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Evaluating EBRD activities

Some 80 per cent of the EBRD's projects evaluated in 2006 had an "Excellent-Satisfactory" impact on the transition process. A total of 58 per cent of projects evaluated over the last ten years received overall performance ratings of "Successful" or "Highly Successful".

Independent evaluation

The EBRD's activities are evaluated to establish how well they meet their objectives and the extent to which they comply with the Bank's mandate. The EBRD draws on the lessons learned to improve the selection and design of future operations. Projects are assessed usually one to two years after full disbursement, once investment has been completed.

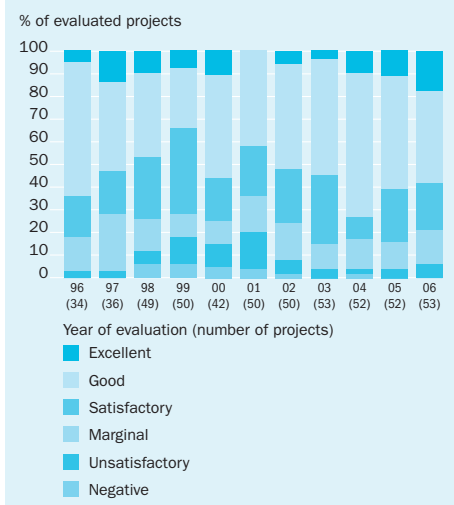
The impact of EBRD projects on the transition process is assessed by the Bank's Evaluation Department (EvD), which is independent of the EBRD's banking operations. The Chief Evaluator, who heads the Department, reports exclusively to the Bank's Board of Directors.

Impact on the transition process

The Evaluation Department reviews the impact of EBRD projects on a particular sector and on the economy as a whole. The criteria for determining a project's impact on the transition process are the same as those applied during the project selection and approval stage. Some of the key indicators include the degree to which the project promotes privatisation, develops skills, encourages competition and supports market expansion. Other key considerations include whether 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.

Over the past ten years, EvD has assessed 521 projects. Of these, 54 per cent achieved a transition impact rating of "Good" or "Excellent" and a further 23 per cent were assessed as "Satisfactory". Chart 1 shows the annual evaluation results from 1996 to 2006.

Chart 1 Transition impact ratings of EBRD projects 1996–2006



Special study: Telecommunications and new media

The Evaluation Department (EvD) undertook a special study in 2006 of the EBRD's activities in telecommunications and new media. EvD reviewed the EBRD's policy for this sector (last updated in 1999), assessed the Bank's overall performance, drew lessons from past experience and identified challenges and opportunities for the future. The study considered all EBRD projects and donor-funded "technical cooperation" activities in telecommunications and new media signed between 1991 and 2005.

EvD rated the EBRD's overall response to the transition challenges in the telecommunications and new media sector as "Successful". This evaluation is based on an analysis of individual projects and on an assessment of the Bank's overall performance in this sector.

When the evaluation is viewed in the context of a broader analysis of indicators, such as relevance, efficacy, efficiency and impact, EvD found that the strong results for efficacy and efficiency ("Good" and "Excellent") were somewhat tempered by "Satisfactory/Good" ratings for relevance and impact. This is partly because successful impact on the transition process relies not only on market expansion and increased competition (for example, through an increase in mobile

telephone companies) but also on adequate privatisation, regulation, development of skills, network modernisation and corporate governance. While the EBRD has put great emphasis on efficacy and efficiency, the relevance and impact of its activities in this sector have received less attention.

The study recommended that the EBRD prepare a new sector policy to address changing needs, particularly in the countries at the early or intermediate stages of the transition process. A strengthening of the sector strategies in country strategy documents was also suggested to provide more specific operational guidance. The study also recommended that the Bank intensify its dialogue with countries of operations that still have large challenges remaining in this sector. This could be accompanied by an intensification of technical cooperation funding to provide guidance on reform in each country. The complete study is available on the Bank's web site (www.ebrd.com/projects/eval).

In 2006, 20 per cent of evaluated projects were given a transition impact rating of “Marginal-Negative”, which is lower than in previous years. The gradual improvement in ratings since 2001 has been maintained, with an increasing number of projects receiving an “Excellent” rating for transition impact.

This may be partly due to the diminishing impact of the Russian financial crisis of 1998. Projects evaluated at the turn of the century may have been affected by the fall-out from the Russian crisis, which damaged the sustainability of some private sector projects and prevented them from realising their full potential.

Projects evaluated in the last couple of years, particularly in the private sector, were mainly approved after those events and may not have faced the same difficulties. It is noticeable that ratings improved strongly between 2001 and 2004 and have levelled off a little since then.

The share of projects with an “Excellent-Satisfactory” transition impact rating in 2006 was 80 per cent. Chart 2 shows cumulative results for transition impact for the past ten years. It reveals that the positive scores for transition impact are stable at a relatively high level of between 75 and 80 per cent.

Overall performance of EBRD activities

When determining the overall success of EBRD activities, EvD assigns each project an overall performance rating. 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).

Over the past ten years, 58 per cent of evaluated projects achieved a rating of “Successful” or “Highly Successful” (see Chart 3). This percentage can fluctuate substantially on an annual basis (for example, 73 per cent in 2004 but only 46 per cent in 2001) but the percentage has improved generally since 2001. Although the proportion of projects rated “Successful” or “Highly Successful” has fallen a little since 2004, the number of “Highly Successful” projects continues to rise.

Chart 2 Cumulative transition impact ratings of EBRD projects 1996–2006

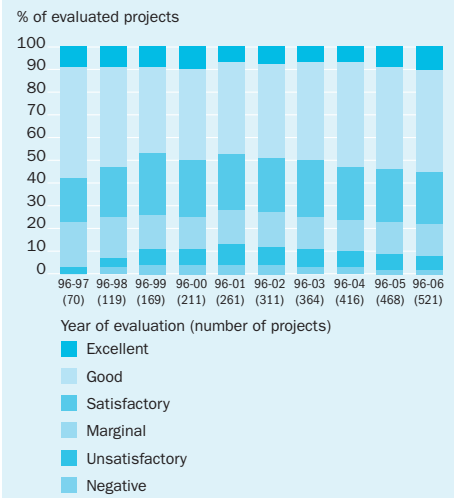
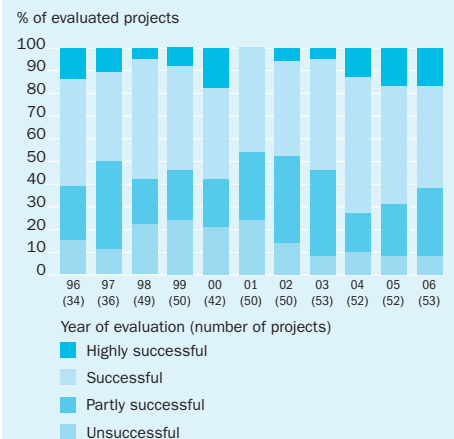


Chart 3 Overall performance ratings of evaluated EBRD projects 1996–2006



Special study: Property sector

The Evaluation Department undertook a special study of the property sector in 2006 to evaluate the EBRD’s overall policy (last updated in 2001), including the Bank’s efforts to assist its countries of operations with sectoral reform. The study assessed past performance in over 50 projects signed between 1992 and 2004. These included finance for city centre hotels, office buildings, shopping centres, property investment funds as well as donor-funded technical cooperation activities.

The study evaluated to what extent the projects fulfilled the objectives of the Bank’s property sector policy and assessed the efficacy, efficiency and overall impact of these projects. It concluded that the EBRD’s activities in this sector were “Partly Successful”. It found that the method of providing finance was largely successful where it could be applied but the EBRD’s impact in the property sector was limited to about half of the Bank’s countries of operations.

The EBRD’s property sector activities were most successful in countries that had undertaken sufficient market and institutional reforms for a critical mass of projects to succeed. Lack of adequate reform was an obstacle to the Bank’s method of providing finance in several countries where significant challenges still remain for the transition process. This was particularly evident in countries where market-supporting institutions, such as frameworks for property rights, and the privatisation of property are not at an advanced stage.

The study provided eight recommendations for the EBRD to consider when preparing a future policy for the property sector. These included the need to provide finance in countries that are carrying out adequate reforms and to strengthen dialogue about sector reform with countries facing large challenges in the property sector. This will help to prepare the way for future projects. The study also recommended exploiting complementarities between the municipal infrastructure sector and the property sector – for example, assisting municipalities with the privatisation of urban land and providing finance for its commercial development. The special study is published in full on the EBRD’s web site.

The “Successful” or “Highly Successful” score for overall performance is much lower than the percentage of projects that received “Excellent-Satisfactory” ratings for transition impact (80 per cent in 2006). This difference is partly due to lower ratings for financial performance reducing the overall performance score. These lower ratings are triggered by the high-risk investment climate in the countries where the EBRD operates, particularly in the countries at the early or intermediate stages of the transition process.

Furthermore, the limited progress in institutional reforms and the slow implementation of privatisation programmes have added to the investment risks. However, during 2006, nine projects scored an overall rating of “Highly Successful”. Based on these findings, EvD concludes that the EBRD has been relatively successful in operating according to its mandate, especially in view of the difficult operating environment.

The number of projects rated as “Highly Successful” continues to rise.

Successful project: Local cement producer

The EBRD provided two loans totalling €40 million to a local cement producer. The aim was to support the conversion from gas to coal as the principal source of fuel for the company’s kiln and to finance the acquisition of other cement plants and associated companies.

EvD has rated the project’s overall performance as “Successful” based on the achievement of the major objectives of the project. The company’s environmental performance is rated “Satisfactory” but it is expected that this performance rating could become “Good” if the company continues to make progress in this respect. The extent of environmental change is “Substantial”. The most striking achievement at the cement plant was the reduction of the total quantity of dust emitted from all stationary sources from 657 tons per year in 2001 to only 106 tons per year in 2004.

The company is one of the leading cement producers in the country and has been able to maintain about a one-third share of the cement market. The company has successfully pursued the strategy of

expanding its cement factory to cater for the growing demand for cement and has increased its competitiveness through realising economies of scale. The company has also succeeded in diversifying through the acquisition and modernisation of companies that produce clay products, such as roof tiles and bricks, and in expanding into neighbouring countries. The company has introduced new standards for business conduct and has improved the reporting systems of its subsidiaries.

EvD found that supporting a domestic producer without a strategic industry partner requires substantial financial, organisational and management resources, with the EBRD playing an active support role. Another lesson was that the EBRD’s standard Environmental Action Plan format should be modified to include a cost estimate for each action proposed under the investment plan. If funds are specifically allocated for environmental investment, it is more likely that they will be implemented.

Less successful project: Refinancing and restructuring an agribusiness company

The EBRD provided a loan, part of which was syndicated, to an agribusiness company that had previously received assistance from the Bank. The loan was broadly a refinancing of existing corporate indebtedness to create a viable financial structure that would permit the sponsor’s investment programme with the client to proceed.

The client benefited from the restructuring of its debts and reduced borrowing costs. However, the design of the operation did not permit the close cooperation and continuous dialogue with the client and the sponsor that is needed to forge constructive long-term alliances. Some ambiguity in the formulation of the Bank’s project documentation led to third-party misunderstanding of the nature of the Bank’s role.

When outside parties expressed concern about the environmental implications of some of the client’s other activities, the EBRD intervened to encourage the sponsor and client to engage in open dialogue. The sponsor made some strategic and operational changes in response to the concerns. The changes added to the project’s impact on the transition process, resulting in a wider range of

producers being involved in the supply chain while maintaining high standards of supply.

Despite satisfactory performance in some areas, including its impact on the transition process, the project can only be rated as “Partly Successful”. The client’s financial performance has been below expectations. Lower than expected profits and cashflow necessitated a further refinancing through another source. The structure of the project precluded the EBRD from including conditionalities in the loan agreement and diminished the role that the EBRD could play in assisting the company.

The main lesson learned from the project relates to environmental issues. At the project appraisal stage, the EBRD should assess the environmental performance and liabilities of the client and sponsor as a whole, especially where other aspects of their operations (beyond those directly financed by the EBRD) are environmentally sensitive. Another lesson was that in such cases, the Bank should commission independent expert environmental consultants to carry out an environmental audit and analysis.

Applying lessons to new projects

Through its analysis of EBRD projects, EvD draws lessons about important aspects of Bank projects that can help to improve the quality of future operations. The Chief Evaluator provides an overview of lessons learned in the Annual Evaluation Overview Report, which is published on the Bank's web site.

A key evaluation role is to ensure that past experience is applied to new projects. This begins with intensive consultation between the banking

teams and EvD on the lessons learned from project evaluation. Regular feedback is offered at every stage of the project approval process to ensure operational 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 to management and the Board of Directors on the evaluation of individual projects. To enhance the lessons-learned process in the Bank, EvD maintains a lessons-learned database that contains more than 2,400 lessons.

Examples of lessons learned during 2006 are presented in the case studies provided in this chapter, which include projects with a successful outcome and those with a less successful outcome.

Successful project: Tyre manufacturer

In 2001 the EBRD took an equity stake of 49 per cent in a tyre manufacturing company to be established in one of the Bank's countries of operations. The remaining 51 per cent was taken by a Western sponsor. The project consisted of the acquisition of an old factory and its renovation to create a new tyre manufacturing plant.

The aim of the project was to demonstrate the impact of a Western investor entering the sector, to strengthen competition, especially in the premium segment of the market, and to encourage a gradual shift from the importing of raw material to procurement from local producers.

Just over two years since the start of production, the company is already sourcing over half of its raw materials domestically. Although the company has been faced with high levels of inspections and bureaucratic intervention, the objectives of the project are expected to be met and exceeded.

The project has achieved its aim of demonstrating good practice and of encouraging competition as other international companies have moved into the market. The environmental performance is rated as "Good" and the extent of environmental change as "Excellent" in view of the state of the factory before acquisition. The project was structured with a "put" option to mitigate the EBRD's risk, and the Bank's relationship with the company is excellent. The project was rated as "Successful" overall.

One of the lessons learned involved the cash flow forecast, which should have included contingency costs for possible delays. Another lesson concerned company expansion and related health and safety issues, which should always be referred to the Bank's environment department for advice and an assessment of risk.

Less successful project: Solid waste project, Central Asia

In 1998 the EBRD provided a sovereign-guaranteed loan totalling €16 million to a capital city in Central Asia for improvements to the municipal solid waste management system. This was a joint project with the World Bank.

The project aimed to address serious deficiencies in the city's waste management. According to the paper presented to the EBRD's Board of Directors, "the solid waste collection and disposal system had deteriorated to a point where waste management services have become totally inadequate". Waste handling equipment was old and obsolete, and illegal dumping had become a major problem. Although municipal services had been partly corporatised, the client was a loss-making company under the direct control of the municipality.

The EBRD's major focus was on sector reform, achieving tariff increases of 50 per cent and promoting privatisation by contracting out at least 50 per cent of the waste collection services. The project

was only rated "Partly Successful" for a number of reasons. While local privatisation was under way, the EBRD switched its focus to international privatisation – an unrealistic objective that was not met. The project structure under-estimated the time required for implementation, leading to costly and unnecessary delays as project agreements were updated annually. While the project has resulted in significant environmental improvements, the objective of raising environmental performance to EU levels was unrealistic.

One lesson learned from this project was that in a difficult investment environment, local privatisation may be a good first step. The success of a local company will provide a good "demonstration effect" and such a company may become a take-over target once the investment climate improves. The project also showed that restructuring public utilities will usually involve tough tariff decisions so the EBRD needs to ensure that the government is committed to making the necessary tariff adjustments.

Evaluating technical cooperation activities

EvD has evaluated over 500 consultant assignments funded through the EBRD's technical cooperation (TC) programme. These assignments have been supported by almost €150 million of funding from over 30 donors. When combined with TC assignments evaluated during EvD's special studies, this figure rises to over 1,300 assignments involving more than €330 million of funding.

A key evaluation role is to ensure that past experience is applied to new projects.

Successful project: Finance for micro and small business in the Caucasus

Two large technical cooperation projects lasting five years financed the development of skills in a new microfinance bank in the Caucasus established by international financial institutions. Consultants assisted the bank in training loan officers, setting up sound lending procedures and practices, expanding outreach to remote areas, and establishing an information technology system. As a result, the bank performed exceptionally well despite an uncertain investment climate.

The project was rated as "Successful". In particular, the project helped the bank to provide a new service to the microfinance sector, which had not been well served in this country. The bank's shareholder structure – consisting of international financial institutions with no local partner – safeguarded the newly established bank against undue local pressure and external corruption. The bank drew a swift lesson from improper transactions made by its own staff, introducing tighter procedures and resuming its strong performance.

The EBRD learned that well-trained staff can help to foster new business and contribute to a project's success. Grant funds can be particularly effective at reducing risk and building a corruption-free banking culture. It was also learned that donor funding can be especially useful in advancing the transition process through new operations. However, the timeframe for technical cooperation funding needs to be defined at the outset.

Less successful project: Metro project, central Europe

In 2002 a capital city in central Europe approached the EBRD for technical cooperation (TC) assistance in expanding its underground system under a public-private partnership (PPP). It sought to pursue this endeavour under a recent national PPP initiative, for which the government had independently sought the Bank's TC assistance. Both TC projects were subsequently combined.

When the metro feasibility study did not confirm the financial viability of the full-scale expansion plans, the city decided in 2003 that alternative transport solutions should be considered, resulting in the premature termination of one of the TC projects. The other TC project continued and even expanded. These changes coincided with national elections in 2003 that brought into power a new government that was non-sympathetic towards PPP financing.

Overall the project was only rated as "Partly Successful". The fulfilment of objectives for the two TC operations was rated as "Marginal". The PPP law, which was developed with the support of TC funding, entered into force in 2005. However, this has not led to an EBRD investment nor has any other PPP project materialised in this country.

EBRD handling of the project was rated as "Good", particularly in view of the banking team's laudable efforts to protect the TC operation in the wake of political changes. The environmental performance was rated as "Satisfactory" and the extent of environmental change as "None".

The project's impact on the transition process is rated as "Satisfactory" mainly owing to its demonstration potential for neighbouring countries and the expectation that investment projects may come to fruition once the government takes a more sympathetic stance towards PPP financing.

The EBRD learned that projects can sometimes have elements that cut across different areas of expertise within the Bank – for example, banking and legal transition or environment. In such cases, the project should be assigned to a multi-disciplinary team and adequate time and budget should be allocated.