Management Comment on the Annual Evaluation Overview Report (2010)

Management has noted the changes in the format and content of this year's Annual Evaluation Overview Report, and considers that the approach adopted does meet the objectives set for the report under the Evaluation Policy. Management also notes the EvD's plans to initiate a discussion with Board and Management about findings that have emerged with some consistency in AEORs, and with respect to EvD's work more generally. Management stands ready to engage in a constructive review of the broader strategic issues concerned.

Chapter 1: Assessment of the Bank's performance

Management has reviewed the analysis of evaluation and outcomes for the 2010 sample, and the comparisons with the overall population of projects evaluated in 2006-10. It agrees with the analysis which is presented, as well as the areas for future work/analysis, in particular the relatively lower performance of projects in Central Asian countries, and the weak correlation of additionality with the overall performance rating of the projects. The report gives some indicative thinking on both these issues which is in line with Management's understanding of both of these issues.

While the overall rating figures remain quite robust, Management does note the reduction in the percentage of projects rated satisfactory or better for transition impact to 76 per cent for the 2010 sample, compared to an average of 81 per cent in the period 2006-10 as a whole. It is likely that this impact arises from the impact of the financial and economic disruption in the crisis on the transition objectives of projects which were designed in the pre-crisis phase. While the experience of the crisis does also produce opportunities for transition as discussed in other fora, it is not surprising that for some projects the originally designed objectives cannot be achieved in a radically changed environment.

Chapter 2: Findings from evaluations in 2010

Management considers that this is a valid and useful compilation of findings from evaluations in 2010, complementing the separate document on "Follow-up of EvD Recommendations". As discussion on the format and utilisation of these documents evolves, further thought may be needed on the balance of material in each as some overlap has now emerged.

It is not proposed to address exhaustively in this Management Comment the individual findings and themes cited here. Management's position has been articulated both in the Management Comments on the individual OPERs where the points were first raised, and also in many cases in the parallel document on "Follow-up of EvD Recommendations".

Clearly the main themes identified are important areas which will be the subject of continuing discussion with EvD and with the Board. As disclosed in documents referred to above, Management is implementing quality improvement initiatives to respond to issues identified in the key areas. Issues such as "the integration of transition objectives into project design" concern areas where further improvement can always be achieved, and where Management must also be vigilant to adapt to changing environments and new challenges as they affect our ability to achieve transition objectives.

Management is therefore commenting specifically on just three points:

(i) *Competition issues*

On competition (Section 2.3), following the Information Session in April 2011, it was agreed to try to find a project which would demonstrate how Management could best achieve greater disclosure and discussion of competition aspects in Board documents. This was done in relation to a sugar project. It was agreed in the Board discussion that (a) the Transition Impact methodology and Protected Sector Guidelines remain appropriate but need better application; (b) the project appraisal process is further improved by enhancing the now annual Assessment of Transition Challenges (ATC) analysis, by OCE becoming involved at an earlier stage in identifying the issues at the pre-Concept Review Memorandum stage and during due diligence, and by improving the quality of Board documents; and that (c) the Bank continues its sector and project-level policy dialogue on these issues.

An enhanced ATC assessment is currently being prepared by OCE with the help of Banking. OCE has recently also developed a Red Flag Transition Impact Analytical Risk Tool/Checklist to guide Bankers early in the project appraisal process (pre-CRM) to identify key potential issues related to Competition and Protection. This tool is already aiding Bankers in identifying the potential issues early in the review process. At the same time the Bank's policy dialogue efforts have been stepped up, particularly in the Agribusiness sector (for example, with regard to Ukrainian grain export quotas). In projects where competition aspects are a concern, Management will continue to provide enhanced disclosure and a more thorough analysis of the pertinent issues.

(ii) *Subsidy issues*

Section 2.4 raises the issue of monitoring application of the "Staff Guidelines for the Use of Non-TC grants from the SSF, SGS08-073". These provide a set of principles sufficient to guide Bank operations, and are widely applied also to donor-funded subsidies. The SSF Guidelines are additionally supported by the accumulated good practice embedded in various Board-approved documents of several frameworks. Monitoring of the use of subsidies is conducted at the project level. In transition impact assessment of individual projects OCE evaluates the justification and structure of subsidies against the established principles. This evaluation is reflected in the transition impact rating at appraisal stage, and the desired structure of subsidies is reflected where appropriate in the transition impact benchmarks. This is then monitored through the TIMS process.

(iii) *When Management Comments are issued*

One issue that has not been addressed elsewhere is raised in Section 4.1, namely Guidance on when Management Comments should be issued in response to EvD Reports. In Management's view the existing Evaluation Policy does not require any change on this point: in Section 3.4 entitled "Recording different opinions on an evaluation exercise" it is stated that in practice most differences arising in the process are reconciled, with the final text of the report reflecting the nuances involved. The text then notes that "However, where disagreement persists at the end of the evaluation exercise, Management's views are reflected in the Management Comments which are distributed to the Board of Directors at the same time as the EvD document to which they relate."

Two additional points of interpretation are worth noting:

- In some cases Management may choose to make a "Comment", even if it is not exactly a "disagreement", where it believes that a perspective which is not fully articulated in the EvD document would be valuable in assisting with the Audit Committee deliberations.
- Management has not used this process to record disagreement on minor matters which should be resolved at working level, and where the consequences of any failure to resolve them are not material from the point of view of the ability of Management and/or the Board to take a view on the key findings or recommendations of the EvD report.

Management believes that in general the right balance has been struck in terms of the frequency and length of Management Comments. It is important not to overload the process with documents which essentially record no objection to a report or cover non-material matters. The process does have a meaningful resource cost, given the requirement to ensure that comments are well formulated, cleared across departments and up the management line, and subsequently reviewed and approved by the Executive Committee.

This comment also addresses the treatment of this issue in Section 1.2 of Chapter 4.

Chapter 3: The Bank's monitoring and self-evaluation systems

Management notes the analysis of differences in the results between the Bank's self-evaluation systems and ratings assigned by EvD. It agrees with the analysis in Section 1.2 that "There is a high level of agreement between EvD and Operation Teams on whether the outcome of a project was fundamentally satisfactory or not. Most of the disagreement is in the nuances of whether a successful project deserves to be considered highly successful." The analysis in the report does help to clarify the nature of these differences, and Management concurs with the finding that these differences have been consistent or even growing over time. In Management's view, a significant proportion of these differences are inherent in the current architecture for evaluation within the Bank. Given that significant effort has already gone into communication through workshops and discussions, a sustained and significant narrowing of the gap would probably require a more fundamental review of issues, roles, incentives, and ownership in the evaluation arena. Management is prepared to engage in the discussion on such issues, but they go well beyond the scope of the current paper.

In relation to certain specific issues raised in the paper, Management has the following comments:

(i) The issue raised in Section 1.3 on coverage of objectives in Board reports, EBRD's Project Monitoring Module (PMM) and XMRs is noted and will be assessed in the context of a planned review of the overall PMM system in 2012, which can also cover related issues affecting XMRs.

(ii) Management confirms that the additional work described in Section 2 on measuring the impact of TC operations and associated IT improvements is under way, and that this will continue to be implemented in discussion with EvD, OCE, Banking and other departments affected.

(iii) To some extent the comments above on self-evaluation also apply to the comparison of EvD and TIMS ratings. However the fact that EvD is seeking to make a one-off determination of the impact, while the TIMS figures relate to potential return and risk as part of a continuing evaluation means that the comparison involves two somewhat different concepts.

(iv) In relation to TIMS benchmarks, Management confirms that there is potential for further improvement and work continues to try to realise this. It is clear that it has already been possible to achieve significant improvements based on learning from the experience of the initial years in which the system operated.

Chapter 4: Dissemination of reports and findings

The material in this chapter is largely factual, but clearly prompts some questions about how best to structure interaction between EvD and staff both in relation to new projects and to dissemination of findings. These questions may feed into the discussion of broader strategic issues to which the AEOR refers in the Introduction; Management welcomes the opportunity to engage in this discussion.