

# BSTDB

## in the Black Sea Region

### IN FOCUS: A VISION IN HINDSIGHT – EVALUATION OF STRATEGY 2010-2020

At the end of 2020 the Bank completed the implementation of its Long-Term Strategy 2010-2020. Subsequently, the Bank's Evaluation Department conducted a comprehensive independent evaluation of the Strategy implementation. An overview of the main goals of the Strategy, along with the respective evaluation of the degree of achievement, are presented in the following two tables.

#### Evaluation of External Strategic Goals 2010-2020

External Goals of Strategy 2010-2020	Rationale	Metrics	Evaluation of Achievement
1. Obtain a better risk rating of Aa3 (2020) from Baa1 (2010). This represents high quality and very low credit risk, just 3 notches below the highest AAA rating.	Substantially reduce the cost of borrowed funds, relatively to borrowing costs of any of the Bank's Member States	Credit Ratings assigned by Moody's and S&P	BSTDB obtained long term credit ratings of "A2" from Moody's and "A-" from Standard & Poor's. The goal is partly (50%) achieved as A2 stable represents the mid-point. The Bank made various efforts to reach the goal, e.g. by sacrificing its own target of equity investments share, as well as overshadowing some development / mandate objectives. While the result is below the target, the achievement is a substantial improvement, despite credit rating downgrades of some of the Bank's shareholders. BSTDB also realized that the financing cost of the recent benchmark bond issue did not fully meet the cost-reduction expectations associated with the current credit rating as some member countries with lower credit ratings, actually borrowed at better terms. The evaluation acknowledged a notable achievement of this ambitious goal.
2. Attract an AAA rated Member (International Financial Institution- IFI)	Accelerate activity and portfolio	AAA rated new shareholder	The Bank interacted with various partnering IFIs and deepened respective co-operation, but this did not result in an extended membership. The evaluation acknowledges the effort towards this goal which clearly remained beyond the Bank's outreach.
3. Outstanding amount of portfolio to reach around SDR 1.8 bn (EUR 2.16 bn).	Maintain a balanced growth despite funding constraints	Portfolio amount at end of 2020	Total Outstanding Amount at the end of 2020: EUR 2.07 bn (estimated and unaudited at the time of writing) or SDR 1.7 bn. The volumetric target was almost reached, particularly by the rapid portfolio growth in last 2 years.
4. Increase the share of public and quasi-public operations from 11% to 25%.	To support a lower risk profile and a better credit rating	25% by 2020	In 2020 public non-sovereign operations reached 10.07%, public sovereign operations- 18.32%, resulting in total public sector share of 28.39%. While the 25% target was achieved, the evaluation revealed that the substantial increase in public and quasi-public exposures had a limited positive impact on the perceived risk profile and the credit rating, <i>ceteris paribus</i> .

5. Increase the share of equity in the outstanding portfolio from 1.5% to 10%.	Diversify the product mix in reference to mandate goals	Reach 10% in 2020	The share of equity operations remained unchanged (1.41% at the last quarter of 2020). The Bank intentionally revised and abandoned the goal, to offset underperformance regarding the first two external strategic goals. While the target was set in good faith, the Bank realized it implies severe negative consequences for the risk weighting of the portfolio. The evaluation is therefore conducted in view of this consideration and the revised goal of not increasing the share of equity. It therefore concluded that the Bank maintained a prudently low equity share, in line with overarching strategic goals.
6. Expand the use of Technical Assistance.	Enhance the development impact of operations	Amount	At the end of 2020 the Bank maintained 2 TA Funds of EUR 0.5M each (contributed by Austria and Russia respectively). While these partly substitute the previously available fund contributed by Greece, there is no actual expansion of TA, hence the evaluation concluded that the goal was underachieved, due to limited provision of respective funding by shareholders and partner institutions.
7. Design and implement a long-term borrowing program	To increase approximately four-fold the value of the Bank's outstanding portfolio between 2010 and 2020	Long term borrowing program and instruments in place	The Bank has implemented a Medium-Term Note Program – allowing it to swiftly issue a wide range of bonds in response to investor demand. To encourage investor interest the Bank complemented the credit ratings of the two largest rating agencies with additional two - one European and one Russian rating were also added. It proactively approached a range of investors through roadshows, conferences and the Investor Relations section of its website. It has also negotiated and signed funding agreements with major MDBs and National Development Banks. The evaluation considers this to constitute an equivalent of a long-term funding program – as a work in progress, fulfilling the respective strategy goal adequately.
8. The borrowing program to cover portfolio growth, while maintaining a comfortable ratio of borrowed funds to own funds.	Necessary as the Bank's cost of borrowed funds is higher relative to other IFIs. Finance long term high value projects with strong development impact.	Gearing Ratio (borrowed/ own funds) 2:1	With an equity of around EUR 843 million, the 2:1 target allows the Bank to have total assets of EUR 2.8 billion and a loan and equity portfolio of around EUR 2 billion. The strategic objectives for the Bank are currently a little higher at total assets of close to EUR 3 billion and a loan and equity portfolio of around EUR 2.5 billion. The binding constraints on growth are (i) the loan and equity portfolio size through the operational gearing ratio (100% of subscribed capital reserves and surpluses – EUR 2.45 billion) and (ii) the objective of keeping paid in capital (EUR 687 million) at 30% of total assets. The Bank's gearing ratios increased consistently and remain within the target, as follows: 2010: 28%; 2011: 30%; 2012: 32%; 2013: 32%; 2014: 39%; 2015: 46%; 2016: 49%; 2017: 48%' 2018: 56%; 2019: 76%; 2020: 81% (average of 3 quarters) Reflecting these considerations the evaluation acknowledges the goal as achieved.
9. Average annual growth of outstanding portfolio – 10%.	Economy of scale	10% average p.a.	The annual growth rates of the Bank's portfolio vary across the 10 year period, as follows: 2010:-1%; 2011: 7%; 2012: 9%; 2013:-1%; 2014: 23%; 2015: 16%; 2016: 7%; 2017:-2%' 2018: 16%; 2019: 36%; 2020: 11.8% As the annual average growth is over 11%, the evaluation concludes that the strategic goal was fully achieved.
10. The Bank should finance about 25 operations p.a. at an average size of SDR 10.5 million (disbursements of about SDR 300 million p.a.).	As above	Number of operations and committed amounts	The Bank registered the following number of signed operations: 2010: 25; 2011: 36; 2012: 17; 2013: 22; 2014: 24; 2015: 25; 2016: 20; 2017: 20; 2018: 31; 2019: 27; 2020: 20. The committed amounts, in million EUR, were as follows: 2010: 197mln; 2011: 298mln; 2012: 168mln; 2013: 225mln; 2014: 213mln; 2015: 480mln; 2016: 373mln; 2017: 401mln; 2018: 618mln; 2019: 843mln; 2020: 624mln. The results are in line with the strategy projections and therefore the evaluation considers the goal achieved.

## Evaluation of Internal Strategic Goals 2010-2020

External Goals of Strategy 2010-2020	Rationale	Metrics	Evaluation of Achievement
1. Key Performance Indicators (KPI) to be used in quarterly and annual reports.	Reinforce portfolio management and accountability	KPI	KPI design and implementation turned more challenging than expected but was generally accomplished, at least at corporate level. A simplification at departmental level was adopted recently. The evaluation renders the goal as generally achieved.
2. Consider setting up a team of professionals in equity investments	Increasing the share of equity operations in the portfolio of outstanding operations (as per External Goal nr. 5)	Equity team	The goal was abandoned mid-way, as the Bank took course toward reducing the portfolio risk levels in aspiration of a better credit rating. The evaluation acknowledges the rationale of the change course as prudent (preserving a safe risk rating profile).
3. Corporate Balance Scorecards (CBS) to be used for implementation of the Medium Term Strategy.	Allocation of tasks in work programs. Translate mission and strategy into tangible objectives.	CBS	As with KPIs, CBS turned very hard to effectively implement and cascade to departmental levels. Consequently, the Bank returned to a more lenient assessment process, similar to its approach prevailing at 2010, when the Long-Term Strategy was approved. The evaluation acknowledges the challenging task and concluded that the Bank implemented the goal to the extent possible.
4. The total number of staff would not exceed 120	Matching available skills with needs while limiting cost increase.	Number of staff below 120 at end of 2020	Total number of staff at end of 2020 stands at 117. This is within the goal framework.
5. Enhance monitoring and evaluation systems, to attain higher impact while controlling the risk-return profile.	Elevate accountability to highest international standards, to improve mandate fulfilment	IFI standards	The monitoring process and outcomes were streamlined with certain progress in completion reporting (self-evaluation). The independent evaluation system was peer reviewed and substantially enhanced in 2012, followed by a full recognition and membership at the Evaluation Cooperation Group of the Multilateral Development Banks in 2014. The strategic goal was fully achieved.

## Conclusions

The evaluation concluded that the Bank successfully implemented the main goals of its 2010-2020 Strategy. Among the key achievements are the mutually reinforcing substantial growth and diversification of the financing portfolio, the elevation of the Bank's credit rating, and the comprehensive borrowing program.

While most strategic goals were accomplished, some were attained only partially. The main reason for the observed constraints is associated with the external character of the respective goals, over which the Bank had a limited control or influence, i.e. the extent of credit rating improvement, as well as the related aspiration of attracting an AAA-rated shareholder.

Despite the noted limitations, over the 10-year period, the Bank demonstrated agility and resilience to the challenges of the external environment. In this context it regularly revisited its strategic goals and adequately prioritized those of higher importance, e.g. the credit rating and the related refinancing strength over the less important and therefore overshadowed expansion in risky equity investments.

The evaluation revealed that the internal goals were adequately subordinated to the higher plane external aspirations and were implemented without major deviations, with a few exceptions, i.e., cancelling the intention to create an equity investment team, given the overriding consideration to higher strategic priorities, as already noted.

Over the last decade the Bank has advanced in several domains and compares adequately with its peers in many respects. It maintained a sound operating and portfolio structure and demonstrated a capacity to grow and fulfill its specific mandate. The achievements so far represent a ground for further development but should not be a source of complacency. To drive further success, BSTDB will continuously and candidly review its key strengths and weaknesses, to enhance the former and mitigate the latter, for the ultimate purpose of streamlining its goals towards the Bank's mandate.