2012 ANNUAL EVALUATION REVIEW

European Bank
for Reconstruction and Development

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The *Annual Evaluation Review* includes:

- assessment of the performance of the European Bank for Reconstruction and Development's (EBRD) mature operations based on a mix of in-depth evaluations by the Evaluation department (EvD) and independently validated Banking self-evaluations
- the main findings from evaluation studies completed in 2012
- a more in-depth study of trends in aggregate performance over time
- a quality check of self-evaluation and transition impact monitoring systems in the EBRD
- a review of EvD's activities and performance during 2012.

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Abbreviations

AER	Annual Evaluation Review
CA	Central Asia
CEB	Central Europe and Baltics
DAC	The Development Assistance Committee of the Organisation for Economic Cooperation and Development
EBRD	European Bank for Reconstruction and Development
ECG	Evaluation Cooperation Group (of the multilateral development banks)
EEC	Eastern Europe and Caucasus
ENE	Energy
ETCI	Early Transition Countries Initiative
EvD	Evaluation department
FIN	Financial Institutions
GPS	Good practice standards for private sector evaluation of the ECG
ICA	Industry, Commerce and Agriculture
IFI	International financial institution
INF	Infrastructure
LEF	Western Balkans Local Enterprise Facility
LTP	Legal Transition Programme
OCE	Office of the Chief Economist
OE	Operation evaluation
OECD	The Organisation for Economic Cooperation and Development
OECD/DAC	The Development Assistance Committee of the Organisation for Economic Co-operation and Development
OPA	Operations Performance Assessment
OPAV	OPA validation
OpsCom	Operations Committee
PMM	Project Monitoring Module, software used by the EBRD for the preparation of monitoring reports
PPP	Public-private partnership
RUS	Russia
SBIC	Small Business Investment Committee
SEE	South Eastern Europe
SEMED	Southern and eastern Mediterranean
SME	Small and medium-sized enterprises
TC	Technical cooperation
TC COM	TC Committee
TI	Transition impact
TIMS	Transition Impact Monitoring System

Defined terms

Evaluability	The extent to which the value generated or the expected results of a project are verifiable in a reliable and credible fashion.
Impact	The positive or negative long-term effects produced by an intervention, directly or indirectly, intended or unintended. An impact generally results from a series of causal factors of which the project is one.
Indicator	A quantitative or qualitative factor or variable that provides a simple and reliable means to measure achievement, to reflect the changes connected to an intervention or to help assess the performance of a specified entity.
Outcome	The short-term and medium-term effects consequent to delivering the intervention's outputs.
Output	The products, capital goods and services that result from an intervention - its deliverables.
Quality-at-entry	A comprehensive check on all aspects of design integrity of an intervention and its alignment with polices and strategies - incorporates evaluability.
Result	The output, outcome or impact (intended or unintended, positive or negative) of an activity or intervention.


Mongolia

Highlights

Aggregate performance of the EBRD's operations

- Over the Bank's operational history, the proportion of evaluated projects rated "successful" or better has varied between about 50 and 70 per cent (see Overall performance, p 8).
- The success rate of projects approved in 2007-09 (the most recent period for which evaluation results are available) was 57 per cent, which was more or less the average for the entire period (see Overall performance, p 8).
- The most important factors in determining the overall performance of a project are the achievement of objectives, transition impact and financial performance (see Breakdown of overall performance, p 8).
- The proportion of evaluated projects approved in 2007-09 which achieved "satisfactory" or better transition impact was 82 per cent and the proportion rated "good" or "excellent" for transition impact was 53 per cent (see The impact and sustainability of Bank projects: transition impact and environmental and social impact, p 11).
- Evaluations point to political economic factors and risks as being largely responsible for the lower performance of investments in Central Asian countries (see Underperformance of projects in Central Asia, p 20)
- Analysis suggests the trend of a falling proportion of projects rated "fully verified" for additionality is due to lack of clarity in the assessment methodology. Assessing a more focused definition of financial additionality as a relevance criterion, with no direct link to overall performance, should be considered (see Decline in proportion of projects rated "fully verified" for additionality, p 20).
- The falling proportion of projects rated "highly successful" has been noted previously. Further analysis has identified three contributory factors:
    - The comparison holds for a brief period (2001-03) where there was an unusually high proportion of projects rated "highly successful"; however, current performance is not out of line with the average since 1991
    - Evaluations of projects approved in 2005 and 2007, the worst-performing years, identify the financial crisis as a key influence on performance
    - There is some indication that overall performance ratings in evaluations conducted after 2006 reflect somewhat tougher standards following EvD independence (see Decline in the proportion of highly successful projects, p 21).
- Projects with environmental category C or FI have quite different environmental implications to projects in categories A and B. Consequently, the analysis of environmental performance in Annual Evaluation Reviews (AERs) should distinguish between projects classified in these two different category sets (see Decline in environmental and social performance ratings, p 21).

Main findings from evaluations completed in 2012

- Evaluations continue to identify a lack of clarity regarding the expected outcomes of projects, the means by which these will be obtained and benchmarks by which results will be measured. The links between physical objectives and wider aims are often unclear (see Results frameworks, p 13).
- Several reports highlighted the benefits of using a more methodical or integrated approach to target higher level objectives in specific countries and sectors (see Higher level objectives, p 14).
- Political risk and slow progress on policy dialogue were identified as problems in a number of projects, particularly in early transition environments and among projects transferred to Corporate Recovery. This also emerged as a key recommendation of a study of 10 years of technical cooperation (TC) evaluations – "Findings and Insights from Technical Cooperation" (see Political risk, p 15 and Findings relating to technical cooperation, p 15).

On self-evaluation and transition impact monitoring

- In 2012 EvD introduced the operation performance assessment (OPA), a new self-assessment template intended among other things to increase the depth and rigour of the mandatory self-assessments done for all completed projects (see Introducing a new self-evaluation tool, p 23).
- Whilst a wide gap remains between ratings produced by self-evaluation and those produced independently by EvD, there are indications that it has started to narrow for the first time in many years (The ratings gap in evaluated investment operations, p23)
- Comments on the quality of OPAs often cited sound financial analysis and a good assessment of specific project-level targets and achievements. However, weaknesses were frequent in the explanation of the operation's context, rationale and wider impacts. In several cases, insufficient evidence was provided to support positive performance ratings (see Qualitative assessment of self-evaluation, p 24).
- The assessment of risk at appraisal captures a difference seen in the later performance of projects however, transition potential as assessed at appraisal is not a strong predictor of the transition impact rating obtained at evaluation (see Impact monitoring of investment operations, p 24).

Aggregate performance

How operations are evaluated in the EBRD

All mature operations are self-evaluated by banking staff using the new OPA template introduced in 2012. EvD advises bankers on preparing the OPA, reviews all such self-evaluations in draft form and suggests amendments which would improve the quality of the self-evaluation. However, in an important change from previous policy, EvD no longer signs off on the OPA or attests to its final adequacy in any way. The OPA is a product for which Management is fully accountable.

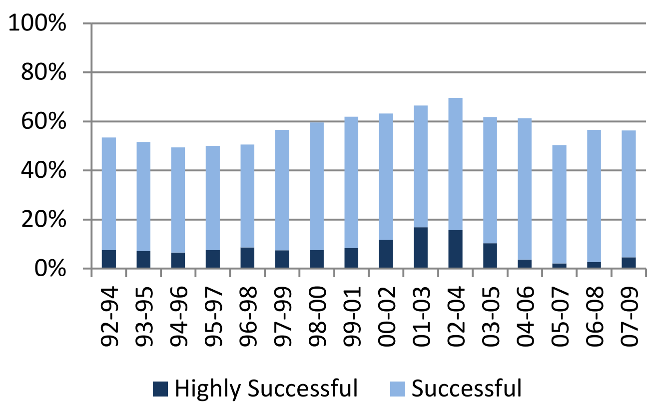
EvD selects a random but representative sample of evaluation-ready projects for which OPAs will receive an EvD validation. This normally takes the form of a desk study with a review of the project file and other available information and consultation with the operation leader and other Bank staff. The OPA validation (OPAV) report provides an opportunity for EvD to comment on the quality of the OPA, reflect upon or supplement any findings identified by the OPA team and suggest improvements for future reports. EvD also selects a small number of operations for full independent evaluation through an OE or special study, following the completion of the self-evaluation process. Operations for full evaluation are chosen deliberately for their potential to produce operationally useful findings, any particularly important or challenging features or as input to a broader study such as a sector strategy evaluation. Annex 1: Project evaluation selection describes the selection and evaluation process in more detail.

The findings presented below are based on EvD's evaluation results for the representative sample of randomly selected operations only. The following two sections consider the overall performance of evaluated projects. The remainder of the chapter reviews the four aspects of performance according to the evaluation criteria of the OECD Development Assistance Committee (DAC) – relevance, effectiveness, efficiency and impact and sustainability. These criteria have been incorporated into the new templates for the self-evaluation (OPA), validation (OPAV) and independent Operation Evaluation (OE) reports. Annex 2: Evaluated performance of projects by year of approval presents a full set of the figures forming the basis of the text below.

Overall performance

Historically, the proportion of evaluated projects rated “successful” or better has varied between about 50 and 70 per cent. Chart 1 below shows results by year of evaluation using a three-year rolling average to smooth out year-on-year variations. The highest performance ratings were recorded among projects approved in the years 2001-04 both in terms of “successful” projects and those rated “highly successful”. The most recent approval years for which results are available are 2007-09. Results are around the long-term average with 57 per cent of projects rated “successful” or better at evaluation, including 5 per cent rated “highly successful”.

Chart 1: Overall performance by approval year (rolling three-year sample)



Two major financial crises have affected the EBRD region in the last 20 years. Overall performance was lowest among operations approved in 1996-98, immediately before the 1998 Russian crisis, and in 2005-07 immediately before the 2008 financial crisis. Operations approved between these periods performed better and initial indications are that performance is bouncing back. It is important to note that performance under most evaluation criteria is measured against expectations at appraisal rather than against an objective benchmark. Therefore, the operations that score lowest are those that were approved in a relatively benign economic environment with high expectations but were then affected by an unexpected economic downturn.

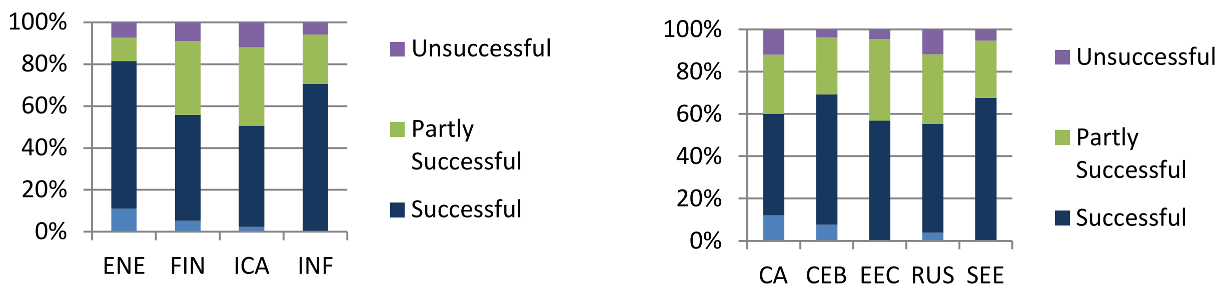
Last year's Annual Evaluation Review (AER) highlighted a number of persistent characteristics of the aggregate evaluation results. One of these was why the proportion of projects rated “highly successful” has fallen in recent years compared with projects approved up to about 2005. EvD looked at these questions in more depth during the year with the assistance of an external consultant and the findings of this work are reported in the Chapter Investigation of trends.

Breakdown of overall performance

Relative performance by industry sector and geographic region shows marked variations. These differences have fluctuated over time. Chart 2 below shows the overall performance ratings for the 220 projects approved in 2004-09. In this period, projects in the financial and industry, commerce and agribusiness sectors had underperformed projects in the energy and infrastructure sectors. This pattern is not new but it is more pronounced than in recent years. EvD has noted before that the financial and industry, commerce and agribusiness sectors are more vulnerable to changes in the economic environment since they are mostly in the private sector and open to more direct competition. Energy and infrastructure sector projects are more likely to be in the public sector or in regulated utilities with a more reliable cash flow. It is likely that projects in the financial and industry commerce and agribusiness sectors were more seriously affected by the recent economic upheavals.

Projects in the Central Europe and the Balkans (CEB) and South-eastern Europe (SEE) regions have consistently performed better than those in the other regions. In the case of CEB, this has been the case since the start of the Bank's operations and in SEE a marked improvement took place in the early 2000s once the region emerged from various conflicts in the former Yugoslavia. In past years, the Central Asia region has performed particularly badly relative to other regions. This issue is addressed in more detail in the section on Underperformance of projects in Central Asia. Chart 2 below shows that the underperformance in Central Asia has become less pronounced in recent years and it is now in line with performance in the European Economic Community region and Russia. Central Asia also has a relatively high proportion of “highly successful” projects.

Chart 2: Overall performance by sector and region for projects approved 2004-09



ENE: Energy; FIN: Financial Institutions; ICA: Industry, Commerce and Agriculture; INF: Infrastructure

Table 1 shows the degree of correlation of individual performance indicators with overall performance for all projects in the evaluation database. The closer the number is to 1, the more closely the ratings are correlated.

Table 1: Correlation between performance indicators

Indicators of overall performance (OP)	OB	EP	EC	AD	PP	BH	OP
Transition impact (TI)	0.75	0.40	0.25	0.33	0.65	0.67	0.80
Achievement of objectives (OB)		0.39	0.25	0.29	0.72	0.66	0.82
Environmental and social performance (EP)			0.36	0.15	0.37	0.37	0.43
Environmental and social change (EC)				0.17	0.19	0.22	0.27
Additionality (AD)					0.23	0.31	0.31
Project financial performance (PP)						0.60	0.76
Bank handling (BH)							0.67

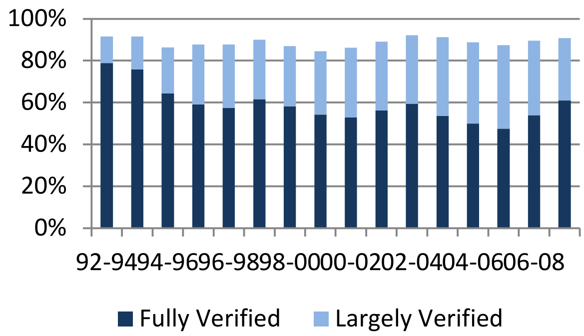
The individual indicators which most closely match the overall performance are the achievement of objectives (0.82), transition impact (0.8) and project financial performance (0.76). We can consider these as the most important factors in determining the overall performance rating of a project.[1]

[1] EvD is producing a new guidance note on performance rating methodology during 2013 that will, among other things, improve the transparency, consistency and integrity of performance ratings while still allowing for an acceptable degree of evaluator discretion.

The relevance of Bank projects: additionality

Evaluation reports do not rate rationale as such. They include a description of the rationale of the project in terms of the Bank's mandate and rate additionality under this section. Chart 3 shows the assessed additionality of evaluated projects. As has been noted in the past, additionality is "largely verified" or better in over 90 per cent of cases but the proportion of projects with "fully verified" additionality fell progressively to less than 50 per cent of projects approved in 2005-07.

Chart 3: Additionality by approval year (three-year rolling sample)



There appears to have been some improvement since then. The corresponding figures for evaluated projects approved in 2007-09 are 92 per cent and 62 per cent. The improvement may be attributable to the crisis response projects approved from late 2008 onwards and continuing economic difficulties limiting the availability of funds in the region.

The fall in the proportion of projects rated "fully verified" in the early-to-mid-2000s is discussed in the section on Decline in proportion of projects rated "fully verified" for additionality (p 20).

The effectiveness and efficiency of Bank projects: achievement of objectives, project financial performance and bank handling

Achievement of objectives and project financial performance, which together measure the Bank's effectiveness, are two of the indicators most closely correlated with overall performance. It is not surprising then that both show a performance pattern closely matching that seen in Chart 1, with higher scores for projects approved around the period 2000-06. Although results then declined modestly, performance has levelled off over the two most recent three-year periods.

Chart 4: Achievement of objectives by approval year (three-year rolling sample)

Chart 5: Financial performance by approval year (three-year rolling sample)

The variation of financial performance by region, and especially by sector, matches overall performance but much more strongly than the other key indicators of transition impact and achievement of objectives. In particular, the financial performance of projects in the financial and industry sectors approved in 2004-09 has been below that of infrastructure and energy projects. This suggests again that the overall performance of recent projects has been affected by the economic environment.

The efficiency of Bank projects is measured through Bank handling, the quality of the Bank's own performance throughout the life of the project including the investment performance of the Bank. This shows a similar pattern over time but with higher scores across the board. Over 70 per cent of projects in recent years have been rated "good" for bank handling and over 90 per cent "satisfactory" or better. Evaluations often find the causes of less successful projects to lie outside the Bank's control either in the political and economic environment or in the commitment or performance of partners.

The impact and sustainability of Bank projects: transition impact and environmental and social impact

Chart 6 shows the proportion of projects rated “good”, “excellent” and “satisfactory” by EvD for transition impact. In 2007-09, the most recent period of projects approved, 53 per cent of evaluated projects were rated “good” or better and a further 29 per cent were rated “satisfactory”. The pattern over time is similar to that for the overall performance rating of which transition impact is an important part.

All projects are screened at appraisal for transition potential. A project is only approved if its transition potential is at least “satisfactory” and at least 80 per cent of projects approved in a year must have “good” or “excellent” potential. In practice this figure is often much higher but there remains a substantial gap between the transition potential assessed at appraisal and the transition impact achieved or expected to be achieved at the time of evaluation.[2] This gap is discussed further below, see The ratings gap in evaluated investment operations (page 23).

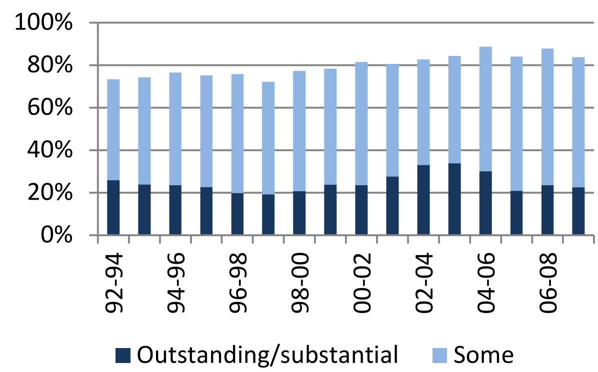
Chart 6: Transition impact by approval year (three-year rolling sample)

Environmental and social impact is important to the Bank's mandate, which includes a requirement for the Bank “to promote in the full range of its activities environmentally sound and sustainable development” (Article 2vii). However, it is not closely correlated with the overall performance rating of projects. Among evaluated projects approved in 2007-09, 51 per cent were rated “good” or better for environmental and social performance and a further 35 per cent were rated “satisfactory”. Eighty-five per cent achieved at least “some” environmental and social change.

The AER for 2011 commented on the relationship between environmental and social impact and the environmental categorisation of projects. This was one of the topics investigated during the year by EvD (see Decline in environmental and social performance ratings (page 21)).

Chart 7: Environmental and social change by approval year (three-year rolling sample)

Chart 8: Environmental and social change by approval year (three-year rolling sample)



[2] The *ex-ante* assessment system for expected transition impact and the target levels have been thoroughly investigated by the TIMS working group of the President's Results Taskforce and significant changes will be put in place if recommendations are adopted and implemented. As well as providing better incentives for bankers to focus on the achievement of transition impact, it is hoped that these changes will reduce the gap between expectations and achievements.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Findings from evaluation in 2012

Introduction

This chapter presents the main findings from evaluations in the 2012 work programme. Some common themes arose from different evaluation reports and these are drawn out below, as well as other important individual findings.

Results frameworks

The AER for 2011 presented findings from sector strategy evaluations which showed a high level of generality in stated objectives, a concomitant lack of clarity as to what outcomes were anticipated and limited specificity on intended links between operations and wider intentions. Some of the evaluation reports finalised in 2012 produced similar findings at the project and programme level. In particular, they focused on the definition of project objectives, establishment of benchmarks and monitoring systems and the relationship between project-specific objectives and higher level transition objectives at the sector or country level.[3]

Quality at entry

The evaluation of the Early Transition Countries Initiative (ETCI) suggested that project design and quality at entry could be improved by ensuring that projects:

- set out the transition challenges and how they are to be addressed more explicitly
- categorise their objectives as physical, financial, commercial or "transition-related" and relate these objectives to outcomes (or behavioural change) wherever feasible
- connect specific inputs or activities to intended results and monitor developments consistently
- establish adequate baseline data at the outset
- identify clear objectives for TC/policy dialogue and monitor these effectively.

The same study identified several issues arising from the ETCI with wider relevance and which echoed past evaluation findings. These included the following:

- An overarching project design methodology for integrating the different project objectives is often lacking - there is no apparent hierarchy of results
- Inconsistency in how outcomes are distinguished from outputs
- Transition impact expectations are often stated in terms of market size instead of market structure which tends to diminish their reach and ambition
- Baseline data are not systematically presented
- Key operational performance data are not effectively monitored
- Policy dialogue and TC are often not effectively connected to investments nor accompanied by effective performance metrics and monitoring plans of their own.

Management's comments (SGS12-172 [Add 1]) on the study argued against extending these findings more broadly because, in Management's view, the benefits of such initiatives in an ETC context were likely to be relatively less than in other areas and the associated costs relatively less acceptable. According to Management, the Bank has already achieved a reasonable standard in application of its transition methodology and improvements could only come at a certain cost in terms of complexity of the Bank's processes. While acknowledging some of the special characteristics of the ETCI, EvD nevertheless does see broader relevance and applicability of its findings. Management mentioned some initiatives underway which it believes would address some of the issues, including the TC strategy review, a review of the PMM monitoring system and work on improving the transition impact monitoring system (TIMS). EvD agrees that, when fully implemented, a number of on-going initiatives such as those mentioned will address some of the issues raised.

The issue of quality at entry also arose in the evaluation of the Legal Transition Programme (LTP) which produced the following recommendations:

- While the ultimate success of legal reform projects depends to an extent on external factors, the LTP should set more precise and measurable objectives in its three-year action plans or in its annual plans, if such plans are to be introduced. This would improve monitoring and provide the potential for the implementation of these plans to be effectively evaluated.

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[3] As mentioned, adoption and implementation of the recommendations of the TIMS working group and a country strategy working group would see many of the identified issues addressed.

- The LTP should integrate a "Project Results" column to its "LTP Legal Reform Projects" list which would briefly summarise the concrete results of each project (for example, listing the main outcomes and impacts; giving the date when the law was enacted; commenting on whether it is utilised or why it was not approved; and results of competency tests following training).
- The LTP should structure its collaboration with other organisations in a more systematic way, setting specific objectives and plans for such a collaboration in its three-year action plans.

Management did not comment formally on this report, which has been taken to indicate agreement.

Higher level objectives

Wider use of an integrated approach is recommended

The Transport Policy Evaluation (see 2011 AER) recommended an integrated approach in the transport sector. The need for this was further illustrated by a 2012 operations evaluation which noted that implementation of effective reform measures requires a holistic view rather than project-limited thinking. In other words, it is the sector reform objective that should be the main focus, with the fulfilment of covenants no more than indicators of actual progress toward achieving this. There could be greater involvement of the Legal Transition team and the introduction of transition benchmarks aimed at both project and sector level improvements (Corridor VC, Bosnia and Herzegovina, PE11-508T).

Target higher level objectives that contribute to market development

The Local Enterprise Facility (LEF) has been replenished three times. Transition impact objectives have been restated on each occasion as residing at the level of the individual framework projects and no higher level or systemic transition objectives were set for the overall framework. The challenge remains how to leverage the development of a portfolio of projects into sustainable private sector investment mechanisms. Finalisation of the new collaborative SME and venture financing mechanism for the Western Balkans (the SME Platform) and expansion of LEF to new countries of operations present the opportunity to identify how EBRD engagements in smaller projects can be structured to impact on higher level or systemic transition challenges such as access to finance, the enabling environment for venture financing, fostering the establishment of venture funds and sustainable capacity building. (Western Balkans Local Enterprise Facility, Regional, PE11-535S).

In its comments, Management agreed with the finding and noted that a comprehensive regional TC programme had recently been introduced under the Enterprise Development and Innovation Facility to support legislative changes to allow a proper "ecosystem" for private equity and venture capital.

Integrated approach

The ETCI could employ more programmatic or integrated approaches, reinforced by better monitoring and reporting of progress in specified countries and sectors.

- ETC Country Strategies might identify fewer sectors as priorities and specify more clearly what might their results benchmarks might be.
- A deeper involvement of OCE might be useful in tackling stubborn challenges in the design and supervision of the Initiative's transition impact.
- Priority regulatory and institutional reform measures, supported by associated TC and policy dialogue, could be better captured in transition performance reporting.
- New approaches to incorporating poverty and well-being indicators into TIMS could be explored (ETCI Study, Regional, PE11-510S).

In its comments, Management reported on several examples of an integrated approach being applied and described further work underway that would address many of EvD's points. This included identifying first and second tier priorities and working more closely with OCE on key aspects of the ETC Initiative.

Other findings on objectives and results frameworks

Consistency across the Bank's project documents and defining a clear source of measurement for performance benchmarks

When setting up specific quantitative benchmarks and indicators for monitoring and evaluating performance or transition impact, the source of reference data must be clearly defined in advance and a thorough assessment of data reliability should be undertaken. Notwithstanding the project's complexity and the need for operational flexibility on the part of the operation team post-Board approval, there should be consistency and clarity across the Bank's approval documents, legal agreements and monitoring reports. This is in the interest of a measurable post-evaluation of achievements. Further, a better specification and measurement of results achieved not only helps post-evaluation, it also better equips the EBRD to "tell the story" about the results it is achieving (Electric Networks of Armenia, Armenia, PE11-518).[4]

[4] Adoption and implementation of the TIMS working group recommendations will address this issue.

Political risk

Several operations faced problems of political risk or slow progress on policy dialogue, particularly in early transition or politically unstable conditions. This remains an important risk area for the Bank, as indicated by the fact that several of the findings listed below came from a review of a selection of operations currently in Corporate Recovery.

Policy dialogue in an uncertain political environment

The experience in Bosnia and Herzegovina highlights the difficulties of policy dialogue in an uncertain political environment. A memorandum of understanding among IFIs and the government was not signed since a suitably empowered counterpart could not be found at government level. The urgency to resolve the policy issues is growing as time passes. The sustainability of MFIs in the Federation is jeopardised by the restrictions currently imposed on their business activities (Western Balkans MSME Framework, Regional, PE11-530).

Alignment of TC operations with committed sector reforms

TC operations will not induce sector reforms in the absence of commitment on the part of policy makers and regulatory authorities. When financing TC operations aimed at achieving transition impacts, the Bank should ascertain that they are in line with the objectives of the policymakers and that the potential effects are properly assessed and subjected to realistic benchmarks (Electric Networks of Armenia, Armenia, PE11-518).

The risks of political risk mitigation

Sponsors expect the EBRD to use its status to protect projects from undue official interference. Reacting to concrete risk events is never straightforward, however, and has revealed tensions between protecting the project and meeting broader strategic objectives. The Bank can select projects accordingly, choosing which potential battles it may want to take on. The poorer the quality of the business climate, the more likely that the event and the conflict will become more difficult (Corporate Recovery Projects: insights from impaired assets, Regional, PE11-533S).

Impacts from unconventional regulation of commerce

A commercial activity that may be relatively risk free in an unregulated market economy becomes riskier in a transition economy where it may be subject to arbitrary government regulation of prices, quantities or other key factors. In contexts where arbitrary changes of government policy are likely and the success or failure of the project depends on them, there is a weak argument for any transition impact at all. If the transition to a market economy is being hindered by government policy, project success may be the result of market distortions rather than evidence of achieved transition impact (Corporate Recovery Projects: insights from impaired assets, Regional, PE11-533S).

Indirect early transition risks to export-oriented projects

Earlier transition contexts, which adhere weakly to Article 1 principles, expose projects to added risks. For example, ,foreign markets may suddenly shut down in their export sectors in response to violations of human rights. Where such violations are ongoing and well-known, Bank projects that accepted the risks suffer from sudden loss of Western demand for their products, sometimes due to boycott (Corporate Recovery Projects: insights from impaired assets, Regional, PE11-533S).

Key person risk is higher in early transition environments

In earlier transition countries, a successful and growing SME can attract unwelcome attention and pressure from well-connected persons to either sell the firm or close it down. The political risk may affect individuals who cannot be identified upfront as politically exposed persons. It can have indirect and negative effects. For example, if an entrepreneur falls out of favour with powerful interests, suppliers and customers may be reluctant to continue doing business with them (Corporate Recovery Projects: insights from impaired assets, Regional, PE11-533S).

Findings relating to technical cooperation

The synthesis study, *Findings and Insights from Technical Cooperation Evaluations*, reviewed TC evaluations over a ten-year period to distil key findings and lessons. The report was distributed in July 2012 and made three key recommendations.

Adopt and apply a results-based approach

The adoption of a results-based management approach, as already identified by the Grant Co-financing Strategic Review currently being implemented, will be crucial in tackling the most frequent findings related to the Bank's TC management and will ultimately serve to enhance the Bank's performance and the perception of this. As a condition of approval, TC project submissions should include clear and measurable success indicators. Baseline data should be provided and targets should be specified for each indicator, with timelines for expected accomplishments. Importantly, progress should be monitored during a project and evaluated at completion. A detailed implementation plan should be integral to each TC project.

Other initiatives could complement adoption of a results-based management approach to TC.

- TC project guidelines should cover design (including impact, outcomes, outputs, indicators and milestones), implementation, monitoring, evaluation, reporting and follow-up of TC projects.

- Provide coaching in the design of TC projects and invest in mandatory training for all Bank professionals dealing with operations, particularly staff in the Resident Offices.
- Adopt procedures to ensure quality control in the design of TC projects such as an improved template for submission of TC projects; quality checklists);
- Review the role and mandate of the TC Committee (TC COM) and the upstream processes needed for quality at entry which is stated in TC COM's terms of reference but not systematically undertaken.
- Introduce benchmarks or indicators to check that sustainability criteria are included for each TC operation submitted for approval.
- Connect the TC monitoring system to the Transition Impact Monitoring System (TIMS) which will help to distinguish more fully between TC attached to an investment and standalone TC in terms of expected transition impact and outcomes.
- Refresh guidelines for consultancy terms of reference.
- Design a results-oriented reporting and self-assessment system in order to respond to principles of accountability and learning.

In its comments, Management noted that the recommendations regarding a results-based approach were core elements of the then ongoing Grant Co-financing Strategic Review.

EvD actively contributed to this review throughout 2012, including participating in the Grant Steering Group meetings and working on the design of tools aimed at improving management of grants. Among them, EvD committed to develop and implement an evaluability checklist for TC to prepare the TCs to generate all necessary conditions to be evaluated and check their quality at entry; and structure and contribute to rolling out a new self-evaluation tool for TC operations. EvD has also been involved in developing a new mandatory training course for all staff at the EBRD on how to design TC projects using a results-based approach.

Ensure client commitment and ownership

Client commitment is key to the success of a TC project and past experience shows it cannot be automatically assumed. It is crucial that the client understands that TC funding is not a substitute for committed management. If a TC and its related investments are to be successful the recipient must engage with the operation team during all phases of the project. The cost-sharing policy aims to be a practical demonstration of client commitment. At the same time, the operation team has to provide the client the necessary information and time to understand, adopt and absorb the assistance.

Management has committed to review the cost-sharing policy for grants in 2013.

Sharpen the Bank's leverage on policy dialogue

The importance of continuity and consistency in policy dialogue has been repeatedly stressed in evaluations. Evaluations have also revealed that the Bank's Resident Offices are pivotal to policy dialogue activities and to coordination with other players, and should be supported accordingly in terms of resources. It would be useful to explore the possibility of delegating the management of grants deserving particular care to the Resident Offices, along with the responsibility for maintaining dialogue with local stakeholders.

Findings relating to small and medium-sized enterprises (SMEs)

In 2012 EvD published studies on two frameworks through which the Bank provides direct finance to SMEs – the Western Balkans Local Enterprise Facility (LEF) and the Facility for Medium-Sized Projects. These resulted in findings relating to the management of small projects and particularly the question of whether delegated authority for approvals and simplified processing and monitoring were effective. They also made recommendations for further research on the Bank's direct financing of SMEs.

Instruments for handling smaller projects

LEF was found to be an effective and flexible instrument to develop smaller projects whilst maintaining EBRD standards of project preparation. The intensive monitoring process has been a particularly valuable initiative in raising and responding to issues early and has helped contain losses from a high risk group of projects. Donor funds have played their part in facilitating the project pipeline – financial viability of the framework to the Bank would be questionable without this support and it is doubtful whether the approach can be extended without adding *pro rata* to resources and support (Western Balkans Local Enterprise Facility, Regional, PE11-535S).

Despite some good examples of value creation in small equity investments, experience shows that exits from small investments are hard to achieve in difficult environments. It may be some years before there are LEF equity investments completing the cycle to successful exit and continuing Bank support for the facility will be required during this time (Western Balkans Local Enterprise Facility, Regional, PE11-535S).

Management agreed with the overall assessment of LEF in terms of its key features and impact on the ground, especially in terms of transition. Management also agreed on the reliance on donor funding, as this has proved to be a critical feature in allowing affordability of small deals. Long-term availability of donor funding therefore is potentially a serious constraint for the growth and future development of the fund. The Bank is addressing this by sourcing further resources from the Western Balkans Investment Fund, Shareholder Special Fund, Italy and elsewhere.

Overall savings through efficiencies in project preparation have not been observed in the Facility for Medium-Sized Projects apart from the saving achieved as a result of delegated authority from full Board to OpsCom/SBIC. With knowledgeable representatives from support departments experienced in transactions with small businesses and medium-sized corporates, the configuration of SBIC enables proposals to be considered efficiently without compromising the Bank's standards for the approval of investment operations. Some operation leaders reported that the time saved from avoiding a Board presentation (at least six weeks) was a deciding factor in making the Bank's proposition acceptable to the client (Facility for Medium-Sized Projects, Regional, PE12-554S).

The original modelling of the facility underestimated the level of preparation costs and the risk profile of projects. The facility's core instruments – equity and mezzanine finance – are inherently more costly in time and other resources including legal costs compared with senior debt (Facility for Medium-Sized Projects, Regional, PE12-554S).

Recommendations for further work

Rationalising the delivery of EBRD products to medium-sized corporates

The Bank should undertake a review of the various channels currently used to deliver investment products to medium-sized corporate enterprises. The main challenge remains that of achieving critical mass and demonstrable results through a portfolio approach and within cost constraints. Based on this and other evaluations of similar facilities, a review of the different delivery channels could lead to rationalisation and the development of a Bank-wide approach with potential to improve cost effectiveness and deepen outreach to medium-sized corporates across countries and sectors (Facility for Medium-Sized Projects, Regional, PE12-554S).

Management should consider making a study of the relationship between project financial feasibility/sustainability and the size of the project firm, and also between the relative size of the project compared to the project firm (Corporate Recovery Projects: insights from impaired assets, Regional, PE11-533S).

Management commented on this last recommendation that it did not feel conducting such a study was a priority. Given the importance the Bank places on SME financing, a better outcome could be achieved by disseminating the specific lessons identified by the study as well as other pertinent experiences from Corporate Recovery operations to front-line operation staff members.

Corporate Recovery projects: insights from impaired assets

EvD cooperated with Corporate Recovery to review a selection of projects managed by that unit. The study sought insights about the causes of the projects' financial difficulties and lessons for how such difficulties might be avoided in future.

EvD identified over 40 principal lessons from the review and circulated them to EBRD bankers and peer reviewers for rating and comment. Feedback from this survey confirms that many of the lessons stem from basic banking shortcomings that should have been revealed by effective due diligence. These include limited sensitivity analysis; excessive foreign exchange risk; reliance on one customer; unrealistic financial projections; management skills not suited to an expanding company; and inadequate security. Others reflected risks inherent in the Bank's operations in a particular country, such as political risk.

Management's comments on the report concurred that many of the lessons were rudimentary but noted nevertheless that the very fact that these were lessons drawn from actual projects should be a useful reminder to bankers and other frontline staff to keep high standards of due diligence and post investment monitoring.

Findings from the evaluation of the Legal Transition Programme

An evaluation of the Legal Transition Programme (LTP) was published in 2012. Overall the programme was rated "successful" with "excellent" transition impact and sustainability. The report made numerous specific recommendations for focusing and refining LTP activities. In addition to the suggestions on more precise and measurable objectives and a focus on results already mentioned above, the following general recommendations were made.

- The Bank should perform a strategic review of LTP priorities, core areas, resource allocations and modes of engagement internally and with external players (IFIs).
- The LTP should continue updating its legal assessments and fine-tuning the set standards which it has developed with great success over the last 10 years.
- The LTP should sharpen its focus on projects which directly support legal reform processes, particularly in terms of institutional capacity building and better designed training for judges, registrars, PPP or procurement officials.
- A stronger focus on company law and secured transactions is needed as these areas greatly facilitate the Bank's engagement and are at the core of transition.
- Increased efforts are needed in developing local capital markets, possibly within the framework of the Bank's local capital markets and local currency initiative.

Management did not comment formally on this report so can be considered to have agreed with its findings.

Audit Committee review of EvD reports

EvD presented 19 items to 12 meetings of the Audit Committee of the Board of Directors in 2012. EvD also presented three corporate reports to the full Board of Directors. A lot of the interaction between EvD and the Audit Committee related to the update of the Evaluation Policy approved by the Board in early 2013. Discussions also covered four project evaluations and one synthesis study. Some themes arising from Audit Committee deliberations on EvD evaluations follow.

Management comments

The Audit Committee remarked several times on the absence or brevity of Management comments. The minutes of the meeting of 27 June 2012 note:

> "The Committee also reiterated its request to receive on time Management's written comments which would act as a basis for discussion. These written comments should be prepared even if Management agreed to the EvD findings."

Another occasion where this was particularly emphasised was in the discussion of the follow-up of Evaluation Recommendations by Management on 30 October 2012.

This is a subject that has arisen regularly over a number of years. The new Evaluation Policy, approved in January 2013, establishes that management "responds in writing to EvD reports as a matter of general practice". It is hoped that this will provide the basis for more substantive and mutually beneficial interaction between Management, EvD, the Committee and the Board.

Working with state-owned banks

Two discussions touched on situations in which the EBRD works with state-owned banks. Such institutions may be subject to political pressure and develop business models which are not in line with market economics. The Audit Committee warned that stringent monitoring and evaluation procedures are necessary when working with such institutions. Management explained the rationale for working with state-owned banks is to achieve greater reach when other banks were unable or unwilling to lend to SMEs or other target sectors. This situation was exacerbated by the global financial crisis and subsequent credit crunch which reduced the number of players in some countries. In the particular example under discussion, the risk of political interference had not materialised as the state-owned bank in question appeared to be managed on a sound commercial basis.

Market-distorting policies

One evaluation report related to a manufacturing project in a sector that benefited from market-distorting industrial and trade policies. Management argued that in many countries industrial policies had helped the development of specific industry sectors with some financial help or protection. The committee concluded that cases of Bank support to a project benefiting from industry policy needs to be carefully examined on a case-by-case basis against the risk of contributing to unwelcome market distortions.

Investigation of trends

The 2011 AER highlighted four performance trends or issues that required further investigation. During 2012, EvD examined these in more depth. The areas of investigation were:

– Operations in Central Asia had consistently lower performance than operations in other regions.
– The results for evaluated additionality showed that while around 90 per cent of projects were consistently rated "largely verified" or better, the proportion achieving the highest rating of fully verified had fallen progressively to about 50 per cent in recent years. Initial indications are that additionality improved again since the financial crisis, although the number of post-evaluated projects was too small to produce statistically significant results as yet.
– The proportion of projects rated "highly successful" had declined from a high of 17 per cent for those approved in 2001-03 to zero or near zero in the two most recent three-year periods.
– The proportion of projects rated "good'" or "excellent" for environmental and social performance had fallen from just under 70 per cent for projects approved in 2001-03 to close to 40 per cent in the most recent period. Further analysis for projects approved in the period 2001-08 showed an association between environmental and social impact and the environmental category of a project.

Findings from the additional work on these four issues are presented below, with further details in Annex 3: Investigation of trends.

Underperformance of projects in Central Asia

While operations in Central Asia (CA) have consistently underperformed compared to those in other regions, further investigation showed that when compared against early transition countries the evaluation results of projects in the CA region are much the same across all evaluation criteria and performance is improving. In fact, CA and south-eastern Europe were the only two regions to increase their proportion of projects rated "highly successful" in the 2000s.[5] However, while Transition Impact Report results over the past 15 years are encouraging for some CA countries, evaluation reports point to political economy factors[6] and associated risks as being largely responsible for the lower performance of investment operations in all CA countries.

Lessons from evaluation reports suggest designing more realistic operational and transition objectives and timeframes by applying the considerable range of lessons from CA project evaluations over the past two decades. Evaluation findings show that the likelihood of success would be improved by including political economy factors more explicitly in risk analysis, providing transactional TC, supporting investments with extensive policy dialogue and proactive inter-IFI coordination to support necessary reforms. The full analysis is contained in Annex 3: Investigation of trends.

Decline in proportion of projects rated "fully verified" for additionality

The 2011 Annual Evaluation Review found that although around 90 per cent of projects have consistently been rated "largely verified" **or better, the proportion achieving the highest rating of** "fully verified" **fell progressively to about 50 per cent by 2005–07.**

While there are some initial indications of improvements in ratings since 2007 approvals, the analysis suggests the trend of reduced proportion of "fully verified" ratings is not the result of exogenous factors but rather of a lack of clarity in the assessment methodology and the perception that a "largely verified" rating is sufficient to meet mandated requirements. See Annex 3 for the full analysis.

Additionality is either a measure of relevance or a measure of effectiveness, but not both. By including legal conditions and future leveraging of commercial finance as additionality dimensions, this evaluation criterion is being complicated by mixing an aspect of effectiveness with relevance. It is true that the EBRD may be able to use its financing to convince the client to undertake certain actions (converted into legal conditions) which commercial financiers would not require. However, the degree to which these conditions were fulfilled and therefore influenced the quality and achievement of project results should be assessed in determining the effectiveness of a project and not its relevance.

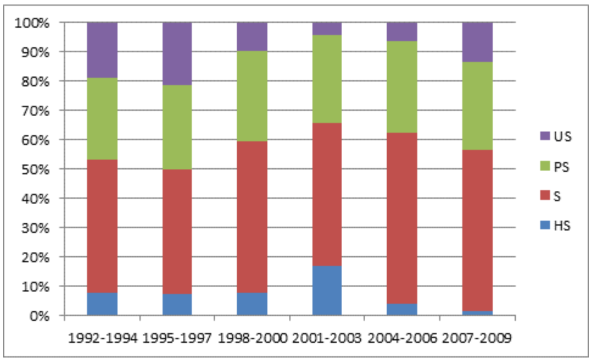
This would focus additionality on financial aspects as intended by the Bank's articles of establishment. Assessing whether financing terms were valid at the time of approval does not have a strong influence over project performance. Consideration should be given to assessing this more focused definition of additionality as a relevance criterion outside of the assessment of overall performance.

[5] For CA from 1 to 2 and for south-eastern Europe from 5 to 12.
[6] Political economy refers to the interrelationship between political and economic processes and institutions, particularly as related to policy issues, interests, decisions and reform implementation.

Decline in the proportion of highly successful projects

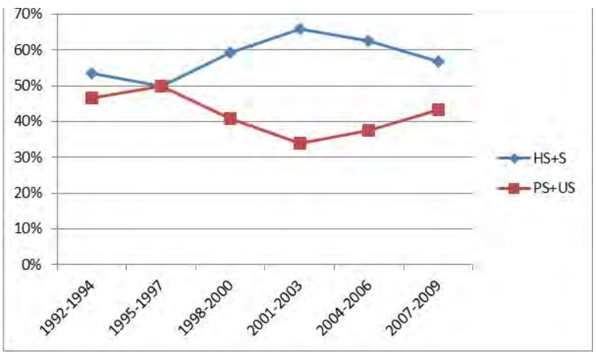
The 2011 AER noted that the proportion of projects rated "highly successful" **declined from a high of 17 per cent for those approved in 2001–03 to zero or near zero in the two most recent three-year periods (Chart 9).**[7]

Chart 9: Overall performance by number of reports for three-year board approval cohort 1992–2009



HS=highly successful, PS=partly successful, S=successful, US=unsuccessful
Source: EvD database

Chart 10: Overall performance positive vs. negative ratings for three-year board approval cohorts 1992–2009



HS=highly successful, PS=partly successful, S=successful, US=unsuccessful
Source: EvD database

Since 1992, at least two projects have been rated "highly successful" each year, peaking with 11 in 2003. The 2001-03 period was the first time that over 10 per cent of evaluated projects were rated "highly successful" in three consecutive years. Seventeen of the 23 "highly successful" projects in this period were evaluated between 2004 and 2006. Evaluations conducted in this three-year period accounted for over 40 per cent of all "highly successful" ratings given since 1991.[8] By contrast, 2005 and 2007 were the only two approval years since 1991 when not one project was rated "highly successful". Further, 2007 was also the first year since 1995 when over 20 per cent of projects were rated "unsuccessful".

On a more encouraging note, the combined "highly successful" and "successful" (''positive'') rating scores in 2001–03 and 2004–06 were the highest on record (Chart 10). While they too were decreasing after 2007, the relatively small number of evaluations means it is too early to judge whether there is a declining trend in the quality of post-2006 projects.

The lack of "highly successful" projects in 2005 and 2007[9] is the primary reason why "highly successful" ratings for the two three-year cohorts of evaluation reports following 2001–2003 were so low. Evaluation reports for projects approved in 2005 and 2007 show the financial crisis most was often referred to as the key influence for both "successful" and "partly successful" ratings but not for "unsuccessful" ratings, which were judged to be the result of poor management, governance or fraudulent practices.

Another aspect of overall performance ratings of projects approved in 2005 and 2007 that seemed more pronounced was instances where there was a more marked disconnect between criterion ratings and the tone of the evaluation on the one hand, and overall ratings on the other, with overall ratings being lower than the criterion ratings and overall tone would imply. This seems to have led to a rating that was lower than might have been expected from the combination of individual criteria scores or the justification provided for the overall performance. This raises the possibility that a higher standard was being applied in evaluations conducted post-2006 after EvD become fully independent. The same disconnect is not so easy to discern in evaluation reports conducted in the years 2004–06 when most "highly successful" ratings were given, including those for projects approved in 2001–2003. Further details of the analysis are contained in Annex 3: Investigation of trends.

Decline in environmental and social performance ratings

The proportion of projects rated "good" or "excellent" for environmental and social performance has fallen from just under 70 per cent for projects approved in 2001–03 to close to 40 per cent in 2006–08.

The evaluation database has an average of 10 reports per year for projects approved since 2004 and classified as Category A or B. This is an insufficient number to analyse the above issue.

Sixty per cent of projects approved since 2004 have been classified as either Category C or FI. These two categories have quite different environmental implications to projects in Categories A and B. As a result, the analysis of the two evaluation environment criteria in AERs should distinguish between projects classified in these different category sets.

[7] The overall performance ratings by volume are consistent with those by number of evaluation reports. However, as few evaluations have yet to be conducted for projects approved in 2008 and 2009, the analysis includes 2007 approved projects but not those of projects approved in 2008 and 2009.
[8] EvD became a fully independent department reporting directly to the Board in mid-2005.
[9] In 2004 three projects were rated highly successful and two projects were rated the same in 2006. These numbers are closer to EBRD's historic annual average of projects rated "highly successful".


Detailed information of changing business activity of subdivisions of main company
Subdivision 1
Subdivision 2
Subdivision 3
Best subdivision value

Roundup of self-evaluation and monitoring

Introduction

A useful indicator of the extent to which EvD and Management have the same understanding of project performance is the so-called ratings gap. This is the divergence between *ex post* project ratings obtained from two sources; the project teams' self-evaluation reports and transition impact monitoring and EvD's evaluation ratings. The ratings gap is not the only indicator of the quality of monitoring and self-evaluation but it is a good objective indicator of both the current situation and changes over time.

It is expected that Management's assessment of its own performance will tend to be a little more positive than EvD's assessment. However, over several years EvD has reported a significant ratings gap that shows no sign of a trend toward closure. The gap is also greater than that found in comparable international finance institutions that have moved earlier than the EBRD to improve the quality of self-evaluations. The actions now being taken by EvD and Management should see the ratings gap narrow in future years to be more in line with that of comparator institutions. The AER reports further on self-evaluation below.

In addition, EvD introduced a new section of the OPAV report in 2012 to allow for a narrative assessment of the quality of OPAs. The comments from 2012 validations have been brought together in section Qualitative assessment of self-evaluation, p 24.

The quality of investment self-evaluations

Introducing a new self-evaluation tool

In 2012 EvD introduced a new approach to self-evaluation in cooperation with Management. A new template was rolled out, with the OPA replacing the old expanded monitoring report (XMR). EvD launched a communications drive to inform bankers and portfolio managers about the new approach. EvD also increased the resources it devoted to commenting on OPAs and providing guidance to individual bankers.

The *Annual Evaluation Review for 2011* set out the objectives of the new approach, which were to:

- encourage operation teams and Management to take greater ownership of the self-assessment process
- detach the report from PMM and the monitoring system, encouraging both a longer view and a greater focus on dimensions of performance beyond the targeted financials
- help clarify the relationship between evaluation, self-assessment and monitoring
- emphasise the importance of learning as a function of self-assessment and evaluation
- allow a full logical project assessment, including of related TC.

The next two sub-sections of this report review the quality of the new self-evaluation system from a quantitative and qualitative point of view.

The ratings gap in evaluated investment operations

One of the indicators of weaknesses in the self-evaluation system is what EvD terms the “binary ratings gap”. This is the proportion of ratings that EvD changed from an overall positive rating (“successful” or “highly successful”) to an overall negative rating (“partly successful” or “unsuccessful”) or vice versa when it reviewed the project. EvD hopes and expects that the greater attention given to self-evaluation and the increased communication between EvD and bankers should result in less divergent views on project performance and therefore the gap should start to narrow.

Table 2: Overall performance binary ratings gap between self-assessment and evaluation

Type of review by EvD	% of ratings raised substantively by EvD	% of ratings substantively unchanged	% of ratings lowered substantively by EvD
Validations	1%	88%	10%
Evaluations	1%	68%	30%
All reports	1%	81%	17%

There are two key messages from Table 2.

- There is an upward bias in self-evaluation ratings, with 17 per cent of ratings downgraded by EvD and only 1 per cent upgraded
- The ratings gap is substantially higher in full evaluations than in validations.[10]

This is in line with findings from previous years.

[10] The difference in the rating gap between in-depth evaluations and validations is not a like for like comparison since projects in-depth evaluated are purposefully selected for their learning potential while those validated are randomly selected.

Chart 11: Overall performance binary ratings gap between self-assessment and evaluation - change over time

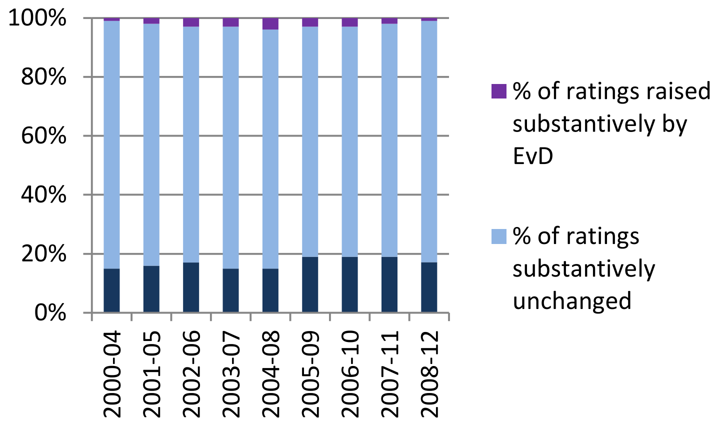


Chart 11 shows the development of the ratings gap over time. It grew progressively until 2011. Preliminary results indicate that the ratings gap has been reduced in 2012 but the number of reports involved is not yet large enough to make a definitive judgement. Among evaluations and validations conducted as part of the 2012 work programme, EvD concurred with the overall performance rating in the self-evaluation in 91 per cent of cases, lowered the rating substantively in 9 per cent of cases and did not raise the rating substantively on any report. This means that 81 per cent of overall performance ratings were substantively unchanged for the 2008-12 five-year period, the highest figure since 2004-08.

Qualitative assessment of self-evaluation

The new OPA validation template includes a section for EvD comments on the quality of the OPA, allowing for broader conclusions to be drawn from the collected comments made on the OPAs reviewed in the last year. EvD considered the OPA to be of good quality in the majority of cases. The best examples explained the rationale and expected achievements of the project clearly, provided extensive well-presented evidence in support of the project performance ratings and presented well-considered and relevant lessons that also provided practical suggestions that would be useful for future projects.

There were some recurring issues, the most common of which was that either an OPA presented overly positive ratings or provided insufficient evidence to support the ratings. In some cases this was because the project had a weak monitoring and evaluation framework from the start which meant the Bank was measuring performance against uninformative benchmarks or the data which would provide evidence for the project's success had not been collected. A group of comments on over-rating were directed towards the rating of EBRD bank handling. Specifically, weaknesses in due diligence or structuring were revealed by disappointing financial performance or achievement of objectives but were not reflected in any criticism of bank handling.

With a few exceptions, OPAs have provided sound financial analysis and in most cases a good assessment of specific project-level targets and achievements. Several were weaker on explaining the context and rationale or describing the wider impacts of a project. In some cases this was attributed to inadequacies in the hand-over process when the original operation leader had left the Bank and the project had been reassigned, thereby losing the institutional memory of the original driving purpose of the project. In other cases it was apparent that the Bank had not addressed the challenges of how to monitor any transition benchmarks extending beyond the client (for example, replication by other players in the sector or increase in competition). Similarly, where the original Board document made claims for potential transition impact beyond the specific points captured by the transition benchmarks, these were not monitored.

Self-evaluation of technical cooperation

The core focus of evaluation work on transactional TCs is derived from the evaluation of the investments to which the TC is attached. The revision of the OPA template also included steps towards removing the false division between the evaluation of an investment project and the evaluation of its linked TC. Therefore, the OPA template incorporates information about all TC related to the investment.

Moreover, during 2012 EvD substantially contributed to consultations around the Grant Co-financing Strategic Review (see p 15) and in particular to the design of a new self-evaluation tool for TC operations, both transactional and non-transactional, currently known as Project Completion Report (PCR). This new tool is based on the principle that a completion report should focus on results achieved at TC completion (outcome level) against a results framework designed upfront. EvD believes this is an important departure from the current system where PCRs only assess consultant performance and rarely speak about results. The new tool has been developed in close collaboration with Management and will be rolled out in 2013.

Impact monitoring of investment operations

The Bank sets specific transition objectives and benchmarks for all projects at appraisal and assesses them for transition potential and risk., Progress on achieving the benchmarks is monitored throughout the lifetime of the project by the operation leader in cooperation with the Office of the Chief Economist (OCE) through the Transition Impact Monitoring System (TIMS). OCE periodically revises the transition potential and risk ratings which are combined into an eight-point measure called the transition rank. The Bank's scorecard sets targets for the transition potential of new project approvals and the average transition rank of projects in the active portfolio.

Table 3 considers a single cohort of projects that were assessed *ex ante* for transition potential, monitored through TIMS and then evaluated during the period 2008-12. It presents some slightly odd results. On the one hand, there is clearly an association between the *ex-ante* rating and the *ex post* rating: 54 per cent of those with "good" potential were also rated "good" at evaluation and 67 per cent of those with "satisfactory" potential achieved the same rating at evaluation. The association was less strong with projects rated "excellent" for transition potential; only 22 per cent were also rated "excellent" at evaluation. Projects with less than "excellent" potential were also very unlikely to achieve an "excellent" rating at evaluation.

Table 3: Evaluation ratings compared with ex ante transition potential

Ex ante transition potential	Excellent	Good	Satisfactory	All projects
No. of projects	37	155	21	213
Rated "excellent" at evaluation	22%	6%	0%	8%
Rated "good" at evaluation	30%	54%	24%	46%
Rated "satisfactory" at evaluation	19%	24%	67%	27%
Sub-total: rated "satisfactory" or better at evaluation	*70%*	*83%*	*90%*	*81%*
Rated less than "satisfactory" at evaluation	*30%*	*17%*	*10%*	*19%*

On the other hand, the proportion of projects achieving "satisfactory" transition impact at evaluation seems to be inversely related to the potential at approval. Projects assessed *ex ante* as having "satisfactory" transition potential achieved the same rating (or better) at evaluation in 90 per cent of cases. Projects assessed with "excellent" transition potential were only rated "satisfactory" or "good" at evaluation in 70 per cent of cases.[11]

One explanation for this odd result is that although evaluation looks more broadly than the achievement of specific transition benchmarks set at approval, this aspect nevertheless has an important influence on the rating. It is possible that a project with less ambitious transition objectives is more likely to achieve them and therefore be rated "satisfactory" at evaluation than a project with more ambitious objectives. In addition, projects with "satisfactory" transition potential tend to have lower associated risk than those with "good" or "excellent" potential. Therefore, this result could simply represent the accuracy of the risk assessment.

Table 4: Evaluation ratings compared with ex-ante transition risk

Ex ante transition risk	High or High/Excessive	Medium	Low	All projects
Number of projects	134	76	3	213
Rated "satisfactory" or better at evaluation	78%	84%	69%	82%
Rated less than "satisfactory" at evaluation	22%	16%	31%	56%

The possibility that operations may fail to achieve their transition potential is recognised at appraisal through the transition risk rating. Table 4 shows the proportion of projects with "satisfactory" or better transition impact at evaluation, broken down by their assessed risk at appraisal. Performance is somewhat better among projects with "medium" risk than among those with "high" risk and although the difference is small, it is statistically significant.[12] The risk assessment at appraisal does capture a difference in the later performance of projects.

[11] To ensure that these results were not distorted by the relatively small numbers of reports, EvD conducted the same analysis covering the 360 projects monitored through TIMS and evaluated since 2003, which is when projects rated *ex ante* for transition impact first formed the majority of the evaluation sample. The results were almost identical.

[12] Significance was testing using a two-tailed T-test on the projects with "medium" or "high" risk at appraisal. The number of projects with "low" risk at appraisal is very small and those results were excluded from the analysis.

Key challenges and initiatives

Update on strategic initiatives

Approval and implementation of a new evaluation policy

A new evaluation policy approved in January 2013 firmly establishes evaluation as a Bank-wide function for which the Board, Management and EvD each have separate but mutually supporting roles. The new policy identifies the purpose of evaluation as improved operational and institutional performance. This requires going beyond accountability merely for accountability's sake and to focus on learning and catalysing performance-improving change and innovation. A focus on performance improvement requires a more collegial and constructive approach to finding solutions to problems rather than an adversarial one that focuses on failings and apportionment of blame.

A clearer specification of separate roles is also evident in three other areas of the new evaluation policy:

The policy establishes that self-evaluation is Management's responsibility. The various self-evaluation tools are now signed off and "owned" by Management. EvD provides advice, guidance and training to help ensure quality self-evaluations but, unlike previous practice, EvD does not sign off on self-evaluations. EvD reports on the quality of self-evaluations in the AER. Following completion of the first year of the new OPA, the assessment is qualitative (see Qualitative assessment of self-evaluation, p 24) but in future years EvD expects to periodically conduct more structured assessments and even ratings of OPA quality against a set of quality standards.[13]

Previously, EvD signed off on a past experience section in the final review memorandum. This exercise was generally a last minute effort to quickly gather together some lessons in order to populate the relevant section of the Final Review Memorandum, a process that strongly suggests that consideration of lessons likely played no appreciable role in the choices made in the design of the operation. Under the new policy, EvD no longer signs off on this section and responsibility for ensuring that lessons from past experience are taken into account in new operations now rests solely with Management. For its part, EvD has indicated it is ready and able to provide guidance to operations leaders provided such requests come earlier in the due diligence process. EvD has also conducted a major revamp of its lessons database (see section Facilitating the use of evaluation findings, p 28). The effectiveness with which lessons from past experience are taken into account in new operations could either be the topic of a future special study or become an area which EvD periodically assesses with reporting on results in the AER.

Management is solely responsible for "ensuring that proposed operations clearly specify expected results and related performance indicators so as to allow effective evaluation" and that "programmes, policies and strategies identify their expected results with sufficient specificity so as to allow effective evaluation" under the new evaluation policy. To help Management fulfil this obligation for projects, EvD has developed and pilot-tested the use of an evaluability assessment tool and worked closely with the Grant Strategic Review. The evaluability tool will provide the basis for EvD to track progress on results specification. Meanwhile, a TIMS working group formed as part of the President's task force on results (in which EvD participated, see Increasing engagement and influence) has produced a number of recommendations aimed at enhancing *ex-ante* results specification. A parallel country strategy working group has developed proposals for more results-focused country strategies.

Strengthening self-evaluation

As noted elsewhere in this report, strengthening self-evaluation was a major focus for both EvD and the Portfolio Management Group during 2012. The introduction of the OPA as the new self-evaluation tool was hugely aided by the cooperative effort between Management and EvD. Not only was the OPA successfully introduced but the experience demonstrated that, despite EvD's independence, it could work collegially and constructively with Management for the benefit of the Bank as a whole.

Enhancing the relevance of EvD's work programme

Changes were introduced to EvD's work programme over 2011 and 2012 to increase its relevance. While continuing to evaluate sufficient individual transactions to ensure statistically valid aggregate performance ratings, the resources allocated to in-depth evaluations of individual transactions have been significantly redirected to three areas – special studies where groups of operations are considered at the sector or country levels; new products such as syntheses of findings, evaluation briefs and the evaluation insight series (being launched); and to completing a larger number of substantive validations.

EvD has always adopted a consultative approach to developing its work programme but this is now conducted in a climate of increased trust where Management is more willing to propose evaluations than perhaps was the case in the past.

The growing relevance of EvD's work programme has been recognised by both the Audit Committee and Management. This has brought new challenges for Management since it is required under the new policy to respond to all EvD reports in writing. The growing number and scope of EvD special studies has required Management to get input from various parts of the Bank and to collate differing perspectives into a coherent response. EvD has assisted in this task with other initiatives such as reducing the number of lessons and

[13] EvD has developed a set of evaluation quality standards which it is pilot testing prior to their general adoption.

recommendations and more face-to-face meetings with Management (see next section). Overall, the general response to EvD reports has been constructive even when these raise difficult issues.

Details of the EvD 2012 work programme and its delivery can be found in Annex 4: Status of 2012 evaluation work.

Quality improvements in EvD products and services

With EvD's intensified focus on contributing to superior Bank performance, it is essential that its products and services are relevant and persuasive. Meanwhile, for the important accountability function, it is also important to ensure that findings and performance ratings are strongly evidence-based to ensure trends represent real differences in performance and the reasons for the differences can be explained. There is also the potential for efficiency gains from reducing the number and extent of contested findings. Even where quality has been good in the past, EvD should continually seek to improve its own performance. For these reasons and others, EvD has placed considerable emphasis on the "supply side" factors, including quality improvement of its products and services. Some of the steps taken in 2012 to improve quality include:

i. **A requirement of detailed approach papers for all evaluations.**

   A guidance note approved in 2012 outlines expectations for approach papers. While the preparation of a comprehensive approach paper takes time, evidence from many sources shows that a clear reasoned approach makes for a better evaluation and ultimately saves time at the other end of the evaluation process. Also, sharing approach papers with the Audit Committee and Management creates trust and can elicit useful ideas up front rather than after the work has been largely completed.

ii. **Adopting a more rigorous internal EvD review and quality control process.**

   The process has yielded what have been acknowledged in several quarters to be better quality evaluations. As well as ensuring a robust evidence base and a strong link between evidence, analysis and findings, the internal quality control process has resulted in reports becoming more succinct and more readable with fewer but more relevant lessons and fewer but more implementable recommendations. These latter changes have been welcomed by Management in particular.

iii. **Regular informal dialogue with management at draft stage.**

   The new evaluation policy requires that "EvD and Management will meet to discuss draft final evaluation reports to ensure accuracy and, to the greatest extent possible, agree on findings, lessons and recommendations." This process is being followed. Again, the aim is ensure better quality reports and less contested findings. There is evidence to suggest that the informal dialogue is being successful in contributing to these desired ends.

iv. **Use of external expert peer reviewers.**

   During 2012 EvD identified and recruited a panel of experts to act as external peer reviewers to provide advice and guidance on special studies. This need arose because EvD staff members are not academically qualified as evaluators or social researchers. 10 peer reviewers have been retained so far with selection primarily based on their evaluation knowledge and expertise but also in some cases on their ability to exercise informed judgment. External peer reviewers can be used to provide either an independent assessment of the completed evaluation and its findings (which is then included as an attachment to the report as means to enhance its credibility) or guidance throughout the evaluation process with a view to enhancing the quality of the evaluation.

   EvD has opted to use its external peer reviewers in the latter role because to use the same reviewer in both roles would represent a conflict of interest. The first use of external peer reviewers has occurred in 2013 and the experience has been very positive. External peer reviewers can be retained from outside the panel where it is considered necessary to have specialised technical or subject-matter expertise.

v. **Development of a quality checklist.**

   EvD has developed an evaluation quality checklist. It has been used on a pilot basis and is expected to be approved and formally rolled out in the third quarter of 2013.

An important consequence from approval of the new evaluation policy is that all methodological and procedural matters have been taken out and are now reflected in separately approved guidance notes. Two guidance notes were approved in 2012 in anticipation of the new policy – on the use of approach papers and support to the OPA (self-evaluation process). Much of the previous evaluation policy was taken up with guidance on the project performance rating methodology so a new guidance note on performance rating methodology for all types of evaluation products is being prepared. In addition, the opportunity is being taken to address a number of issues that affect the reliability, replicability, transparency and explanatory power of the current rating system. In line with evaluation policy prescription, an approach paper for preparation of the guidance note has been prepared and shared with the Audit Committee and Management.

Facilitating the use of evaluation findings

During the review of EvD's strategic repositioning, a need was identified to facilitate the use of evaluation findings by banking staff. The existing system of simply copying past experiences into project proposals shortly before submission was found to be deficient and merely led to the same lessons continuing to arise. In 2012 EvD conducted a review of the lessons database for EBRD staff which contained over 3000 entries dating back to 1993. Many of the lessons were outdated and lacked context, the search function was limited and difficult to navigate and the software platform was outdated and lacking in linkages with main Bank platforms. In view of this, lessons which were older than seven years and lacked context were removed. Newer lessons were edited for relevance and usefulness.

The updated lessons were reviewed by banking sector teams and the new material was published on the intranet for all staff in the form of online booklets with navigable contents divided by topic. Work has begun on the development of new software to house the lessons in a fully searchable platform embedded within the existing Bank software applications with the ability for user feedback, monitoring of usage and reporting. Extensive consultation with end users in banking is on-going, with the final release expected in 2013. Integration of the new lessons platform with the project planning and submission process is on-going.

Considerable effort has been expended in upgrading EvD's intranet and internet pages and this work will continue.

Increasing engagement and influence

The new evaluation policy establishes the basis for greater engagement across the Bank on evaluation matters, particularly engagement between Management and EvD. The independence of EvD had the unintended and undesirable effect of isolating EvD from the mainstream of the Bank's business. This effectively diminished EvD's potential to contribute to improved Bank performance. The new evaluation policy requires Management to maintain "a focal point(s) for coordination with EvD and the Board (and/or subordinate bodies) on all evaluation-related matters" and also that "Management will invite EvD to observe or contribute to Management meetings where this may enhance communication and understanding of issues of common concern."

Management has nominated two focal points for EvD - one for project evaluations and another for special studies. This is working well. EvD is being regularly invited by Management to participate in a variety of meetings, most notably a number of staff retreats.

Notwithstanding the provisions of the policy, meaningful engagement will not happen by formal agreement alone. It must be built on a basis of mutual trust and confidence. Considerable progress has been made in this area with much of this predating approval of the new policy as the relationship between Management and EvD has improved over the last two and half years. Many of the areas of engagement and the contribution made by EvD may not be particularly visible to a wider audience inside the Bank but this is at least in part a consequence of an approach based on dialogue and cooperation as the preferred default setting. Some of the areas of more significant increased engagement during 2012 (some of which are on-going) include:

i. The development of the new evaluation policy itself was carried out in a highly consultative manner, involving both the Audit Committee and Management. When the final version of the policy was taken to the Audit Committee, EvD and Management were both able to report that there were no outstanding areas of difference.

ii. The Portfolio Business Group and EvD worked closely together to develop, pilot test, refine and then roll out the OPA as the new self-evaluation tool (as outlined above in Strengthening self-evaluation, p 27).

iii. EvD participated in three of the President's task forces, most notably the Results Taskforce and the ongoing TIMS working group. There was some initial concern about the full and equal participation by EvD in this Management exercise but this gave way to broad recognition of its merits.

iv. Substantial input was provided to the Grant Strategic Review and support to the roll-out of the review recommendations, most importantly in the area of redesigning the TC submission form, monitoring template and the self-evaluation project completion report format. In addition, EvD designed a TC evaluability checklist. The department's contribution to TC training was extended to support the implementation of the strategic review recommendations.

v. EvD participated in the country strategy working group.

vi. EvD was invited to provide input on a number of sector strategies though the uptake of EvD suggestions was disappointing in some cases.

vii. The number of times EvD has been asked to participate in banking and other team meetings has grown significantly. Usually, this involves the participation of the Chief Evaluator.

Contributing to learning and development

EvD has always played a role in providing training within the EBRD, particularly with regard to the conduct of self-evaluation. There was a significant increase in this activity in 2012 with the roll-out of the OPA. A number of training sessions were conducted for various sector teams in London. Special visits to provide training were made to Almaty and Istanbul while OPA trainings were also provided in Moscow (with links to most other Russian offices) and several other Resident Offices (ROs) in association with evaluation field missions. These training/information sessions were well received and as well as providing methodological guidance, they appeared to contribute to an improved perception of evaluation and its role, as well as providing the opportunity to discuss other changes taking place in evaluation.

The department has also generally contributed to induction programmes and the Banking Academy course, Core EBRD Banking Skills, a mandatory five-day course for new bankers. As such, it provides an ideal opportunity to create a greater understanding and a more favourable impression of evaluation. However, it was difficult to create more space in an already crowded course programme for more input on evaluation. Consequently, a decision was made to develop an e-Learning module on evaluation to be a prerequisite for attending the Banking Academy. A joint EvD/Learning and Development effort saw the module being developed in 2012 and launched early in 2013. Its effectiveness will be assessed in due course. The EBRD President and several senior managers contributed to the module, including video clips.

A new Banking Academy course on monitoring and supervision is shortly to be launched. EvD will play a direct and significant role in the delivery of this course. EvD has also contributed significantly to the development of a new TC training course, as described in above in Adopt and apply a results-based approach.

Disclosure and dissemination

A guiding principle enshrined in the evaluation policy is that "if evaluation is to add value it must be used. To be used it must be available on a timely basis and in applicable form." In view of this, full internal disclosure of evaluation products is EvD's ultimate aim. However, the final decision rests with the Chief Evaluator who has to consider confidentiality issues before releasing information." External disclosure is covered by the Public Information Policy which is being reviewed in 2013. During this review the opportunity will be taken to assess the relevance of the highly prescriptive provisions in the current policy with regards to the disclosure of evaluation products.

The draft evaluation policy was disclosed for public comment for the first time in 2012 and a consultation was conducted with interested regional CSOs.

Engagement with the international evaluation community

EvD selectively engages with the international evaluation community to stay abreast of good practice and new developments in the field. In turn, EvD contributes to the sharing of good practice, particularly in the area of the evaluation of private sector operations.

Evaluation Cooperation Group

The Evaluation Cooperation Group (ECG [www.ecgnet.org]) is the main vehicle for engagement with the international evaluation community. It comprises of the heads of evaluation departments and other senior staff of nine international finance institutions along with three permanent observers and two candidate members. The three permanent observers provide the members with a formal link to the Evaluation Network of the OECD/DAC and the United Nations Evaluation Group. The independent evaluation office of the Global Environment Facility is also a permanent observer.

Formed in 1995 at the behest of the Development Committee formed by the Task Force on Multilateral Development Banks, the purpose of the ECG was to establish a more harmonised methodology for evaluation of projects. Given this, it has expended considerable effort on development of standards of good practice for evaluation of private and public sector operations and country programme evaluations. The private sector good practice standards are now in their fourth edition. Periodic benchmarking exercises, some carried out independently, are carried out to check members' compliance with the standards.

At time of formation, most members' evaluation departments were not independent and the ECG has played an important role in encouraging and protecting independence, which is now a condition of membership. It has produced good practice standards for the independence of the evaluation function in international finance institutions.

The ECG has recently decisively changed direction to be aligned with changes that have already taken place within the evaluation departments of its member institutions. Changes include a shift in emphasis on individual project evaluations to producing more sector country, thematic and corporate evaluations. This shift enables greater contribution of evaluation to improved institutional performance and learning. . ECG meetings now focus much more on shared learning – both in terms of the findings of major evaluations carried out by members and the methodologies employed. EvD has much to learn from the experience of others in areas such as the evaluation of knowledge services, evaluation of conflict affected areas (highly relevant for the SEMED region), country programme level evaluations and a wide range of corporate and business process evaluations. The ECG also continues to explore an integrated set of good practice standards covering all types of evaluation.

The EBRD is leading the way amongst development institutions, having approved a modern evaluation policy that reflects the considerable shift in expectations placed on evaluation. ECG members are now using the EBRD's evaluation policy as a model, especially those members of ECG who have never had evaluation policies or those whose policies are under review. EvD is playing a leading role in promoting the adoption of a unified set of evaluation good practice standards and its approach paper for the development of a guidance note on performance rating methodology was presented and discussed at the most recent ECG meeting. There was also great interest in EvD's on-going evaluation of the EBRD's experience with policy dialogue in Ukraine as several ECG members are planning evaluations of policy dialogue conducted through their own institutions.

Chairmanship of the ECG rotates around the members with two meetings held each year; one in the city of the headquarters of the chairman and the other in Paris to coincide with Evaluation Network meetings. The Inter-American Development Bank is the current chair. EvD will take the opportunity to involve more of its staff in ECG meetings when they take place in Europe.

Evaluation Network of the OECD/DAC

The Evaluation Network of the OECD/DAC also meets twice a year. It brings together 25 bilateral development partners (including the European Commission), seven multilateral organisations and a number of observer members. EvD gains valuable insights through its participation in these meetings, particularly on methodological approaches, means of knowledge sharing and bilateral thinking on evaluation matters and multilateral performance.

Annexes 1 and 2 are included in order to comply with the good practice standards (GPS) for Private Sector Evaluation that have been jointly developed by the evaluation departments of major multilateral financial institutions with the support of the Evaluation Cooperation Group.

Annex 1: Project evaluation selection

Annex 1 describes how projects are selected for evaluation by the Evaluation department. It covers:

1. Identification of the population of ready projects (page 32)
2. Selection of the sample of projects for evaluation (page 2/4)
3. A note about projects selected in 2012 (page 3/4)
4. Information about the size and representation of the sample (page 3/4)
5. A note about the standard error in the sample (page 3/4)
6. A description of the sample (page 4/4)

Identification of the population of projects ready for evaluation

The process for selecting projects for evaluation is based on the GPS. Unevaluated operations are reviewed each year 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 Multi-lateral Development Bank 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. It sends operation teams a list of projects in their area that will reach this status within the evaluation year. Each operation team then identifies the projects expected to meet all three criteria for early operating maturity in the course of the year.

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.

The GPS also allow the exclusion of “jeopardy” cases which, in the EBRD’s case, means projects that have been transferred to the Corporate Recovery Unit for special handling. EvD follows the advice of the Director for Corporate Recovery on the timing of evaluations of these projects.

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

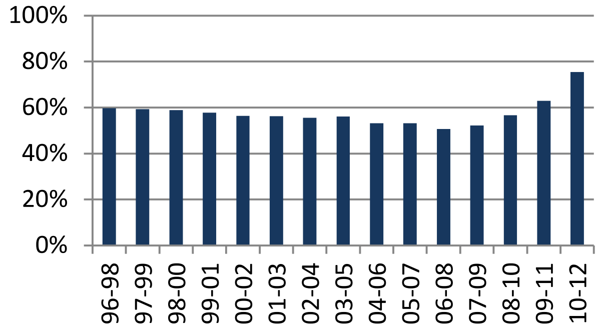
Projects not expected to reach early operating maturity during the year are excluded from the population and rolled forward for inclusion in a future year. Investments are included in the population only once (that is, only for the year in which they will have reached early operating maturity).

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 for key performance indicators, with sampling error not exceeding ±5 percentage points. This procedure has been followed for the last four years (starting in 2009) to ensure EBRD compliance with the GPS.

Aggregate performance is based on findings from the randomly selected operations.

Chart 12: Proportion of results derived from OPA validations, 1996-2012



The sampled projects may be evaluated through operation evaluations or lighter OPA validations. EvD elects to prepare operation evaluations for a subset of sample projects with the aim of maximising the potential for learning lessons. Some additional projects may also be intentionally selected for evaluation through operation evaluations, again with an exercise of judgement as to prospective insights and lessons. These additional selections remain outside the sample and have not been included in the results presented in the chapter on Aggregate performance.

Chart 12 shows the proportion of the results derived from validations (or their predecessor, XMR Assessments) rather than from more in-depth operation evaluations. The proportion has risen in recent years with a greater focus on self-evaluations validated by EvD.

Projects selected in 2012

Fifty projects were randomly sampled for addition to the evaluation database in 2012. During the year some projects dropped out of the sample (see Annex 3: Investigation of trends) and others were not completed in time to be included in this year's AER. In total, 36 operations from the 2012 work programme were added to the evaluation database. Of these, three were evaluated through operation evaluations and 33 through OPA validations.

Size and representation of the sample

The random sample is intended to achieve statistical significance over a three-year rolling period. This section therefore considers the latest sampling period comprising of projects randomly selected for evaluation in 2010-12.

Standard error of the sample

The good practice standards 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 per centage points. In the years 2010-12, there was a combined population of 267 individual operations ready for evaluation, excluding the sub-operations of large frameworks. Of these, 134 were evaluated by EvD. Thus the overall coverage ratio was 50 per cent. At a confidence level of 95 per cent, the standard error of the sample was 5.99 per cent, outside the limit set by the ECG. This shortfall occurred because some operations originally selected for evaluation turned out not to be ready for evaluation, while some more are still scheduled for an evaluation but it has not been completed in time for reporting in the AER. EvD has selected a slightly higher starting coverage ratio to allow for such drop-outs in 2013.

Not all projects are rated for every indicator. Table 5 shows the standard error for each indicator at the binary level.

Table 5: Summary performance and sample errors for projects evaluated 2010-12

Indicator	Binary success rate	Number of rated operations	Population size	Standard error of the sample
Overall performance	61%	134	267	5.99
Transition impact	83%	133	267	6.03
Environmental and social performance	91%	129	267	6.21
Extent of environmental change	29%	125	267	6.40
Additionality	90%	134	267	5.99
Financial performance	77%	133	267	6.03
Achievement of operational objectives	81%	134	267	5.99
Bank handling	96%	134	267	5.99

Description of the sample

The sample of projects evaluated over the three-year period 2010-12 comprises 134 operations, of which 33 are covered by operation evaluations and 101 by OPA validations. The evaluated operations have a total business volume of €3.895 million. Table 6 compares the sample with the Bank's active portfolio of projects as at the end of December 2012 with reference to instrument type, sovereign risk type, industry sector and geographic region. There are some differences between the sample and the portfolio, the most obvious being the over-representation of Russia at the expense of south-eastern Europe, central Europe and the Baltic states. This is because of the relatively larger size of projects in Russia and the increase in the Bank's business volume in Russia in recent years. The sample also appears to under-represent sovereign operations at the expense of other sectors. This may be because sovereign operations tend to have longer total lifespans and are therefore over-represented in the active portfolio compared to the number and volume of projects originally undertaken. The sampling process attempts to match the population of projects ready for evaluation (rather than the Bank's portfolio) in terms of the number of operations in each category rather than volume. Given the different target of the sampling process, some differences of this kind can be expected and are not a cause for concern.

Table 6: Comparison of the evaluation database with the Bank's portfolio

	Evaluation database 2010-12		EBRD portfolio Dec 2012	
	MEUR	%	MEUR	%
	3,895		37,516	100%
Instrument type				
Debt	3,252	83%	29,307	78%
Equity	643	17%	8,209	22%
	3,895	100%	37,516	100%
Sovereign risk				
Non-sovereign	3,728	96%	31,553	84%
Sovereign	167	4%	5,963	16%
	3,895	100%	37,516	100%
Sector				
Energy	1,012	26%	7,697	21%
Financial Institutions	994	26%	9,890	26%
Industry, Commerce and Agribusiness	1,042	27%	11,006	29%
Infrastructure	848	22%	8,923	24%
	3,895	100%	37,516	100%
Region				
Central Asia	201	5%	2,898	8%
Central Europe and the Baltic states	506	13%	6,256	17%
Eastern Europe and Caucasus	695	18%	6,908	18%
Russia	1,766	45%	9,964	27%
South-eastern Europe	682	18%	8,879	24%
Southern and eastern Mediterranean	0	0%	133	0%
Turkey	45	1%	2,478	7%
	3,895	100%	37,516	100%

Annex 2: Evaluated performance of projects by year of approval

Annex 2 presents the statistics behind the evaluated performance of projects. The results of each criterion are presented by the year in which projects were originally approved. These include:

1. Overall performance (page 35)
2. Transition impact (page 37)
3. Financial performance (page 39)
4. Environmental and social performance (page 41)
5. Extent of environmental and social change (page 43)
6. Additionality (page 45)
7. Achievement of operational objectives 47)
8. Bank handling (page 49)

Overall performance

Chart 13: Overall performance by year of approval

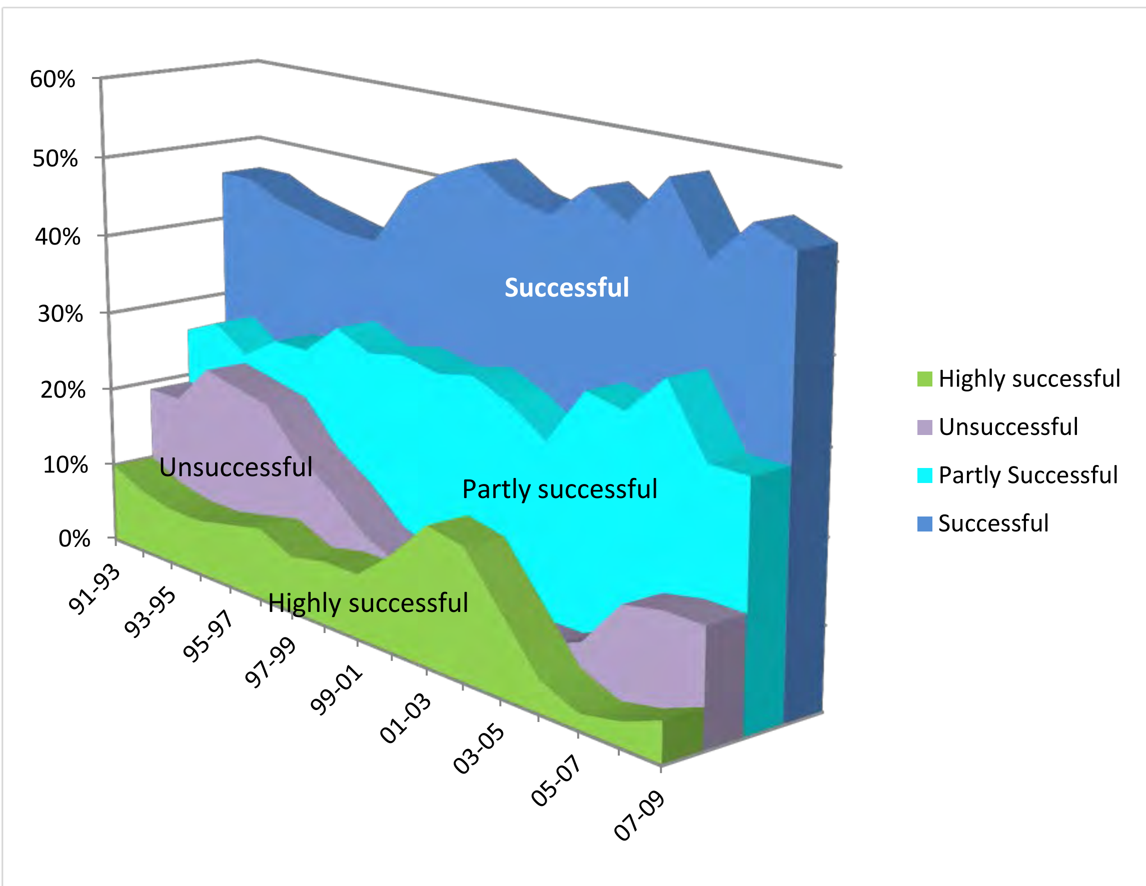


Table 7: Overall performance by year of approval

	Highly successful		Successful		Partly successful		Unsuccessful		No of reports
	No.	%	No.	%	No.	%	No.	%	
91-93	7	10%	32	46%	18	26%	13	19%	70
92-94	9	8%	54	46%	33	28%	22	19%	118
93-95	11	7%	68	44%	38	25%	36	24%	153
94-96	11	7%	72	43%	47	28%	38	23%	168
95-97	14	8%	79	42%	53	28%	40	22%	186
96-98	14	9%	68	42%	52	32%	28	17%	162
97-99	12	7%	79	49%	48	30%	22	14%	161
98-00	11	8%	76	52%	45	31%	14	10%	146
99-01	13	8%	83	54%	47	30%	12	8%	155
00-02	17	12%	74	51%	44	31%	9	6%	144
01-03	23	17%	68	50%	40	29%	6	4%	137
02-04	20	16%	69	54%	33	26%	6	5%	128
03-05	14	10%	70	51%	45	33%	7	5%	136
04-06	5	4%	77	57%	43	32%	9	7%	134
05-07	3	2%	69	49%	52	37%	18	13%	142
06-08	3	3%	62	54%	33	29%	16	14%	114
07-09	4	5%	45	52%	25	29%	12	14%	86

Table 8: Overall performance by sector: projects approved 2004-09

	Highly successful		Successful		Partly successful		Unsuccessful		No of reports
	No.	%	No.	%	No.	%	No.	%	
ENE	3	11%	19	70%	3	11%	2	7%	27
FIN	4	5%	39	51%	27	35%	7	9%	77
ICA	2	2%	40	48%	31	37%	10	12%	83
INF	0	0%	24	73%	7	21%	2	6%	33
All sectors	9	4%	122	55%	68	31%	21	10%	220

Table 9: Overall performance by region: projects approved 2004-09

	Highly successful		Successful		Partly successful		Unsuccessful		No of reports
	No.	%	No.	%	No.	%	No.	%	
CA	3	12%	12	48%	7	28%	3	12%	25
CEB	2	8%	16	62%	7	27%	1	4%	26
EEC	0	0%	25	57%	17	39%	2	5%	44
RUS	3	4%	39	52%	24	32%	9	12%	75
SEE	0	0%	25	68%	10	27%	2	5%	37
TUR	1	100%	0	0%	0	0%	0	0%	1
Regional	0	0%	5	42%	3	25%	4	33%	12
All regions	9	4%	122	55%	68	31%	21	10%	220

Transition impact

Chart 14: Transition impact by year of approval

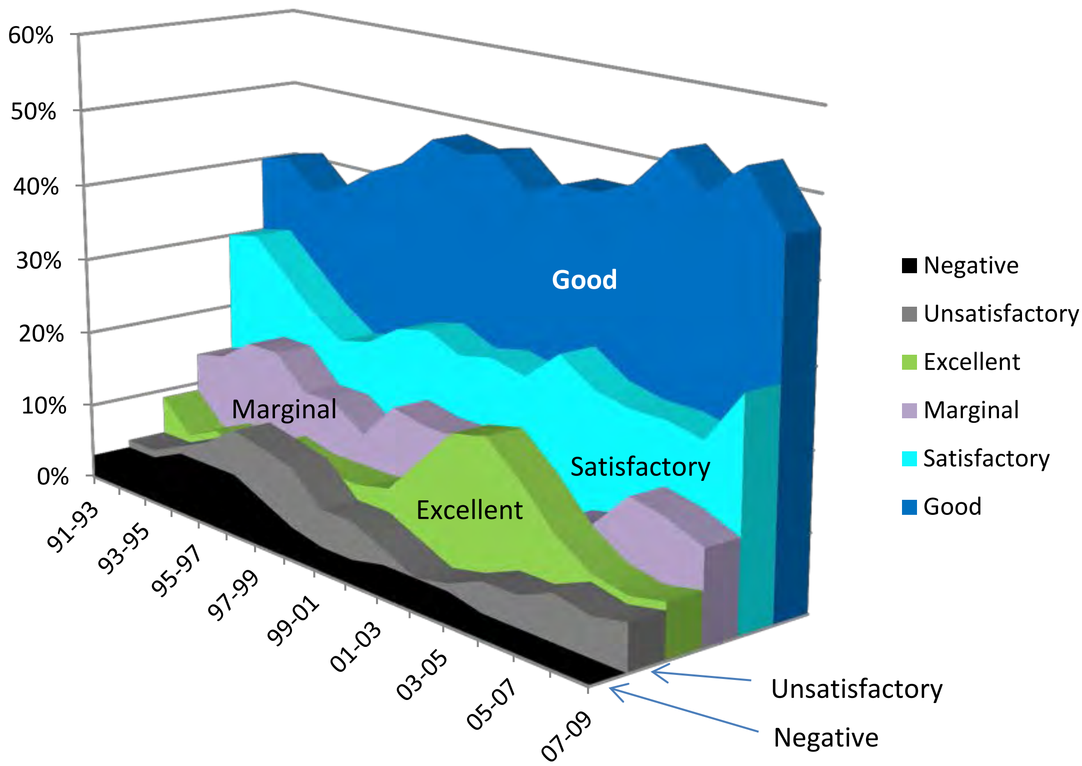


Table 10: Transition impact by year of approval

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Negative		No. of
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	reports
91-93	6	9%	28	40%	21	30%	10	14%	3	4%	2	3%	70
92-94	6	5%	48	41%	37	31%	18	15%	5	4%	4	3%	118
93-95	11	7%	56	37%	42	27%	27	18%	9	6%	8	5%	153
94-96	10	6%	66	39%	38	23%	31	18%	14	8%	9	5%	168
95-97	15	8%	78	42%	38	20%	26	14%	20	11%	9	5%	186
96-98	11	7%	72	44%	34	21%	23	14%	17	10%	5	3%	162
97-99	11	7%	78	48%	39	24%	17	11%	14	9%	2	1%	161
98-00	10	7%	69	47%	36	25%	23	16%	8	5%	0	0%	146
99-01	13	8%	75	48%	36	23%	24	15%	7	5%	0	0%	155
00-02	19	13%	64	44%	35	24%	21	15%	4	3%	1	1%	144
01-03	25	18%	63	46%	31	23%	15	11%	2	1%	1	1%	137
02-04	24	19%	59	46%	34	27%	8	6%	2	2%	1	1%	128
03-05	21	15%	65	48%	33	24%	12	9%	5	4%	0	0%	136
04-06	13	10%	71	53%	31	23%	14	10%	5	4%	0	0%	134
05-07	10	7%	70	49%	32	23%	21	15%	9	6%	0	0%	142
06-08	7	6%	60	53%	25	22%	16	14%	6	5%	0	0%	114
07-09	6	7%	39	46%	25	29%	10	12%	5	6%	0	0%	85

Table 11: Transition impact by sector: projects approved 2004-09

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Negative		No. of
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	reports
ENE	3	12%	14	54%	5	19%	4	15%	0	0%	0	0%	26
FIN	7	9%	39	51%	13	17%	13	17%	5	6%	0	0%	77
ICA	7	8%	40	48%	27	33%	5	6%	4	5%	0	0%	83
INF	2	6%	17	52%	11	33%	2	6%	1	3%	0	0%	33
All sectors	19	9%	110	50%	56	26%	24	11%	10	5%	0	0%	219

Table 12: Transition impact by region: projects approved 2004-09

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Negative		No. of
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	reports
CA	3	12%	10	40%	8	32%	2	8%	2	8%	0	0%	25
CEB	4	15%	11	42%	10	38%	0	0%	1	4%	0	0%	26
EEC	0	0%	29	66%	8	18%	6	14%	1	2%	0	0%	44
RUS	8	11%	35	47%	21	28%	8	11%	3	4%	0	0%	75
SEE	4	11%	19	53%	8	22%	4	11%	1	3%	0	0%	36
TUR	0	0%	1	100%	0	0%	0	0%	0	0%	1	0%	1
Regional	0	0%	5	42%	1	8%	4	33%	2	17%	2	0%	12
All regions	19	9%	110	50%	56	26%	24	11%	10	5%	3	0%	219

Financial performance

Chart 15: Financial performance by year of approval

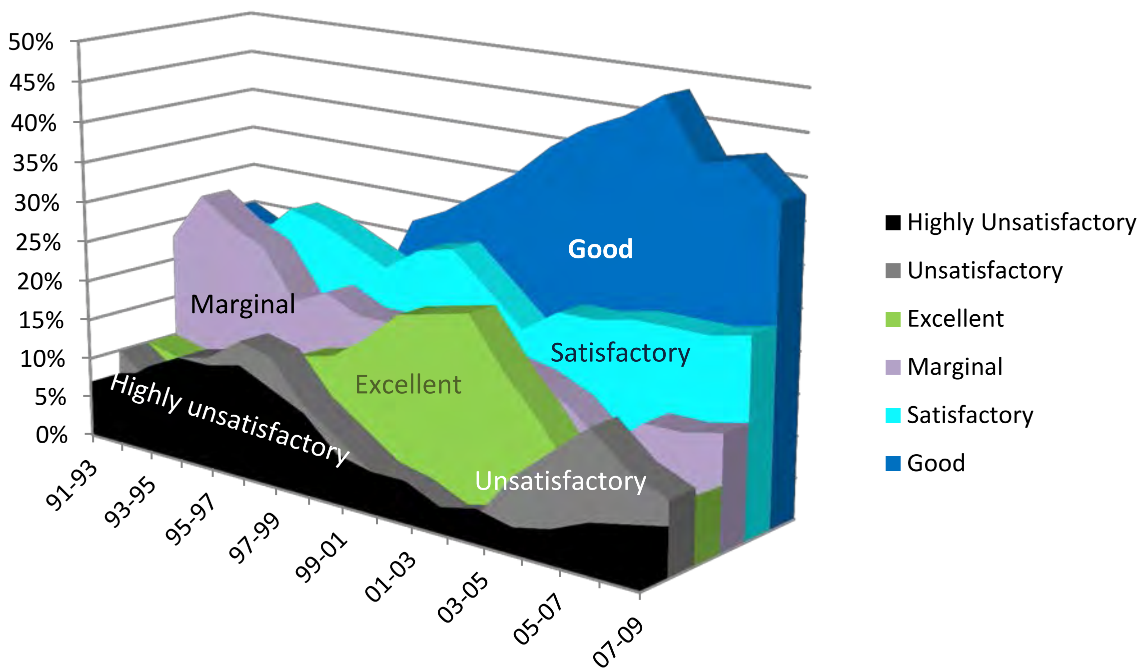


Table 13: Financial performance by year of approval

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Highly unsatisfactory		No. of
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	reports
91-93	7	10%	17	25%	17	25%	16	23%	7	10%	5	7%	69
92-94	10	9%	27	23%	28	24%	34	29%	8	7%	9	8%	116
93-95	14	9%	30	20%	36	24%	39	26%	16	11%	16	11%	151
94-96	16	10%	25	15%	47	28%	40	24%	20	12%	19	11%	167
95-97	21	11%	30	16%	51	27%	33	18%	28	15%	23	12%	186
96-98	21	13%	31	19%	40	25%	32	20%	22	14%	16	10%	162
97-99	22	14%	44	28%	37	23%	29	18%	15	9%	12	8%	159
98-00	24	17%	42	30%	36	26%	25	18%	8	6%	5	4%	140
99-01	31	21%	49	33%	40	27%	18	12%	5	3%	5	3%	148
00-02	31	22%	49	36%	32	23%	19	14%	3	2%	4	3%	138
01-03	31	23%	54	40%	26	19%	21	16%	0	0%	2	1%	134
02-04	22	17%	54	43%	28	22%	19	15%	1	1%	2	2%	126
03-05	15	12%	58	45%	29	22%	17	13%	9	7%	1	1%	129
04-06	8	6%	62	48%	30	23%	11	9%	14	11%	3	2%	128
05-07	6	4%	56	41%	31	23%	17	13%	20	15%	6	4%	136
06-08	6	5%	48	42%	26	23%	15	13%	13	11%	6	5%	114
07-09	7	8%	33	38%	21	24%	12	14%	8	9%	5	6%	86

Table 14: Financial performance by sector: projects approved 2004-06

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Highly Unsatisfactory		Reports
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.
ENE	5	19%	17	63%	2	7%	0	0%	3	11%	0	0%	27
FIN	4	6%	33	46%	14	20%	9	13%	10	14%	1	1%	71
ICA	6	7%	24	29%	27	33%	12	14%	8	10%	6	7%	83
INF	0	0%	21	64%	8	24%	2	6%	1	3%	1	3%	33
All sectors	15	7%	95	44%	51	24%	23	11%	22	10%	8	4%	214

Table 15: Financial performance by region: projects approved 2004-09

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Highly Unsatisfactory		Reports
	No	%	No	%	No	%	No	%	No	%	No	%	No.
CA	2	8%	14	56%	4	16%	4	16%	0	0%	1	4%	25
CEB	0	0%	16	62%	6	23%	2	8%	0	0%	2	8%	26
EEC	5	11%	13	30%	12	27%	6	14%	8	18%	0	0%	44
RUS	4	6%	32	46%	16	23%	9	13%	7	10%	2	3%	70
SEE	3	8%	15	41%	11	30%	2	5%	6	16%	0	0%	37
TUR	1	100%	0	0%	0	0%	0	0%	0	0%	0	0%	1
Regional	0	0%	5	45%	2	18%	0	0%	1	9%	3	27%	11
All regions	15	7%	95	44%	51	24%	23	11%	22	10%	8	4%	214

Environmental and social performance

Chart 16: Environmental and social performance by year of approval

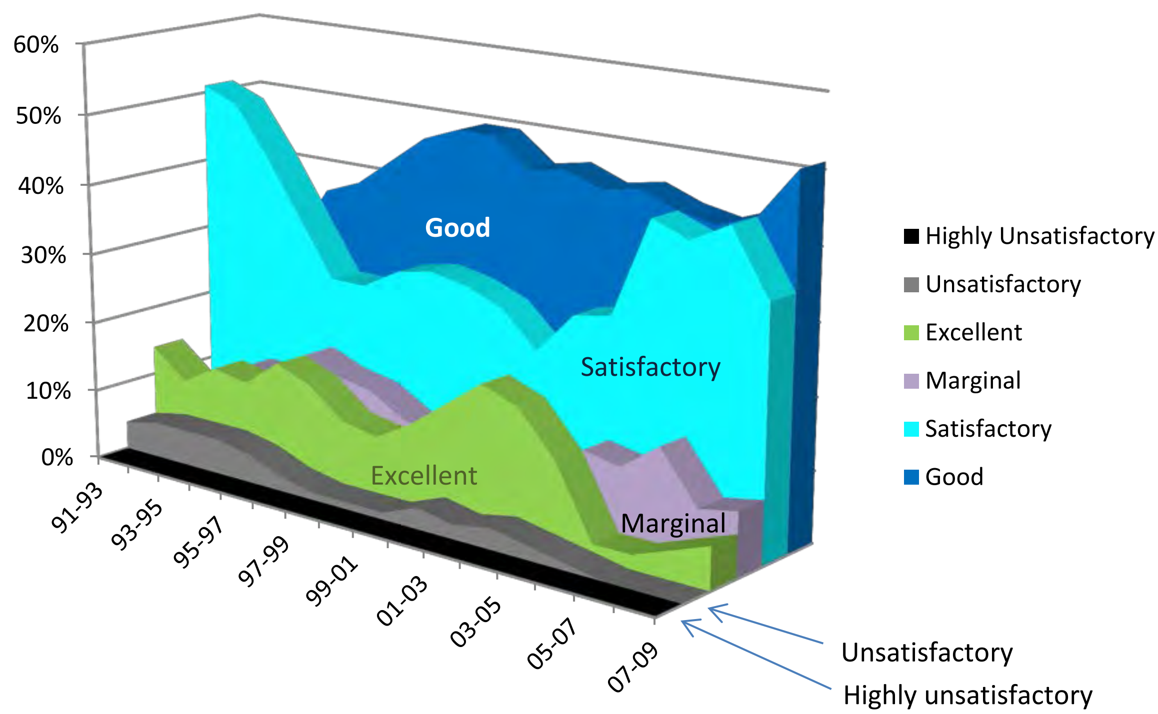


Table 16: Environmental and social performance by year of approval

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Highly Unsatisfactory		No. of
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	reports
91-93	10	14%	16	23%	35	51%	5	7%	3	4%	0	0%	69
92-94	12	10%	35	30%	57	49%	6	5%	6	5%	0	0%	116
93-95	19	13%	44	29%	63	42%	18	12%	7	5%	0	0%	151
94-96	20	12%	61	37%	56	34%	20	12%	9	5%	0	0%	166
95-97	29	16%	72	39%	48	26%	29	16%	7	4%	0	0%	185
96-98	22	14%	70	43%	42	26%	23	14%	4	2%	0	0%	161
97-99	16	10%	76	47%	46	29%	21	13%	2	1%	0	0%	161
98-00	13	9%	71	49%	44	30%	15	10%	2	1%	0	0%	145
99-01	18	12%	75	49%	44	29%	13	9%	2	1%	0	0%	152
00-02	22	16%	63	45%	38	27%	13	9%	4	3%	0	0%	140
01-03	27	20%	61	46%	30	22%	13	10%	3	2%	0	0%	134
02-04	23	18%	56	44%	35	28%	9	7%	4	3%	0	0%	127
03-05	16	12%	58	45%	37	29%	16	12%	2	2%	0	0%	129
04-06	3	2%	54	43%	54	43%	14	11%	1	1%	0	0%	126
05-07	3	2%	54	42%	53	41%	19	15%	0	0%	0	0%	129
06-08	4	4%	47	44%	48	44%	9	8%	0	0%	1	0%	108
07-09	5	6%	41	51%	28	35%	7	9%	0	0%	1	0%	81

Table 17: Environmental and social performance by sector: projects approved 2004-09

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Highly Unsatisfactory		No. of
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	reports
ENE	4	15%	14	52%	8	30%	1	4%	0	0%	0	0%	27
FIN	0	0%	36	51%	25	36%	9	13%	0	0%	0	0%	70
ICA	2	3%	29	37%	40	51%	7	9%	0	0%	0	0%	78
INF	2	6%	16	50%	9	28%	4	13%	1	3%	0	0%	32
All sectors	8	4%	95	46%	82	40%	21	10%	1	0%	0	0%	207

Table 18: Environmental and social performance by region: projects approved 2004-09

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Highly Unsatisfactory		No. of
	No	%	No	%	No	%	No	%	No	%	No	%	reports
CA	1	4%	9	38%	12	50%	2	8%	0	0%	0	0%	24
CEB	1	4%	15	60%	8	32%	1	4%	0	0%	0	0%	25
EEC	0	0%	21	48%	14	32%	9	20%	0	0%	0	0%	44
RUS	4	6%	30	45%	26	39%	6	9%	1	1%	0	0%	67
SEE	1	3%	15	41%	18	49%	3	8%	0	0%	0	0%	37
TUR	1	100%	0	0%	0	0%	0	0%	0	0%	1	0%	1
Regional	0	0%	5	56%	4	44%	0	0%	0	0%	2	0%	9
All regions	8	4%	95	46%	82	40%	21	10%	1	0%	3	0%	207

Extent of environmental change

Chart 17: Extent of environmental change by year of approval

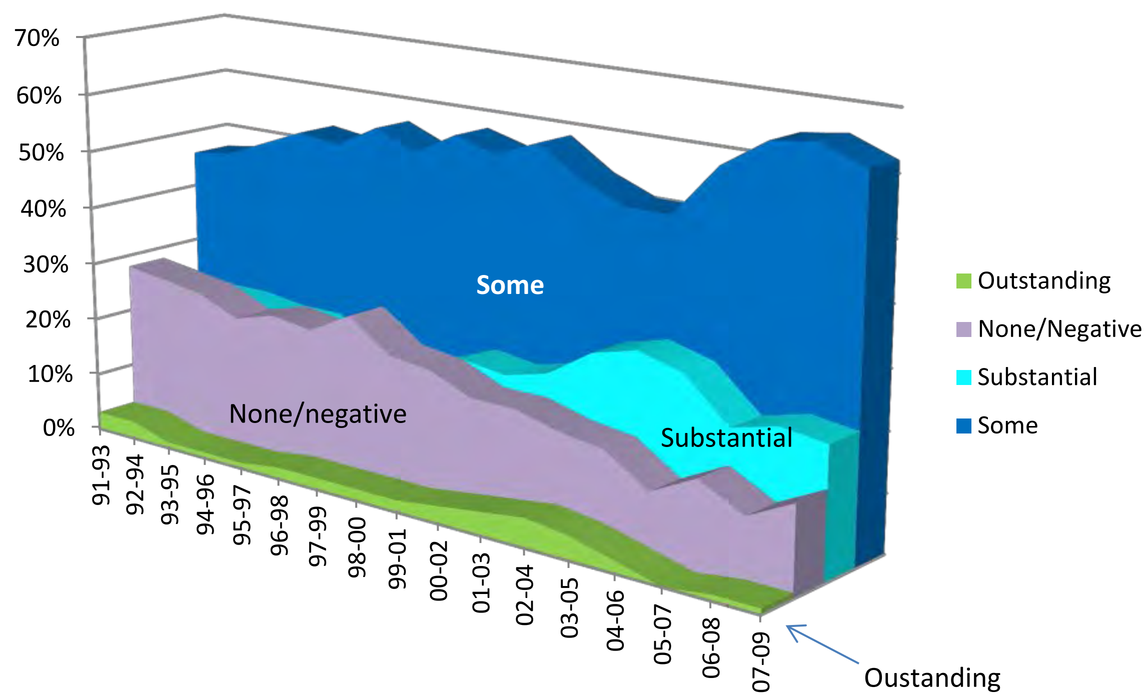


Table 19: Extent of environmental change by year of approval

	Outstanding		Substantial		Some		None/Negative		No. of
	No.	%	No.	%	No.	%	No.	%	reports
91-93	2	3%	16	23%	32	46%	19	28%	69
92-94	3	3%	27	23%	55	47%	31	27%	116
93-95	2	1%	34	23%	76	50%	39	26%	151
94-96	2	1%	37	22%	88	53%	39	23%	166
95-97	2	1%	40	22%	97	52%	46	25%	185
96-98	4	2%	28	17%	90	56%	39	24%	161
97-99	3	2%	28	17%	85	53%	45	28%	161
98-00	3	2%	27	19%	82	57%	33	23%	145
99-01	3	2%	33	22%	83	55%	33	22%	152
00-02	4	3%	29	21%	81	58%	26	19%	140
01-03	6	4%	31	23%	71	53%	26	19%	134
02-04	6	5%	36	28%	63	50%	22	17%	127
03-05	5	4%	38	30%	64	50%	20	16%	127
04-06	2	2%	35	28%	72	59%	14	11%	123
05-07	0	0%	26	21%	79	64%	19	15%	124
06-08	1	1%	24	23%	68	65%	12	11%	105
07-09	1	1%	17	22%	49	62%	12	15%	79

Table 20: Extent of environmental change by sector: projects approved 2004-09

	Outstanding		Substantial		Some		None/Negative		No. of
	No.	%	No.	%	No.	%	No.	%	reports
ENE	0	0%	14	52%	11	41%	2	7%	27
FIN	0	0%	3	4%	56	80%	11	16%	70
ICA	2	3%	22	30%	38	52%	11	15%	73
INF	1	3%	13	41%	16	50%	2	6%	32
All sectors	3	1%	52	26%	121	60%	26	13%	202

Table 21: Extent of environmental change by region: projects approved 2004-09

	Outstanding		Substantial		Some		None/Negative		No. of
	No.	%	No.	%	No.	%	No.	%	reports
CA	0	0%	5	22%	14	61%	4	17%	23
CEB	0	0%	8	32%	15	60%	2	8%	25
EEC	0	0%	10	23%	31	70%	3	7%	44
RUS	2	3%	10	16%	40	63%	12	19%	64
SEE	1	3%	17	46%	16	43%	3	8%	37
TUR	0	0%	1	100%	0	0%	0	0%	1
Regional	0	0%	1	13%	5	63%	2	25%	8
All regions	3	1%	52	26%	121	60%	26	13%	202

Additionality

Chart 18: Additionality by year of Board approval

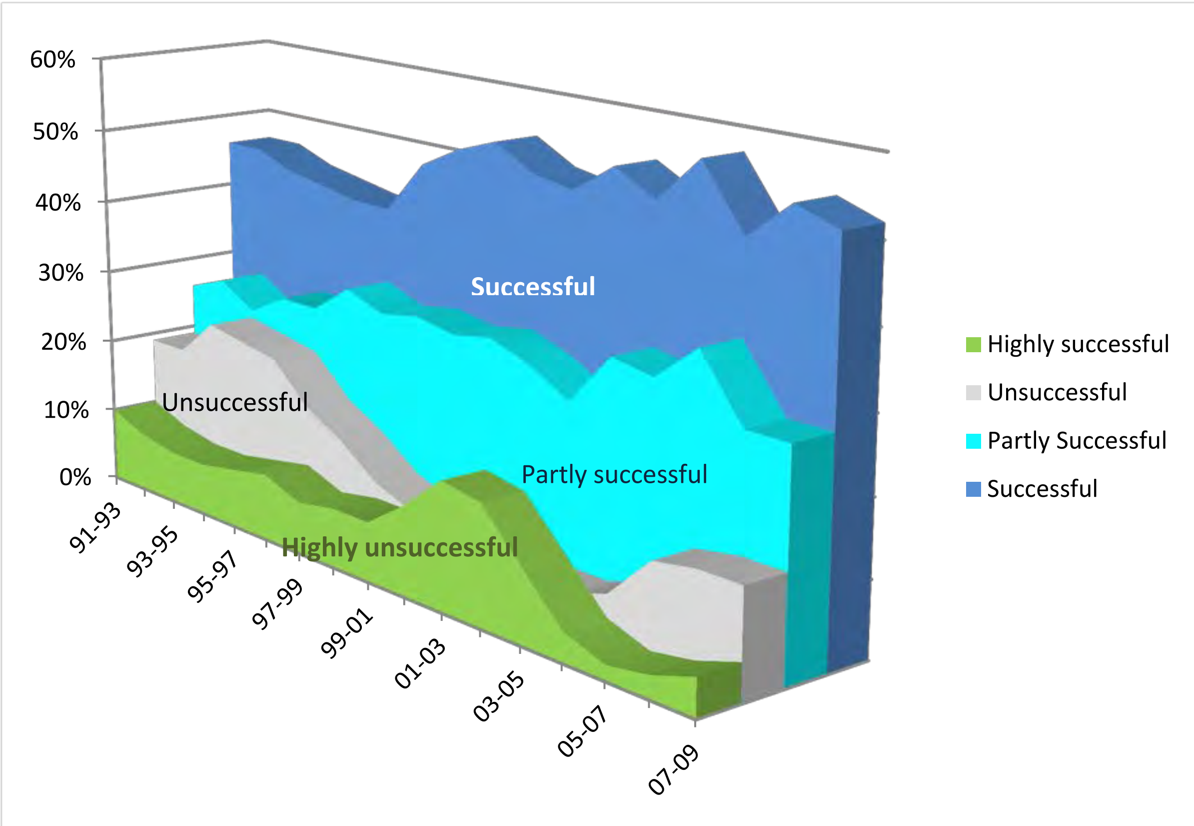


Table 22: Additionality by year of Board approval

	Fully verified		Largely verified		Partly verified		Not verified		No. of
	No.	%	No.	%	No.	%	No.	%	reports
91-93	57	81%	7	10%	6	9%	0	0%	70
92-94	93	79%	15	13%	8	7%	2	2%	118
93-95	116	76%	24	16%	8	5%	5	3%	153
94-96	108	64%	37	22%	16	10%	7	4%	168
95-97	110	59%	53	28%	16	9%	7	4%	186
96-98	93	57%	49	30%	15	9%	5	3%	162
97-99	99	61%	46	29%	12	7%	4	2%	161
98-00	85	58%	42	29%	16	11%	3	2%	146
99-01	84	54%	47	30%	21	14%	3	2%	155
00-02	76	53%	48	33%	17	12%	3	2%	144
01-03	77	56%	45	33%	13	9%	2	1%	137
02-04	76	59%	42	33%	9	7%	1	1%	128
03-05	74	54%	51	38%	11	8%	0	0%	136
04-06	68	51%	52	39%	13	10%	1	1%	134
05-07	69	49%	57	40%	15	11%	1	1%	142
06-08	62	54%	41	36%	10	9%	1	1%	114
07-09	53	62%	26	30%	7	8%	0	0%	86

Table 23: Additionality by sector: projects approved 2004-09

	Fully verified		Largely verified		Partly verified		Not verified		No. of
	No.	%	No.	%	No.	%	No.	%	reports
ENE	22	81%	4	15%	1	4%	0	0%	27
FIN	34	44%	34	44%	9	12%	0	0%	77
ICA	42	51%	32	39%	8	10%	1	1%	83
INF	23	70%	8	24%	2	6%	0	0%	33
All sectors	121	55%	78	35%	20	9%	1	0%	220

Table 24: Additionality by region: projects approved 2004-09

	Fully verified		Largely verified		Partly verified		Not verified		No. of
	No.	%	No.	%	No.	%	No.	%	reports
CA	18	72%	7	28%	0	0%	0	0%	25
CEB	14	54%	11	42%	1	4%	0	0%	26
EEC	31	70%	4	9%	9	20%	0	0%	44
RUS	33	44%	37	49%	5	7%	0	0%	75
SEE	21	57%	14	38%	2	5%	0	0%	37
TUR	1	100%	0	0%	0	0%	0	0%	1
Regional	3	25%	5	42%	3	25%	1	8%	12
All regions	121	55%	78	35%	20	9%	1	0%	220

Achievement of operational objectives

Chart 19: Achievement of operational objectives

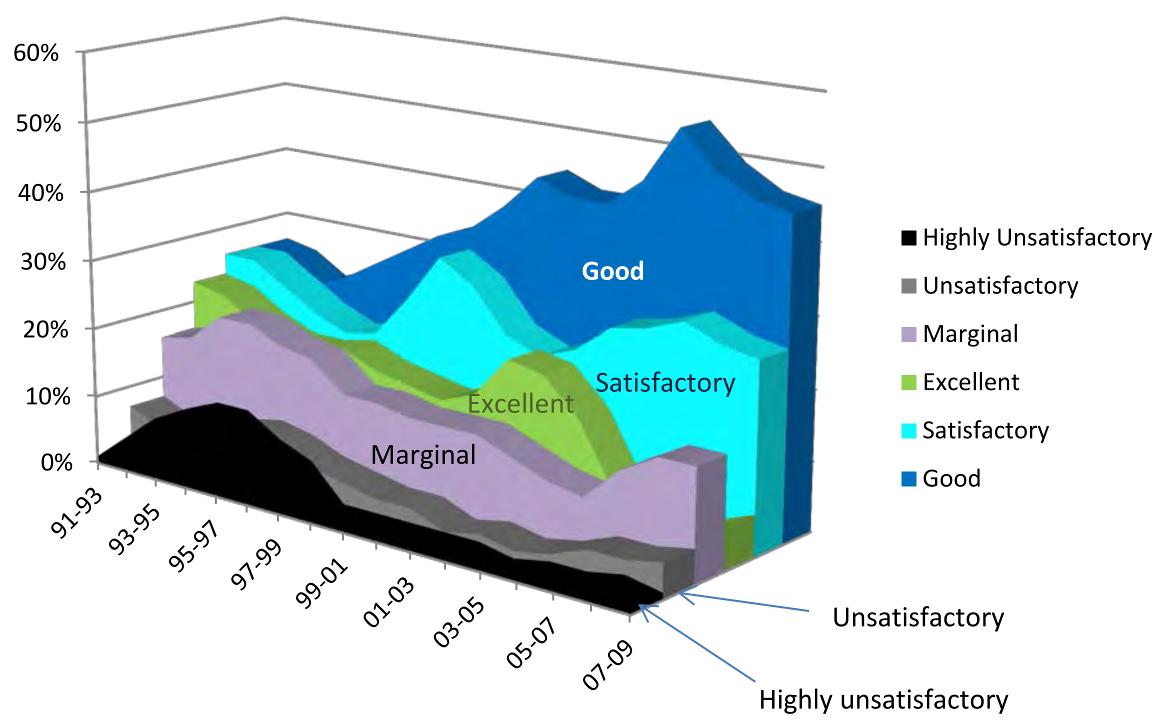


Table 25: Achievement of operational objectives by year of approval

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Highly Unsatisfactory		Total no. of
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	reports
91-93	16	23%	18	26%	18	26%	11	16%	5	7%	1	1%	69
92-94	25	22%	29	25%	30	26%	20	17%	6	5%	6	5%	116
93-95	29	19%	33	22%	34	23%	31	21%	11	7%	13	9%	151
94-96	29	17%	40	24%	33	20%	35	21%	12	7%	18	11%	167
95-97	31	17%	51	27%	34	18%	35	19%	15	8%	20	11%	186
96-98	29	18%	49	30%	31	19%	29	18%	11	7%	13	8%	162
97-99	26	16%	53	33%	40	25%	23	14%	8	5%	9	6%	159
98-00	21	15%	49	35%	45	32%	20	14%	5	4%	2	1%	142
99-01	21	14%	59	39%	44	29%	20	13%	5	3%	1	1%	150
00-02	23	16%	62	44%	33	23%	18	13%	4	3%	1	1%	141
01-03	30	22%	57	42%	29	21%	17	13%	2	1%	1	1%	136
02-04	27	21%	54	42%	30	23%	14	11%	2	2%	1	1%	128
03-05	22	16%	63	46%	37	27%	12	9%	2	1%	0	0%	136
04-06	9	7%	73	54%	37	28%	11	8%	3	2%	1	1%	134
05-07	5	4%	69	49%	42	30%	18	13%	6	4%	2	1%	142
06-08	5	4%	52	46%	32	28%	18	16%	5	4%	2	2%	114
07-09	5	6%	39	45%	23	27%	14	16%	4	5%	1	1%	86

Table 26: Achievement of operational objectives by sector: projects approved 2004-09

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Highly Unsatisfactory		Total no. of
	No	%	No.	%	No.	%	No.	%	No.	%	No.	%	reports
ENE	3	11%	17	63%	4	15%	3	11%	0	0%	0	0%	27
FIN	3	4%	40	52%	20	26%	10	13%	4	5%	0	0%	77
ICA	5	6%	38	46%	26	31%	10	12%	2	2%	2	2%	83
INF	3	9%	17	52%	10	30%	2	6%	1	3%	0	0%	33
All sectors	14	6%	112	51%	60	27%	25	11%	7	3%	2	1%	220

Table 27: Achievement of operational objectives by region: projects approved 2004-09

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Highly Unsatisfactory		Total no. of
	No	%	No	%	No	%	No	%	No	%	No	%	reports
CA	2	8%	14	56%	6	24%	0	0%	3	12%	0	0%	25
CEB	4	15%	11	42%	8	31%	2	8%	1	4%	0	0%	26
EEC	2	5%	25	57%	13	30%	4	9%	0	0%	0	0%	44
RUS	2	3%	36	48%	23	31%	11	15%	3	4%	0	0%	75
SEE	3	8%	21	57%	9	24%	4	11%	0	0%	0	0%	37
TUR	1	100%	0	0%	0	0%	0	0%	0	0%	0	0%	1
Regional	0	0%	5	42%	1	8%	4	33%	0	0%	2	17%	12
All regions	14	6%	112	51%	60	27%	25	11%	7	3%	2	1%	220

Bank handling

Chart 20: Bank handling by year of approval

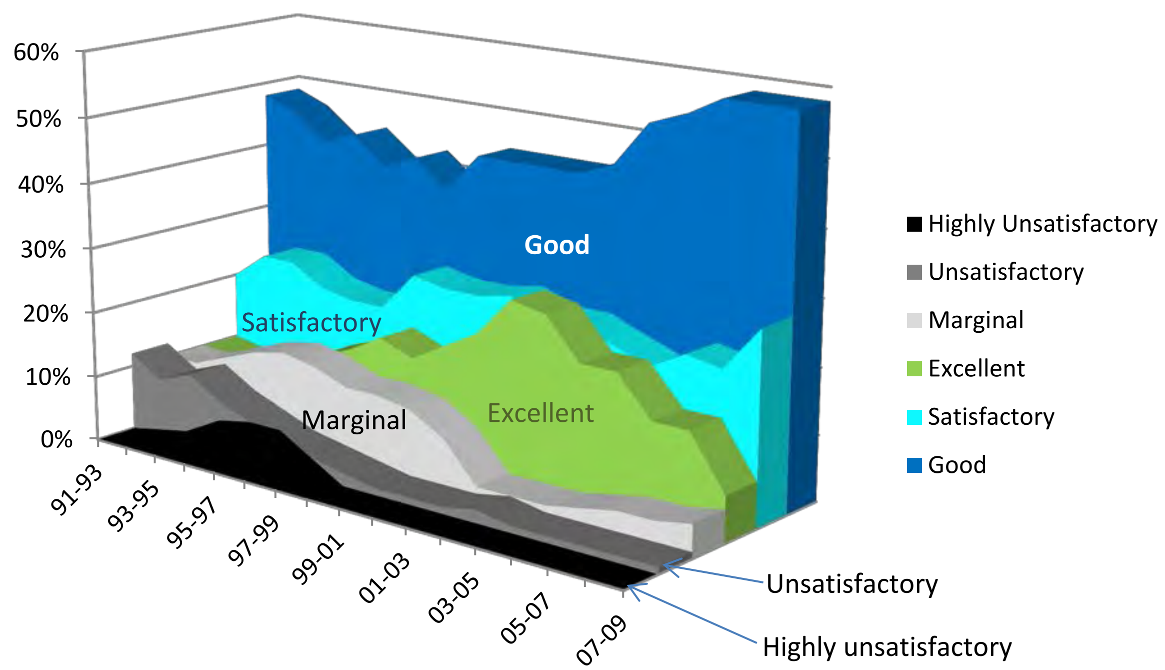


Table 28: Bank handling by year of approval

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Highly Unsatisfactory		Total no. of
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	reports
91-93	7	10%	33	48%	14	20%	7	10%	8	12%	0	0%	69
92-94	11	9%	53	46%	28	24%	12	10%	11	9%	1	1%	116
93-95	15	10%	63	42%	36	24%	18	12%	16	11%	3	2%	151
94-96	15	9%	73	44%	35	21%	23	14%	13	8%	8	5%	167
95-97	24	13%	75	40%	38	20%	27	15%	11	6%	11	6%	186
96-98	24	15%	68	42%	32	20%	22	14%	7	4%	9	6%	162
97-99	29	18%	61	38%	41	26%	19	12%	5	3%	4	3%	159
98-00	23	16%	63	44%	36	25%	17	12%	3	2%	0	0%	142
99-01	29	19%	66	44%	38	25%	16	11%	1	1%	0	0%	150
00-02	31	22%	61	44%	36	26%	11	8%	1	1%	0	0%	140
01-03	38	28%	60	44%	32	24%	3	2%	2	1%	0	0%	135
02-04	34	27%	58	46%	30	24%	2	2%	3	2%	0	0%	127
03-05	29	21%	72	53%	30	22%	3	2%	2	1%	0	0%	136
04-06	28	21%	74	55%	27	20%	4	3%	1	1%	0	0%	134
05-07	21	15%	82	58%	32	23%	6	4%	1	1%	0	0%	142
06-08	17	15%	66	58%	25	22%	5	4%	1	1%	0	0%	114
07-09	6	7%	50	58%	25	29%	4	5%	1	1%	0	0%	86

Table 29: Bank handling by sector: projects approved 2004-09

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Highly Unsatisfactory		Total No. of
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	reports
ENE	7	26%	17	63%	3	11%	0	0%	0	0%	0	0%	27
FIN	9	12%	48	62%	20	26%	0	0%	0	0%	0	0%	77
ICA	13	16%	37	45%	25	30%	6	7%	2	2%	0	0%	83
INF	5	15%	22	67%	4	12%	2	6%	0	0%	0	0%	33
All sectors	34	15%	124	56%	52	24%	8	4%	2	1%	0	0%	220

Table 30: Bank handling by region: projects approved 2004-09

	Excellent		Good		Satisfactory		Marginal		Unsatisfactory		Highly Unsatisfactory		Total No. of
	No	%	No	%	No	%	No	%	No	%	No	%	reports
CA	3	12%	17	68%	4	16%	0	0%	1	4%	0	0%	25
CEB	7	27%	13	50%	5	19%	1	4%	0	0%	0	0%	26
EEC	7	16%	17	39%	19	43%	0	0%	1	2%	0	0%	44
RUS	8	11%	45	60%	18	24%	4	5%	0	0%	0	0%	75
SEE	6	16%	29	78%	2	5%	0	0%	0	0%	0	0%	37
TUR	1	100%	0	0%	0	0%	0	0%	0	0%	1	0%	1
Regional	2	17%	3	25%	4	33%	3	25%	0	0%	2	0%	12
All regions	34	15%	124	56%	52	24%	8	4%	2	1%	3	0%	220

Annex 3: Investigation of trends

This annex presents additional analysis relating to the topics discussed in the chapter on Investigation of trends. It covers:

- the relatively poor performance of projects in Central Asia
- the decline in proportion of projects rated “fully verified” for additionality
- the decline in the proportion of “highly successful” projects
- the decline in environmental and social performance ratings.

Underperformance of projects in Central Asia

Issue

For some years now, the performance of operations in Central Asia (CA) has been consistently lower than those in all other regions on most of the evaluation criteria including overall performance. For example, the 2011 AER reported that across all regions CA evaluations had the lowest proportion of positive[14] overall performance results and the highest proportion of negative results over the period 2003–08. Further, when evaluation ratings were aggregated by region and compared for each of the two decades of the 1990s and 2000s, CA is the only region where the proportion of reports with positive overall performance evaluation results slightly decreased in the 2000s and the negative results slightly increased.

Analysis conducted

Analysis was conducted on the evaluation results of projects in CA countries and other regions against different variables in the Evaluation Department (EvD) database; CA project results in previous AEORs, Transition Retrospective reports, annual transition reports and recent IFC and ADB annual evaluation reports; and all self-evaluation and independent evaluation reports for projects in CA approved since 2000 and at least a third of those approved in the 1990s.

Comparator agencies regional performance

Although IFC is the most similar comparator international financial institution (IFI)[15] the use of different evaluation methods to assess overall performance and different regional composition by country means results across agencies should be interpreted with care. With this in mind, the 2008–10 cohort of evaluated projects supported by IFC showed 73 per cent had successful development outcome ratings, a 10 point increase from the previous three-year period (2005–07).[16] For the same period, the weakest regional results were in the Middle East and North Africa (30 per cent; 3 of 10) followed by Europe and CA (45 per cent; 5 of 11). The results for Europe and Central Asia since 2004 were well above the IFC average, ranging from 72 to 82 per cent of projects with successful development outcome ratings.[17] However, with a high share of financial markets projects affected by the global financial crisis, the region’s results for the latest three-year rolling period was significantly lower than for any previous period.

Central Asia in the EvD report portfolio

Since 1993, evaluations of operations in CA countries account for 9 per cent of the EvD evaluation portfolio which is representative of the EBRD’s portfolio of approved projects. Neither the variation of overall performance results across regions by the four AER sectors of energy, financial institutions, industry, commerce and agriculture (ICA) and infrastructure (Table 31), nor by evaluation report types (Table 32) is sufficient to explain performance differences.[18] Both CA and Eastern Europe and Caucasus (EEC) have a higher proportion of debt to equity projects which reflects market conditions in early transition countries (ETC) and the limited opportunities for equity investments (Table 33).

[14] Positive results are a combination of both highly successful and successful ratings. Negative results are a combination of both partly and unsuccessful ratings.
[15] The Asian Development Bank’s Central Asia operations had insufficient private sector project evaluation reports in the 2000s for comparative purposes.
[16] For investment projects, IFC’s Project Development Outcome rating captures the project’s contribution to a country’s development based on a project’s business performance, economic sustainability, environmental and social effects and private sector development.
[17] See IEG Annual Reports on Results and Performance of the World Bank Group 2010, 2011 and 2012.
[18] The only OPER energy sector evaluation was conducted in Turkey. Evaluations of regional operations have been excluded from the tables in this section.

Table 31: Regional distribution by sector (per cent of evaluated projects)

Sector	CA	CEB	EEC	RUS	SEE
ENE	16%	6%	12%	16%	11%
FIN	31%	29%	34%	30%	33%
ICA	34%	34%	34%	40%	45%
INF	18%	20%	20%	15%	11%

CA=Central Asia, CEB=Central Europe and the Baltics, EEC=Eastern Europe and Caucasus, RUS=Russian Federation, SEE=South-eastern Europe
ENE= energy, FIN=financial institutions, ICA=industry, commerce and agriculture, INF=infrastructure
Source: EvD database

Table 32: Regional distribution by evaluation report (per cent of evaluated projects)

Evaluation report type	CA	CEB	EEC	RUS	SEE
OPER	49%	37%	52%	40%	30%
Special	1%	0%	3%	5%	3%
XMRA	49%	62%	45%	56%	67%

CA=Central Asia, CEB=Central Europe and the Baltics, EEC=Eastern Europe and Caucasus, RUS=Russian Federation, SEE=South-eastern Europe
OPER = Operation Evaluation Report, XMRA = Extended Monitoring Report Assessment
Source: EvD database

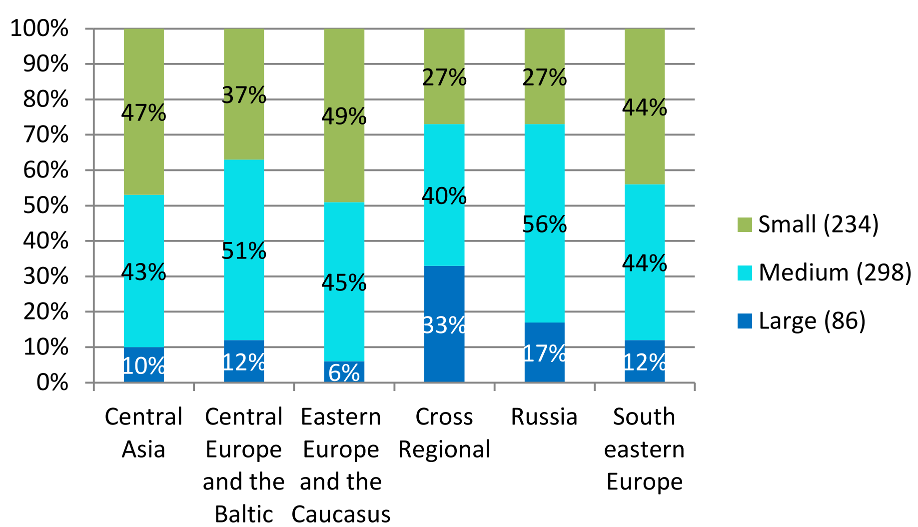
Table 33: Regional distribution by operation type (per cent of evaluated projects)

Operation type	CA	CEB	EEC	RUS	SEE
Debt	79%	63%	77%	70%	64%
Debt & Equity	6%	12%	12%	14%	14%
Equity	15%	25%	12%	17%	22%

CA=Central Asia, CEB=Central Europe and the Baltics, EEC=Eastern Europe and Caucasus, RUS=Russian Federation, SEE=South-eastern Europe
Source: EvD database

However, the 2010 AEOR found that volume of EBRD financing influences performance. Projects over €50 million had better overall performance, transition impact and financial performance. Like EEC and to a lesser extent South-eastern Europe (SEE), CA countries have smaller economies and a higher proportion of operations less than €10 million (Chart 21). This would suggest that the performance of operations in these regions is more likely to be lower than in regions where there are larger projects. However, this hypothesis is not true for overall performance results in SEE countries where their more advanced transition status overrides the influence of an operation's volume.

Chart 21: Project volume by country groups (per cent of evaluated projects)



Large = EBRD financing over €50 million,
Medium = EBRD financing from €10– €50 million
Small = EBRD financing less than €10 million.
The figures in brackets are the total number of projects for each size group

Source: AEOR 2010 Appendix 9

Since 2004, EvD has been exploring the factors affecting performance in various Annual Evaluation Overview reports (AEORs) culminating in the application of an ''ordered logit'' approach in 2010.[19] This analysis found that a project's OP is highly correlated with transition impact (TI) and fulfilment of objectives (FO) scores and that both Bank handling and client and project financial performance are important co-variants.

The 2010 AEOR reported that "projects in countries on the lower end of transition (CA and EEC country groups) have the lowest overall performance rating, with 49 and 50 per cent of "successful" and "highly successful" ratings respectively, compared with an average of 58 per cent for all projects. While transition impact is the lowest in CA countries with only 41 per cent in the "satisfactory-to-excellent" category, the EEC country group scores quite high, achieving 54 per cent in the same category and compares well with that of Russia and the Central Europe and the Baltics (CEB) countries."

All but one country in both the CA and EEC regions are ETC so it is not surprising that their regional performance results are similar, CA's evaluation ratings over the past decade have been unfavourably compared with those of EEC but EEC ratings are improved by those of Ukraine which is not an ETCI country. Comparing CA country and regional results with those of the EEC region excluding Ukraine is a more realistic comparison, as the results in Table 34, Table 35 and Table 36 illustrate.

Table 34: Overall performance evaluation scores for CA, EEC and EEC excluding Ukraine

Overall performance	CA	EEC	EEC excl. Ukraine
Highly successful	4%	3%	0%
Successful	43%	50%	42%
Partly successful	39%	35%	43%
Unsuccessful	13%	12%	14%

CA=Central Asia, EEC=Eastern Europe and Caucasus Source: EvD database

Table 35: Fulfilment of project objectives evaluation scores for CA, EEC and EEC excluding Ukraine

Fulfilment of objectives	CA	EEC	EEC excl. Ukraine
Excellent – Satisfactory	75%	75%	70%
Marginal – Highly unsatisfactory	25%	25%	30%

CA=Central Asia, EEC=Eastern Europe and Caucasus Source: EvD database

Table 36: Transition impact evaluation scores for CA, EEC and EEC excluding Ukraine

Transition impact	CA	EEC	EEC excl. Ukraine
Excellent – Satisfactory	69%	79%	74%
Marginal – Negative	31%	21%	26%

CA=Central Asia, EEC=Eastern Europe and Caucasus Source: EvD database

When Ukraine's ratings are excluded from EEC regional results, ratings for CA are more favourable than those for the remaining EEC countries for overall performance and fulfilment of objectives but not transition impact.[20] These comparative results suggest that results are influenced by issues common to a broader set of ETCs.

As noted above, Central Asia is the only region where the proportion of reports with positive overall performance evaluation results slightly decreased in the 2000s and the negative results slightly increased (Table 36). However, given EvD's findings regarding the correlation between a project's overall performance and the fulfilment of objectives and transition impact criteria scores, the improved scores for fulfilment of objectives and transition impact in the 2000s over the 1990s is a counterintuitive result (Table 38 and Table 39). This results from the fact that in 9 of the 26 projects with a partly successful overall performance, both the fulfilment of objectives and transition impact scores were either good or satisfactory. Further, CA and SEE were the only two regions to double their number of overall performance highly satisfactory scores in the 2000s; CA's increased from 1 to 2, and SEE's from 5 to 12.

Table 37: Central Asia overall performance scores from evaluations in the 1990s and 2000s

Overall performance	HS+S	PS+US
1991– 1999	50%	50%
2000– 2010	45%	55%

HS=highly successful, PS=partly successful, S=successful, US=unsuccessful Source: EvD database

[20] Although Kazakhstan is not an ETC, this statement is true whether its results are included in the regional results or not because Kazakhstan's results do not have the same impact on the CA regional results that Ukraine has on the EEC regional results.

Table 38: Central Asia fulfilment of project objective scores from evaluations in the 1990s and 2000s

Fulfilment of objectives	E	G+S	M–HU
1991– 1999	18%	50%	32%
2000– 2010	9%	73%	18%

E=excellent, G=good, HU=highly unsatisfactory M=marginal, S=satisfactory Source: EvD database

Table 39: Central Asia transition impact scores from evaluations in the 1990s and 2000s

Transition Impact	E	G+S	M+U
1991– 1999	3%	59%	38%
2000– 2010	15%	64%	24%

E=excellent, G=good, M=marginal, S=satisfactory, U=unsatisfactory Source: EvD database

The 2010 AEOR found that financial performance appeared to be almost equally distributed by country groups, With a small number of outstanding exceptions, project and company financial performance in the CA region was low for both positively and negatively rated overall performance. Financial performance was more influenced by external factors such as government interference or lack of an enabling business environment rather than factors internal to the client and their project.

Over the 2000–10 period, the average TC commitment to investment ratio for ETC countries was 5 per cent which was over double that for Bank-wide operations (2 per cent). The average ratio for CA countries was 12.5 per cent with a range from 6 per cent in Uzbekistan to 18 per cent in the Krygyz Republic. In investment operations that included reform actions, success was (unsurprisingly) more likely when a client had strong ownership of the reforms and there was a coordinated effort with other IFIs working in the sector/country.

However, the effect of reforms to company governance and others can be limited when the enabling environment for private sector growth is not in place or is undermined by interference by authoritarian governments. This can lead to waning client ownership of company reforms. Similarly, ineffective IFI coordination also undermines a reform agenda. It appears from evaluation reports that these limitations to reform were not uncommon in CA countries.

Evaluations reported that physical and financial (in the case of FIs) objectives were often met. However, objectives requiring reforms within a company or of the business environment were less successful even where a foreign sponsor, rather than a national one, was involved. This is linked to evaluation report references to CA project designs being overly ambitious in their operational and transition impact objectives and timeframes. The somewhat unrealistic nature of the objectives results in under achievement of both sets of objectives.

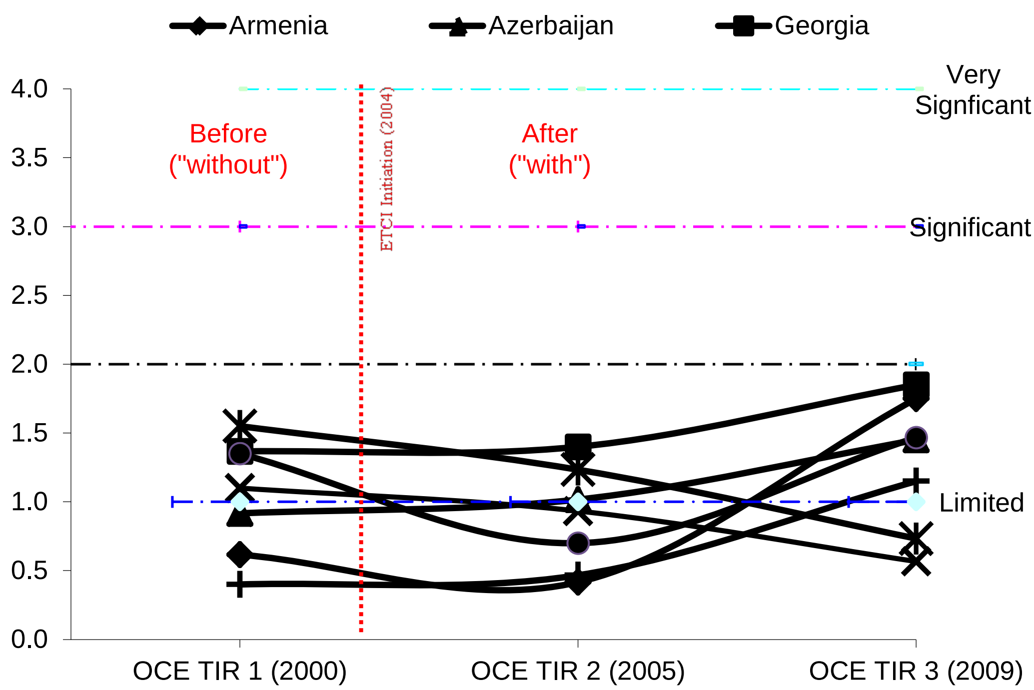
Issues, lessons and the rationales for negatively performing projects identify political economy[21] factors as having a marked influence on the overall performance of operations in CA countries. These include matters such as:

- a government’s ownership and commitment to implement practical market economy reforms rather than rhetoric;
- weak and conflicting laws and regulations and government officials over reaching the exercise of their authority to regulate the private sector; and
- insufficient institutional and human resource capacity to implement reforms,

Country level political economy challenges are analysed in the Bank’s Transition Impact Retrospectives (TIR) reports. Since the first report in 2001, the TIR tracks the aggregated transition impact in the Bank’s countries of operations every five years. Applying a numeric scale to the TIR country ratings enables a cross-country comparison for ETCs going back to 1995 (Chart 22).

[21] Political economy refers to the interrelationship between political and economic processes and institutions, particularly as related to policy issues, interests, decisions, and reform implementation.

Chart 22: Rating of ETCs in the Transition Impact Retrospectives (TIRs)



The Transition Impact Restrospective Assessments are carried out periodically by the OCE to assess the transition impact of EBRD financed operations at the sector and country levels. EVD has translated all assigned ratings over time in a 0 - 4 point scale that was

Overall, the TIR ratings for all ETCs are in the “limited” to “moderate” range reflecting the depth of the constraints and challenges facing these countries in their transition to market economies. Georgia leads the way not only in this measure but also is the highest ranked ETC in the World Bank’s Ease of Doing Business report and in Transparency International’s Corruption Perception Index. With the exception of the Kyrgyz Republic and Uzbekistan, who have both deteriorated over the 15 year period of the three TIRs, the other ETCs have shown improvements since 2005.

It has long been recognised that the status of a country’s legal and regulatory framework is key to creating an enabling environment for a robust market economy. It is therefore concerning that a recent EvD study on the Bank’s legal transition programme found that the “functioning of legal systems and institutions in practice is still universally substandard in all of the Bank’s countries of operation”.[22]

EBRD country law ratings reported in the 2009 TIR were based on scoring the extensiveness and effectiveness of commercial and financial legal and regulatory systems. The scores for CA countries were the lowest, ranging from 33 to 55 per cent, with four of six countries scoring less than 50 per cent. EEC countries ranged from 45 to 55 per cent with only a third scoring less than 50 per cent. Further, the status of the legal framework around some key business dimensions in selected CA countries reinforces the depth of the challenges to enabling private sector development (Table 40).

Table 40: Ranking of selected CA countries against key business legal dimensions

Dimension	Kazakhstan	Kyrgyz Republic	Tajikistan	Uzbekistan
Efficiency of legal framework in settling disputes (142 countries)	87	132	56	NA
Judicial independence (142 countries)	111	135	72	NA
Resolving insolvency (156 countries)	54	150	68	117
Enforcing contracts (156 countries)	27	48	42	43

Source: EBRD, Transition Impact Retrospective, 2009

[22] EvD. 2012. Special Study on Legal Transition Programme Review (PE11-537).

In this transition environment, the average risk encountered for operations in ETCs, whether or not they included country risks, was measurably higher than the Bank-wide average. In addition, evaluation reports often noted that risk assessments did not sufficiently take into account nor provide mitigation measures for political economy factors. The results and lessons of evaluations over the past two decades have confirmed that favourable reform conditions and investment climate are important influences on project success.

Summary

The evaluation results of projects in the CA region compare favourably against ETCI countries across all evaluation criteria. CA and SEE were the only two regions to double their number of highly satisfactory overall performance evaluation report scores in the 2000s. While TIR results over the past 15 years are encouraging for some CA countries, political economy factors and associated risks also have a considerable influence over the success of investment operations in all CA countries.

Recommendations from evaluation reports suggest designing more realistic operational and TI objectives and timeframes by applying the considerable range of lessons from CA project evaluations over the past two decades. Including more explicitly political economy factors in risk analysis and providing transactional TC including extensive policy dialogue and proactive agency coordination to support necessary reforms would improve the likelihood of success.

Decline in proportion of projects rated "fully verified" for additionality

Additionality, sound banking principles and transition impact are core EBRD operational principles. Additionality is described as a core measure of an operation's relevance where "the Bank shall not undertake any financing or provide any facilities when the applicant is able to obtain sufficient financing or facilities elsewhere on terms and conditions that the Bank considers reasonable".

Further to financing terms, additionality has three more dimensions:

(i) specific attributes that only a multilateral agency like the EBRD can bring to an operation

(ii) legal conditions often related to specific standards to improve transition impact

(iii) arrangements to mobilise commercial financing.

Operation Reports (ORs) are required to describe the Bank's additionality in at least one of the four dimensions including the counterfactual results and timing (Table 41). Financial terms are identified in almost all operations.

Table 41: Additionality dimensions recorded in an Operation Report

Additionality dimension	Verification and/or counter factual results	Timing
Terms	Market (country and segments) benchmarks [Annex on capital markets review]	Already achieved as result of project preparation
EBRD attributes	Preferred creditor status, political risk carve out, dialogue with federal or local governments, regional relationship with sponsor, experience in country, sector or with innovative financial instrument…	Before signing
Conditionalities	Corporate governance standards, board representation, procurement, environment…	During implementation
Commercial mobilisation	Syndication, local parallel financing, underwriting IPO arrangements, co-financing from private equity-funds…	Others… precise dates required

Source: EBRD Operations Manual Section 1.5.4

Following EvD guidance, all operation evaluations include an assessment of the status of additionality at the time the project was financed by the Bank. The additionality rating is determined against the benchmarks described in Table 42.

Table 42: Additionality evaluation rating benchmarks

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 that would have otherwise not 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.

Source: EvD. 2011. Annual Evaluation Overview Report 2010, Annex 2.

This evaluation guidance raises some issues regarding what kind of methodology is used to apply the rating benchmarks. Some aspects of additionality can be assessed at approval, while other aspects depend on the way in which the project is implemented.

At approval, where a project plan can be evaluated, additionality can be verified through consideration of the counterfactual scenario. Additionality dimensions (Table 11) that are considered here include financial terms, certain EBRD attributes and commercial mobilisation. At this early point, additionality either exists in the plan, or it does not, thus, a yes/no judgment (binary rating) is more appropriate than a scaled rating system.

Upon implementation or after completion, it becomes possible to assess and the extent to which any conditionality placed on the client to secure transition impact has actually been enforced and implemented. This is not a binary rating. Furthermore, it becomes an exercise of assessing effectiveness rather than relevance, and the question emerges whether additionality should indeed be considered a measure of project relevance.

A further issue is that the benchmarks do not cover the range of results for each of the additionality dimensions (see Table 42) that are identified in ORs. There is no clarity or guidance as to how these collective dimensions can be evenly assessed to produce a single rating. This is particularly relevant in distinguishing between the "fully" and "largely" verified ratings.

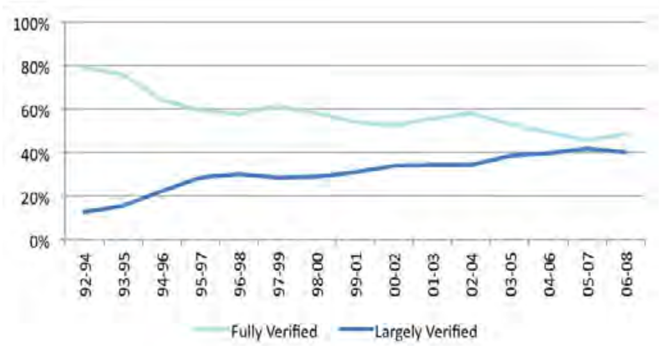
The two sets of dimensions require judgments to be made at different times of the project cycle, using different assessment tools and rating criterion and for different evaluation purposes (i.e. relevance and effectiveness). The guidance assumes a relevance assessment is made at time of approval and the rating benchmarks seem to be written so they can be applied to the OR at the time of approval. This is at odds with making an effectiveness assessment that is required for at least two of the dimensions. This methodological confusion needs to be resolved.

Findings of the 2011 AER

The 2011 AER found that although around 90 per cent of projects have consistently been rated largely verified or better, the proportion achieving the highest rating of "fully verified" fell progressively to about 50 per cent by 2005–07 (Chart 23). The review also surmised that this trend could be due to the EBRD becoming less additional in absolute terms prior to the recent financial crisis but this shift was not being fully reflected in the additionality counterfactual results described in ORs at approval.

Chart 23: Fully and largely verified additionality ratings by approval year (three-year rolling sample)

Source: EvD database



Analysis conducted

Analysis was conducted on additionality results against different variables in the EvD database, whereby additionality ratings for over a third of all XMRAs, OPERs and XMRs of operations approved from 1998 to 2007 were reviewed and compared with the evaluation findings to the additionality as stated in the approved OR.

While there are some initial indications of improvements in ratings since 2007, the analysis suggests the trend of reduced proportion of fully verified ratings has less to do with global financial changes than with methodological issues including the application of the rating guidelines by both self-evaluators and independent evaluators.

For example, even in the 12 operations where EvD downgraded a rating from "fully" or "largely" to "partly" verified, only five operations (all recorded from one OPER) made explicit reference to the availability of finance from other sources being one of the reasons for a "partly" verified rating. None of the 14 evaluations where the XMR rating was reduced from "fully" to "largely" verified used the increased availability of finance to question the veracity of the financing terms counterfactuals in the OR.

Specific to XMRs and XMRAs, statements justifying a "largely" verified rating were typically relatively brief and followed one of two approaches - either providing a justification statement that focused on verifying additionality at the time of approval or a statement based on an assessment of additionality dimensions at approval and post-implementation.

Almost all XMRs take the first approach along with around 25 per cent XMRAs. These statements reconfirm at least the original OR additionality financing terms counterfactual as being valid at the time of approval. Some reconfirm the validity of the EBRD attributes but seldom are conditions or commercial mobilisation mentioned.

In the second approach, statements confirm the "at approval" status of financial terms and refer to at least one post-approval event (usually legal conditions) to justify the rating. This approach has been applied in around three-quarters of XMRAs (all OPERs reviewed) but less than 10 per cent of XMRs. This seems to explain some of the rating variance between XMRs and EvD reports.

A third type of analytical approach to rating additionality was found in an XMR where the rating justification systematically addressed each dimension both at time of approval and as appropriate after implementation. The XMR rating of "partly" verified was upgraded to "fully" verified in the XMRA which ironically limited its analysis to verifying additionality (only the financial terms) at the time of approval.

Irrespective of the approach used, statements justifying a "largely" verified rating in XMRs and XMRAs generally appear to satisfy at least two and sometimes all three of the benchmarks for a "fully" verified rating. For example, 11 of 19 XMRAs of operations approved in 2006 that were rated "largely" verified either had a justification to support a "fully" verified rating or did not provide sufficient analysis against the original statements in the OR as to why the rating is "largely" as opposed to "fully" verified.

This seems to be consistent with anecdotal evidence from bankers suggesting that a "largely" verified rating for additionality is acceptable even if the justification suggests a higher rating could be applied. Additionality is not one of the evaluation criteria used in the guidance for determining the overall performance rating and a "largely" verified rating is sufficient to confirm the project met the Bank's mandate.

<u>Implications of additionality not being verified</u>

Since the EBRD's inception, only 15 of 777 evaluations have not verified additionality. 11 of these 15 were in operations approved in the 1990s. Of the remaining four projects with "not verified" additionality ratings approved between 2000 and 2006, three were equity projects of which one simply did not need the funds with critical financial information reportedly withheld by the client. The others were two equity projects and the debt project with the state proposed additionality conditions that were not implemented. The overall performance of two of these projects was rated unsuccessful with almost all sub-criteria receiving the lowest rating. The other two were rated partly successful with one project rated receiving positive ratings in other criteria. This illustrates a conundrum that would be resolved by a rule that if additionality is not verified then the project should automatically be rated unsuccessful.

<u>Additionality is either a measure of relevance or effectiveness, not both</u>

By including legal conditions and future leveraging of commercial finance as additionality dimensions, this evaluation criteria is being complicated by mixing an aspect of effectiveness with relevance. It is true that the EBRD may be able to use its financing to convince the client to undertake certain actions that would convert into legal conditions which would not be required by commercial financiers. However, the degree to which these conditions are then fulfilled and thereby influencing the achievement and overall quality of project results should be assessed in determining the effectiveness of a project rather than its relevance. This would focus additionality on financial aspects as intended by the Bank's articles of establishment.

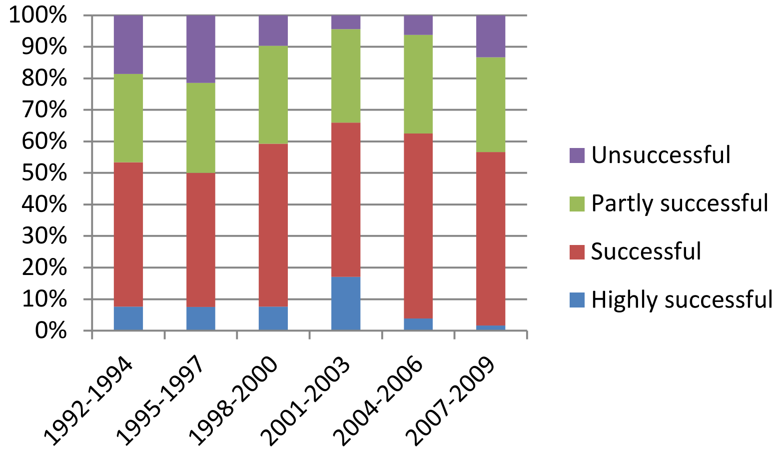
Assessing whether financing terms were valid at the time of approval does not have a strong influence over project performance. Consideration should be given to assessing this more focused definition of additionality as a relevance criterion with no direct link to overall performance.

Decline in the proportion of "highly successful" projects

Issue

The AER 2011 noted that the proportion of projects rated "highly successful" declined from a high of 17 per cent for those approved in 2001–03 to zero or near zero in the two most recent three-year periods (Chart 24). As "highly successful" projects provide valuable examples and available EvD data did not provide an adequate explanation for the decline, further investigation of this trend is reported on below.

Chart 24: Overall performance by number of reports for



HS=highly successful, PS=partly successful, S=successful, US=unsuccessful
Source: EvD database

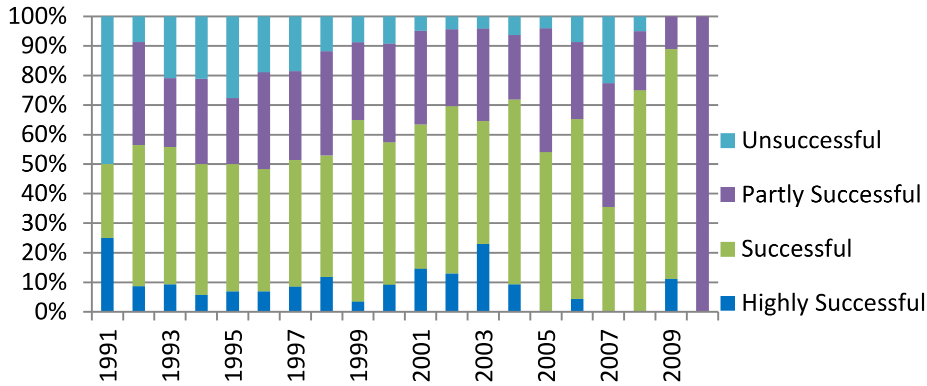
Analysis conducted

Investigation of this trend involved analysing overall performance results against different variables in the

EvD database; reviewing all independent and self-evaluation reports for projects approved in 2005 and 2007; and reviewing evaluation reports for projects rated "highly successful" approved in all years between 2001 and 2006.

Since 1992, at least two projects have been rated "highly successful" each year, peaking with 11 in 2003. The 2001-03 period was the first time that over 10 per cent of evaluated projects were rated "highly successful" in three consecutive years. Seventeen of the 23 "highly successful" projects in this period were evaluated between 2004 and 2006. Evaluations conducted in this three-year period accounted for over 40 per cent of all "highly successful" ratings given since 1991.[23] By contrast, 2005 and 2007 were the only two approval years since 1991 when not one project was rated "highly successful". Further, 2007 was also the first year since 1995 when over 20 per cent of projects were rated "unsuccessful" (Chart 25).

Chart 25: Overall performance by Board approval year 1991–2010



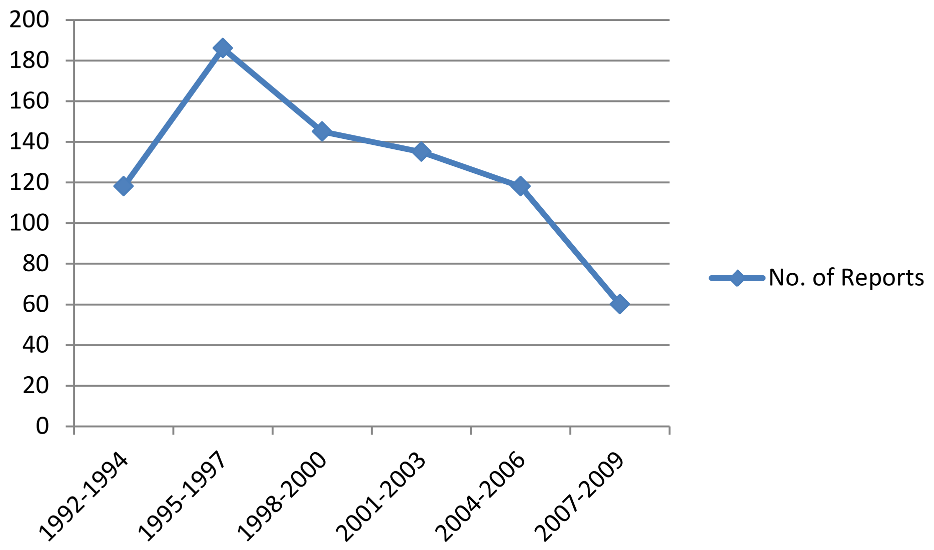
Source: EvD database

Number of evaluation reports

The results from an average of 45 evaluation reports are included annually in the EvD database. Only half the number of evaluation reports have been conducted during the most recent 2007–09 approval period to date compared with other cohorts (Chart 28). However, 31 evaluations were conducted for projects approved in 2007 which is similar to the total evaluation reports of projects approved in 2004. As few evaluations have yet to be conducted for projects approved in 2008 and 2009, the analysis below only includes 2007 approved projects.

[23] EvD became a fully independent department reporting directly to the Board in mid-2005.

Chart 26: Total number of evaluation reports by three-year cohort 1992–2009



Source: EvD database

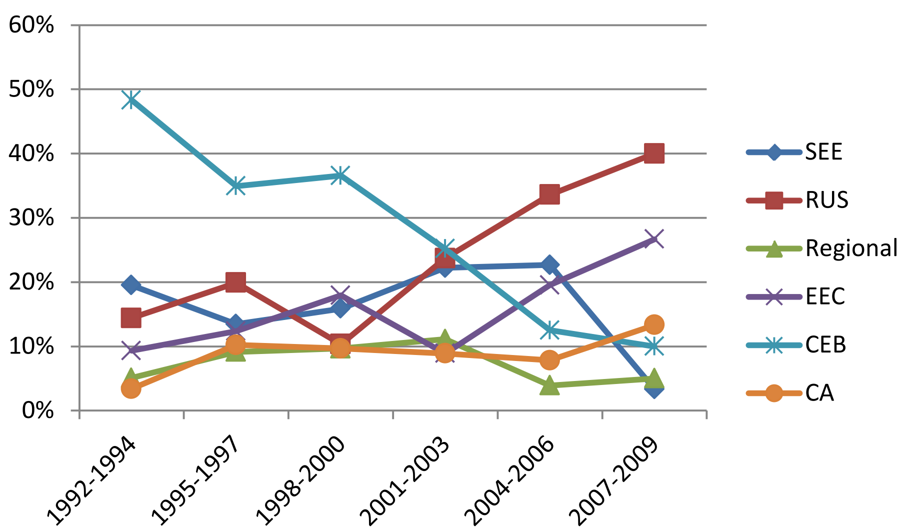
Regional effects

The regional distribution of evaluation reports in relation to the EBRD's investment approval trends is considered in the evaluation sampling methodology. CEB, SEE and Russia have always had between two and six projects rated "highly successful" in each three-year cohort.

Reflecting changing portfolio distribution, the proportion of evaluations in Russia and EEC has increased since 2000 while those in CEB have significantly decreased and those in SEE and CA have remained relatively stable at around 10 per cent (Chart 27). Further, the proportion of evaluations of projects in Russia and ETCI countries increased during this period from 42 per cent in 2001–03 to 62 per cent in 2004–06. By 2007 they accounted for 77 per cent of all evaluations.

Chart 27: Regional distribution of evaluation reports by three-year cohort 1992–2009

CA = Central Asia, CEB = Central Europe and the Baltics, EEC = Eastern Europe and Caucasus,
RUS = Russian Federation, SEE = South-eastern Europe
Source: EvD database



The wide sector and economy transition gaps in Russia and ETCI countries pose considerable challenges, combined with the debilitating effect on both client and project performance of the global financial crisis in 2008 and beyond. It could be expected that the proportion of both "highly successful" and "successful" projects may be fewer in number from 2004 onwards. Yet of the six "highly successful" projects since 2004, three were in Russia, two were in CA and one was in CEB. No SEE projects were rated "highly successful" in 2004–06 despite having over 20 per cent of the evaluations. The proportion of positive to negative overall performance ratings in Russia and ETCI countries was similar to other regions.

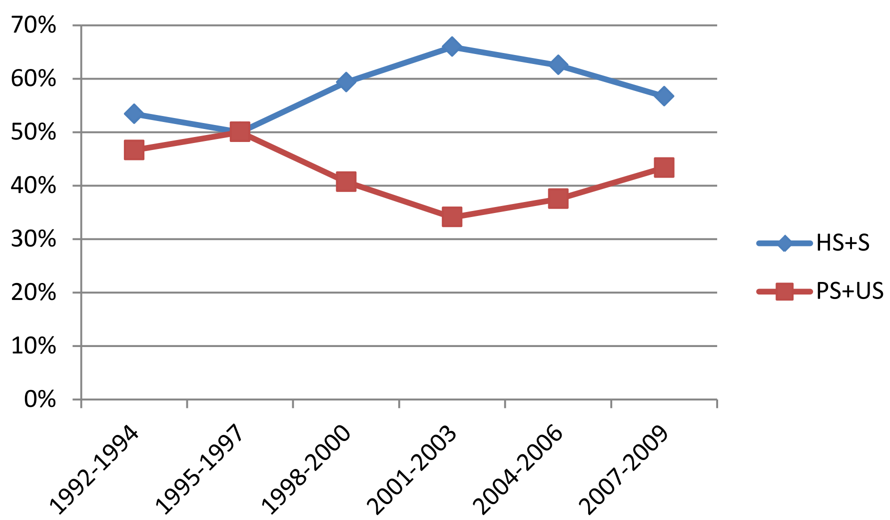
Positive and negative ratings

Measuring the number of evaluations against their positive ("highly successful" and "successful") and negative scores ("partly successful" and "unsuccessful") since 1992 raises two points. Firstly, a relatively rapid improvement of positive scores from 50 per cent in 1995–97 to 66 per cent in 2001–03 was followed by a three point fall to 63 per cent in 2004–06 (Chart 7). The relatively poor evaluation ratings in 2005 influenced this three-year cohort result.

Secondly, as the number of evaluation reports in the 2007–09 cohort is not comparable to other cohorts it is too early to tell whether the further six point fall to 57 per cent reflects a trend of deteriorating overall project quality. However, as discussed below, the 2007 ratings were very poor, with the lowest annual proportion of positive scores and highest annual proportion of negative scores since 1991.

Chart 28: Overall performance positive vs. negative ratings for three-year board approval cohorts 1992-2009

HS=highly successful, PS=partly successful, S=successful, US=unsuccessful
Source: EvD database



No projects approved in 2005 or 2007 were rated "highly successful". Projects approved in 2007 were under implementation when the global financial crisis began in 2008. These projects were all evaluated between 2008 and 2011 when the debilitating effect of the deepening crisis was settling across the region. All 31 of the 2007 evaluation reports make some comment on how the crisis influenced project implementation with some 65 per cent of these projects being rated either "partly successful" or "unsuccessful".

The 23 per cent of 2007 projects rated "unsuccessful" was the highest annual proportion since 1991. However, rather than the financial crisis being the primary factor undermining implementation, evaluations cited bad client management, fraud, corruption and poor design as the principle reasons for "unsuccessful" ratings.

In the 42 per cent of reports rated "partly successful", the financial crisis was reported to have affected the achievement of operational objectives by delaying completion or the commissioning of capital investments in plant and infrastructure, thereby severely reducing the client's financial performance. In a small number of cases this led to clients suspending or closing operations. The crisis also reportedly heightened the risks of achieving future transition impact. This was reflected in the individual criterion scores as well as the overall performance.

On a more encouraging note, in spite of the effect of the financial crisis, just over a third of evaluations of projects approved in 2007 were rated "successful". Key characteristics of their success included achieving their operational objectives without delay with a "good" or "excellent" transition impact rating and employing responsive management practices to overcome the effect of the financial crisis on both company and project financial performance.

Performance of projects approved in 2005

Eighty per cent of the evaluations of projects approved in 2005 were conducted after 2008 so the effect of the financial crisis was frequently referred to. Although only 4 per cent of 2005 projects were rated "unsuccessful", these scores resulted from poor management, corporate governance, fraud or corruption rather than the crisis, similar to the 2007 evaluation reports. Similarly, not all "partly successful" projects attributed the rating to the effects of the financial crisis. In these cases, poor corporate governance and project design weaknesses were identified as influencing factors.

Materialising some three years after approval, the financial crisis had minimal impact on the 2005 cohort of projects in terms of achievement of objectives. However, according to evaluation reports, it negatively impacted company and project financial performance and increased the risk of attaining future transition impact. Even so, individual criterion scores were more often positive than negative for both "partly" and "successful" projects.

Performance ratings

Another aspect of overall performance ratings that seemed more pronounced in projects approved in 2005 and 2007 was a more marked disparity between the overall tone of the evaluation, criterion ratings and overall ratings with overall ratings being lower than criterion ratings and overall tone would imply. This has led to lower ratings than expected from the combination of individual criteria scores or the justification provided for the overall performance. This raises the possibility that a harsher standard was being applied to overall ratings in evaluations conducted post-2006, after EvD become fully independent. This did not appear to be an issue in a review of the evaluations conducted in the evaluation years 2004–06 when most “highly successful” ratings were given, including those for projects approved in 2001–03.

The current project performance rating system does not have a consistent number of ratings per criteria, does not assign numeric scores to ratings and does not weight the relative importance of different evaluation criteria (even though the guidance note for overall performance includes a subset of criteria), nor is the legitimate exercise of evaluator discretion generally made clear. As a result, it is not always easy to deduce the relationship between the overall performance rating and the individual criterion ratings, particularly when the justification for the overall score seems more positive than the score.

Evaluation timing

A small number of reports each year over the past decade have commented that the evaluation seemed to be conducted too early which suggests the timing of evaluation reports should be more flexible. EvD could consider undertaking a special evaluation study in the next year or so to revisit the status of a selection of “partly successful” and “successful” projects approved from 2005 onwards where the OP rating was influenced by the effects of the financial crisis.

Summary

In summary, the 2001–03 approved projects were the most successful of all three-year cohorts of projects since 1991. This corresponded with the 2004–06 evaluation years when over 40 per cent of all “highly successful” evaluation ratings were given. The lack of “highly successful” projects in 2005 and 2007 is the primary reason why “highly successful ratings” for both three-year cohorts of evaluation reports following 2001–03 were so low.

Encouragingly, the combined “highly successful” and “successful” (‘’positive’’) rating scores in 2001–03 and 2004–06 were the highest on record (Chart 28). While they too were decreasing after 2007, the relatively small number of evaluations means it is too early to judge whether there is a declining trend in the quality of post-2006 projects.

Decline in environmental and social performance ratings

The proportion of projects rated “good” or “excellent” for environmental and social performance has fallen from just under 70 per cent for projects approved in 2001–03 to close to 40 per cent in 2006–08.

Further analysis for projects approved in the period 2001-08 shows an association between environmental and social impact and the environmental category of a project. This is the classification applied during due diligence to reflect the project’s potential to generate significant environmental and social impact. Category A and B projects have greater potential to generate such impact than category C and FI projects; they also tend to exhibit higher ratings for both environmental and social impact indicators. The proportion of category A and B projects in the evaluated portfolio has decreased over time but this does not reflect a fall in the numbers of A and B projects approved. We observe a fall in the proportion of projects achieving the highest ratings alongside a fall in the proportion of projects with potential for the greatest positive or negative environmental and social impact. However, the available data do not show causality and no such assertion could be made on the basis of the information at hand.

The evaluation database has an average of 10 reports per year for projects approved in years since 2004 and classified as category A or B. This is an insufficient number to analyse the above issue.

Sixty per cent of projects approved since 2004 have been classified as either category C or FI. These two categories have quite different environmental implications to projects in categories A and B and therefore analysis of the two evaluation environment criteria in AERs should distinguish between projects classified in these different category sets.

Annex 4: Status of 2012 evaluation work

Approval of the work programme

The Evaluation Department's work programme for 2012 was set out in Board document BDS12-023, considered by the Audit Committee on 18 January 2012 and approved by the full Board on 31 January 2012.

Evaluations and special studies

The work programme comprised 25 special studies, operation evaluations and corporate reports. These are the reports that are circulated to the Board of Directors. In addition, there was work outstanding on several reports carried over from previous years. Table 43 summarises the status of reports at the end of April 2013.

Table 43: Status of evaluation reports, April 2013

Type of report	Carried over from 2011	2012 WP	Changes during 2012	Reports completed	Reports pending
Special studies	4 pending + 4 under review	12	-5 cancelled /postponed	7	6 pending + 2 under review
Operation evaluations	4 pending + 8 under review	10	+1 added -4>OPAVs -2 cancelled /postponed	8	4 pending + 5 under review
Corporate reports	0	3	0	3	0
OPA validations	3 pending + 3 under review	41	-4 cancelled /postponed +5 added	28	12 pending + 8 under review
OPA reviews	0	36	-1>OE -1>OPAV	31	1 pending +2 under review
Total	8 pending + 12 under review	25	- 11	18	10 pending + 7 under review

During the course of the year, some projects turned out to be more or less interesting than expected and therefore were upgraded from self-evaluations to operation evaluations or vice versa. Some planned reports were cancelled. Table 44 summarises the reasons for cancellations of special studies and operation evaluations.

Table 44: Reports cancelled in 2012

Report name	Report type	Reason for cancellation
Transition impact of Board nominees	Special study	This was folded into the equity study to which it is closely related.
Private equity funds (2007-11)	Special study	Given that EvD was already preparing a major equity study, this report was dropped to allow more focus on other priorities.
Corporate recovery phase II	Special study	Actions related to the phase I report continued, including a survey of bankers as to which findings were the most useful. EvD is also cooperating with Learning and Development on a new training course on monitoring which will incorporate work from this study. A specific Phase II report has therefore become redundant.
Natural Resources operations	Special study	The experienced evaluator assigned to this study left the department and the report removed from the work programme pending the appointment of a replacement.
Assessing TC relevance and effectiveness	Special study	EvD has cooperated closely with Donor Co-financing team on the Grant Strategic Review and its follow-up. EvD considered this a higher priority than a specific report on TC relevance and effectiveness and has decided to postpone such a study until the new TC results frameworks have been implemented.
RZD	Operation evaluation	Given the Bank's long involvement in the Russian rail sector, EvD decided to convert this into a sectoral study.
MSME loans	Operation evaluation	The experienced evaluator assigned to this study left the department and the report removed from the work programme pending the appointment of a replacement.

Tools, resources and processes

The work programme for 2012 specified seven items referred to as "tools, resources and processes". Their status is shown individually below.

Table 45: Status of work on tools, resources and processes scheduled for 2012

Tools, resources and processes	Detail as presented in work programme document	Status at end of April 2013
Evaluation policy revision	Updated policy finalised in 2012. Early consultation with Audit Committee (and Board if requested) on approach.	Complete: new policy BDS12-324 approved by Board on 16 January 2013.
Internal document circulation	Changes presented and agreed in current procedures for internal distribution of evaluation-related documents.	Carried over: to be completed in 2013 following on from approval of the new policy in January 2013.
Self-assessment template	Modified template used for all investment operations self-assessments (replacing current Expanded Monitoring Report, XMR). Prepare guidelines for Operation Leaders to complete new Operation Performance Assessments (OPAs) and EvD staff to complete validations.	Complete: new template and guidelines launched in January 2012. Pilot review conducted and amended template and guidelines finalised October 2012.
Integrating lessons	Restructure "Lessons Learned Database" to improve ease and effectiveness of use, relevance, and applicability of contents. Present options for operations to incorporate experience and lessons earlier in project cycle.	Largely complete: new lessons database launched in Word format in May 2012. Development of new intranet-based lessons database to be released in September 2013. EvD ceased to sign off past experience sections of Board documents in January 2013. New template and procedures for Board documents under development.
EvD web page	Upgrade EvD web page for improved functionality and appearance.	EvD's updated intranet page was launched in August 2012. An upgrade to the external web page has been completed with further upgrades subject to Bank-wide upgrades to EBRD.com.
Training	In cooperation with Learning and Development, produce new training materials for use in basic orientation and Banking Academy modules.	Complete. New EvD e-learning module developed and launched in January 2013. This will be a prerequisite for staff attending the Banking Academy. New training materials prepared for use in the Banking Academy course and used for the first time in April 2013.
Operations guidance	Prepare guidance/checklist on performance benchmarks, monitoring and evaluability for operations teams use upstream of OpsCom. Prepare similar material for use on TC operations upstream of OpsCom.	An evaluability brief was prepared in 2012 and performance metrics study started in the same year and finalised in 2013. The latter developed and pilot-tested an evaluability checklist. Management wishes to see this pilot tested before deciding to formally adopt it or not. Guidance and checklist prepared for TC operations and adopted by Management. Pilot launch and training from April 2013; full launch July 2013.

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