Management Comments on the Operation Performance Evaluation Review (OPER) for a loan to a joint venture company between local and foreign sponsors in one of the EBRD's countries of operations

Management agrees with much of the report and does not query the actual ratings. However, below are some points where Management would like to express its reservation in relation to some of the Evaluation Department's (EvD) conclusions.

1. Overall assessment

"Bank handling is rated as Satisfactory"

This conclusion strongly emphasises that the joint venture (JV) lost money and that the semi-tolling structure reduced transition impact. However, it understates the importance of the structure in assisting the Bank to substantially reduce credit risks.

During the project implementation there was a material implementation delay and budget overrun. Prices for input materials prices rose sharply above the prices at project inception. Nevertheless, the structure that the Bank had put in place allowed for the completion of the production facility's construction, for the start up of production and for a timely servicing of debt payments. It is surely of importance to stress that the Bank and its participants stood relatively little chance of loss.

"Finally, the project was at odds with the 2002 country strategy's priority to reduce country's dependence on the product sector and the sectors' domination by multi-industry conglomerates."

This is misleading in two respects:

(a) The original aim of the project was to enhance quality in the specific domestic market and, hence, make the country a more attractive location for international investments in other sectors. This increase of overall market quality is at the heart of reducing the country's dependence on the product sector.

(b) The context of the 2002 country strategy was a fear of "multi-industry conglomerates", including financial industrial groups which were expanding at that time. The OPER suggests that the local sponsor was one of these by describing it as "active in various sectors". However, since 2002, the local sponsor's activities have been dominated by a focus on one particular sector. Its interests in other sectors were relatively minor in comparison and did not constitute a multi-industry conglomerate.

Furthermore, the Bank's work with the local sponsor on the project has clearly assisted the Bank's broader reputation in the country and was critical in assisting the Bank to achieve its interest in the so-called "sustainable energy" initiative.

2. Key issues and lessons learned

"Strategic alliances, joint ventures and urgency"

The presumption of this recommendation appears to be that joint ventures are a substitute and often a preliminary to a merger. This oversimplifies and distorts the motivations in the case of the local sponsor and the foreign sponsor in 2002. Bank staff were in close contact with both parties. The JV proposal submitted to the Bank was appropriate at that time, and it would be presumptuous of the Bank to second-guess the JV parties in similar future situation.