
Summary Paper

The EBRD's experience with resident offices

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EBRD EVALUATION DEPARTMENT



European Bank
for Reconstruction and Development



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Report prepared by Keith Leonard, then Deputy Chief Evaluator, Shireen El-Wahab, Principal Evaluation Manager, Saeed Ibrahim, Principal Evaluation Manager, Alejandra Palma, Associate Evaluation Analyst; with contributions from Stephanie Crossley, Senior Officer; and Olga Mrinska, Principal Evaluation Manager all of the EBRD Evaluation department. Richard Vokes and Christina Silver contributed to the evaluation as consultants. External peer reviewers were Bruce Murray (former Director General of Operations Evaluation in the Asian Development Bank and Country Director for Asian Development Bank to the Peoples' Republic of China), and Philip Erquiaga (former Director General of the Private Sector Operations Department, Asian Development Bank).

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

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Executive summary

This report presents the findings of an evaluation by the independent evaluation department (EvD) of the European Bank for Reconstruction and Development's (EBRD's) resident office (RO) or field presence system.

In its 25th anniversary year, with a new Strategic and Capital Framework 2016-2020 in place and an Operational Effectiveness and Efficiency initiative underway it is timely for the Bank to take stock of its field presence system. This evaluation identifies major challenges as well as opportunities for the Bank.

- As of December 2015, the EBRD had 54 offices in 34 countries of operation with 8 countries of operation having more than one office
- Human Resources data to December 2015 show 824 staff in the field – 27 per cent of all staff
- Staff numbers in the field grew by 77 per cent from 1999 to 2015
- As the field presence has grown, so has the size of HQ - the proportion of staff in the field has changed little, ranging from 20 per cent to 30 per cent and being the same in 2015 as it was in 2000
- About 33 per cent of the staff in the field are overtime eligible, 22 per cent are Small Business Support staff and 5 per cent are non-banking (lawyers and country economists), the balance of 40 per cent are banking staff
- Of the staff in the field, 529 were headcount positions and 295 were non-headcount (the latter including around 180 Small Business Support staff as well as others on a range of contract types of 2 years or under)
- Budget Department data to June 2015 show that 54 per cent of staff in the field were country team members, 41 per cent sector team members and 5 per cent non-banking staff – this means that 46 per cent of the staff in resident offices do not report primarily to the head of office.

- There are only 39 non-banking staff in the field though numbers have grown by 117 per cent over the period 2010 to 2015 – 6 out of 34 principal offices have non-banking staff
- Available data shows a 40 per cent increase in costs over the period 2010 to 2014
- 7 offices lack a host country agreement
- 90 per cent of 645 EBRD staff who responded to the evaluation survey consider the field presence system is fundamental to Bank's business model
- RO-based bankers typically spend 30 to 39 per cent of their time in face-to-face contact with clients compared to 10 to 19 per cent for HQ-based bankers – being in the field significantly increases client contact
- Heads of office typically spend 20 to 29 per cent of their time in face-to-face policy dialogue compared to 5 to 9 per cent for HQ-based colleagues
- 64 per cent of all respondents to the staff survey would delegate approval authority for small projects to heads of office – however, 44 per cent of HQ respondents disagreed with the notion while only 9 per cent of RO respondents did
- Over 80 per cent of heads of office and 50 per cent of all respondents agreed that all staff present in a RO should have a primary reporting line to the head of office
- 65 per cent of survey respondents in the Bank's two largest hubs (Moscow and Istanbul) thought the hub concept is working reasonably well– only 38 per cent from small ROs agreed.
- A comparison between comparator institutions of number of offices, loan volume and size is below:

Comparison with other IFIs

| 2010-2015 | EBRD | EIB | IFC |
|---------------------------|---------|---------|---------|
| Offices in EBRD countries | 54 | 14 | hubs |
| Operations approved | 2,309 | 1,261 | 441 |
| Amount approved | €53.7bn | €99.6bn | €13.5bn |
| Average size | €23m | €79m | €31m |



EBRD main resident offices in 2016

1. Introduction

Purpose and scope

The purpose of this evaluation is to contribute to improved performance of the Bank's field presence system. It is EvD's first corporate evaluation which seeks to evaluate the performance of the Bank's field presence system (but not rate performance) using the concepts of relevance, effectiveness and efficiency.

Methodology

- 1) The EvD team prepared an approach paper based on document review, key informant interviews and email survey of heads of office;
- 2) Quantitative data provided by the Human Resources and Budget departments was analysed;
- 3) EvD surveyed EBRD staff with 645 respondents providing quantitative and qualitative data for analysis;
- 4) EvD made observations of local realities through visits to 26 field offices (19 principal resident offices and 7 satellite offices) in 19 countries of operations;
- 5) EvD interviewed 468 people (359 Bank staff in HQ and in field offices and 109 external people (government, other international finance institutions, business associations, civil society organisation and clients);
- 6) EvD conducted a case comparison between the EBRD, the International Finance Corporation and the European Investment Bank including analysis of quantitative data on portfolio composition;
- 7) Information from the EBRD's recent client survey was used; and
- 8) EvD compared the study's findings with those of related evaluations by conducted by others.

Study strengths and limitations

| <i>Strengths</i> | <i>Limitations</i> |
|---|---|
| High number of field visits | Absence of any guiding policy against which to evaluate achievement of stated intent |
| Good survey response rate | Inadequacies of internal data systems to produce comprehensive and disaggregated time-series data |
| Large number of interviews (most face-to-face and recorded), and frankness of interviewees | |
| Use of qualitative data analysis software to maximise the capture and use of qualitative evidence | |
| Analysis of quantitative data on RO staff numbers and categories, and cost of the system | |

There is no counterfactual of before and after establishing an office, or for countries with and without offices because the Bank has ROs in almost all of its countries of operation and the opening of an office is one of the first moves the Bank makes.

Key terms defined

| | |
|-------------------|---|
| de-centralisation | The granting of a measure of autonomy or independence to sub-units or groups within an organisation |
| de-concentration | Geographic dispersal of staff and selected functions from HQ to offices in other locations, with or without delegation of authorities and responsibilities to largely non-autonomous lower-level units |
| delegation | Significant delegation of authorities and responsibilities to semi-autonomous lower-level units |
| devolution | The transfer of authorities to autonomous lower-level units. |
| replication | Creation of non-autonomous local branch offices close(r) to clients that replicate certain head office functions; principally staffed with local-hires with a few staff transferred on temporary assignment from headquarters; with selected delegation of responsibilities; and no or limited delegation of authorities. |
| representation | Transfer of single function – that of being the public face of the organisation locally – to a small non-autonomous unit; likely with expatriate representative on a fixed term basis with a few local hires. |
| localisation | The replacing of expatriate staff with local-hire staff. |

2. The EBRD's resident office system

No EBRD guiding policy

The EBRD does not have and has never had an explicit policy on ROs or decentralisation though de facto a policy existed in the first decade of the Bank's existence.

Evolution of role and function

In the early days, the Bank's ROs had a largely representational function.

After the EBRD's 1994 reorganisation which merged merchant and development banking, the functions of ROs evolved to an operational support role.

An early goal was greater efficiency in the delivery of projects and transition impact.

Further evolution saw the creation of sub-offices in the regions (termed satellite offices by this evaluation), the creation of hubs and the posting of a limited number of non-banking staff to the larger offices.

Only one prior formal review

EvD could only find evidence of one formal review of the RO system in 1999 despite the fact that early board papers envisaged a regular review through the budget process.

Over the years various assertions have been made about greater productivity and efficiency gains through having a field office system but no evidence has been provided to underpin these claims.

Host country agreements

Host country agreements exist in some shape or form for 29 countries where the EBRD has an office meaning that in 7 countries of operations the Bank is operating without one (these figures include 2 representative offices).

Only more recent agreements are considered to be fully fit for purpose. The Bank's tendency to move ahead rapidly to establish a field presence, while laudable in some regards, has sometimes hindered establishing a sound legal basis for relationship between the country authorities and the resident office.

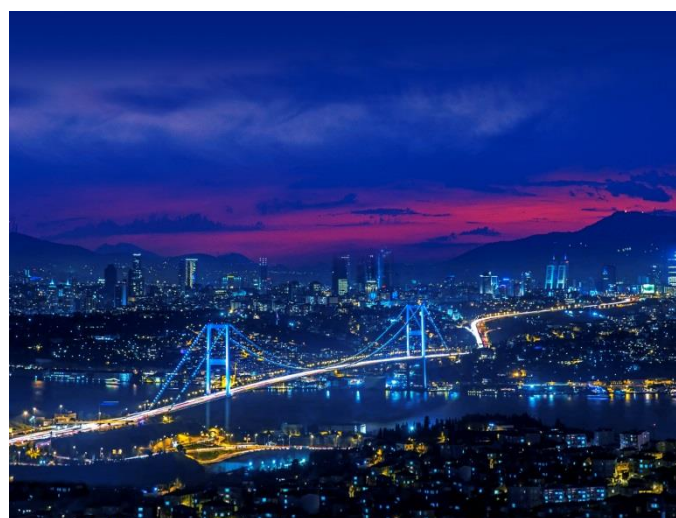
RO data and deficiencies

It did not prove easy to get complete and definitive time series data on the number of staff in ROs or the total cost of the RO system.

- As of December 2015, the Bank had 54 offices in 34 countries of operations (this excludes the representative offices in Brussels, Washington DC

and Tokyo). In terms of local presence by countries of operations there was 1 country with a super-sized local presence, 4 countries with a large local presence, 21 with a medium presence, and 8 with a very small presence (in terms of staff numbers).

- Eight countries of operations have satellite offices.
- Human Resources Department data to December 2015 showed 824 staff in ROs – 529 being headcount positions and 295 non-headcount.
- Budget department data to June 2015 showed 790 staff in ROs with 54% being country headcount and 41 per cent sector headcount with the balance being "others" including 5 per cent non-banking staff (such as lawyers and economists).
- Budget department data shows a growth of 70 per cent in the staff in ROs between 2010 and 2015 with the major part of the 132 per cent increase being in the number of sector headcount bankers present compared to the 38 per cent increase in country headcount bankers. The numbers of non-banking staff have increased 117 per cent over the same period though the numbers are relatively small (18 to 39). Non-bankers are present in 6 offices.
- About a quarter of all EBRD staff members are in the field.
- The types of contractual arrangements for RO staff have varied quite widely over the years.
- There is no accessible data on the cost of the RO system. Budget data shows a cost of £35.2 million in 2014 but this excludes the cost of at least 46 per cent of the staff present in RO.



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3. Internal staff survey

Response rate

There were 645 survey responses – 444 from RO-based staff (73 per cent response rate) and 201 HQ-based staff (42% responses rate).

Resident offices functions

The top two functions of ROs are seen as:

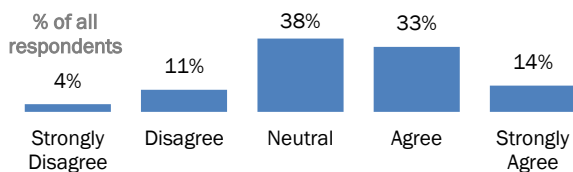
- 1) the representation role
- 2) deal origination

Civil society outreach was generally seen as the least important. Many commented that the top 5 to 7 functions were equally important.

- Over 90 per cent of respondents consider the ROs to be fundamental to the Bank’s business model and especially so in newer countries of operation.
- RO-based bankers typically spend 30 to 39 per cent of their time in face-to-face meetings with clients compared to 10 to 19 per cent of face-to-face time for HQ-based bankers.
- Typically, heads of ROs spend 20 to 29 per cent of their time on face-to-face policy dialogue compared to 5 to 9 per cent for HQ-based respondents.

Hubs

38% of all respondents were neutral on whether regional hubs were working reasonably well while 15 per cent disagreed with the balance of 47 per cent considering they were working reasonably well – 65 per cent of those in the two largest regional hubs (Russia and Turkey) thought they were functioning well compared to 38 per cent of respondents from small ROs.



De-concentration

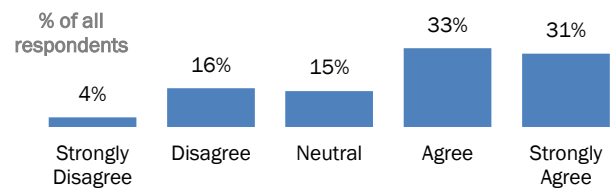
Overall, there was agreement that more non-banking staff should be located in the field – for example 63 per cent and 52 per cent of RO-based and HQ-based respondents respectively agreed that more sector economists should be relocated to the field.

All except 11 per cent of respondents agreed or were neutral on the issue that more bankers should be located in ROs than HQ but there were notable differences in views of those based in HQ from those in ROs – 40 per cent of HQ-based respondents agreed versus 75 per cent of those in ROs.

On increasing principal and senior bankers in the field 56% agreed and 30% were neutral with RO-based and HQ-based respondents divided. Many pointed to the need for a balance between senior and junior bankers overall.

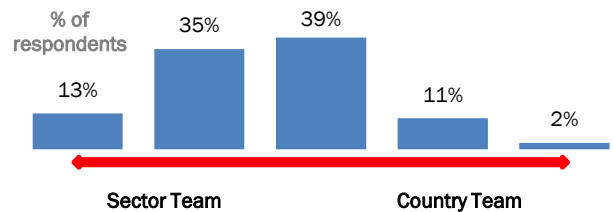
Delegated authority

A majority of respondents agreed that approval authority for small projects should be delegated to ROs. Strong differences emerge based on the location of respondents – 44 per cent of HQ-based respondents disagreed while only 9 per cent of RO-based respondents disagreed but there was still significant support from HQ for delegation (35% in favour).



Decision making powers

Almost half (48 per cent) of respondents felt that 60 to 80 per cent of decision-making power rests with sector rather than country teams.



Mobility and career prospects

Over 80 per cent of heads of office and 50 per cent of all respondents agreed that all staff in ROs should have a primary reporting line to the head of office but there were strongly divergent views within this overall response. Comments raised many issues regarding the functioning of the matrix.

Just under half (49 per cent) of heads of office disagreed that being in a RO enhances career prospects, 25 per cent were neutral and 27 per cent agreed. Commenters were sceptical about the Bank’s commitment to this.

58 per cent of heads of office disagreed that there were good mobility prospects from an RO, 25 per cent were neutral and 17 per cent agreed. Comments frequently noted that there were few resources to support mobility.

There were no major differences between overtime eligible and non-overtime eligible staff, or between Small Business Support team members and others in ROs on these questions.

4. Internal interviews

Relevance

ROs are widely seen as essential to the EBRD's business model of targeting local sponsors and smaller deals – local presence makes this possible within acceptable risk parameters.

Similarly, it is generally accepted that operating without sovereign guarantee requires regular contact with clients and excellent market knowledge.

Understanding the local culture, market players, business practices, and language are seen as essential to operating in many markets – only a local presence provides this level of understanding:

Some of the reasons why interviewees felt ROs were highly relevant to the EBRD's goals are:

- **They enable face-to-face meetings at short notice** is considered a prerequisite for business origination, successful project implementation and policy dialogue in many markets – this can only be provided by a local presence
- **They demonstrate commitment to the country**, which is important, particularly in new ones
- **Informal interactions help develop and maintain business relationships**
- **Seeking out new areas for investing takes time.** To remain additional, the EBRD has to seek out new areas for investing – developing these areas often takes considerable time which is something that cannot be done from London
- **Building local capacity** A local presence helps build local capacity in the market though most of this work goes unrecognised and unrewarded
- **Protecting clients against corruption.** In countries of operations with a high level of corrupt business practice being local can provide protection to clients
- **They enable development of business in more remote and disadvantaged regions** of countries

Effectiveness

Few interviewees discussed the ways in which local presence contributed to impacts (narrowing of transition gaps, improved investment climate, and environment and social sustainability).

Many considered **transition impact, as currently defined by the EBRD, to be of internal relevance only** – it was not considered relevant to many clients and some countries. However, being local means RO staff members are better placed to explain the meaning of transition impact.

Many saw a frequent **disconnect between RO staff and sector economists on the realism and relevance of transition impact** – the economists' position was frequently seen as “theoretical” or not informed by local reality so there was little chance for RO staff to contribute

to the achievement of such ill-informed targets and benchmarks

Another issue raised was that **projects scoring well on transition often get vetoed by the EBRD's Credit department as too risky.**

Other points raised about effectiveness include:

- Policy dialogue is seen as a very important part of RO contribution to results though the work often lacks visibility, recognition and reward
- Other unrecognised forms of transition impact mentioned include:
 - RO efforts even before a deal gets to OpsCom
 - RO involvement in ensuring integrity standards
 - RO support of better procurement standards, under the guidance of Procurement Policy Department, and other capacity building
 - SBS, a locally-based activity, provides unrecorded levels of transition impact
- **RO staff are more agile and responsive to requests** therefore contributing to results achievement
- **Being local helps ensure the effectiveness of monitoring.** Effective monitoring requires an understanding of why things are the way they are, and in finding contextually appropriate solutions to implementation problems.

Efficiency

The efficiency of the RO presence was the most-discussed aspect – the topics raised have been grouped into 4 categories: (i) human resource issues (head of office matters, mobility and career progression, layers of management and contract issues); (ii) location, nature and style of decision-making; (iii) de-concentration of non-banking functions; and (iv) balance of power between HQ and ROs.

Efficiency (staffing issues)

- **Head of office** is a critical position for the functioning of the RO system yet there are many unresolved Staffing issues in terms of selection/appointment, skills required, limited and non-transparent succession planning, absence of career path, and issues surrounding the two levels of heads of office.
- **Mobility** should be a three-way street – senior staff from HQ to contribute to RO staff skill enhancement; local hires to London to develop skills and knowledge about how the EBRD works and the people and functions involved; and from RO to RO to broaden and share experience. However, many barriers, particularly budget, stand in the way of mobility
- **Promotion issues:** Many RO staff consider they are at a disadvantage in terms of promotion prospects

compared to their HQ-based counterparts because RO staff lack visibility in HQ where promotional decisions are made. Only the best RO bankers get promoted and moved to HQ thereby further strengthening HQ and weakening the RO

- **Too many layers of management** – reporting lines are becoming longer, there is confusion regarding the role of in-country MDs vis a vis that of country directors
- **Contract issues** (terms of employment) prompted a strong response regarding a perceived unfairness or unequal treatment of people doing the same job in different places – something that does not resonate with the “One Bank” slogan.

Efficiency (location, nature and style of decision-making)

Some advantages of centralised approval authority include:

- Greater objectivity from being remote, skill deficiencies of some heads of office, and the benefits of a cross-country perspective among them
- A standardised “one size fits all” protects the EBRD’s credit rating and its brand and reputation (but can be inefficient, particularly for small deals)
- Joint decisions make for an easier life as there is no individual responsibility – “people hide from responsibilities behind committees that ensures that ultimately no one is responsible”

Disadvantages include:

- The current system tends to inflate deal size as it costs the same to process a larger deal as a smaller one
- Anchoring sector teams centrally and their role in decision making results in a lack of local-level accountability and an excess of bureaucracy
- Some consider the collective and consensual decision making style inefficient: *“80 per cent of time taken to process a deal is taken up with the EBRD’s internal processes by having to transfer the knowledge of the deal and the client to decision makers who had probably never met the client and maybe never visited the country”*

Proposal to delegate more to ROs

On the positive side:

- Support for delegated project approval authority for growing number of small deals would be more efficient.
- There was widespread support for greater delegation of budget and administrative decisions and for approval of certain portfolio management actions.

However:

- Delegation would be difficult to implement given the EBRD’s collective and consensual decision-making style since many if not all of the “support” departments involved in decision making are not present in ROs – the pilot of delegated authority has

suffered from this limitation so has not produced efficiency gains.

- Delegated authority needs to be accompanied by strong “checks and balances”.
- Some HQ-based decision makers lack trust in local bankers to make the right decisions

Efficiency (de-concentration of non-banking functions)

The presence of non-banking staff in ROs is highly valued by RO staff as it contributes greatly to improved efficiency through fostering greater understanding of local realities and more immediate communication.

Staff members in ROs were more positive about de-concentration though there was significant support in HQ as well, particularly from those who had previously been based in a RO.

- **Macro-economists:** While the posting of macro-economists to ROs was judged to be highly successful, RO-based staff indicated there would be greater benefits from having sector economists in ROs both for achieving more realistic expected transition impact and as contributors to policy dialogue.
- **Lawyers:** The location of lawyers in ROs was also judged a great success.
- **Credit officers:** Proposals to locate credit officers in the field is a more divisive issue and views for and against tend to be strongly held.
 - Those in favour question how decisions can be made in HQ by people who have never met the client or been to the country – numerous examples were given of problems disappearing when credit officers visited the country.
 - Supporters of retaining the credit/risk function in HQ pointed to the need to prevent “capture” by being based locally while supporters of de-concentration of credit officers expressed the view that this reflected badly on the perceived professionalism of credit officers though they indicated that checks would need to be in place.

Views on whether de-concentration of non-banking function to hubs is a viable option vary – those in the main hubs and in HQ tend to be more positive than those in smaller ROs

Efficiency (balance of power between sector teams (HQ) and country teams (ROs))

Views on the balance between some RO staff reporting to country and others to sector teams were mixed, particularly among country team members, while those in sector teams, where it is perceived that power lies, tended to be more in favour of the current set up.

A major issue is that in many cases, heads of office do not have primary management responsibility and authority over many (in some cases most) staff members

based in their RO, affecting management for results at the country level.

- There was a widespread feeling that the current set up is not an ideal system but that it can work depending on personalities and good communication – in more practical terms, if the sector director and head of office get on and talk to each other.
- That more power rests with the sector than country team is widely acknowledged – sector team members justify this on the basis that they possess the sector expertise, cross-country perspective and seniority.
- Country team members recognise the benefits of the sector expertise and cross-country experience but counter that they have the local knowledge,

the client relationships and that they more often than not originate the deals.

- Country team members point out that the strengths of the sector team are based on the norm (though plenty of exceptions exist) for country team associate bankers to move to the sector team on promotion to principal banker and that only the best locally-recruited bankers get to move to HQ – these factors mean that the country team is permanently made up of predominantly more junior bankers.
- The move to sector team reduces flexibility for heads of office to use bankers across sectors – this is particularly important in smaller ROs where sector specialisation is often not an option.



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5. Comparison with EIB and IFC

European Investment Bank

The European Investment Bank (EIB) is the largest IFI in terms of lending volume within the EBRD's countries of operations. Despite this, it is highly centralised with almost all staff based in the Luxemburg HQ.

Limited field presence outside the EU

The EIB has a limited field presence in EBRD countries both in terms of the number and size of its ROs.

With the decision to open ROs in all European Union (EU) countries (excluding Cyprus and Malta) the number of ROs has been increasing. There is also some increase in the size and number of ROs in non-EU countries but there are no plans to significantly increase the number and size of the EIB's ROs outside the EU.

Increasing integration and visibility

The recent reorganisation of EIB was partly designed to ensure the EIB's ROs represented the whole institution rather than just operations. It has improved the integration of the ROs into the organisation and increased their visibility.

High lending volume

Despite its limited field presence, the EIB's lending far exceeds that of the EBRD (and the IFC). Possible reasons include:

- The EIB's average loan size is much greater (more than 3 times than that of the EBRD)
- It does fewer transactions than the EBRD
- Much of its lending is to public sector infrastructure projects
- It frequently co-finances with other international finance institutions (including the EBRD) and relies heavily on its co-financiers in many aspects of loan processing

Challenges attracting staff in the field

The EIB faces common problems in attracting staff to head or work in the field for a number of reasons including:

- Spending time at a field office was not positive for career progression
- Re-entry to HQ was difficult
- Field staff noted that with the recent reorganisation, these negative perceptions are changing

International Finance Corporation

Highly decentralised

The International Finance Corporation (IFC) is highly decentralised in comparison to both the EBRD and the EIB with around 65 per cent of its staff in the field. The IFC decentralized substantial decision making to the field.

A 2010 policy of decentralisation was driven by a need for closer client relations, improved country intelligence and faster response to client and country needs.

Small number of hubs

The IFC's model of decentralisation involves a small number of hubs working with country ROs. The hubs take the lead in loan processing and decision making. Country ROs provide a supporting role in loan processing but have a lead role in advisory work. Most country level staff are advisory. To facilitate decentralised decision making, key support staff, including lawyers and credit are also located in the hubs.

2013 review and new directions

A 2013 review of decentralisation highlights positive aspects including increased level of commitment and greater client satisfaction. However, there has been a partial retreat from decentralisation as the 2013 review also identified problems of increased compartmentalisation (creation of silos) and a loss of global (cross-country and cross regional) knowledge.

Creation of the Trade and Competitiveness and Finance and Markets global practices with World Bank is leading to some further reorganisation of IFC's field presence.

Comparisons with the EBRD

The IFC and the EBRD do sometimes compete but more often the relationship is one of cooperation, with frequent co-financing of projects and with frequent cooperation on policy dialogue and investment climate issues.

IFC staff noted that that the EBRD has a stronger field presence in terms of bankers/investment officers, which gives it an advantage, particularly in terms of deal origination.

In comparing the IFC and EBRD portfolios in the EBRD's countries of operations, the IFC does much fewer loans but somewhat larger loans than the EBRD in these countries, although the difference in average size of loan in these countries is no so great (€31m for the IFC and €23m for the EBRD).

The IFC faces a number of human resources issues with its ROs, including mobility, the career progression of national staff in country officers and the difficulty of getting investment officers to work on smaller countries and smaller deals.

6. Other evidence

Client and non-client survey

Management commissioned a client survey which revealed a high percentage of respondents acknowledging that the Bank's local office provided valuable services but they also indicated that this was not a major factor in choosing a financing partner, except for foreign direct investors where it was more of a consideration

Face-to-face contact with locally-based staff was only the second most-favoured means of communication with the Bank – the first being email contact.

For non-client companies getting information about the EBRD from the Internet was slightly ahead of face-to-face meetings with the local office (24 per cent and 22 per cent respectively).

Client satisfaction with both the EBRD's local and country expertise (82 per cent) and its technical and sector expertise (85 per cent) is very high.

The recommendation emerging from the client survey was to maintain and build on the local presence.

Findings from non EBRD evaluations

The following findings were found in three evaluations conducted by evaluation departments at the Asian Development Bank (*Resident Mission Policy and Related Operations and 2013 Decentralisation: Progress and Operational Performance*) and African Development Bank (*Evaluation of the AFDB's decentralisation policy*). Many of these findings can also be applied to the EBRD context.

- The existence of policies on resident offices and/or decentralisation not only provides strategic guidance but also the basis for assessing their performance provided objectives are clearly stated – *the absence of such policies in the EBRD is considered by this evaluation to be a gap that should be filled*

- Operational approaches need to be customised to country context – *this current study finds that despite widely different country contexts and deep local knowledge because of the Bank's extensive field presence, it is still largely following a "one size fits all" approach.*
- Staff in ROs have concerns about career progression and differentiation in the assignment of responsibility – *this evaluation found the same.*
- Attracting and retaining talented staff in ROs is a challenge – *this evaluation found the same problem*
- The technical capacity (read sector expertise and non-banking expertise in the EBRD context) should be strengthened – *this evaluation finds the same need.*
- Greater delegation of direct operational support functions is required – *this evaluation finds the same is required here.*
- Increase HQ-RO connectivity and coordination, and RO involvement in knowledge activities – *this evaluation finds the same need in the EBRD.*
- The need for a results framework embodying a theory of change is required – *this evaluation finds the same need in the EBRD context.*
- Smaller offices lack a critical mass of professional staff – *this evaluation has a more nuanced answer on whether EBRD small offices have a critical mass. It concludes they do for carrying out the top three functions of an EBRD RO but not if you consider that policy dialogue and advocacy are important functions.*
- There is evidence of improving portfolio management – *in the EBRD's case this evaluation notes the role of ROs in terms of project monitoring, management and support to implementation but it also notes that the portfolio is not managed in financially at the country (or indeed HQ) level and nor is it managed as a strategically at the country level.*



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7. Conclusions and recommendations

Evaluation Q&A

Q Is the Bank's field presence system relevant?

A The presence is *highly relevant* in relation to the type of clients the Bank is targeting and to providing support to the Bank's investing activity.

It is *somewhat less relevant* regarding:

- Its ability to support a more integrated approach because of the low level on non-banking expertise in the field (under 5 per cent of staff in ROs and clustered in just a few hubs or larger offices).
- Meeting future needs and challenges than it was to those of the past.

Q Is the Bank's field presence system effective?

A The field presence system is *highly effective* in producing a range of outputs resulting from its focus on deal origination, client relationship development and maintenance and project monitoring.

It is *somewhat less effective* in helping ensure the delivery of outcomes and impacts because of the way ROs are staffed

Q Is the Bank's field presence system efficient?

A There are inefficiencies caused by having an extensive field presence system with deep local knowledge but a highly centralised decision-making system and a lack of de-concentration of senior sector bankers and non-banking experts generally.

Additionally, there are an extensive range of staff-related issues that need to be addressed to ensure efficiency and to create the reality of One Bank in terms of equitable treatment and remuneration of all staff.

The relative balance of power between country and sector team is efficient from a volume of business perspective but less so in terms of maximising the delivery of transition impact.



Recommendations

Resolve identified inefficiencies in controlling, guiding and other management functions:

Within 2 years approve a policy on decentralisation and resident offices; ensure that all countries with offices have adequate host country agreements in place; and, create automated reporting systems covering the human resources funded by the EBRD in each office at any point of time, total costs of each office, and portfolio performance in each country.

Resolve staff issues affecting effectiveness, efficiency and/or that are inequitable

Within 2 years a series of staff-related issues identified by this evaluation as affecting the organisational effectiveness, and efficiency, or where there are inequities between field and HQ staff should be resolved. Of prime importance is addressing the structural, procedural, behavioural, organisational and cultural factors that lead to the perception of local-hire non-overtime eligible staff (RO bankers in other words) being perceived as of less value than HQ counterparts.

Delegate decision-making authority

Within 1 year selected areas of decision-making authority should be delegated to heads of office operating with individual responsibility and accountability, accompanied by clear guidance and training. Delegated authorities may include small, non-complex or repeat projects, taking account of the risk profile; selected portfolio management actions; and administrative approval authority for budget expenditure and local personnel actions.

Ensure the relevance of the transition impact concept for each country and that it captures all EBRD impacts

Ensure the ongoing review of the transition impact concept takes full account of the perspectives from the field to ensure relevance to each country and the Bank's clients; monitoring and reporting on realised transition impact should include RO contributions that currently go un-recognised, un-reported and un-rewarded.

Increase non-banking capacities in the field

Over a period of 5 years the Bank should substantially increase the proportion of non-banking experts in ROs and/or regional hubs with priority given to lawyers, sector/transition economists and policy dialogue specialists.

8. External peer review

Bruce Murray

Formerly Head of PRC resident mission for ADB and Director General of ADB's Independent Evaluation Department

Extract - This evaluation of the EBRD's experience with resident offices is timely because: (i) resident offices are an integral component of the EBRD's business model; (ii) although the EBRD has 54 resident offices, there has been no formal policy to guide the development of this extensive network of offices; and (iii) although the first resident offices were set in the mid-1990s, Management has not undertaken a self-evaluation of the lessons learned to identify areas that need improvement. Thus the evaluation fills an important gap that should help the Board and Management address this strategically important topic going forward. This is a relevant topic for all Multilateral Development Banks (MDBs) and several of them have conducted similar evaluations during the past few years.

The main strength of the evaluation is the extensive work that the evaluation team undertook. Field visits to 26 field offices, 468 interviews, responses from 645 people to an online survey (a 73 per cent response rate), institutional comparisons between the EBRD, the IFC and the EIB, use of the EBRD's client survey and the findings of evaluations by other multilateral development banks provide an extensive information base for the evaluation. The analysis of a large number of comments received in the open-ended boxes on the survey and interviews (12,700 coded segments of qualitative data) represents a rich set of evaluation evidence that, as the report points out, could be mined for other purposes.

When reviewing the approach paper and draft report I was initially of the view that the approach and methodology could have been strengthened by the use of a quantitative analysis of counterfactuals such as before and after or with and without resident office comparisons, as has been done in some evaluations undertaken by other MDBs. However, for the reasons given in the report, such an approach was not feasible. This issue is described as a limitation of the methodology.

The evaluation makes a compelling case that resident offices are highly relevant for the EBRD and have been largely effective in delivering results. A particularly positive finding was that the EBRD could not have done the number and type of deals with an acceptable level of risk and low level of non-performing loans without the field office system and its support for sound integrity due diligence. Strengths of resident offices include client relations, deal origination and project monitoring. However, the evaluation identified some important weaknesses related to human resource management, financial management, delegation and implementation of the matrix management system. The strengths and weaknesses identified by the evaluation are broadly consistent with the experience of other multilateral development banks.

Philip Erquiaga

Formerly Director General, Private Sector Operations Department, Asian Development Bank; Director General, Pacific Operations; and Principal Director Co-Financing

Extract - This study is the first of its kind for EvD and provides timely and revealing details of EBRD's operations worthy of serious consideration by staff, Management and the Board. The study aggregates a significant volume of information arising from staff and client surveys and interviews, from which principal conclusions and recommendations are distilled. Due to limitations on access to important quantitative information, and the complete absence of an institutional strategy/policy and associated results framework for the ROs the study relies in large measure on the qualitative responses to these surveys and interviews. Responses often reflect significant variance and minority opinions. Under such restrictive circumstances, the EvD team has produced a comprehensive document, with valuable conclusions and recommendations. However, the study is a starting point of analysis, rather than its conclusion.

While the study ostensibly focuses on EBRD's RO experience, what emerge from these pages are reflections of an institutional nature that transcend a focus on the ROs per se, including observations pertaining to corporate culture, consensual decision-making, accountability, the role of volume vs. transition impact in operational planning and management (and, by extension, in the project processing cycle), matrix management, career progression, portfolio management, the importance attached to project administration; and others. While beyond the immediate scope of this study, these transcendent issues need to be revisited and addressed at some point by the Bank.

The study acknowledges the value of ROs to the EBRD business model showing that they promote client representation and deal origination, particularly by identifying smaller and more geographically disbursed transactions and developing partnerships with local sponsors and financiers. Potentially, ROs could play an even greater role in project processing, deal monitoring and administration, project management, country strategy formulation, policy advocacy, project and client advisory, technical cooperation and human resource management.

The principal message emerging from the study is that the utilization of local assets can be optimised. In the process of making an informed strategic decision on how to optimize these assets, EBRD Management must reflect on broader issues of culture, operational objectives and protocols. The provision of greater quantitative data informs decision-making, but data alone is not conclusive. Management should reflect on potential implications of change across the institution's operations and detail its future expectations of results leading to a more relevant, effective and efficient institution.

9. Management Comments

Extract - The study is EvD's first corporate evaluation which seeks to evaluate the performance of the Bank's field system, using the concepts of relevance, effectiveness and efficiency, and thus to contribute to corporate learning.

Management welcomes this and acknowledges that this timely study touches upon a vital and strategically important aspect of the Bank's operational model. Management recognises several of the issues and has already been addressing them through various initiatives. Furthermore, as the timing of the study coincides with the work on Operational Effectiveness and Efficiency ('OE&E'), where many of the issues the Study raises are also relevant in a broader, overall corporate context, Management will draw upon the useful insights that the Study provides.

At the same time, Management recognises that the study ambitiously covers an exceptionally far-reaching scope of management matters of the Bank, encompassing practically all departments and units, and often beyond subjects specific to the Bank's resident offices (the "ROs"). Over 22 years since their role as an essential operational arm was introduced, ROs have been deeply integrated in the Bank's overall structure and for most matters cannot easily be distinguished as entities with segregated organisational positions, roles or staff. Therefore, many recommendations in the Study cannot be considered in isolation of the overall corporate context, in terms of organisation or processes. As customary, Management Comments are formulated to reflect unified views across all departments involved.

Management observes that the Study is predominantly based on qualitative inputs derived from the extensive staff survey and interviews with staff from particular parts of the Bank. A vast quantity of views, opinions and perceptions are expressed, as would be normal for similar surveys/personal interviews, in a subjective format. They represent a rich source of staff information and constitute a stimulating input for Management that will be taken into account. Nonetheless, the Study would benefit and warrant more factual/evidence based

analysis of the various issues and their implications to reach firm conclusions, on which the recommendations would need to be based.

Normally for a Special Study, Management endeavours to provide one of three possible responses of "agree/disagree/partially agree" to the recommendations. In this Study, Management has found it challenging to respond to certain recommendations individually in such a facile manner. This is because certain recommendations have been formulated largely relying on the staff survey results, without duly taking into consideration the contextual and institutional complexities that are often closely linked.

As stated, most of the Study's findings and recommendations are already being considered, prioritised or acted in the ordinary course of work to improve corporate policies and procedures. In doing so, Management has been engaging in internal consultations and assessments with appropriate cost/benefit analysis of some of the measures proposed for implementation under the recommendations. Due to its focus, the Study could not have taken into account the corporate level budgetary constraints and operational priorities, both of which have been set by the Board. As a matter of course, this would restrict the practical feasibility of certain recommendations.

As such, Management Comments on certain recommendations illustrate the broader institutional framework, including but not limited to ROs, as part the on-going effort that has been addressing or will be addressing the essence of the recommendations, while reflecting the constraints and priorities of the Bank. Due to the highly complex nature of managing overall activities of the Bank, in which RO operations are deep-seated, Management has refrained from commenting on the various timelines included under the recommendations which assume an "RO only" context. Full comments on each recommendation are available in the full version of the *EvD Special Study: The EBRD's Experience with Resident Offices*, available at www.ebrd.com/evaluation.