the finance for the final market segments where it is intended. This is already to some extent the case, following the guidelines for the use of subsidies, which mandate the facilities to provide an analysis of the market/institutional failures that cause the targeted market to be quantity constrained, and the justification of the size and structure of subsidies. This again is a case for a higher-level, segment approach to additionality for such facilities/ credit lines.

Looking at this issue through the prism of credit lines with or without blended finance, and given the geographic distribution of credit lines analysed in Annex 5, it appears that the EBRD tends to do credit lines without blended finance in countries where there is still financial additionality at the PFI level, and move towards blended finance facilities where this additionality is lacking.[14] In the latter case, the additionality argument may "resort to transition-type arguments." A clearer distinction between the two types of product might facilitate a qualitatively different additionality argument for each type, with blended finance facilities focusing on the additionality at the level of the final borrower.

The discussion in this section has two implications. First, because blended finance facilities require use of concessional resources, they bring also a need for a more compelling story/evidence about results which cannot be obtained from the Bank's traditional approach to monitoring. And second, the result is that the Bank may not necessarily be targeting either type of facility (blended or non-blended) to where it is most needed, but rather promoting whichever transaction may be possible in a given market. Sections 5 and 6 below and Annex 5 provide more supporting evidence for this assertion.

The commingling of the two very different products is founded in a sector-based approach to the Bank's operations and clients, which today is being superseded by a country-based and thematic approach in many areas. This is seen in the greater prominence of country strategies in the new results architecture of the Bank, and the move from the sector-based Assessment of Transition Challenges to the thematic Assessment of Transition Qualities. Therefore the Bank's direction of travel in terms of its results architecture may facilitate taking a new approach to handling the different types of credit line.

Findings.

There has been a major evolution in the objectives and design of EBRD's credit line instrument, reflecting both demand and strategic drivers, which has resulted in rapidly expanding use of blended finance and related need for supplemental concessional funding.

There are fundamental distinctions between blended finance facilities and other credit lines in terms of purpose, structure and potential for monitoring and reporting.

- **Purpose:** Traditional credit lines contribute to the Financial Institutions Group's core mandate of building the financial sector in countries of operation, while also channelling finance directly to the real economy. Blended finance facilities use the financial sector as an instrument to address other strategic objectives.
- **Structure:** Although many credit lines have donor finance attached, blended finance facilities are a package of interdependent components, of which the credit line itself is only one. Their complex structure has implications for resourcing, design, and management.

[14] The use of concessional finance outside the blended finance model, for example first loss risk cover or interest rate subsidies for local currency financing, is limited to countries with larger access to finance gaps where additionality is not in doubt.

– **Monitoring and reporting:** Blended finance facilities bring additional potential for monitoring and reporting on effects at the level of the sub-borrower. This is because of an increased ability to track individual sub-borrowers for such narrowly targeted instruments, and the often substantial use of donor-funded consultancy support for implementation.

Treating credit lines with and without blended finance as variants on a single instrument brings a lack of clarity on what the Bank is trying to achieve, where it should focus its efforts, and whether it is achieving desired outcomes; it also represents a missed opportunity in these areas.

Recommendations.

The Bank's next Financial Sector Strategy, due by 2021, should incorporate a strategic review of credit lines. It should include the following specific elements:

– Define and clarify the two types of credit lines (with and without blended finance), including: what they are; their purpose; when they should be used; expectations for results; the use of technical cooperation, grant co-financing and policy dialogue with different types of credit line; management and organisational arrangements already in place (or to be introduced) to manage the two types of credit lines, monitor them and report their results in an effective manner.

– Clarify the selectivity criteria for the use of credit lines without blended finance, specifically in countries where financial sector development or increased access to finance for MSMEs are identified as key transition challenges and strategic priorities through focused, country-specific diagnostic work. Where agreed, finance should be combined with specific policy dialogue and donor-supported activities such as training, in close cooperation with other IFIs wherever possible, and in support of clearly identified country-level objectives. These issues should be specifically identified in Country Strategies.

– Examine alternative administrative/management arrangements including separate management of credit lines with and without blended finance, with coordination through the existing Financial Institutions Group relationship manager. The Bank should develop distinct processes for improved target setting, monitoring and reporting at the level of the partner financial institution (PFI) and sub-borrower which address the different objectives and focus.

– The Bank should report separately on the two types of product either within or in parallel to the Financial Intermediaries Report.

5. Credit lines without blended finance

Credit lines without blended finance still constitute the majority of the Bank's credit lines, both by volume and number. They are less visible to the Board, with more approved through delegated approval procedures (57%, compared with 44% for blended finance facilities). Many are now approved under the Financial Intermediaries Framework (FIF), though older examples were originally approved under individual, mostly country-focused, frameworks. The text boxes below summarise the design and monitoring approach to some common variants of credit lines.

Broad-focused FIF operations:

The focus of the benchmarks is expansion of SME lending by the PFI, subject to portfolio quality standards. Where there is institution building TC attached, additional benchmarks address this.

There is a high level of standardisation in the FIF benchmarks, and a standardised MSME policy statement and reporting format appended to loan agreements. This leads to:

- potential efficiencies in processing of new loans - although bankers report that they still feel bogged down in discussions with economists over individual project benchmarks;
- more aggregation of client reporting data in Financial Intermediaries Reports and Small Business Initiative Annual Reviews;
- less tailoring to individual circumstances and potentially less incremental development of benchmarks over several projects with a single PFI.

The benchmarks are focused at PFI level (and on consultant activities where applicable). There is increased reporting of types of sub-borrowers and sub-loans but no reporting on effects at the level of sub-borrowers (e.g. growth) or other FIs (i.e. replication).

EvD has found no framework TIMS reports: data from individual operations are aggregated through the SME MIS system and reported annually in the Small Business Initiative Annual Review.

Local currency lending in ETCs and Kazakhstan

Operations are mostly approved under the FIF, with concessional finance provided through the ETC Local Currency Programme (now being extended geographically through the SME Local Currency Programme).

A relatively high level of TC for institution building or skills transfer (around 25% of operations) - partly because of a relatively high level of new clients and PFIs' often early stage of development; many are or were non-bank microfinance institutions.

The focus and benchmarks are very similar to broad-focused FIF credit lines: portfolio growth and quality, regional expansion. Several also have targets for transformation into a bank.

Benchmarks again focused at PFI level.

PFI-focused facilities

A fairly small group of operations with have a wide range of benchmarks targeting portfolio growth and quality, new products, establishment of an EU desk, improved credit skills and various targets around balance sheet structure, including syndication and accessing other sources of funding.

They are mostly with existing clients and rarely have TC support.

All benchmarks are at the level of the PFI except a few relating to other syndications or debt capital market transactions in the sector.

An interesting sub-set is the **Partnership for Growth** operations which set multi-year growth and development targets linked to disbursements and with reporting to the Board. But the targets were not well aligned with country conditions as in two out of three cases the final tranche was cancelled because of excess liquidity.

Cutting across the operation types summarised above, the EBRD maintains long-term relationships with many clients. The box below summarises the relationship with one such partner bank.

A client relationship: Banca Transilvania, Romania

EvD briefly reviewed a relationship dating back to 1999.

It encompassed equity, a convertible bond, trade finance, subordinated debt, syndicated loans, and senior debt for MSME lending, leasing, rural lending and energy efficiency. There was also around €1.3 million of TC funds, mostly for staff training.

BT was a small regional bank with market share of 1.4% in 2001 when the initial equity investment was made. In September 2013 BT was the third largest bank in Romania by total assets, with a market share of 8.57%.

The review concluded that:

> *"EBRD supported the development of a relatively small, locally owned, regional, private-sector bank into a major national competitor in the Romanian banking sector, with a particularly strong presence in MSME lending. The EBRD has helped BT improve its governance and set a good example to the market. The relationship has promoted competition as BT grew to number 2 in the MSME segment."*

It also concluded that BT should be considered to have "graduated" from institutional development activities.

EBRD provided a post-crisis financial package in 2010. Since then its only financing has been very distinctive facilities such as a convertible bond and energy efficiency lines.

In 2015, EBRD began divesting its equity holding in BT. In 2017 BT became its partner in an investment in the troubled Victoria Bank Moldova - an indication of the strength of BT and of the relationship with EBRD.

5.1 Strengths and preferred uses of credit lines without blended finance

Credit lines without blended finance broadly target the original dual focus of credit lines: *institutional strengthening* of PFIs and the financial sector as a whole, and *intermediation* (finance to the real economy, particularly MSMEs). Project objectives in 2011-15 show market expansion as an almost universal objective, with business standards and skills transfer in about one-third of projects.

It follows that they should be more closely aligned than blended finance facilities with transition gaps and market barriers in the Financial and MSME sectors as identified in ATCs and other country-level analysis (see section 3 above). Interviews with Banking and non-Banking departments and an analysis of the actual uses of credit lines without blended finance indicate that they appear to be best suited to the following situations:

- As an entry point to new countries and new clients. They are invaluable in building the fundamental MSME lending capacity which is the basis for more complex packages such as blended finance or more narrowly focused lending.
- As a means to support and grow private sector clients in those countries which still have state-dominated banking, such as Belarus or Uzbekistan.
- With clients in need of skills enhancement or other institutional development. In the early stages of engagement they are often combined with institution building TC.
- As support for policy dialogue on general financial sector or MSME sector issues: as in other sectors, the Bank's engagement in the field and provision of funds gives substance to its policy advice.
- In countries with large access to finance gaps, where lending to SMEs is not well established or is restricted to specific regions or types of borrower.

Their strengths are:

- They contribute to the commercial development and ethos of PFIs - by relying on their sub-borrower selection and credit control functions, in contrast to the "directed lending" approach of some blended finance lines.
- They are a self-sustaining business line for EBRD as they are not dependent on donor funds.

- They potentially "sell" the viability of SME (or other target) lending as a commercially viable product more convincingly than a subsidised facility.

It is clear that there are a number of countries of operation, particularly in Central Europe, Turkey and parts of South-Eastern Europe, where these uses and strengths are now less relevant and this is reflected in reduced demand for unsubsidised credit lines among long-standing clients. They remain essential in newer countries of operation and in countries with larger access to finance gaps, principally early transition countries, where the Bank still works hard to persuade FIs of the benefits of lending to MSMEs.

5.2 Portfolio analysis and project objectives

Annex 5 presents a full analysis of the portfolio and project objectives. The main findings include the following.

- The evaluation team found no strong connection between the distribution of operations and the analysis of country challenges. In 2011-15, credit lines without blended finance were committed in 28 countries of operation; half the volume went to five countries, with mostly medium ATC rankings and BEEPS credit constraints.
- Several of the small number of frameworks in 2011-15 targeted skills transfer or frameworks for markets, but few individual operations did so. The frameworks have since been folded into the FIF which has a broad "menu" of transition objectives that can be selected at individual operation level - a move away from more specifically targeted frameworks.
- Competition and market structure are very seldom targeted by operations or frameworks, although they are an important challenge identified at country level.
- In most countries, EBRD works with a stable group of PFIs, with some relationships dating back many years. The client group is expanding mostly in ETCs and newer countries of operation. Expansion is limited in more established countries of operation where the Bank is often already working with the limited pool of FIs which are both willing and suitable (from a credit and integrity perspective).
- Although the Bank works through multi-operation client relationships extending over many years, there is not a clear picture of what client development looks like in total, what it is expected to look like and what constitutes client "graduation".
- TC support for client development (institution building, credit and risk training, and other training and seminars) has fallen substantially in absolute and relative terms. This is likely to be a result of the stable client base in older countries of operation, while approval documents indicate that few PFIs in SEMED or Turkey require substantial institutional development programmes.
- In contrast to blended finance facilities, only a very small proportion of credit lines without blended finance involve non-financial support for the real economy: skills and governance support for sub-borrowers or SME regulatory and business environment measures.
- The Bank is struggling to find demand for credit lines without blended finance in several countries with high liquidity or strong competition from EIB. Some countries have effectively graduated from intermediated finance, but in some larger markets, blended finance facilities appear to have supplanted credit lines without blended finance in the search for additionality.

5.3 Conclusions on credit lines without blended finance

Strategic objectives

Figure 2 Indicative results framework for credit lines without blended finance

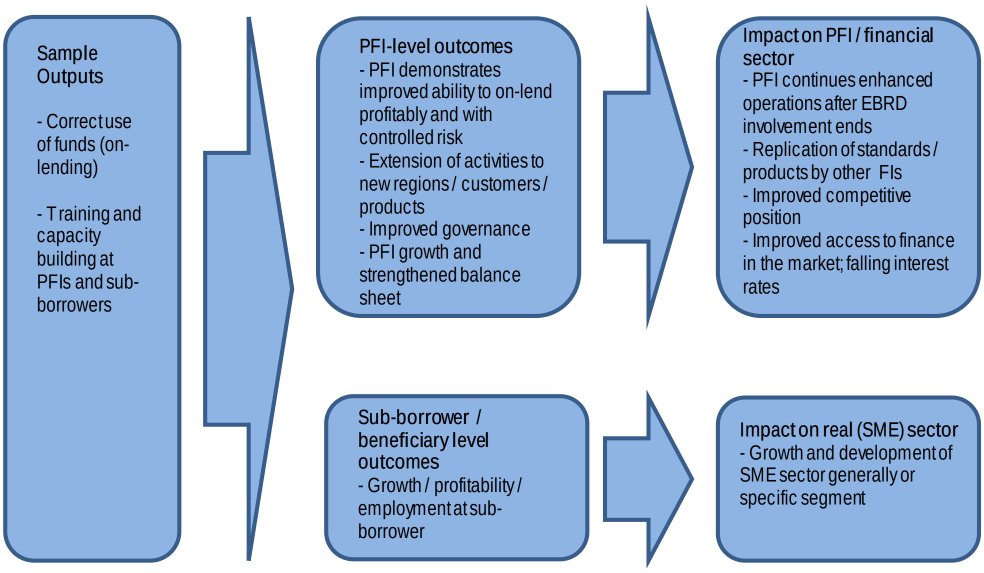


Figure 2 presents a *pro forma* results framework for credit lines without blended finance, encompassing results both at the level of the PFI and financial sector, and at the level of the sub-borrower and real sector. The Bank currently tracks outputs and PFI-level outcomes through client or consultant reporting. Impacts, which are in any case less directly attributable to the EBRD's activities, are best gauged through economic indicators and surveys such as BEEPS and BEPS. This leaves one substantial gap in the Bank's ability to report on results: outcomes at the level of the sub-borrower.

Good arguments can be made for not requiring more detailed reporting by PFIs on sub-borrowers: extra reporting would undermine the essentially commercial character of the relationship between EBRD and the PFI which is the strength of EBRD; non-commercial levels of reporting put an extra burden on PFIs which is not justifiable by its contribution to client institutional development; the commercial performance of sub-borrowers in aggregate is captured in the quality of the PFI portfolio (e.g. the level of NPLs); and wider effects on access to finance are better captured through the BEEPS survey as now. EvD agrees with the Bank's current approach of assessing the PFI's capacity to manage its portfolio, and then tracking portfolio growth and quality as proxies for its institutional development as well as its contribution to widening access to finance.

In terms of the Bank's accountability, what is important to know is that the operations which the Bank approves, especially under delegated authority, are approved within a clear strategic framework. The Board is likely to have greater confidence in its delegation of authority if it is satisfied that the Bank is focusing its efforts on the areas identified in country diagnostics. Section 5.2 pointed out the sometimes weak connections between operations and the assessment of challenges, while section 3.2 noted the problem that many of the challenges identified are not easily translated into bankable projects. The Bank's strategic approach has recently undergone substantial evolution in many areas while its long-standing approach to credit lines not involving blended finance has not evolved at the same rate. The innovation in this area has predominantly been in the field of blended finance facilities. Recent developments in country diagnostics and strategies aim to sharpen the focus on strategic issues and priorities and integrate projects and policy engagement to maximise the Bank's impact.[15] These developments provide a context and an opportunity for sharpening the strategic focus of credit lines.

Finding. The use of credit lines without blended finance is not strongly correlated with the assessed transition challenges at the country level. A large proportion of finance is directed to a small number of countries that do not necessarily have the greatest transition gaps. Significant challenges identified at country level, such as competition and market structure, are seldom targeted by individual operations. Many challenges are hard to translate into bankable projects and are better addressed through integrating finance with policy dialogue and training.

Recommendation. The strategic-level review of credit lines should identify selectivity criteria for the use of credit lines without blended finance. Their use should be limited to countries where financial sector development or increased access to finance for MSMEs are identified as key transition challenges and strategic priorities through focused, country-specific diagnostic work. Where agreed, finance should be combined with specific policy dialogue and donor-supported activities such as training, in close cooperation with other IFIs wherever possible, and in support of clearly identified country-level objectives. These issues should be specifically identified in Country Strategies.

At present, it seems that the Bank strives to find credit line business across almost all countries of operation. This is because lending through financial intermediaries is the Financial Institutions Group's core, basic product with which to achieve volume targets, maintain its presence in the financial sector and support policy dialogue. It received a boost during the international financial crisis when there was a need to provide liquidity and visible support across the region, and in the aftermath in the effort to reinvigorate the real economy. More recently, in a recovering economic environment, many countries show high liquidity and narrow lending margins. Besides making it hard for the Bank to sell credit lines in such countries without blended finance attached, these are also indications either that a competitive financial market is already in existence, or that the barriers to SME growth and SME lending lie beyond the availability of finance. The credit line was originally developed to address challenges in relatively early transition countries without effective financial sectors. It may no longer be relevant to several of the Bank's countries of operation. In countries where the Bank struggles to link credit lines directly to priority policy dialogue activities, it should focus its efforts on higher priority sectors and segments.

Client relationships

The EBRD has had long-term relationships with many clients, some of which it has supported in their growth from small local players to national or international banks. The prospects of launching similar relationships in any of the Bank's established countries of operation are now slim, but its relationships with small banks and non-bank microfinance institutions in some early transition countries have good potential for growth. This report has noted the lack of an overarching narrative to the EBRD's long-term relationships. In 2011-13 the EBRD tried to take a longer-term approach to client development through a handful of "Partnership for Growth" loans, which tied disbursements to achievement of a number of annual targets designed to be aligned to the client's own medium-term growth strategy. The operations were with subsidiaries of the Société Générale group in south eastern Europe, and their success was negatively affected by high liquidity which led to only partial disbursement in two of the three cases.

[15] SGS16-231 Country Strategies - Operational Effectiveness & Efficiency (OE&E) Review

Recommendation. The Bank should consider more widely applying its Partnership for Growth model under which it engages in a multi-year agreement with a client to provide finance in tranches subject to normal credit considerations and the client's satisfactory performance against agreed performance objectives. In particular, it should consider applying them to relationships with earlier-stage clients in early transition countries with greater liquidity constraints. At country level a relatively substantial medium-term package tailored to individual local PFIs could combine finance with TC funds and policy dialogue objectives closely associated with country diagnostics. This could be an attractive "offer" to government and key local players to focus efforts on desired policy objectives.

6. Blended finance facilities

Blended finance facilities comprised 38% by volume and 34% by number of the 672 credit line commitments in 2011-15.[16] The different types of blended finance facilities are shown in Table 6 below.

Table 6 Types of blended finance

Type	By volume	By number
Energy/resource efficiency (GEFFs/Municipal Finance Facility)	73%	78%
Gender (Women in Business)	12%	7%
Value chain finance (including agricultural finance facilities)	11%	8%
Competitiveness support facilities	4%	7%

Design and monitoring approaches differ significantly across different types of blended finance facilities, as developed further below.

GEFFS

GEFFs use the credit line structure to achieve objectives in areas that are primarily non-financial - so targets and benchmarks do not focus on general PFI or SME development.

Facilities are often with existing and even long-standing partners, though there are exceptions (e.g. Bank of Egypt).

Standardised set of around 10 benchmarks covering number of sub-projects, quantity of expected energy savings and volume of installed renewable capacity, sustainability, portfolio quality, PFI training and institutional development, number of marketing events. Grant intensity or grant leverage is sometimes benchmarked, for example as maximum USD per tonne of CO_2 reduced (intensity), or maximum ratio of total project costs / TC+incentives (leverage ratio).

Heavy use of consultants:

- to perform PFI training and institution building support, sub-project REUPs/SEAs, sub-borrower marketing and training;
- to verify project completion as required for incentives payments;
- for reporting - on completion of marketing, training and development activities, and to confirm expected energy savings, installed capacity etc. for the Bank's aggregate reporting.

A result of the incentives and verification system is that reporting is on a "sub-project list" approach rather than the portfolio-growth approach more commonly used for credit lines. The Bank can identify all the individual sub-borrowers.

Exceptionally, this type of project uses consultant resources to measure outcomes, i.e. expected energy savings. This is based on *ex ante* estimates rather than actual monitoring of emissions.

Many operations have benchmarks for the sustainability of lending after utilisation of the EBRD loan, but EvD did not find consistent reporting on this. There is no monitoring of the longer-term benefit for sub-borrowers (such as improved cost efficiency and stronger commercial performance from reduced resource use) or wider benefit for countries of operation (such as an increased demand for energy efficiency loans, improved productivity or environmental benefits).

There are few benchmarks around replication or availability of similar financing on the market without IFI support.

Data on energy savings and capacity are aggregated and reported in Bank Annual Reports and Sustainability Reports.

[16] EvD's own analysis, based on the list of credit line facilities provided by FI.

Non-GEFF blended finance (e.g. Women in Business)

The projects benefit from a high level of TC and non-TC grant funding.

Typically around 12 benchmarks with a clear distinction between:

- PFI-level benchmarks for portfolio growth, introduction of standards and processes;
- activities to be completed by consultants - PFI training, marketing activities;
- Advice for Small Business (ASB) related activities - SME assistance.

ASB-related benchmarks benefit from ASB's long-standing monitoring of outcomes at beneficiary level one year after completion of the intervention.

The PFI and consultant-related benchmarks all measure activities and outputs with monitoring based on PFI and consultant reports; there is no extension of the ASB monitoring model to these activities.[17] This is even though in some programmes (WiB), consultants have performed an initial baseline survey.

Although economists, when interviewed, emphasised the need for blended finance operations to create sustainable or systemic change, there were almost no benchmarks around replication or availability of similar financing on the market without IFI support.

Data on non-GEFF blended finance operations are not yet aggregated and reported as comprehensively as for GEFFs, though EvD understands that Management is considering how to do this for WiB.

Interviewees reported that the purpose of blended finance facilities was to use training, outreach and incentives alongside lending in a temporary intervention to establish a new product or market. However, the targets set in relevant strategic documents do not appear to be set with a temporary intervention in mind, particularly in relation to Green Economy Transition (GET) lending. The Sustainable Energy Initiative and Sustainable Resource Initiative set targets in terms of business volume and energy or resource savings, while the GET Approach sets a target for the volume of green financing as a proportion of total Bank financing.[18] An approach envisaging a temporary intervention would more likely set a target for replication of the facilities financed by the EBRD, or for energy savings subject to a maximum investment amount.

6.1 Strengths of the blended finance approach

A great deal of thought has gone into the development of blended finance facilities in recent years. They take a holistic approach to promoting finance for particular groups or uses. They tap into existing EBRD skills and processes in order to target both supply and demand issues, and explicitly aim to trigger a demonstrable impact. This is reflected in the focus of their objectives on skills transfer and demonstration effect. Addressing, as they often do, areas of focus for the entire international development community, such as green energy and women's engagement, they offer opportunities for greater cross-IFI collaboration. However, the evaluation team did not find any greater mention of such collaboration in project approval documents, suggesting that such opportunities remain unrecognised so far.

The use of extensive donor support also both allows and specifically requires greater reporting on outcomes at the level of sub-borrowers and the wider market. The Bank has developed this furthest with GEFFs, where a verification consultant assures eligibility for payment of incentives to sub-borrowers, and in doing so confirms the correct use of funds and expected achievement of energy savings. Data collection and aggregation for GEFFs also allows the Bank to report on total energy and carbon savings.

Extended use of subsidies has always coexisted uneasily with the EBRD's traditional business model. But blended finance is clearly better suited to newer challenges that the Bank is facing. The Sustainable Development Goals are seen as far more relevant to the Bank's agenda than the Millennium Development Goals were in the early 2000s. A changing business model requires changing instruments.

[17] In a few cases, benchmarks implied such follow-up would take place "on a best efforts basis", but EvD found no evidence that it had been successfully applied in practice.
[18] BDS09-096; BDS12-020F; BDS13-052 (F); BDS15-196 (F)

In practical terms, blended finance lines work best under the following conditions:

- The client is an established PFI with strong MSME lending capabilities and portfolios;
- The country has recently implemented, or has immediate plans to implement, any necessary legal/regulatory framework or relevant government initiatives or promotions, which the Bank's operations can tap into;
- The on-lending is based on a strong commercial proposition which suffers from a perception problem but can be shown to be commercially viable.

6.2 Weaknesses and limitations of the blended finance approach

This study does not attempt to address the validity of using subsidies over an extended period, as this question is better addressed elsewhere.[19] Some findings from other evaluation studies are summarised in the box below, while the remainder of this section considers some practical issues around the use of this instrument.

- The Bank has been successful in rolling out this product widely for GEFFs and Women in Business programmes in particular. It has proved harder to adapt it to other priority targets, such as youth or refugees. Interviewees report that PFIs see these groups as poor credit risks and are reluctant to take them on even for the offer of incentives. So there are limits to how widely the product can be replicated as a way of targeting finance to other marginal groups or economically desirable investments.
- The product is dependent on donor funding, making it vulnerable to changing donor sentiment and direct competition with other IFIs for available funding. Interviewees cited this as a natural limitation on the use of subsidies, since donor funds are harder to source for more advanced transition countries. EvD's portfolio analysis found that this appeared to be a binding constraint on most TC and non-TC funds, but not on funding for GEFFs and WiB, which seemed to be more widely available in recent years. Nonetheless, continued funding is likely to be contingent on: (1) political interest; (2) the Bank showing strong performance including demonstrated results; and (3) the perceived competitive advantage of the Bank's "value offer" to donors who have a large range of options.
- Evidence is unclear as to whether the GEFF and WiB concepts are viable without subsidies. Some GEFFs show a decreasing grant intensity while others justify continued subsidies by moving into ever more niche segments. There is little and inconsistent reporting on replication or on continued lending by PFIs after EBRD financing ended, even though this is widely seen as the ultimate objective of this kind of lending.

[19] See evaluation studies on Subsidies (CS/AU/16-44), SEFFs (CS/AU/15-62) and Additionality (CS/AU/18-01)

Selected findings on use of subsidies from previous evaluation reports

The EBRD's Sustainable Energy Finance Facilities (CS/AU/15-62)

Where incentive payments have been used, these were found to be appropriate for overcoming specific types of market barriers and the levels at which incentives were set have been as low as possible while still retaining efficacy. They can focus attention and motivate action where the level of prioritisation given to sustainable energy investments is low even though such investments are cost-effective. Incentives also encourage the use of higher standards or better performing technologies, hence leading to more substantial 'deeper' interventions. There has been a clear trend of increasing "smartness" in incentives to sub-borrowers (i.e. linking to quantitative aspects of project performance), and phasing out PFI incentives in countries where there has been a succession of facilities.

Determining the effectiveness of incentives is however difficult since an experimental approach is not practical. Once an incentive is given in a SEFF, it is virtually impossible to conclude what the outcome might have been without it.

Incentive payments were sometimes felt to be too low to be attractive in a local context where much larger grants are available from other sources (such as the EU Structural funds).

Findings from field trips and previous evaluations have provided relatively few examples of continued efficiency / renewable energy lending by PFIs beyond or outside of the SEFF. The most common situation was a reported willingness on the part of PFIs to continue sustainable energy lending, but a feeling that it will be unlikely without the technical assistance and/or subsidies provided by the SEFF.

Unlike in the case of PFI incentive payments, there does not appear to be a clear decreasing trend in the levels of sub-borrower incentives through time.

EBRD's Use of Subsidies (CS/AU/16-44)

The established principles for determining whether and how subsidies should be used are clear and coherent, but also allow for flexible application; they have been widely road-tested at an operational level and a good body of experience has been built. Approvals for the use of subsidies in individual operations and facilities have generally, though not always, followed these principles.

The application of the policy principle of "temporariness" is uneven. Subsidies are often scaled down or ended in follow up facilities, but there have been instances of repeated use. This is an issue that warrants review.

Assessing their effectiveness requires judging counterfactuals – whether the operation might have been implemented as successfully with less subsidy or no subsidy – rather than specifying ex-ante the subsidies' intended effects and collecting ex-post evidence of those effects.

This means there is an inherent difficulty in marshalling evidence about the effectiveness of most of the Bank's uses of subsidies. Assessments of subsidies' effectiveness are straightforward in only a minority of cases, where they are allocated to specific components of operations with specific objectives of a measurable kind.

Additionality in the EBRD - Review of Concept and Application (CS/AU/18-01)

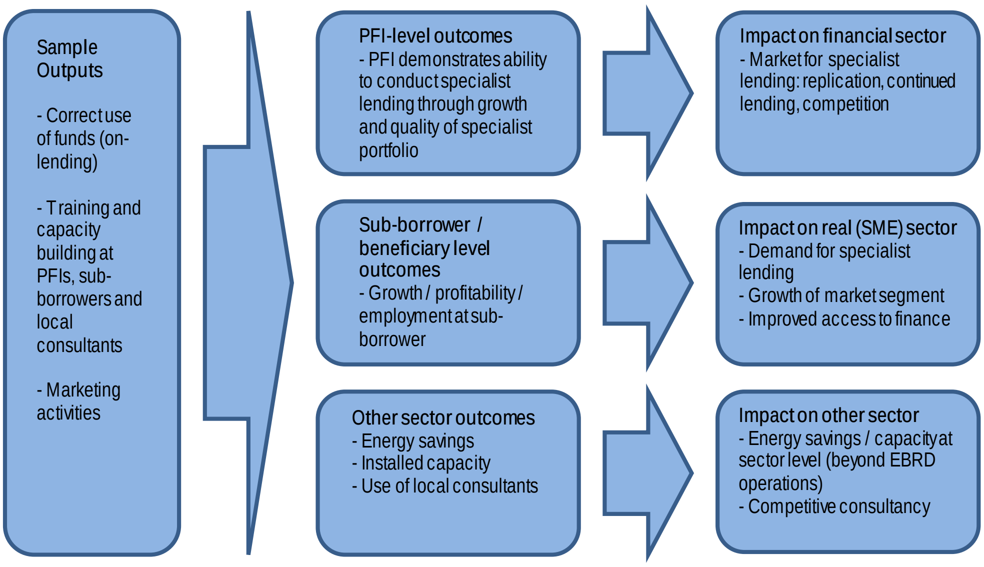
Concessionality in private sector operations is not incompatible with financial additionality. Bank operations increasingly incorporate grants and concessional funds to support priority areas, and this is expected to grow. Investment grants (capex) are used almost exclusively to support projects in the public sector. However the private sector also receives concessional loans, incentive payments and loss covers. The provision of concessional finance and subsidies to the private sector can be justified, especially in cases where market failure causes a gap between the private and social returns of a project. However concessionality is not a source of financial additionality. The argument for additionality needs to show how the Bank is additional despite the subsidy, not because of it – i.e. show that the subsidised financing is not crowding out private finance and is not preventing the emergence of private financing instruments. This is in line with the aforementioned DFI Guidance for Using Investment Concessional Finance in Private Sector Operations, which was also translated into EBRD internal guidance in 2015.

6.3 Conclusions on blended finance facilities

The structure of blended finance facilities presents challenges in terms of the resources needed to do this kind of work effectively, which need to be considered on their wider merits. These operations are predicated on substantial funds for subsidies, marketing, skills transfer and monitoring. Such funds bring their own demands in terms of additional processing and reporting requirements on the Financial Institutions Group, which may begin to run up against capacity constraints if the use of blended finance continues to increase. There appears to be currently no shortage of donor funds for selected issues provided the Bank can tell a persuasive story on its effects. The Bank needs to be able to show that this use of funds is justified by results that would not be achieved otherwise.

At the same time, the structure also provides an opportunity for more joined-up internal thinking, such as enhanced reporting, as the GEFFs have demonstrated to some extent. In this field, the Bank's lending operations can learn from the experience of donor-funded activities such as the Advice to Small Businesses (ASB) programme, which have long since provided enhanced reporting to donors to justify continued funding.

Figure 3 Indicative results framework for blended finance facilities



Analogous to Figure 2 in section 5.3 above, Figure 3 presents an illustrative results framework for blended finance facilities. Again, the Bank tracks outputs and PFI-level outcomes through client reporting and "other sector" outcomes through reporting by donor-funded consultants, while impacts are best gauged through economic indicators and surveys. Again the gap is at the level of the individual sub-borrower or beneficiary. The Bank tracks outcomes for the beneficiaries of ASB assignments through its long-standing practice of following up one year after the assignment. It does not follow up with sub-borrowers in the same way, and even for ASB assignments it does not follow up over any greater length of time.

Section 5.3 above summarised why the Bank does not generally conduct detailed monitoring of individual sub-borrowers. The fundamentally different nature of blended finance facilities, substantial donor funding and a greater degree of directed lending undermine the arguments against additional client reporting for this sub-set of credit line operations, while the different types of objectives demand a different type of monitoring, in terms of duration and focus. All this points towards a need for more reporting on outcomes at sub-borrower level and over a longer period. Furthermore, this reporting should be seen as an intrinsic part of the new business model for the growing number of heavily donor-supported facilities.

Blended finance facilities also offer new opportunities that should be explored – namely that the ultimate recipients of directed lines may very well be more willing to provide operational monitoring than the intermediaries themselves. The Bank can and should develop new approaches to *ex post* tracking and monitoring, and consider this an investment in its competitive advantage via improved knowledge both of what works and of clients on the ground. Use of local consultants or CSOs, resident offices, mobile phone surveys and standardised reporting could bring within reach a degree of information gathering that has hitherto been considered unfeasible.

Findings.

Enhanced monitoring has been used to good effect in specific cases of purpose-focussed blended finance such as Green Economy Financing Facilities (GEFFs) and in Advice for Small Business (ASB). However this higher level of ambition on targeting and monitoring has not been widely applied.

There is significant unrealised potential for clear targeting, monitoring and reporting for blended finance facilities at the sub-borrower and wider economy level. There may also be opportunities to explore new approaches to monitoring and results gathering at the local level.

Recommendation. In the case of blended finance facilities, the Bank should review a sample of sub-borrowers to report on outcomes at that level. As a minimum, the process should be modelled on the review process it has developed for ASB assignments, where the Bank follows up each assignment one year later to measure changes in the client's business performance, compared with the baseline assessment it conducted at project initiation. Following up over a longer period, or more than once, would provide more information; the Bank should explore novel approaches and use of technology to make this practicable and not overly burdensome.

In terms of practicalities,

- In the case of facilities on the GEFF model with an incentive structure, each sub-loan has been individually assessed by the Project Preparation Consultant and Verification Consultant, so an *ex-post* assessment would add one extra stage to this process.
- Other blended finance facilities such as Women in Business do not have the same individual focus; a review could be done on a sample of sub-borrowers, possibly using the PFI's *ex ante* assessment, or a part of it, as a baseline.

ASB reporting

The Bank provides Advice for Small Businesses (ASB) through a network of over 6,000 local consultants with the support of donor finance. Over more than 20 years, it has committed over €300 million of donor funds to assist nearly 16,000 small and medium-sized businesses in 26 countries. The individual assignments are often small: the average size is less than €20,000. One year after completing each assignment, ASB returns to measure changes in the client's business performance, compared with the baseline assessment it conducted at project initiation. This follow-up allows it to report on business outcomes, satisfaction levels and use of consultants by beneficiaries. For example:

> *"Within a year of a project:*
>
> - *74 per cent of our clients increase their turnover*
> - *51 per cent create new jobs - last year alone, our clients created over 8,000 new jobs*
> - *25 per cent secure external financing to continue their growth."*
>
> *"Eighty-two per cent of our clients have never worked with a consultant before starting their project, but when we come to evaluate their projects one year after project completion, 95 per cent of our clients say they would hire a consultant again, and almost half have already done so."*

(source: EBRD website)

Assuming the current funding model, the review would be funded by an allocation of TC funds, as are the marketing and verification functions which are also necessary for the implementation of the programmes. EvD sees the following benefits from this approach:

- Aggregate figures for sub-borrower growth in turnover or employment, or cost savings from energy efficiency measures, could support the objective of creating a market for the product.
- The information would enhance the EBRD's reporting and ability to "tell a story" about its impact, to Board, donors and a wider audience. This is important in justifying the large amounts of donor funds devoted to these operations.
- It would help the Bank to attract partners for its operations.

This report has also noted that substantial donor funds have become the norm for a substantial proportion of other credit lines, but especially blended finance facilities. This creates vulnerabilities in terms of continuity of funding. A change in sentiment by donors could undermine a significant proportion of the Bank's activities within a short timeframe.

Finding. Blended finance facilities have discrete and incremental resource costs compared with other credit lines. These are intrinsic to the implementation of the operations and are primarily of benefit to the Bank rather than to clients or sub-borrowers. Therefore they should be seen as regular operational costs for the Bank rather than special donor-funded enhancements to the Bank's offering.

Recommendation. Management should clearly identify the resource implications of these changes, including the incremental marketing, monitoring and control costs of blended finance facilities. Activities that are effectively core business should be funded by the regular budget. Consolidation should be considered for activities and donor funding now done on *ad hoc* basis.

EvD considers that the contribution of donor funds to blended finance facilities is analogous to the situation the Bank found itself in in 2006 when it decided to internalise "a number of [previously TC-funded] activities considered to have become part of the regular operations of the Bank."[20] Activities affected included TC management, procurement, policy dialogue and institutional development activities, and staff in areas including ASB (then called TAM/BAS), the Environment and Sustainability Department and the Legal Transition Programme.

[20] BDS06-145 (Final): Supplementary expenditure budget 2006: budget internalisation of TC related activities.

Independent opinion – external peer review

To promote accountability and serve as quality control for this Study, an external peer review team composed of Alejandro Soriano and Roland Michelitsch has reviewed the report in its draft phase and provided a written, independent opinion on its final version. Mr. Soriano and Mr. Michelitsch each have over 25 years of experience in financial and capital markets, having worked at the Inter-American Development Bank (IDB) and IFC in operations and evaluation; as well as in the private sector, including as CEO of a financial services company and advisor to major financial institutions. Both are now Principals at IDB's independent Office of Evaluation and Oversight, where they have co-led a similar study assessing a decade's worth of IDB's work with financial institutions (available at www.iadb.org/ove/fi). Their independent opinion is provided below.

"This special study on Credit Lines – lending through financial intermediaries is a strong report that contributes to its stated purpose of reinforcing institutional accountability for the achievement of results and provides objective analysis and relevant findings to inform operational choices that can improve performance over time. It appropriately distinguishes between traditional (unblended) lines promoting general access to finance and targeted (called blended) lines, also using term loans to financial intermediaries, but for different purposes. Blended lines are potentially a wider subject that needs to consider the subsidies and market distortions introduced, and raises issues like the rationale for and appropriate size of the subsidy, what "additional" development results it brings about and sustainability. Having said that, the report derives practical recommendations that flow from the evidence presented and resonate with the reviewers' own experience. The report also provides a valuable opportunity for EBRD's Board and Management to reflect on the underlying reasons why credit lines have been so prevalent. It uncovers critical issues that anticipate shifting patterns that need to be considered in order to leverage future credit lines for greater transition impact and sharper alignment with the EBRD's strategic objectives. The underlying patterns that are implicit in the report's findings and recommendations include the following:

1. **Maturing banking sector:** As the report correctly points out, funding is often no longer the bottleneck constraining access to finance in many countries. The 2008 global financial crisis prompted regulators worldwide to promote consolidation of the banking sector into fewer, stronger players. In turn, these solidly capitalized players have attracted unprecedented levels of deposits, giving them an abundant and inexpensive funding source. Furthermore, the low interest environment and the relaxation of cross-border capital flow controls have further decreased the value of pure funding from a financial entity like EBRD.

2. **Fungibility of funding:** EBRD has worked for decades under the assumption that funding – particularly long term – was scarce. So, credit lines were geared towards providing funding, with an expectation that this will be onlent to final clients, such as SMEs. But in reality funding is fungible once received by a financial institution and there is no reliable way to track it all the way to a final borrower. Even if there was, it is unclear whether such borrower would not have been financed with existing funds. In the reviewers' experience, success can no longer be reliably measured by a list of projects financed, but rather needs to consider the growth of relevant portfolios – e.g., SME or green lending – at the intermediary clients and in the overall financial system.

3. **Misaligned incentives:** EBRD – and similar institutions – still derive the majority of their income from lending. So regardless of any other proffered priorities, there is always a bias towards doing operations that involve large amounts of financing. The reviewers have repeatedly seen development institutions acknowledge that funding is no longer the bottleneck in a country, but still direct vast amounts of funding to large, low-risk financial institutions. In some cases, technical assistance is attached to the funding, but the central issue remains unresolved: because EBRD – and similar institutions – still have not found a viable way to "monetize" what is important in a country – such as advisory work – at a level that compares with its income from lending, strong incentives remain to continue business as usual. The evaluation's recommendations correctly seek to reset these incentives.

4. **Focus on value added:** The evaluation's findings on targeted lines show that financial institutions can be reliable partners in pursuing a variety of goals. The evaluation also demonstrates that these partnerships may generate mutual value, particularly when EBRD relies on its comparative advantages, such as branding and convening power. When EBRD was able to leverage its applied business know-how and helped in standardizing financial products, it generated value that went beyond that of pure lending, demonstrating its potential to develop income-generating sources based on transaction fees, not just lending margins.

5. **Seizing innovation:** Finally, all evidence points to a rapidly changing environment for financial institutions. The pendulum may swing back from the current consolidation into large multiservice institutions, towards the rise of technology-driven, specialized providers, e.g., payment companies. Both traditional banks and these new entrants could be potential partners in innovation, but EBRD would need to address how to access these new players and how to manage the relationships: whether as ad-hoc engagements or as longer-term partnerships that the different EBRD divisions could leverage as a distribution channel."

Alejandro Soriano and Roland Michelitsch, November 6, 2018

Management comments

Executive summary

– Management thanks EvD for this study and welcomes the considerable effort involved in reviewing the portfolio over the period 2011-2015.

– Management welcomes the opportunity to consider possible enhancements for the next Financial Sector Strategy, due in 2021

– The study recommendations focus particularly on a request for a strategic review of what amounts to almost all of the lending of the Financial Intermediation business of the Bank, considering there to be a lack of definition of a “credit line” as a product. Management would like to point out that ”credit line” has been used as a generic descriptor of term lending, which contains a variety of lending products. For future reference Management would like to propose that a “credit line” have the same meaning as a senior term loan (whether bullet or amortising) and in the context of this response the term “intermediated lending” is used to describe “credit lines” in the financial sector.

– Management recognises the importance of maintaining a close alignment of its operational activity and the transition challenges faced by the financial sectors in the Bank’s operating region. The current Financial Sector Strategy 2016-2020 maintained and developed such linkages, and in line with the study recommendations, further emphasis on the strategic direction of intermediated lending will be considered for the next Financial Sector Strategy. The newly refined transition concept, transition qualities and the Bank-wide results management framework will continue to be the guiding forces behind the design and implementation of financial sector operations.

– Management agrees that incorporating a strategic review of credit lines (intermediated lending) in the next Financial Sector Strategy with some of the features recommended by the study will add value. Management cautions that defining expectation of results at a product level across the region in the context of tailored, client specific lending of Financial Institutions (FI) will be very challenging and (if achievable) is likely to be a broad and generic definition. At the same time Management believes that the current strategic and results architecture and tools including operational policies, principles, guidelines, and procedures provide a sound framework for differentiating intermediated lending with and without blended finance, and for appropriate selectivity of using of intermediated lending without blended finance.

– Management deems the current organisational and management structure of intermediated lending as appropriate and effective, having previously tried the model suggested by the study in separating management of different types of intermediated lending (see below). However, Management is ready to review the effectiveness of the administrative and management arrangements for intermediated lending with and without blended finance (including target setting, monitoring and reporting at the level of partner financial institution and sub-borrower) and present the results of the review in the next Financial Sector Strategy.

– One of the key imperatives of the above mentioned review will be that the Bank’s client focused operating model, which has been a key strategic strength of EBRD, is preserved in the FI sector. This operating model maximises the efficiency, consistency and effectiveness that arises from the single-point relationship management approach. It also underpins the standardised client based risk assessment of intermediated lending operations whether with or without blended finance, which is itself a core element of sound banking.

– While recognising the value and acknowledging that ex-post reviewing of a sample of borrowers would help to more accurately measure the impact EBRD financing achieves on the ground at the sub-borrower level, Management would like to caution against implementing this solution on a wide scale, until we have explored the additional costs and benefits of doing so. Management will explore the feasibility of a limited pilot exercise to establish the robustness that such outcome measurement would deliver and the costs.

- Management would like to point out that the operational definition for ‘blended finance’ used in the report, as spelled out in the box on p. 14, differs significantly from the operational definition adopted by the Development Finance Institutions Working Group on Blended Concessional Finance in 2017. The DFI Working Group definition, which the EBRD subscribes to and reports against annually, includes any and all concessional finance provided by donors – including co-investment grants, incentive payments, guarantees, concessional debt or equity but excluding TC – combined with the Bank’s own account and/or commercial finance from other investors. Application of this definition of blended finance to the FI portfolio would generate different results and insights to those presented in the report. For example, blended finance under this definition is more highly concentrated in the ETC countries and the Western Balkans. Management emphasises this point to avoid confusion when other data on use of blended concessional finance is reported to the Board or the wider public.

Management’s extensive comments provided to the draft study have been largely reflected by EvD in this final version of the study, although an important issue remains in relation to the nature of the product being discussed. Management’s response to the recommendations is provided below.

Study recommendations

Recommendation 1: The Bank's next Financial Sector Strategy, due by 2021, should incorporate a strategic review of credit lines. It should include the following specific elements:

- Define and clarify the two types of credit lines (with and without blended finance), including: what they are; their purpose; when they should be used; expectations for results; the use of technical cooperation, grant co-financing and policy dialogue with different types of credit line; management and organisational arrangements already in place (or to be introduced) to manage the two types of credit lines, monitor and report their results in an effective manner.

- Clarify the selectivity criteria for the use of credit lines without blended finance, specifically in countries where financial sector development or increased access to finance for MSMEs are identified as key transition challenges and strategic priorities through focused, country-specific diagnostic work. Where agreed, finance should be combined with specific policy dialogue and donor-supported activities such as training, in close cooperation with other IFIs wherever possible, and in support of clearly identified country-level objectives. These issues should be specifically identified in Country Strategies.

- Examine alternative administrative/management arrangements including separate management of credit lines with and without blended finance, with coordination through the existing Financial Institutions Group relationship manager. The Bank should develop distinct processes for improved target setting, monitoring and reporting at the level of the partner financial institution (PFI) and sub-borrower which address the different objectives and focus.

- It should report separately on the two types of product either within or in parallel to the Financial Intermediaries Report.

Management largely agrees with this recommendation. In relation to defining “credit lines”, Management accepts that the term ”credit line” has been used as a generic descriptor of term lending, which contains a variety of lending products. For future reference Management would like to propose that a “credit line” have the same meaning as a senior term loan, while in the context of this response the term “intermediated lending” is used to describe “credit lines” in the financial sector. This definition will also be reflected in the Bank’s business glossary that is being developed in line with the data governance principles.

Management agrees that incorporating a strategic review of credit lines (intermediated lending) in the next Financial Sector Strategy with some of the features recommended by the study will add value. Management cautions that defining expectation of results at a product level across the region in the context of tailored, client specific lending of FI will be very challenging and (if achievable) is likely to produce a broad and generic definition. At the same time Management believes that the current strategic and results architecture and tools including operational policies, principles, guidelines, and procedure provide a sound framework for differentiating blended finance facilities from intermediated lending without blended finance, and having appropriate selectivity using intermediated lending without blended finance. Management also agrees that reporting on intermediated lending could be enhanced by adding some additional reporting on blended and non-blended lending as part of the annual Financial Intermediaries Reporting.

Management will continue to develop and improve the Bank's strategic approach to using intermediated lending - a key component of the financial sector operations - in a future financial sector strategy. However, in doing so Management notes the role of sector strategies and the appropriate balance between the level of detail provided in it and the precision and effectiveness of subsequent operational implementation supported by other operational principles and tools. A more granular (and overly complex) strategy could also become an impediment to the operational flexibility and agility, which have always been distinctive characteristics of the Bank.

For instance, with regards to blended finance intermediated lending, the Staff Guidelines for the Use of Concessional Finance in EBRD Operations, which were last updated in 2017, includes principles that guide all the Bank's operations supported by co-investment grants (including capital grants, incentive payments and guarantees) and concessional loans and equity that are blended with EBRD's and other investors' commercial financing. The EBRD has also signed "The MDB Principles on the Use of Subsidies" in 2017 and is currently reviewing the internal guidelines to better align with these principles.

In practice, the Bank's operations with blended finance in the financial sector are often approved under frameworks, such as Women in Business or Green Economy Financing Facility (GEFF). At the design and approval stage, the key objectives, conditionality and monitoring indicators are clearly outlined and documented in the context of the relevant framework.

Management agrees that identification of selectivity criteria for using intermediated lending without blended finance may be beneficial as part of the next sector strategy. However Management notes that the approach currently in place has been very effective as: i) on the strategic level it provides a robust operating framework in the form of country diagnostics, assessment of the transition challenges, reflected in the country strategy priorities and objectives, while ii) on an operational level it provides flexibility to tailor transition parameters and objectives to a specific situation, where the quality of such parameters and objectives (and strategic alignment) are subject to an expert assessment and confirmation. Financial sector development and its ability to provide access to finance is an integral part of country diagnostics, including as part of key challenges for SME development. Country strategies that are based on diagnostics identify strategic priorities and objectives reflecting country specificities and discuss the mix of instruments (investment, policy engagement and technical assistance) related to the role of intermediated lending to achieve such objectives. Also on an operational level, each intermediated lending operation without blended finance is assessed against transition challenges and strategy objectives in a given country and its transition impact is expertly assessed and reflected in the ex-ante transition score(Expected Transition Impact).

Management does not share the view that operational differentiation between intermediated lending that uses blended finance, and that which does not, would enhance the Bank's performance. Management would like to provide the following comments regarding the operational and organisational separation of blended finance from operations without blended finance:

- The Bank's operations with financial institutions (even in the context of relatively standardised products such as intermediated SME lending) are organised in the context of client relationships. Preparation of financing operations always takes into account not only the market situation and country transition challenges, but also the specific circumstances of a partner financial institution, its competitive and market position, strategic plans and operating constraints. This has profound implications. Firstly, most intermediated lending operations are tailor-made, which leads to a certain heterogeneity in various aspects of individual operations which were correctly picked up by EvD in their analysis. At the same time, EBRD's ability to tailor its financing operation to a specific client situation has been a key comparative strength of the Bank. Secondly, any loan into a financial institution requires the Bank to consider the specific client situation in its entirety. This client-focused operational business model has proven to be very effective and successful. It allows the deployment of the wide product range available to the Bank clients in a manner that accurately responds to the client's development needs and therefore optimises the transition impact. This model also avoids potentially damaging situations of mis-selling, overleveraging or conflicts of interest that can arise if several operational teams approach the same clients without an overall relationship leadership at the client level. The recommended pre-defining of financing product components, their application and execution at the product level, rather than at the level of a client, would not be conducive to the Bank's business model and transition impact maximisation.

– The report correctly points to significant structural differences between intermediated lending with and without blended finance, but it does not go into sufficient depth to explore the aspects that are different and the aspects that are not, and as a result makes an undemonstrated assertion of "fundamental" difference in structure and objectives between the two sets of products.

– Management believes that on a "fundamental" level the two sets of products are exactly the same, because at their core they have the same financial instrument – a senior term loan, and ultimate transition goal—increasing access to finance. This is very important because the core operational processes (legal and financial due diligence, credit risk analysis, preparation and argumentation of the project from the commercial point of view, loan administration and monitoring) are exactly the same for both sets of products. Both require the same set of skills and knowledge. Thus, operationally separating the two sets of products would lead to material operational inefficiencies. It is also important (and here we have to also disagree with the assertions made in the report) that both sets of products share one fundamental core objective – provision of long-term financing to the real economy – and in Managements view, the report incorrectly argues that the two sets of products have fundamentally different objectives. A more appropriate distinction is that whereas in intermediated lending without blending finance the provision of long-term finance is often a single objective, in intermediated lending with blended finance there are usually additional objectives (such as skills and standards development), that would support the ultimate goal of provision of long-term lending.

– Other structural elements of the two sets of products (transition impact indicators and monitoring arrangements, Technical Assistance, Grant Co-financing, etc.) may indeed differ materially, and the report correctly states that in the case of intermediated lending without blended finance such structural elements are relatively standardised and typically not complex. In the case of intermediated lending with blended finance these are often less homogenous and some may be significantly complex. These differences were recognised by Management and addressed on the operational level by: a) introducing two dedicated senior roles in FI – Blended Finance Coordinator in 2015 and Green Economy Transition (GET) Coordinator in 2016; and b) implementing a range of organisational changes to achieve appropriate target setting, monitoring and reporting, appropriate Technical Assistance and Grant Co-financing, and Policy Dialogue engagements. The scope of the Blended Finance Coordinator and GET Coordinator roles is fairly extensive but at the core these roles are designed to: i) ensure that various structural elements of the blended finance operations are (to the extent possible) applied consistently across FI; ii) support FI project teams by providing advice on appropriate structuring of blended finance transactions; iii) ensure effective cooperation with the relevant "specialist" teams such as SME Finance and Development (F&D), Gender, Local Currency and Capital Market (LC2), FI Grant Management, Donor Co-financing (DCF) or Energy Efficiency and Climate Change (E2C2).

– The above mentioned organisational changes were aimed to ensure deeper cooperation between FI and "specialist" teams so that the various structural elements of blended finance operations are not only appropriately designed, but also appropriately implemented. In that sense FI benefits significantly from the expert advice it receives from SME F&D, Gender, LC2, FI Grant Management, DCF and E2C2 teams. This approach to blended finance operations, where the core component of the product – the senior term loan – is designed and led by the FI project team, while the additional structural elements are designed and implemented in close cooperation with the "specialist" teams, has worked very well and in our view remains an optimal operational solution to intermediated lending with blended finance.

– In the context of this recommendation, it is also worth considering the historic experience of the EBRD. In the late 1990s through to the second half of 2000s, the Group for Small Business, which provided intermediated lending to partner banks for on-lending to Micro and Small Enterprises (MSEs), was organisationally separate from the Financial Institutions Business Group, which provided various types of intermediated lending to the *same* partner banks, including senior loans for on-lending to SMEs. This organisational separation proved to be operationally inefficient and led to various operational problems including incoherent client relationship management, suboptimal use of resources and poor internal cooperation. Eventually the Group for Small Business was absorbed by the Financial Institutions Business Group in the late 2000s, which improved the ability of the Bank to provide MSME intermediated lending effectively. However, even within the Financial Institutions Business Group, the existence of a specialised team dedicated solely to providing partner financial institutions with MSE intermediated lending proved to be inefficient: many partner financial institutions had multiple contact points and were subjected to undue process burdens. The organisation resulted in a lack of clarity and significant operational overlaps. Ultimately this dedicated team was disbanded and their staff allocated across FI banking teams (which are organised by region) and this resulted in greatly improved delivery.

Notwithstanding the issues noted above, Management is ready to review the effectiveness of the administrative and management arrangements for intermediated lending with and without blended finance (including target setting, monitoring and reporting at the level of partner financial institution and sub-borrower) and present the results of the review in the next Financial Sector Strategy.

Recommendation 2: In the case of blended finance facilities, the Bank should review a sample of sub-borrowers to report on outcomes at that level. As a minimum, the process should be modelled on the review process it has developed for ASB assignments, where the Bank follows up each assignment one year later to measure changes in the client's business performance, compared with the baseline assessment it conducted at project initiation. Following up over a longer period, or more than once, would provide more information; the Bank should explore novel approaches and use of technology to make this practicable and not overly burdensome.

Management partly agrees with this recommendation**.** Management recognises the importance of measuring the impact of Bank' intermediated lending at the sub-borrower level, including to satisfy donor results reporting requirements. However, while Management acknowledges that ex-post reviewing of a sample of borrowers would help to more accurately measure the impact EBRD financing achieves on the ground, we would not recommend implementing this solution on a wide scale until we have explored the additional costs and benefits of doing so. Management notes that the ASB model is significantly different since it involves a direct relation with the ultimate client. Moreover, it is important to note that the ASB programme is indeed very resource intensive. Management will explore the feasibility of a limited pilot exercise to establish the robustness that such outcome measurement would deliver and the costs. Management believes that such sample studies on the impact at sub-borrower level ought to be done only for selective areas, products or countries. The reasons for this guarded approach are:

– Costs and management time in scoping, procuring and supervising the necessary external consultant, and how best to fund such additional costs (project budgets and/or donor fees).

– Any follow-up work will require resources from the relevant client financial institution to liaise and work with the consultant, which is likely to be perceived as an additional cost item to them, potentially increasing the need for concessionality or reduced pricing of such loans to compensate.

Recommendation 3: The Bank should consider more widely applying its Partnership for Growth model under which it engages in a multi-year agreement with a client to provide finance in tranches subject to normal credit considerations and the client's satisfactory performance against agreed performance objectives. At country level a relatively substantial medium-term package tailored to individual local PFIs could combine finance with TC funds and policy dialogue objectives closely associated with country diagnostics. This could be an attractive "offer" to government and key local players to focus efforts on desired policy objectives.

Management partly agrees with this recommendation. When it was first developed, the Partnership for Growth model certainly offered a novel, and potentially effective way, to engage with FI partner financial institutions. However, its implementation is relatively complex as it requires a large number of conditions to be met and a significant amount of preparatory work undertaken, as well as significant management engagement with the PFI to review and discuss progress. The implementation of the Partnership for Growth model so far has had mixed results and more time is needed to assess whether this model can be viable and (more importantly) scalable in a long term. Where the relevant client financial institution meets the necessary risk and strategic standards, this model will be considered.

Recommendation 4. Management should clearly identify the resource implications of these changes, including the incremental marketing, monitoring and control costs of blended finance facilities. Activities that are effectively core business should be funded by the regular budget. Consolidation should be considered for activities and donor funding now done on ad hoc basis.

Management agrees in principle with this recommendation. The costs of, for example, ex-post sampling of sub-borrowers will need to be carefully examined as part of any pilot exercise undertaken. Other cost and resource implications will be considered as needed.

Management, however, does not share the view that changes to the current structure are required and does not agree that separating management of intermediated lending with and without blended finance, as indicated in the response to Recommendation 1, would be a more efficient and effective organisational set up.