



Evaluating EBRD activities



By evaluating its projects, the EBRD seeks to learn from past experience and to improve the selection and design of future operations. In 2005, 83 per cent of the Bank's evaluated operations had an "excellent-satisfactory" impact on transition. Over 50 per cent of projects evaluated during 1996-2005 received overall performance ratings of "successful" or "highly successful".



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Chart 1 Transition impact ratings of EBRD projects 1996–2005

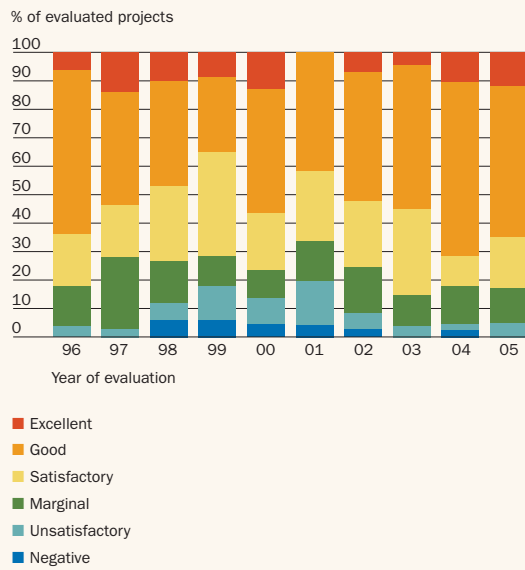
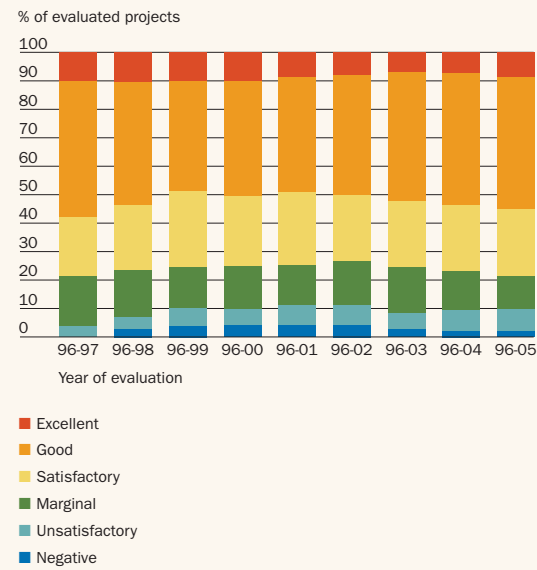


Chart 2 Cumulative transition impact ratings of EBRD projects 1996–2005



Independent evaluation

EBRD operations are evaluated by the Bank's independent Evaluation Department (EvD). EvD functions separately from the Banking Department and in 2005 began reporting directly to the Bank's Board of Directors. EvD assesses how well operations meet their objectives and the extent to which they comply with the Bank's mandate. The lessons learned are used to improve the selection and design of future operations. Projects are assessed usually one to two years after full disbursement.

Impact of EBRD activities on transition

When evaluating the impact of an EBRD operation on transition, EvD looks at its effect on the sector and on the economy as a whole. EvD applies the same criteria used during project selection and approval to assess a project's transition impact. The degree to which the project promotes privatisation, develops skills, encourages competition and supports market expansion are evaluated. Other key aspects include how the project supports

institutional reform, improves the functioning of markets, acts as a model for other projects and sets new standards in business conduct and governance.

During 1996-2005, EvD assessed 470 operations. Of these, 54 per cent achieved a transition impact rating of "good" or "excellent" and a further 23 per cent were assessed as "satisfactory" (see Chart 1).

In 2005 only 17 per cent of evaluated projects were given a "marginal-negative" transition impact rating, similar to the last two years. A gradual improvement in transition impact appears to have occurred over the past four years. This could, however, be due to operations evaluated in 2000-01 being affected by the Russian financial crisis in 1998. As a result, these operations may not have achieved their full transition potential. The majority of operations evaluated since 2001, particularly private sector projects, were approved after 1998 and are unlikely to have experienced the same difficulties.

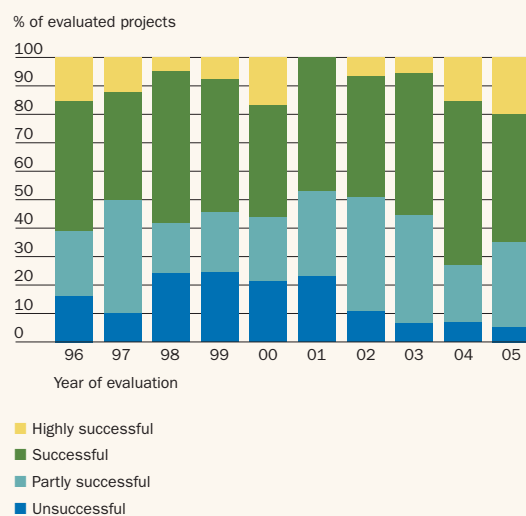
The share of projects with an "excellent-satisfactory" transition impact rating in 2005 was 83 per cent. Chart 2 presents the cumulative performance of transition impact ratings from 1996 to 2005. It shows that the positive scores on transition impact remain stable at a relatively high level of around 75 per cent.

Overall performance of EBRD projects

An overall performance rating is assigned to each project that EvD assesses. This rating gives a high weighting to transition impact but also includes other performance ratings, such as the fulfilment of project objectives, financial performance, environmental performance and additionality (the Bank's ability to complement rather than replace private sources of finance).

In 1996-2005, 57 per cent of evaluated projects achieved a rating of "successful" or "highly successful" (see Chart 3). Project performance appears to have steadily improved since 2001 but the percentage of successful projects can

Chart 3 Overall performance ratings of evaluated EBRD projects 1996-2005



Lessons learned are used to improve the selection and design of future operations.

fluctuate substantially on an annual basis (for example, 73 per cent in 2004 but only 46 per cent in 2001).

Compared with the percentage of projects that received “excellent-satisfactory” ratings for transition impact (85 per cent in 2005), the percentage of projects achieving “successful” or “highly successful” overall performance is much lower. This difference is partly due to lower financial performance ratings, caused by the high-risk investment climate in which the Bank operates, particularly in the countries at earlier stages of transition.

Limited progress in institutional reforms and the slow implementation of privatisation programmes have also had an impact on the overall performance of projects. During 2005, 11 projects scored an overall rating of “highly successful”. Based on these findings, EvD concludes that the Bank has been relatively successful in operating according to the EBRD’s mandate, especially in view of the difficult operating environment.

Learning from past experience

A key element of EvD’s role is to ensure that past experience is applied to new EBRD projects. This begins with intensive consultation between the banking teams and EvD on the lessons learned from project evaluation. Regular feedback is also offered at every stage of the approval process to ensure operation staff are aware of relevant past experience.

Case-based workshops are held and tailored to the specific needs of banking teams. EvD also makes presentations on evaluations of individual projects to management and the Board of Directors. To enhance the lessons learned process in the Bank, EvD maintains a lessons-learned database which contains more than 2,000 lessons.

Special studies

Changes to project conditions

During the implementation of a project, it may be necessary for the EBRD to change the original project agreement. These changes could include consenting to a client’s request, waiving a particular

covenant in the agreement or amending the project’s terms and conditions. All changes must be approved internally before the client is notified. In some instances, the change may require Board approval.

The impact of waivers, amendments and consents (WACs) on project objectives, as well as the reporting of these project changes, was evaluated by EvD following a request from the Bank’s Audit Committee.

The study reviewed 60 projects, approved between 1 September 2000 and 31 August 2001, which received a minimum Bank investment of €10 million. Of these projects, 35 per cent were in the public sector and 65 per cent in the private sector. A total of 557 WACs were identified and analysed.

The study concluded that the Bank’s processing of WACs is in line with best practice. The volume and frequency of WACs implemented by the Bank is not dissimilar from the levels experienced in commercial banks. In addition, the Bank’s

Examples of “successful” EBRD projects

Credit line for micro and small enterprises

In 1997 the EBRD approved a micro and small enterprise lending programme in Central Asia. The Bank extended a credit line, backed by sovereign guarantee, to a company coordinating small business initiatives with local banks. In 2002 the EBRD approved a second credit line and extended this directly to participating banks. Technical cooperation was also provided, funding credit advisers and training for loan officers.

The main aim of the programme was to enable local banks to better assess small business loan applications. Bank staff were taught how to analyse each company’s financial position, rather than relying on applicants to provide asset backing for loans.

EvD rated the project’s overall performance as “successful”. The results exceed those of other small business lending programmes, both in terms of lending volume and its contribution to institutional reform in the banking sector. As local banks grew more confident about lending to micro and small businesses, they also began supplementing the EBRD’s credit lines with their own funds. In addition, EvD found that a number of the participating banks have started applying the programme’s lending principles to other areas of their operations, further demonstrating their commitment to the programme and the success of the training received.

EvD has noted, however, that this type of programme requires a lead time of at least two years to equip local banks with the management skills and support mechanisms necessary for developing loan portfolios.

Environmental loan in the oil and gas sector

A €150 million EBRD loan was extended to a large refinery in 2003 to invest in a range of environmental projects. An environmental action plan was developed, focusing on the reduction of sulphur in diesel fuel (which ultimately reduces pollution levels throughout the entire country) and the reduction of sulphur emissions at the plant itself. The overall project was expected to demonstrate best practice and set standards of corporate behaviour in the area of environmental compliance.

EvD rated the project’s overall performance as “successful”, based on the achievement of all major objectives. The environmental performance of the project was rated “excellent”.

EvD highlighted that the company’s structure played a key role in the success of the project. The company had strong technical capabilities to design and implement environmental projects. In addition, the company had environmental officers based in different departments across the organisation ensuring environmental objectives stayed a top priority for all projects. The involvement of the same project leader and specialists during project preparation, tendering, construction and start-up also ensured that the project’s objectives were fully realised. It is hoped that this project will set a strong example for other regional refineries undergoing major upgrades.

documentation and project conditions do not appear to be either excessive or unrealistic.

In general, the study found that WACs are consistent with key project objectives and that there were only a few instances where the level of reporting could have been improved. The study also highlighted that failure to meet project objectives may not be related to the WAC process.

EvD has recommended greater involvement by the Bank’s Office of the Chief Economist in approving WACs related to the transition aspects of projects. EvD has also recommended that project conditions requested by the Board, and not related to credit, should be clearly identified and included in the key terms and conditions.

Mongolia Cooperation Fund

Although it is not an EBRD country of operations, Mongolia qualifies for technical assistance through the Bank’s Mongolia Cooperation Fund (MCF). The MCF is a €10.3 million technical cooperation fund which supports private sector activity in Mongolia. The MCF receives donor contributions from Japan, Luxembourg, the Netherlands and Taipei China.

Examples of “less successful” EBRD projects

Leasing company

In 2000 the EBRD approved a syndicated loan of €30 million for an international leasing company. The EBRD provided €10 million while the balance was sourced from other banks. The loan, guaranteed by the company’s parent firm, enabled the purchase of equipment for leasing to public sector companies in central Europe.

In 2003 the leasing company’s parent firm filed for bankruptcy and their operations were immediately liquidated. The leasing company’s assets, including the loans from the EBRD, were sold to a large European bank. This bank, however, decided not to continue the leasing company’s business. Fortunately, the strong credit structure of the EBRD’s loan ensured recovery of the full amount from the acquiring bank.

The project was rated “unsuccessful”. EvD found that sustainable growth is difficult for leasing firms that are not owned by large manufacturers or affiliated with banks. Such growth requires continuous access to equity and long-term funding at competitive interest rates. Prior to investment, the EBRD must diligently assess the capacity of these companies to generate sufficient capital to support their expansion into emerging markets.

EvD also recognised, however, the equity opportunities present in the sector. The sector’s rapid growth, its need for equity and the attractiveness of well-run independent leasing firms to strategic investors may provide opportunities for the Bank to facilitate transition and achieve good investment performance.

Private sector bank

In the mid 1990s the EBRD acquired an equity stake in a privately owned bank in an early transition country. Over the following decade, the Bank increased its capital contributions and extended several credit lines to the bank. Prior to the EBRD’s involvement, the bank’s portfolio consisted largely of short-term loans disbursed to known customers with extensive collateral. Since the EBRD’s investment, the bank has substantially expanded its portfolio of small business clients, developed the credit skills of staff and reformed its institutional practices.

Over the past ten years, the bank has grown from a small local institution with weak systems and credit processes into one of the country’s largest. In addition, the bank has become recognised for its high standards of operation. EvD found, however, that the overall results of the project did not fully meet expectations and therefore rated it “partly successful”.

Despite its efforts, the EBRD has not maintained cohesion among shareholders. The acquisition of a minority stake by a group of new shareholders somewhat unsettled the bank’s management and existing owners. The EBRD is currently working with the bank to resolve this matter and to ensure that the achievements to date are protected and the bank’s future development is not affected.

EvD concluded that future changes to shareholdings should be agreed when structuring equity investments. In addition, the Bank must use its position to influence significant changes in ownership.

Between 2001 and 2004, the MCF committed €6.3 million to 11 assignments. These included TurnAround Management (TAM) advisers in 22 companies, a management team at Mongolia’s national airline, micro-credit advisers within a major Mongolian bank and training for nearly 300 bank managers and staff. The MCF also funded studies into the privatisation of the power and telecommunications sectors, the

implementation of legal reforms and the development of infrastructure and natural resources.

Seven of these assignments have been completed, while four are still under way. Of the completed projects, EvD has rated five as “successful”. Of the projects still being undertaken, three are also expected to achieve successful ratings. Overall, the 11 projects have achieved positive

results, with seven (comprising 86 per cent of the Fund’s total commitments) achieving key investment objectives set by the EBRD and MCF.

The EBRD’s involvement has been rated “good” in seven of the MCF assignments. The study recommended that the Bank set conditions for the implementation of assignments to ensure a successful outcome.

Evaluating technical cooperation operations

Nearly 450 consultant assignments, funded through technical cooperation (TC) grants, have been evaluated by EvD. These assignments have involved almost €130 million of funding from over 30 donors under the Bank's Technical Cooperation Funds Programme. When combined with the TC assignments evaluated during EvD's special studies, this figure rises to over 1,200 assignments, involving more than €300 million of funding.

Example of “successful” TC operation

Power distribution companies

To facilitate the restructuring and liberalisation of the power sector in south-eastern Europe, a TC operation aimed at preparing regional electricity distribution companies for privatisation was launched. Funding was provided by the EU.

The EBRD assisted the government in appointing a privatisation adviser. This adviser was responsible for preparing all tender documents. The main objective of the tender process was to attract serious bidders and to achieve a good return for the government. Despite a difficult market environment, the revenue generated was substantially higher on a per customer basis than in surrounding countries.

EvD rated the overall performance of the operation as “highly successful” and its impact on transition as “excellent”. EvD concluded that the government's support was crucial to privatising the public utilities.

The success of the operation was due to the adviser's active coordination between different government ministries and continued consultation with a parliamentary committee. The adviser's strong international and local capacity also facilitated this intensive process.

Example of “less successful” TC operation

Road management project

In the late 1990s the EBRD was asked to assist with the upgrade and maintenance of a national road network. To prepare the way for the Bank’s investment, three TC operations were undertaken to assess the engineering, environmental, legislative, financial, institutional and tendering requirements of a public-private partnership (PPP).

Overall, the TC operations were rated “unsuccessful”. The first TC operation was only partially completed due to internal problems within the consulting firm and difficult relations with the client. The contract was eventually cancelled. The second operation was delayed after the government failed to clarify the legislative framework and requested additional analysis of the project scenarios. As a result, the consultant was only able to prepare a framework for the tender documents.

The third TC operation was intended to support the Bank’s development of the PPP and to facilitate the implementation of technical components. The project did not, however, materialise due to the country’s insufficient legal framework and the government’s weak commitment to the PPP approach.

In the future, the Bank should resolve implementation issues before additional TC expenditures are incurred. In addition, major legislative or institutional issues should be addressed before funding is committed to technical components. Continuous policy dialogue should also be maintained with stakeholders at all levels, especially on projects where the proposed reforms are likely to meet political interference.