Annual Evaluation Overview Report 2010

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Evaluation Department
(EvD)

European Bank
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Introduction

This annual report prepared by the Evaluation Department (EvD) is intended to: identify and summarize key findings contained in evaluation reports prepared under the 2010/11 work programme; assess the overall performance of the Bank in delivering on its mandate; and, consider such elements of the Bank's monitoring and evaluation process as may be of value to Board and Management.

Chapter 1 assesses the performance of the Bank from two angles. It compares the development of the Bank's portfolio over the period 2006-10 with the operational priorities established for that period. It then reports on the performance of investment and TC projects evaluated in 2010, and compares it with the performance of projects evaluated over the previous four years.

Chapter 2 reviews selected key findings from individual evaluations completed in 2010 and attempts to draw out issues and themes likely to be of particular interest or resonance to the Board and the Bank.

Chapter 3 briefly reviews the Bank's monitoring and self-evaluation systems: the Expanded Monitoring Report (XMR), as a tool for self-assessment of investment operations by operational teams; the Project Completion Report (PCR), through which staff report on the performance of TC operations; and, the Transition Impact Monitoring System (TIMS), used to monitor progress towards the transition objectives set at project approval. The chapter reviews differences between ratings assigned by operational staff and those of the Evaluation Department, and considers whether the divergences raise larger issues.

Chapter 4 discusses the dissemination of evaluation material to operational staff, senior management, Board, and externally.

In a departure from past practice this AEOR does not include a final comment from the Chief Evaluator. EvD plans to initiate a discussion with Board and Management colleagues about findings that have emerged with some consistency in AEORS and with respect to EvD's work more generally to identify some broad strategic issues for deeper review and consideration.

1. Assessment of the Bank's Performance

Highlights

- The Bank's business volume and number of transactions substantially exceeded projections throughout the 2006-10 period. Total actual volume during the period was 70 per cent higher than forecast.
- The financial crisis affected the development of the portfolio from 2009, in terms of numbers and volume of operations and geographic distribution.
- In 2010, 58 per cent of evaluated projects (71 per cent by volume) were rated *Successful* or better overall. Over the period 2006-10, the figures were 56 per cent and 70 per cent.
- 76 per cent of projects evaluated in 2010 were rated *Satisfactory* or better for transition impact; for 2006-10, the figure was 81 per cent.
- The key indicators were fulfilment of project objectives and transition impact. Additionality was not strongly correlated with overall performance.
- Overall, performance in Early Transition Countries (ETC) projects is now close to normal for most indicators.
- Projects in Central Asia (CA) continue to lag behind projects in other regions, with only 41 per cent of projects evaluated in 2006-10 rated *Successful* or better.
- In 2006-10, 72 per cent of Technical Cooperation (TC) operations were rated *Successful* or better overall, and 88 per cent had *Satisfactory* or better transition impact.

Areas for future work/analysis

- Investigate why additionality is so weakly correlated with the overall performance rating of a project.
- Investigate, both quantitatively and qualitatively, the reasons behind the relatively low performance of Central Asian countries.

This chapter assesses the performance of the Bank from two angles:

(i) development of the portfolio over the period 2006-10, in comparison with the operational priorities established by the Bank for that period

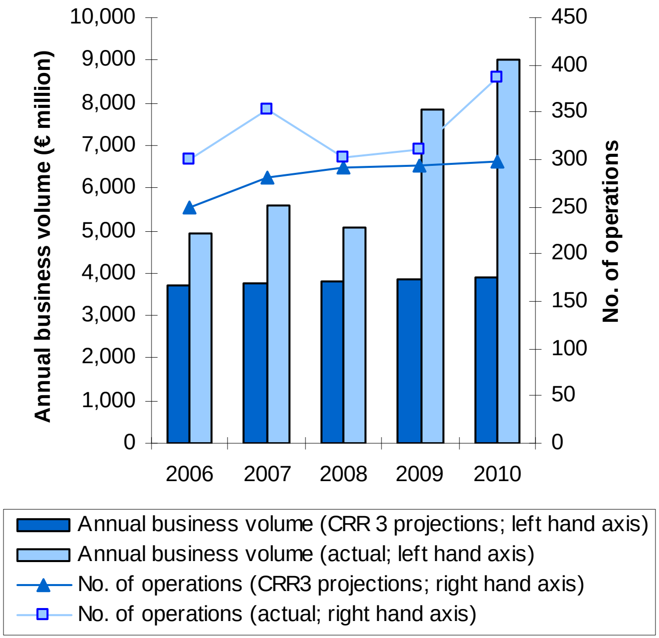
(ii) the aggregated results of evaluations conducted over the same period.

1.1 Portfolio development

Every five years, the EBRD conducts a Capital Resources Review, which sets out the medium-term strategic direction of the Bank in terms of transition objectives, operational activity, risk, financial performance and resource requirements. The period 2006-10 coincided with the period covered by the Third Capital Resources Review (CRR3). In 2009, as Bank began to prepare CRR4, EvD prepared an evaluation of the CRR3 implementation as an input to the process. The executive summary of EvD's report was attached to the document "Background Material on Capital Resources Review 4 2011-15" as Appendix 2. It can be accessed on the EBRD web site.[1]

The defining event of the period was the financial crisis, which began to have a serious impact on the Bank's countries of operations in the second half of 2008.

Chart 1.1: Annual business volume 2006-10, projected and actual



During the first part of the CRR3 period, 2006-08, the Bank grew strongly, exceeding projected business volume by a substantial margin. As early as 2006, the Bank's annual business volume exceeded the figure projected in the CRR3 by one-third. Following the onset of the financial crisis, in December 2008 the Bank adopted a crisis response plan that led to a further increase in volumes of approved projects. In 2009 and 2010, annual business volume was more than twice as high as projected in the CRR3 document. Chart 1.1 compares projections for the Bank's growth taken from the CRR3 document with the actual results achieved in 2006-10.

The crisis also led to a change in emphasis in the portfolio. The Bank had foreseen a substantial reduction in its annual investments in advanced transition countries; that is, the countries of central Europe and the Baltic states. As charts 1.2 and 1.3 illustrate, the Bank followed this plan until the end of 2008. Thereafter, in an attempt to counter the effects of the crisis in that region, it substantially increased its commitments among the advanced transition countries.

[1] www.ebrd.com/downloads/policies/capital/crr4b.pdf

Chart 1.2: Geographic composition of annual business volume, CRR3 projections

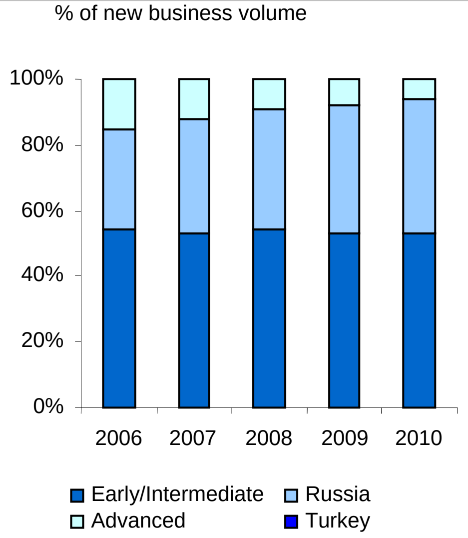
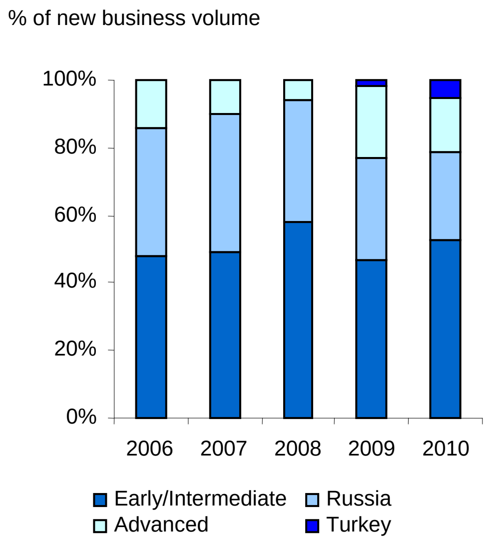


Chart 1.3: Geographic composition of annual business volume, actual results



Another indication of the impact of the crisis is the risk profile of the Bank's portfolio. Chart 1.4 below shows the change in portfolio risk over the period. The Bank rates the risk of individual facilities on a scale of 1 to 10, where facilities rated 8 and above are impaired. These ratings are mapped against those of Standard & Poor's in Table 1.2. At the end of 2007, less than 1 per cent of the Bank's total portfolio was impaired. At the end of 2009, this reached 8.5 per cent. The weighted average risk rating increased from 5.48 at the end of 2006 to 6.10 at the end of 2009, before falling somewhat in 2010.

Chart 1.4: Portfolio risk, 2006-10

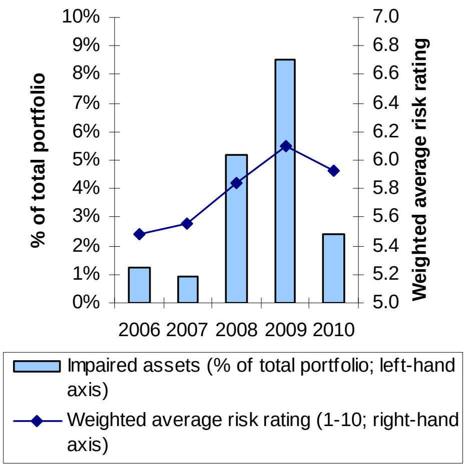
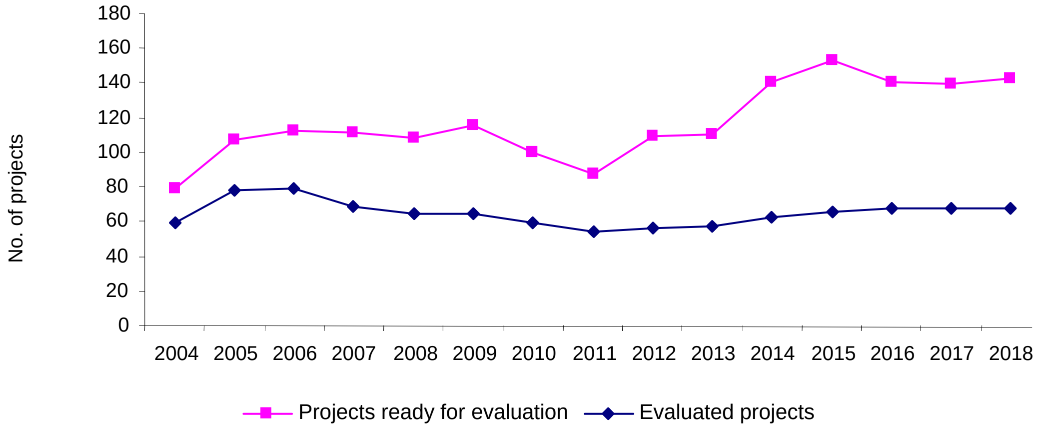


Table 1.2: Mapping of EBRD internal risk ratings against external rating

EBRD Risk Class	S&P's Rating Equivalent
1	AAA
2	AA+, AA, AA-
3	A+, A, A-
4	BBB
5	BB+, BB, BB-
6	B+, B
6W	B-
7	CCC
8	CC
9	C
10	D

In terms of its impact on evaluation work, the initial effect of the crisis was to reduce the number of projects ready for evaluation. This was because a number of projects already under implementation were delayed by the adverse economic conditions, while the number of new project approvals fell in 2008-09. However, new approvals have risen from 2010 and delayed projects are expected to mature in the next few years, pushing up the number of projects ready for evaluation to 140-150 from 2014. Chart 1.5 below shows the number of projects ready for evaluation: actual figures to 2011 and projections from 2012 onwards.

Chart 1.5: Projects ready for evaluation, 2004-18



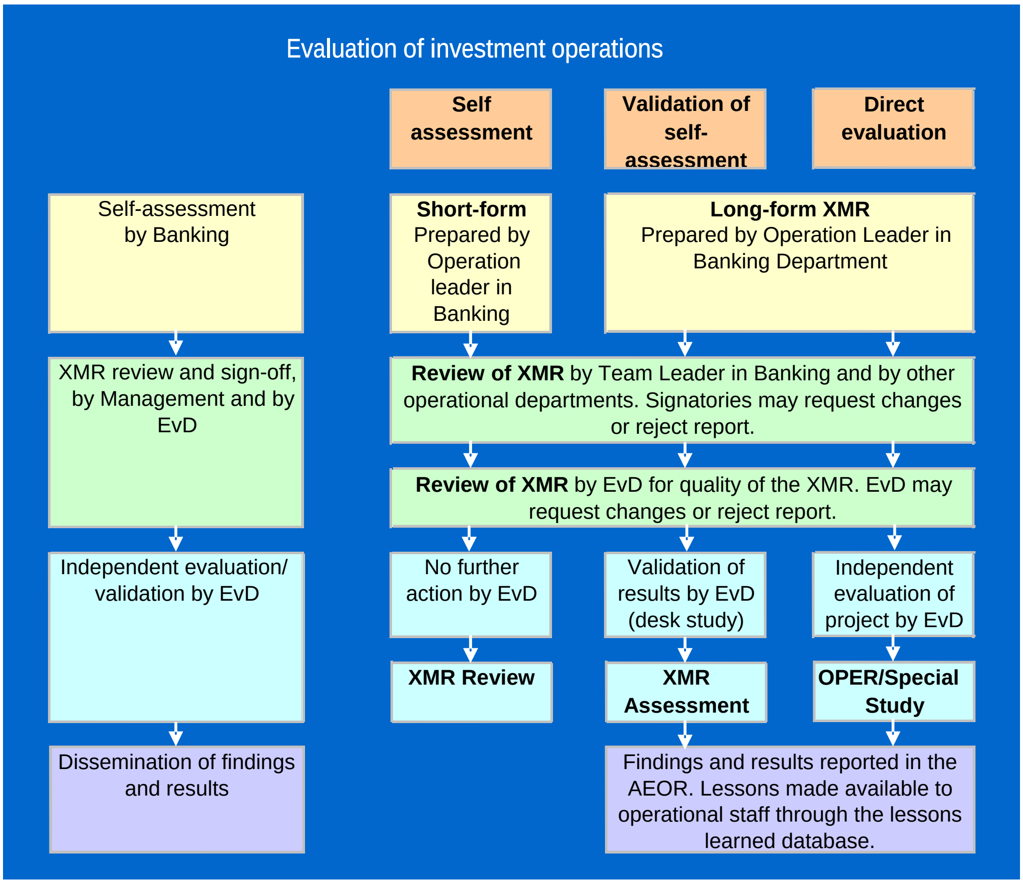
The proportion of these projects that are actually evaluated shows less variation. Since 2009, statistical sampling methods have been used to determine the number of projects that need to be evaluated in order to provide reliable results. The system is based on a three-year rolling sample, which evens out some variation in the numbers evaluated each year. It also has the characteristic that a lower percentage coverage is required as the population size grows. This explains why the number of projects that EvD expects to evaluate in future years rises more slowly than the total number of projects ready for evaluation. Nevertheless, the prospective rise, from 54 in 2011 to 68 in 2016, is still an increase of 26 per cent. All these projections are based on the Bank's current medium-term business plan and do not take account of any possible expansion into the Mediterranean region.

1.2 Evaluation results

1.2.1 The process of evaluation

The assessment of the EBRD's performance is based on the assessed outcomes of 270 investment operations evaluated during the five-year period 2006-10. Since 2009, the projects forming the basis of this analysis have been selected on an entirely random basis. Before 2009, they were a combination of randomly sampled and purposively sampled projects. Further details on the selection are presented in Appendix 1.

Each evaluation begins with a self-evaluation conducted by the operation team and presented in an Expanded Monitoring Report (XMR). EvD then prepares an XMR Review, an XMR Assessment, an Operation Performance Evaluation Review (OPER) or a Special Study, depending on the selection made at the beginning of the year. The diagram below shows the evaluation process graphically, while the box overleaf describes the various evaluation products.



Types of evaluation for investment operations

XMR Review: Every project undergoes a self-evaluation process once in its life, through an Expanded Monitoring Report (XMR) prepared by the Operation Leader in Banking. EvD reviews each XMR for quality (completeness and internal consistency). If no further evaluation takes place, it is known as an XMR Review.

XMR Assessments: Every year, EvD selects around 35 of the XMRs to be validated through an XMR Assessment. The assessment is a short desk study, consisting of a review of key project documents and discussion with the operation team to allow validation of the ratings and lessons presented in the the XMR.

OPERs: An OPER is an in-depth evaluation of a project or a group of closely related projects. EvD conducts a site visit and discusses the project with interested parties inside and outside the Bank. The services of a consultant may also be used to provide industry expertise.

Special Studies: Large frameworks and programmes are evaluated through Special Studies. These may involve site visits and sometimes the input of a consultant. The focus is usually on the framework or programme as a whole, which may also include technical cooperation funds. Individual operations covered by the framework are not always evaluated in depth.

The evaluation performance indicators that EvD uses for its various studies and reports are the following:

*For the evaluation of individual operations/projects:**

- Additionality
- Bank handling
- Bank investment performance
- Company financial performance
- Environmental performance
- Environmental change
- Fulfilment of project objectives
- Project financial performance
- Transition impact

= Overall performance rating

* reflecting the Bank's unique mandate and *modus operandi*

*For the evaluation of sector policies, frameworks or funds:***

- Effectiveness
- Efficiency
- (Transition) impact and sustainability
- Relevance

= Overall performance rating

** reflecting the general OECD-DAC evaluation criteria[2]

While sector policies, frameworks and funds are evaluated according to the OECD-DAC criteria (right-hand box above), they still draw on individual EBRD performance benchmarks. For instance, the DAC criterion "effectiveness" is often rated with the help of (cumulative) results of the EvD indicator "fulfilment

[2] See: OCDE/GD(91)208: Principles of Evaluation of Development Assistance, OECD, Paris 1991 www.oecd.org/dataoecd/21/41/35343400.pdf

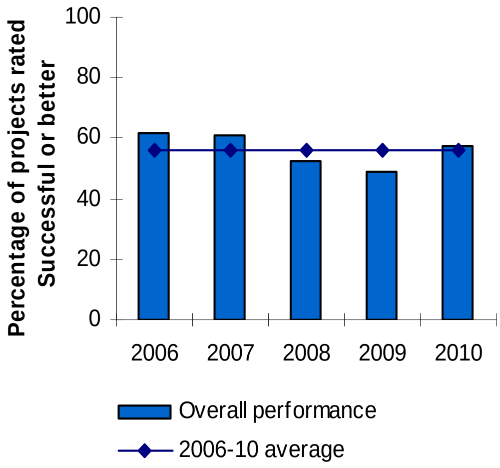
of objectives". Similarly, the DAC criterion "efficiency" is based on summary ratings of the Bank's "investment performance" and/or "project financial performance". Sustainability is not a rating parameter for Bank operations *per se*, but is sometimes interpreted in relation to the long-term transition impact potential. Detailed definitions and benchmarks for each of EvD's performance indicators are set out in Appendix 2.

This chapter presents aggregate results from direct and indirect evaluations, that is, XMR Assessments, OPERs and Special Studies. A few key performance indicators are presented in detail, namely overall performance and transition impact. The performance of projects evaluated in 2010 is compared against those evaluated over the period 2006-10. Some broad conclusions are drawn about which variables have the greatest effect in determining the overall performance assessment of a project, and section 2.4 focuses on performance in early transition countries and Central Asia. Section 2.5 looks at the results of TC evaluations. Appendices 3 and 4 present a more detailed description of outcomes.

1.2.2 Overall performance

In 2010, 58 per cent of evaluated projects (71 per cent by volume) were rated *Successful* or *Highly Successful* overall (see Chart 2.1). This is slightly above the average of 56 per cent (70 per cent by volume) over the five-year period. In 2008-09, overall performance ratings had been slightly below the five-year average, which EvD ascribed to the impact of the financial crisis. As reported in previous years, larger projects were once again more likely to be positively rated than smaller ones. This is a result that has also been reported by the Independent Evaluation Group of the International Fincance Corporation (IFC).

Chart 2.1: Overall Performance Ratings of Projects Evaluated 2006-10



Charts 2.2 and 2.3 overleaf show the variation of ratings across regions and sectors over the period. As in previous years, a higher than average proportion of projects in central Europe and the Baltic states (CEB) and south-eastern Europe (SEE) have been rated *Successful* or better. Central Asia (CA) continues to lag behind other regions, with only 41 per cent of evaluated projects achieving a positive overall rating. It seems that the more favourable commercial and legal environment of CEB and SEE allows projects to perform better financially and to achieve their transition potential.

The sectoral breakdown shows that the Infrastructure sector (INF) has achieved higher overall performance ratings than the other sectors, with 69 per cent of evaluated projects rated *Successful* or better. ICA (Industry, Commerce and Agriculture) shows the weakest results, with only 50 per cent of projects achieving a high rating. These results are in line with those seen in previous years.

Chart 2.2: Regional breakdown of overall performance ratings 2006-10

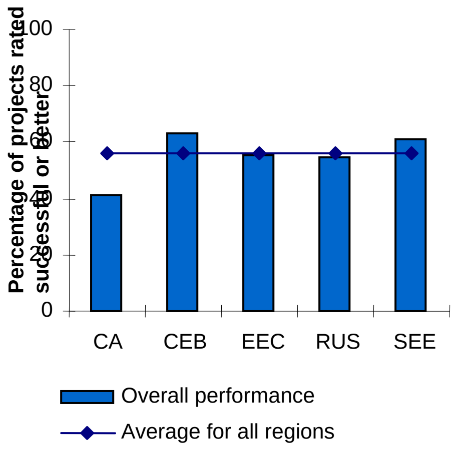
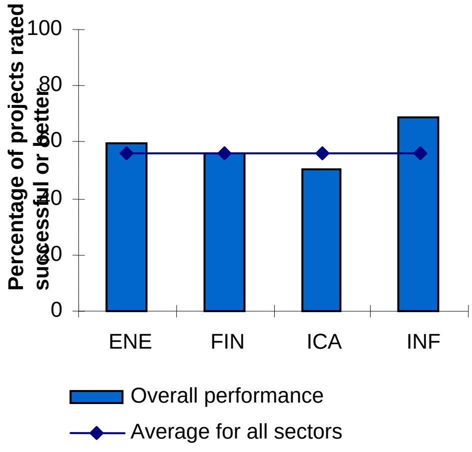


Chart 2.3: Sectoral breakdown of overall performance ratings 2006-10



1.2.3 Transition impact

Transition is the single most important indicator, going to the heart of the Bank's mandate to further the transition of countries of operations to a market-based economy. The assessment of transition impact is based on a number of indicators developed by the Bank's Office of the Chief Economist (OCE).

How is transition impact defined?

Each EBRD project is expected to have impact on the transition process. Transition impact is defined as: "The likely effects of a project on a client, sector or economy, which contribute to their transformation from central planning to well-functioning market-based structures."

There are three broad areas in which an EBRD project can contribute to the process of transition:

1. The structure and extent of markets
2. The institutions and policies that support markets
3. Market-based behaviour patterns, skills and innovation

These three areas are further divided into seven potential sources of transition impact.

Project contributions to the structure and extent of markets

1. Greater competition in the project sector

2. Expansion of competitive market interactions in other sectors

Project contributions to the institutions and policies that support markets

3. More widespread private ownership

4. Institutions, laws and policies that promote market functioning and efficiency

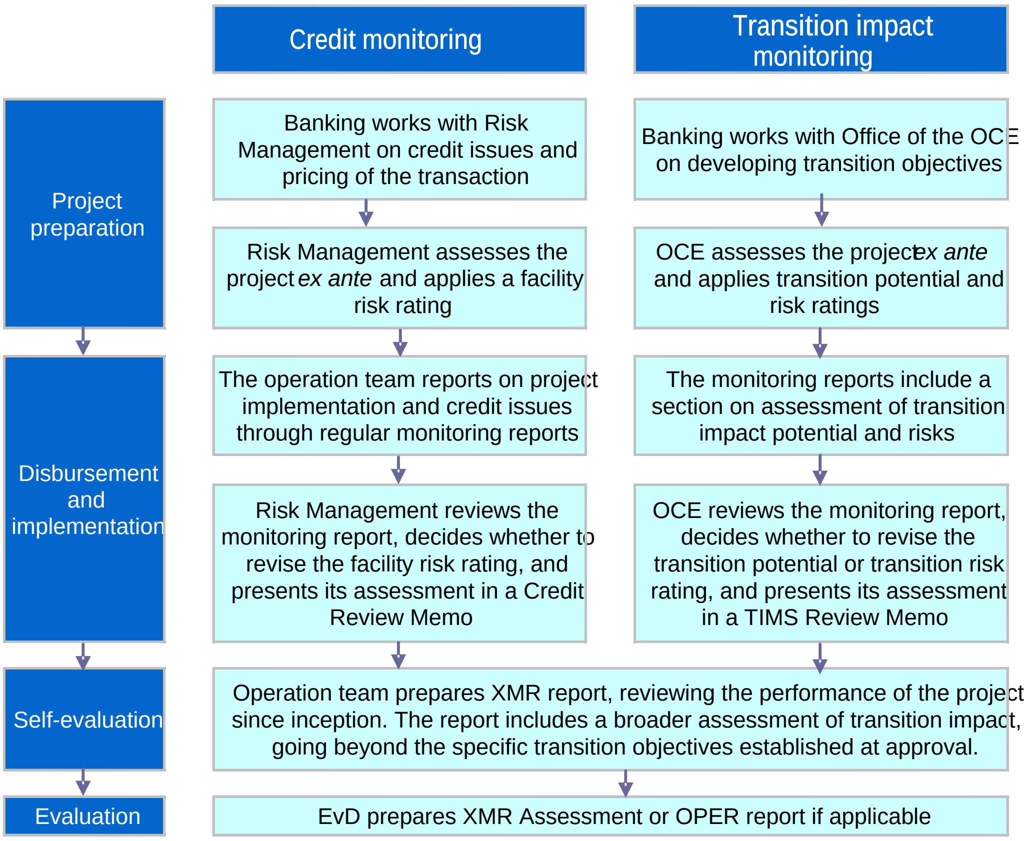
Project contributions to market-based conduct, skills and innovation

5. Transfer and dispersion of skills

6. Demonstration of new replicable behaviour and activities

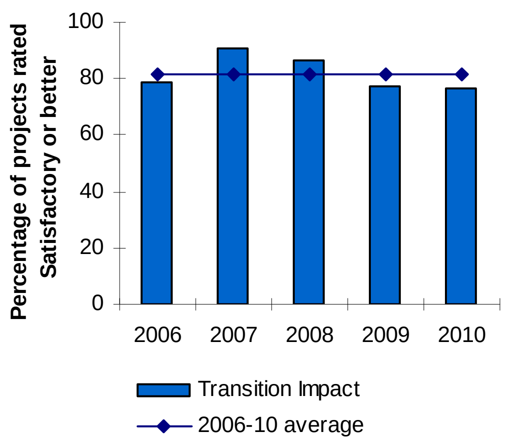
7. Setting standards for corporate governance and business conduct

Because of the importance of transition impact, it is monitored separately through the lifetime of the project. OCE assesses each new project for its potential transition impact and the risk of failing to achieve that potential. Transition objectives and benchmarks are established in a cooperative process between OCE and Banking. Throughout the life of the project, OCE monitors its progress towards achieving these objectives through the Transition Impact Monitoring System (TIMS), which sits alongside the main, credit-focused monitoring system of the Bank. When the project is evaluated, the XMR and any evaluation reports take a broader view, considering the project's total transition impact and not restricting the assessment to the achievement of specific transition objectives. The diagram below illustrates how the two monitoring systems work alongside each other and feed into the evaluation process.



Section 3 of Chapter 3 discusses the Transition Impact Monitoring System in more detail. Chart 2.4 below focuses on the ratings assigned by the Evaluation Department. It shows the proportion of projects rated *Satisfactory* or better for transition impact in the period 2006-10. In 2010, the figure was 76 per cent, including 61 per cent rated *Good* or *Excellent*. Over the five-year period, in total 81 per cent of evaluated projects were rated *Satisfactory* or better. Results in the last two years have been slightly below this average. A breakdown by industry sector and by region is shown in detail in Appendix 3. Variation across regions and sectors has been less pronounced than for the overall

Chart 2.4: Transition impact ratings of projects evaluated 2006-10



performance, but south-eastern Europe has performed best in 2006-10, with 86 per cent of projects rated *Satisfactory* or better, while the figure for Central Asia, the lowest performing region, was 72 per cent.

1.2.4 Key factors in overall performance

Table 2.1 below shows the degree of correlation among the various performance indicators, for projects evaluated over the period 2006-10.

The correlation coefficient

A correlation coefficient is a mathematical measure of how much one number can be expected to be influenced by changes in another. It varies between -1 and +1. A correlation coefficient of 1 means that the two numbers are perfectly correlated: if one grows so does the other, and the change in one is a multiple of the change in the other. A correlation coefficient of -1 means that the numbers are perfectly inversely correlated: if one grows the other falls. A correlation coefficient of zero means that the two numbers are not related.

Definition courtesy of moneyterms.co.uk. Copyright Graeme Pietersz © 2005-2011

The indicators that are most highly correlated with overall performance are the fulfilment of project objectives and transition impact. These two indicators cover the achievement of the physical and transition objectives of the project, and are also highly correlated with each other. The project (and company) financial performance is also a significant factor in the overall performance rating. This reinforces the view that at least *Satisfactory* financial performance is necessary to allow a project to achieve its objectives and reach its full potential.

Table 2.1: Correlation coefficients of performance indicators for projects evaluated 2006-10

Indicators of overall performance	OB	EP	EC	AD	CP	PP	BH	IP	OP
Transition impact (TI)	0.78	0.44	0.24	0.29	0.64	0.65	0.64	0.56	0.79
Fulfilment of project objectives (OB)		0.34	0.25	0.21	0.59	0.66	0.57	0.61	0.79
Environmental performance (EP)			0.31	0.15	0.32	0.36	0.39	0.15	0.43
Extent of environmental change (EC)				0.09	0.20	0.20	0.21	0.27	0.32
Additionality (AD)					0.27	0.31	0.32	0.17	0.29
Company financial performance (CP)						0.87	0.50	0.59	0.69
Project financial performance (PP)							0.52	0.58	0.75
Bank handling (BH)								0.38	0.61
Bank's investment performance (IP)									0.58

The Bank's mandate sets out clearly that the purpose of the Bank is to foster transition and that in doing so it must be additional and apply sound banking principles. The concept of sound banking is represented above by fulfilment of objectives, and company and project financial performance. It is not surprising, therefore, that these indicators, together with transition impact, are closely correlated with the overall performance rating. It is more surprising that additionality is not similarly correlated. A correlation coefficient of 0.29 is very weak.

Two factors suggest themselves *prima facie* as explaining this phenomenon. First, additionality is generally very highly rated in Bank projects. Over 90 per cent of the projects evaluated in 2006-10 were rated positively for additionality (see Appendix 3, Section 5). Since there is not much variation in the rating of this indicator, it is unlikely to be closely correlated to overall performance, which is much more evenly spread across the full range of possible outcomes. A second factor is that very challenging projects are often highly additional at the outset. In some cases they are not entirely successful, but this need not reduce the additionality of the Bank in its original decision to provide finance in such difficult circumstances. Therefore, there may be occasions when additionality is rated positively and most other indicators are rated negatively. This is a topic that would benefit from further analysis.

1.2.5 Performance in Central Asia and the early transition countries

The early transition countries (ETCs) comprise 10 countries in the Central Asia and eastern Europe and Caucasus regions. Despite the overlap between Central Asia and the ETCs, there is a striking difference in performance in evaluated projects in those regions. Over the period 2006-10, 54 per cent of ETC projects and 41 per cent of projects in Central Asia were rated *Successful* or better overall. Table 2.2 below shows a breakdown of this result by individual indicator.

Table 2.2: Percentage of evaluated projects achieving a positive rating – in Central Asia, early transition countries and other countries

Evaluation indicator	CA	ETCs	Other
Overall performance (OP)	41	55	58
Transition impact (TI)	72	77	83
Fulfilment of project objectives (OB)	76	93	82
Environmental performance (EP)	92	81	89
Extent of environmental change (EC)	28	24	30
Additionality (AD)	97	82	92
Company financial performance (CP)	64	70	71
Project financial performance (PP)	72	70	72
Bank handling (BH)	86	95	94
Bank's Investment performance (IP)	53	61	65

Central Asia (CA): Kazakhstan, Kyrgyz Republic, Mongolia, Tajikistan, Turkmenistan, Uzbekistan.

Early transition countries (ETCs): Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Mongolia, Moldova, Tajikistan, Turkmenistan, Uzbekistan.

Other countries: Central Europe, Baltic states, south-east Europe, Russia, Turkey, Ukraine.

According to these figures, performance in ETC projects is now close to normal for most indicators. Performance in Central Asia is normal or above normal for environmental performance and change, additionality and project financial performance. This last result in particular is encouraging for financial sustainability. Company financial performance is lower than in other countries, which reflects the difficult business environment. The relatively low Bank investment performance may be related to the smaller average size of projects in this region.

The key indicators on which Central Asian projects underperform are transition impact and fulfilment of project objectives. A qualitative analysis of the projects in the region shows that the main reason for underperformance at the overall level is a combination of moderate performance on both these indicators. Of the 14 Central Asian projects rated *Partly Successful*, only one was rated *Good* for fulfilment of objectives and three for transition impact. The remainder were rated *Satisfactory* or *Marginal*. These are not disastrous ratings, but a combination of such moderate ratings across two key indicators leads the overall performance rating to *Partly Successful*.

As discussed in Section 2.3 above, transition impact and fulfilment of project objectives are closely correlated with overall performance. They are also fundamental to the mandate of the Bank and a project that fails to achieve its basic objectives is unlikely to have a positive impact. The difficult investment environment in ETCs is suggested by the high proportion of projects with positive additionality ratings (97 per cent). It may be worth undertaking further analysis in order to test whether there is any significance in the inverse relationship between the additionality and overall performance ratings. It is possible, for example, that the Bank's projects in ETCs outside Central Asia have been focused in sectors that are relatively highly developed in particular countries, such as banking in Georgia or oil and gas exploration in Azerbaijan. This would explain the lower additionality ratings and higher overall performance of projects in those countries. It would also raise a question of whether the Bank is directing its efforts to those areas where it is most needed.

Central Asian projects also show relatively low performance on bank handling. This is a matter of some concern. However, this may be the *result* of poor performance elsewhere as much as the *cause* of it. If a project has underperformed, it is natural to look for the causes of this in the appraisal implementation and identify areas of weakness that led to problems. If a project has performed well, it is much harder to spot weaknesses that might have led to problems in different circumstances.

1.2.6 Performance in Technical Cooperation projects

Technical cooperation (TC) is an important strand of the Bank's work. Between 1991 and 2010, the Bank received over €2 billion in TC funding from 36 bilateral and multilateral donors. The TC managed by the Bank is used for a wide variety of purposes: from due diligence work and Bank strategy development to policy dialogue and institution building. Over the period 2006-10, EvD has evaluated around €150m of TC funds through TC OPERs, Special Studies and Assessments of Project Completion Reports (PCRAs). The overwhelming majority of these funds were evaluated through three studies: the Special Studies on the Business Advisory Services (BAS) Programme and Post-Privatisation Funds (PPFs) in 2006 and the TC OPER on the EU/EBRD SME Finance Facility Special Fund in 2009. The process of TC evaluation is described overleaf.

Table 2.3 shows the number and volume of TC evaluations conducted during the period 2006-10. Most of the evaluations were Project Completion Report (PCRA), performed as one of the four PCRA studies prepared over the period. However, these only added up to a relatively small volume of TC. Special Studies and TC OPERs covered a much greater volume.

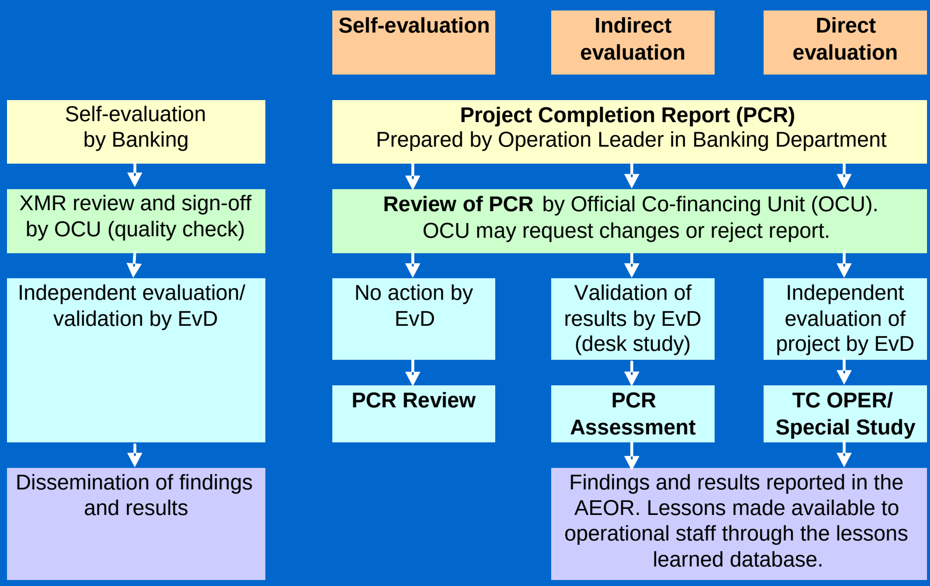
Table 2.3: TC evaluations conducted 2006-10

Type of evaluation	Number of reports	Volume (€ million)
TC OPER	29	81.9
Assessment	78	16.1
Special Study	5	68.9
Total	112	166.9

Chart 2.6 shows the overall performance ratings of TC projects evaluated in 2006-10. In 2010, 68 per cent of evaluated TC projects were rated *Successful* or better. This compares with an average of 72 per cent over the period 2006-10. It should be noted that in 2009 no PCR Assessment was completed. The somewhat anomalous results for that year are derived from only six evaluation reports and therefore carry very little weight in the overall average.

Evaluation of Technical Cooperation Operations

Given the very wide variety in size and purpose of TC assignments, EvD does not attempt to achieve a representative sample of evaluated projects in the way it does with investment operations. TC assignments are selected for evaluation on an entirely purposive basis, the aim being to achieve a wide coverage of sectors, countries and donors and to focus on projects assessed as having a high potential for generating lessons.



Types of evaluation for TC operations

PCR Assessments: Apart from some large frameworks, all TC assignments on completion undergo a process of self-evaluation by the Operation Leader through a Project Completion Report (PCR). This fulfils a similar role for TC as the Expanded Monitoring Report (XMR) does for investment operations. Each year, EvD selects around 20 PCRs for a short desk review through a PCR Assessment. EvD reviews the files and discusses the assignment with the operation team, before writing a short assessment. Once the 20 assessments have been completed, a summary study is prepared, drawing some conclusions and highlighting some recurring lessons from all the TCs assessed that year.

TC OPERs: A TC OPER is an in-depth evaluation of a TC assignment or a group of closely related TC assignments. EvD conducts site visit and discusses the project with interested parties inside and outside the Bank.

Special Studies: Large frameworks and programmes are evaluated through Special Studies. These may involve site visits and sometimes the input of a consultant. However, the focus is usually on the framework or programme as a whole, which may also include investment finance. Close attention is given to – at most – a sample of the individual TC assignments under the programme.

The transition impact ratings of evaluated TC projects are shown in Chart 2.7. In 2010, 90 per cent of evaluated TC projects were rated *Satisfactory* or better, which is close to the average of 88 per cent for the entire period 2006-10.

For the most part, EvD's evaluation of TC projects is directed towards learning lessons. Findings from a number of reports completed in 2010 are presented in Chapter 2 below. A more detailed breakdown of the performance indicators is presented in Appendix 4.

Chart 2.6: Overall performance ratings of TC projects evaluated 2006-10

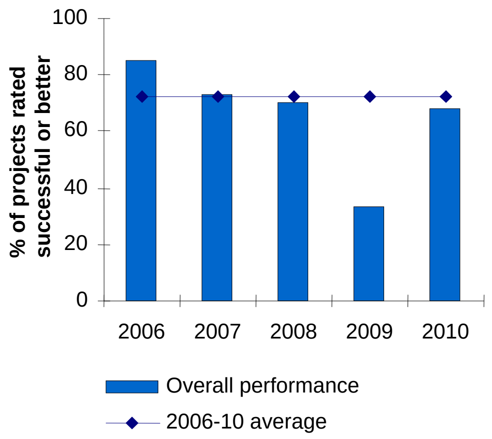
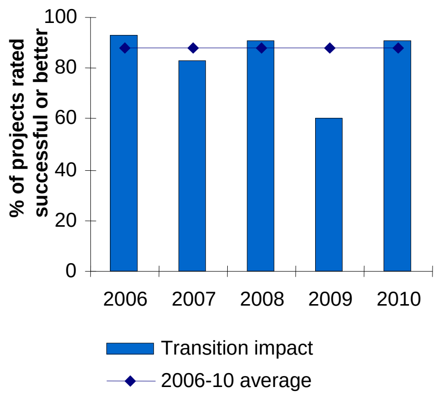


Chart 2.7: Transition impact ratings of TC projects evaluated 2006-10



2. Findings from Evaluation in 2010

Highlights

- Challenges continue in integrating transition objectives into the project design, particularly in infrastructure projects.
- The Bank would benefit from additional training and guidance to Bankers in formulating the objectives of TC operations.
- Competition has been a topic of discussion at the Audit Committee and has featured as an issue in several recent evaluation reports.
- Clearer guidance on the use of subsidies and incentives should be considered and their use monitored more systematically.
- Cooperation with other international financial institutions (IFIs) is another issue that arises often in evaluations, and may have renewed importance if the Bank moves into the southern and eastern Mediterranean region.

Areas for future work/analysis

1. Cooperate with OCU on improving guidance to bankers on TC project design.
2. Clarify the circumstances in which formal Management Comments are required on evaluation reports.
3. There is a need for more evidence gathered "on the ground" about the impact of the Bank's work.

2.1 Introduction

This chapter presents *qualitative* findings from the direct evaluation reports (OPERs and Special Studies) circulated to the EBRD's Board of Directors during the 2010 work year.

The group of reports includes 13 Special Studies, 23 OPERs on investment operations and eight TC OPERs. Some evaluations were originally scheduled for 2008 or 2009, but only completed in 2010; the underlying projects therefore reflect different strategies pursued by the Bank at different times.

2.2 Key findings from evaluations in 2010

2.2.1 Integration of transition objectives into project design

A number of evaluations raised issues related to the setting and monitoring of transition objectives. An evaluation of the Transport Operations Policy, prepared in 2010 but published in 2011, highlighted the relationship between transition targets and more immediate project objectives. Several transport sector projects evaluated in recent years have found that physical objectives and closely related short-term verifiable transition objectives were implemented in full while transition objectives at higher or aggregate levels were seriously delayed or underachieved. The study identified a number of contributory factors, including:

– incongruent time horizons for the achievement of a project's physical and transition objectives

– blurred responsibility (between Banking and the Office of the Chief Economist) for ownership of project-related transition objectives

– lack of measurement of the effectiveness "on the ground" of transition measures such as legal reforms

– challenges faced by public–private partnerships around the world, not specific to the transport sector in the EBRD's countries of operations.

It recommended that the Bank align overall sector reform expectations more realistically with individual infrastructure project deliverables.

The box below contains a selection of lessons from evaluation reports completed in 2010 on the subject of transition objectives. They address the choice and articulation of transition objectives and benchmarks, and how they are measured and monitored.

Findings on setting and monitoring transition objectives

Exercise due care and diligence in selecting the most relevant transition impact objectives and setting realistic values and timeframes for their achievement. Such transition impact objectives should be *logically linked* to specific, well-defined measures of the investment programme to be implemented under the project.

In investments in physical infrastructure, the Bank should consider including a number of associated objectives related to institutional reforms and business planning to ensure that the investment is put in context of the regional development plans and is brought to support such plans.

Transition impact benchmarks for follow-up operations with the same client should be updated, or new benchmarks set if the original benchmarks have already been met.

Transition impact conditionality should be commensurate with what can reasonably expected from the Client's performance in light of market imperfections and volatile policy frameworks.

Monitoring readiness should be confirmed with the project counterpart during appraisal in order to establish monitoring indicators that would best demonstrate transition. In this project, some indicators appeared encouraging and useful to channelling benefits to the targeted users (that is, farmers). Other indicators turned out to be less relevant or hard to monitor in the actual project fields.

2.2.2 Objectives in TC operations

A related issue which has been raised repeatedly in TC evaluation reports over several years has been the lack of rigour in the definition of TC objectives. Common errors include describing inputs and activities as objectives (for example, "to assist the client in…"); leaving too much room for interpretation ("to increase the quality of…"); or mixing project phases and related milestones with overall project achievements. As a result, in many cases EvD staff have to interpret and re-define the stated objectives in consultation with the Operation Leader (if available) as the first stage of the evaluation. This results in part from the lack of methodological guidance for systematic TC project design at the EBRD. Even though a TC training course was introduced in 2009, there is still no systematic support of Operation Leaders in the usage of standard technical assistance project management tools (for example, the logical framework). EvD hopes to cooperate further with OCU in this area.

2.2.3 The Bank's understanding of "competition"

In July 2010 an interesting discussion arose in the Board and the Office of the Chief Economist (OCE) about how competition figures in the assessment of transition impact. This is also a topic that arose in a number of evaluations during 2010, including some discussed in the Audit Committee. Given the Board's expressed interest in this topic, the box below presents an abstract of findings generated on the subject in recent evaluation reports.

Findings on competition

Positive findings:

Supporting the challenger to the market leader can result in dynamic transition impact across the market players on forward and backward linkages, including the customers, the competitors and the suppliers.

The Bank's value added is strengthened in cooperation with a young and proactive market player that is enthusiastic about international standards.

Negative findings:

The Bank should be aware of the risk that successful market consolidation creates a protected duopoly or oligopoly market.

In the due diligence process at appraisal, the Bank should place special emphasis on licensing conditions for new market entrants.

The Bank should remain neutral during public privatisation tenders, refraining from the provision of financing to a single bidder before the tender has been completed.

The Bank's financing of sensitive commodity operations (for example, sugar production) should take into account overall structure of the sector and, where suitable, incorporate policy dialogue, actively promoting the sector's consolidation and restructuring.

Recommendations:

In order to mitigate the risk of seeing a monopolistic situation arising, the Bank should make a long-term market assessment at the time of appraisal. Such an assessment should include analysis of different project outcomes and identification of measures that would be taken to avoid undesirable market concentration.

In situations where the competition landscape is subject to substantial change (for example, through an intended privatisation of monopolies) the Bank should be alert to possible changes. Privatisation is a time-consuming process and often disrupted for political reasons. A risk assessment at project appraisal should analyse the consequences of the privatisation not taking place.

Following a discussion in the Board Steering Group, a note was sent to OCE querying:

- how far competition is viewed in domestic terms and how far in international or export-market terms
- how much import competition, actual or potential, is taken into account
- whether choices of sectors for general industry operations are informed by assessments of their competitive situation and relative openness to competition
- how much the later effects of strengthening leading companies are assessed (as distinct from being assumed)

In response to this, an OCE memo was distributed to the Board of Directors[3] and was discussed in an information session in April 2011. OCE's general approach was that it would not be desirable to support a dominant market player unless the project was intended to reduce barriers to entry to that market in some way. However, it was stressed that an anticipated impact on competition would not necessarily be a transition element or benchmark in every project. It also became clear that the "competition element" in the TI concept can sometimes conflict with other transition objectives.

This is clearly a topic of ongoing interest and broader significance in the Bank's operations.

2.2.4 The use of subsidies and incentives

Supplementing findings in previous years, two evaluation reports in 2010 have specifically pointed to issues in the Bank's usage of subsidies: the sector study on the first phase of the Sustainable Energy Initiative (SEI) and the Special Study on the Bank's Shareholder Special Fund (SSF). Incentive payments are often provided for local banks in credit lines with a particular focus on micro and small-scale business, or energy efficiency and renewable energy-related investment projects. According to the SEI study, the incentive payments were perceived by the recipients as a *"compensation for more cumbersome processes and the associated extra costs"*[4] Consequently, they appear legitimate to trigger an initial interest and test the feasibility of innovative concepts, but have to be phased out over time in order not to distort the market environment.[5]

The issues around subsidies and grant-financed incentives, especially the question of their phasing out, would benefit from a more general discussion and exchange of previous experience across the Bank. One of the recommendations of the SEI study was to design a Bank-wide "Policy on Use of Subsidies". The SSF evaluation instead found that OCE had developed appropriate guidelines for the non-TC element of grant financing,[6] but did not see evidence of a rigorous application of its principles. Consequently, more rigorous monitoring was suggested for the non-TC element from both Banking Teams and OCE.[7]

[3] See SGS10-267 in BoldNet.
[4] See also PE09-473S, Appendix 1.
[5] The 2009 evaluation of the EU/EBRD SME Facility (PE09-451T) concluded in this respect that: "*Over the programme's lifetime, the justification for such a 'cost compensation' was declining as most PFIs had already been active in the SME business prior to entering the EU/EBRD Facility. The PF was still interpreted as being a necessary subsidy for compensating the trade-off between the financial and social rates of return for this segment. Hence, the PF became a regular ingredient in the incentive package to most PFIs, reducing their cost of borrowing."*
[6] "Staff Guidelines for the Use of Non-TC grants from the SSF", SGS08-073, dd. 7 April 2008.
[7] See recommendation 1 in PE10-482S.

2.2.5 Relationship with other IFIs

Another issue that appeared repeatedly in 2010 evaluations, as well as in the Transport Operations Policy study, was the importance of coordination between the EBRD and other international financial institutions (IFIs) and bilateral development organisations working in the same area. This arises most frequently in the case of infrastructure projects where many international institutions often contribute in parallel. In private sector projects, the EBRD has also interacted with organisations such as IFC, KfW and DEG in the financial sector, especially in early transition countries. The Transport Operations Policy study emphasises the difference between cooperation at the corporate level and day-to-day cooperation on the ground. The EBRD Resident Offices can play an important coordinating role since other multilateral development banks (MDBs) do not always have a permanent representative office in each country of operations. The box below contains some further lessons from evaluations completed in 2010. While cooperation can improve efficiency and the achievement of objectives, and enhance the leverage of the individual organisations in policy dialogue, possible pitfalls are also highlighted.

Findings on coordination with other IFIs and other financiers/donors

Early coordination between IFIs is particularly important in a country with large remaining sector transition challenges and which is not targeting EU entry. Such coordination helps to define the ground rules for future investment operations and reduces the risk of donor competition, which sometimes offers the host country ways around necessary reform steps.

Seek opportunities to collaborate with other IFIs to reinforce sound banking principles and enhance transition impact potential. This may allow the pooling of expertise and the sharing of risk in uncertain circumstances. When IFIs cooperate in this way, it is important also to look forward, seeking common ground so that contentious issues that may arise are addressed with a jointly agreed approach.

In a multi-financier project participation, the success of loan execution and institutional reform is considerably enhanced through close coordination among the stakeholders, with one party taking the lead in the coordination processes.

When an operation requires cooperation among various institutions to get the work done, the division of labor among participants does not always need to be anchored in a formal agreement.

When another IFI is a minority shareholder and represented on the board of an EBRD borrower, past experience has shown that corporate governance may still fall short of the EBRD's requirements. The Bank must perform its independent due diligence into all factors that can jeopardise good corporate governance and the repayment of the EBRD's loans, such as controls over related party activities and other financial practices.

In some cases, several IFIs have simultaneously financed a bank in the region over many years, resulting in large credit exposure and forcing a coordinated crisis response by the same IFIs to prevent borrower failure. The IFIs need to coordinate their interventions and limit their rate of financing of partner banks to avoid repeating the need for a crisis response targeted mainly on the IFIs' largest borrowers, and to avoid sending inappropriate signals to private sector lenders.

The topic gains additional resonance in the light of the recent Declaration of the G-8 on the Arab Spring (May 2011), which calls upon the EBRD to extend the geographic scope of its mandate "in order to support the transition in countries of the region which embrace multiparty democracy, pluralism and market economies". The Declaration puts particular emphasis on coordinated action by multilateral development banks (MDBs) and through a joint Action Plan.

2.3 Other evaluation highlights

2.3.1 The EBRD's Response to the 2008/09 crisis

The study's purpose was to explore some issues that the 2008/09 financial crisis had brought into view and to identify lessons from experience. While no rating was given, the report expressed the view that the Bank had played a positive role overall, overcoming challenges, particularly the capital constraint, to respond to the crisis with increased loan volume. The report triggered a discussion on whether the Bank should maintain crisis response readiness by regularly reviewing crisis scenarios and reserve capital and liquidity just in case. A strong country vulnerability assessment capability was found to be important as a basis for an effective risk management, and a more thorough review of the Board's risk management tools was recommended. Overall, the report and the following debate agreed that further analysis would be needed on the question of which interventions and instruments had best served to respond to the crisis (CS/AU/10-50).

Management agreed with most of the analysis and findings of the report, while raising some practical difficulties with the proposal that the Bank should run a counter-cyclical investment policy. Management's Comments addressed in detail the findings on country risk assessment. They emphasised that the Bank has a well-established country risk assessment system and highlighted some specific constraints on the EBRD. For example, its status as a regional development bank with some large countries and its role of taking on risk in transition countries, which make it harder to limit country concentration.

2.3.2 Direct Lending Facility and Medium-sized Co-Financing Facility

An evaluation was conducted on two of the EBRD's four bespoke products for the early transition countries, providing loan finance to private sector businesses. Under the Direct Lending Facility (DLF), the EBRD provides direct loans of up to €10 million on streamlined procedures. The Medium-sized Co-Financing Facility (MCFF) operates through co-financing led by local partner banks and shares client risks where partner banks are at credit or regulatory limits. The facilities are operationally distinct but have complementary features.

The evaluation rated DLF as *Successful* but drew attention to the unclear financial scenario for DLF and issues of potential subsidy. MCFF was also rated as *Successful*. The evaluation highlighted the limitations of MCFF in transferring good lending practice to the wider corporate loan portfolio of the partner bank. The evaluation also identified that neither instrument should be thought of as having mass market appeal in their countries of implementation.

The main recommendations common to both instruments concerned:

1. Achieving greater integration between strategies for the ETCI, relevant countries and sectors as well as greater clarity for the role to be played by the ETCI instruments such as direct lending (DL) and medium-sized co-financing (MCF).

2. Establishing financial performance objectives for the frameworks and stating explicitly any requirement for bank financial support.
3. Going further in streamlining the processes and focusing ETCI resources into countries of operation.
4. Revising the Bank's scorecard to reflect the monitoring requirements of DLF and MCFF transactions.
5. Stating *ex ante* environmental rating explicitly in the approval memoranda.

Again, Management broadly agreed with the study and informed the Audit Committee that it had already started implementing most of the specific recommendations. It disagreed with the moderate ratings for transition impact and financial performance; in particular, it believed that the financial performance would improve with the maturity of investments. Management also confirmed that each project is reviewed by the Environment and Sustainability department (ESD) in line with the 2008 Environmental and Social Policy.

2.3.3 Sustainable Energy Initiative

The evaluation of the EBRD's Sustainable Energy Initiative (SEI) Phase I 2006-08, assessed how well the EBRD has implemented the SEI I objectives through its investment operations ("projects") and how this has furthered the Bank's transition impact and core mandate objectives on a country and regional basis in the energy efficiency, renewable energy and climate change sectors.

SEI I was initiated in 2006 with a target of €1.5 billion. SEI I initiated a new set of incentives to better track, promote and expand existing operations. This led to new business volume and a new focus. The Bank has more than achieved the target of €1.5 billion, when measured as business volume based on approvals. However, under SEI I, measurements of energy saved and carbon reduction were not part of the targets. These have now been included into the SEI II agenda. Incentives lead to actions; in this case a volume target led to project approvals.

Overall, implementation of SEI Phase I Strategy is rated *Successful*. Going forward, EvD argued for a more nuanced approach, with better project monitoring and accounting based on results achieved – results-based accounting – as measured by (1) actual investments made, (2) energy savings achieved, and (3) carbon reductions achieved.

Management expressed agreement with the general content of the report. Management Comments clarified the relationship between energy efficiency and transition impact, and argued that no change was needed to the definition of transition impact or to the founding documents of the Bank. They also defended the use of incentives in addressing the market distortion arising from the lack of internalisation of the economic impact of carbon emissions.

2.3.4 Trade Facilitation Programme

The EBRD's flagship Trade Facilitation Programme (TFP) was established in 1999 to support cross-border trade through guarantee and loan operations. It is currently operating with a facility limit of €1.5 billion and annual turnover of €774 million (2010). Rated as *Partly Successful*, evaluation findings and recommendations were provided in four areas:

i) Strategic – at the strategic level there is no clear linkage between the market constraints and TFP activities. The instrument requires top down review to align activities more closely with the Bank's mandate, strategies and policies.

ii) Control – there is a need to establish a clear matrix of internal authorities and related processes. Environmental policy and practice also require review.

iii) Use of Technical Cooperation funds – this is a unique resource of TFP. A more strategic approach would bring focus to the deployment of TC.

iv) Bank handling – a number of good practice issues were raised over transaction handling and concern was raised over the weak direct trade linkage of cash transactions.

Management engaged in an extensive communication process with both the Audit Committee and FOPC, culminating in a Strategic Review of the instrument. An updated Board Document was discussed by the FOPC and approved by the Board in June 2011.

2.4 Audit Committee discussions

Evaluation reports are frequently presented to the Audit Committee, which discusses the findings in full. Often findings from a particular report trigger a broader discussion of issues that are of concern to Directors. Two recurring issues, competition and cooperation between IFIs, have been mentioned already. A few more are described below.

2.4.1 Management Comments

It has been common practice that Management comments formally on evaluation reports when they disagree with findings but not when they agree. On a few occasions in 2010, Audit Committee members expressed surprise at the absence of Management Comments. As explained by Management during the discussion of the Shareholder Special Fund evaluation, "since it was broadly in agreement with the recommendations and this would be elaborated at the meeting no written comments had been provided". As the question is raised repeatedly and can be easily addressed, it is worth reaching an agreement on the circumstances in which Directors expect to see Management Comments.

2.4.2 The EBRD's leverage with major clients

A few reports raised the issue of the Bank's leverage with clients, particularly a large client for whom the EBRD's finance is only a small part of the balance sheet. The Bank's long-standing relationship with a large bank in Central Asia had been marked by concerns about the slow pace of improvement in corporate governance. An evaluation discussed by the Audit Committee in 2010 noted significant improvements in this area, but it was recognised that these improvements had been strongly driven by the effects of the financial crisis and the client's unexpected need for additional support. In another project, an environmental loan to a large industrial company in Russia, there was concern that the early disbursement of the full loan had reduced the Bank's leverage to ensure that the funds were used for the purpose intended. Although EvD and Management disagreed on the extent to which the operational objectives had been achieved, several Directors identified the disbursement schedule as weakening the EBRD's hand. The Audit Committee minutes record: "There was a broad consensus that – if a similar project was to be undertaken in the future – the Board document should be much clearer on the structuring and the risks of the operation, with clear benchmarks for assessing the operation both *ex ante* and *ex post*, and with clear indications of the operational leverage of the Bank."

2.4.3 Reporting and monitoring

In a number of discussions, the Committee supported proposals to reduce the quantity and increase the quality of reporting. The recurring problem was how to improve reporting on project impact, including possibly development impact, but without increasing the reporting burden on the client. The evaluation of the Shareholder Special Fund proposed a reduction from quarterly to semi-annual reporting, which attracted broad support. Discussing the evaluation of the EU/EBRD SME Facility, the Committee agree with EvD that while the programme seemed successful, it was difficult to find firm evidence of its achievements and impact given the absence of base-line data against which to judge it. The Committee firmly supported the recommendations to establish verifiable indicators and conduct corresponding monitoring (on the basis of a Logical Framework) in order to be able to verify the success of the facility. During the discussion of the Small Business Finance Operations Policy evaluation, Management informed the Committee of the work being undertaken by the Office of the Chief Economist on measuring the social impact of projects. Although still a work in progress, the approach being developed was to maintain the Transition Impact Monitoring System in its current format and to measure impact separately at community level without resorting to additional reporting requirements for clients. The subject also arose tangentially during the discussions on the pilot Country Level Evaluations, when some Directors regretted the reliance on internal Bank documents as input to two of the case studies. This highlighted a shortage of evidence gathered "on the ground" about the impact of the Bank's work.

3. The Bank's Monitoring and Self-Evaluation Systems

Highlights

- Overall, there is room for improvement in the self-evaluation process at the Bank.
- Performance ratings from self-evaluation or monitoring reports can be compared with ratings from evaluation reports in a number of areas, including investment and TC operations and transition monitoring.
- In all areas, evaluation ratings differ in around 35 per cent of cases, with around 30 per cent of ratings lowered by EvD at evaluation.
- The differences are often minor, but have been consistent or even growing over time, indicating a communication failure or lack of agreement on evaluation benchmarks.
- While the XMR in structure and format serves reasonably well as a credit report, it serves much less well as an instrument for tracking and assessing performance across the wider range of key indicators.
- Establishment of clear and workable benchmarks at appraisal remains inconsistent and is a substantial impediment to effective monitoring and lessons-extraction.
- A new PCR format provides a clearer and more streamlined report, but does not incorporate assessment of outputs and impact.

Areas for future work/analysis

- Give attention to problems with the XMR template and the confusion between project objectives and transition objectives.
- Continue to cooperate with OCU on improvements to TC reporting.
- A briefing note on evaluability is being prepared as part of the 2011 work programme.

3.1 Self-evaluation of investments

3.1.1 Process

When investment operations are scheduled for evaluation, operational staff first prepare a self-evaluation report on a project in the form of an Expanded Monitoring Report (XMR). EvD reviews all XMRs and signs them off once they are satisfactory in terms of completeness and internal consistency. In many cases, EvD then goes on to validate the findings of the XMR through an XMR Assessment (XMRA) or an Operation Performance Evaluation Review (OPER). An XMRA is based on a file review and discussions with operation team members, while in the case of an OPER EvD has the opportunity to visit the site and interview interested parties outside the operation team, and so form a fully independent view of the performance of the project. Of the 270 reports forming the basis of the analysis in Chapter 2, 148 (or 55 per cent) were XMRAs. Since the findings of these reports are dependent on materials and opinions provided by members of the operation team responsible, it is important to be confident that operation teams and EvD have a consistent approach to evaluating and rating projects. EvD provides training and written guidance to staff preparing XMRs, to ensure that they use consistent benchmarks. The benchmarks are attached at Appendix 2.

The XMR takes the form of some additional sections added to the regular project monitoring report. EvD has observed that this approach may encourage operational staff to focus on the very recent performance of the project, in line with the rest of the report, rather than taking a longer view of the project's overall history and performance. The XMR does not always refer back explicitly to the objectives set out at the time of project approval. Additionally, the report format does not encourage discussion of overarching issues or require input from departments other than Banking.

3.1.2 Comparison of ratings in XMRs and evaluation reports

EvD has compared project ratings from XMRs with those from OPERs and XMR Assessments. Charts 3.1 and 3.2 below show, for each indicator, how often EvD adjusted the XMR rating in its OPERs and XMRAs. Overall, EvD agreed with the operation team in 61 per cent of cases. EVD lowered 33 per cent of ratings at evaluation and 6 per cent were raised. However, there are clear differences between the level of agreement over different ratings, and also between OPERs and XMRAs as illustrated below.

Chart 3.1: Adjustments to XMR ratings made in OPER reports

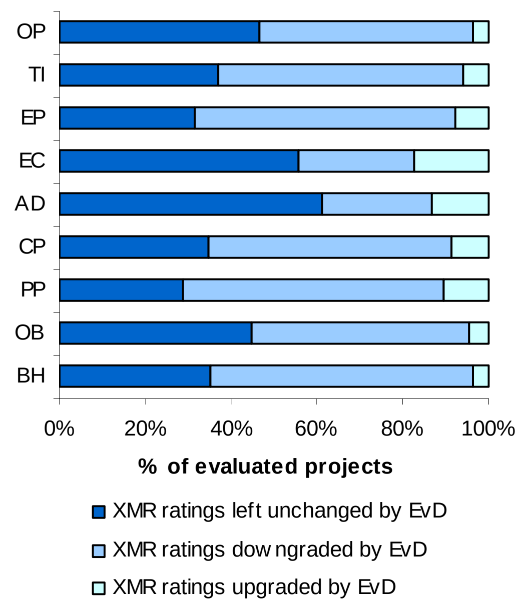
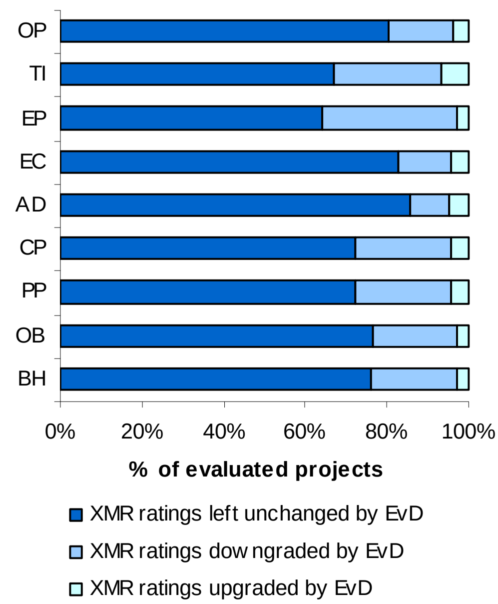


Chart 3.2: Adjustments to XMR ratings made in XMR Assessments



OP: overall performance; TI: transition impact; EP: environmental performance; EC: environmental change; AD: additionality; CP: company financial performance; PP: project financial performance; OB: fulfilment of objectives; BH: bank handling.

In XMRAs, 75 per cent of XMR ratings remained unchanged. In OPERs, the proportion was 42 per cent, with 50 per cent of ratings lowered by EvD. These figures have remained consistent over a number of years. There are several possible reasons for this, not all negative as the box below illustrates.

Reasons for differences between XMR ratings and evaluation ratings

- OPER reports allow a fully independent evaluation in which the analysis contained in the XMR is significantly augmented by additional information.
- Evaluation Managers may pay more attention to reviewing the XMR before sign-off if an XMR Assessment rather than an OPER is scheduled, since they know that the XMR is a more decisive input in these cases. Therefore differences of opinion may be settled at that stage.
- OPER reports are selected, in part, because they are high profile or bring a good potential for lessons. That may mean more cases that are difficult, controversial or where a fundamental disagreement exists between operations staff and EvD on the success of the project.
- Because OPER reports receive more attention than XMRAs, both the operation team and EvD may stand more firmly by their own ratings.

This is the seventh year that EvD has reported on the gap between XMR ratings and evaluation ratings. The ratings gap has remained largely consistent or even increased over that period, with around 30-35 per cent of ratings lowered by EvD at evaluation and around 5-6 per cent raised. The figures are shown in Table 3.1 below.

Table 3.1: Ratings gap between XMRs and evaluation reports – change over time

Figures as reported in...	% of ratings raised at evaluation	% of ratings unchanged	% of ratings lowered at evaluation
AEOR for 2005 (XMRs from 1998-2004)	5	65	30
AEOR for 2006 (XMRs from 1998-2005)	5	64	31
AEOR for 2007 (XMRs from 1998-2006)	5	63	31
AEOR for 2008 (XMRs from 1998-2007)	5	63	32
AEOR for 2009 (XMRs from 1998-2008)	5	63	32
AEOR for 2010 (XMRs from 2005-09)	6	60	34
AEOR for 2011 (XMRs from 2006-10)	6	61	33

Over this period, EvD has continued to run XMR training sessions, has met the Team Directors of the Banking teams showing the greatest discrepancies and has continued to encourage operational staff to be realistic in their performance ratings. The fact that the ratings gap has widened implies that a deeper problem of communication has not been addressed by these measures. EvD and Banking teams do not agree consistently on what constitutes *Excellent* or *Marginal* performance.

At the same time, it must recognise that in many cases the change in ratings is minor: from *Excellent* to *Good* or from *Marginal* to *Unsatisfactory*. EvD has also tested the proportion of ratings which are adjusted between broadly positive (*Satisfactory*, *Successful* or better) and broadly negative (*Marginal, Partly*

Successful or worse). The results of this binary comparison are shown in Charts 3.3 and 3.4 below. Overall, 88 per cent of ratings remained substantively unchanged. In OPERs the figure was 81 per cent and in XMR Assessments it was 93 per cent. This suggests 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*.

Chart 3.3: Substantive adjustments to XMR ratings made in OPERs

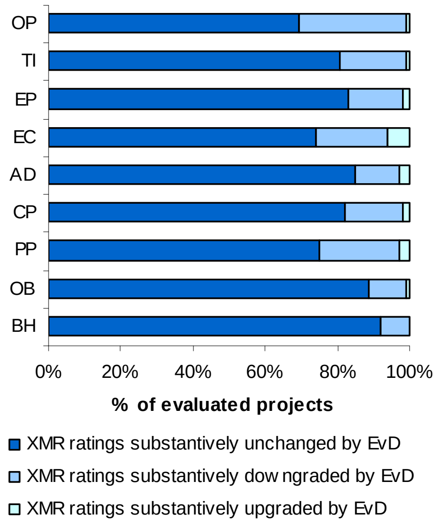
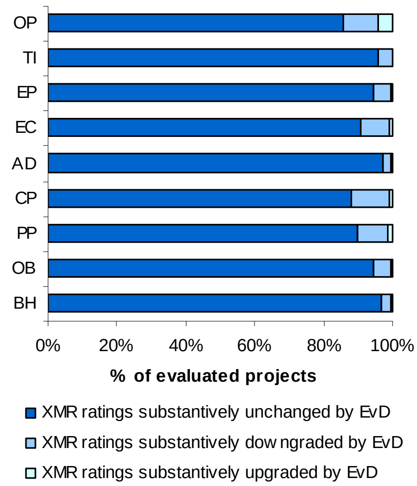


Chart 3.4: Substantive adjustments to XMR ratings made in XMRAs



3.1.3 Objectives in XMRs

XMRs often show confusion between transition objectives and operation objectives. According to the Evaluation Policy,[8] "Fulfilment of project objectives does not incorporate the transition impact objectives which are captured under the transition impact performance rating." Nevertheless, the "Operation Objectives" section of the XMR often shows the transition objectives, meaning that the report addresses these objectives up to three times (under "Operation Objectives", "Assessment of Transition Impact Potential and Risks" and under "Transition Impact" in the "*Ex-post* Evaluation" section of the report). This causes confusion among operational staff and leads to an incomplete assessment of the project in the XMR.

The topic is covered by the XMR training offered by the Evaluation Department. However, practical considerations mean that this is too late in the process. XMRs are generally prepared using the Bank's Project Monitoring Module (PMM) system, which is the system used for preparing monitoring reports. Operation objectives are entered by operational staff the first time a monitoring report is prepared, shortly after project signing, and are automatically carried across into all subsequent reports, including XMRs. Therefore the difference between operation objectives and transition objectives needs to be clear at the start of the project's life.

The Transition Impact Monitoring System (TIMS), which is discussed further in Section 3 below, was established at least partly in response to recommendations from EvD. It led to greatly increased clarity in the transition objectives of projects. Shortly after the introduction of the TIMS, EvD observed that the

[8] Update of the Evaluation Policy of the EBRD (BDS10-024) Appendix 1, Section 2.3.

physical, operational objectives of projects were being overlooked or confused with the transition objectives. A recommendation in the AEOR for 2001 captures the issue:

> **Incorporate a project's operational objectives in Board reports:** Approval documents should clearly state the operation objectives to assist efficient monitoring and post-evaluation of projects. The key aims and objectives of a project should be presented with a clear distinction between strategic goals in a mandate perspective and more operational objectives. The derived operational objectives should follow the main goals and translate as far as possible into milestones and quantified completion and operational performance criteria. The requirement to incorporate clear operational project objectives in Board reports should be reinstated in the Operations Manual.

3.2 Self-evaluation of technical cooperation (TC) assignments

3.2.1 Process

Indirect evaluation of TC operations takes place through the annual PCR Assessment (PCRA) exercise. The process is similar to the XMR Assessment process for investment operations, except that the Expanded Monitoring Report (XMR) is replaced by a Project Completion Report (PCR), prepared by the Operation Leader after the project has been completed. The PCR is checked for its formal compliance by the Bank's Official Co-Financing Unit (OCU) which also undertakes an annual review of the reporting quality. EvD usually undertakes an annual assessment and validates around 20 TC project completion reports. The objectives of this are (i) to assess the general performance of the TC projects; and (ii) to identify common strengths and weaknesses between different types of TC projects.

3.2.2 Comparison of ratings in PCRs and evaluation reports

The ratings gap between the PCR and evaluation in TC operations is similar to that found in investment operations. In the PCRA completed in 2010 (SGS10-193), EvD lowered the self-evaluated overall performance ratings for eight of the 19 assessed projects and upgraded one. The rate of downgrades was therefore 42 per cent. The report also presented the average adjustment for all ratings over the previous five reports, which is repeated in Table 3.2 below.

Table 3.2: Average ratings gap between PCRs and evaluations in PCR Assessments 2003-09

Indicator	% of ratings amended
Bank handling	55
Client commitment	28
Consultant performance	33
Donor visibility	20
Fulfilment of objectives	33
Contribution to Bank investment	29
Transition impact	30
Overall performance	36

Table 3.3 below shows the change in the ratings gap over time for the overall performance rating. Again, it is clear that there has been no narrowing of the gap in recent years. Indeed, more ratings were adjusted in the latest PCR Assessment exercise than in any previous year.

Table 3.3: Ratings gap between PCRs and PCR Assessments – change over time

Figures as reported in...	% of ratings raised at evaluation	% of ratings unchanged	% of ratings lowered at evaluation
2003 PCR Assessment (PCRs from 2002-03)	5	86	10
2004 PCR Assessment (PCRs from 2003-04)	10	55	35
2005 PCR Assessment (PCRS from 2004-05)	5	60	35
2006 PCR Assessment (PCRS from 2005-06)	5	74	21
2007 PCR Assessment (PCRS from 2006-07)	0	63	37
2008 PCR Assessment (PCRS from 2007-08)	5	63	32
2010 PCR Assessment (PCRS from 2008-10)	5	53	42
Average over 2004-10	5	65	30

Once again, however, as was found with the adjustments to XMR ratings, a lot of the downgrades are from *Highly Successful* to *Successful* or from *Partly Successful* to *Unsuccessful*, rather than from a positive to a negative rating. This is a consequence of self-evaluations that are overly positive and apply the highest possible rating without being able to provide the supporting data. It should be noted that EvD only makes changes in the ratings after they have been thoroughly discussed and where possible agreed with the Operation Leader or relevant team members.

3.2.1 The PCR template

The PCR template has undergone many changes over the years to try to make it applicable to the wide variety of TC operations implemented by the Bank. The 2008 PCR Assessment report noted that the template was perceived as bulky and confusing, and recommended that the Bank "develop and implement a new ‘streamlined” version of the current PCR template". The new template was introduced in 2010 and some of the PCRs reviewed for the 2010 PCR Assessment report followed the new format. Although the full impact of the revised template will become apparent once it has been in use for longer, the initial impression is that it makes it easier for project teams to "tell the story" rather than to cut and paste old information. The result is a clearer and more streamlined report.

However, the revised template focuses exclusively on the "Input and Performance" dimension of the project (bank handling, client commitment and consultant performance), while EvD's assessment and evaluation also consider "Output and Impact" (fulfilment of objectives, contribution to Bank investment and transition impact). Table 3.4 below summarises.

Table 3.4: Applied ratings for TC project completion in the current PCR template

Dimension	Indicator	PCR	EvD
Input and Performance	Bank handling	✓	✓
	Client commitment	✓	✓
	Consultant performance	✓	✓
Output and Impact	Fulfilment of objectives		✓
	Contribution to Bank investment		✓
	Transition impact		✓
Other	Donor visibility		✓
	Overall performance	✓	✓

The "Output and Impact" dimension of the project is important in assessing project success. By reducing the ratings of the PCR to the "Input and Performance" dimension, the Bank is denying itself the use of an important analytical tool on outputs and objectives.

OCU has recognised the need to improve the Bank's capacity to measure the impact of TC operations, on which the current available tools provide only a fragmented picture. The Semi-Annual Report on Grant Co-Financing (CS/BU/11-11, dated 3 May 2011) acknowledges that the Bank lacks an integrated system for TC operations, having instead a number of different tools each providing insights into different aspects of operational effectiveness. OCU has undertaken work to improve standardisation of success indicators and make reporting more reliable and robust. Work is also underway on integrating existing IT tools into one centralised platform for TC data. It is hoped that this will meet the reporting and accountability requirements of donors better, and enhance the effectiveness of TC. OCU also plans to look again at the templates for progress and completion reports to see what further incremental improvements can be made.

3.3 The Transition Impact Monitoring System (TIMS)

3.3.1 Comparison of OCE and EvD ratings

The Transition Impact Monitoring System (TIMS) is a process by which the Bank's Office of the Chief Economist (OCE) monitors the progress of projects towards the achievement of transition objectives established at project approval. The process is explained in more detail in Section 2.3 of Chapter 1. OCE assesses and rates the transition potential of a project, using the Bank's standard set of transition indicators, which are also used in project monitoring and evaluation. The Bank's scorecard, approved each year with the annual budget, sets targets for the proportion of newly approved projects with transition potential rated *Good* or better.

For ease of monitoring, OCE applies a separate rating for transition risk – the risk that the potential of the project will not be realised. During monitoring, it is often the risk rating rather than the potential that is adjusted with the fortunes of the project. The ratings for potential and risk are also combined into an eight-point "transition rank", and the Bank's scorecard sets targets for the proportion of projects in the portfolio achieving a transition rank of 1 to 4.

While the separation of potential and risk is logical from a monitoring point of view, it makes it difficult to compare the eight-point transition rank with EvD's six-point transition impact rating. The two systems have evolved differently over time in response to different requirements. However, a rough comparison can be made of the proportion of projects rated above the mid-point under each scheme. The results suggest that EvD awarded a positive rating much more often than TIMS (83 per cent of projects versus 64 per cent). However, the aggregate results showed a great deal of variation at the level of the individual project.

For this reason a further comparison was made between EvD's transition impact rating and the most recent six-point TIMS transition potential rating in effect at the time of evaluation. This excludes the risk factor and shows the maximum possible impact that is expected to be achieved by the project. Again, the analysis is based on the 229 projects and is shown in Table 3.5 below.

Table 3.5: TIMS *Transition Potential* ratings amended by EvD at evaluation

Transition Potential	Excellent	Good	Satisfactory	Marginal	Unsatisfactory	Negative	Total
Upgraded by EvD	0%	8%	34%	10%	40%	0%	13%
Unchanged	42%	54%	48%	40%	40%	0%	50%
Downgraded by EvD	58%	38%	18%	50%	20%	0%	37%

In total, EvD's transition impact rating agreed with the TIMS transition potential in half of cases. In 37 per cent of cases EvD's rating was lower and in 13 per cent of cases it was higher. In 9 per cent of cases, EvD's rating was lower by more than one degree (for example, a move from *Good* to *Marginal*).

As was the case with the comparison of evaluation ratings against XMR ratings in Section 1 of this chapter, most of the variation was minor. Only in 11 per cent of cases did the rating change from broadly positive (*Satisfactory* or better) to broadly negative (*Marginal* or worse). Only on one occasion did a rating move in the opposite direction: a project with *Marginal* potential according to OCE, which EvD rated *Satisfactory*.

3.3.2 Classification of TIMS benchmarks

One area of ongoing challenge is the formulation of specific transition benchmarks at the project level. It is difficult to devise benchmarks that are sufficiently specific and rigorous, but at the same time sufficiently flexible to capture the essence of the change desired. At present, OCE guidelines specify that benchmarks must be:

(i) concrete, measurable and verifiable

(ii) establish a baseline for quantitative benchmarks

(iii) closely linked to project objectives. Implementation timing specifies project stage, date or period for implementation. Each benchmark will be monitored during implementation in the context of TIMS.

While this approach allows for a clear "yes/no" approach to monitoring in practice it sometimes means that monitoring loses sight of the overall objective that is supposed to be achieved. The box below gives an example:

What does the status of a “Public Company” mean?

A standard indicator applied in TIMS for successful sector reform is the corporatisation of a public administrative unit. For instance, in a road rehabilitation project one of the standard requirements would be to transform the Ministry of Transport Roads Directorate into a public company. Defining this benchmark "as is" however does not necessarily tell us a lot about the actual reform that is taking place. The Road Directorate might have merely changed its formal judicial status, without any improvements in its management autonomy from politics. Alternatively there may have been substantial real improvements in management independence to make budgetary or staffing decisions but the formal transformation to a public company has not happened – on paper – and so the benchmark is missed. Identifying the benchmark as "achieved" or "not achieved", while a useful piece of information, does not provide any particular insight. Instead a more calibrated approach could be pursued at project approval, identifying the essential changes that are expected or required to happen. This is the kind of *ex-post* insight that an effective self-assessment process by operating teams is intended to identify, and which provides wider learning and value across the organisation with

OCE has made good progress in recent years in sharpening its definitions of objectives and benchmarks. Currently, there is an ongoing initiative to develop standardised indicators for each industry sector and harmonise the rating structure across sectors. Similarly, efforts recommended by EvD to integrate the TC objectives better into the overall TIMS concept have continued through 2010 and into 2011. EvD welcomes these developments and is ready to support such work if required.

3.4 Conclusions

The Evaluation department remains of the view that there is both scope and need for improvement in the self-evaluation process at the Bank, and that improvements in both the process and result would yield substantial value for the Bank and its clients. A directly related and recurring theme is that clear and measurable objectives are not always established at appraisal, which makes monitoring and evaluation more difficult, and institutional learning less systematic.

4. Dissemination of Reports and Findings

Highlights

- Evaluation reports take different discussion and distribution channels, targeting different groups in the Bank including Board, Management and operational staff.
- XMR Assessments, which constitute a substantial proportion of reports, have limited distribution.
- Management Comments to EvD's products are mostly received when Management disagrees with conclusions or recommendations and particularly for reports that are rated less than *Successful*.
- Initial contact between EvD and Operations Teams preparing a new project is generally at too late a stage to allow for meaningful impact on project design.
- In the field of international cooperation on evaluation, work on "Good Practice Standards" progressed well.

4.1 EvD's dialogue with the Bank's shareholders and senior management

4.1.1 Presentations to the Audit Committee and OpsCom Secretariat

The most visible part of EvD activities is usually the distribution and discussion of its direct evaluation reports. OPERs and Special Studies are discussed with senior management and sent to the Bank's Board of Directors. Around half these reports are discussed in the Audit Committee (AC), which endorses individual recommendations. This formal distribution channel serves the accountability and credibility of the Bank as a public institution, and in some cases Audit Committee members are able to anchor evaluative findings into strategic Bank-wide documents. In particular, it is now a standard procedure that EvD should evaluate sector strategies and present its findings to the Audit Committee before Management prepares a new strategy. In the case of large programmes, such as the Trade Facilitation Programme, the Russia Small Business Fund or the Direct Lending Facility, something similar often happens on an *ad hoc* basis, but this has not been formalised.

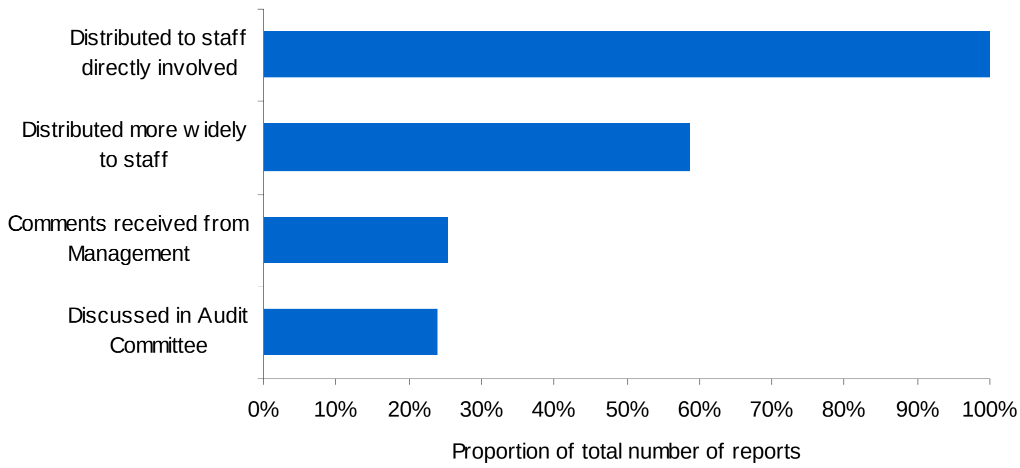
EvD traditionally interacted formally with senior management through workshops with the OpsCom Secretariat, usually on a quarterly basis around selected evaluation findings. A number of completed evaluation reports (usually concerning investment OPERs) were presented and discussed. However, as a vehicle for reaching operational staff more broadly, and communicating findings in a form that usefully informs wider thinking about operation effectiveness, this is neither especially efficient nor especially effective and the practice has been discontinued in 2011.

EvD also interacts with operational staff through a number of channels, including the discussion of draft reports, provision of past experience materials relevant to new projects under preparation, and team workshops. These are discussed in more detail in the following sections.

4.1.2 Dissemination and discussion of evaluation reports

An important part of the learning process takes place during the dissemination and discussion of evaluation reports in draft or final form. The extent of the dissemination depends on the type of report: while XMR Assessments are distributed only to the immediate operation team, OPERs and Special Studies are distributed more widely to middle and senior management within the Bank, to the Board of Directors and, in anonymised form, externally to the Bank. Some reports are selected for presentation and in-depth discussion at the Audit Committee of the Board. Chart 4.1 below summarises the distribution of evaluation reports in 2010. This summary excludes corporate reports such as Work Programme reports and the AEOR, which are distributed to the full Board.

Chart 4.1: Distribution of evaluation reports in 2010



The large number of reports distributed only to staff directly involved in the project comprises the XMR Assessments. Investment OPERs are generally circulated to the Board in summary format. TC OPERs, Special Studies and any investment OPERs selected for discussion by the Audit Committee are circulated to the Board in full. Rather fewer than half the reports distributed to the Board (in full or in summary) were subsequently discussed at the Audit Committee: 10 out of 13 Special Studies, seven out of 23 investment OPERs and one out of eight TC OPERs. With the exception of a few very sensitive reports, all the OPERs, Special Studies, corporate reports and the AEOR were published (or are in the process of being published) on the Bank's external web site; investment OPERs in summary form and other reports in full. Table 4.1 below summarises.

Table 4.1: Distribution of reports according to the Evaluation Policy

Distribution	XMRAs	Investment OPERs	TC OPERs	Special Studies	Corporate Reports
Operation team	Yes	Yes	Yes	Yes	NA
Bank-wide	No	Yes	Yes	Yes	NA
Board, with MCs	No	In summary	Yes	Yes	Yes
Audit Committee discussion	No	Some	Some	Most	All
External publication	No	In summary	Yes	Yes	Yes

Management Comments (MCs) are solicited on all reports except XMR Assessments, a total of 50 reports in 2010. Comments were received on 21 reports: two out of six corporate reports; nine out of 13 Special Studies; eight out of 23 OPERs and two out of eight TC OPERs. Under current practice and policy Management Comments are received when Management disagrees with the conclusions or recommendations, and particularly for reports that are rated less than *Successful* overall. In 2010, Management Comments were received in just over half of cases where the project was rated *Successful* or better, and in 75 per cent of cases where the overall performance rating was less than *Successful*. The principal exception to this is the AEOR, where Management Comments are always received.

4.1.3 The lessons learned database and the past experience section of project appraisal documents

EvD feeds lessons from evaluated projects into its internal lessons learned database (LLD). The database is accessible to operational staff via the intranet and contains around 3,000 lessons. In addition, an external lessons learned database was launched in 2008 to allow publication of important findings from evaluated projects on the Bank's web site. For confidentiality reasons the lessons learned have been generalised and project names are not mentioned.

Another way in which EvD interacts with operational staff is through reviewing the quality of "Past Experience" sections of all project approval documents at the Final Review stage. The Banking Team is required to indicate relevant past experience and lessons learned and describe how these have been taken into account for the proposed project, including mitigation of transition and credit related risk. EvD assists Bankers upon request, providing relevant evaluation reports in-house or from other IFIs and guidance on using the lessons learned database. EvD later reviews the quality of this section in the project approval documents and gives its comments in a weekly email to the OpsCom Secretariat.

The diagram overleaf illustrates how lessons are fed into the EBRD project cycle. Operational staff can consult the lessons learned database or Evaluation Department staff for assistance at any stage of project development. Operation teams that make personal contact tend to do so at a rather late stage of project preparation, shortly before Final Review. During 2010 EvD reviewed 205 reports submitted to OpsCom for Final Review. In 76 of these cases, the operation team had previously contacted EvD for advice on past experience materials. In addition, EvD handled a further 16 enquiries relating to prospective projects that have not yet proceeded to OpsCom, and 19 cases where the past experience section in the document was judged to be inadequate and the operation team was obliged to amend it *after* the document had been reviewed by OpsCom. Table 4.2 shows the time lapse between the team first making contact with EvD and the final permitted submission date for the OpsCom meeting at which the project was considered.

Chart 4.2: Interaction between EvD and Banking throughout the project's life

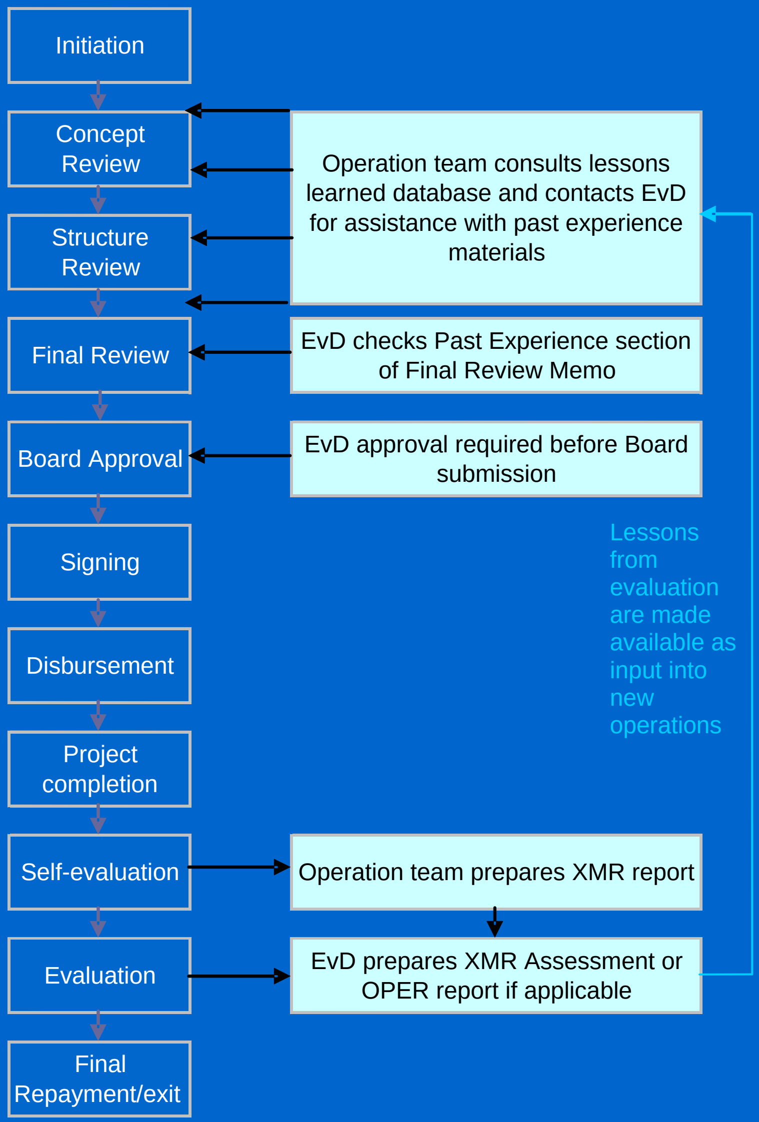


Table 4.2: Timing of first contact between Operation Team and EvD

First contact date	Number of projects	% of total
After the document was submitted to OpsCom	19	17%
Less than one week before final submission date	26	23%
Between one week and one month before final submission date	23	21%
Longer than one month before final submission date	27	24%
Did not proceed to OpsCom	16	14%
TOTAL	111	100%

In well over half of all cases (61 per cent), the initial approach was made within a month of the final submission date or even after it. This is clearly too late for lessons from evaluation materials to have any real impact on the structure of the project. Failure to use the experience gained from project evaluation at an earlier stage in the development of new projects appears to be a missed opportunity.

4.1.4 Content and quality of past experience sections

EvD reviewed a sample of 30 of the project approval documents submitted to the Board of Directors in 2010. The lessons selected by operational staff were found to cover a wide range of topics. Although many were very general (for example, "the importance of strong management"), many challenging issues from previous evaluations were also identified and addressed. In general, it was found that Bankers tend to select sector-specific lessons rather than searching for lessons from projects with a similar structure but in different industry sectors. Lessons are often selected to fit the chosen project structure, rather than the other way around.

4.2 Other departmental activities

4.2.1 Other presentations and training

Two presentations were given by EvD staff to the 2010 Donor Grant Planning Workshops in the Bank, one in February and one in November. The spring meeting heard a summary of observations from the joint PCR Review and Assessment report that had been carried out together with the Official Co-Financing Unit as part of EvD's 2009 work programme. The autumn presentation focused on the mid-term review of the Shareholder Special Fund (SSF). Findings on the additionality of the SSF and its co-financing activities with donors' multi-lateral funds at the Bank attracted audience interest. EvD also contributed to the Bank's Annual Report, the Bank's Annual Sustainability Report and OCU's Semi-Annual Donor Report.

Contribution to new country strategies*.* Since 2006 EvD has drafted Section 1.3 "Transition Impact and Lessons Learned" when the Banking teams and OCE prepare a new Country Strategy. In 2010 such drafts were prepared for seven new strategies and were either taken without alterations, or led to fruitful discussions between the parties involved. With the new format and process currently envisaged for country strategies, EvD is in close cooperation with the Stakeholder Relations department (SRD) to decide on a possible contribution if and when required. Finally, EvD carries out lessons learned workshops for Banking department teams, related operational staff and Resident Offices. The same is true of TC training, which is conducted three to four times a year in the Bank. Here, EvD contributes a presentation on lessons from past experience and provides tips on better project completion reporting. In addition, evaluators interact frequently with Bankers, either through workshops or informally, to provide guidance on XMR preparation. These sessions usually focus on mandate-related issues such as transition impact as well as lessons-learned identification and presentation.

4.2.2 Evaluation Cooperation Group (ECG) of Multilateral Development Banks

The Evaluation Cooperation Group (ECG) comprises the heads of the evaluation departments of the multilateral development banks, meeting to collaborate and harmonise their evaluation principles and practices. During 2010 the EBRD Chief Evaluator served as Chair of the ECG. Meetings usually convene twice a year. EvD has a special interest in the evaluation of private sector operations. It therefore participates as Co-Chair together with the IFC in the Working Group on Private Sector Evaluation, which oversees the development of good practice standards in this field. It is also an observer in the Working Groups on Public Sector Evaluation and TA/TC evaluation.

In 2010, unlike in previous years, no joint evaluation exercise was undertaken. However, several operations have been identified that will be observed and taken up in the future. Another and important element of cooperation is the presentation and exchange of good practice with regard to all aspects of evaluation work. This covers issues such as the independence of the evaluation function, statistical significance of sampling methods and the challenges of impact evaluations. Benchmarking exercises, to measure compliance with good practice, and even full institutional Peer Reviews are done occasionally with a view to learning from each other's experience.

EvD representatives also participate in the biannual meetings of the OECD Development Assistance Committee (DAC) Network on Aid Evaluation. This body – which is currently chaired by the UK Department for International Development (DfID) – brings together evaluation managers and specialists from bilateral development agencies of the OECD-DAC with those from multilateral development institutions. From the EBRD perspective it is especially interesting to learn about developments in the bilateral world and to meet donor representatives that also provide TC resources to the Bank. Information is also exchanged on work programmes and institutional priorities as well as possible joint evaluations.

Annex 1: The Evaluation Sample

This appendix describes the sample of projects used as a basis for the conclusions in Chapter 2 and Appendix 3. It describes the types of evaluation report and selection process, and gives details of projects added to the database in 2010. It concludes with a description of the sample and an assessment of its representativity and the statistical validity of the results presented in Chapter 2.

1 Types of evaluation

The Evaluation Department (EvD) conducts both *direct* and *indirect* evaluation. The results of *direct evaluation* are published in the form of Operation Performance Evaluation Reviews (OPERs), which cover individual operations, and Special Studies, which cover a group of operations usually related by sector, theme or instrument. Direct evaluations pursue the highest rigour by combining extensive desk studies with a field visit and the involvement of as many stakeholders as feasible. The reports are discussed extensively with management before their distribution, and if necessary are accompanied by official 'Management Comments'.

Indirect evaluations are much lighter and less work intensive. They are usually described as the validation of a self-evaluation exercise conducted by the operation team. In the case of investment operations, this is done by an EvD assessment or review of the Expanded Monitoring Reports (XMRs); for TC projects, the Project Completion Reports (PCRs) of the Operation Leaders are assessed and either confirmed or re-rated. The indirect evaluation reports are carried out in the form of desk studies and in-house interviews with some members of staff involved in the project.

Table 1: Overview of EvD's direct and indirect evaluation products

Operation type	*Direct* evaluation	*Indirect* evaluation
Investment Operation	OPER, Special Study*	XMRA, XMRR
TC Operation	TC OPER, Special Study	PCRA, PCRR

* Thematic, sector and/or Fund-related studies

Special Studies vary widely in terms of the subject, the demand expressed for the study and the subsequent uptake of its findings and recommendations. *Sector Studies* are usually scheduled so as to allow the operation teams to take account of their findings when developing a new policy. *Mid-term Reviews* of Special Funds, facilities or other umbrella programs for TC implementation are often conducted at the request of the relevant donor. This year's evaluation of the Shareholder Special Fund (SSF), for instance, was directed by the Board approval paper establishing the Fund. Findings from the report served as an input in the elaboration of its forthcoming Annual Work Plan. Finally, cross-cutting issues and subjects of current interest are covered by *Thematic Studies*, such as the 2010 Studies on the Bank's Crisis Response and Policy Dialogue. Special Studies are considered separately from the process of identifying individual projects ready for evaluation, which is described in Section 2 below.

2 Selection of projects for evaluation

The process for selecting projects for evaluation is based on the Good Practice Standards for Private Sector Evaluation (GPS), which have been developed jointly by the evaluation departments of major multilateral financial institutions under the auspices of the Evaluation Cooperation Group. The GPS also require each multilateral development bank (MDB) to include in its annual review a section describing the selection process, statistical confidence levels, number of evaluations and other details on the sample of projects covered by the review.

2.1 Identification of the population of projects ready for evaluation

Each year, unevaluated operations are reviewed to identify those that have reached *early operating maturity*. According to the GPS, this is achieved when:

(a) the project financed has been substantially completed

(b) the project financed has generated at least 18 months of operating revenues for the company

(c) the MDB has received at least one set of audited annual financial statements covering at least 12 months of operating revenues generated by the project.

In practice, EvD does not have this information readily available for all projects. It therefore sets as a working assumption that loan operations can be ready for evaluation 18 months after last disbursement, and equity operations two years after last disbursement. Projects anticipated to reach this status within the evaluation year, and which are to meet the three criteria for *early operating maturity* in the course of the year, are identified by the relevant operation teams.

Excluded from the population are:

- dropped and cancelled investments where no disbursement has been made
- very small investments made under large frameworks (which are generally evaluated on a programme basis through a Special Study)
- certain follow-on operations, such as minor capital increases or investments undertaken to help finance further expansion or cost overruns on projects previously financed by the EBRD, especially where such follow-on operations did not have separate objectives against which performance could be evaluated.

Subject to these exclusions the population includes all investments that have reached early operating maturity, plus any unevaluated investments which have already been closed, even if they never reached early operating maturity (for example, prepaid operations).

Projects not expected to reach early operating maturity during the year are excluded from the population and rolled forward for inclusion in a future year. Investments are included in the population only once, that is, only for the year in which they will have reached early operating maturity.

The GPS also allow exclusion of "jeopardy" cases. During the selection process for the 2010 Work Programme, three projects that would normally be considered ready for evaluation were postponed on advice from the Bank's Corporate Recovery Unit and Office of the General Counsel. During the course of the year, a further five operations were removed from the population on transfer to Corporate Recovery. This higher figure than normal can be attributed to the effects of the financial crisis.

2.2 Selection of the sample of projects for evaluation

Once the population of projects ready for evaluation has been identified, EvD takes a random, representative sample of sufficient size to establish, for a combined three-year rolling sample, performance rates at the 95 per cent confidence level, with sampling error not exceeding ±5 percentage points, for key performance indicators. This procedure has been followed for the last two years (2009 and 2010) to ensure EBRD compliance with the GPS.

Chapter 2 and Appendix 3 of this report are based on findings from the randomly selected operations.

The sampled projects may be evaluated through OPERs or lighter XMR Assessments. EvD elects to prepare OPERs for a subset of sample projects with the aim of maximising the potential for learning lessons. Some additional projects may also be selected purposively for evaluation through OPERs, again with an exercise of judgement as to prospective insights and lessons; these remain outside the sample and have not been included in the results presented in Chapter 2.

3 Evaluation in 2010

In 2010, 100 investment operations were included in the population. The Evaluation Department selected a random sample of 59 for evaluation. Of these, 19 were evaluated in depth through OPER reports and 40 were evaluated through XMR Assessments. Tables 2a and b overleaf show the key features and results of projects evaluated in 2010.

Table 2a: OPERs in the 2010 sample

Operation	Approval year	Country name	Industry sector	Portfolio class	Operation type	Transition impact	Environmental performance	Project financial performance	Overall performance
Project 1	2006	ROMANIA	Small Business Finance	PRIVATE	Debt & Equity	Marginal	Good	Unsatisfactory	Partly Successful
Project 2	2008	ROMANIA	Small Business Finance	PRIVATE	Debt	Marginal	Good	Unsatisfactory	Partly Successful
Project 3	2007	REGIONAL	Municipal & Env Inf	PRIVATE	Equity	Marginal	NA	Good	Partly Successful
Project 4	2007	RUSSIA	Natural Resources	PRIVATE	Debt	Good	Excellent	Good	Successful
Project 5	2008	RUSSIA	Manufacturing and Services	PRIVATE	Debt	Satisfactory	Satisfactory	Marginal	Partly Successful
Project 6	2008	UKRAINE	Property and Tourism	PRIVATE	Debt	Good	Marginal	Satisfactory	Partly Successful
Project 7	2007	HUNGARY	Manufacturing and Services	PRIVATE	Equity	Unsatisfactory	Satisfactory	Highly Unsat.	Unsuccessful
Project 8	2007	UKRAINE	Telecoms Informatics & Media	PRIVATE	Equity	Satisfactory	Satisfactory	Satisfactory	Partly Successful
Project 9	2008	RUSSIA	Manufacturing and Services	PRIVATE	Debt	Excellent	Good	Satisfactory	Successful
Project 10	2005	AZERBAIJAN	Bank Equity	PRIVATE	Equity	Satisfactory	Good	Good	Partly Successful
Project 11	2007	UKRAINE	Natural Resources	PRIVATE	Equity	Marginal	Good	Unsatisfactory	Partly Successful
Project 12	2004	TAJIKISTAN	Municipal & Env Inf	STATE	Debt	Excellent	Satisfactory	Good	Successful
Project 13	2008	GEORGIA	Bank Equity	PRIVATE	Debt	Good	Satisfactory	Marginal	Successful
Project 14	2008	GEORGIA	Bank Lending	PRIVATE	Debt	Good	Satisfactory	Marginal	Successful

Project 15	2008	MOLDOVA	Property and Tourism	PRIVATE	Debt	Good	Satisfactory	Marginal	Successful
Project 16	2008	UKRAINE	Agribusiness	PRIVATE	Debt	Good	Satisfactory	Excellent	Successful
Project 17	2009	UKRAINE	Agribusiness	PRIVATE	Debt	Good	Satisfactory	Excellent	Successful
Project 18	2008	CROATIA	Agribusiness	PRIVATE	Debt	Satisfactory	Satisfactory	Satisfactory	Partly Successful
Project 19	2006	RUSSIA	Manufacturing and Services	PRIVATE	Debt & Equity	Marginal	Good	Unsatisfactory	Unsuccessful

Table 2b: XMR Assessments in the 2010 sample

Operation	Approval year	Country name	Industry sector	Portfolio class	Operation type	Transition impact	Environmental performance	Project financial performance	Overall performance
Project 20	2005	BULGARIA	Agribusiness	PRIVATE	Debt & Equity	Marginal	Marginal	Unsatisfactory	Unsuccessful
Project 21	2005	RUSSIA	Manufacturing and Services	PRIVATE	Debt & Equity	Satisfactory	Satisfactory	Satisfactory	Successful
Project 22	2007	RUSSIA	Agribusiness	PRIVATE	Debt & Equity	Satisfactory	Satisfactory	Marginal	Partly Successful
Project 23	2008	ROMANIA	Small Business Finance	PRIVATE	Debt	Good	Satisfactory	Satisfactory	Partly Successful
Project 24	2006	ROMANIA	Small Business Finance	PRIVATE	Debt	Marginal	Satisfactory	Unsatisfactory	Unsuccessful
Project 25	2007	ROMANIA	Small Business Finance	PRIVATE	Debt	Marginal	Satisfactory	Satisfactory	Partly Successful
Project 26	2007	ROMANIA	Small Business Finance	PRIVATE	Debt	Good	Satisfactory	Satisfactory	Partly Successful

Table 2b (cont): XMR Assessments in the 2010 sample

Operation	Approval year	Country name	Industry sector	Portfolio class	Operation type	Transition impact	Environmental performance	Project financial performance	Overall performance
Project 27	2007	SLOVENIA	Insurance & Financial Services	PRIVATE	Equity	Excellent	Good	Good	Successful
Project 28	2003	RUSSIA	Municipal & Env Inf	STATE	Debt	Good	Good	Good	Successful
Project 29	2007	RUSSIA	Insurance & Financial Services	PRIVATE	Debt	Marginal	Good	Marginal	Unsuccessful
Project 30	2006	RUSSIA	Insurance & Financial Services	PRIVATE	Debt	Excellent	Marginal	Good	Successful
Project 31	2007	RUSSIA	Transport	PRIVATE	Debt	Satisfactory	Satisfactory	Satisfactory	Partly Successful
Project 32	2007	RUSSIA	Insurance & Financial Services	PRIVATE	Equity	Marginal	Marginal	Marginal	Partly Successful
Project 33	2007	RUSSIA	Insurance & Financial Services	PRIVATE	Debt	Unsatisfactory	Satisfactory	Unsatisfactory	Unsuccessful
Project 34	2007	RUSSIA	Insurance & Financial Services	PRIVATE	Equity	Unsatisfactory	Satisfactory	Unsatisfactory	Unsuccessful
Project 35	2008	RUSSIA	Transport	STATE	Debt	Good	Good	Good	Successful
Project 36	2005	POLAND	Municipal & Env Inf	STATE	Debt	Excellent	Good	Good	Successful
Project 37	2008	MOLDOVA	Agribusiness	PRIVATE	Debt	Good	Good	Good	Successful
Project 38	2007	REGIONAL	Manufacturing and Services	PRIVATE	Equity	Unsatisfactory	Good	Unsatisfactory	Unsuccessful
Project 39	2005	AZERBAIJAN	Natural Resources	PRIVATE	Debt	Good	Good	Good	Successful

Project 40	2005	REGIONAL	Natural Resources	PRIVATE	Debt	Good	Good	Good	Successful
Project 41	2009	KAZAKHSTAN	Agribusiness	PRIVATE	Debt	Good	Good	Good	Successful
Project 42	2008	RUSSIA	Agribusiness	PRIVATE	Debt	Good	Good	Good	Successful
Project 43	2008	ARMENIA	Bank Lending	PRIVATE	Debt	Good	Good	Good	Successful
Project 44	2004	ROMANIA	Power and Energy	STATE	Debt	Good	Satisfactory	Good	Successful
Project 45	2006	GEORGIA	Bank Equity	PRIVATE	Equity	Good	Satisfactory	Good	Successful
Project 46	2006	GEORGIA	Bank Lending	PRIVATE	Debt	Good	Satisfactory	Good	Successful
Project 47	2008	GEORGIA	Bank Lending	PRIVATE	Debt	Good	Satisfactory	Good	Successful
Project 48	2007	RUSSIA	Municipal & Env Inf	PRIVATE	Equity	Good	Excellent	Good	Successful
Project 49	2007	RUSSIA	Municipal & Env Inf	PRIVATE	Debt	Good	Excellent	Good	Successful
Project 50	2005	KAZAKHSTAN	Power and Energy	STATE	Debt	Excellent	Good	Good	Successful
Project 51	2007	RUSSIA	Agribusiness	PRIVATE	Debt	Satisfactory	Good	Satisfactory	Partly Successful
Project 52	2004	KYRGYZ REP.	Manufacturing and Services	PRIVATE	Debt	Good	Satisfactory	Satisfactory	Partly Successful
Project 53	2008	UKRAINE	Bank Lending	PRIVATE	Debt	Good	Good	Satisfactory	Successful
Project 54	2006	RUSSIA	Small Business Finance	PRIVATE	Debt & Equity	Good	Good	Good	Successful
Project 55	2006	REGIONAL	Agribusiness	PRIVATE	Debt & Equity	Good	Satisfactory	Good	Successful
Project 56	2008	MONGOLIA	Agribusiness	PRIVATE	Debt	Good	Satisfactory	Good	Successful
Project 57	2006	SERBIA	Transport	STATE	Debt	Satisfactory	Good	Good	Successful

Project 58	2006	AZERBAIJ AN	Small Business Finance	PRIVATE	Equity	Good	Good	Excellent	Successful
Project 40	2005	SERBIA	Property and Tourism	PRIVATE	Debt	Good	Satisfactory	Good	Successful

4 Size and representation of the sample of projects evaluated 2006-10

4.1 Description of the sample

The total evaluation database for the period 2006-10 comprises 270 individually rated projects. Of these, 111 were evaluated through OPERs, 11 through Special Studies and 148 through XMR Assessments. They actually cover 330 operations, because until 2008 a single evaluation report could often encompass more than one operation. Table 3 below compares the sample with the Bank's active portfolio of projects as at the end of December 2010, with reference to instrument type, sovereign risk type, facility risk, industry sector and region. There are some differences, in particular an over-representation of Industry, Commerce & Agriculture at the expense of Financial Institutions, and an over-representation of Russia at the expense of Eastern Europe and Caucasus and South-Eastern Europe. In general, however, the sample of projects selected for evaluation is a good representation of the Bank's portfolio as a whole.

Table 3: Comparison of the evaluation database with the Bank's portfolio

	Evaluation database 2006-10		EBRD portfolio Dec-2010	
	MEUR	%	MEUR	%
	8,433	100%	30,655	100%
Instrument type				
Debt	6,219	74%	23,041	75%
Equity	2,116	25%	7,149	23%
Guarantee	98	1%	465	2%
	8,433	100%	30,655	100%
Sovereign risk				
Non-sovereign	7,198	85%	25,664	84%
Sovereign	1,235	15%	4,991	16%
	8,433	100%	30,655	100%
Facility risk				
1 to 4	1,003	12%	2,366	8%
5, 6, 6W	6,134	73%	22,481	73%
7 to 10	1,296	15%	5,809	19%
	8,433	100%	30,655	100%
Sector				
Energy	1,449	17%	5,741	19%
Financial Institutions	1,847	22%	8,431	28%
Industry, Commerce & Agriculture	3,213	38%	8,934	29%
Infrastructure	1,924	23%	7,549	25%

	8,433	100%	30,655	100%
Region				
Central Asia	825	10%	2,503	8%
Central Europe and Baltics	1,652	20%	5,563	18%
Eastern Europe and Caucasus	1,120	13%	5,810	19%
Russia	3,334	40%	8,279	27%
South-Eastern Europe	1,503	18%	7,856	26%
Turkey	0	0%	644	2%
	8,433	100%	30,655	100%
Early Transition Countries	543	6%	2,636	9%

4.2 Standard error of the sample

The GPS specify that the sample should be of sufficient size to establish, for a combined three-year rolling sample, success rates at the 95 per cent confidence level, with sampling error not exceeding ±5 percentage points. In the three years 2008-10, there was a combined population of 321 individual standalone operations and investments under frameworks ready for evaluation, excluding investments under large frameworks. Of these, 182 were evaluated by EvD. Thus the overall coverage ratio was 57 per cent. At a confidence level of 95 per cent, the standard error of the sample was 4.79 per cent, well within the limits set by the ECG. Therefore the success rates reported in Chapter 2 and Appendix 3 can be attributed to the population.

Annex 2: The EBRD's operation performance rating system at post evaluation

1. The rating methodology

The *overall performance rating* is the composite of the following individual ratings.

- *Mandate-related indicators:*
  - transition impact
  - environmental and social performance and change
  - the Bank's additionality
- *Sound-banking related indicators:*
  - project and company financial performance
  - fulfilment of project objectives
- *Bank effectiveness-related indicators:*
  - the Bank's investment performance
  - Bank handling of the project.

Weightings of indicators will vary with the sector/industry and country context, although transition impact (TI) will be one of the prime factors in judging a project's *overall performance*.

A separate rating, the *"transition outcome"* rating (the EBRD counterpart to the *"development outcome"* rating of other MDBs), captures results on the ground in the country that can be verified during the evaluation process.[1] This rating encompasses the following rating categories:

- transition impact
- environmental performance and change
- project and company financial performance (sustainability element)
- fulfilment of objectives (efficacy).

Sections 1.1-1.3 refer to the mandate-related indicators, sections 1.4 and 1.5 refer to the sound-banking related indicators, and sections 1.6 and 1.7 refer to the Bank effectiveness-related indicators.

[1] The *transition outcome rating* makes the findings more comparable with other Multilateral Development Banks (MDBs).

1.1 Transition impact

The *ex post* evaluation of transition impact relies upon the checklist of seven key transition criteria to identify specific transition objectives during project appraisal. While transition impact is assessed at three levels (company, industry and economy as a whole) the rating is mainly based on the last two items, since most transition impact at the company level is already accounted for in the evaluation of Project and Company Financial Performance of the Company and the Fulfilment of Project Objectives.

In applying the transition criteria EvD reviews the short-term realised transition impact of projects as distinct from the longer term transition impact potential that can still be realised.[2] Regarding the latter, EvD assigns a risk rating indicating the risk in realising a project's full transition potential.

It has been the practice at appraisal stage to single out a few objectives among the seven and to concentrate on them to ensure that the project could deliver realistic transition progress, within the capacities of the client and tailored to the boundaries of the EBRD project. EvD will focus on the one hand on assessing the transition objectives identified during project preparation, but will on the other hand review which other transition criteria have generated important transition effects. In assessing transition impact EvD will also question whether the most relevant transition impact criteria/objectives were selected, given the business environment and the related challenges prevailing at the time of appraisal. This question on relevance gives guidance to the evaluator to identify the appropriate major transition impact objectives and corresponding monitoring indicators as formulated in operation reports.

The rating categories for transition impact are: *Excellent, Good, Satisfactory, Marginal, Unsatisfactory* and *Negative*.

The rating categories in respect of risk to realise a project's full transition impact potential are: *Low, Medium, High* and *Excessive.*

1.2 Environmental and social performance

The environmental and social performance ratings measures two different environmental dimensions:

a. Environmental and social performance of the project and the sponsor. The environmental and social performance, which takes into account the Bank's Environmental Policy,[3] measures how well the environmental and social objectives of the project (institutional, emissions control, regulatory compliance, social issues, and public participation) have been met. Performance targets, if appropriate, are defined in project environmental action plans (EAPs), Board Papers, and the Environmental and Sustainability department's internal Environmental Summary (ES).

The rating categories for environmental and social performance are: *Excellent, Good, Satisfactory, Marginal, Unsatisfactory* and *Highly Unsatisfactory.*

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2 See Appendix 5 for the transition impact analysis template used in OPER reports.
3 In 2008 the Bank's Environmental Policy was updated and further defined social factors.

b. **Extent of environmental change.** The extent of environmental and social change[4] is measured as the difference between the environmental and social performance before the project started and its performance at the time of evaluation.

The rating categories for the extent of environmental and social change are: *Outstanding, Substantial, Some* and *None/Negative.*

1.3 Additionality

The Bank's additionality in projects is verified in terms of whether it provides financing that could not be mobilised on the same terms by markets and/or whether it can influence the design and functioning of a project to secure transition impact.

The rating categories for the additionality rating are: *Verified in All Respects, Verified at Large, Verified Only in Part* and *Not Verified.*

1.4 Project and company financial performance

Project and company financial performance of *non-financial operations* provide the sustainability elements required to allow transition impact to unfold beyond the project/company. Evaluation looks at the project as it is the project that should provide the company with added value and secure transition impact. However, EvD also looks at the financial performance of the company as the strength of the company within which the project is implemented gives the evaluator an indication of the risks to the project by being implemented within the company. Financial market operations are rated on whether the sub-projects financed are viable or on assessing portfolio financial performance and the extent to which the intermediary or investment company invests in protected industries.

a. **Project financial performance.** A non-financial market project's financial performance is based on verified and projected risk- weighted future performance at the time of evaluation with use of various return ratios. The analysis focuses on financial performance, through the financial internal rates of return (FIRR) while economic performance will be reflected in the project's economic internal rate of return (EIRR), when use of this complementary indicator is required.[5] At the same time, an assessment is made of project sales, profitability and solvency relative to original projections. Financial market projects involving a credit line are judged based on the project portfolio's profit contribution to the financial intermediary or investment fund.

Rating categories for project financial performance are: *Excellent, Good, Satisfactory, Marginal, Unsatisfactory* and *Highly Unsatisfactory.*

b. **Company financial performance.** For non-financial market operations, the company financial performance rating concerns performance of the company who implements the project. Often project and company performance are difficult to separate and the project financial performance remains. An analysis of the strength of the company will be made based on key performance indicators at the level of the

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Environmental and social change captures environmental and social impact through assessing health and safety, pollution loads, energy efficiency, environmental risk management, public consultation and so on.

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company, such as sales and profitability and the company's debt/equity position. In respect of financial market operations the company performance will be judged by assessing the company's portfolio credit and equity FIRR performance as well as their liquidity position.

The rating categories of company financial performance are (see footnote five): *Excellent, Good, Satisfactory, Marginal, Unsatisfactory* and *Highly Unsatisfactory.*

1.5 Fulfilment of project objectives

The assessment of fulfilment of objectives concerns the extent of verified and expected risk-weighted fulfilment potential of the operation's "process" and “project” objectives ("efficacy") upon validation of their relevance.

The rating categories are (see footnote seven): *Excellent, Good, Satisfactory, Marginal, Unsatisfactory* and *Highly Unsatisfactory*.

1.6 Investment performance

The Bank's investment performance measures the extent to which the gross contribution of a project is expected to be sufficient to cover its full average transaction cost and contribute during its life to the Bank's net profit.

The rating categories are: *Excellent, Good, Satisfactory, Marginal, Unsatisfactory* and *Highly Unsatisfactory*.

1.7 Bank handling

Bank handling assesses the due diligence, structuring and monitoring of the project as undertaken by all units involved, and the Bank as a whole. This also involves a judgement on the quality of the work and on how effectively the Bank carried out its work during the life of the project. Positive and negative lessons are generated. In case operations are evaluated that are handled by the Corporate Recovery Unit, Bank handling will also take into account problem recognition, remedial action and recovery efforts.

The rating scale is: *Excellent, Good, Satisfactory, Marginal, Unsatisfactory* and *Highly Unsatisfactory.*

2. Overall performance matrix

Table 1 below shows the weighting process to arrive at the *overall performance* rating. The table gives combinations of ratings applying four major performance indicators (transition impact, project/company financial performance, fulfilment of objectives, and environmental and social performance), whereby transition impact gets the highest weight when judging the overall performance of an operation. Apart from these four major indicators, of course the remaining indicators (additionality, Bank handling and investment performance) also play a role when assigning the overall performance rating, but to a lesser degree define the overall performance outcome of a project. The table further shows the importance of the performance indicators on sustainability (financial performance and fulfilment of objectives) that help in realising transition impact during the life of a project.

Table 1: Guidelines for assigning the Overall Performance rating for combinations of ratings on four major performance indicators

OVERALL PERFORMANCE RATING	Transition impact rating	Project/ company financial performance rating	Fulfilment of project objectives	Environmental and social performance
HIGHLY SUCCESSFUL	Excellent	Excellent	Excellent	Excellent
	Excellent	Good	Excellent	Good
	Excellent	Excellent	Good	Good
	Good	Excellent	Excellent	Excellent
SUCCESSFUL	Excellent	Good	Good	Good
	Excellent	Marginal	Satisfactory	Good
	Good	Good	Excellent	Good
	Good	Good	Good	Good
	Good	Satisfactory	Good	Good
	Good	Good	Satisfactory	Good
	Good	Good	Satisfactory	Satisfactory
	Good	Marginal	Excellent	Good
	Satisfactory	Satisfactory	Good	Good
	Satisfactory	Satisfactory	Satisfactory	Excellent
PARTLY SUCCESSFUL	Good/Excellent	Marginal	Marginal	Satisfactory
	Good	Marginal	Good	Satisfactory
	Satisfactory	Satisfactory	Satisfactory	Satisfactory
	Satisfactory	Marginal	Satisfactory	Satisfactory
	Marginal	Good	Good	Satisfactory
	Good	Good	Good	Marginal
UNSUCCESSFUL	Marginal	Marginal	Good	Marginal
	Marginal	Marginal	Marginal	Marginal
	Unsatisfactory	All	All	All
	Negative	All	All	All

The combinations of ratings for assigning an overall performance rating in Table 1 are not exhaustive. The combinations listed give an indication of how the weighting process works and gives guidance to Evaluation staff and staff in the Banking department during the subjective process of assigning ratings to overall project performance. However, in assigning ratings it is important to define benchmarks for these rating categories.

2. Benchmarking performance ratings

2.1 Transition impact

EvD tends to evaluate a project relatively soon after disbursement (18 months, as described in Section 2.4.1 of the main text) and the evaluator should be conscious that concrete evidence of the achievement of some transition objectives may not become visible for some time. As presented in the transition impact criteria table and transition impact rating table in Appendix 5, the evaluation methodology allows for three ratings on each of the criteria relevant for the specific operation: (a) judging the realised transition impact at the time of evaluation; (b) assessing the transition potential that can still be reached, and (c) assigning a risk rating (Low, Medium, High, Excessive) in respect of the likelihood to reach the full transition impact potential over time. A high rating could be appropriate where the transition impact potential in the future is considered substantial. However, if the probability that the transition impact potential can be reached is low due to considerable risk, the evaluator will award a higher risk-to-transition-impact rating and explain the nature of the risk.

Transition impact is measured at the industry level and the level of the economy as a whole, including possible regional and cross-border effects. During the evaluation of transition impact EvD concentrates on assessing performance under the “major relevant transition impact objectives” as mentioned in Table 2 below. They are those objectives (mostly two or three) identified by the Operation team during project appraisal that are presented in the operation reports to the Board of Directors and monitored through TIMS. EvD also reviews performance under the other transition impact criteria to identify whether any important transition effect might have been missed. Therefore, EvD reviews all seven criteria in the overall assessment of transition impact.

Table 2: Rating Transition Impact

RATINGS	BENCHMARKS
Excellent	The project achieved significant progress toward all major relevant transition impact objectives. Best practice was achieved in one or more areas.
Good	The project achieved significant progress toward all major relevant transition impact objectives, possibly with minor shortcomings.
Satisfactory	The project achieved acceptable progress toward a majority of the major relevant transition impact objectives, but did not make acceptable progress towards one major objective.
Marginal	The project failed to achieve acceptable progress towards a majority of relevant transition impact objectives. However, progress toward at least one major objective was acceptable.
Unsatisfactory	The project failed to achieve acceptable progress toward any of its major relevant transition impact objectives.
Negative	The project failed to achieve acceptable progress toward any of its major relevant transition impact objectives and even had in some cases a negative effect.

2.2. Project and company financial performance

a. Project financial performance. In the analysis of a non-financial market project financial performance EvD uses an appropriate range of performance indicators in project financing such as: sales figures, net profit, debt service coverage, FIRR and EIRR. Suitable project return analysis will supplement balance sheet and income-related indicators. Apart from FIRR calculation, imperfect markets, significant subsidies or factor price distortions and externalities justify calculation of the EIRR. It should be taken into account that the various financial performance indicators might differ per sector, due to specific financial characteristics of the sector. In respect of financial market operations the evaluator has to judge the project portfolio's profit contribution to the financial intermediary or investment fund. Table 3 gives guidance to assign ratings in respect of project financial performance.

Table 3: Rating project financial performance

RATINGS	BENCHMARKS
Excellent	Actual and re-assessed performance indicators are *in principle* on average 10% better than anticipated at appraisal. Prospects are positive.
Good	Actual and re-assessed performance indicators are *in principle* on average between 0%-9.90% better than anticipated at appraisal. Prospects are positive.
Satisfactory	Indicators are *in principle* in line with appraisal estimates, but some problems (management, financial, economic and so on) have been encountered that can influence the prospects of the project negatively.
Marginal	Indicators are *in principle* up to 25% below expectations at approval, but prospect of financial improvement exist.
Unsatisfactory	The project shows performance indicators *in principle* >25% below expectations with limited prospect of improvements in the immediate future.
Highly Unsatisfactory	Complete project failure whereby the Bank loses part or its entire investment.

b. Company financial performance. When a non-financial company's financial performance is assessed by EvD it uses an appropriate range of corporate performance indicators: sales figures, net profit, debt/equity position, debt service coverage. As under project financial performance, the various performance indicators might differ per sector, due to specific financial characteristics of the sector in which the company operates. In respect of financial market operations the company performance will be judged by assessing the company's portfolio credit and equity FIRR performance as well as their liquidity position. Table 4 gives guidance to assign ratings in respect of company financial performance.

Table 4: Rating company financial performance

Ratings	BENCHMARKS
Excellent	Actual and re-assessed performance indicators of the company are *in principle* on average 10% better than anticipated at appraisal. Prospects are positive.
Good	Actual and re-assessed performance indicators are *in principle* on average between 0%-9.90% better than anticipated at appraisal. Prospects are positive.
Satisfactory	Indicators are *in principle* in line with appraisal estimates, but some problems (management, financial, economic and so on) at the level of the company have been encountered that can influence the prospects of the project negatively.
Marginal	Indicators are *in principle* up to 25% below expectations at approval, but prospect of financial improvement exist.
Unsatisfactory	The company shows performance indicators *in principle* >25% below expectations with limited prospect of improvements in the immediate future.
Highly Unsatisfactory	Complete company failure that can have dramatic effects on the project and even terminate the project so that the Bank loses all its investments.

2.3 Fulfilment of project objectives (Efficacy)

The assessment of fulfilment of objectives concerns verified and risk-weighted fulfilment potential of the operation's "process" and "project" objectives upon validation of their relevance. The "project" objectives under review are, for instance, those related to carrying out an investment plan in respect of plant and equipment and the establishing of a strong management team. In respect of "process" objectives these can be the introduction of an international accounting standards (IAS) accounting system or for a financial institution the improvement of credit manuals and the training of staff. Fulfilment of project objectives does not incorporate the transition impact objectives, which are captured under the transition impact performance rating. Table 5 provides benchmarks for the fulfilment of project objectives.

Table 5: Rating fulfilment of project objectives

RATINGS	BENCHMARKS
Excellent	The stated operation objectives at approval are deemed relevant. Early fulfilment or potential fulfilment, with low risk is verified for all objectives. Plant and equipment are fully operational. A capable management team is effectively in charge and the market build up is in full swing. The sponsor is fulfilling all its obligations, financial- as well as market-related.
Good	Most of the objectives have been fulfilled or are deemed within reach with low applicable risk. Plant and equipment are operational. The management team is functioning adequately. The Sponsor is fulfilling its obligations.
Satisfactory	Most of the objectives have been fulfilled or are deemed within reach with some risk to their realisation. Most of plant and equipment are operational, but some delays in installation occurring. The management team is functioning adequately, although their coming on board saw some delays. The Sponsor is fulfilling its obligations.
Marginal	Some of the project objectives have not yet been fulfilled or face a deemed medium-higher risk that they may not be achieved. The Sponsor is actively trying to comply with its obligations, but has so far been only partly successful. Some doubts exist about a final positive outcome.
Unsatisfactory	The project objectives have not yet been fulfilled with a high risk that many will also not be met later on. Serious doubt exists whether the Sponsor is able to fulfil all its obligations. A positive final outcome is doubtful or deemed impossible.
Highly Unsatisfactory	The project objectives have not been fulfilled and the chance of their realisation is practically zero. It is certain that the Sponsor is not able to fulfil its obligations in full. A positive final outcome is deemed impossible.

2.4 Environmental and social performance

2.4.1 *Environmental and social performance of the project and the sponsor*

Environmental and social performance of projects is measured by assessing the status of the environment in the vicinity of the project and, if warranted, important wider effects (for example, captive mines as part of a steel project, the health and safety situation in the project company, the pollution loads and energy efficiency status, the project's environmental management, social factors[6] and the level of public

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[6] For example, community impacts on indigenous people in the neighbourhood of the project and any resettlement issues.

consultation and participation). Table 6 below gives the necessary details of rating categories of the environmental performance of the project and the sponsor.

Table 6: Rating environmental and social performance of the project and the sponsor

RATINGS	BENCHMARKS
Excellent	All appropriate environmental and social (see footnotes 4 and 11) measures are secured and environmental conditionality implemented. No significant outstanding issues. The Sponsor has gone beyond the expectations of the environmental action plan (EAP) and serves as a best practice example.[7]
Good	Appropriate environmental and social (see footnotes 4 and 11) measures are secured and environmental conditionality implemented. The EAP is on or ahead of schedule.
Satisfactory	The appropriate environmental and social (see footnotes 4 and 11) risk factors were properly identified and the sponsor is implementing the EAP as prescribed.
Marginal	Some environmental and social (see footnotes 4 and 11) measures are secured and only part of environmental and social conditionality was implemented. Several outstanding issues remain. Performance of the Sponsor was partly unsatisfactory.
Unsatisfactory	Few, if any, environmental and social (see footnotes 4 and 11) measures were implemented. Significant outstanding issues are experienced. Performance of the Sponsor was less than satisfactory.
Highly Unsatisfactory	The project is out of compliance with the objectives as established in the EAP and/or host country or World Bank environmental standards for this type of project; has experienced significant adverse events (spills, deaths and so on); is an on-going risk to the environment; and presents a vulnerability risk to the EBRD.

2.4.2 Extent of environmental and social change

Bank projects should adequately address the positive or negative environmental and social (see footnote 4 and 11) effects of projects, and consider both the *ex ante* and *ex post* conditions against the stated objectives as defined above. Table 7 gives details on the rating categories for this.

[7] In case a change of environmental policy has occurred between the time of appraisal and evaluation of the project, and higher standards become applicable, the environmental performance of the project would be rated higher if the project would comply with the new environmental policy.

Table 7: Rating extent of environmental and social change

Rating	Benchmarks
Outstanding	This project will result in significant environmental and social (see footnotes 4 and 11) benefits and/or additionality. The extent of the change is extensive, either because environmental legacies were extensive, or because the project achieves a high level of performance and has excellent potential long-term improvements. Projects which have positive impacts beyond the immediate project (for example, by positive example lead to new environmental and social standards) should also be considered Outstanding.
Substantial	Environmental and social (see footnotes 4 and 11) benefits and/or additionality resulting from the project are significant and have good potential for the future. Beyond the project benefits may also be positive.
Some	Some environmental and social (see footnotes 4 and 11) benefits and/or additionality resulting from the project. No measurable benefits beyond the immediate project.
None/Negative	No significant environmental and social (see footnotes 4 and 11) benefits associated with the project; or significant adverse (negative) environmental and social impacts associated with the project. Also under this category would be projects that have a negative demonstration effect.

2.5 Additionality

The Bank’s additionality in a project is assessed by judging to what extent the client would have been able to secure financing from market financiers on acceptable terms. Another necessary condition is the extent of the Bank's impact on the existence, design or functioning of a project to enhance transition impact. There is a critical level of conditions above which a project becomes and remains additional. In judging additionality at evaluation one tries to verify whether the Bank was additional or not at the time the project was financed by the Bank. Therefore the Bank has introduced the ratings Verified in all Respects, Verified at Large, Verified Only in Part and Not Verified, as presented in Table 8.

Table 8: Rating additionality

Ratings	BENCHMARKS
Verified in all Respects	No other financial institutions are willing to provide financing at the same or better condition than the Bank. The terms and conditions are not attractive to other banks and the country risk is still high. The client accepts tough conditionality to secure transition impact.
Verified at Large	Some competition with market financiers, but the Bank's terms and conditions, although more demanding than the competition's, prevail since sponsors/clients or co-financiers appreciate the Bank's political comfort. In such cases, specific project design and structuring may also be significant for enhanced transition impact. The Bank may also have contributed specific country or sector knowledge or helped enhance corporate governance standards. Repeat financing to a second phase of a project may fall into this category.
Verified Only in Part	Competition from commercial financiers is significant and terms and conditions are almost identical, but the Bank's participation (for example, in a bond issue) may have helped an earlier implementation of the project than would have otherwise been possible. No significant features are added to design and functioning to enhance transition and/or catalyse other financing.
Not Verified	Competition fully established for financing and the Bank's terms and conditions fail to provide for any material transition impact enhancement and pricing premium to account for the availability of the Bank's Preferred Creditor Status.

2.6 Investment performance

The Bank's investment performance in an operation is measured by the Project's net profit contribution. The respective performance rating reflects the extent to which the actual and expected Net Contribution (after risk adjustment) over the life of a Project is sufficient to cover its full transaction cost and to contribute to the Bank's net profit. The rating scale and the profit contribution performance criteria are presented in Table 9 below. The lower end of the scale reflects whether the transaction covers its direct costs and contributes towards general overheads. An operation that makes a satisfactory contribution to overheads achieves a *Satisfactory* rating. From this level onwards, higher ratings will also need to satisfy comparative tests against performance projections at appraisal.

Table 9: The Bank's Investment Performance – Rating a loan or equity investment's profit contribution performance

RATINGS	BENCHMARKS
Excellent	NPVNME[8] is equal to or greater than twice Direct Cost and the discounted project contribution after Direct Cost allocation[9] is more than 40% higher than the level foreseen at appraisal.
Good	NPVNME is equal to or greater than twice Direct Cost and the discounted project contribution after Direct Cost allocation is more than 10% but not more than 40% higher than the level foreseen at appraisal.
Satisfactory	NPVNME is equal to or greater than twice Direct Cost and the discounted project contribution after Direct Cost allocation is not more than 10% higher than the level foreseen at appraisal.
Marginal	NPVNME is greater than or equal to Direct Cost but less than twice Direct Cost.
Unsatisfactory	NPVNME is less than Direct Cost but greater than or equal to zero (that is, discounted project contribution after Direct Cost allocation is negative).
Highly Unsatisfactory	NPVNME is negative (that is, discounted project contribution after Direct Cost allocation is negative).

For the purpose of calculating and rating the investment performance of a project EvD uses the financial model that is operated by the Finance department and that is also used at project appraisal stage.

2.7 Bank handling

"Bank handling" assesses the due diligence, structuring and monitoring of the project and judges the quality of the work of the Banking department, in particular the Operation teams, and support departments involved in the operation process, including the Environmental and Sustainability department. An assessment is made on how effectively the Bank carries out its work during the life of the project. In case operations are evaluated that are handled by the Corporate Recovery Unit, Bank handling will also take into account problem recognition, remedial action and recovery efforts. Table 10 below presents benchmarks that are used by Evaluation staff when judging Bank handling in a project:

8 NPVNME (Net Present Value Net Margin Earned): the project's revenue contribution to the Bank's income statement, net of its financing cost and after risk adjustment to cover the Bank's expected losses as per the Bank Provisioning Policy, but before recovery of its incremental (direct) transaction cost (for generation and monitoring) or any attributed overheads.

9 Discounted profit contribution after Direct Cost allocation is the same as NPVNME but after deduction of direct transaction costs. This measure is presented at appraisal in the Final Review Memorandum and Board Document, enabling a direct comparison of projections at appraisal and results at evaluation.

Table 10: Rating Bank Handling

RATINGS	BENCHMARKS
Excellent	Appraisal[10] was very well conducted, did not show any gaps and provided an excellent basis to make the investment decision. The Bank structured the operation very well under difficult circumstances thereby securing excellent initial conditions to realise transition impact during the life of the project. Risk to transition was adequately mitigated through a strong conditionality package. Implementation[11] was very skilful and contributed to the success of the operation.
Good	Appraisal was well conducted and, although not all relevant issues were addressed, provided an adequate basis to make the investment decision. The Bank structured the operation so that adequate initial conditions formed a good basis to realise transition impact during the life of the project. Risk to transition was mitigated through a conditionality package that could have been somewhat stronger. Implementation was skilful and contributed to the success of the operation.
Satisfactory	Appraisal could have been better and there is evidence that not all relevant issues were addressed. Nonetheless, it provided a sufficient basis to make the investment decision. Structuring of the operation increased the risk to realise transition impact although some important risk mitigating factors were in place. Implementation could have been more skilful and constituted a risk to the project's success.
Marginal	Appraisal was clearly deficient and there is evidence that important issues were not addressed. It did not provide an adequate basis to make a sound investment decision. Deficiencies in the structuring of the operation enhanced the risk to realise transition impact although some important risk mitigating factors were in place. Implementation was deficient, resulting in a high risk of loss for the Bank. Prospects for recovery of the Bank's investment exist.
Unsatisfactory	Appraisal was clearly deficient and there is evidence that important issues were not addressed. It did not provide an adequate basis to make a sound investment decision. A flawed structuring of the operation was an important reason for the complete failure of the project. Transition impact could not be realised. Implementation was deficient, resulting in a high chance for the Bank to lose all its investment. Some prospects for recovery of part of the Bank's money

[10] Appraisal refers to all handling practices relevant to the pre-approval phase: project and sponsor selection, project design, due diligence, financial analysis, market analysis, risk analysis, and so on.

[11] Implementation refers to all handling practices relevant to the post-approval phase: implementation, documentation and security, syndication, disbursement, monitoring, problem recognition, remedial management, and recovery.

	still exist.
Highly Unsatisfactory	Appraisal was clearly deficient and there is evidence that important issues were not addressed. It did not provide an adequate basis to make a sound investment decision. A flawed structuring of the operation was an important reason for the complete failure of the project. Transition impact could not be realised. Implementation was deficient and was partly the cause for losing the entire investment in the operation. No prospects for recovery of part of the Bank’s money exist.

Annex 3: Evaluated Performance of Investment Operations

This Appendix presents detailed information on the performance ratings applied to projects evaluated in 2010, and compares them with results from projects evaluated over the period 2006-10.

The selection and characteristics of the sample of evaluated projects behind these figures are described in Appendix 2. As in previous years, the individual evaluation indicators are presented in turn and an additional section at the end of the Appendix focuses on performance in Early Transition Countries (ETCs).

1. Overall performance

Chart 1 and Table 1 present overall performance ratings for the last five years. In for the first time in many years no project was rated *Highly Successful*. There was also a slight increase in the proportion of *Unsuccessful* projects compared with previous years. In general, overall performance ratings in 2008 have been lower than in the previous few years, and this appears to be a result of the financial crisis. A number of evaluated operations have experienced a lower-than-expected financial performance and have cancelled or delayed capital expenditure plans in the difficult economic environment. This has had a direct effect on the rating of project and company financial performance and fulfilment of objectives, and often a knock-on effect on other ratings such as transition impact and environmental impact.

Chart 1: Overall performance ratings

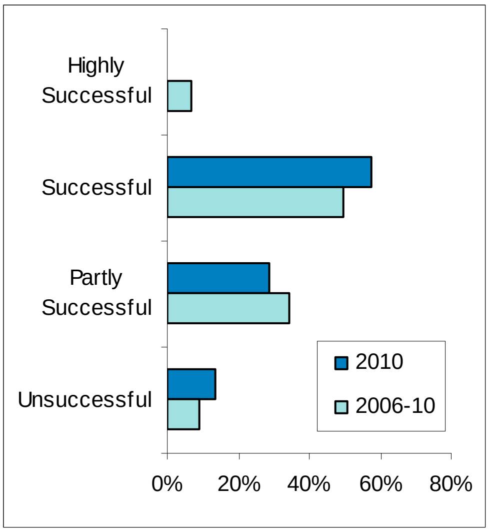
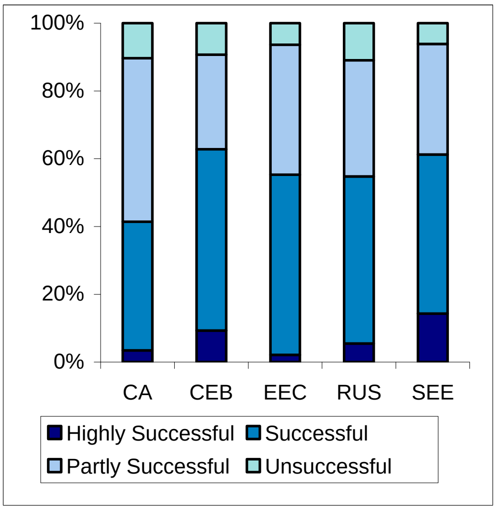


Table 1: Overall performance ratings

	2006	2007	2008	2009	2010	2006-10
Highly Successful	19%	6%	7%	3%	0%	7%
Successful	42%	56%	45%	46%	58%	50%
Sub-total	*62%*	*61%*	*52%*	*49%*	*58%*	*56%*
Partly Successful	31%	30%	41%	43%	29%	34%
Unsuccessful	8%	9%	7%	8%	14%	9%
Sub-total	*38%*	*39%*	*48%*	*51%*	*42%*	*44%*
No. of evaluations	52	54	44	61	59	270

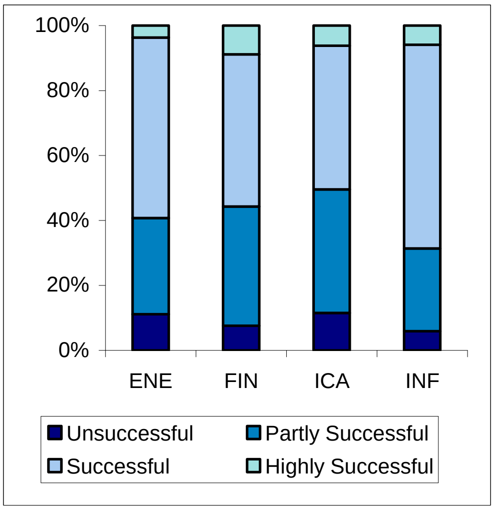
Charts 2 and 3 below show the breakdown of the overall performance rating by geographic region and industry sector. Central Asia (CA) continues to lag behind other regions with only 41 per cent of evaluated projects achieving a positive overall rating. Once again it seems that the more favourable commercial and legal environment of central Europe and the Baltic states (CEB) and south-eastern Europe (SEE) makes it more likely that a project will perform well financially and be able to achieve its transition potential.

Chart 2: Overall performance by region



SEE: South-Eastern Europe
RUS: Russia
EEC: Eastern Europe & Caucasus
CEB: Central Europe & Baltic states
CA: Central Asia

Chart 3: Overall performance by sector



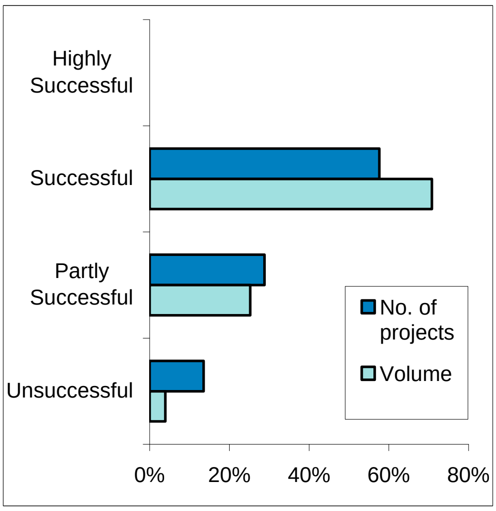
INF: Infrastructure
ICA: Industry, Commerce & Agribusiness
FIN: Financial Institutions
ENE: Energy

The sectoral breakdown shows that the Infrastructure sector (INF) has achieved higher overall performance ratings than the other sectors, with 69 per cent of evaluated projects rated *Successful* or better. Industry, Commerce and Agriculture (ICA) shows the weakest results with only 50 per cent of projects achieving a high rating.

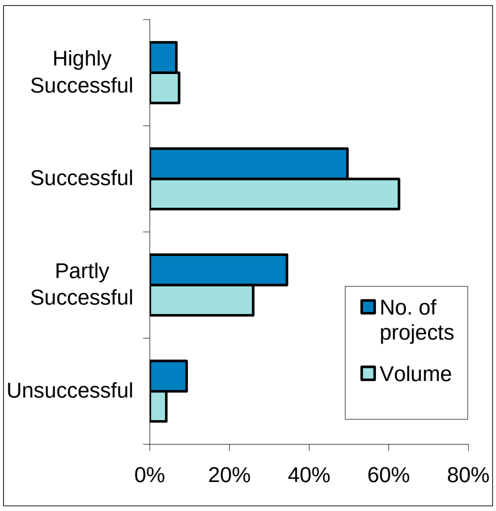
It has been observed over several years that larger projects tend to perform better than smaller ones. This observation has also been recorded by the IFC's Independent Evaluation Group. It was discussed in the AEOR for 2009 and further analysed in a special report produced later that year as input to the CRR4 process. Charts 4(a) and 4(b) below confirm that the same phenomenon was observed among projects evaluated in 2010.

Chart 4: Comparison of overall performance ratings by number and volume of projects

(a) for 2010



(b) for 2006-10



2. Transition outcome

The transition outcome rating was introduced in 2007 in part to make EvD's evaluation results more easily comparable with those of other MDB evaluation units. It is a composite of transition impact, environmental impact, project and company financial performance and fulfilment of objectives, and measures results "on the ground". It is also intended to be an institutional counterpart to the development outcome ratings used within Multilateral Development Banks (MDBs) with a development mandate. The rating is not included in individual evaluation reports but is included in the AEOR.

Chart 5: Transition outcome ratings

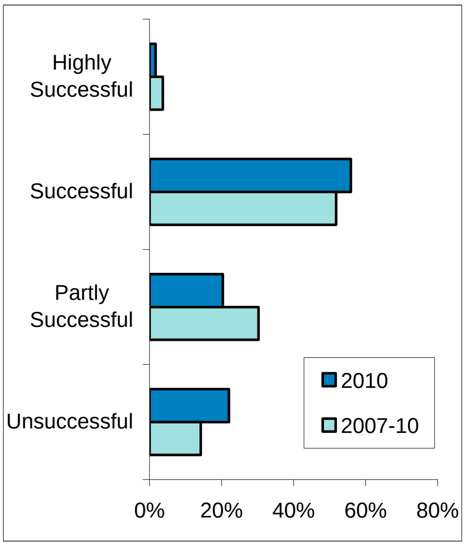


Table 2: Transition outcome ratings

	2007	2008	2009	2010	2007-10
Highly Successful	7%	7%	0%	2%	4%
Successful	57%	45%	48%	56%	52%
Sub-total	*65%*	*52%*	*48%*	*58%*	*56%*
Partly Successful	28%	36%	38%	20%	30%
Unsuccessful	7%	11%	15%	22%	14%
Sub-total	*35%*	*48%*	*52%*	*42%*	*44%*
No. of evaluations	54	44	61	59	218

Transition outcome is closely related to overall performance, and the pattern of results is similar. It appears that the other indicators (additionality, investment performance and Bank handling) have only a minor impact on the overall performance rating of projects.

3. Transition impact

Transition impact reflects the EBRD's prime objective – to foster the transition towards open-market economies. Each EBRD operation should contribute towards this objective, and this indicator measures the extent to which that is achieved.

The proportion of projects rated *Excellent* or *Good* remained high in 2010, at 61 per cent – slightly better than in recent years. Similarly, the proportion of projects rated *Negative* (0 per cent) or *Unsatisfactory* (7 per cent) remained low. However, in both 2009 and 2010 a relatively large proportion of the projects was rated *Marginal* and fewer projects were rated *Satisfactory* than in recent years. As a result, the proportion of the projects rated *Excellent* to *Satisfactory* fell from 87 per cent in 2008 to 76 per cent in 2010. Over the entire five-year period the share of projects with *Good* to *Excellent* ratings was 59 per cent, and 82 per cent of the projects were rated *Satisfactory* or higher. Five per cent of the projects during the same period were rated *Unsatisfactory* or *Negative.*

Chart 6: Transition impact ratings

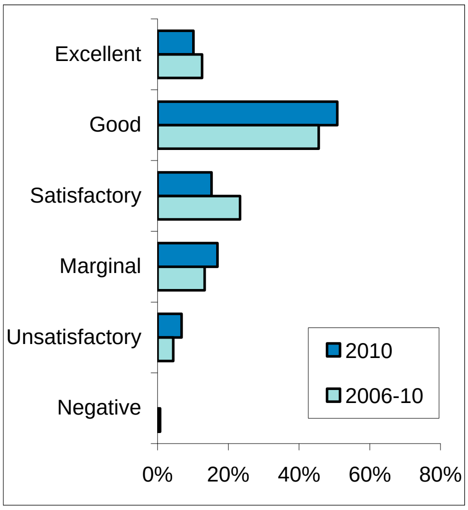


Table 3: Transition impact ratings

	2006	2007	2008	2009	2010	2006-10
Excellent	17%	20%	7%	8%	10%	13%
Good	42%	37%	48%	49%	51%	46%
Satisfactory	19%	33%	32%	20%	15%	23%
Sub-total	*79%*	*91%*	*86%*	*77%*	*76%*	*81%*
Marginal	15%	4%	9%	20%	17%	13%
Unsatisfactory	6%	2%	5%	3%	7%	4%
Negative	0%	4%	0%	0%	0%	1%
Sub-total	*21%*	*9%*	*14%*	*23%*	*24%*	*19%*
No. of	52	54	44	61	59	270

The pattern of projects achieving a *Satisfactory* to *Excellent* rating for transition impact is similar to that for the overall performance rating, across both regions and sectors. However, projects rated *Good* or *Excellent* only show a slightly different pattern, with the CEB region and INF sector below average. These categories have a high proportion of projects rated *Satisfactory*. Again, SEE is the highest performing region and CA the lowest, as was the case for the overall performance.

Chart 7: Transition impact by region

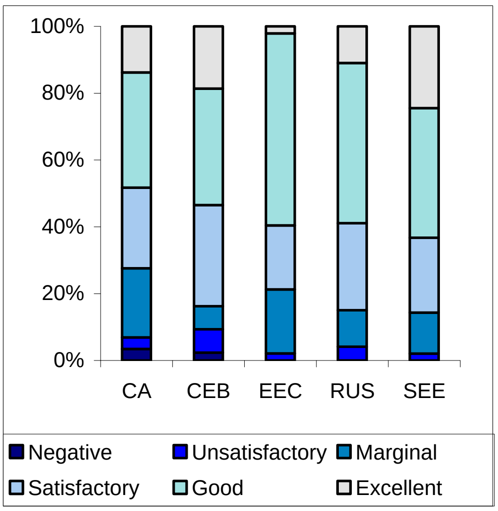


Chart 8: Transition impact by sector

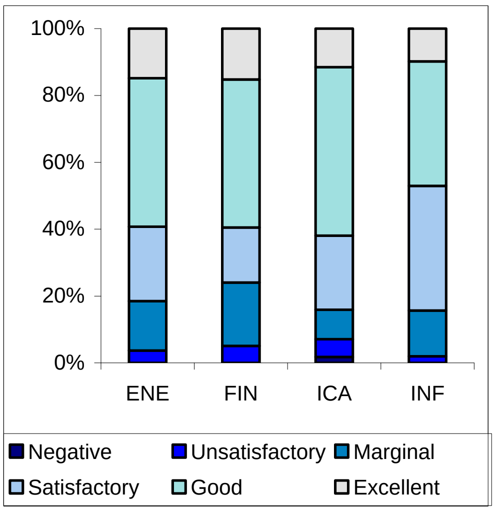
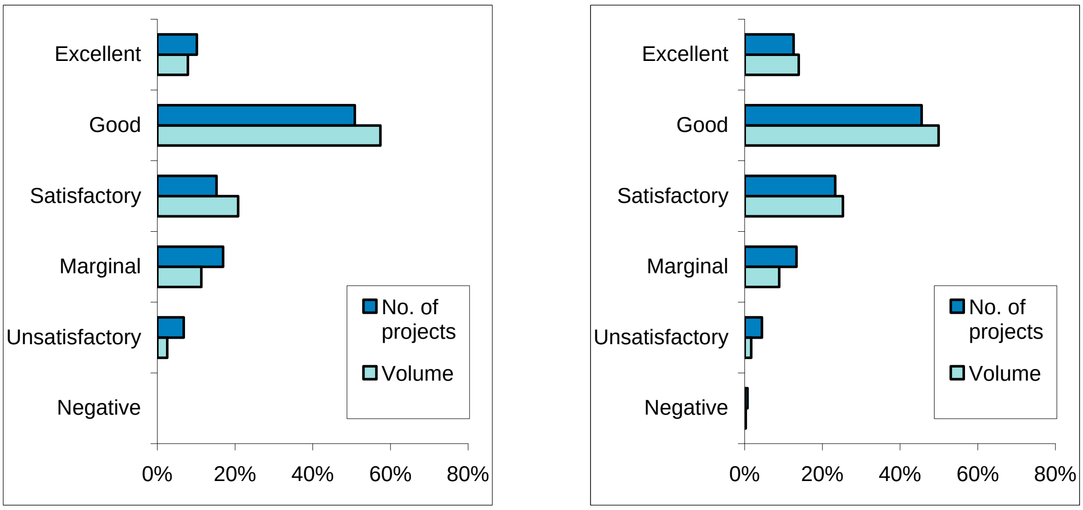


Chart 9 below compares transition impact ratings by number of projects and volume of EBRD investment. In 2010, the proportion of projects rated *Excellent* was slightly higher by number than by volume. In general, however, looking at 2006-10 and across all the ratings this indicator follows the familiar pattern that larger projects are rated more highly than smaller ones. In 2010, 65 per cent of projects by volume were rated *Good* or *Excellent*, and a further 21 per cent were rated *Satisfactory*. Over the period 2006-10, the figures were 64 per cent and 25 per cent respectively.

Chart 9: Comparison of transition impact ratings by number and volume of projects

(a) for 2010 (b) for 2006-10



4. Environmental and social impact

Environmental and social impact has two elements: environmental and social performance of the client and sponsor; and extent of environmental and social change. EvD is exploring with the Environment and Sustainability department (ESD) how best to combine these two indicators into a single rating for environmental and social impact.

Chart 10: Environmental and social performance ratings

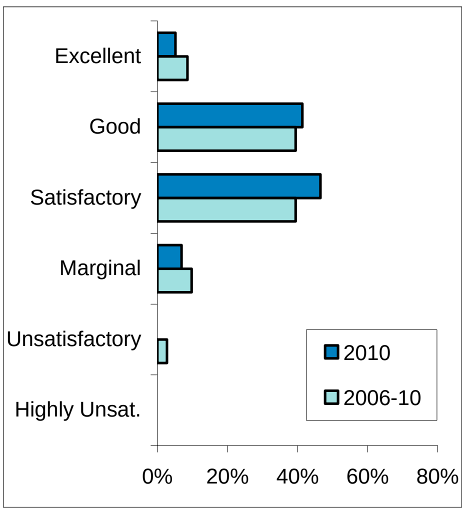


Table 4: Environmental and social performance ratings

	2006	2007	2008	2009	2010	2006-10
Excellent	20%	10%	10%	0%	5%	9%
Good	33%	44%	38%	40%	41%	39%
Satisfactory	43%	30%	29%	45%	47%	39%
Sub-total	*96%*	*84%*	*76%*	*85%*	*93%*	*88%*
Marginal	4%	8%	17%	15%	7%	10%
Unsatisfactory	0%	8%	7%	0%	0%	3%
Highly	0%	0%	0%	0%	0%	0%
Sub-total	*4%*	*16%*	*24%*	*15%*	*7%*	*13%*
No. of	51	50	42	55	58	256

In 2010, 93 per cent of evaluated projects were rated *Satisfactory* or better for environmental and social performance, compared with a figure for the period 2006-10 of 88 per cent. A *Satisfactory* rating means that the appropriate environmental and social risk factors were properly identified and the sponsor is implementing the environmental action plan set out by the EBRD. This rating does not necessarily imply that the project is in conformity with EU standards, since some projects are the subject of derogations from the EBRD's Environmental and Social Policy.

Chart 11: Extent of environmental and social change

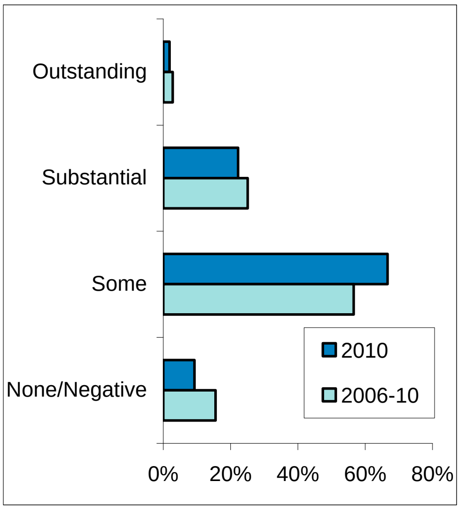


Table 5: Extent of environmental and social change

	2006	2007	2008	2009	2010	2006-10
Outstanding	6%	4%	2%	0%	2%	3%
Substantial	29%	28%	24%	22%	22%	25%
Sub-total	*35%*	*32%*	*26%*	*22%*	*24%*	*28%*
Some	43%	48%	60%	65%	67%	57%
None/Negative	22%	20%	14%	13%	9%	16%
Sub-total	*65%*	*68%*	*74%*	*78%*	*76%*	*72%*
No. of	51	50	42	54	54	251

In 2010, 24 per cent of projects were rated as having *Substantial* or *Outstanding* environmental and social change, compared with 28 per cent in 2006-10. Most of the projects (67 per cent) led to *Some* change and 9 per cent were rated *None/Negative*, slightly lower than in recent years.

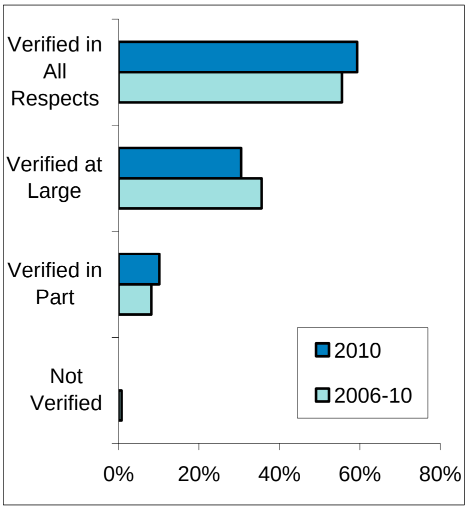
5. Additionality

In 2010, the proportion of evaluated projects rated *Verified at Large* or better was 90 per cent. This figure has remained at or above 90 per cent for most evaluation years. Similarly, very few projects have ever been rated *Not Verified* for this indicator. The variation that has occurred has been on the boundary between *Verified in All Respects* and *Verified at Large*.

Chart 12: Additionality ratings

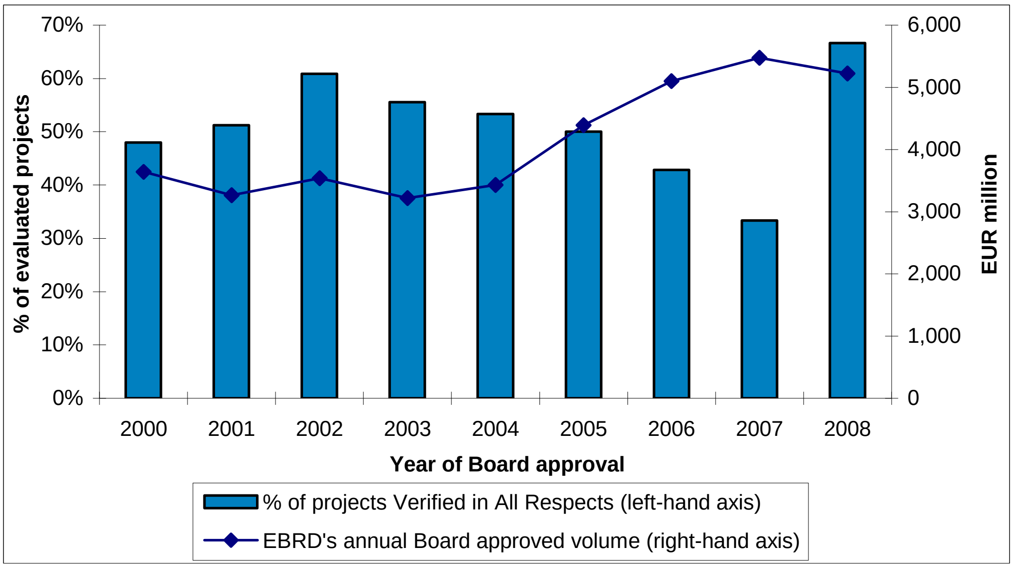
Table 6: Additionality ratings

	2006	2007	2008	2009	2010	2006-10
Verified in All	65%	59%	66%	33%	59%	56%
Verified at Large	27%	33%	27%	56%	31%	36%
Sub-total	*92%*	*93%*	*93%*	*89%*	*90%*	*91%*
Verified in Part	8%	4%	7%	11%	10%	8%
Not Verified	0%	4%	0%	0%	0%	1%
Sub-total	*8%*	*7%*	*7%*	*11%*	*10%*	*9%*
No. of	52	54	44	61	59	270



The AEOR for 2010 found that the proportion of projects rated *Verified in All Respects* was unusually low in 2009, and investigated further by looking at the Board approval dates of evaluated projects. It found that as the volume of annual EBRD Board approvals rose from 2003 onwards, the proportion of projects with additionality *Verified in All Respects* fell from 55 per cent of evaluated projects approved in 2003 to 38 per cent of those approved in 2007. The analysis has been updated to cover operations evaluated in 2010 and the results are shown in Chart 11 below.[1]

Chart 11: Projects with additionality *Verified in All Respects* by year of approval, compared with annual volume of Bank approvals



The results reinforce the conclusion that the additionality of newly approved projects was falling over the period 2003-07. However, there is a striking increase in additionality among projects approved in 2008, and this is almost certainly related to the financial crisis, which began to affect the Bank's region in the second half of the year. Eighteen of the evaluated operations were approved in 2008. Of the eight approved before mid-July, only three

[1] The analysis in this section is not restricted to projects evaluated in the period 2006-10, but includes all evaluated projects approved in the years shown.

were subsequently rated *Verified in All Respects* for additionality. Of the 10 approved after mid-July, nine were *Verified in All Respects*.

A breakdown by region shows unsurprisingly that additionality tends to be higher in less advanced-transition countries, although most of the projects rated *Verified Only in Part* have been in the EEC region. The Energy and Infrastructure sectors tend to score more highly for additionality than the more market-oriented sectors of Finance and Industry.

Chart 12: Additionality by region

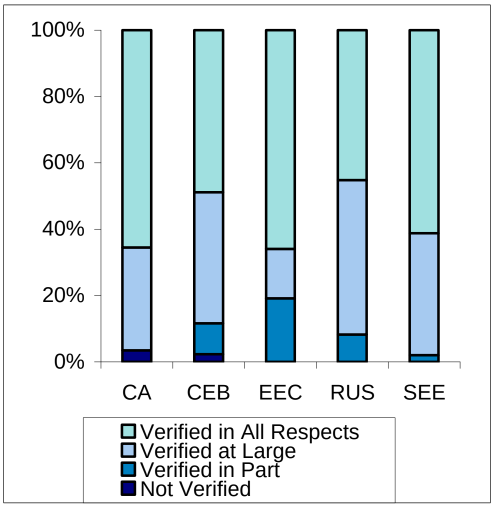
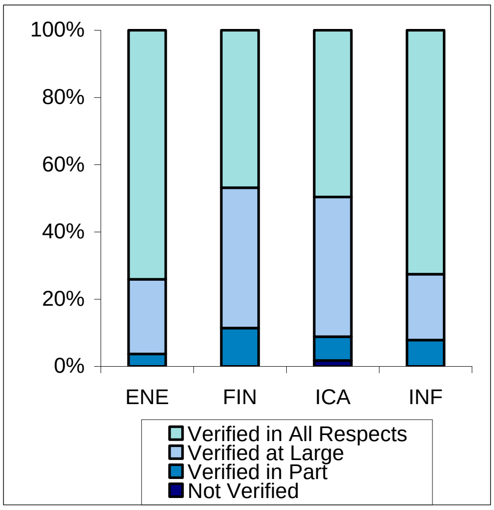


Chart 13: Additionality by sector



6. Project and company financial performance

Project and company financial performance ratings are closely related, and identical in the case of special purpose vehicles established to undertake the project in question.

Chart 14: Project financial performance ratings

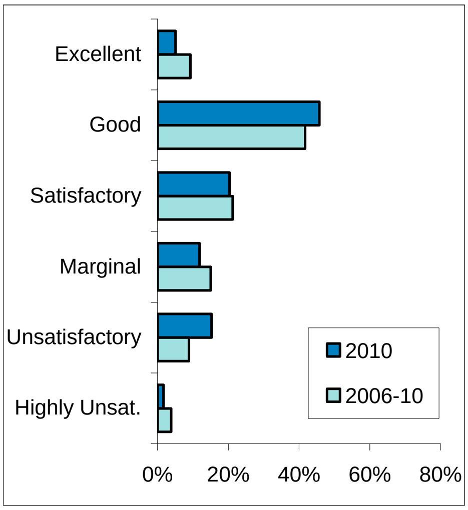


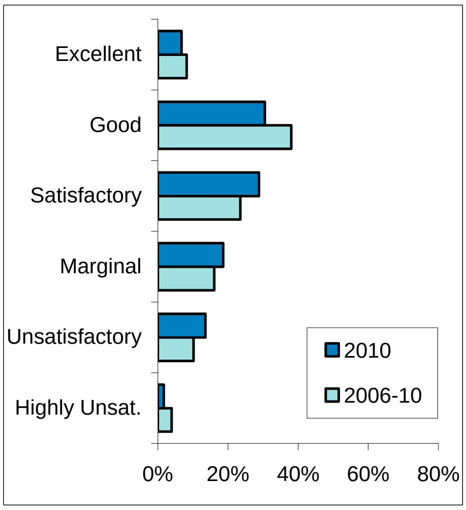
Table 7: Project financial performance ratings

	2006	2007	2008	2009	2010	2006-10
Excellent	21%	8%	12%	2%	5%	9%
Good	33%	49%	34%	45%	46%	42%
Satisfactory	17%	25%	27%	18%	20%	21%
Sub-total	*71%*	*82%*	*73%*	*64%*	*71%*	*72%*
Marginal	17%	10%	20%	18%	12%	15%
Unsatisfactory	6%	2%	5%	14%	15%	9%
Highly	6%	6%	2%	4%	2%	4%
Sub-total	*29%*	*18%*	*27%*	*36%*	*29%*	*28%*
No. of evaluations	52	51	41	56	59	259

Table 8: Company financial performance ratings

	2006	2007	2008	2009	2010	2006-10
Excellent	17%	8%	8%	2%	7%	8%
Good	40%	54%	25%	39%	31%	38%
Satisfactory	17%	20%	38%	17%	29%	24%
Sub-total	*75%*	*82%*	*70%*	*57%*	*66%*	*70%*
Marginal	13%	10%	18%	20%	19%	16%
Unsatisfactory	6%	2%	10%	19%	14%	10%
Highly	6%	6%	3%	4%	2%	4%
Sub-total	*25%*	*18%*	*30%*	*43%*	*34%*	*30%*
No. of	52	50	40	54	59	255

Chart 15: Company financial performance ratings



In 2010, 71 per cent of evaluated projects were rated *Satisfactory* or better for project financial performance, and 66 per cent for company financial performance. It is not surprising that in 2009 and 2010, performance in this area has been below the five-year average. However, the proportion of projects rated *Highly Unsatisfactory* remains very low. Project performance has been a little better than company performance in recent years. This may indicate that EBRD projects have been sufficiently well structured that they can continue to perform even when the parent company is struggling.

Chart 16: Project financial performance by region

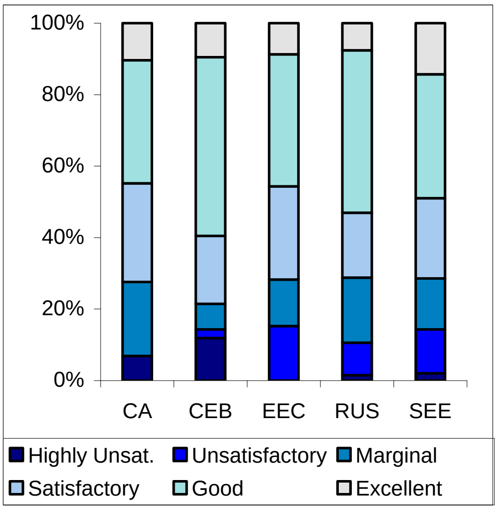
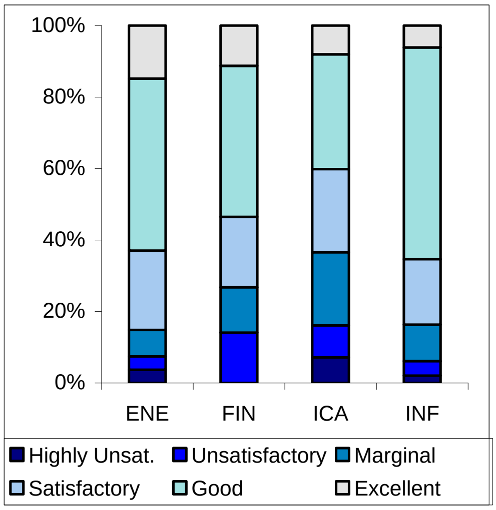


Chart 17: Project financial performance by sector



The difference in performance across regions is less than for some other indicators. Possibly this reflects difficult conditions everywhere in the last two years. Nevertheless, over 70 per cent of projects in even the most challenging regions (CA and CEE) had *Satisfactory* or better project financial performance. The variation across sectors is more pronounced, with ICA and FIN underperforming the other sectors.

7. Fulfilment of project objectives

This indicator relates to the fulfilment of physical project objectives. The fulfilment of transition objectives is considered under transition impact. In 2010, 73 per cent of projects were rated *Satisfactory* or better, which is below the five-year average. EvD has observed that a number of projects under evaluation have delayed or suspended capital expenditure programmes and focused on cost-cutting measures in the extremely poor commercial environment of the last few years.

Chart 18: Fulfilment of project objectives ratings

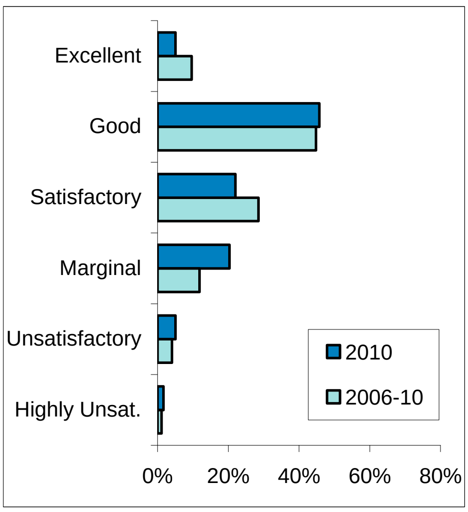


Table 9: Fulfilment of project objectives ratings

	2006	2007	2008	2009	2010	2006-10
Excellent	23%	7%	9%	5%	5%	10%
Good	35%	54%	41%	48%	46%	45%
Satisfactory	21%	24%	36%	38%	22%	28%
Sub-total	*79%*	*85%*	*86%*	*90%*	*73%*	*83%*
Marginal	15%	7%	14%	5%	20%	12%
Unsatisfactory	6%	4%	0%	5%	5%	4%
Highly Unsat.	0%	4%	0%	0%	2%	1%
Sub-total	*21%*	*15%*	*14%*	*10%*	*27%*	*17%*
No. of	52	54	44	61	59	270

The biggest change is an increase in the proportion of projects rated *Marginal* at the expense of those rated *Satisfactory*. The more extreme ratings (*Excellent*, *Good*, *Unsatisfactory* and *Highly Unsatisfactory*) have not seen a significant change. (The figures for projects rated *Excellent* across the five years are distorted by a particularly good result in 2006.) It seems that a proportion of the projects which would normally have been only moderately successful have underperformed. The proportion of projects with more extreme (good or bad) ratings has not been affected.

Chart 19: Fulfilment of objectives by region

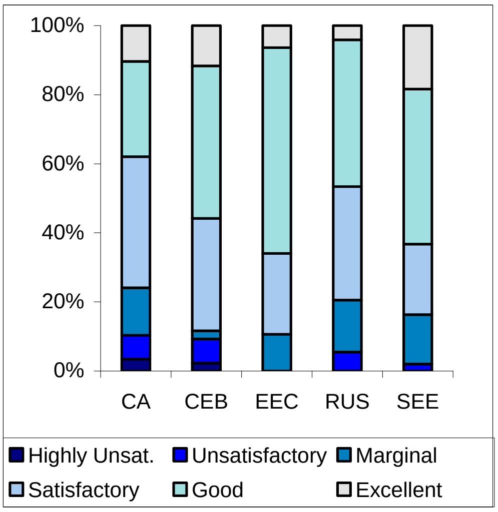


Chart 20: Fulfilment of objectives by sector

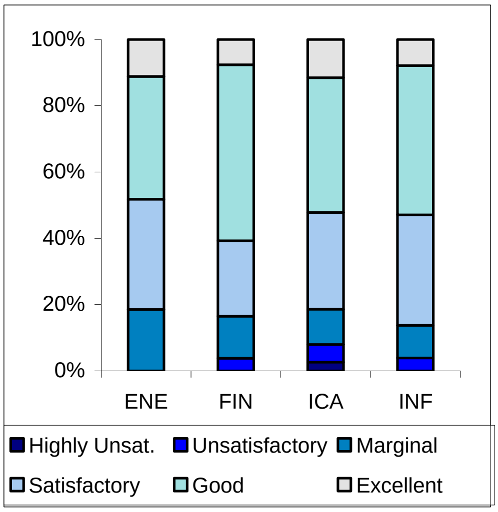


Chart 20 shows that the variation in performance across industry sectors is minimal. There is much more variation across regions (Chart 19), with projects in Central Asia and Russia performing markedly less well than those in other regions.

8. The Bank's investment performance

Until 2009, the Bank's investment performance was only calculated for projects subject to OPER reports. In 2010, it was extended to XMR Assessments. EvD calculates the estimated return to the Bank of projects, updating the calculations presented at approval. In most cases the calculation is still an estimate as most projects are still repaying at the time of evaluation.

Chart 21: Investment performance ratings

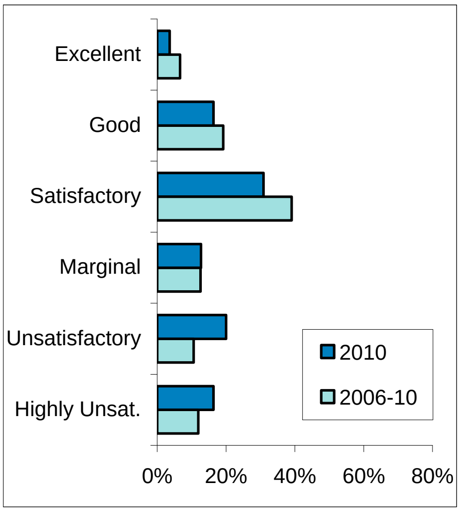


Table 10: Investment performance ratings

	2006	2007	2008	2009	2010	2006-10
Excellent	19%	8%	5%	0%	4%	7%
Good	15%	25%	36%	8%	16%	19%
Satisfactory	31%	54%	45%	46%	31%	39%
Sub-total	*65%*	*88%*	*86%*	*54%*	*51%*	*65%*
Marginal	8%	4%	14%	25%	13%	13%
Unsatisfactory	8%	0%	0%	13%	20%	11%
Highly Unsat.	19%	8%	0%	8%	16%	12%
Sub-total	*35%*	*13%*	*14%*	*46%*	*49%*	*35%*
No. of evaluations	26	24	22	24	55	151

In 2010, 51 per cent of evaluated projects were rated *Satisfactory* or better for investment performance. There has been a substantial fall in this rating in 2009-10. To a large extent this is due to increased provisioning by the Bank, as the estimated results after provisions are used. It is still the case that a very small number of evaluated projects have experienced a default or debt rescheduling.

9. Bank handling

Bank handling takes account of the performance of all the departments in the Bank responsible for aspects of the preparation, implementation and monitoring of projects.

Chart 22: Bank handling ratings

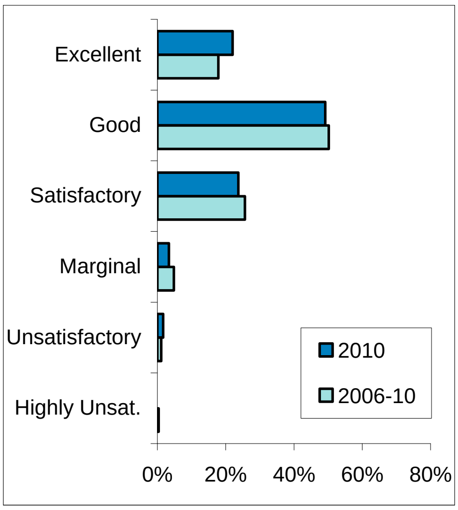


Table 11: Bank handling ratings

	2006	2007	2008	2009	2010	2006-10
Excellent	31%	17%	12%	8%	22%	18%
Good	46%	46%	49%	59%	49%	50%
Satisfactory	19%	31%	33%	23%	24%	26%
Sub-total	*96%*	*94%*	*93%*	*90%*	*95%*	*94%*
Marginal	4%	2%	7%	8%	3%	5%
Unsatisfactory	0%	2%	0%	2%	2%	1%
Highly Unsat.	0%	2%	0%	0%	0%	0%
Sub-total	*4%*	*6%*	*7%*	*10%*	*5%*	*6%*
No. of evaluations	52	54	43	61	59	269

The rating of Bank handling has been relatively stable over several years, with 90 per cent or more of evaluated projects receiving a *Satisfactory* or better rating. In 2010 the figure was 95 per cent, compared with an average of 94 per cent for the period 2006-10. An increase in the proportion of projects rated *Excellent* in 2010 is likely to reflect the higher proportion of projects which have been challenged by the recent economic conditions and where the Bank has had to make extra efforts to keep them on track.

10. Performance in Early Transition Countries

As in previous years, EvD presents results for Early Transition Countries (ETCs) separately, because of the particular challenges of these countries and because of the Bank's focus on them. The group of countries classified as ETCs has changed in 2010: Belarus and Turkmenistan were added to the existing eight countries of Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Uzbekistan. Charts 23-26 below show aggregate results for the period 2006-10 and compares them with results for the remainder of the sample.

Chart 23: Overall performance in ETCs

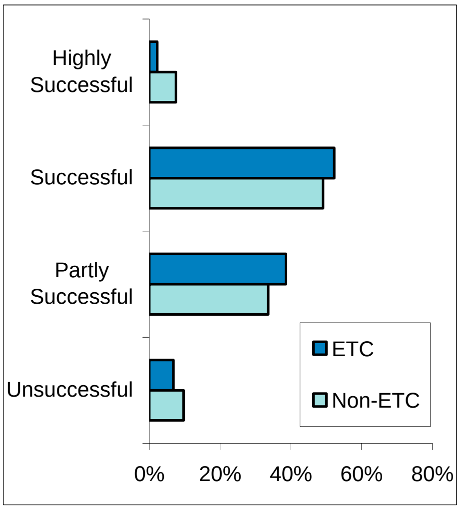


Chart 24: Transition impact in ETCs

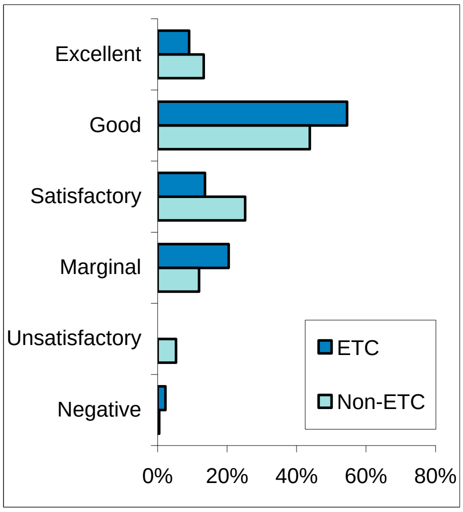


Chart 25: Additionality in ETCs

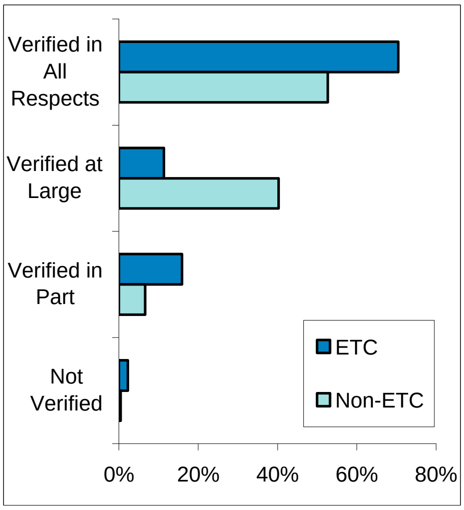
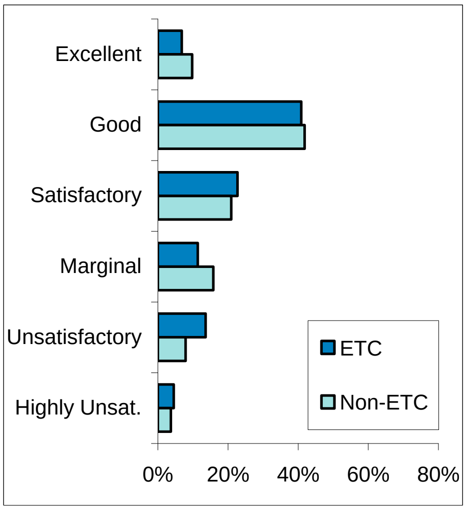


Chart 26: Project financial performance in ETCs



In ETCs, 55 per cent of projects were rated *Successful* or better for overall performance, compared with 57 per cent for other countries. Transition impact was *Satisfactory* or better in 77 per cent of ETC projects and 82 per cent of other projects. The corresponding figures for project financial performance are 70 per cent and 73 per cent. In each case, ETC projects perform slightly less well, but the difference is small, and the ETC performance disparity observed in earlier years appear to be fading.

The proportion of projects with additionality *Verified in All Respects* was much higher in ETCs than elsewhere, as might be expected. The rather high number of ETC projects with additionality *Verified in Part* results mostly from a series of operations with a particular bank, which all received a low rating when they were evaluated in 2009.

Annex 4: Evaluated Performance of the Bank's Technical Cooperation Operations

TC evaluation takes two main forms in the EBRD: TC OPERs and PCR Assessments. TC OPERs are prepared on TC operations (or clusters of TC operations) totalling €200,000 or more. The projects are selected for their lessons potential. Like investment OPERs, TC OPERs involve a site visit and an in-depth evaluation of the project. The PCR Assessment exercise involves selecting around 20 TC operations for maximum coverage in terms of country of operation and industry sector. These operations are subjected to a brief desk review. Where possible, EvD seeks to draw some further conclusions from the aggregate results. TC operations can also be evaluated through Special Studies. In no case is the selection random; hence EvD does not ascribe any statistical significance to the aggregate results of TC evaluation.

Chart 1: Overall performance ratings

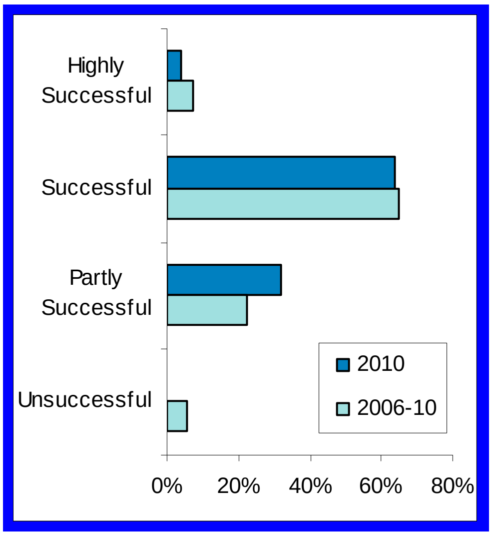


Table 1: Overall performance ratings

	2006	2007	2008	2009	2010	2006-10
Highly Successful	15%	8%	4%	0%	4%	7%
Successful	70%	65%	67%	33%	64%	65%
Sub-total	*85%*	*73%*	*70%*	*33%*	*68%*	*72%*
Partly Successful	11%	19%	22%	50%	32%	23%
Unsuccessful	4%	8%	7%	17%	0%	5%
Sub-total	*15%*	*27%*	*30%*	*67%*	*32%*	*28%*
No. of evaluations	27	26	27	6	25	111

The aggregate results of TC OPERs, Special Studies and PCR Assessments are shown in Chart 1 and Table 1 above. In 2010, 68 per cent of evaluated TC projects were rated *Successful* or better. The total for 2006-10 was 72 per cent. Transition impact ratings are shown in Chart 2 and Table 2 below. No projects were rated *Unsatisfactory* or *Negative* for transition impact over the period 2006-10. In 2010, 90 per cent of evaluated TC projects were rated *Satisfactory* or better. This figure does not differ much from the corresponding figure for the full period 2006-10, which is 88 per cent.

Chart 2: Transition impact ratings

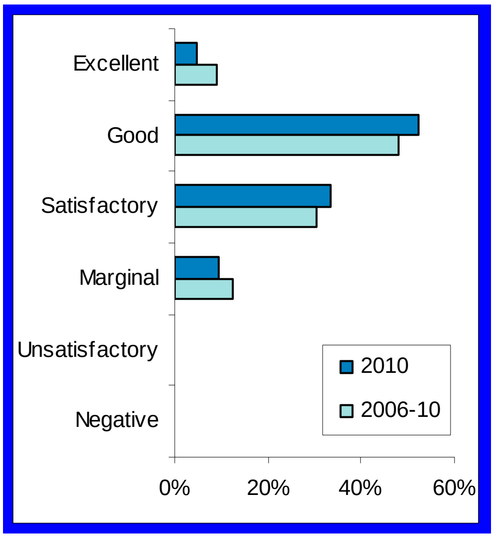


Table 2: Transition impact ratings

	2006	2007	2008	2009	2010	2006-10
Excellent	19%	4%	10%	0%	5%	9%
Good	52%	50%	43%	20%	52%	48%
Satisfactory	22%	29%	38%	40%	33%	31%
Sub-total	*93%*	*83%*	*90%*	*60%*	*90%*	*88%*
Marginal	7%	17%	10%	40%	10%	12%
Unsatisfactory	0%	0%	0%	0%	0%	0%
Negative	0%	0%	0%	0%	0%	0%
Sub-total	*7%*	*17%*	*10%*	*40%*	*10%*	*12%*
No. of evaluations	27	24	21	5	21	98