MANAGEMENT COMMENT ON THE ANNUAL EVALUATION REVIEW

General

Management would like to note that as of the time of Management Comments for the Annual Evaluation Review (AER) for 2012 covering the evaluation work during 2011, the new Evaluation Policy is being drafted and a series of consultative discussions have taken place between Evaluation Department (EvD) and Management. At present the draft policy is being placed for public comments. While the 2012 AER still falls under the existing Evaluation Policy, Management acknowledges that during the transition period of the Evaluation Policy certain features of the new policy or its approach may have already been reflected in the report.

Because separate Management Comments to specific OPERs and Special Studies were provided at the time of issue of the respective reports, for the 2012 AER, Management has endeavoured not to repeat the comments that have been previously provided and instead has focused primarily on the key prevailing themes, some of which are carried forward from the previous year's AER[1].

Overall Management has noted continuing change in the format and the contents, which started with the AER last year, and welcomes EvD's effort in simplifying the report with the focus on the broader, relevant issues and in increasing effectiveness of learning through improved self-evaluation process. Management stands ready to engage in a constructive review of such broader issues identified by the report.

Management Comment to selected Chapters

Chapter 2 - Overall performance

Management has reviewed the analysis of evaluation and outcomes for the 2012 AER sample, and the comparisons with the overall population of projects Board approved in 2006-2008. While the overall rating figures remain quite robust, as in the case of AER last year[2],

Management has noted the percentage of the projects that were Board approved during the 2005-2008 period and was rated satisfactory or better for transition impact (Chart 2.4) remained constant at around slightly above 80% and below the level of the 2001-2006 period. As in the case of 2011, it is likely that this arises from the financial and economic disruption caused by the crisis that continues to impact on the transition objectives of projects which were designed in the pre-crisis phase. While the experience of the crisis also produces opportunities for transition, it is not surprising that for some projects the originally designed objectives cannot be achieved in a radically changed environment. Throughout 2012 it has been felt that meeting financial objectives is becoming increasingly challenging in the economic environment where the adverse impact of the Eurozone and global economic slow-down is persistent.

[1] Previously AER was called Annual Evaluation Overview Report or, AEOR

[2] Due to the change in the aggregation method, the previous year's observations by Management are not fully comparable.

Management recalls that the areas for future work/analysis, in particular the relatively lower performance of projects in Central Asian countries, and the weak correlation of additionality with the overall performance rating of the projects, were similar to the areas mentioned in the 2011 AER. They remain the case for the 2012 AER. Overall the observations made by EvD are in line with those by Management and it encourages EvD to continue to produce the trend analysis and looks forward to cooperating with EvD to identify possible causalities.

Chapter 3: Findings from evaluations in 2012

As stated earlier, it is not proposed to exhaustively address the individual findings cited in this report since Management's position has been articulated when applicable, both in the Management Comments on the individual OPERs where the points were first raised, and also in many cases in the parallel document on "Follow-up of EvD Recommendations". Management considers that the following is a valid and useful compilation of findings from evaluations in 2012, complementing "Follow-up of EvD Recommendations".

(1) As discussion on the format and utilisation of these documents evolves, Management proposes that EvD will review the balance of materials in those synthesis-type reports in order to reduce repetitive exchanges on the same contents. Of course Management acknowledges that the main themes identified are important and will engage in continuing discussion with EvD and with the Board.

(2) Management recognises EvD's effort to reduce the number of lessons learned, in search for a greater, more important common theme that could be widely applicable to the Bank's operation. In certain occasions however, over generalisation/simplification, if without unambiguous qualifications, may result in the findings that become too theoretical or unrealistic to implement in the environment where the Bank operates[3].

(3) On the sector strategy evaluations (3.2), although Management has already provided separate detailed comments at the time the individual reports were issued, Management felt that it would be useful to emphasise its view. As consistently mentioned, Management believes that transition goals are better identified and determined by way of country strategies, which are closely complimented by applicable sector strategies. In order to implement the country strategy encompassing over 30 countries of operation[4], while operating under the matrix of geographies and sectors, the sector strategy will need to be broad-based.

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[3] For example, one of the findings states, "***A supervisory board dominated by independent outside directors improves corporate governance.*** *EBRD should favour active and independent supervisory boards dominated by independent, outside directors. There is little evidence from experience that a minority investor's board nominee, be it EBRD's or anyone else's, can impose prudential limits on management where management dominates the supervisory board.*" A corporate board dominated by independent outside directors is not the norm not only in the Bank's investments but even in the most developed countries, unless law or regulations otherwise dictate. If a company is publicly traded with a very broad public shareholding with no single dominating minority shareholder, the statement could be valid. The companies in which EBRD invests are often locally-based medium sized entities that are controlled by the founder-owner(s), many of who are first generations of entrepreneurs, or they are often a controlled subsidiary of a multinational company, i.e. foreign strategic sponsor. In either case, a board composition of a majority by independent members is not realistic or applicable. The Bank (in the cases such as the above example) has been focusing on protection of minority interest (including that of the Bank) and ensuring it by the strong legal agreements as well as close post investment engagement with the company's management, through which transition impact is often achieved.

[4] Includes SEMED, potential recipient countries, which will make the total number 33.

Previous discussions have highlighted the trade-off between “programme”-based strategies with rather specific ex-ante objectives, and a broader approach which can allow for more responsiveness and flexibility (given that the particular market opportunities where the Bank can make a difference in terms of transition will evolve over the strategy period). There is also a link here to the broader discussion underway within Management and with the Board about how best to develop and deliver a results-oriented policy product in the context of the Bank’s project work. The re-orientation of the Operational Policy Vice Presidency and work of the Strategy and Policy Committee will help address these issues in a practical manner.

Chapter 4: Review of Self Evaluation and Monitoring in EBRD

As Management reviews the 2012 AER, it is understood that the trial of the new format of Operation Performance Assessment (OPA) has been underway and the user feedback is being collected. Management is keen to work with EvD in its closer interaction with the user groups and in providing additional training.

Chapter 5 - Review of EvD activities

Management has reviewed the chapter with a great deal of interest, section 5.3 in particular, and welcomes the implementation of the knowledge management listed under this section.

While Management recognises and appreciates EvD’s effort to make the lessons learned data base more user friendly, as noted under Chapter 3, some of the lessons or findings could be found impractical to identify relevant linkages between the findings and the projects. Management recommends the continued effort in refining lessons learned and is interested in EvD’s assistance in organising training in order to enhance the applicability of the findings and lessons in real life projects.