OPER No: PE07-398S

Special Study

Japan-European Cooperation Fund

Regional

(Mid-Term Review)

July 2008

Evaluation Department
(EvD)

European Bank
for Reconstruction and Development

Special study
JECF mid-term review
(regional)

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Evaluation rationale. In response to the request by the Japanese authorities in 2006 for an evaluation of its trust funds in the Bank – the Japan-European Cooperation Fund (JECF or ”the Fund”) - the Bank’s independent Evaluation Department (EvD) carried out this evaluation study between November 2007 and May 2008 with the help of consultants. This special study is an evaluation of the Fund’s past performance and aims to provide accountability towards the external fund provider and to provide lessons benefiting future JECF and general Bank TC operations.

Need for JECF. Not endowed with “soft” capital at its establishment in 1991, the Bank was expected to solicit external donor funding, mainly from within its shareholder community, for the financing of its Technical Cooperation (TC) needs. In addressing these needs, the Japanese authorities established the JECF with the Bank in 1991 with the over-arching objective *“… to assist the EBRD in fulfilling its mandate of fostering the transition of its recipient member countries towards open market-oriented economies and the promotion of private and entrepreneurial initiative.”*

JECF exposure. By the end of 2007 cumulative commitments made by the JECF totalled €116.4 million, from which approximately €99 million have been disbursed, and translate into 489 TC operations. Japan has, since 2001, been the largest bilateral donor contributing about 9.2% to the Bank’s donor funding until now. Unlike many other bilateral trust funds in the Bank, JECF funds have been untied and eligible for almost the entire spectrum of Bank activities and project types. New Policy Guidelines were issued for JECF in June 2006 which retained the original objective but called upon JECF to focus on countries and regions with geographic proximity to Japan and high transition needs.

Evaluation approach. A number of evaluation studies on large TC programmes incl. Japanese funding are available from recent years and build the basis for this Special Study. It was furthermore, agreed that the evaluation would concentrate on the more recent period from 2000 to 2007 as “evaluation window”; would duly take into account the role of TCs in the EBRD context; would apply the OECD-DAC evaluation principles; would make maximum use of past evaluation work covering JECF financing which would be complemented by direct case study evaluations of a smaller sample; and apart from the operational level, would also address Fund administration and governance aspects.

Fund administration and governance. The Fund is administered by the Bank with its standard rules and procedures for TC operations. In the evaluation team’s view the administrative arrangements and governance in general are appropriate and check-and-balance functions effective. The systems in place, much of which are computerised, do not appear over-burdening operation staff interests for expediency and efficiency. An acceptable balance between necessary control and supervision mechanisms, and on the other hand, of smooth operation flows has been established. From a system integrity perspective no major areas of concern were discernible from past evaluations or this study’s experience. Potential for fraud and corruption can never be excluded entirely, but evaluation did not come across systemic ones in the cause of TC evaluations in general.

JECF utilisation pattern. Fund utilisation is characterised as follows:

- ***Geographical distribution.*** Overall, about 43 per cent of the funds committed over JECF's lifetime have been allocated in what was later on declared (2006 JECF Policy Review) the 'Focus Region'; the share of funds committed to the focus region increased from 27.5 per cent in 1991 to 1999 to 67.5 percent in 2000 to 2007;
- ***Investment linkage.*** By value, more than 60% of JECF funded commitments were linked to the mainstream EBRD investment activities;
- ***Activity type.*** Almost 70 per cent by value and during the target period were addressing policy advice and institution building in early transition environments.
- ***Sector spread.*** 'Financial Institutions' account for over 25 %; another close to 25% are allocated to 'Miscellaneous Manufacturing', mainly attending to small and medium enterprises (SMEs). Finally, also 'Telecommunications' and 'Electric Power' hold a significant share; these JECF sector shares about correspond the share the sector commands of total EBRD investments.

Evaluation result. The experiences collected and documented in earlier evaluations involving JECF-projects have been examined and were supplemented by hands-on assessments on a number of case studies in operation countries, including the 'focus region'. However, a simple aggregation of individual evaluation outcomes in order to arrive at a JECF overall assessment is neither possible nor meaningful. Instead it has been proposed to provide an evaluation opinion on how the JECF contributed to the Bank fulfilling its overall mandate: *Transition Impact*.

The JECF's support to the Bank's investment portfolio is substantive. Therefore, the performance of investment operations would also allow to draw conclusions on the Funds' achievements. The overall performance ratings of independently evaluated Bank investment operations during 2000-2007 provide a positive picture: close to 60% of Bank investments are successes to which 28% lesser successful but not straight failing interventions, can be added further to some extent. The general conclusion from this study is that indeed, ***the JECF is effectively supporting the Bank's mandate and that the overall success rates permit to conclude that the JECF has a substantive share in this success accordingly***.

Issues and recommendations. The main report highlights in Chapter 5 a number of issues and recommendations for consideration, including:

- More insightful understanding of reform orientation, the political economy of change and where and how reforms may be blocked is invaluable when attempting policy and institutional reforms;
- Setting of realistic reform objectives that understand that reform is an incremental process will add to effectiveness;

- Sequencing of tasks is critical in complex assignments and essential when dealing with new clients;
- Re-tailoring model solutions that worked well elsewhere to fit the local context is vital for success; and
- TC can serve a useful role by identifying channels to improve access to finance for MSEs and to test the real appetite for reforms more widely.

SPECIAL STUDY
JECF MID-TERM REVIEW
(REGIONAL)

ABBREVIATIONS

ADB	Asian Development Bank
IADB	Inter-American Development Bank
BAS	Business Advisory Services (a Bank programme)
CIB	Credit Information Bureau
CSU	EBRD's Consultancy Services Unit
DH	District Heating
EC	European Commission
EBRD	European Bank for Reconstruction and Development
ETC	Early Transition Country
ETCF	Early Transition Country Fund
ETCI	Early Transition Country Initiative
EUR	Euro
EvD	EBRD's Independent Evaluation Department
GWEM	Georgia Wholesale Electricity Market
IDLO	International Development Law Organisation
IFRS	International Financial Reporting Standards
JECF	Japan-Europe Cooperation Fund (a Bank TC financing instrument)
LTP	Legal Transition Programme (a Bank programme)
MDB	Multilateral Development Bank
MEAP	Municipal Environmental Action Programme
MEI	Municipal Environmental Infrastructure (a Bank unit)
MIS	Management Information System
MSE/MSME	Micro, Small and Medium Enterprise
MTR	Mid-term Review
OCE	EBRD's Office of the Chief Economist
OCU	EBRD's Official Co-financing Unit
OECD-DAC	Organisation for Economic Cooperation and Development – Development Assistance Committee
OL	Operation Leader
PCR	Project Completion Report
PP&R	Procurement Policies & Rules
PRSP	Poverty Reduction Strategy Paper
RO	Resident Office
TAM	Turn Around Management (a Bank programme)
TOR	Terms of Reference
TC	Technical Cooperation
TC-COM	Technical Cooperation Review Committee (of the Bank)
TI	Transition Impact
TIMS	Transition Impact Monitoring System
UTY	Uzbekistan Temir Yullari

1. Evaluation rationale, objectives and approach

1.1 Introduction

In 2006 the Japanese Ministry of Finance (MoF) requested the European Bank for Reconstruction and Development (EBRD) to commission an independent evaluation of its trust funds in the Bank. It had made similar requests to other multilateral development banks (MDBs). The Japan-European Cooperation Fund (JECF) is the main vehicle through which the government of Japan (GoJ) provides grant funding for technical cooperation (TC) operations since the Bank's establishment in 1991.

In response to this request the Bank's independent Evaluation Department (EvD) proposed to include the JECF evaluation as a special study (in the form of a mid-term review, since the fund is still active) in its work programme for 2007 (extending to 2008).[1] The EvD Board of Directors approved this proposal, and the study was conducted between November 2007 and May 2008.

In preparation for this evaluation EvD had prepared an outline paper that described the intended evaluation approach and execution timeframe. This included comments received from/through the Japanese constituency office and from within the Bank. Apart from serving a consultation process during the evaluation preparatory phase, it also provided the basis for the formulation of terms of reference (TOR) and the budgeting of a consultant assignment. The competitive consultant procurement process generated 11 expressions of interest representing six nationalities.

This special study is not a JECF audit but an evaluation of the past performance of the Fund and aims to serve two generic purposes: One the one hand, in compliance with the Bank's general fiduciary responsibility towards external fund providers, it satisfies accountability requirements vis-à-vis JECF authorities. On the other hand, it forms part of the Bank's general quality management process through generating lessons that would benefit future JECF and general Bank TC operations.

Through this, it is in full compliance with the Bank's approved and published evaluation policy.[2] It aims to assess:

- JECF's compliance with the EBRD's policies, procedures and rules (including the governance aspect)
- the Fund operations' achievement of intended results
- results to which it contributed (see also Section 1.3.2).

More generally, evaluation of TC operations is a standard content item of EvD's annual work programmes since the Bank's inception.[3] Given the JECF's strategic importance for the Bank

[1] Until 2005 EvD was named Project Evaluation Department (PED).
[2] Reference is made to the Bank's web site: www.ebrd.com/projects/eval/showcase/evalpol04.pdf.
[3] TC operations are usually evaluated through different evaluation products: (i) individually through operation performance evaluation review (OPER) exercises; (ii) as a group, through project completion report assessment (PCRA) exercises; and (iii) in the context of evaluations of investment operations to which an individual or group of TCs has contributed.

Project completion reports, or PCRs, are mandatory TC self-evaluation documents to be prepared by the responsible operation leader once a TC is completed, similar to expanded monitoring reports (XMRs) for investment operations.

(its considerable volume and versatility will be referred to later), JECF funding consistently featured prominently in EvD's TC evaluation work. Thus, the evaluation team was able to draw from a body of uniquely rich "evaluation experience", notably including JECF operations (Section 4.2).

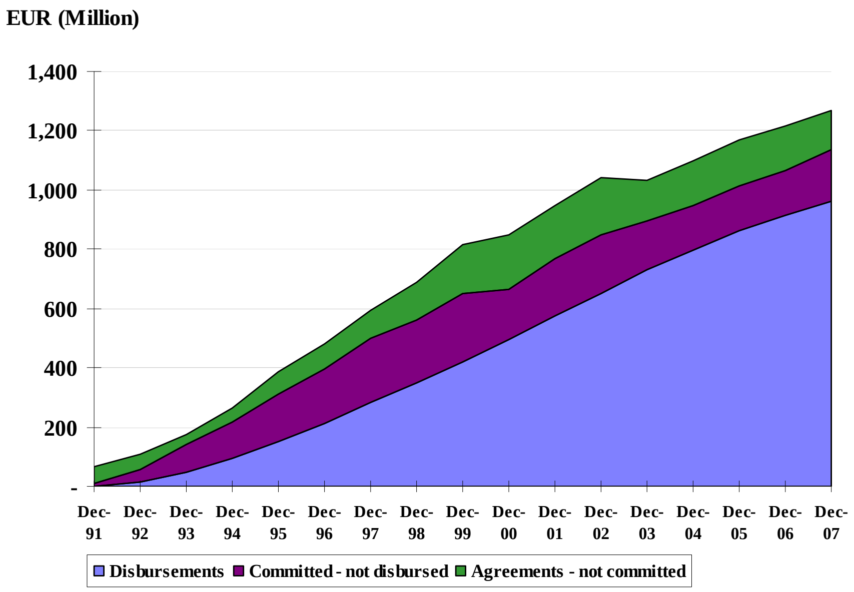
This study comprises a separate and direct evaluation of a complementing selection of a smaller sample of JECF-funded TCs (Section 4.3). The TC evaluation basis of this study is substantive, bearing in mind that an MDB's (and hence its evaluation function's) prime focus is on investments.

1.2 JECF and its role in the EBRD

For a better understanding of the role of TCs in the Bank, and of the JECF as a main funding source in particular, some general references providing the context are deemed appropriate. In 1992 the EBRD, as part of its establishment and resources endowment, had not been equipped with its own "soft" capital resources for TC grant-financing, unlike some other MDBs. The institution's "founding fathers" anticipated that the Bank would solicit such funding from external donor sources, notably from within its shareholder community.

Hence, since the start of operations, the EBRD was entirely reliant on voluntary donor contributions for TC purposes. This reliance has been eased only more recently with the establishment of its €115 million EBRD Shareholder Special Fund on the occasion of the Bank's 2008 annual general meeting (AGM) in Kiev.[4] As depicted in Chart 1, since 1991, donor funding has steadily grown, reaching a cumulative total of €1.27 billion by the end of 2007.[5]

Chart 1: Cumulative agreements, commitments and disbursements 1991-2007



Annually, a sample of 20 PCRs is selected for an in-depth review by EvD. This PCRA process is done in addition to individual OPER exercises on TCs under EvD's annual work programmes.

[4] For clarification, this special fund is not meant to substitute or replace the first-mentioned resources but to complement these for further reaching out operationally.

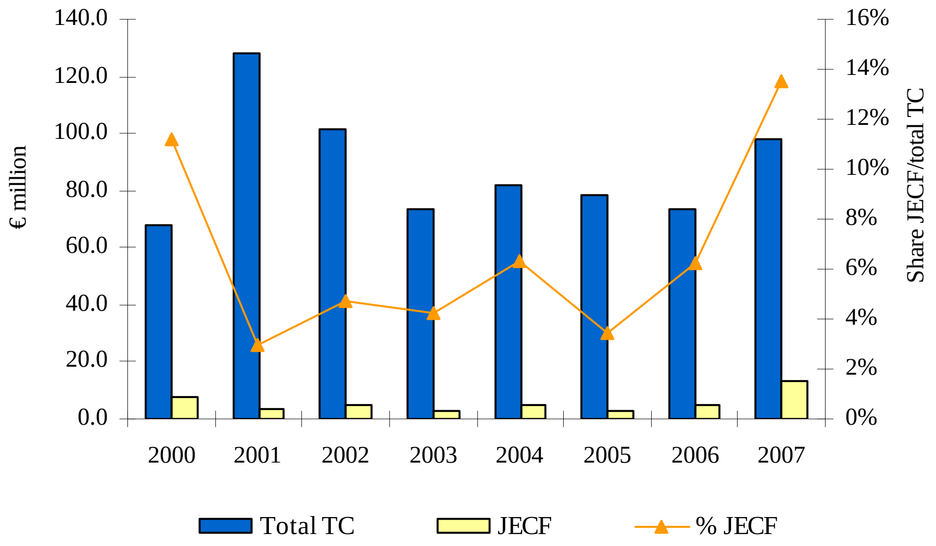
[5] The largest contributor has been the European Union (EU), working through the European Commission (41.8 per cent) and the European Agency for Reconstruction (1.6 per cent) – both multilateral providers. Significant bilateral providers include Italy (including contributions through the Central European Initiative, CEI, providing 5.3 per cent), Japan (9.2 per cent) and the United States of America (7.5 per cent).

In addressing these grant financing needs of the Bank, the Japanese MoF established the JECF with the Bank in 1991. Its over-arching objective was to support the Bank's transition mandate: "to assist the EBRD in fulfilling its mandate of fostering the transition of its recipient member countries towards open market-oriented economies and the promotion of private and entrepreneurial initiative."[6]

The majority of the funding provided by Japan has been channelled through the JECF. By the end of 2007 cumulative commitments made by the JECF totalled €116.4 million (from which approximately €99 million have been disbursed).[7] This translated into 489 TC operations.

Since 2001, Japan has been the largest bilateral donor to the EBRD's Technical Cooperation Funds Programme (TCFP). The overall TC committed through the EBRD and the JECF as well as the percentage share of JECF-related commitments for the period from 2000 to 2007, are illustrated in Chart 2.

Chart 2: TC Commitments of EBRD and JECF-share, 2000-07



According to the JECF guidelines, the funds are available principally for three types of activities:

- grants for TC operations to assist the Bank in fulfilling its mandate
- costs of Japanese consultants engaged by the Bank to support its activities
- other activities as may be specifically agreed upon by the Japanese constituency and the Bank.

The JECF utilisation pattern broadly mirrors that of the Bank's overall TC utilities. In general terms, they are either more directly linked to actual or prospective investment operations (for example, supporting the investment preparatory or implementation phase), or they are of a more stand-alone nature (for example, supporting policy dialogue, sector reform processes, advisory

[6] These objectives noted in the 1991 JECF policy guidelines are reiterated in its revised 2006 version, albeit further refined as elaborated later.
[7] A descriptive publication of the Japan-EBRD cooperation is accessible under www.ebrd.com/pubs/funding/japan.htm.

services, legal environment and other programme initiatives). Whilst the effects of investment-related TCs may at first appear more “tangible”, those of many of the stand-alone TC operations that often target the improvement of the so-called “enabling environment” may expectedly emerge in the future only.

Unlike many other bilateral trust funds in the Bank, JECF funds have been untied and enable the EBRD to contract consultants from a wide range of countries and sectors. Because of its broad remit in support of the Bank’s mandate, JECF has also been able to fund a wide spectrum of project types.

New policy guidelines were issued for JECF in June 2006.[8] These new guidelines retained the original objective but called upon JECF to focus on countries and regions with geographic proximity to Japan and high transition needs. The JECF policy is, thus, in line with the Bank’s new orientation towards the so-called early transition countries (ETCs), which aims to stimulate economic activity in the Bank’s poorest countries of operations.[9]

Regarding the broad purpose and wide scope of activities that is allowed by Japanese funding as well as its steady engagement over 17 years, the JECF is a unique mirror of the Bank’s overall TC work. There hardly exists another multi-or bilateral trust fund that shows the same degree of representation as the JECF.

1.3 JECF evaluation methodology and approach

The adopted evaluation approach, as said earlier, is documented in the attached outline paper. The approach has been observed throughout in principal, notwithstanding some minor changes that became necessary in the cause of executing this evaluation and mainly driven by practical considerations.[10] Some of its aspects, however, deserve reiterating and elaborating.

1.3.1 Evaluation window

While generally taking into account the JECF’s exposure over the entire 17-year lifespan of its existence as a reference point, this evaluation concentrates, as agreed during the study’s preparatory stage, on the more recent period from 2000 to 2007. This was also deemed appropriate from an “evaluability” perspective whereby, due to staff fluctuations, the corporate memory within the Bank (the consultancy services employed and beneficiary entities) usually diminishes with the lapse of time.[11]

---

[8] See the JECF Policy Guidelines of 27 June 2006. The JECF could continue to support projects in Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Macedonia, Moldova, Serbia and Montenegro provided there is high involvement of Japanese embassies, agencies and associations (such as Japan International Cooperation Agency, JBIC, Japan Bank for International Cooperation and so on) or Japanese consultants in the project.

[9] The Bank’s Early Transition Countries Initiative (ETCI) was launched in early 2004. For further information see www.ebrd.com/country/sector/etc/about.htm.

[10] For instance, some of the pre-selected TC case study candidates had to be exchanged owing to logistical considerations or the situation within recipient organisations.

[11] “Evaluability assessment” is an assessment prior to commencing an evaluation to establish whether a programme or policy can be evaluated and what the barriers to its effective and useful evaluation might be. The overall purpose of evaluability assessment is to decide whether an evaluation is worthwhile in terms of its likely benefits, consequences and costs.

Also noteworthy and possibly different from the situation in development aid agencies and some MDBs, TCs in the Bank predominantly play a supportive/facilitating role for investments, rather than being a means to an end.

1.3.2 Evaluation criteria

In compliance with the Development Assistance Committee of the Organisation for Economic Co-operation and Development's (OECD-DAC) evaluation principles, the objectives are to independently assess the Fund's activities and pertinent administrative and organisational arrangements by using the following criteria:[12]

- relevance
- effectiveness
- efficiency/efficacy
- impact
- sustainability.

While the three first-mentioned criteria can be evaluated relatively easily for individual TC activities on the basis of their individual merits (and allowing for some aggregation), the "impact" and its "sustainability" are often more indirect objectives (defined in the first place) that do not easily lend themselves for aggregation. This is due to a number of reasons, including the following points, which are meant to demonstrate the multi-faceted "utility" of TCs within the Bank.[13]

- Some TCs are in support of distinct investment operations while others are not directly linked and target objectives beyond individual investment levels (for example, general support to legal environment).[14]

- If a TC is directly linked to an investment operation, this could be either the case at preparation stage (for example, feasibility studies) or at implementation stage (for example, training).

- In many instances the TC beneficiary is clearly the prospective or actual investee entity (for example, development of a marketing strategy), in others the Bank is at least a co-beneficiary (for example, legal due diligence work) or even the sole beneficiary (for example, financing of administrative cost).

- Several investment-related TCs do have clear transition impact (TI) potentials and target these explicitly (for example, instigating or promoting sector reforms within which the investment is placed), whilst others have a more technical role to play with little TI potential involved (for example, sponsor diligence).

[12] Reference is made to the following web page of the DAC -OECD: www.oecd.org/dataoecd/21/41/35343400.pdf.
[13] It is not an inclusive list but an illustration of this instrument's heterogeneity whereby combinations of the listed characteristics may apply simultaneously.
[14] In 1996 the Bank took the strategic decision that its scarce TC resources should primarily be employed to support investment operations. Thus, investment operations are often supported by a number of TCs and intervene at different cycle management stages, being financed from a variety of TCFP sources. In fostering the intended transition impact of an investment operation, TCs are supported by the accompanying policy dialogue at various management levels of the Bank, and notably also the leverage effects by the investment itself.

- In some instances a TC may instigate reform processes (and thus TI), but it is questionable whether substantive progress could be achieved without the leverage of investment, policy dialogue by the Bank in parallel, concerted actions with other MDBs.

Thus, and as it relates to the Bank's mandate, this study assesses the JECF's performance in the context of the Bank's corporate goal, that is, fostering transition impact in general (Section 4.4). This focus is deemed justified not only in view of the JECF's policy objective stated above, but also given the Fund's overall strategic importance to the Bank, that is, its relative large volume and diversity pattern.

1.3.3 Strategic focus

The evaluation focused on two strategic areas. First, on the Fund as such, its utilisation and criticality, as they pertain to organisational arrangements, compliance with Bank rules and regulations (including eventual irregularities and fraud), efficiency, effectiveness and (overall Bank-related) impact considerations. A detailed statistical analysis of JECF appropriations and a brief comparative analysis of the Bank's TC funding mechanisms form part of this framework.

Secondly, the evaluation focuses on:

- JECF-funded operations
- complementarities between JECF-TC and Bank investment operations as well as other third party sponsored operations
- operations' compliance with Bank's country strategies and sector policies
- the utilisation of synergy potentials.

The evaluation outline emphasised that regarding operation evaluation, maximum use should be made of the already existing body of relevant evaluation work in the past that included JECF financing. It also highlighted that additional operation evaluation work included under this study would be limited to a smaller sample that would complement the existing evaluation body and that would concentrate on the "focus region", which was given prominence under the late-2006 revised JECF policy.

1.3.4 JECF past evaluation coverage

As noted earlier, JECF funded activities have been subjected to evaluations since the Fund's establishment. More recently, and pertaining to the defined evaluation window, EvD had carried out a number of evaluation special studies with JECF participation, notably:

- Turnaround Management (TAM)[15] and Business Advisory Services (BAS)[16] programmes
- the Early Transition Countries Fund (ETCF)[17]
- the Mongolia Cooperation Fund (MCF)[18]
- the Legal Transition Programme (LTP).[19]

[15] See PE03-251S, dated April 2004.
[16] See PE06-357S, dated April 2007.
[17] See PE07-371S, dated February 2008.
[18] See PE05-308S, dated October 2005.

In addition, numerous individual TC operations, several of which JECF-financed, were evaluated either in the form of project completion report assessments and reviews (PCRA) or through operation performance evaluation review (OPER) exercises.[20] The specific evaluation coverage and results will be presented in Sections 4.2 and 4.3 of this report.

1.3.5 Study sample operations

Complementing the body of relevant past evaluations, the sampling and selection process for TCs to be evaluated in more depth under the study duly took into account the earlier described shift in regional focus. However, in order to arrive at a critical mass for the envisaged consultant assignment, the “focus region” sample population was complemented by some “non-focus region” JECF operations. The reason for this was to do justice to the wider scope of the initial Fund policy and to take into account as much as possible of the time period under evaluation.

The sample of operations for field reviews consists of 18 TC commitments in six countries with commitments totalling €7.7 million.[21] This represents 47 per cent of the JECF-funded TCs, for which funds were committed during the target period of this evaluation (2000-07), and which have been completed.[22] Countries selected for field visits include Russia (eastern and western parts), three of the Central Asian republics (Tajikistan, the Kyrgyz Republic and Uzbekistan) as well as FYR Macedonia in the Balkans and Georgia in the Caucasus.

For each sample candidate TC a mini-evaluation according to a standardised template has been carried out. The findings and results from these sample evaluations have been integrated into this study and complement those referred to under the previous section.[23] The evaluation coverage and results are presented in Section 4.4 under this report.

2. Administration and governance

2.1 General management arrangements and procedures

As stated earlier, the Fund is governed by the “Preliminary Procedures for Use of the Japan-Europe Cooperation Fund” (a document dated 5 July 1991) and by the “Policy Guidelines on the implementation of technical assistance” (a document dated 27 June 2006). It is administered by the EBRD on behalf of the Japanese MoF.

[19] See PE01-178, dated October 2001.
[20] For clarification, individual TC operations (synonymous with TC projects) may funding-wise be composed by several commitment numbers, even within the same funding source (for example, contract extensions).
[21] One TC commitment for credit advisory support to banks in Turkmenistan could only be covered by desk evaluation as it was not possible to conduct local interviews. This was due to staff turnover, both in the local banks as well as among EBRD staff at the time the services were provided. EvD agreed instead to add field review of a JECF commitment to a project in the Kyrgyz Republic. This resulted in an unchanged number of 18 field-reviewed JECF commitments.
[22] It is important to note that the sample of operations that were field reviewed is not representative of the total JECF commitments made during the target period. Rather, the field reviews are meant to supplement the findings of independent evaluations undertaken earlier and the various desk studies undertaken by this study thereby adding, in particular, qualitative insights. These factors are taken into account in evaluating the performance of the JECF in Chapter 3 and the findings of the thematic evaluation presented in Chapter 4.
[23] The individual mini-evaluation reports are on file with EvD and can be made available upon request and observing the Bank’s Public Information Policy (PIP).

The JECF administration does not require special procedures or tailored arrangements, thus minimising the transaction costs. Because its objective is broadly to support the Bank in fulfilling its mandate, it was decided that the management and implementation arrangements for the JECF should follow the Bank's normal TC procedures and guidelines.[24] This means that, subject to satisfying the JECF policy guidelines, accessing JECF resources involves minimal additional administrative burden for potential users of the Fund over normal EBRD procedures for TC.

The Technical Cooperation Review Committee

The Technical Cooperation Review Committee (TC Com) plays a pivotal role in reviewing and approving submissions for TC operations from operational teams, including those to be funded by the JECF. The TC Com includes management representatives from the Official Co-financing Unit (OCU), the Consultancy Services Unit (CSU), the Office of the Chief Economist (OCE), the Office of the General Council (OGC) and other Banking departments.

The TC request (TCR) submissions prepared by operation teams include:

- the main purpose and objectives of the project
- its expected transition impact contribution
- proposed terms of reference
- draft budget
- profile of the type of consultant required.

With the exception of individual call-offs under approved "frameworks" such as TAM and BAS, all new proposals for TC operations have to be reviewed and approved by the TC Com. The Japan constituency reviews requests for JECF resources based on summaries of the documentation submitted to the TC Com and the minutes of its deliberations, as forwarded by OCU.

2.2 Operational responsibility for TCs and the role of support units

Operation leader

Operational responsibility for TCs rests with the operation leader (OL) in the respective sector- or country teams. The OL initiates TCs upon client requests, prepares approval and implementation documents, handles consultant selection, supervises contracts and prepares progress and completion reports. The OL gets support over the project cycle from other Bank units, notably the OCU, the CSU and the OCE.

The OCU

The OCU plays a key role over the lifetime of a TC project. The OCU assists in obtaining donor approval of proposed TC commitments and advises operational teams at the pre-approval stage if

[24] The day-to-day preparations and administration of TCs follow EBRD Operational Manual (OM), in particular Chapter 10. The OM describes the cycles, stages, requirements and handling tasks. Procurement of consultancy services, the predominant use of TC funds, is regulated by the EBRD Procurement Policies and Rules, in particular Section 5.

funds from the JECF or other donors might be suitable. The OCU maintains continuous contact with the donor constituencies in the EBRD and monitors their individual requirements for funding TC work.

In the case of JECF, the OCU consults closely with the Japan constituency on the approval process for new commitments. This helps to ensure that only proposed TC submissions that have a reasonably high probability of being approved by the JECF are submitted to the Japan constituency.

The CSU

The CSU of the EBRD supervises consultant procurement, contract awards and any amendments during implementation. The same procurement rules and procedures apply for JECF-funded services and other EBRD TC contracts, including the different euro thresholds that determine the required procurement and tendering procedure.[25]

Procurement under CSU supervision can be initiated immediately when JECF funds have been formally committed and the preparation time before actual procurement can be quite short. The CSU will usually review procurement aspects of proposed new TCs at the time of submission for the TC Com and is therefore well prepared. The assistance provided by the CSU helps facilitate the work of the operational teams so that they are able to procure services in a timely manner and in accordance with the EBRD procurement rules and any specific donor requirements.

The OCE

The OCE explores potential for TI contributions. Transition impact potential for investment-linked TCs is often limited, particularly when TC support for due diligence work is required. If, however, TCs are more addressing sector or institution-building needs, then the OCE ensures that these aspects are properly articulated.

2.3 TC monitoring, PCRs and their validation

The OLs assume responsibility for monitoring and reporting on TCs. The OCU oversees internal progress and project completion reports, reviewing their timeliness and consistency with project document requirements. The OCU also forwards the PCR to each donor for its funded TC operations. This reporting supplements the OCU in its preparation of the Bank's annual *Donor Report*.[26]

The PCRs present details of commitments made, links to any investment operations as well as assessments on the outcomes achieved across a range of indicators. The OL assigns ratings including for effectiveness, the Bank's performance, the consultant's commitment and services and transition impact contribution. A final section includes lessons learned. Thus, the PCR

[25] See EBRD Procurement Policies and Rules (dated August 2000), Section 5, "Procurement of Consultant Services".
[26] See EBRD's annual *Donor Report* published between 2000 and 2007, which provide information on each year's mobilisation and use of donor funds plus thematic content. These reports aggregate the various contributions and uses, while without any annual time series. The Donor Report 2008 is accessible under www.ebrd.com/pubs/funding/dr08.htm.

represents a form of self-evaluation, which is useful in itself for learning purposes but which also forms an important input for external validation of the projects outcome and impact.

Beyond the review of TC progress reports and PCRs by the OCU, external validation takes place in two ways. The first may occur when a TC has a direct link to an EBRD investment, and the combined operation is subject to annual review and rating by EBRD economists under the regular TIMS-review system described above.[27]

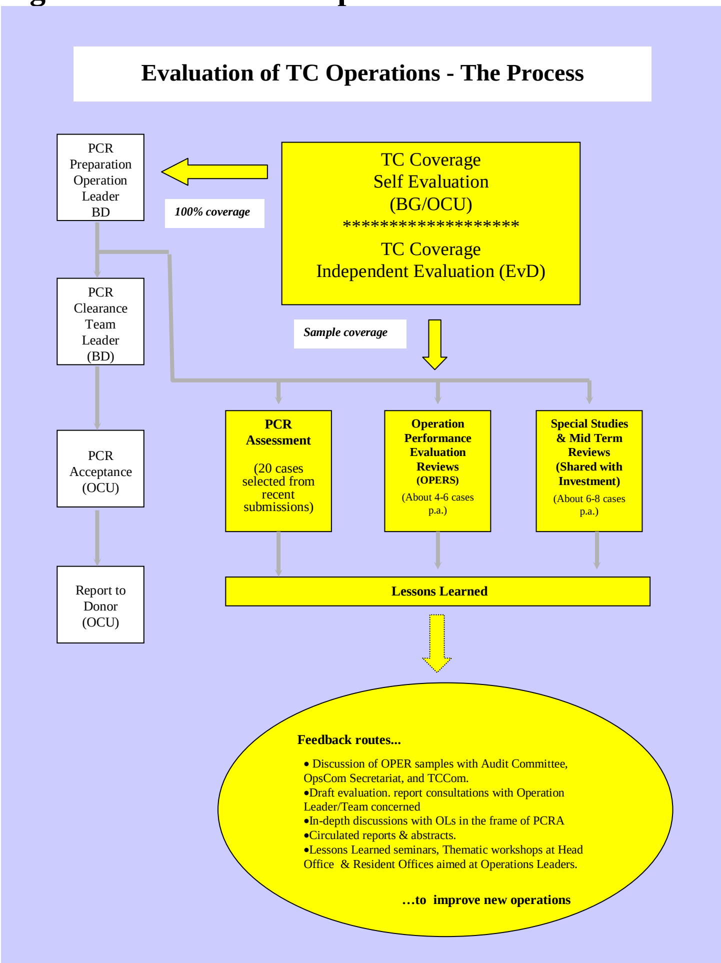
The second form of external validation is through EvD. Independent validation of PCRs by EvD takes various forms. TCs may be covered by special studies, such as this review, by annual PCRAs and by individual OPERs (so-called TC OPERs). The structure of the self-evaluation and independent evaluation processes for TCs (mirroring that for investment operations) is depicted in Figure 1 overleaf.

---

[27] In 2003, the OCE started to systematically monitor the implementation of transition impact components identified during project preparation. The monitoring targets and the systematic reporting on transition impact implementation fall under the transition impact monitoring system (TIMS). The key objectives of TIMS are to (i) improve the structure of projects by fine-tuning the balance between transition targets, project covenants and risk-mitigating conditions; (ii) address transition impact problems consistently as they arise in order to facilitate corrective action and the transition-related dialogue in the Bank and between the Bank and the client; and (iii) provide a regular assessment of the transition impact of the Bank's portfolio against institutional scorecard targets.

TIMS builds on the ex-ante assessment of transition impact potential of each EBRD operation where an important task is to establish key transition objectives, monitoring benchmarks and expected timing of implementation of each benchmark. Transition impact benchmarks must be (i) concrete, measurable and verifiable; (ii) establish a baseline for quantitative benchmarks; and (iii) clearly linked to project objectives. Implementation timing specifies project stage, date or period for implementation.

Figure 1: TC evaluation process



2.4 Governance

In the evaluation team's view, the administrative arrangements and governance in general, which are codified in the Operations Manual (OM) and amended through other online accessible regulations, are appropriate and effective in relation to check-and-balance functions. The systems in place are mostly computerised and, hence, stipulate a certain rigor to comply with procedural requirements. They do not appear unduly over-burdening operation staff.

An acceptable balance between necessary control and supervision mechanisms on one hand, and of smooth operation flows on the other, has been established. Hence, from a system integrity perspective no systemic areas of concern were discernible from past evaluations or this study's experience. Potential for fraud and corruption, while this can never be entirely excluded, would appear contained to individual operations. However, evaluation did not come across systemic ones in the cause of TC evaluations in general.[28]

---

[28] In this context it deserves reiterating, however, that evaluation is not an audit (see also Chapter 1). Hence, performance evaluation would not necessarily focus on ascertaining that no fraud or corruption is involved. Nevertheless, evaluation would flag related instances and refer these to the appropriate organisation units within the Bank (that is, Internal Audit, Office of the Chief Compliance Officer, OCCO) if it had come across any. Given the JECF's over-proportional share in EvD's past TC evaluation work (Section 1.2), this positive statement can be regarded as quite reassuring.

3. Main JECF utilisation patterns

3.1 JECF replenishments, commitments and disbursements

In all, JECF has had numerous replenishments and transfers between 1991 and April 2007. The net amount totalled €133.14 million (about 16 billion yen). Over its 17-year life, the fund has approved commitments totalling €116.4 million for 489 EBRD TC operations. Table 1 (below) tracks levels of JECF commitment and disbursement for two periods: prior to 2000 and for the evaluation window period from 2000 to 2007. This period is further split into the "old" (2000 to mid-2006) and "new" JECF policy period.[29]

Table 1: Overall JECF TC commitments and disbursements, 1991-2000

	Commitment Amount (EUR, 000)	Disbursed Amount (EUR, 000)
Funds approved from 1991 - 1999	71,362	71,332
Funds approved from 2000 - mid 2006	30,218	25,767
Funds approved mid 2006 - 2007	14,906	1,805
Total Funds approved	***116,486***	***98,904***

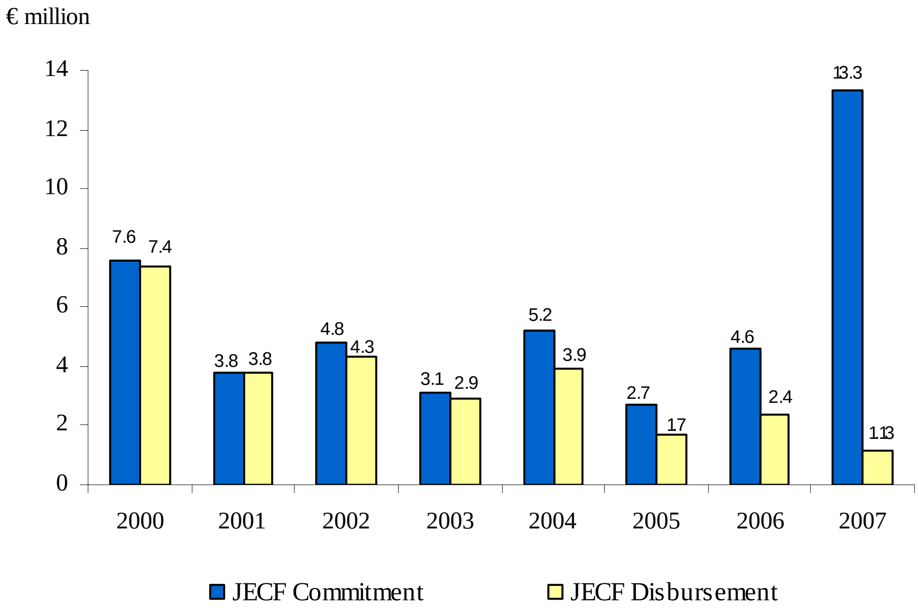
In the earlier 1991 to 1999 period, the level of disbursement is close to the level of commitment (€71.3 million in total for this period). However, for mainly two reasons this is not surprising: First, most of the operations have been completed. Second, commitments are retroactively adjusted to their actual ("net of cancellation") cost. The latter is justified by the fact that unused commitments become de-committed and "recycled" and, thus, available for new applications.

Given the variety of TC purposes and implementation circumstances, it is not possible (and meaningful) to compile "benchmarks" and statistics for average commitment periods and processing times other than generally noting that both can range from a few months to several years. However, the period from 1999 onwards is sufficiently large to allow the difference between both figures to become negligible. It follows that the gap between both widens, the more recently the funds are approved.

Chart 3 (overleaf) shows the annual levels of JECF commitments and disbursements in the target period from 2000 to 2007. Consequently, the disbursement ratio for the 18 months from mid-2006 is much lower because many of these operations are still ongoing. EvD did not come across indications that utilisation pattern significantly differ between JECF and other funding sources.

[29] The statistics in euros are based on current currency conversions for the respective periods, as taken from the various EBRD-TC databases made available for the review.

Chart 3: Analysis of JECF commitments and disbursements, 2000-07



JECF commitment levels in the new millennium have mostly been ranging between €3 million and €5 million per year, with a sharp increase in 2007.[30] In total, some €45.1 million has been committed in this period, in comparison to €71.3 million in the previous period (1991-99).

3.2 Geographic focus of JECF-funded activities

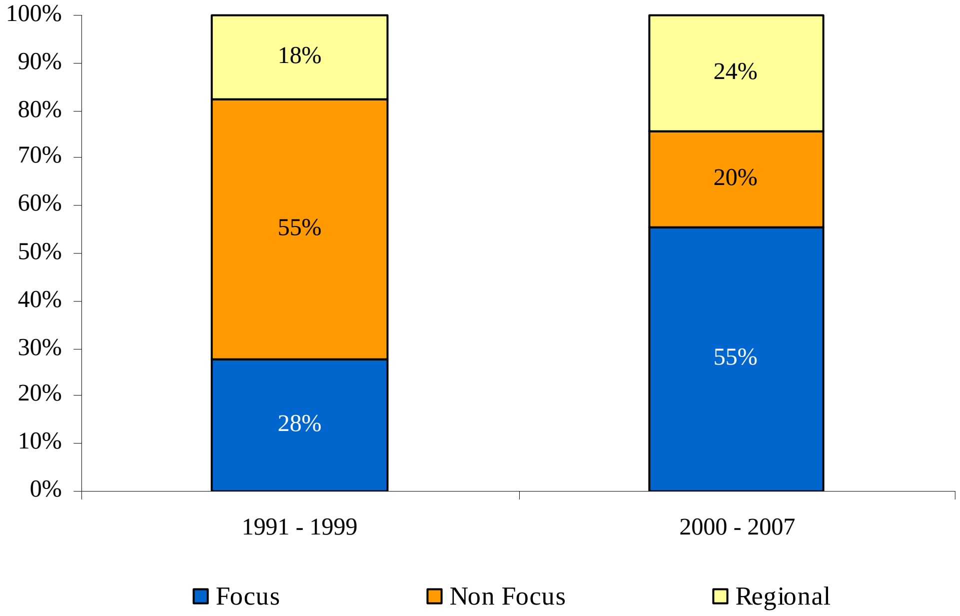
Until mid-2006, the JECF did not stipulate any particular geographic focus and, in principle, was able to fund TC work in all 29 EBRD countries of operations. Despite this, JECF showed a bias towards the "focus region" indicating a "silent compliance" with Japanese geographical interests, although this was not stipulated in writing.

The new policy guidelines of June 2006 reinforced JECF's geographical focus on countries and regions with geographic proximity to Japan namely: Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, Uzbekistan, the eastern parts of Russia, and Mongolia (after it became a country of EBRD operations).

Chart 4 overleaf provides a geographic breakdown of the €116.4 million of JECF committed funds in two periods, 1991 to 1999 and 2000 to 2007.

[30] The sharp increase has been driven by two, partly inter-related factors: underpinning its commitment to the Bank, the Japan constituency wanted to "boost" Bank operations in general. And coinciding with this, there was a considerable backlog of TC-intensive projects approved, particularly in the municipal and environmental infrastructure (MEI) domain but not yet committed and waiting for the underlying investment operation to be signed. The OCU decided towards the end of 2007 to go ahead with all commitments regardless the stage of related investment operations.

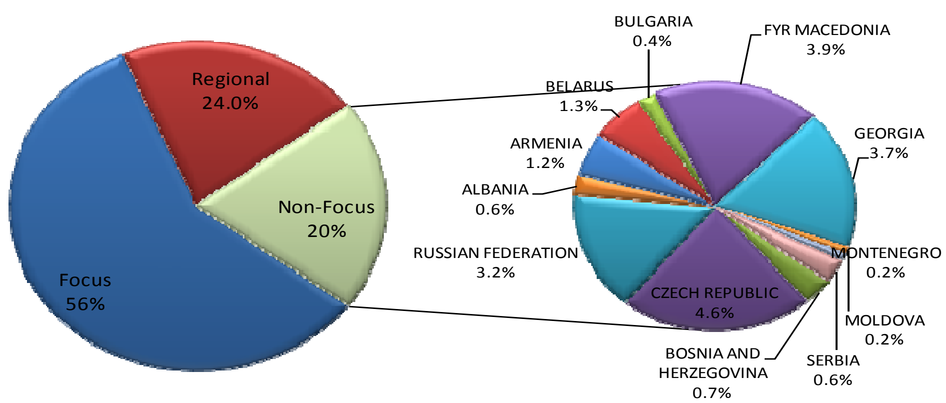
Chart 4: Regional focus of JECF commitments over time



Overall, **about 43 per cent of the funds committed over the JECF's lifetime have been allocated in what was later declared the focus region** for the Fund.[31] The share of funds committed to the focus region increased from 28 per cent in 1991 to 1999 to 55 percent in 2000 to 2007.

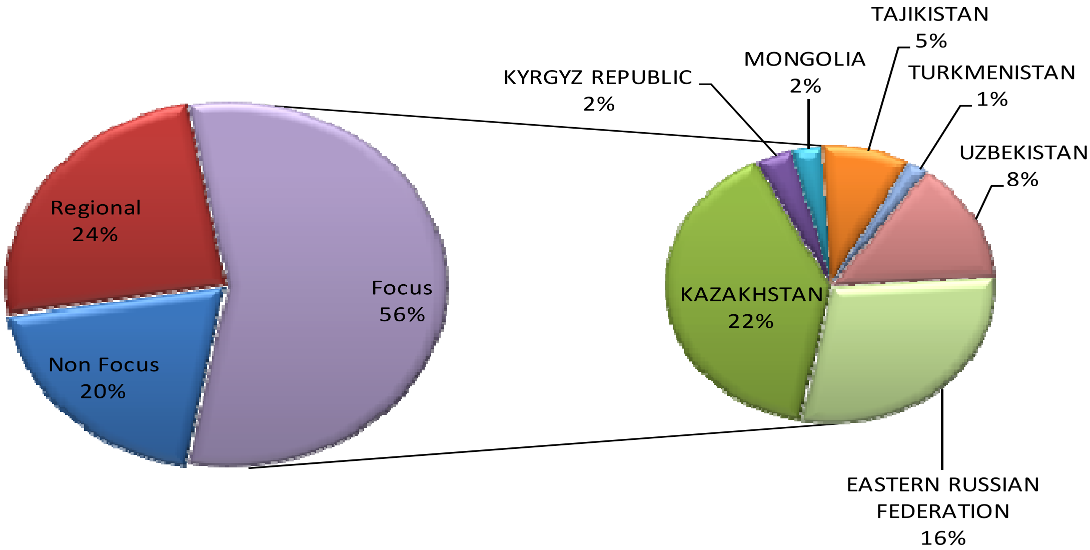
The focus region accounted for 76 per cent of the €11.3 million committed in the 18 months from mid-2006, when the new policy guidelines were introduced, through to 2007. The respective shares are largely similar, if analysed by numbers of TC operations rather than value of commitments. Chart 5 (below) and Chart 6 (overleaf) further disaggregate the level of funds committed in focus and non-focus regions by country during the 2000 to 2007 period.

Chart 5: Distribution of JECF Commitments in the Non-Focus Region, 2000 to 2007



[31] The share includes parts of TAM and BAS commitments for which the recipient country could be traced from the EBRD-TC databases.

Chart 6: Distribution of JECF Commitments in the Focus Region, 2000 to 2007



It should be noted that the actual share of activities in the focus region are higher than the 56 per cent shown above because a significant share of the funds committed for regional operations are also directed at countries in the focus region. However, the statistics do not allow them to be broken down by country.

The dominant share of the focus region in recent years reflects three key factors:

- From mid-2006, the new policy guidelines introduced an explicit geographic preference for JECF funds to be committed to TC operations within the focus region.

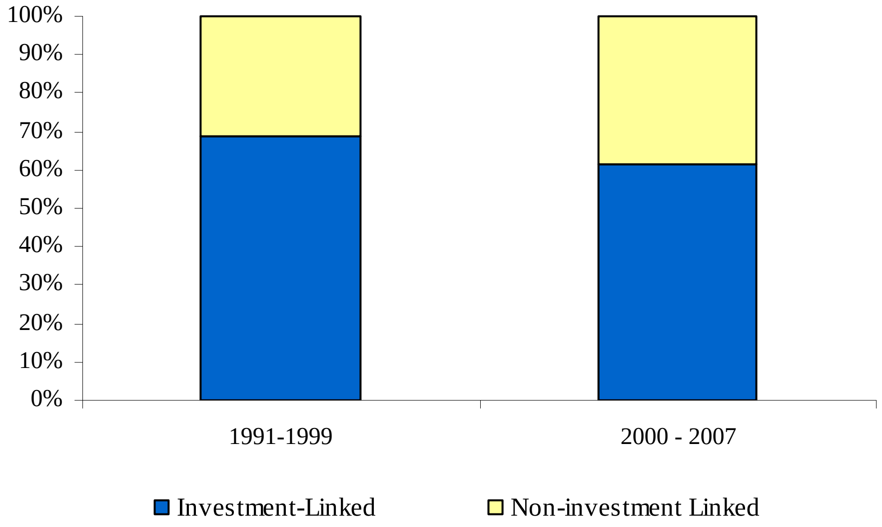
- The EBRD's operations are increasingly directed to the ETCs and regions that include key countries included in the JECF's focus region, for example, the Central Asian republics. As a major trust fund that supports Bank operations, it is to be expected that this would cause JECF funds to follow.

- The relative need for advisory services (and thus, for TC operations) in capacity and institution-building is greater than the more advanced transition countries because of the difficult environments in the ETCs.

3.3 Links to EBRD investments

Chart 7 (below) shows that, during the period from 1991 to 1999 and the target period for this study 2000 to 2007, the majority of JECF funded commitments to TC operations by value were linked to the mainstream EBRD investment activities. Nonetheless, the share of non-investment linked TC operations rose from 31 per cent to 39 per cent in the last seven years.

Chart 7: Investment-linked and stand-alone TC funded by JECF



As stated earlier, this is likely to be due to the increased JECF activity in the ETC region, which overlaps with the Fund's focus region as defined in 2006. In these countries there is need to bring about wider policy and institutional reforms, to advance transition and provide an enabling environment for EBRD investment. Note should also be taken, that the JECF is the largest contributor to the Bank's LTP.[32]

A TC linked to an investment operation can either be facilitating its preparation (for example, through a feasibility or market study, required due diligence exercises and so on) or its implementation, mostly pertaining to advisory and training measures to the Bank's client with regard to institution-building necessities. The sums committed for JECF-funded TC in support of investments typically range from 0.5 per cent to 2 per cent of the total value of the investment.

The evaluation team considers that such modest levels of grant support do not constitute undue or market distorting subsidy to particular private sector investments. This is because they are not untowardly higher than commercial institutions spend in preparing, monitoring and supporting investments in emerging markets generally.

The conclusion is reinforced when account is taken of the additional need for due diligence, especial constraints and high risk associated with the investment climates that prevail during the early stages of transition. The review noted higher amounts of TC relative to investment in supporting financial and advisory programmes targeting micro and small businesses.

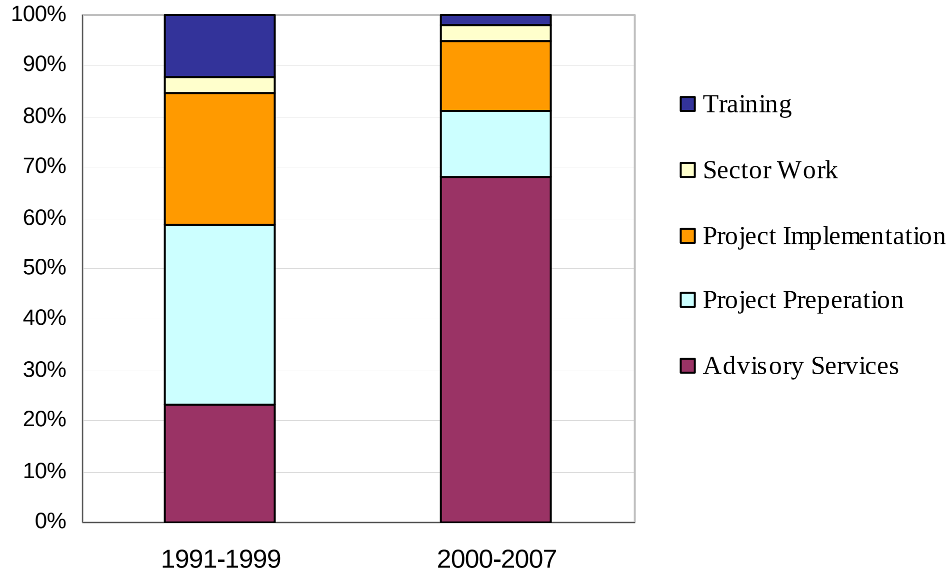
However, this support to institution-building in the financial sector and management advice aimed at promoting small business development generally did not raise concerns over the level of grants likely to distort markets. In fact, in these countries such grants are often needed to overcome market failures and kick-start missing markets.

[32] EBRD Donor Report 2002, Chapter 2, Technical Cooperation Funds Programme.

3.4 Breakdown of TCs by activity type

Chart 8 (below) shows the types of activity funded by the JECF for TC operations during 1991 to 1999 and the target period from 2000 to 2007.

Chart 8: Activity types of TC funded by JECF

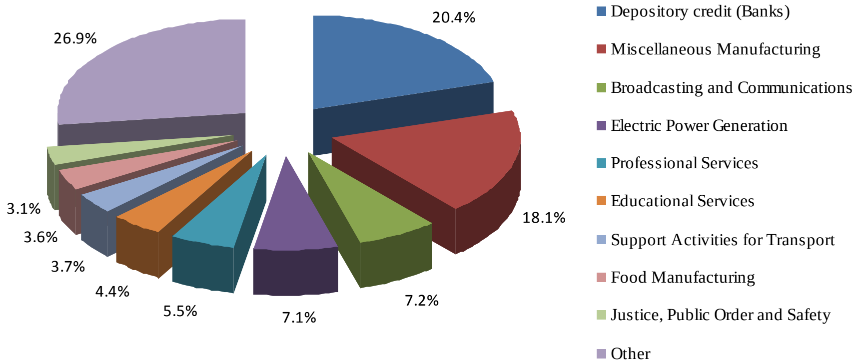


The significant increase in the share of funds allocated to advisory services, from 23 per cent in the first period to almost 70 per cent in the target period, corresponds with what was said earlier about the greater need for policy advice and institution-building in early transition environments. A special boost in this activity type has, for instance, been given by the TAM and BAS programmes.

3.5 Breakdown by sector

Chart 9 (below) shows a breakdown of the top ten sectors to which JECF funds were committed over its lifetime, from 1991 to 2007.

Chart 9: Sector-based breakdown of JECF TC commitments (€116.4 million), 1991-2007



The breakdown by sector in Chart 9 underlines the prominent role of the JECF as a provider of trust funds in support of EBRD TC operations as a whole. In general, the sector breakdown of JECF commitments does not vary significantly from the overall pattern of EBRD TC operations, as shown in the recent annual donor reports published by the EBRD.

Financial Institutions account for over 25 per cent of the JECF funds committed, and this share is similar to the share the sector commands of total EBRD investments. A substantial proportion of the TC funds committed in support of the financial sector have been directed towards increasing access to finance for micro, small and medium enterprises (MSMEs).[33] This is firmly anchored in the JECF objectives of supporting the Bank to progress transition to a market economy and promoting private and entrepreneurial initiative in its recipient member countries.

Close to another 25 per cent of JECF commitments are to *Miscellaneous Manufacturing*. The high share of this sector is influenced by the fact that the funds committed for TAM and BAS are classified as being directed towards this sector. Most of the TAM and BAS support small and medium-sized enterprise (SME) development, which is in line with EBRD priorities and the JECF objectives, especially in the focus region for the JECF. *Telecommunications* and *Electric Power* also hold a significant share of JECF funds committed because these sectors also hold a similar share among EBRD investments as a whole.

4. Evaluation of performance

4.1 Overview of evaluation

Coming to an overall conclusion through revisiting the performance of almost 500 projects (and included framework arrangements, each of them translating into a myriad so-called “call-offs”) and stretching over a long lifespan of about 17 years is, for obvious reasons, not practical.[34] Instead, the evaluation team has pursued a “modular” approach.

This is based on the evaluation work already carried out before this study took place, comprising evaluation special studies carried out during the period from 2000 to 2007 (Section 4.2), and OPERs and PCRAs during the same period (Section 4.3). As specified in Section 1.3.5, this group was complemented by a sample of case studies (Section 4.4). A selection of key lessons learned and recommendations, which have emanated from all this evaluation work, is presented in Chapter 5.

[33] Reference is made to a 2005 special study by EvD (www.ebrd.com/projects/eval/showcase/delivery.pdf) explaining in Section 2.5 that “approximately €397 million of TC funding was applied to support debt and equity operations, amounting to around €4.4 billion in total. While this implies an average TC commitment of nine cents per euro of investment commitment, there are wide variations in the level of TC support for different programmes”. It concludes in Chapter 4 that even more TC input may be required to address issues beyond the MSME intermediary level.

[34] Note, in accordance with the earlier-referenced EBRD Evaluation Policy, performance rating comprises the elements of overall transition impact, project financial performance, company performance, fulfilment of objectives, environmental ratings, additionality and Bank investment performance. EvD applies the same rating criteria to TCs as for investment operations. It follows, by the very nature of TCs, that several rating categories are usually not applicable to TCs. A common rating scale/criteria catalogue, however, is justified in view of the fact that most TCs – in line with the Bank’s guidelines for TCs – are supposed to “facilitate” investments and, thus, a common evaluation grid is deemed practical.

4.2 Past thematic assessments of TC programmes involving the JECF

If correlated with the JECF's relative share within the TCFP (9.2 per cent, Section 1.2), the JECF with 17.7 per cent (in value terms) is particularly well represented in EvD's past evaluation work and revisited in the following Table 2.[35]

Table 2: JECF share in 2000-07 TC evaluation work

Dedicated evaluation products	Total commitments (€ million/No. commitments)	JECF funding (€ million/No. commitments)	JECF share by volume	Overall rating achieved
LTP (2001)	€17.5/120	€2.6/10	14.9%	Successful
TAM (2004)	€52.4/527	€7.8/68	14.9%	Highly Successful
MCF (2005)	€10.1/61	€4.9/NA[i]	48.5%	Successful
BAS (2007)	€56.0/114	€10.8/9	19.3%	Successful
ETCF (2008)	€38.7/140	€8.6/NA[ii]	22.2%	Successful
TC OPERs (00-07)[iii]	€55.0/212	€7.9/27	14.5%	[mixed results; Section 4.3]
PCRAs (00-07)[iv]	€42.8/160	€5.6/16	13.1%	[mixed results; Section 4.3]
Totals	**€272.5**	**€48.2**	**17.7%**	

Notes: (i) Estimated valued according to Japan's share at agreement/replenishment level, no split into project numbers available as multilateral funds do not commit donor contributions to individual projects. (ii) As above. (iii) As above regarding OPERs. (iv) PCRAs are a dedicated evaluation instrument and have been included in this list to underpin the claim that JECF-funded TCs are adequately covered in TC evaluation work.
Rating scale is *Highly Successful, Successful, Partly Successful and Unsuccessful*.

4.2.1 LTP evaluation 2001

The LTP evaluated in 2001(the main features of which are provided in Box 1) involved substantive JECF financing of about 15 per cent.[36] The programme continues to exist and its approved action plan for the period from 2007 to 2009 in mid-2007 indicates that it remains an important instrument to improve the so-called "enabling environment" within the Bank's region.

[35] If one adds the third group TCs to the above list, which is evaluated under this study and described in Section 4.4, then the share rises to almost 20 per cent relative to other TC funding sources.
[36] This evaluation report is not on the Bank's external web site but can be made available upon request (it was finalised prior to the time when EvD started making available evaluation reports for general public consumption).

Box 1: LTP

Since its inception in 1991, the EBRD and the OGC have been involved in law reform, legal institution building and legal transition activities in the countries of operations. These activities are carried out with a view to improving the investment climate in the Bank's countries of operations. At the core of this climate lie conducive macroeconomic conditions, to which the Bank can contribute only indirectly, and commensurate legal frameworks.

The LTP seeks to create an investor-friendly, transparent and predictable legal environment. In doing so, the LTP activities focus on the development of the legal rules, institutions and culture on which a vibrant market-oriented economy depends. Based on this rationale and with this purpose in mind, the Legal Transition team's (LTT) activity fields comprise: legal assessment, standard-setting, outreach activities and legal and institutional reform.

In all of its activity fields, the LTP focuses on a number of legal core areas:

- bankruptcy laws
- concession laws
- laws regulating financial markets, particularly capital markets
- laws strengthening corporate governance (especially those relating to the rights of minority shareholders)
- secured transactions laws and registries, particularly those enabling creditors to take security over moveable assets
- laws regulating the telecommunications sector.

4.2.2 TAM programme evaluation 2004

The TAM programme is a fully grant-funded enterprise advisory facility of the Bank in which JECF has a substantive share of about 15 per cent.[37] Nearly all the companies visited have acted on TAM's advice and have made significant changes in their businesses.

The vast majority of companies visited reported higher capacity utilisation, higher direct labour productivity, higher sales, higher market share and higher profits. Nearly all were materially closer to being profitable, stand-alone private companies than they would have been without TAM. Also, this programme continues to receive support by donors and the Bank.[38]

Box 2: TAM

TAM, which is managed by the Bank through the TurnAround Management Group (TMG), seeks "to enhance the knowledge, confidence and capabilities of the senior management of potentially viable enterprises in Central and Eastern Europe and the Former Soviet Union and to assist them to lead these enterprises into sustainable economic success in a market oriented economy and, where appropriate, in their transition to privatisation". This report presents the findings of an evaluation of the programme's operations from 1998 to 2002 by the Bank's Project Evaluation Department (PED).

[37] See www.ebrd.com/projects/eval/showcase/tam2.pdf.
[38] See www.ebrd.com/apply/tambas/index.htm.

The evaluation is based on:

- a review of TAM documents and databases
- prior evaluations
- evaluations and other reports on comparable programmes
- structured interviews with 63 TAM clients in six countries
- structured interviews with 21 TMG staff members and country coordinators and 24 Bank managers and staff members
- a questionnaire sent to 15 donor representatives
- the PED team's experience with management support programmes in developing and transition economies.

4.2.3 MCF evaluation 2005

The JECF provided about 49 per cent of the Mongolia Cooperation Fund (MCF).[39] Main features of the fund are described in Box 3 below. The evaluation team rated five of the seven completed projects as successful. Three of the four projects still under way were heading for success.

If the evaluation team's expectations turn out to be accurate, about 75 per cent of the TC projects committed, accounting for roughly the same percentage of the amounts committed, are likely to be successful. With Mongolia becoming a country of operations of the Bank in 2006, this fund discontinued its activities since Mongolia became eligible for accessing the ETCF.

Box 3: MCF

The MCF, a €10.3 million TC fund based on grants from Japan, the Netherlands, Luxembourg and Taipei China, had been established in 2001 to finance TC operations prior to Mongolia becoming a country of operations. Between late 2001 and the end of 2004, the MCF committed €6.3 million for 11 operations.

These operations funded:

- senior advisers for 22 companies through the EBRD's TAM programme
- an expatriate management team for Mongolia's national airline (MIAT)
- micro-credit advisers for a major Mongolian bank (Khan Bank)
- training for nearly 300 bank managers and staff members under two different programmes
- training for 15 SME owners
- consultancy services for power and telecommunications privatisation
- studies on legal transition issues
- plans for Mongolia's civil aviation authority and for development of petroleum refining facilities.

Many of these operations had multiple components.

[39] See www.ebrd.com/projects/eval/showcase/mong.pdf.

4.2.4 BAS evaluation 2007

To the BAS programme the JECF contributed to the tune of 19 per cent.[40] This programme is briefly presented in Box 4 below. Similar to the TAM programme, the BAS programme continues to be an active instrument of the Bank to support the SMEs in its countries of operations.

Box 4: BAS

BAS is a mechanism for distributing small-scale contributory grants to private SMEs, collectively referred to here as BAS enterprises. Grants are for the explicit purpose of co-financing short-term consultancy projects. The support or "subsidy" element is typically 50 per cent of the consultant cost.

Consultants are usually local and have to undergo a BAS "accreditation" process prior to the approval of BAS support for a given SME support application. BAS provides on the ground infrastructure, resources, the distribution mechanism and procedures for implementing the grant scheme. The EBRD provides BAS management and support resources at the London head office and an umbrella to the field operations (which confers EBRD status upon local BAS operations).

Donors provide funding to finance the field grant distribution mechanism, the grant itself and a contribution towards head office operating costs. Hence, the BAS programme – in a wider context – is an *enterprise development* programme (where consultants are a subsidiary target group) and a *market development* programme.

4.2.5 ETCF evaluation 2008

The ETCF to which the GoJ contributed some 22 per cent has been established only more recently.[41] The ETCF has had a promising start both in terms of the aggregate use of resources and the summary from a more detailed review of specific activities.

Box 5: The ETCF

The ETCF was established in November 2004 and aims to "promote transition to market-oriented economies and, through investment projects and capacity strengthening, help alleviate poverty within the ETCs". The ETCF contributing community covers 12 EBRD donor countries and the ETCs, which are supported through the ETCF.

They comprise: Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Uzbekistan. The ETCF is an integral part of the Bank's wider Early Transition Countries Initiative (ETCI). Its resources are administered by the Bank, coordinated under the auspices of its ETCI team and the OCU, and with the Assembly of ETCF Contributors as its governing body.

[40] This report is currently still under publication and will be accessible through the Bank's external web site in due course. Upon request and advances copy can be made available.
[41] This report is currently still under publication and will be accessible through the Bank's external web site in due course. Advance copies can be made available upon request.

In summary, the evaluations of programmes and funds previously conducted and involving a major share of the JECF resources (70 per cent) present very positive ratings overall.

4.3 Individual TCs evaluated through OPERs and PCRAs

Compared with the previous thematic instruments, the assessment of individual JECF operations conducted by EvD in the past shows rather mixed results. This is presented in Tables 3 and 4 below.

Table 3: OPER evaluations of individual TCs including JECF-financing

TC title	Evaluation year	TC amount total (million €)	JECF amount (million €)	JECF %	Overall TC assessment
Russian Railways Modernisation	2000	0.84	0.49	58%	Partly Successful
Kyrgyz SME Credit Line	2000	2.23	0.34	15%	Successful
Power Market Twinning Programme	2000	1.30	0.32	24%	Unsuccessful
Telecommunications Emergency Reconstruction Project	2001	1.87	1.55	83%	Highly Successful
Mutnovsky Independent Power Plant	2001	1.32	1.16	88%	Partly Successful
Creditworthiness Assessment and Enhancement Programme, Municipality of Wroclaw	2001	0.48	0.25	53%	Successful
Turkmenbashi Port Development Programme	2002	2.89	0.40	14%	Successful
Enterprise Investment Demonstration Project	2002	1.40	0.76	54%	Unsuccessful
Enguri Rehabilitation Project	2002	0.45	0.15	33%	Partly Successful
TC title	**Evaluation year**	**TC amount total (million €)**	**JECF amount (million €)**	**JECF %**	**Overall TC assessment**
Tajikistan Overlay Network	2002	0.46	0.37	80%	Partly Successful
Norsi Oil Refinery TC Studies	2003	1.17	0.50	43%	Partly Successful
Technical Assistance to Uzbekneftegas	2003	1.44	1.35	93%	Partly Successful
Sakhalinmorneftegas – Environment, health and safety management	2005	0.32	0.32	100%	Successful
Total volume		**16.18**	**7.94**	**49%**	

Note: Rating scale is *Highly Successful*, *Successful*, *Partly Successful* and *Unsuccessful*.

Table 4: PCRAs of individual JECF-funded TCs

TC Name	Evaluation Year	JECF amount (million €)	Overall TC assessment
Yenikend Power - commercial management system	2000	0.40	Successful
Czech Direct Equity Fund (formerly Czech Post-privatisation Fund) - initiation and feasibility	2001	0.17	Partly Successful
Wholesale market - project management unit	2002	0.33	Unsuccessful
Procurement advisory services	2001	0.25	Successful
Preparation of enterprise investment demonstration project – in-depth diagnostic study and development of business plans	2002	0.19	Partly Successful
Finance, accounting and billing advisory services - telecommunications emergency programme	2003	0.47	Partly Successful
Turkmenistan SME Credit Advisors Programme	2002	1.32	Highly Successful
Kazakhstan/Kyrgyzstan/Uzbekistan district heating energy efficiency	2003	0.07	Successful
Oil and gas field services sector development	2004	0.39	Successful
TajikTelecom Diagnostic & Feasibility Study	2005	0.23	Highly Successful
Uzbekistan Asaka Bank Pre Privatisation Restructuring - Phase 1A Audit	2003	0.20	Successful
SME Line of Credit (Central Bank of Armenia)	2004	0.74	Partly Successful
TajikTelecom: Regulatory Frame Work Development Programme II	2005	0.30	Successful
Sofia Parking Project: Parking Strategy and Action Plan	2006	0.19	Partly Successful
Japan-EBRD Central Asia MSE PBs Strengthening Facility - CIB	2006	0.03	Successful
Tajikistan Air Navigation System Modernisation	2007	0.32	Successful
Total volume		**5.60**	

Note: Rating scale is *Highly Successful, Successful, Partly Successful* and *Unsuccessful.*

The interpretation of the related main differences between the results of these two tables and the previous thematic assessments in Section 4.2 is multi-faceted, including:

- The Section 4.2 group represents TC activities under a common theme, whilst the TC activities under this subsection are a rather “mixed bag” of thematically unrelated individual initiatives.

- The samples selected for the annual PCRAs are usually biased towards “extreme” cases in order to extract lessons learned, best practices/and to check for overestimation.

- The evaluation constraint regarding TI assessment noted in Section 1.3 (see “evaluation criteria”) comes into play, particularly when assessing individual TCs that are too small to allow for a measurable TI and/or are in an investment-facilitating role as covered under Tables 3 and 4.

- Relating to this, whilst TCs for the LTP, TAM and BAS are of stand-alone nature and their impacts can be assessed more readily and in isolation, this is methodologically not as straight-forward for the other sub-groups.

- While Table 4 only contains JECF-funded TCs (because technically, they are easily separable) candidates in Table 3 can, in terms of evaluation, not be split into JECF and non-JECF-components (in terms of finance, this is possible but not in terms of operation and TC achievement).

- Relating to the previous, for TC OPER exercises EvD selects predominantly larger TCs (amongst other reasons, to justify the costs involved in an OPER exercise). The selection also takes into account evaluation portfolio spread, lessons-learned potential and funding sources.

Still, irrespective of these differences the overall picture of these two sub-groupings is a positive one with only a few operations rated *Unsuccessful*.

4.4 Assessment through a sample of complementary case studies

The following presents a third group of JECF-funded TC evaluations, this time a selection that was purpose-tailored to be undertaken in the context of this study. First, to add to the existing body of relevant (past) evaluations, it includes more recent TCs. Second, this sample complements/enhances the sector and geographical spread. Lastly, it was meant to provide the study's consultants with some "real case" exposure. This third group category is, to some extent, again different from the above Table 3 and Table 4 populations in that it represents in-depth (OPER-type) evaluations for, however, JECF-funded TCs only.

Table 5: Overview of JECF case studies assessed on site

TC name	Country	JECF amount (€)	Overall TC assessment
Uzbek Railways Freight Traction Renewal & Management Project, Technical Cooperation Programme	Uzbekistan	988,357	Partly Successful
Irkutsk Regional District Heating Programme, Technical Feasibility Study	Russian Federation	199,000	Partly Successful
Creditworthiness Assessment of the Irkutsk Oblast for a Planned Investment in the Irkutsk Regional District Heating Programme	Russian Federation	49,000	Successful
TC for Credit Information Bureau (CIB)	Kyrgyz Republic	32,195+16,000	Successful
TC Programmes under Central Asian MSE PBS Strengthening Facility	Kyrgyz Republic	5,774	Partly Successful
TC Programme for Judicial Capacity Building, Phase II	Kyrgyz Republic	105,000	Successful
Georgia Wholesale Electricity Market – Management Contract	Georgia	978,122	Partly Successful
Municipal & Environmental Action Programme (MEAP)	FYR Macedonia	1,284,851	Partly Successful
TC-Corporate Governance Code Development	Russian Federation	585,550	Highly Successful
TC Programmes for Restructuring study of Tajikistan State Air Company (TCA) and Air Navigation System Modernisation	Tajikistan	240,911+321,007 +561,918	Successful
Total volume		**Disbursed: 5,367,685**	

Note: Rating scale is *Highly Successful*, *Successful*, *Partly Successful* and *Unsuccessful*.

In the above table the evaluated cases are briefly presented including the evaluation consultants' overall assessments.[42]

4.4.1 Ensuring the pre-conditions for success: corporate governance in Russia

Box 6: Russian corporate governance code development

A dynamic chairman of the Russian Federal Commission for the Securities Market (FCSM) championed the initiative for this TC funded by JECF. The €585,000 TC assisted the development of a Russian corporate governance code. The need had become clear as Russian enterprises sought to tap capital markets and attract foreign investors.

The Legal Transition team of the EBRD was in close contact with the FCSM and oversaw the following TC phases:

- joint concept development by FCSM and the selected consultants
- development of a draft code
- presentation to FCSM of a final code version following a series of stakeholder consultations.

(i)

[42] The respective full evaluation reports are on file with EvD and can be made available upon request, bearing in mind the Bank's PIP that calls, among other things, for observing commercial confidentiality.

A consortium led by a United States (US) law firm carried out the assignment assisted by strong local consultants. The result was the successful adoption by the FCSM of a set of code recommendations. These got wide endorsement following consultations with stakeholders, including Russian business associations and the Moscow stock exchange.

The TC is highly relevant to the transition process in Russia. The objectives were clearly met as the code became a landmark achievement in establishing a comprehensive and authoritative set of requirements to improve corporate governance. The code was not made legally binding. Nor has it yet had any profound influence on actual compliance with corporate governance standards in Russia.

However, the excellent success rating is still justified due to the potential for future improvement resulting from the consensus in support of reform that it helped develop among key stakeholders. The overall transition impact was also rated as *Excellent* in this light. Sustainability was also ensured in this way, although locking in the gains through regulation partly depends on political developments and overcoming systemic impediments to improving corporate governance standards in Russia.

4.4.2 Assessing reform orientation: Uzbek railways

Box 7: Uzbekistan railways

The need to assess reform orientation

Uzbekistan’s geopolitical location and double land-locked position makes its railways of strategic importance. The government railway company is Uzbekistan Temir Yullari (UTY). The EBRD lent twice to UTY for new freight locomotives and repair shop refurbishment. The first US $40 million loan (completed) had advisory services funded by TACIS via the EBRD. The Asian Development Bank (ADB) and other parties have financed various track and infrastructure improvements.

The €1 million TC was linked to the second EBRD loan in 2001 of US $68 million. The JECF funded advice for institutional reform of UTY and sector-wide reorganisation. It advised on internal and structural reform with separation into subsidiaries and the spin-off of various non-core activities. Another component sought to progress privatisation in stages under new sector regulations. This TC, with wide ranging objectives, has been completed by Western railway consultants, but the use of the second loan was held up until recently.

The Uzbek railways have witnessed a much slower pace of reform than anticipated. Independent regulation is not in place and unbundling and spin-off of activities is incomplete, other than the more peripheral non-core activities. The TC, though, was still able to meet some objectives satisfactorily, contributing to the early stages of restructuring, including some part-privatisation.

It was also efficient in the transfer of know-how in important areas such as freight tariff reform. Transition impact is rated satisfactory because of the progress achieved, despite the remaining risks to a sustainable outcome because of the much slower than anticipated pace in achieving wider sector restructuring and privatisation and developing an independent regulatory framework.

4.4.3 Setting realistic reform objectives: a telecommunications operation in an ETC

Box 8: Support for telecommunications upgrading and reform in an ETC

The country had one of the least advanced transition economies and the least developed telecoms sector in the Commonwealth of Independent States (CIS).[43] The state-owned incumbent operator, TT, was dominant. It was corporatised when telecoms, post and radio/broadcasting were unbundled in the 1990s, but it had poor infrastructure and management.

In 1999 the government asked the EBRD to support upgrading, resulting in an EBRD loan and a Swiss grant for the investment. The TC operation comprised five JECF-funded projects totalling €1.6 million over about five years. Three projects funded a diagnostic and feasibility study, provided implementation support for investment and a TT corporate development programme. Two other projects advised the government on the reform of telecoms regulation.

The services were clearly relevant to key infrastructure reform in support of economic transition and growth. The objectives were met for the preparatory and investment implementation services provided. The planning and upgrading of old lines and exchanges resulted in greatly improved telecommunication services. However, the institutional reform objectives were met only in part.

TT remains weak in key areas, still lacks full corporate autonomy and needs further pre-privatisation reform. Regulation of tariffs and competition in the sector is not yet optimal, including in fast growing cellular services. The government could not be induced to accept fully independent regulation and abstain from political interference on tariffs and in TT occasionally. This situation persists despite regulatory advice provided in two phases, conditionality attached to the EBRD loan and formal government undertakings on reforms.

4.4.4 Sequencing TC: Irkutsk District Heating, Russian Federation

Box 9: Irkutsk Regional District Heating Improvements technical feasibility study (Russian Federation)

The need to sequence reform

The Irkutsk region (Oblast) in Eastern Siberia lacks its own oil and gas for heating in the cold winters, but it has local coal and hydropower. The Oblast wanted to cut expensive district heating (DH) subsidies by supporting conversion to modern boilers for coal mainly using a proposed EBRD loan. The JECF funded a feasibility study for upgrading to modern boilers in several municipalities, including the city of Irkutsk.

The study sought to bring about a number of linked investments and institutional reforms, as follows:

- optimising heat consumption

43 The evaluation reviewed two other JECF-TCs linked to EBRD investments in the country's air transportation sector. The findings are similar. The TCs gave successful support to the planning and implementation of investments to upgrade services. The operations also contributed to the unbundling of airports and air navigation services from the national airline operator, if rather belatedly. However, fully independent air transports regulation remains an outstanding issue. Despite some setbacks, the EBRD continues the client relationship, remaining open to further support to the sector in order to bring about further reforms.

- upgrading boilers and systems
- improving the regulatory framework and standards, introducing incentive-based service-contracts
- creditworthiness of enhancement for Irkutsk Oblast.

There was little thought given to sequencing the TC.

It helped start a client relationship that offers potential for investments linked to institutional reforms in future. Relevance is high under the EBRD's country and municipal environmental infrastructure (MEI) sector strategies. However, it seems unlikely at present that the tariff and other institutional reform objectives will be achieved at an early juncture. This renders a marginal rating for transitional impact. Additionality is verified in all respects.

The handling of the TC by the Bank showed a mismatch between ambitious expectations over the extent of institutional reforms that could be achieved and a small operation to support a first-time client, which did not have a strong reform-orientation and was based in a remote early transition environment.

Despite conversion to coal, usually a source of high air pollution, the study had enough evidence that the modern boilers would be neutral to positive in environmental terms. Thus, they met important criteria for Bank assistance. Sustainable impact from the TC itself is low. However, this could improve with a more developed client relationship based on investments linked to support for further reforms over time.

4.4.5 Tailoring TC to the context: Municipal water in FYR Macedonia

Box 10: Support to municipal environmental reform in FYR Macedonia

Tailoring TC to the context

A Municipal Environmental Action Programme (MEAP) coordinated donor support to vital water sector reform. The plan earmarked about €70 million of finance for water infrastructure improvements and €3.6 million for the TC. The JECF commitment was close to €1.5 million for one TC covering:

- programme management coordination
- investment implementation services
- financial and operational performance improvement.

The multiple services were provided under quite a complex structure. It involved, apart from the consultant, two ministries, five participant municipalities and their utility service providers, and nine donors, including the EBRD.

The operation was clearly relevant, attempting to reform the provision of infrastructure to meet a basic public need. The support for investment preparation and implementation met the objectives only after more TC was added. However, institutional reform of the municipal utilities lags behind and so does effective regulation of the sector by government. This impairs wider transition impact via demonstration and replication and constraints private participation.

The involvement of so many different stakeholders, coupled with the on-the-ground reality in Macedonia (lack of capacity and so on), made the TC challenging to handle. Efficiency suffered as a result. The first consultants appointed needed to be replaced at a later stage by others, calling for more bilateral support for TC.

Sustainable impact on sector reform is low. The municipal utility entities still operate with tariff interference from government in the setting of tariffs. Corporate autonomy is low because levels of revenue collected and governance reforms fail to keep pace with commercial realities.

4.4.6 Identifying appropriate channels to improve access to finance: MSE finance in the Kyrgyz Republic

Box 11: Identifying channels for MSE finance in the Kyrgyz Republic

The JECF committed funds for a TC for institutional development in a local bank, which took part in the Central Asian Strengthening Facility for MSE banks. The JECF also committed funds for a new candidate bank. Only a small part of the budgeted amounts for these operations was actually used. This was for a brief strategic review of the first bank. The larger allocation for training and systems development at that bank was cancelled.

Subsequently, the TC for a new candidate bank was also cancelled, at least for the time being. The lack of transparency in revealing ownership arrangements was the reason in both cases. The first bank did not meet its disclosure undertakings under an existing loan from the EBRD, which resulted in further disbursements being stopped. The EBRD sought instead to channel MSE finance and institution-building support to local banks more willing to meet the transparency requirements.

The set of TCs had high potential relevance to the EBRD strategy for the country's financial sector and, hence, for transition impact. But only the brief strategic review that was carried out before the cancellation of further TC support and loan disbursements actually delivered an outcome, which highlighted concerns over corporate governance arrangements.

Transition impact potential was lost but not in full. The EBRD actions clearly signalled to local banks that transparency of ownership is a necessary condition for attracting international funding. The Bank was justified in not compromising with this key corporate governance requirement. Sustainability and transition impact also look more favourable in a wider sector context. The TCs were approved as part of a package of advisory and financial support to local financial markets. This included the successful JECF contribution to a TC in support of a local credit information bureau.

The monitoring of progress enabled the OL to diagnose the controlling owner's lack of appetite for transparency and to cancel further support. The strategic review was of good quality and achieved its direct objectives. In addition to the signals it provided to the financial sector, the strategy review contributed to some extent to building capacity in the client bank. This made a small contribution to transition impact at the corporate level.

4.4.7 The strengths and pitfalls of donor coordination: Georgia wholesale electricity market

Box 12: TC for the Georgian wholesale electricity market (GWEM)

Coordinating donor support for electricity sector upgrading and reform

The €1 million TC for GWEM aimed at institution-building alongside urgently needed physical upgrading and institutional reform of the electricity sector. The EBRD and other donors gave investment and advisory support, and the World Bank led donor coordination. The sector had long suffered from a lack of political ability to drive reform, under-investment and poor quality of supply. Generation, transmission and distribution entities operated with low efficiency and transparency despite prior unbundling in the early 2000s.

The JECF-funded TC supported the initial part of a five year-management contract for GWEM. It was won by a Western sector consortium and was expected to start along with two other TC operations for reform of transmission and distribution. Parallel investments in physical upgrading were expected to be supported by the EBRD in generation and by the World Bank and others in transmission and distribution. The GWEM TC was essentially completed but met with several problems.

It was highly relevant to both sector reform and transition in general. It only partly met its objectives as it failed to deal with huge problems of liquidity, a legacy of the past that constrained the development of a wholesale market for electricity. The wholesale electricity model was abandoned for one that stops at stabilising markets.

Efficiency suffered from the late start of the intended parallel TCs and investments in transmission and distribution. Some good transition impact was achieved because of capacity-building and improved standards within GWEM. The experts and local management eradicated internal corrupt practices and removed culpable individuals, bringing about improved transparency. Gradually, collections were improved following the disconnection of some defaulting bulk users with tacit support from a new government. All interviewed stakeholders noted the improvements in transparency and the transfer of know-how.

Synergies were achieved as the TCs and upgrading investments for transmission and distribution reform finally went ahead. The building of capacity at GWEM was sustainable as most staff remained in vital parts of the system. Sustained sector-reform impact came, in no small part, from the donors' coordinated support for reform despite the imperfect synchronisation of their activities over which the EBRD had limited control.

4.5 Summary of the performance of individual JECF projects/programmes

The examples provided in the previous sections amply illustrate the broad diversity of TC utilisation and individual performance variances. It also demonstrates the Bank's compliance with its fiduciary responsibility through efficient and effective check-and-balance systems, notably through self-evaluations by operation units (in the form of progress and completion reporting) and independent evaluations by EvD (through various instruments and products).

At several instances this report is pointing out that a simple aggregation of individual evaluation outcomes in order to arrive at a JECF overall assessment is neither possible nor meaningful.[44] Thus, this special study takes a staggered approach that first looks selectively into the performance aspect (Section 4.1) before turning to the overall Bank mandate, that is, transition impact aspect (Section 4.6) and fulfilling the JECF's target which is "to assist the EBRD in fulfilling its mandate…".

The performance aspect was addressed by taking into account:

- the group of past evaluations (Section 4.2) in turn split into thematic assessments, which include large proportions of JECF resources rated *Successful* to *Highly Successful* (Table 2), and into evaluations in the form of an OPER (Table 3) or PCRA (Table 4) with the latter two sub-groups demonstrating mixed performance results
- the group of ("current") case study evaluations as part of this study (Table 5), which also showed mixed results.

The fact that the performance of some individual operations was rated *Partly Successful*, however, should not distort the overall good impression of JECF-funded projects and programmes. A *Partly Successful* rating can be obtained because overly ambitious objectives have been set but still have been achieved in part.

Or, and similar to the selection of project samples for PCRAs, the selection of TC candidates for evaluation may be biased towards ex-ante cases whose "lessons-learned potential" is perceived to be higher. This potential is perceived richer with less successful cases. The main issues emanating from the body of the above evaluations will be presented in Chapter 5.

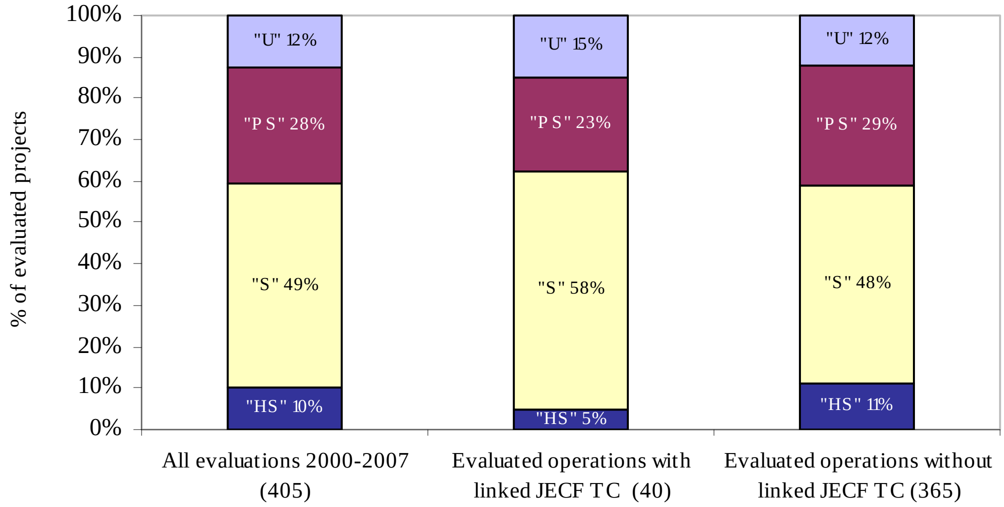
In conclusion, this evaluation arrived at the view that, from a performance perspective, the JECF is doing well. This becomes more pronounced by linking TCs with investment operations and focusing on the Bank's overall investment performance. The comparison of overall performance ratings of independently evaluated Bank investment operations during the period from 2000 to2007 in Figure 11 (overleaf) provides a positive statement.

Close to 60 per cent of Bank investments are successes (including 10 per cent *Highly Successful* and 49 per cent *Successful* ratings). This is a remarkable achievement given the high-risk investment climate in the countries of operations and, even more so, given the Bank's recent increased focus on early or intermediate stage transition contexts.[45]

[44] Reinforcing this, reference is made to the different types of activities allowed under JECF financing and noted in Section 1.2.

[45] In the 2007 Annual Evaluation Overview Report (AEOR, Section 7.1) the Chief Evaluator confirms this finding when concluding: "Based on these cumulative evaluation findings since 1996, EvD concludes that the Bank has been relatively successful in operating according to its mandate, especially in view of the difficult operating environment. As highlighted above, the overall performance ratings have improved generally since 2001."

Chart 10: Overall performance ratings of evaluated investment operations 2000-07



The above chart presents evaluation results of investment operations undertaken during the period from 2000 to 2007 and differentiates between those which received JECF-financed TC support (second column) and others (third column), including investment cases without any TC support. The comparison shows that investments with JECF support fare slightly better than those without: JECF-supported investments fall at 63 per cent into the successful or better category, while the equivalent of investments without JECF support arrives at 59 per cent.

4.6 Overall assessment of JECF impact

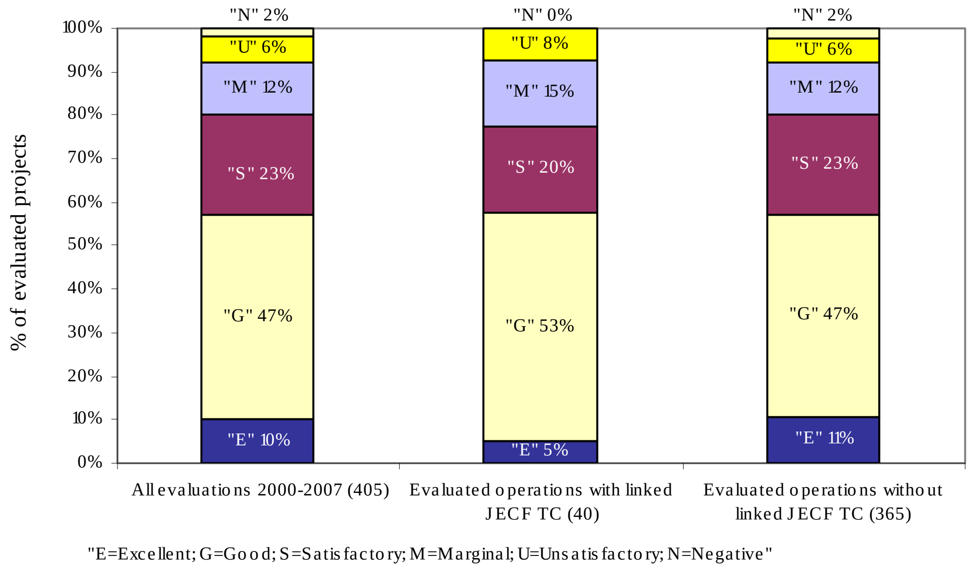
When concentrating on the JECF's contribution towards fulfilling the Bank's mandate, that is, transition impact, the achievement becomes even more positive. In Section 3.3 it was explained that the TC projects and programmes funded by JECF naturally have an impact on the Bank's investment portfolio Some 60 per cent of JECF projects are *directly* related to a Bank investment, while the other 40 per cent can be interpreted to *indirectly* serve the Bank's mandate through sector work, policy advice and so on.

Also this approach deserves a note of caution since the "attribution problem" would not allow a linear cause-and-consequence conclusion from transition progress observed "on the ground" to Bank interventions, individually or collectively. Other factors, other players and external developments at various levels and by a diversity of sources are contributing elements as well. Still, this study assumes that the assessment of the Bank's overall contribution towards the transition process, and hence the impact of the JECF as one of its key TC instruments employed towards this end, is a fair approximation.

The AEOR 2008 notes in this respect that "79 per cent of evaluated [investment] operations obtained Satisfactory-Excellent [ratings] for the period 1996-2007". From this the Chief Evaluator concludes (AEOR Chapter 7) that "the EBRD has been relatively successful in operating according to its mandate, especially in view of the difficult operating environment".[46] In line with the above, JECF-supported investments show accumulated ratings marginally below the overall 79 per cent in the categories *Excellent-Satisfactory* (78 per cent) as is illustrated by Chart 11 (middle column).

[46] AEOR 2008, Sections 1.5.1 and 7.1, respectively.

Chart 11: Transition impact ratings of evaluated investment operations, 2000-07



Thus, the general conclusion from this study is that, indeed, the JECF is effectively supporting the Bank's mandate.

5. Issues and recommendations

The JECF is a fully integrated fund that is governed by the Bank's standard systems and procedures. It occupies a large share within the TCFP (Section 1.2) and mirrors the Bank's overall portfolio pattern (Chapter 3). Therefore, there are no JECF-specific items to be focused on. Instead, in the following selection some key issues and recommendations assembled from the body of past evaluations referred to earlier are re-visited and complemented by some "new" ones, which have emerged from the case studies that formed part of this study.

5.1 Revisiting past evaluation issues

5.1.1 Need for LTP policy framework[47]

Beginning around 1998, when the Bank reinforced and reaffirmed its commitment to legal reform as a core mandate element, the LTT did commence preliminary efforts to formulate a general LTP policy and strategy statement. The evaluation at the time noted: "Along with the formulating and approving of an overdue legal transition policy and strategy the Bank should take into consideration the resultant needs for commensurate budgetary and staff resources."

Although action plans were developed, their handling was inconsistent. While the one for the period from 2003 to 2006 was meant to be approved only by the OGC, the one for the period from 2007 to 2009 was approved by the Executive Committee and passed for information to the Board. A Board-approved policy/strategy framework is still missing.

On the other hand, the cost for "infrastructure", that is, staff and offices, have been assumed under the Bank's budget. The same applies to operations, except for larger legal reform work

[47] LTP evaluation 2001, Section 4.2.1.

which continues to be funded from donor sources. Thus, the above recommendation has, so far, not been adopted in full, albeit substantial progress has been made.

5.1.2 Cost sharing[48]

It was found that the prospects of generating donor support for a multi-year, multi-donor facility may depend in part on the Bank’s willingness to contribute to the facility itself, for example, by absorbing the administrative costs of the TAM/BAS programmes Although the Bank had not shared in the cost of TC programmes in the past, its Establishing Agreement provides an adequate basis for including such expenditures in its administrative expenses. In view of this the evaluation had recommended that the Bank should consider sharing in the costs of the TAM/BAS programmes as part of its normal operating budget.

This recommendation materialised meanwhile to the extent that staff and office cost at the Bank’s headquarters have been absorbed under the Bank’s budget. Costs of the infrastructure in the field (staff and offices) will be paid for from the recently established Shareholder Fund, albeit only in part. The same, but to a far lesser extent, applies to TAM/BAS operations. This progress increases the stability and planning certainty of both programmes substantially and is possibly the farthest the Bank can reasonably go.

5.1.3 Importance of TC operations[49]

This evaluation recommended that the EBRD should ensure that staff devotes the same attention to TC work as to investments and be incentivised commensurately. This is because of the important role that TCs play for generating and implementing investment operations and in fostering transition.

Increasingly “TC handling” is being recognised in annual staff appraisals and, hence, in bonus allocations. In addition, TC training, a field often neglected in the past, is now being approached systematically under the joint auspices of the OCU, the CSU and EvD. A related curriculum is under development.

5.1.4 Strategic planning and objective setting[50]

EvD noted that “BAS’ strategic objectives have become less clear over time”. It continued that “current best practice for instruments such as BAS would be to work more overtly towards sustainable market development or capacity building but this may not accord with stakeholders’ wishes”. They recommended that “a BAS strategic plan (as distinct from an umbrella combined TAM/BAS plan) should be developed and led by revisited strategic objectives of BAS, as agreed between stakeholders”.

The TAM/BAS Strategic Plan for 2008-10, Board-approved in October 2007, addresses this recommendation.

[48] TAM and BAS evaluations 2004 and 2007, Sections 4.2.2 and 4.2.4.
[49] MCF evaluation 2005, Section 4.2.3.
[50] BAS evaluation 2007, Section 4.2.4.

5.1.5 Transition impact – poverty reduction[51]

EvD made the following observation: "Greater clarity between donors and EBRD is required about the treatment of social and poverty aspects. This pertains to the relationship between the Transition Impact and Poverty Reduction objectives of the ETCF, and to effective guidance on how the poverty reduction element of the ETCF mandate is to be interpreted. The logical framework that was introduced appears to be a less effective monitoring and evaluation tool in this regard, given that the ETCF is but one implementing instrument of the wider ETCI."

The above concerns formed part of the discussion among Board members, the ETCI team and Bank Management in December 2007 and is reflected in the workshop document "The ETC Initiative (ETCI) – Going Forward" (WS07-01).

5.1.6 Setting TC related objectives and benchmarks for achievements[52]

The PCRA for 2007 noted that there is a general reluctance by bankers to name intended achievements in a "crisp" and "monitorable" way. This pertains to the definition of (primary and secondary) objectives, milestones, success indicators and other indicators of achievements at the project outset. Thus, formulations are, at times, open to different interpretations. This makes TC monitoring and evaluation unnecessarily difficult.

The TC Com is requesting the definition of *success indicators* for every project proposal. Encouraged by this PCRA's observation, the TC Com promised to pay more attention to TC formulations, their inherent logic and monitoring requirements. Complementary to this, a commensurate TC training curriculum and provision of training to Bankers is under preparation.

5.2 Case study evaluations

The observations made through case study evaluations, some of which are presented in the following, are still relatively recent and will yet have to be considered by management.

5.2.1 Matching objectives with resources, and vice-versa[53]

The motives of operational teams to provide value for money and deliver results quickly are to be commended. However, unrealistic budgets and timescales lead to low efficiency or effectiveness requiring either reduced objectives or additional resources to deliver the desired outcomes. One issue that stands out in this respect is providing sufficient face time for experts with the client.

This is vital to establish a good working relationship, transfer skills and win hearts and minds and, thus, ensuring sustainability. While face time is expensive, especially when international experts are involved, its potential pay back can be considerable, as shown in the case study of GWEM where it helped to deliver unexpected benefits. Lack of adequate face time was a contributor to the partial success achieved by the Irkutsk district heating TC.

---

[51] ETCF evaluation 2008, Section 4.2.5.
[52] PCRA 2007, Section 4.3.
[53] JECF case study 2008, Section 4.4.7.

5.2.2 TCs aiming to effect wider sector reforms[54]

The TC saw significant restructuring achievements, despite the fact that no full separation from the government with independent regulation or any public service agreement was reached. As a result, there is still some way to go in reaching improved structure and efficiency. Overall, many objectives were met, and the client expressed high appreciation of the restructuring contract services.

The range of objectives and milestones should build on existing experience from combined TC and investment operations, such as for reform of railways and similar infrastructure in Central Asia. In this case the restructuring, unbundling, privatisation and regulatory reform aims of the restructuring TC proved much too ambitious. Therefore, restructuring TCs should always consider implementation in a staged manner.

5.2.3 Adapting project designs to local context[55]

The MEAP structure was modelled on a prior EBRD water operation in Romania that involved the Romanian government and several municipalities.[56] As structured, MEAP came under the influence of a number of ministries, such as the Ministry of Transport and Communication (MOTC), which also established a programme coordination unit (PCU), the Ministry of Finance (MOF), the Ministry of Health and Ministry of Environment and Agriculture. At the local level, five water companies servicing six municipalities were the final beneficiaries of the MEAP investments and responsible for implementation.

Each of the water companies established a programme implementation unit (PIU) that served as the counterpart to the consultant at the local level. Given the sheer number of parties involved and the complexity of the programme indicated above, substantial TC was deemed to be necessary in order to successfully implement the MEAP. As structured, the programme called for consultancy services to help with:

- programme management and coordination
- preparation of design and tender documentation, assistance in procurement and
- contracting, construction supervision
- implementation of the Financial and Operational Performance Improvement Programme (FOPIP).

This type of multi-party project structure carries a substantial risk of lacking implementation capacity risk.

Generally, as part of TC preparation, some sort of institution-capacity assessment needs to be carried out as precursor for TC design. In this case the assessment was comprehensive.

---

[54] JECF case study 2008, Section 4.4.2.
[55] JECF case study 2008, Section 4.4.5.
[56] MEAP was modelled on a prior water programme in Romania to which the EBRD lent US $28 million – the Municipal Urban Development Program (MUDB I) involving 12 municipalities. MUDP I was launched as a pilot scheme and pre-cursor to the larger MUDP II to which the EBRD later lent US $75 million. The pending EU accession was a strong reform-incentive in Romania. Its government together with the municipalities contributed half of the funding and had a strong interest in pursuing institutional reform in the water sector in line with the EU accession requirements.

Transplanting a model that presumably worked well before without such prior analyses into a completely different contextual framework carries too high a risk of failure.