Special Study

Transport Operations Policy Evaluation

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Evaluation Department
(EvD)

European Bank
for Reconstruction and Development

Contents

Abbreviations

AC	Audit Committee
AEOR	Annual Evaluation Overview Report
ATC	Assessment of Transition Challenges
CA	Central Asia
CEB	Central Europe & Baltic States
CS	Case Study
EBRD	European Bank for Reconstruction and Development
EEC	Eastern Europe and the Caucasus
EP	Environmental Policy (2003)
ESIA	Environmental and Social Impact Assessment
ESP	Environmental and Social Policy (2008)
EvD	EBRD's Independent Evaluation Department
IFRS	International Financial Reporting Standards
IRR	Internal Rate of Return
MDB	Multilateral Development Bank
MEI	Municipal & Environmental Infrastructure
OCE	Office of the Chief Ecnomist
OM	Operations Manual
OPER	Operation Performance Evaluation Report
RO	Resident Office
SEE	South Eastern Europe
SSF	Special Shareholder Fund
TC	Technical Cooperation
TI	Transition Impact
TIR	Transition Impact Retrospective
TOP	Transport Operations Policy

Executive summary

The subject of this Special Study is the evaluation of the Bank's Transport Operations Policy (TOP) – the first such exercise for the Bank's transport sector – with a coverage that includes all Bank policies from 1992, 1997 and 2005. Its aim is to analyse the overall TOP implementation and related performances, and to identify pertinent lessons and recommendations. The study's findings are underpinned by (i) detailed portfolio reviews (combined for all three policy vintages), (ii) a revisiting of earlier Evaluation department (EvD) evaluations of individual transport sector operations, and (iii) country visits coupled with some case study reviews as part of this evaluation exercise.

The EBRD's investment activities in the transport sector are substantial and at the end of 2009 comprised a portfolio of €4,513.3 million. The net cumulative business volume, including completed projects, totalled €6,881.7 million. By the end of 2009, the EBRD had signed 176 transport operations in total. The annual number has remained fairly steady over many years. In 2009, both the number and volume of new operations increased substantially in response to the financial crisis that emerged in 2008. In addition, over the period 1991-2009 approximately €102.2 million of technical cooperation (TC) grant funds were approved for 379 commitments supporting the Bank's investment operations in the transport sector.

With €535.2 million of business in the transport sector, Central Asia is lagging far behind other EBRD regions (€1,594.9 million in Russia and €1,915.3 million in south-eastern Europe). The road sector has received the most attention, with a third of the investment operations by number (58 out of 176), and 50 per cent of the total volume. As would be expected, there is an overwhelming predominance of loan operations compared with equity (accounting for only 5.5 per cent of the total investment volumes). Sovereign transactions have the largest share, however there has been a rise in non-sovereign transactions since 2006, predominantly in Russia.

From the total number of signed transport operations (176 by end 2009), 63 had already or were going to be subject to a fully fledged evaluation at the inception of this report. Almost all of EvD's earlier work dealt with operations from the first two TOP vintages, a reflection of the relatively long implementation periods faced in this sector. For this reason, the evaluation base was supplemented by rapid case study reviews from the TOP05 vintage. Eight cases were selected in the five main regions of the Bank's operations, covering the four transport modes and different investment types. Thus, the total evaluation sample increased to 71 and the evaluation quota (of investments signed) amounted to some 40 per cent.

A comparison of the evaluation results in the transport sector with the Bank's average rating scores as provided in the last Annual Evaluation Overview Report (AEOR) revealed the following efficiencies and deficiencies:

Additionality, fulfilment of objectives, and company financial performance are matching the Bank's average performance ratings, project financial performance and environmental performance/change perform better than the Bank's average, and transition impact, and Bank handling perform below the Bank's average.

In terms of the OECD- Development Assistance Criteria(DAC), the following sector ratings apply:

Overall Criteria (OECD-DAC System)	Overall Sector Rating (EvD)
Relevance	*Good*
Efficacy (Effectiveness)	*Good/Satisfactory*
Efficiency	*Satisfactory*
Impact/Sustainability	*Satisfactory*

The main recommendations for the Bank's next Transport Sector Policy include:

Recommendation 1:

The Bank needs to more realistically align overall sector reform expectations with individual infrastructure project expectations and deliverables. Since transition-related objectives are, to a large extent, country- or region-specific, the scope and content of the TOP *vis-à-vis* the related sector section in the respective country strategies would benefit from a better realignment and consolidation. Similarly, the role of and need for TC and policy dialogue in fostering transition processes in this particular sector deserves clearer recognition in both the sector policy and individual country strategies.

Recommendation 2:

The Bank needs to place more emphasis on multilateral development bank (MDB)/donor cooperation. While such cooperation on the corporate level is well heralded, this evaluation points to considerable scope for improvement at working levels and it should be monitored accordingly. The EBRD's Resident Offices (ROs) are seen to be in the lead here, since they are closest at the intervention points. This RO role would need to be clearly enshrined in the forthcoming TOP and also lead to commensurate resource allocations, apart from the usual project generation and monitoring tasks.

Recommendation 3:

In light of climate change implications, the new TOP should place more emphasis on environment and commensurate technologies. This includes the Bank's investments in private modes of transportation (for example, cars). Also, the environmental and social impact assessments of major public-private partnership (PPP) concession roads should always include a public sector alternative. As the Bank moves south and east to non-EU countries with their own standards, the Bank could provide greater guidance on what is meant by "EU Environmental Standards". The EBRD has an opportunity to add value and show leadership in this important sector.

Recommendation 4:

A more holistic or indeed "integrated" approach needs to be adopted by the Bank in infrastructure (transport) projects during project preparation. The Evaluation team is of the view that the TOP should adopt a more systemic approach to transport sector needs complementary to the project demand-driven paradigm. Closer and more effective cooperation and consultation with other MDBs and donors – as proposed above – would be one way to facilitate a more integrated planning approach.

Recommendation 5:

Accountability of sector policies needs strengthening. In order to elevate sector policies to the level of accountability instruments – with the forthcoming TOP in mind – they need to adopt a more programmatic approach rather than a "one-size-fits-all" approach, circumscribing the existing portfolio, pipeline and envisaged investment opportunities.

1. Introduction

The subject of this Special Study is the evaluation of the Bank's Transport Operations Policy (TOP) – the first such exercise for the Bank's transport sector – with a coverage that includes the policies from 1992, 1997 and 2005.[1] Its aim is to analyse the overall TOP implementation and related performances, and to identify pertinent lessons and recommendations. Apart from serving as an accountability and management quality instrument, this evaluation exercise is also intended to provide further information to the operation units currently drafting the next TOP, which succeeds that covering the period 2005 to 2008.

This report builds on the OECD-DAC evaluation principles[2] and the Bank's Evaluation Policy,[3] and its principal structure follows the most recent EvD policy evaluations.[4] More generally, it adopts a "bottom-up" project level view (which is described in Chapter 4), and a "top-down" focus by looking into the sector as a whole (as described in Chapter 5). Preceding these two analytical sections, Chapter 2 presents the TOPs and Chapter 3 provides a portfolio review of related investments. The two final chapters conclude on the overall rating (Chapter 6) and present issues and recommendations (Chapter 7) aimed at providing input and guidance for the new policy currently under consideration.

The study's findings are underpinned by (i) detailed portfolio reviews (combined for all three policy vintages), (ii) a revisiting of earlier EvD evaluations of individual transport sector operations, and (iii) country visits coupled with some case study reviews as part of this evaluation exercise.[5] Regarding the latter, and representing the diversity of the Bank's regional categorisation of its countries of operations, a sample of countries was identified comprising: Albania for south-eastern Europe (SEE), Croatia for central Europe and the Baltic states (CEB), Georgia for eastern Europe and the Caucasus (EEC), Russia, and Tajikistan for Central Asia (CA) – together referred to as the "sample countries".

The evaluation process was carried out by EvD staff members supported by external sector experts commonly referred to as the "Evaluation team".[6] The process covered the full range of the EBRD's operational undertakings, notably the key intervention instruments: investment (loan, equity) and technical cooperation (TC) operations; the study also focuses on policy dialogue activities, a third intervention tool. Board documents in the form of project approvals, sector-related policies and country strategies were studied, as well as relevant publications by the Bank's Office of the Chief Economist (OCE). It also included web-based research on pertinent issues by other relevant parties.

[1] http://www.ebrd.com/about/policies/sector/transpor.htm; BDS92-19, BDS97-8, and BDS04-72.
[2] These include: relevance, efficiency, effectiveness, impact and sustainability; OCDE/GD(91)208: Principles of Evaluation of Development Assistance, OECD, Paris 1991 http://www.oecd.org/dataoecd/21/41/35343400.pdf
[3] http://www.ebrd.com/projects/eval/showcase/evalpolicy.pdf
[4] Including the study on Municipal Environment and Infrastructure (SWGS10-163), on Agribusiness (SGS08-149), and on the Telecom sector; (SGS06-163).
[5] Given the relatively longer gestation periods of transport sector operations (Section 5.3.2), previous individual transport project evaluations (mainly in the form of in-depth Operation Performance Evaluation Reviews or OPERs) were predominantly conceived under the 1992 and 1997 policy vintages. In order to complement these with evaluation insights from TOP 2005 operations (albeit not all yet ready for fully fledged *ex-post* evaluation), a number of case studies were included under this evaluation and will be specified later.
[6] See the Preface to this report for specifics.

2. Transport Operations Policy ("TOP")

The rationale of sector policies in the Bank, more generally, is to set out the principal strategic and operational role of the Bank in the relevant sector and to establish an overall framework for the Bank's activities. Appendix 1 illustrates the contents of the three TOPs in greater detail while the section below provides a brief summary.

2. 1 TOP in the 90s (1992 and 1997)

With a view to emphasising a "balanced development of the transport system" and striving for "a common policy agenda with other international institutions" the TOP92[7] key operating principles included:

- a comprehensive review of the transport sector
- the promotion of a competitive market principle
- the prerogative of economic priorities and technical efficiency
- the fostering of regional integration and enhancement of the environment.

Subscribing to the same guiding elements and building on the respective experiences collected, the TOP97 policy document more prominently emphasises the Bank's transition mandate and defines as its guiding principles, apart from financial and administrative considerations, a trilogy of principal criteria: *transition impact, additionality* and *sound banking principles*.[8] The transition impact (TI) concept, as presently defined by the Bank (that is, distinguishing *microeconomic* projects from *macroeconomic* sector/country levels and differentiating between seven TI dimensions), only became effective after the TOP97 was formulated.

2.2 Current TOP (2005)

Underscoring the above-noted notion of flexibility, the current policy emphasises that it is *"not a rigid lending programme, but sets out guidelines within which the Bank expects to respond to market demands"* by striving for, in its own words: de-monopolisation, decentralisation and privatisation. In fact, the Policy's flexibility goes so far as to permit, albeit under exceptional (and unspecified) circumstances, the eligibility of projects that fall outside its provisions. The general guiding principles are to:

- facilitate productive, competitive private sector activity (this may be by direct finance or by providing the necessary transport infrastructure to allow for such activities)
- mobilise foreign and domestic capital and support its activities
- invest in infrastructure where it is necessary to support private and entrepreneurial activities
- promote environmentally sound and sustainable development across the full range of its activities.[9]

[7] Transport Operations Policy (BDS92-19 (Final)) and Transport Operations Policy Background Paper (BDS92-7 (Final)) both of March 1992.
[8] Transport Operations Policy (Section 5.1.2, BDS97-8 (Final)) of March 1997.
[9] Transport Operations Policy (Section 1, BDS04-72 (Final)).

2.3 The TOP's sub-sectoral scope

Illustrating the varying TOP coverage over time, the TOP92 covered: roads and road transport; railways, aviation, ports; and urban transport and environmental infrastructure. The TOP97 departs from this more comprehensive or universal coverage and makes a differentiation: *"transport infrastructure is taken here to include airports and air navigation, but to exclude airlines; to include ports, but to exclude shipping; to include railway network and train operating assets, but exclude manufacturing [for instance, wagon, sleeper, or signalling equipment production]".* Shipping was part of the Property, Tourism, and Shipping team when the 92 and 97 TOPs were prepared and transferred to Transport in 2003/04. Since regarded as a separate field of operation, the shipping sub-sector was governed by its own policy.[10] Lastly, the TOP05 once more added shipping and ship building (including inland waterways), but excluded urban transport and also agribusiness- and oil/gas pipeline-related transportation.

Similarly, the TOP since 2005 has excluded urban *transport activities*, such as municipal roads and bridges, urban public transport (bus, trolleybus or tram) as well as activities by local authorities and local transport companies to improve regulatory, institutional, operational and financial performance. The municipal character of the clients of such operations, as well as the expected impact on a local level, suggests that such projects are rather part of municipal strategies. Consequently, it was considered that they can be better (or more efficiently) handled by the Bank's MEI team. It deserves also noting that the MEI team was created from the original Transport and Environmental Infrastructure (TEI) unit.

2.4 TOP in the light of the Bank's mandate

Transition in the transport sector is widely understood as the introduction of incentives and institutions to develop corporate structures and commercialise the provision of services. These include efficient procurement practices and private sector participation to meet customer needs, competition *in* the market or *for* the market and the development of regulatory institutions to protect consumers and investors.[11]

The TOP flexibility noted above also needs to be considered in the light of the development dynamics of the Bank's countries of operations, namely its transition status, which changes considerably over time. Therefore, the TOP must be continuously reinterpreted, and the operations and their underlying covenants fine-tuned, if the Bank wishes to remain at the "cutting edge".

2.5 Evaluation challenges and constraints

Beyond the usual attribution and counterfactual constraints concerning outcomes and impacts, this evaluation faced a number of challenges and constraints, notably including:

- The evaluation subject, the TOP, in a sense, is elusive. The degree of flexibility built into the TOP allows the Bank Management to venture in almost any direction it can reasonably justify. While this can be regarded as desirable for a predominantly private sector-oriented institution in a fast-moving and risky business environment, it does raise the question of why, then, a policy is required if it lacks comprehensiveness (in terms of not all sub-sectors being covered for administrative or procedural reasons) and obligatory directions (given the great flexibility and provisioning for exceptions as noted in Section 2.2). In view of this, project TOP compliance is

[10] BDS94-153 and BDS01-054.
[11] Assessment of Transition Challenges by Sector, April 2005 (CS/FO/05-10, Section 4.13).

almost a given.

- TOPs are not country-specific; Country Strategies, however, contain TOP sections. It is, therefore, not readily possible to determine the degree to which the policy meets the transport needs of specific countries (as opposed to meeting individual project needs) and, thus, how well individual projects conceived under a policy are scoring against a country's transport priorities. Given the diversity of the Bank's countries of operations and its private sector project orientation, it might even be questionable whether an overarching transport sector strategy is adding much value beyond what a transport sector section in the respective country strategies supposedly requires.
- The realm of the transport sector is very wide and diversified. Typically one distinguishes among the main transport modes: rail, road, water, air. Each of these modes, again, covers a rather wide range, with the potential for overlapping between adjacent sectors.[12] On the other hand, Section 2.3 points to a period where shipping was, policy-wise, dealt with under a separate sub-sector policy. Thus, the wide boundaries not only pose a difficulty for policy formulation, but equally for a synthesis evaluation as required under this study.

The above notes draw attention to the fact that the *evaluability* of the TOPs under review faces limitations. In order to strengthen this aspect the Bank may consider introducing a mechanism of formal monitoring and self-evaluation of future TOPs by the policy-responsible operation unit (possibly extending to sector policies in general) and by doing so clearly formulate requirements that can be monitored and apply to the sector policy instrument in general (Section 7.5).

3. The Bank's activities in the transport sector

3.1 Investment portfolio

The EBRD's investment activities in the transport sector are substantial and at the end of 2009 comprised a portfolio of €4,513.3 million. The net cumulative business volume, including completed projects, totalled €6,881.7 million. By the end of 2009, the EBRD had signed 176 transport operations in total. The annual number has remained fairly steady over many years. In 2009, both the number and volume of new operations increased substantially in response to the financial crisis that emerged in 2008.

3.1.1 Number of operations per region and per sub-sector

The largest number of signed operations has been in central Europe and the Baltic states (CEB),[13] and this has been the case since the start of the Bank's operations: 28 per cent of the 176 signed investment operations were in CEB, 23 per cent in south-eastern Europe (SEE), 22 per cent in eastern Europe and Caucasus (EEC) and 16 per cent in Russia. Operations in Central Asia started later than in other regions, and now account for 9 per cent of the total. There are several "regional" projects where the Bank supports regional initiatives such as development of Trans-European-Network (TEN) Corridors, Transport Corridor Europe-Caucasus-Asia (TRACECA) and Central Asia Regional Economic Cooperation (CAREC) In terms

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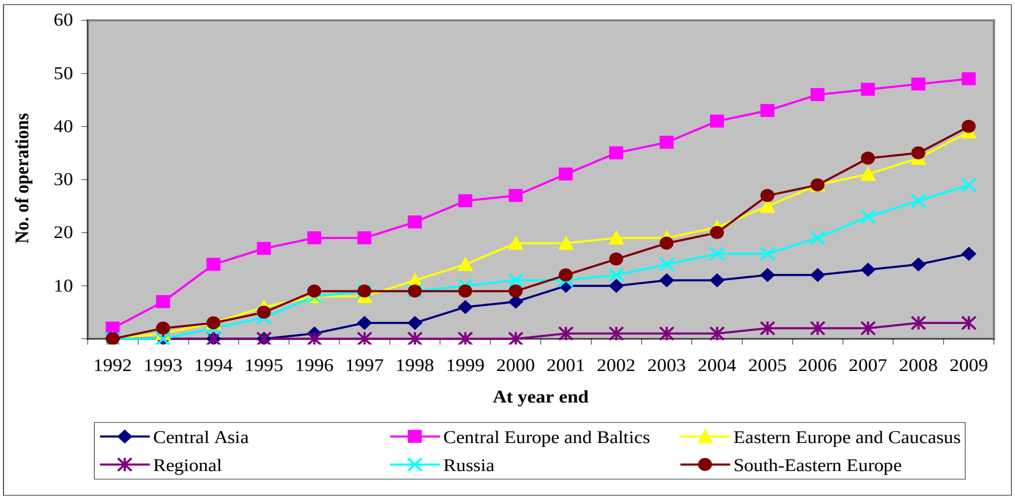
[12] Theoretically, investing in an agricultural grain terminal at a port site served by container ships, road and rail transportation could fall under the purview of several sector units within the Bank depending on the main project focus, prime client relationship or others, as will be highlighted later.

[13] Including Croatia.

of the number of signed operations, the top investee countries have been Russia (29 operations, or 16 per cent), Ukraine (19, or 11 per cent) and Croatia (12, or 7 per cent). Chart 1 below shows the cumulative number of signed operations by region.

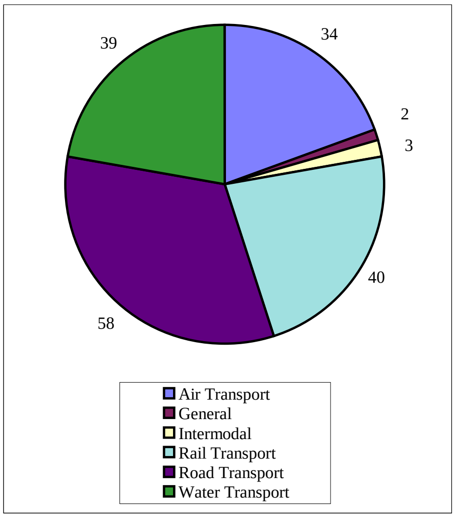
Chart 1: Cumulative number of signed transport operations by region

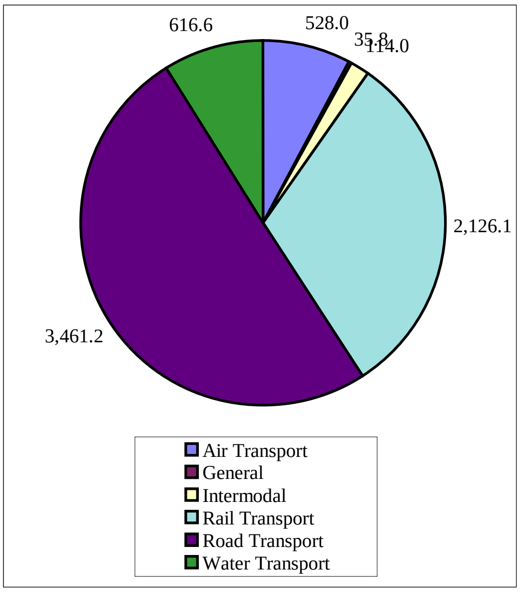


Source: EBRD Data Warehouse.

A breakdown by sector type (Charts 2.1 and 2.2) shows that around a third of the operations (58) have been in the road sector. There have been 40 rail projects, 39 water transport projects, 34 air transport projects, three intermodal and logistics projects and two operations that cut across sectors. The breakdown by product type shows that 164 (or over 90 per cent) of the 176 signed operations have involved debt only, seven equity only and five both debt and equity. Given that there is a heavy public sector presence in the sector, it is not surprising to see a low level of equity investments.

Chart 2.1: Number of operations by sub-sector[14] Chart 2.2: Volume by sub-sector (MEUR)





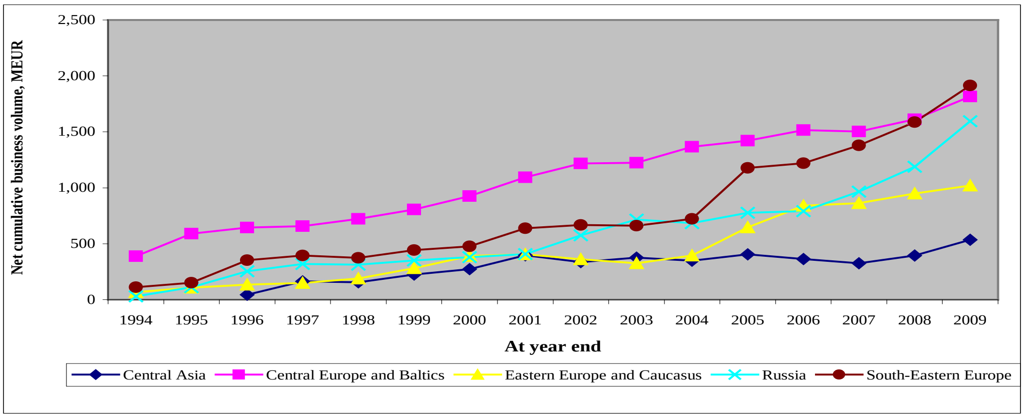
Source: EBRD Data Warehouse.

[14] It is to be noted that where this report refers to the generic transport modes (that is, rail, water, air and road), in the Bank's context this needs to be read, for instance, as "ports and shipping" (for "water"), "aviation" (for "air") in accordance with the Bank-internal sub-sectoral structuring and terminology.

3.1.2 Volume of operations per region and per sub-sector

Annual business volume was €1,219.1 million in 2009, an increase of 85 per cent over the 2008 figure of €660.3 million. It rose fairly steadily until 2008 from a low point in 1997-8, although during that period there have been individual years when the volume was below trend. Because the transport sector portfolio tends to contain mostly large projects, volumes are prone to relatively large fluctuations from one year to the next. The average size of stand-alone transport investments is just below €40 million,[15] compared with a Bank average in 2008 of €24.2 million for stand-alone investments.

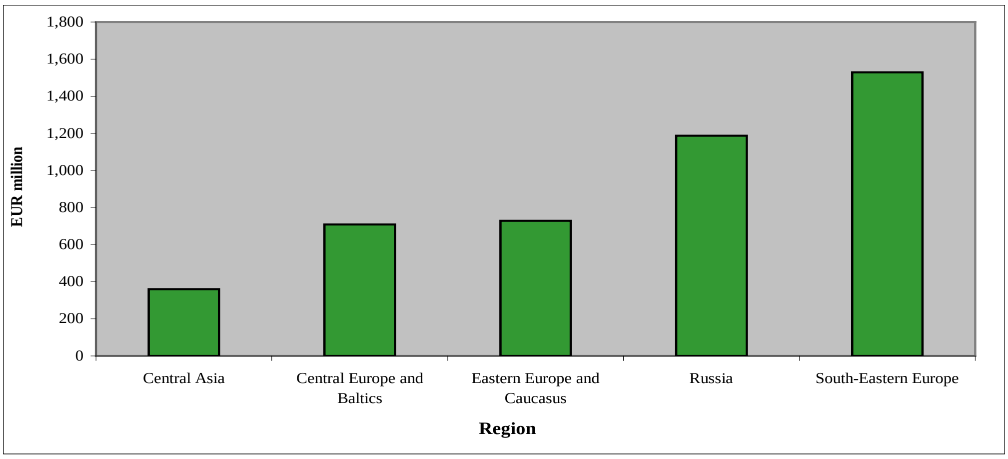
Chart 3: Cumulative volume of signed transport operations[16]



Source: EBRD Data Warehouse.

As at December 2009 the Bank had signed around €535.2 million of business in the transport sector in Central Asia, €1,815.6 million in central Europe and the Baltic states, €1,020.8 million in eastern Europe and Caucasus, €1,594.9 million in Russia and €1,915.3 million in south-eastern Europe (the figures shown in Chart 3 include regional projects).

Chart 4: Transport portfolio at December 2009, by region



Source: EBRD Data Warehouse.

[15] Seeing the highest average in the Russia region (€53.6 million) and the lowest in ECC (€25.7 million); in all regions the average project size has grown since 2004, sharply so in the case of SEE.

[16] Owing to constraints in the database, some sets of data are available only from 1994, while others are available for 1991-93.

Chart 4 shows that in the current active portfolio, the region of greatest focus is south-eastern Europe. Central Europe and the Baltic states, which has had the greatest volume of cumulative investment over the years, has fallen into fourth place in the current portfolio, because of the increased concentration on less advanced transition countries in recent years and because of substantive repayments. Central Asia still has the smallest share of the portfolio.

Table 1 below illustrates both the cumulative business volume and the ongoing projects by region at December 2009. It shows that the proportion of the current portfolio in CEB is smaller than the proportion of the cumulative business volume (that is, including completed operations). This difference is made up by a higher proportion of the portfolio in Russia and SEE. Central Asia and EEC have a similar proportion of investment in both the cumulative business volume and the outstanding portfolio.

Table 1: December 2009 transport sector cumulative volume and portfolio

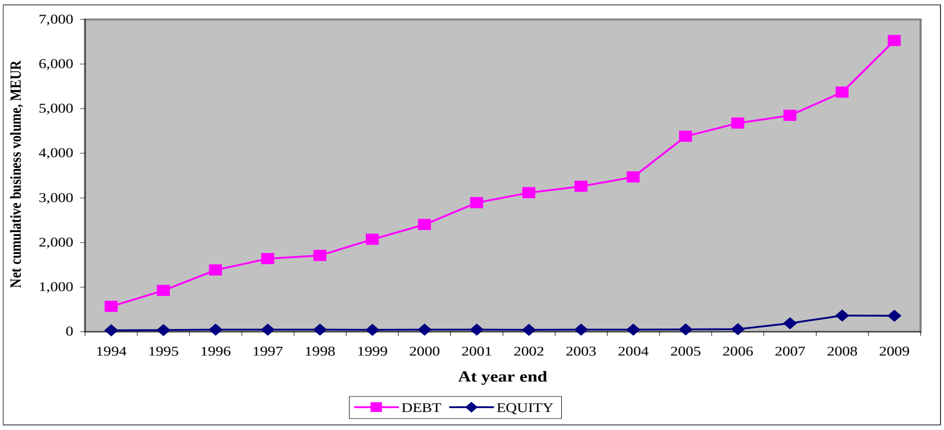
Region	Cumulative business volume (to December 2009)		Portfolio (at December 2009)	
	(€mm)	(% of total)	(€mm)	(% of total)
Central Asia	535.1	8	360.4	8
Central Europe and Baltic states	1,815.6	26	708.7	16
Eastern Europe and Caucasus	1,020.8	15	727.9	16
Russia	1,594.9	23	1,187.6	26
South-eastern Europe	1,915.3	28	1,528.7	34
Total	6,881.7	100	4,513.3	100

Source: EBRD Data Warehouse.

3.1.3 *Volume of operations per "investment type" and transport mode*

There is an overwhelming predominance of loan operations compared with equity. Total loan volumes reached €6,523.3 million by 2009, while equity accounted for only €358.4 million, thus representing only 5.5 per cent. However, a marked increase in equity operations is visible since the years 2005-06.

Chart 5: Cumulative transport volumes by product type

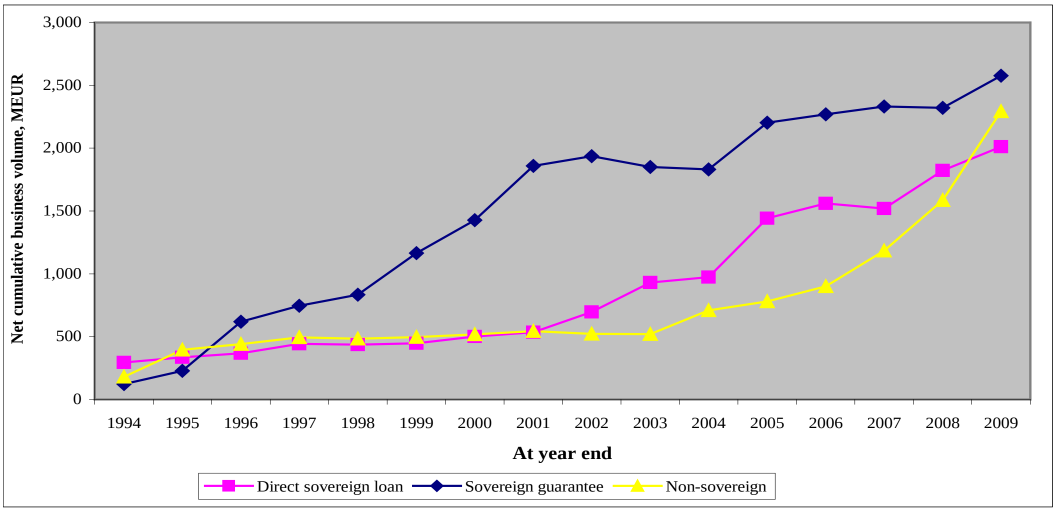


Source: EBRD Data Warehouse.

By sovereign risk type

Chart 6 below shows what proportion of investment consisted of direct sovereign loans, sovereign-guaranteed loans and non-sovereign loans or equity. **Sovereign-guaranteed loans have been the main investment vehicle since the mid-1990s**, but both non-sovereign operations and direct sovereign loans have increased in recent years. The increase in sovereign loans has mainly been in SEE and EEC since 2004. Russia also saw an increase in the period 2003-06, but this has now been reduced again. The rise in non-sovereign transactions since 2006 has been predominantly in Russia, which ceased all sovereign borrowing.[17]

Chart 6: Cumulative transport volumes by sovereign risk type



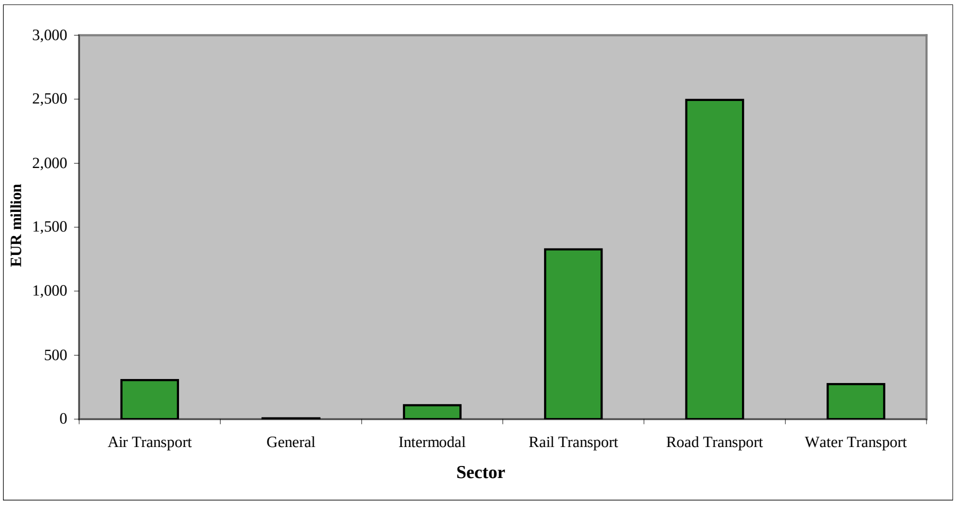
Source: EBRD Data Warehouse.

By transport mode

The charts in the preceding section illustrate the growth in cumulative volumes, which do not necessarily represent the current condition of the portfolio. **At the end of December 2009** the Bank's aggregate portfolio in the transport sector stood at €4,513.3 million. Chart 7 shows that the **"Road" transport mode accounted for 50 per cent of the total volume**, followed by "Rail" (31 per cent), "Water" (9 per cent) and "Air" (8 per cent), with the remaining (3 per cent) allocated to "inter-modal" or "general" operations.

[17] The Russia sovereign business in 2003 was largely accounted for by one substantial road project. The decision of the Russian government to cease sovereign borrowing was in mid-2004.

Chart 7: Transport portfolio at December 2009, by industry sector



Source: EBRD Data Warehouse.

3.2 Technical cooperation (TC) operations

Around 1996 the Bank took the decision to mainly utilise scarce TC funding – until 2008 mostly available from external (bilateral and multilateral donor) sources – in connection with investment operations (as opposed to so-called "free-standing" TC). As such, TCs serve the preparation or implementation process of an investment, often connected to the achievement of the desired TI. However, and taking into account the Bank's overall diverse coverage of sectors, investment instruments and operation countries served, TC utilisation is not distributed evenly. The transport sector is a comparatively low consumer of TC within the Bank. With an amount of €8.6 million in 2009, this sector accounted for some 8 per cent of all TC financing provided by donors in the same year.[18]

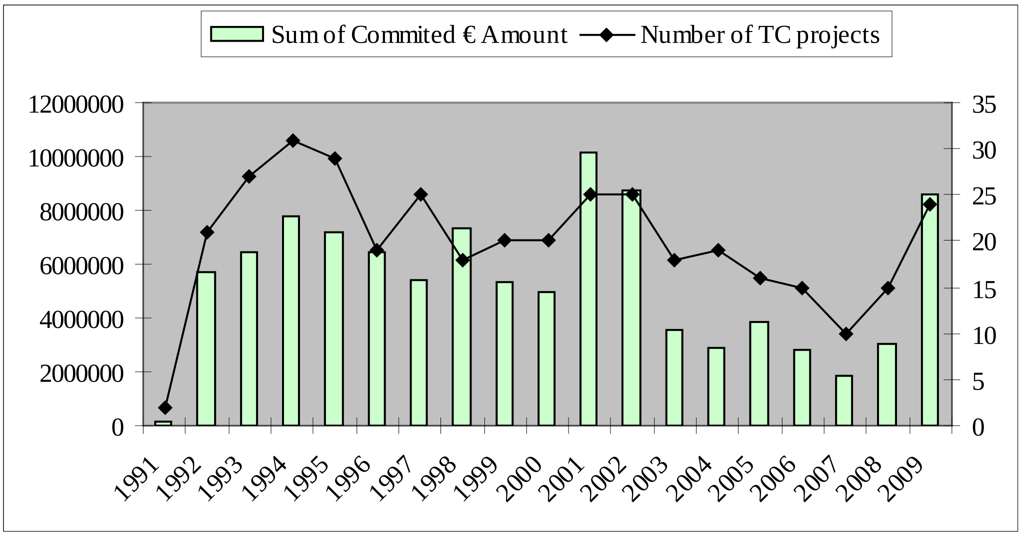
3.2.1 TCs in the transport sector

Similarly to the investments above, Chart 8 and Table 2 show the number and volume of TC commitments per year between 1991 and 2009 by year of funding approval and respective geographical distributions. Over the period 1991-2009 approximately €102.2 million of TC expenditure was approved for 379 commitments.

It can be seen from below that the number of TC assignments was highest in the early 1990s and then fell until 2007, although there was an upturn around 2001-04. In the last two years both the number and volume of TC have increased sharply. The average size of a TC project in the transport sector over the period is approximately €280,000 while a "boom year" in TC volume commitment appears to trigger a much larger individual TC project size as well. This is shown in the year 2001, when the average commitment size exceeded € 400,000.

[18] A similar level to "power and energy" (€6.7 million). "Financial institutions" and "MEI" business groups are the prime recipients of donor-funded TC for their banking operations, with €29 million and €18 million of commitments in 2009, respectively. Source: *EBRD Donor Report 2010*.

Chart 8: Number and volume of TC commitments per year



Source: EBRD Data Warehouse.

From a regional perspective, the lion's share of the committed TC volume – that is, some 65 per cent – targeted Central Asia, the Caucasus and south-eastern Europe. This is not surprising, given the greater need for project preparation as well as sector reform work that is characteristic of the less transitionally advanced countries. Further analysis of the geographic distribution of commitments shows that the number of TC projects approved in SEE has been quite high in recent years, while the number in CEB has fallen. Apart from the greater transition challenges in SEE this could also point to different types of dominating investment operations that are particularly prone to attracting (or depending on) accompanying TC work. A closer look at the 22 TC projects committed in the last five years in the SEE under the label "Advisory work" shows they are, for example, aimed at supporting the Bank's investments in the Macedonian Regional and Local Roads Programme, and the railway reform in Serbia, to name just a few.

Another interesting observation is the high share that the Central Asian region is accounting for in the TC work (19 per cent of the TC volume and 15 per cent in numbers), even though the cumulative business volume in this region was shown to be just 8 per cent. Conversely, Russia, which has a share of 23 per cent in terms of business volume in the transport sector, accounts for only 11 per cent of TC (in volume). This is mainly attributed to the fact that Russia has a comparatively greater amount of private sector business for which the Bank's bilateral TC resources are not available.

Table 2: Geographical distribution of TC commitments 1991-2009

By regional category	TC commitments		[Table 1 references: investment volume ratios %]
	By number (%)	By volume (%)	
Central Asia	15	19	[8]
Central Europe and Baltic states	17	15	[26]
Eastern Europe and Caucasus	18	17	[15]
Regional	11	10	[N/A]
Russia	13	11	[23]
South-eastern Europe	26	29	[28]
Total	100	100	[-]

Source: EBRD Data Warehouse.

3.2.2 TC funding

As for other Bank sector operations, donor support originates from either bilateral or multilateral donors or funds. Out of the overall amount of €102.2 for the transport sector, a sum of €98.5 million originates from 12 different sources. Almost 50 per cent originates from the EU Commission and more specifically from the EU-EBRD Cooperation Agreement, Bangkok Facility (TACIS programme). Japan and the Netherlands are the biggest bilateral donors while the Bank's Shareholder Special Fund (SSF) appears to have quickly evolved as a major funding source for TC work in this sector.[19] Table 3 illustrates those donors that have contributed commitments of over €1 million since the Bank's inauguration.

Table 3: Main donor/funding sources for transport TC commitments 1991-2009

#	Donor source	Commitment amount (€)	Per cent (%)
1	EU	47,376,755	48
2	Multi-donor	12,442,878	13
3	Japan	7,580,881	8
4	Netherlands	7,136,835	7
5	Canada	6,546,570	7
6	SSF	5,025,134	5
7	France	3,859,942	4
8	UK	2,094,897	2
9	USA	1,985,782	2
10	Germany	1,705,596	2
11	Sweden	1,474,058	1
12	Spain	1,229,149	1
	TOTAL[20]	98,458,477	100

Source: EBRD Data Warehouse.

[19] In connection with the proposal to allocate part of the 2007 net income for "other purposes" pursuant to Article 36.1 of the Agreement Establishing the Bank ("the Agreement"), the Bank established in 2008 a new Special Fund, to be called the EBRD Shareholder Special Fund, in accordance with the provisions of Article 18 of the Agreement (BDS08-035).

[20] To reiterate, the difference between this total and the earlier stated overall amount of €102.2 (that is, €3.7), is composed by several smaller amounts provided by other funding sources.

3.3 Policy dialogue

As highlighted in the introduction, policy dialogue is regarded by the Bank as an important TOP instrument. Policy dialogue is very actively pursued through the Bank's Resident Office in Moscow with commensurate organisational arrangements, and benefits the transport as well as the municipal and environmental infrastructure (MEI) sectors.[21] The geographical radius for this arrangement appears mainly confined to Russia,while for the Central Asia and Western Balkan countries such dialogue is spearheaded by the Transport team at the Bank's Headquarters.

From a more general perspective, and relevant to this portfolio overview section, it should be highlighted that the nature of policy dialogue doesn't easily lend itself to statistical analyses. Except for those elements of policy dialogue that translate into loan covenants, no formal reporting structures (and until recently, no corresponding organisational arrangements) have been developed by the Bank in this respect.[22] Although claims by operation staff of intensive policy dialogue are clearly plausible and credible, such claims are not evaluable from a global position since, for instance, they are generally not formally recorded, cannot be traced and attributed to an agreed overall agenda between the Bank and key stakeholders, and normally are not subject to specific timeframes.

The abovementioned transport policy dialogue instrument and the transport portfolio composition in general are evidently closely linked to pertinent "enabling environment" framework conditions: exploitation of opportunities, mitigation of constraints and risks. The potential for transport investments in the Bank's countries of operations, given the legacy of past investment and maintenance pattern, is ubiquitous. But the Bank's ability to service the needs faces limitations, some of which, being particularly relevant for the sector, are highlighted further below.

3.4 Portfolio interpretation summary

With €535.16 million of business in the transport sector, Central Asia is lagging far behind other EBRD regions (€1,594.9 million in Russia and €1,915.3 million in south-eastern Europe). The road sector has received the most attention, with a third of the investment operations by number (58 out of 176) and 50 per cent of the total volume. As would be expected, there is an overwhelming predominance of loan operations compared with equity (accounting for only 5.5 per cent of the total investment volumes). And, the sovereign transactions have the largest share, however there has been a rise in non-sovereign transactions since 2006, predominantly in Russia.

The evolvement of the transport investment portfolio needs to be interpreted in its proper context. For instance, the lesser share of air mode *vis-à-vis* road and rail sub-sectors partly reflects the former's higher risk profile apart from the fact that there are fewer numbers of, for instance, airport project opportunities *vis-à-vis* an abundance of road project opportunities.

It is also worth noting other constraining factors influencing the shape and composition of the transport investment portfolio, some of them with long-lasting implications for Bank investments, others more of a temporary nature. In the following Matrix 1 some of these factors have been collated as they emerged

[21] The Evaluation team is not aware of corresponding Bank arrangements and dedicated initiatives for other regions and sectors, nor of general framework guidance or training tools supporting related activities.
[22] However, it is expected that with the recently announced changes in the allocation of responsibilities in the ExCom and the appointment of a Vice President for Operational Policies, effective 1 September 2010, the policy dialogue instrument will gain enhanced status and more consolidated focus.

during the course of this evaluation; the matrix does not seek to be comprehensive or complete, but to be illustrative.

Matrix 1: Selection of constraints and limitations to EBRD transport operations

Region/country Topic	*CEB*	*RF*	*CA*	*SEE*	*CEE*
EBRD, Article 1[23]			Uzbekistan Turkmenistan		Belarus
Bank procurement rules (PP&Rs)[24]		Russia			
Issues with integrity and corporate governance	✓	✓✓	✓✓	✓	✓✓
Political unrest, military interventions			Uzbekistan Kyrgyz Republic [2006, 2010]		Georgia [2008]
IMF limitations set for foreign borrowing[25]			Kyrgyz Republic Tajikistan		Moldova
Substantial delay in sector reform			e.g. Kazakhstan (Railway)	Albania	
Air transportation		Siberian over-flight issue.26			
Limited authority of regional/local admin bodies to borrow		✓✓			
Lack of legal/regulatory framework for PPP		✓	✓✓	✓	✓✓

Source: EvD.

Coming back to the constraining factors presented above, it becomes clear why the **transport portfolio in Central Asia is lagging behind the dynamics of other regions.**[27] Apart from Article 1 considerations, which pose notable challenges for countries such as Turkmenistan and Uzbekistan, the presence of borrowing caps imposed under International Monetary Fund (IMF) support for Tajikistan and the Kyrgyz Republic (requiring new debt at concession rates that the Bank cannot provide under its Agreement) are factually limiting the Bank's sovereign lending ability for these countries, bearing in mind that private sector opportunities in this respect are almost non-existent. This precludes state-sector operations by the EBRD unless it provides funds in conjunction with another concessional lender in the form of "blended" rates. Some governments are reluctant or refuse to accept blending of EBRD loans with grants or

[23] Required assessment of "democracy" compliance (acc. to Article 1 of the Agreement Establishing the Bank).
[24] The Procurement Policies and Rules (PP&Rs) of the Bank requiring its public sector clients, in principal, *"to obtain goods, works and services through open tendering procedures"* (PP&Rs, Section 3) without eligibility constraints; this conflicts sometimes with domestic procurement legislation.
[25] These require any financing to be "concessional", which in turn conflicts with the EBRD's "sound banking" principles.
[26] The Russian government has approved this agreement, but has linked its actual implementation to the conclusion of the World Trade Organization (WTO) accession negotiations, and due to the delay with this accession, the problem remains.
[27] Operations have been stalling since 2001 at the rate of 10-12 operations per year, amounting to a total volume of around €400 million.

concessional lending from other lenders and expect the EBRD to offer concessional funding as well.

Interestingly, something that initially appears to be a constraint might in due course become an opportunity, as the example of non-sovereign transactions in Russia shows. In light of the Russian government's policy to not provide sovereign guarantees for infrastructure development[28] the amount of transactions of this type almost doubled from 2006 to 2007. At the same time, Russian non-sovereign transport projects as a share of the EBRD's overall non-sovereign transport projects increased dramatically and has accounted for more than 50 per cent ever since.

Another important stimulus and driver for both the said development and the transition effects are apparently the demand- and supply-driven forces emanating from the European market with attendant activities by the EU and its affiliate institutions. Several of the Bank's transport projects are forming part of, or are complementing, larger EU initiatives, such as the EU Trans-European Networks (TEN)programmes.

4. Project-level performance

As mentioned earlier, this chapter adopts the "bottom-up" approach by looking into the evaluation results of individual operations (investment and TC). More specifically, the following sections present a synthesis of the 71 individual sample results obtained by using the same rating criteria as applied for OPERs and XMRAs.[29]

In order to show these results in a Bank-wide perspective, the individual rating assignments are then compared with benchmarks by using their respective equivalents contained in Appendix 8 of EvD's Annual Evaluation Overview Report (AEOR) for 2010 (BDS10-143(F)) and by accepting a reasonable plus/minus percentage point deviation. The project's sample "overall performance" is concluded in Section 4.2.7. These results, together with those emanating from Chapter 5, converted and adapted to the bigger picture framed by the OECD-DAC criteria, are described in Table 20 at the end of Chapter 6.

4.1 Project evaluation coverage and the case study sample (CS)

As noted earlier, the Bank had signed 176 transport operations by end 2009. At the inception of this report, 61 fully fledged evaluation reports, in the form of either an OPER or an XMRA, covering specific transport operations were available, and two more XMRAs were works-in-progress. Thus, the evaluation quota on investments (excluding TC-OPERs and Special Studies, which might have captured some transport related aspects) amounted to some 35 per cent. The Evaluation team was confronted with the fact that almost all of EvD's earlier work had dealt with operations from the first two TOP vintages, a reflection of the relatively long implementation periods faced in this sector. The TOP05 had seen only one OPER and one XMRA, which were at the time work in progress.

This is why the Evaluation team has decided to supplement the evaluation base by conducting some rapid case study reviews (CS) based on an XMRA-compliant assessment template. The selection of the

[28] More specifically, the strategic direction and priorities of the Bank in the transport sector represent a combination of non-sovereign projects with state-owned corporate entities benefiting from identifiable and regular revenue streams; non-sovereign projects with support from local authorities or development initiatives such as the Russian Investment Fund; PPP solutions where such structuring is appropriate and purely private projects (CS Russia 2006, Section 3.1.2).

[29] These comprise the following individual evaluation categories: "fulfilment of objectives", "additionality", "Project financial performance" and "Company financial performance", the Bank's performance (which combines a rating for the operational "Bank handling" as well as rating for its "investment performance"). Finally, "transition impact", "environmental performance" and "environmental change" are rated individually.

individual case studies was made from the total of 59 operations that had, at the time, been approved under the TOP05 and which were considered by the Transport team to be sufficiently mature for said case study reviews. In addition to a given XMRA for Tbilisi Airport, which was required within EvD's 2009 work programme anyway, seven candidates were chosen from the remaining population. The final selection was made with a view to covering the five main regions of the Bank's operations and the four main transport modes, as well as different investment types. The specifics of the case studies are depicted in Table 4 below.

Table 4: Case study sample (CS)

Country	Transport mode	Investment type (sector)	Amount (million €)	Bank region	Year of Board approval
Albania	Air	Debt (Private)	31.6	SEE	2005/2008
Albania	Water	Debt (State)	14.0	SEE	2007
Croatia	Water	Debt (State)	26.5	CEB	2005
Croatia	Road	Debt (State)	50.0	CEB	2006
Georgia	Air	Debt (Private)	22.7	EEC	2006
Tajikistan	Road	Debt (State)	2.9	CA	2007
Russia	Railways	Debt (Private)	13.4	RF	2006
Russia	Railways	Equity (Private)	31.9	RF	2008
8 operations	4 sub-sectors	Debt and equity	€193m	5 regions	2005-08

Source: EvD.

While the CS form part of the overall evaluation population analysed below, these reviews are not discussed in detail in this report[30] since, except for the one XMRA case mentioned, they have not (yet) fully met the eligibility criteria for *ex-post* evaluation as prescribed in the Bank's Evaluation Policy (that is, "early maturity" after 18 months after the last disbursement). All rating results, albeit to be considered as preliminary, are presented in Appendix 2 to this report. Table 5 below describes the population of 71 evaluation cases used for the project-level performance analysis and representing an increased evaluation quota from 35 to 40 per cent of the signed investment operations.

Table 5: Distribution of evaluation population

Region	*TOP92*			*TOP97*			*TOP05*			Totals
	OPER	XMRA	CS	OPER	XMRA	CS	OPER	XMRA	CS	
CA	1	-	-	2	4	-	-	-	1	8
CEB	7	2	-	2	8	-	-	-	2	21
EEC	5	1	-	5	6	-	-	1		18
RF	5	2	-	2	2	-	1	-	2	14
SEE	1	-	-	1	4	-	-	1	2	9
Reg.	-	-	-	1	-	-	-	-	-	1
Totals	19	5	-	13	24	-	1	2	7	71
		24			*37*			*10*		

Source: EvD.

[30] In addition, and the same is true for the Country Reports that were elaborated on the joint field visits, these documents have not been subjected to an internal Bank peer-review process and, thus, only serve as an input for this report on a selective basis. They are nevertheless available from the EvD files.

4.2 Summary of investment operation evaluation results

To clarify the computations for each rating category applied in the following tables: not all evaluation reports assigned ratings to all dimensions. Therefore each of the following tables shows on top the number of cases where "no rating" was found. This can be explained either by the respective evaluations being carried out during the earlier years of the Bank's existence when no evaluation policy had yet been formulated or lacked specific guidance, by lack of relevance under specific circumstances, or simply by omission. In order to avoid a distorted interpretation of the results, the percentage figures refer to the rated cases only (that is, unrated cases were excluded from the denominator).

4.2.1 Additionality

The Bank's additionality in projects is verified in terms of whether the Bank provides financing that could not be mobilised on the same terms from markets and/or whether the Bank can influence the design and functioning of a project to secure transition impact. Results of the evaluation sample are shown in Table 6 below.

Table 6: Additionality ratings

Ratings*	Additionality	
	Nos.	Per cent
Not rated	-	-
Fully verified	51	72 %
Largely verified	11	15 %
Partly verified	8	11 %
Not verified	1	1 %
Summary ratings	71	

* The previously assigned ratings High, Medium, and Low are here interpreted as Fully verified, Largely verified and Partly verified, respectively.

The Bank's overall *additionality* is rated as "*Good*" overall, with 87 per cent of operations evaluated as being "additional in all respects" or "at large" (AEOR comparator: 89 per cent). There is only one case for which the additionality could not be verified, which is an early operation for a rail project in central Europe and the Baltic states; this project, however, was only a small part of large IFI lending package.

4.2.2 Fulfilment of objectives

Based on EvD verified assessments in the form of OPERs, XMRAs and the more recent case studies, the distribution of performance ratings for the 71 projects is as follows:

Table 7: Fulfilment of objectives ratings

Ratings	Fulfilment of objectives	
	Nos.	Per cent
No rating provided	*1*	*1*
Excellent	9	13

Good	24	34
Satisfactory	21	30
Marginal	6	8
Partly unsatisfactory	4	6
Unsatisfactory	6	8
Summary ratings	71	

The "air" and "water" segments are represented on the higher end of the sample, as "*Excellent"* ratings were given for the fulfilment of objectives in five air services-related operations as well as two port/inland waterways' projects. As 77 per cent of cases are rated as "*Satisfactory"* or better in respect of the project's fulfilment of objectives, the Evaluation team concludes on an overall project effectiveness rating of "*Good*" (AEOR comparator: 76 per cent).

Notwithstanding this good rating, a generic and prevalent difficulty in assessing the fulfilment of (operation) objectives is the amalgamation of "physical" and "transitional" objectives in appraisal documents. There are several instances of concerns being raised regarding this respect in previous EvD work. This difficulty markedly increased following the abolition of an earlier requirement under the Bank's Operations Manual (OM) procedures to clearly state physical and directly operation-linked objectives in appraisal documents. As a consequence, physical, more indirectly project-supported, transition-related and other objectives, directly pursued or indirectly aspired to through multi-faceted or multi-project related intentions, are frequently inter-mixed. Such a "potpourri" of different project dimensions render it difficult, particularly for desk study reviews, to distinguish project outputs, outcomes or impacts. In many instances, the absence of clearly verifiable and sufficiently detailed indicators for measuring the outcome and impact dimensions leaves considerable space for interpretations, which exacerbates the problem.[31] Implementation periods for these various dimensions are often incongruent, requiring the support of different prime intervention tools (investment, TC, policy dialogue), and the delivery responsibility, arguably, appears split among different operation team members (for a more specific discussion, see Section 7.1). Needless to say, this has also a bearing on TI assessments (see Sections 4.2.5 and 5.3).

4.2.3 Project and company financial performance

The project and company financial performances, where these can be separated, can only be assessed for project entities that are corporatised and subject to International Financial Reporting Standards (IFRS), something the Bank usually strives for. However, given the legacy of transport sector operations, many of which were formerly inseparable from public budgets (and still are, in quite a number of cases), efficiency assessments are not always possible. The financial performance of the sample is presented in Table 8.

Table 8: Financial performance ratings

Ratings	Project financial performance	Company financial performance

[31] EvD is on record for having long suggested – in fact since the early 1990s – that the Bank might consider introducing the so-called Logical Framework ("LogFrame") approach to address these deficiencies, as applied by so many MDB peers and Donor agencies. More recently EvD's 2007 Special Study on the Early Transition Country Fund (PE07-371, Section 2.2.3 *et al.*) focused explicitly on this aspect. Also a discussion contribution on this subject by the Bank's UK constituency for consideration by the Audit Committee in October 2009 (a non-paper suggesting "an integrated approach to the EBRD's business model") speaks to the power of this.

	Nos.	Per cent	Nos.	Per cent
Not rated	*8*	*11*	*13*	*18*
Excellent	6	10	6	10
Good	22	35	13	22
Satisfactory	21	33	21	36
Marginal*	11	15	16	28
Unsatisfactory	2	3	2	3
Highly unsatisfactory	1	2	-	
Summary ratings	71		71	

*In some early evaluation reports a "poor" rating was provided, which is interpreted here as "marginal".

Taking the unrated projects into account,[32] 78 per cent of the Bank's evaluated transport operations show a project financial performance rating of "*Satisfactory"* or better, which is better than the Bank average (AEOR comparator: 67 per cent). Sixty-eight per cent of operations are achieving that level in terms of company financial performance (AEOR: 66 per cent). Taking both figures into account, the Evaluation team rates financial performance collectively as "*Good*".

4.2.4 The Bank's performance

The two aspects "Bank handling" and "investment performance" are not to be confused with the financial performance ratings presented above. More generally, when judging the EBRD's performance, two aspects are taken into consideration: (i) its operational performance or "Bank handling", which is rated as a separate aspect within the evaluation sample of 71 reports; and (ii) its investment performance in the sense of rates of internal return (IRR) for the Bank's transport sector operations.

Table 9: Bank performance ratings

Ratings	Bank handling		Bank's investment performance rating		Ratings
	Nos.	%	Nos.	%	
Not rated	*17*	*24*	*41*	*58*	*Not rated*
Excellent	7	13	3	10	Excellent
Good	17	31	2	7	Good
Satisfactory	17	31	10	33	Satisfactory
Marginal	11	20	8	27	Marginal
Unsatisfactory	2	4	3	10	Unsatisfactory
			4	13	Highly unsatisfactory
Summary ratings	71		71		Summary ratings

* The sample is limited to 30 cases only because only OPER reports include a rating for this indicator.

[32] The share of unrated projects is especially high in this segment, as the early evaluations did not include this criterion. With 11 per cent of projects not rated for project financial performance and 18 per cent not rated for company financial performance, the overall base (100 per cent) has been reduced to 63 and 71, respectively.

With regard to Bank handling, a rating of "*Satisfactory*" or better is concluded for 75 per cent of the sample, while almost a quarter of reports did not assign a rating for this aspect.[33] The AEOR comparator of 84 per cent indicates some deficiencies in this respect. It is noteworthy that four projects out of the seven rated as "*Excellent*" for Bank handling are within the "air" transport mode, the others pertain to two "rail" and one "road" operation. In terms of the Bank's investment performance, 50 per cent of the evaluated cases achieved a rating of "*Satisfactory*" or better. Four of the projects were rated "*Highly unsatisfactory*", which indicates a write-off, or a high probability of a write-off, of the Bank's investment.

Investment performance reached the levels of satisfactory or better in only 50 per cent of cases, which compares with the AEOR-reported Bank average of 67 per cent. The explanation for this lower rating is to be seen in the relatively high proportion of public sector projects and the small number of equity investments observed in Chapter 3 (that is, it is reasonable to expect that relatively few projects would be rated "*Excellent*" or "*Good*" under this indicator). However, this does not account for the high number of projects that have failed to cover their costs or have generated a negative return for the Bank. Overall, the results of previous evaluations suggest a combined "***Satisfactory***" rating for both aspects of the Bank's performance.

4.2.5 Transition impact (TI)

The following section summarises the results of the TI evaluation of the 71-operation sample presented before. In applying the transition criteria EvD reviews the short-term realised transition impact of projects as distinct from the longer term transition impact potential that can still be realised. Regarding the latter, EvD assigns a risk rating indicating the risk in realising a project's full transition potential. These three sub-categories lead to one overall TI rating, which is the reference data for Table 10 below.

Table 10: Transition impact (TI) ratings

Ratings	Overall TI	
	Nos.	%
Not rated	*3*	*4*
Excellent	2	3
Good	24	34
Satisfactory	23	32
Marginal	15	21
Unsatisfactory	1	1
Negative	3	4
Summary ratings	71	

The summary shows that 69 per cent of the evaluation sample is rated "*Satisfactory*" to "*Excellent*", which falls below the AEOR comparator of 79 per cent. The sample has seen 21 per cent of projects rated "*Marginal*" and four cases where transition results were "*Unsatisfactory*" or even "*Negative*". These four were all very early operations conducted under the TOP1. Two of them were in the CEB region, with the M1-M5 Motorway project in Hungary being one example of a negative transition impact, while the other two operations were implemented in Moldova. Overall, the TI dimension is rated "***Satisfactory***".

[33] It is likely that this high rate of "NR" has to do with the fact, that 14 (out of the 17) operations stem from an early period, where this aspect might not yet have been a standard evaluation criteria.

4.2.6 Environmental and social impact

This section addresses the implementation of the TOP against the Bank's environmental mandate, as expressed in the Bank's 2003 Environmental Policy (EP) and the 2008 Environmental and Social Policy (ESP). The environmental and social impact assessment combines the earlier separately rated dimensions: environmental performance and environmental change. Table 11 provides EvD's evaluation results to date.

Table 11: Environmental ratings

Ratings (EP)	Environmental performance		Environmental change		Ratings (EC)[34]
	Nos.	%	Nos.	%	
Not rated	*9*	*13*	*11*	*15*	*Not rated*
Excellent	7	11	11	18	Substantial
Good	30	48	41	68	Some
Satisfactory	19	31	5	8	None
Marginal	5	8	2	3	None/Negative
Unsatisfactory	1	2	1	2	Negative
Highly unsatisfactory	-	-	-	-	-
Summary ratings	71		71		Summary ratings

The table shows that 90 per cent of operations achieved a rating of "*Satisfactory*" or better for environmental performance (AEOR comparator: 86 per cent). Furthermore, 86 per cent facilitated *"Some"* or "*Substantial*" environmental change which, again, is above the Bank average (AEOR comparator: 77 per cent).[35] The overall rating of the transport project environmental impact is therefore concluded as *"Good"*.

4.2.7 Overall performance

The 71 evaluation reports in total (listed in Appendix 2) permit this evaluation to conclude that the majority of projects (57 per cent) fall into the rating category *"Successful"* or (in two cases) *"Highly successful"* overall. The AEOR comparator scores almost exactly at the same level, at 58 per cent per cent. At the lower end of the scale, however, the percentage of transport projects with an overall *"Unsuccessful"* rating are about double the Bank's average (15 per cent as shown in Table 12 versus 8 per cent as reported in the AEOR).

Table 12: Overall performance

Sub-sector	*Highly successful*	*Successful*	*Partly successful*	*Unsuccessful*	*Grand total*

[34] There is another grade on the rating scale: "*outstanding*", which however did not occur in the evaluation sample.
[35] As roughly half of the projects overall are sovereign and a disproportionate number are Category A-level (20 per cent of this portfolio whereas the Bank average is less than 10 per cent) this is not surprising, as the level of due diligence is above that for the average Bank project.

Air	1	9	7	3	20	28%
Rail		12	3	2	17	24%
Road		10	4	2	16	23%
Water	1	5	6	4	16	23%
Intermodal		2			2	3%
Grand total	2	38	20	11	71	100%
	3%	54%	28%	15%	100%	

As Table 12 illustrates, the overwhelming majority of projects conducted in the railway segment, for instance, received a *"Successful"* rating (12 out of 17). Similarly, the "road" segment saw 10 out of 16 projects rated *"Successful"*. Twenty projects out of the sample were rated as *"Partly successful"*, often for the reason that important transition elements had not (yet) been achieved. This occurred, for instance, with seven "air-services"-related projects. Lastly, 11 cases were *"Unsuccessful"*, four of them being in the "inland waterways/ports" segment.[36] In summary, it appears from these results as if the "air" and "water" modes are the most difficult to handle, which might explain why the EBRD targets them much less than rail and road (see Section 3.1.3).

4.2.3 Project-level performance assessment

Overall, this dimension is given a rating of *"Good"*.

A selection of lessons learned from more recent evaluations of transport sector operations are presented in Appendix 6 to provide a flavour of items that were extensively discussed with the Transport team, some of them also during OPER presentations by EvD to the Audit Committee (AC). In fact, over the last five years, 12 transport sector evaluations were discussed by the AC.

4.3 Performance of other intervention instruments

As mentioned before, until the end of 2009 some 380 TC assignments were conducted in support of transport investments or as stand-alone projects to help with investment due diligence and implementation works, but also with regard to transport regulation, policy and management. Of these, 53 TC projects were evaluated.[37] The evaluation results (presented in Table 13 below) show some 58 per cent or 31 of 53 cases were rated as *"Successful"* or better, which slightly exceeds the results that were drawn from the investment operations before. The results appear also to confirm the positive correlation between a TC project and a Bank investment: more than 80 per cent of the investments supported by TC measures showed a TI of *"Satisfactory"* or better, against the 69 per cent for the investment sample in Section 4.2.5.

[36] It is to be noted that the early shipping projects were under the purview of the Property, Tourism and Shipping team and not subject to the Transport Policy.
[37] Either in the form of an Operational Evaluation Performance Report (TC-OPER) in 17 cases, or by an assessment of the Project Completion Report (PCR), which was the case for 37 operations.

Table 13: Ratings given in evaluated transport sector TC operations

Sub-sector	Highly successful	Successful	Partly successful	Unsuccessful	Grand total
Air	1	3		2	6
Rail	1	9	7		17
Road	1	7	3	4	15
Water	1	6	3	1	11
Intermodal		2	2		4
Grand total	4	27	15	7	53

The above, however, should be interpreted with caution, as evaluation coverage of TC (and even more so policy dialogue) interventions differs from that of investment operations and, therefore, related evaluation findings and ratings would not lend themselves to a statistical analysis as shown in the previous sections.[38] In fact, the policy dialogue instrument is currently under evaluation for the first time, in the form of an EvD Special Study.

In addition, aspects of TC performance are often covered as an integral part of the respective investment evaluations. Their relevance is generally confirmed and in several instances the TC input carries a substantive part of the "design and functioning" additionality of the Bank. Not surprisingly, they were in many cases the genuine drivers for the TI objectives aspired to (at the investment entity level and beyond) and equally for bringing about physical objective achievements, environmental effects, or supporting financial improvements.[39]

5. Sector-level performance

In contrast to the previous chapter, the following analysis adopts a "top-down" approach and applies OECD-DAC criteria. The focus is on the TOP as such and related achievements.

5.1 Relevance

Relevance is understood as the degree to which the TOP addressed the Bank's sector reform mandate. This aspect is typically not rated *per se* in EvD's project-focused OPERs and XMRAs but indirectly included in other categories (first and foremost the transition impact envisaged in a project, the compliance of activities with a given country strategy or sector policy and, to a lesser degree, the Bank's additionality). The following discusses first the degree to which the transport sector policy objectives reflect the Bank's mandate; second, how the portfolio addresses the different TI categories; and third, how host countries' transport needs are met.

[38] The Evaluation department has always considered that TC operations selected for evaluation are not representative of the total TC portfolio and do not lend themselves to aggregation of overall evaluation outcomes in the same way as investment operations, for a number of reasons, including: (i) he sample of TC commitments for evaluation is not randomly selected, (ii) the proportion of TCs individually evaluated is small relative to the total portfolio, and (iii) given that many investment-linked TC commitments relate to investment planning and preparation, it is difficult to separate TC results from investment results.
[39] For instance, the OPER report for the Silk Road project in Azerbaijan (BDS04-48/SGS10-103) draws attention to this.

5.1.1 Transport sector policy objectives reflecting the EBRD's mandate

An analysis of the three TOP vintages against the seven transition impact (TI) indicators that are universally used within the Bank reveals high responsiveness. As shown in Table 14 below, the various TI objectives are widely found in TOP documents as guiding requirements and are also granted the appropriate priority.[40] Therefore, the "relevance" criterion is regarded as confirmed (as further supported in Appendix 4).

Table 14: Transport sector operations policy objectives reflecting the Bank's mandate

Transition categories	Transport sector operations policy objectives
Structure and extent of markets	TI indicator: 1. Competition
	1.1 commercialisation of transport enterprises (full financial, operational and managerial autonomy); placing the provision of transport services on a contractual basis (for example, *railway performance contracts*)
	1.2 elimination of preferential treatment to state customers (for example, *subsidised rail freight tariffs*)
	1.3 EBRD procurement rules and open tendering for works to create competition among suppliers (for example, *road rehabilitation works)*
	1.4 incentives for efficiency improvements through management or service contracts to private contractors (for example, *railway workshops; airport rehabilitation; urban transport services*)
	1.5 EBRD focus on priority investments that maximise the yield from existing asset base and promote least-cost solutions (for example, *railway business plans*)
	TI indicator: 2. Market expansion
	2.1 private sector involvement to meet financing requirements for large infrastructure investments to meet increased traffic levels (EU accession; border crossings) and network maintenance needs
	2.2 improvement in the quality of transport services, reducing input costs for private businesses (for example, *intermodal facilities*)
	2.3 reduction of cross-subsidisation, reducing the burden of financing on freight services
	2.4 commercialisation improving consumer orientation and reducing the risk of inadequate supply

[40] While Table 13 presents a synthesis across the three TOP vintages and the seven individual TI sub-criteria, the Evaluation team compiled a spreadsheet with a more in-depth analysis (Appendix 3).

Transition categories	Transport sector operations policy objectives
	2.5 EBRD support for private service providers; review of contractual framework to balance interests of public, government and private investor (for example, *use of local contractors in transport infrastructure works*)
	2.6 in sectors with natural monopolies (for example, *toll roads, railway infrastructure*): assistance in organising *"competition for the market"* with private participation
Market-supporting institutions and policies	TI Indicator: 3. Private ownership
	Private sector participation in service provision, including through PPPs, often building on earlier EBRD involvement in the commercialisation of transport enterprises
	TI indicator: 4. Frameworks for markets
	4.1 tariff reforms as loan covenants; linked to commercialisation programme to ensure simultaneous cost reductions and tariffs increases
	4.2 reduction of cross-subsidisation through tariff increases and transparent public budget allocations (for example, *public service obligations transfers to railways*)
	4.3 change in accounting rules to include bad debt provisioning and adequate depreciation charges
	4.4 requirement for external audit of transport company accounts
	4.5 creation of sector agencies, regulatory bodies, legal framework (for example, *road agency, railway law, adequate legal framework for PPPs*)
	4.6 technical assistance in drafting legislation (for example, *concession laws*)
	4.7 commercialisation and tariff reform to reduce fiscal burden on the public budget and support refocusing of government activities in the transport sector
	4.8 support to transport enterprises for investment programmes assessment
	4.9 support for local financial institutions (for example, *using local bank as co-financier wherever possible*)
	4.10 the EBRD assumes part of the political and regulatory risk building on a strong relationship with government
	4.11 the EBRD provides technical assistance for the establishment of effective (independent, transparent, accountable) regulatory bodies
Market-based behaviour	TI indicator: 5. Skills transfer
	5.1 competitive tendering to ensure that the best technical and commercially viable proposals are chosen (for example, *railway track maintenance technology*)

Transition categories	Transport sector operations policy objectives
	5.2 institutional development programme with possibility for training by foreign consultant (for example, *road maintenance and road user charges*)
	TI indicator: 6. Demonstration effects
	6.1 creation of replicable practices and processes that help transfer the impact from the project level to the sector as a whole (for example, *the first BOT toll road in a country; the first railway privatisation and so on*)
	6.2 Bank enters a new sub-sector and pushes the frontier of financing outwards towards increased private sector participation and commercial orientation
	6.3 concentration on countries/cities with potentially high demonstration effects (for example, *urban transport in Poland*)
	TI indicator: 7. New standards for business conduct
	7.1 review of governance arrangements in transport enterprises and improvement as part of loan covenants (for example, *"contract plans", IAS*)
	7.2 asset decentralisation from central to local governments (for example, *aviation, urban public transport*)
3 Transition categories	7 Transition indicators/30 TOP objectives

Source: EvD compilation.

5.1.2 Bank operations targeting sector policy objectives

While the previous section examined how well the TOPs have addressed sector reform aspects, Table 15 below analyses the extent to which the previous assessment is underpinned by project formulation within the entire body of evaluated projects at basis.[41]

Table 15: Operation-level relevance ratings

TI category/TI indicator	No. of projects addressing objectives	% of projects addressing objectives
Structure and extent of markets	*62*	*87*
Competition	32	*45*
Market expansion	55	*77*
Market-supporting institutions and policies	*49*	*69*
Private ownership	21	*30*

[41] For clarification, this section is dealing with, in a sense, the quality of TOP and *project formulation*; achievement aspects are discussed in Sections 4.2.2 and 5.2.

Frameworks for markets	32	*45*
Market-based behaviour	*49*	*69*
Skill transfer	34	*48*
Demonstration effects	13	*18*
Improved standards	31	*44*

Source: EvD.

About 87 per cent of the evaluated projects targeted the ***structure and extent of markets***. In most cases this was through market expansion. Projects approved in earlier years particularly targeted "improvement in the quality of transport services, reducing input costs for private businesses". The TI objective of "private sector involvement to meet financing requirements" was also a feature of many projects. Most competition-related objectives have focused on the commercialisation of transport enterprises, provision of services on a contractual basis or application of open tendering.

Market-supporting institutions and policies and *market-based behaviour* were each targeted by 69 per cent of evaluated projects. A number of concessions or the tendering out of services have accounted for many of the operations addressing private ownership, while others have involved private sector provision of ancillary services or the privatisation of non-core parts of a monopoly transport provider. Objectives relating to frameworks for markets have mostly involved tariff reform and regulatory reform, including the separation of operators from regulators.

Under the heading *market-based behaviour*, skills transfer or improved standards of corporate governance were each targeted by over 40 per cent of projects. In the transport sector, most countries are starting from the position where a transport enterprise represents the entire sector in the country (which may partly explain the lesser emphasis on demonstration effects), and transition is achieved through the gradual corporatisation of that enterprise, its adoption of tenders for supply of an increasing number of services, decentralisation and ultimately, where appropriate, the break-up of the enterprise or introduction of competition. Therefore in this sector transition impact can often be achieved through covenants applied at the enterprise level.

5.1.3 Bank's TOP vis-à-vis *host countries' priorities*

Trying to assess the TOPs against host countries' priorities is an approach that is more applicable to development- and public sector-oriented MDBs. Thus, it appears at first glance, somewhat "alien" in the Bank's private sector and project-based operational context, a mainly demand-driven process. In fact, and as the following explanations argue, such a comparison is not readily achieved. This points to a gap that might be attended to by the Bank in general and begs the question of whether the Bank's country strategy instrument would be the right place to cover this perspective.

TOPs are not country-specific, but set a general operational framework. TOP-related sections in country strategies, on the other hand, appear more descriptive of the related project portfolio and pipeline at hand rather than placing these against a transport macro analysis for the given country. Hence, from a systemic perspective there exists a gap, since the degree to which a given transport project is justified in the light of other transport sector investment opportunities is not readily determinable, nor, on a higher aggregate level and pertaining to this study, is whether the TOP meets the transport needs of specific countries (as opposed to meeting individual project needs). A more truly "integrated approach" than that currently piloted by OCE appears warranted (see Section 7.4).

However, and drawing attention to underlying systemic problems in this regard, consolidated and universally agreed transport master plans cannot be expected to exist in all of the Bank's countries of operations. Consequently, it is challenging to find external formal documents against which a TOP or individual Bank interventions could be reasonably assessed. Also, considering that the Bank is a relatively small player *vis-à-vis* overall countries' transport investment needs, this lends support to this study's request for enhanced cooperation between the Bank and other multilateral development banks and donors (see Section 7.2).

Notwithstanding the dilemma described, the case study reviews undertaken in the context of this study tried to find some linkages, which are reflected in Appendix 4. From there it is concluded that related Bank interventions are, indeed, addressing pressing transport needs and bottlenecks, but not necessarily meeting top policy priorities.

5.1.4 TOP relevance assessment

Overall, the Evaluation team assigns a rating of *"Good"* to the relevance of the TOPs with regard to them meeting the Bank's sector reform mandate.

5.2 Efficacy

To assess the efficacy or "effectiveness" of the Bank's operations in the transport sector, reference is made again to Table 15 above, which described the relevance of the portfolio's objectives with the Bank's mandate. Here, the degree to which these objectives have been fulfilled is estimated by calculating an average rating score (see explanations below) for this aspect. This perspective is closely related to the discussion in Section 4.2.2, but Table 16 below goes beyond that and provides for the 71 evaluated operations numeric values and also distinguishes between individual TI dimensions.

Table 16: Efficacy of evaluated transport projects

TI category TI indicator	No. of TOP objectives	No. of projects addressing objectives	Average efficacy rating[42]
Structure and extent of markets	*11*	*62*	*4.2*
Competition	5	32	4.3
Market expansion	6	55	4.2
Market-supporting institutions and policies	*12*	*49*	*4.1*
Private ownership	1	21	3.9
Frameworks for markets	11	32	4.3
Market-based behaviour	*7*	*49*	*4.3*
Skill transfer	2	34	4.1
Demonstration effects	3	13	4.2
Improved standards	2	31	4.4

Source: EvD.

[42] For example, 13 of the 71 evaluated projects had objectives that addressed demonstration effects. Of these, two were rated *"Excellent"* for achievement of objectives, which in the numerical rating scale is graded 6; four were rated *"Good"* (graded 5); three were rated *"Satisfactory"* (graded 4); three were rated *"Marginal"* (graded 3) and one was rated *"Unsatisfactory"* (graded 2). The average score of the 13 projects was therefore 4.2, which is approximately equivalent to a *"Satisfactory"* rating.

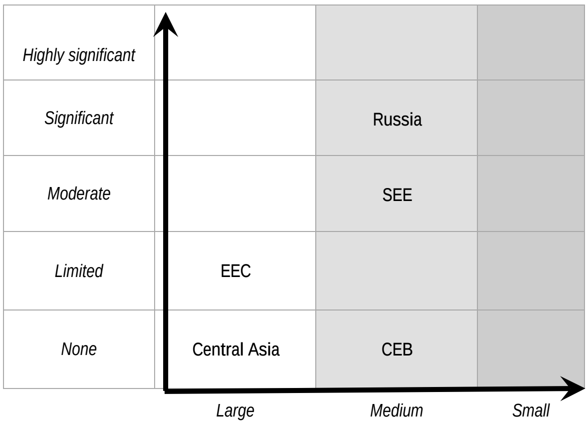
5.3 Transition impact

5.3.1 Transition impact retrospective and assessment of transition challenges

Undoubtedly, positive effects in the transport sector across all the Bank's countries of operations can be observed over the period under review, as discernible from individual project evaluation work.[43] As may be expected, for some countries this TI is more pronounced than for others. An analytical difficulty in this respect obviously consists in how to measure such progress at a higher aggregate level – also in light of the mix of objective dimensions addressed in Section 4.2.2 – and, for the purpose of this section, more specifically, how can such progress be attributed to the Bank's TOPs?[44] While measuring the first aspect with any degree of comprehensiveness and accuracy would clearly go beyond this evaluation's scope, the second could be attempted under the hypothesis that the more involvement the Bank has in this sector in a particular country or region (by way of investments, TCs, policy dialogue), the more likely it is that such progress can be attributed to the Bank's interventions and TOPs.

In practical terms this logic would imply that CEB or SEE, which were earlier described as main target regions of the EBRD's transport activities, would be advanced on the transition scale. Conversely, regions such as Central Asia that have been less targeted (in terms of cumulative business volume) would show little progress. Chart 9 below shows the sector ratings assigned within the last Transition Impact Retrospective (TIR) as well as the assessment of remaining transition challenges (ATC) both undertaken by OCE in 2009.[45] While Russia and the SEE region are leading in terms of (recent!) transition impact achievements, Central Asia is lagging behind.

Chart 9: TIR ratings and ATC for the transport sector per region



Source: OCE/EvD – Degree of remaining transition challenges (RTC).

Although it is tempting, no causal correlation should be drawn between the Bank's activities and the

[43] Nonetheless, note should be taken that EvD showed in a paper responding to the TIR3 that projects in the infrastructure sector (including MEI and Transport) feature worse in terms of transition impact achievements than projects in other business sectors (see CS/FO/09-24).
[44] It deserves reiterating in this context that OCE's annual Transition Report analyses contain generic country assessments (including transport sector data) that do not necessarily permit inference to Bank activities, including the appropriateness of sector policies.
[45] Reference is made to OCE's documents CS/FO/09-21 and CS/FO/09-11, respectively.

results shown by the OCE analyses. First, it is necessary to go into greater detail (that is, the different TIR ratings per country – see Appendix 5). This shows that CEB countries such as Hungary, Poland, Latvia and Estonia did initially achieve good transition results, but more recently show rather modest ratings. This is not necessarily a reflection of low remaining transition challenges[46] but suggests that it became harder to achieve significant results from a more mature level onwards. Another observation is that the SEE countries (notably, Albania, Bosnia and Herzegovina, Croatia, Romania and Serbia) substantially dominate the group of countries that achieved significant or very significant impact ratings in the transport sector over the period 2005-09. The only country from a non-central or non-southern European region included in this "success group" is, lately, Russia.

Not surprisingly, Central Asia still presents major transition challenges. One could have assumed that the transition impact of those operations that are eventually implemented would then prove to be ever more significant. However, the presence of projects is too "thin" as the region's position in the lower left corner of Chart 9 reflects. The Kyrgyz Republic, for example, saw its first transport sector investment approval in 2009.[47] Again, reference is made here to the constraints highlighted in Section 3.4.1, which described various difficulties. On one hand, it is regarded as "understandable" from the perspective that it is easier to generate and implement transport projects in more transition-advanced countries. On the other hand, it might equally be regarded as counterintuitive from the perspective that, given the Bank's mandate, the Transport team should place higher acquisition attention exactly to areas where the ATC are highest.[48] It is to be noted, however, that it is difficult for the Bank to pursue transition challenges on a stand-alone basis in public sector projects, given the less generous loan terms as compared to other IFIs.

5.3.2 TOP transition impact assessment

Transition impact is assessed in a similar way to efficacy, but calculates the average rating score for transition impact[49] for the evaluated projects and addresses each transition objective separately. The following table shows the average transition impact ratings of the 71 evaluated operations against the Bank's standard transition categories and indicators and thus goes beyond the analysis that was conducted in Section 4.2.5 (see Table 10).

Table 17: Transition impact of evaluated transport projects

TI category TI indicator	No. of TOP objectives	No. of projects addressing objectives	Average transition impact rating
Structure and extent of markets	*11*	*62*	*4.1*
Competition	5	32	4.3
Market expansion	6	55	4.1
Market-supporting institutions and policies	*12*	*49*	*4.1*
Private ownership	1	21	4.0
Frameworks for markets	11	32	4.3

[46] More specifically in Latvia, Lithuania, Slovak Republic and Slovenia. Estonia, Hungary and Poland were rated with *"Small"* remaining challenges for transition. None of the EBRD operating countries was rated to have *"Negligible"* challenges for transition (see OCE's ATC papers dd. April 2005 and June 2009).
[47] Which is the rehabilitation and upgrading project of the Osh–Batken–Isfana road (see BDS09-136).
[48] In this context it may be worth noting that of the 22 professional Transport team staff, nine (41 per cent) are field-based, with the following regional distribution: five in Russia, two in Ukraine (EEC), one in Serbia (SEE), and one in Kazakhstan (CA).
[49] For this purpose EvD's standard rating scale is graded as follows: 6 = excellent; 5 = good; 4 = satisfactory; 3 = marginal; 2 = unsatisfactory; 1 = negative.

Market-based behaviour	*7*	*49*	*4.2*
Skill transfer	2	34	4.1
Demonstration effects	3	13	4.2
Improved standards	2	31	4.2

Source: EvD.

The following observations, trivial as they might appear, have been made by the Evaluation team and appear appropriate in this respect, in fact covering the bottom-up and top-down dimensions alike:

(a) the smaller (by volume) the project is, the less ambitious the sector reform agenda should be

(b) the more reform-reluctant a sector *per se* is deemed to be, the more the sector team would need to in-source TI institutional capacity as a basis for an extended policy dialogue

(c) the less transitionally advanced the sector environment is,

- the more important it is to undertake related institutional analyses at sector level prior to loan effectiveness in order to determine the scope of related TA/TC support and monitoring to be factored into project design
- the more closely the non-physical objectives need to be intrinsically linked to the physical objectives (for example, by making TI progress an upfront condition)
- the more the Bank needs to adopt a longer term programme approach whereby a series of investments (eventually in consultation with other MDBs) would need to be previously conceptualised with a phasing (or "tranching") of individual project interventions
- the more policy dialogue efforts need to be made, before and during the investment phase, for which adequate resources would need to be mobilised upfront.

As the average ratings in Table 17 suggest, and in line with the analysis in Section 5.3.1, the Bank's TOP transition impact on sector level is rated as *"Satisfactory"* overall.

5.4 Efficiency

Efficiency is understood as the degree to which the EBRD is able to execute its activities – on an aggregate, that is, TOP-related basis – in a cost-effective manner, or more simply, the ratio between inputs and outputs for a given operation. A normally straightforward indicator here is the Bank's internal rate of return achieved for its equity and debt portfolio in the transport sector. This is presented and discussed in Section 5.4.1, albeit for relevance reasons with reference to TOP05 only. It should be noted upfront that the related analysis is not particularly helpful for the reasons explained below, but nonetheless it has been included for completeness. Section 5.4.2 gives some explanations arising from the sector portfolio characteristics.

5.4.1 The Bank's internal rate of return for the transport sector

Covering the 59 cases mentioned in Section 4.1 (that is, TOP05 approvals with sufficient maturity) and using as *proxy* the Bank's profitability model in line with the practice in other sector strategy evaluations, the Evaluation team considered the investment performance to date of the debt and equity components of those operations. Table 18 summarises the results of the exercise, which need, as stated, to be looked at with caution.

Table 18: Gross and net return on transport investments

	Active operations		Completed operations		All operations	
	Gross IRR	Net IRR	Gross IRR	Net IRR	Gross IRR	Net IRR
Debt[50]	10.7 %	8.0 %	2.3 %	1.5 %	10.1 %	7.6 %
Equity[51]	-38.5 %	-42.7 %	total loss	total loss	-38.8 %	-43.0 %

Source: EvD compilation.

Note: Data are before provisioning and as of December 2009.

It can immediately be seen that these calculations are not especially helpful. Transport sector operations tend to have a long maturity. A large proportion of the projects approved and signed since 2005 are still disbursing. It is difficult, therefore, to estimate the longer term returns expected from them. More specifically:

– Equity: There have only been a few equity operations; of these, only one has been completed, and ended in a total loss. Three further equity investments have been undertaken and are still active. The investments all took place in 2007-08 and are currently suffering from low valuations or because of the ongoing global debt crisis.

– Debt: The results for the debt operations are similarly misleading. The weighted average margin for active debt operations is around 1.7 per cent. Most of the operations are not fully disbursed; only €1.25 billion has been disbursed out of €2.91 billion committed under the 2005 TOP. As commitment and upfront fees are charged at the time of signing and are calculated as a percentage of the signed amount rather than the disbursed amount, these receipts inflate the apparent return in relation to disbursed amounts. Comparing income with committed amounts would give a gross IRR (before provisions) of 1.8 per cent and a net IRR of 1.4 per cent for active debt operations. This in turn is probably an under-estimation of the real figure since it only takes account of interest income on disbursed amounts. It can be expected that, once fully disbursed, most operations will run for several years with interest income exceeding costs. The figures for completed debt operations, although they relate to only a small number of projects, are probably more representative of the return to be expected from the portfolio.

Given the difficulty in obtaining a credible figure for the overall expected IRR, EvD has reviewed the data from a qualitative perspective. The only full or partial write-off in the portfolio has been one small equity investment. The remaining equity investments are not performing well at present, as could be expected. They constitute about 10 per cent of commitments and 16 per cent of disbursed amounts of all the projects in this sample. One medium-sized debt operation was provisioned at a rate of 50 per cent in 2009. Other than that, the debt portfolio is repaying normally. So far, net interest received has outweighed costs, suggesting that, even apart from the positive effect of substantial fee receipts, the portfolio will continue to show a positive return. At the same time, high margins are not expected for this sector while a large proportion of it remains as sovereign debt.

[50] The IRR on debt operations takes account of interest receipts and fees, direct costs, capital disbursements and repayments. No adjustment has been made for specific or general loan loss provisions.
[51] The IRR on equity investments takes account of realised gains and dividends, assumed equity cost of funds of around 5 per cent, direct costs, capital flows (equity subscriptions and repayments), impairment losses on completed investments and unrealised gains and losses based on fair value at December 2007.

5.4.2 Longer implementation periods of transport sector operations

Project implementation efficiency on a broader scale appears confirmed based on a comparison of actual average implementation periods with related appraisal expectations, taking the usual “grace period” feature as a proxy for the latter.[52]

It is intuitively plausible that physical infrastructure projects and, arguably, transportation projects in particular, take longer to implement than other types of operations. EvD undertook a somewhat crude analysis covering all active and completed operations or facilities signed since the beginning of 2005, using the period between Loan Effectiveness and Latest Disbursement[53] as “proxy”. The computation suggests that transport sector operations have by far the longest implementation periods, thereby confirming initial perceptions.[54] Based on this rather conservative measurement, transport projects on average take 3.0 years to implement compared with an overall average of 1.2 years Bank-wide, as Table 19 and Chart 10 below demonstrate.

Table 19: Average implementation periods[55]

Banking sector team	Days	Years	No of facilities
Agribusiness	331.95	0.91	336
Bank Equity	138.46	0.38	97
Bank Lending	348.52	0.95	408
Equity Funds	60.67	0.17	3
Insurance & Financial Services	319.98	0.88	178
Manufacturing and Services	425.33	1.17	245
Municipal & Env Inf	994.40	2.72	141
Natural Resources	396.07	1.09	69
Power and Energy	691.83	1.90	87
Property and Tourism	501.30	1.37	93
Small Business Finance	188.92	0.52	337
Telecoms Informatics & Media	275.29	0.75	55
Transport	1,106.96	3.03	120
All sectors	421.62	1.16	2169

Source: EBRD Data Warehouse.

[52] The database analysis for this, however, did not allow a differentiation between project finance transactions and corporate transactions. In a project finance transaction the relevant source of cash flow should come from the project and the Bank should not expect repayment of principal to commence until the project is completed and generating cash, hence the need for a grace period. An example would be a private toll road. In a corporate loan the borrower usually already has a cash flow and hence the case for a grace period is more arbitrary. Since both transaction types form part of the database used – the project-type with a relatively long and the corporate type with almost negligible implementation periods – this evaluation conclusion should be interpreted with some caution.

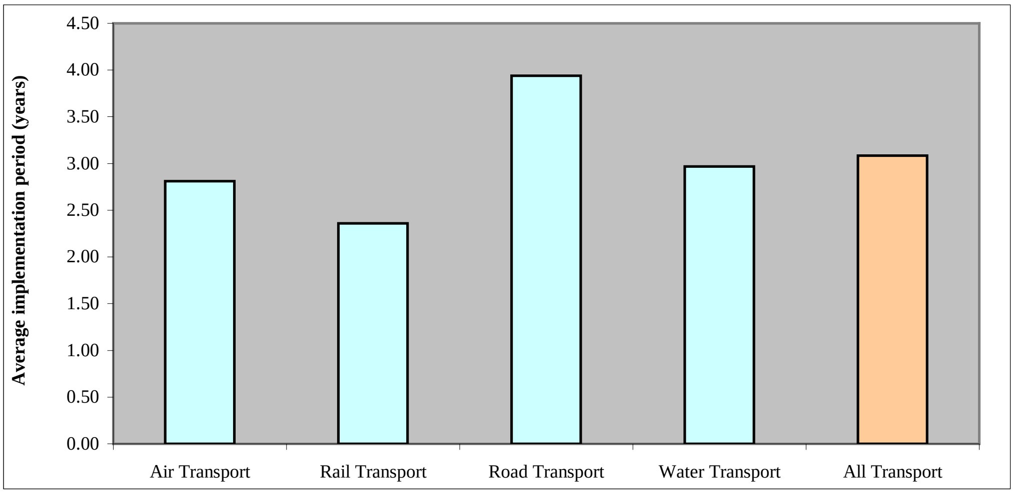
[53] For undisbursed or partly disbursed operations, the “proxy” covers the period from Loan Effectiveness to the current Last Availability Date (LAD).

[54] Presumably this should imply for the Transport team either relatively higher staff complements and/or lesser (new) project generation capacities. The correlation between project types and sectors *vis-à-vis* human resource (HR) considerations might deserve further analyses, but that is regarded as beyond the scope of this study.

[55] The figures under “Bank Lending” exclude the Trade Facilitation Programmes (TFP).

Taking the usual 3-4 year "grace period" terms as a proxy for *ex ante* expected implementation periods then the said actual 3.0 year average would point towards implementation efficiency. This conclusion would also hold true when the related variances by transport sub-sectors are taken into account as shown below. On average, road projects take almost four years from effectiveness to final disbursement, while rail projects take around 2.4 years.

Chart 10: Average implementation periods of transport subsectors[56]



Source: EBRD Data Warehouse.

5.4.3 TOP efficiency assessment

In summary, the Evaluation team rates efficiency as "***Satisfactory***" overall.

6. Overall performance assessment

In principal, the overall synthesis ratings within EvD are non-arithmetical, but qualitative performance judgements on the three dimensions: mandate, sound banking and Bank effectiveness.[57] Combining the Bank's rating criteria with the OECD-DAC evaluation principles mentioned in the introduction, the overall performance results of the Bank's transport sector policy and activities are concluded as follows:

[56] The new "Logistics" sub-sector has been omitted because of the very small number of facilities.
[57] Reference is made to Appendix 1 of the Bank's earlier stated Evaluation Policy. More explicitly, the overall performance rating is a composite of the following individual ratings: mandate indicators (transition impact, environmental performance and change, and the Bank's additionality); sound banking principles indicators (project and company financial performance and fulfilment of project objectives); Bank effectiveness indicators (the Bank's investment performance, Bank handling of the project). Weightings of indicators will vary with the sector/industry and country context, although transition impact will be one of the prime factors in judging a project's overall performance.

Table 20: Overall performance results

Overall criteria (OECD-DAC system)	Overall rating	Bottom-up: Project level	Top-down: Sector level
Relevance	*Good*	Additionality: *Good*	Relevance: *Good*
Impact/Sustainability	*Satisfactory*	Transition impact: *Satisfactory*	Transition impact: *Satisfactory*
		Environmental. performance: *Good*	
Efficacy (Effectiveness)	*Good/Satisfactory*	Fulfilment of objectives: *Good*	Efficacy*:* *Satisfactory*
Efficiency	*Satisfactory*	Financial performance: *Good*	Efficiency: *Satisfactory*
		Bank performance: *Satisfactory*	

Source: EvD.

As one can see from the ratings applied at the *project* versus the *sector* level, the individual perspective appears more favorable in terms of implementation performance. It goes without saying that it is easier to achieve the set objectives for an individual project than for the sector as a whole. Besides, the relationship between (sector) TI and (physical) project objectives is loose at times, as explained in greater detail in Section 7.1.

7. Issues and recommendations

7.1 Relationship between (sector) TI and (physical) project objectives

Determining the prime rationale for the Bank's transport sector undertakings – the "intervention logic" as it were – is not always a straightforward process and brings into prominence the "means-end" relationship between the project in a narrower sense (the purpose and designated use of investment proceeds) and the wider effects or impacts that are expected to emerge from, or to be promoted by, the project. As touched upon in Section 4.2.2, an amalgamation of different objective levels inter-connected only by their joint sector affiliation has been observed in a number of evaluated transport projects.[58]

The focus is on the relationship between, and the realism of, the often ambitious TI targets expressed in project appraisal documents (mostly targeting sector and/or institutional reforms) and the more immediate project objectives (mainly infrastructure asset formation or rehabilitation, equipment procurement and/or directly project-related skill and know-how transfers). In the event, the appraisal documents convey the

[58] This, however, is not confined to the Bank's transport sector. Similar observations have been made by EvD about projects in other sectors as well. Consequently, a more in-depth systematic study, based on a broader sample of projects across a variety of sectors and countries, may be warranted.

view, often supported by the commensurate covenants, that the implementation of a given project is expected to “deliver” all the said objectives within the project time horizon. This came to prominence in a number of recently evaluated sovereign-financed projects, notably road projects in Azerbaijan, Kazakhstan and Russia but also railway projects in Bosnia and Herzegovina, Russia and Ukraine .

A common post-evaluation finding was that the physical objectives and closely related and short-term verifiable TIs were generally met – often deserving a rating of *“Good”* – while the TI achievements at the higher and aggregate levels (mostly bound by appropriate covenants and deadlines) either were not achieved at all, seriously delayed, or under-achieved. While it is well understood that TIs should be and must remain challenging, putting the bar too high – especially without providing commensurate and longer term TC assistance and soliciting support from other MDBs or donors active in the sector – often leads to disappointment for all parties and, in extreme cases, renders the effort futile or even generates reverse reactions.

Some structural elements were observed that may contribute to this finding, including:

- *Incongruent time horizons for the achievement of physical and TI objectives*. In many instances the physical objectives are achievable within a lapse of 2-4 years (see Section 4.1.2.6). Advancements along the TI timeline probably require considerably longer maturities, a consolidated approach among relevant MDBs and donors, related longer term TC complements and a programmatic approach with a longer term Bank commitment, whereby an individual project of the type described is regarded to constitute only a phase in a longer term process.
- *Blurred responsibility lines for project-related TI ownership.* OCE as the custodian for overall TI matters (a sort of independent “regulatory function”) is also actively involved in project formulation and approval processing (a project “execution function”). The sector team’s intrinsic interest, arguably, is predominantly physical output/outcome-oriented (that is, materialising the purpose of the investment proceeds).
- *Lack of TI effectiveness measurement* relates to the observation that while the envisaged structural changes may be instigated (for example, promulgation of a law, introduction of tax levies and so on), their effectiveness “on the ground” often remains arguable. Baseline data and clear and sufficiently disaggregated indicators are missing.
- *PPPs around the world are facing challenges in mobilising private financing in the transport sector*, while private involvement is often found in power and telecommunications. Even if it can be attracted as, for example, in the road segment, the emphasis has generally been on the commercialisation of (operating) agencies with or without private participation, but much less on generating private capital funding. Against the globally mixed experience with PPP schemes, for example, how could one fairly judge the Bank’s attempts in its – far more difficult – countries of operations?

Recommendation:

The Bank needs to more realistically align overall sector reform expectations with individual infrastructure project deliverables. This does not mean to “lower the bar” in respect of transition expectations of individual operations. Nonetheless, since this is to a large extent country- or region-specific, the scope and content of the TOP *vis-à-vis* the related sector section in the respective country strategies would benefit from a better realignment and consolidation. One might even consider the extent to which the sector policy could be shortened in favour of more specific “regional” or country-relevant elaborations on the transport sector. Lastly, the role of and need for TC and policy dialogue in fostering transition processes deserves clearer recognition in both the sector policy as well as in individual country strategies.

7.2 Enhancing cooperation with other multilateral development banks and donors

The cooperation with other MDBs and donors is immensely important, particularly in the transport sector where these institutions are often involved in the same sub-sector in parallel or sequentially. As stated in the TOP 2005, some 50 per cent of co-financing has been from other IFIs. This was generally undertaken as parallel (as opposed to joint) financing, which allows each institution to apply its own procurement policies – not necessarily deemed a sufficient argument since both forms can call on benefits and challenges as referred to further below.

The specific form of cooperation with other MDBs or donors depends on the nature of the operation and its geographical location. In the case of the World Bank, cooperation activities covered almost all of the EBRD's countries of operations. In the case of private sector projects, the EBRD normally expects to finance up to 35 per cent of the total project cost. Additional finance may, in these private sector cases, be provided by the International Finance Corporation (IFC), the Black Sea Trade and Development Bank, and others. Public sector operations in Central Asia are mostly parallel-financed with the Asian Development Bank. In the EU pre-accession countries/new member states, the EBRD cooperated particularly with the European Investment Bank (EIB) and the European Investment Fund (EIF), for example co-financing PPPs for toll motorways. Moreover, the European Commission provided a significant amount of grant funding to support the EBRD's transport projects, particularly in the countries of south-eastern Europe. Other co-financiers mentioned much earlier – for example, in the 1997 TOP – are the Kreditanstalt für Wiederaufbau (KfW), and the Overseas Economic Co-operation Fund (OECF).

From a Bank-centric perspective the *advantages for enhanced cooperation* include:

- lower financial commitment and related risks for the individual institution (in terms of investment funds and technical cooperation resources)
- in countries operating under International Monetary Fund (IMF) borrowing restrictions, the co-financing with other MDBs and donors may render an otherwise unaffordable investment opportunity "concessional", and thus compliant with the IMF restrictions
- the presence of more than one IFI with the accompanying provision of TC and policy dialogue enhances the pressure on governments to take difficult decisions with respect to transition and sector reforms.

While the above record, as well as widely publicised declarations and statements, may suggest a very active cooperation agenda, from evaluation experience it appears less impressive. In practice such joint financing efforts are often overshadowed by more cumbersome implementation of projects on the ground and the sometimes difficult exploration and realisation of synergy effects. This is particularly true when it comes to project due diligence among potential co-financiers, consolidation of systems and procedures in view of the same investment target, or even harmonisation of covenants, policy dialogue and monitoring. Still, MDB/donor cooperation is the preferred option if sole involvement is not feasible. It should be recognised, however, that such projects tend to be more time-consuming than others.

Recommendation:

The Bank needs to place more emphasis on MDB/Donor cooperation. While such cooperation on the corporate level is well heralded, this evaluation points to considerable scope for improvement at working levels (transport included), and it should be monitored accordingly. This is at least true for countries where other MDBs have commensurate representations. The EBRD's Resident Offices (ROs) are seen to be in the lead here, since they are closest at the intervention points. This RO role would need to be clearly enshrined in the forthcoming TOP and also lead to commensurate resource allocations, apart from the usual project generation and monitoring tasks.

7.3 Prioritisation of environmentally friendly traffic modes and technology

Climate adaptation and climate change present a new challenge to the Bank, particularly given that private transportation is a major contributor to greenhouse gases. Together, the production of vehicles and the creation of new roads provide a pull factor resulting in increased pollution. While this is a realistic situation, given the current level of development, the Bank should be, and is, putting greater emphasis on (i) public transportation, particularly rail, as compared with private transportation and (ii) promoting environmentally friendly modes of transportation (for example, rail, light rail, tramways, and public buses). At the 2010 Annual General Meeting (AGM), the Croatian government introduced an electric concept car. The Bank could become a leader in promoting more environmentally friendly modes of transportation, thus leapfrogging western Europe.[59]

In this respect, the Evaluation team is of the view that the general applicability of EU Environmental Standards would deserve more emphasis in the forthcoming TOP. The 2003 Environmental Policy and2008 Environmental and Social Policy require that EBRD projects meet very specific EU environmental standards with respect to roads, highways, buses and railroads. While projects in the EU-10 are being built to these standards, it is not clear that projects elsewhere are being held to the same standards, particularly with respect to health and safety during construction and operation (new roads tend to result in increased accidents, yet the health care systems may not always be in place to address this).[60] Furthermore, Russia and other CIS countries have their own design and building codes for roads, and for sovereign deals it would be a challenge to persuade the governments to demand a higher or different level of performance. Going forward, as the Bank moves south and east, the Bank may need to consider more derogation to the ESP.[61]

Recommendation:

In light of climate change implications, the new TOP should place more emphasis on environment and commensurate technologies. This includes the Bank's investments in private modes of transportation (for example, cars). Also, Environmental and Social Impact Assessments (ESIAs) of major PPP concession roads (that is, Category A) should always include a public sector alternative under the "analysis of alternatives". As the Bank moves south and east to non-EU countries with their own standards, the Bank could provide greater guidance on what is meant by "EU Environmental Standards".[62]

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[59] Car manufacturing falls into the purview of the Manufacturing and Services team, hence requiring a type of Bank-internal "policy dialogue" and consultation.
[60] The Bank has signed up to the IFI agreement on road safety 2009 and ESD is working with the Transport team and EBRD clients to integrate safety into project design. The EBRD is also working with the World Bank on a "safe systems" approach, which seeks to integrate road design, vehicle design, driver behaviour and post-crash response.
[61] Reference: for example, Kazakhstan – Road Sector Development Project.
[62] The relevant EU standards are defined in the European Principles for the Environment handbook (Section 2.8.3). (http://www.ebrd.com/pages/about/principles/sustainability/resources/environment.shtml). ESD has made substantial

The EC's web page states that *"The EU transport system is currently not sustainable, and in many respects moving away from sustainability rather than towards it."*[63] The EBRD has an opportunity to add value and show leadership in this important sector.

7.4 Transport sector activities would benefit from an integrated approach in particular

Transport projects in many instances have an interface with other spin-off investment opportunities that are not being pursued by the Bank for a number of reasons, including processing expedience. Illustrative examples, mainly from the road sub-sector, would include: municipal transport systems (for example, Russia – Road Sector Reform, 1 and 2; here: St Petersburg Eastern Bypass); rural area development (Azerbaijan – Silk Road; Kazakhstan – Road Sector Development); ancillary facilities (Hungary – M1-M15 Toll Motorway). This evaluation does not argue that all conceivable interface investment opportunities should be taken up simultaneously by the Bank, but the appraisal process should clearly identify such interfaces and make a credible attempt at addressing them (either by bringing in other Banking teams or by promoting the possibilities to other potential financiers). One way of bringing this forward would be to pilot an integrated approach in the transport sector, following those recently developed in energy and MEI. In doing so, the Evaluation team believes that the synergy and TI/cross-benefit effects mobilised could exceed those under the current *modus operandi*.

Recommendation:

A more holistic or indeed "integrated" approach needs to be adopted by the Bank in infrastructure (transport) projects during project preparation. The Evaluation team is of the view that the TOP should adopt a more systemic approach to transport sector needs complementary to the project demand-driven paradigm. Closer and more effective cooperation and consultation with other MDBs and donors – as proposed elsewhere – would be one way to facilitate a more integrated planning approach.

7.5 TOP evaluability

Section 2.5 pointed to evaluation challenges and constraints. Sector policies should be made more evaluable (for example, by including timelines and verifiable indicators) and subjected to periodic monitoring processes and to a self-evaluation exercise by the responsible sector team prior to the formulation of subsequent policies – hence mirroring the Bank's project processes. Moreover, the value added of sector policies over and above country strategies (with inherent sector policy elements) should be vetted.

Recommendation:

Accountability of sector policies (and country strategies alike) needs strengthening. In order to elevate sector policies to the level of accountability instruments – with the forthcoming TOP in mind – they need to adopt a more programmatic approach rather than a "one-size-fits-all" approach circumscribing the existing portfolio, pipeline and envisaged investment opportunities.

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progress in developing the 2008 E&S Policy and PRs, but there is a lack of clarity as to which specific EU standards apply for transport projects..

[63] http://ec.europa.eu/environment/air/transport/sustainable.htm

Appendix 1: Policy evolution

1. TOP 1993

The very first EBRD Transport Operation Policy was developed in March 1992, less than one year after the Bank opened for business. It consisted of two documents, a Background Paper BDS92-7 (Final) and the Policy itself, BDS92-19 (Final). It goes without saying that these early documents could not at the time benefit from empirical evidence yet but were fully influenced by the current, rather dramatic, circumstances. Since the collapse of the Council for Mutual Economic Assistance (CMEA) trading arrangements, there had been a drastic shift in traffic movements between the Committee for European Economic Co-operation (CEEC)– Former Soviet Union (FSU) towards CEEC and western Europe. Overall, there had been a significant decline in all land transport movements, particularly rail transport. Institutional changes, often characterised by a rush to decentralise traffic organisation without comprehensive and workable concepts to hand, caused disarray and confusion. These challenges were compounded by the handicap of outmoded transport organisation, obsolete technology and inadequate infrastructure.

It was noted that the sheer volume of investment needs called for painstaking analysis and the Bank was expected to make difficult investment choices. This is also expressed in the sentence that the *"EBRD will look for a catalytic role in selected priority areas, without intending to do everything everywhere"* (page 8 of the Policy). Bank activities in general were to pursue a gradual and balanced development of the transport system, with the aim that each mode[64] would attract and handle the traffic for which it was best suited (page 6 of the Policy). It was emphasised that the development of transport networks was to be guided first and foremost by economic priorities and technical efficiency. The operating principles defined do not appear to differ significantly from today, assistance for rehabilitation and upgrading of existing networks was to be supplemented by *"structural adjustment and restructuring where traditional markets will be declining"* (page 7 of the Policy). Advice on policy level was to help the abolition of government monopolies, as well as the expansion, deepening or creation of markets.

One very interesting issue was described in the Background Paper apparently reflecting the EBRD's dual role as both a merchant bank and a development bank, including possible conflicts of interests:[65] *"One area of potentially great importance is that of labour redundancy schemes – particularly in the railways sector facing a major structural retrenchment."* And further it was concluded that: "*If ways and means can be identified whereby the EBRD can intervene to assist in the resolution of this most difficult problem, it could make an enormous contribution"* (para 4.07 of the Background Paper). Such elements, however, could not be identified. However, the Transport team comments that it has financed labour restructuring, quoting the signing of a loan with Port of Bar (Montenegro) in December 2011, which includes labour restructuring, and it is also considering the funding of labour restructuring in the future (for example, for railways in central Europe).

[64] Note should be taken that, at the time, the four classical transport modes (air, water, rail and road) was supplemented by activities in the field of "Urban Transport and Environment".

[65] It was therefore emphasised to maintain consistency over time and across projects between Development Banking and Merchant Banking initiatives (see para 4.06 in the Background Paper).[66] EBRD Environmental Procedures were approved in September 1996.

2. TOP 1997

Exactly five years after the EBRD's first TOP, an update was prepared with a view to publication by the Bank. Therefore the background information that in 1992 had been elaborated in a separate document was this time merged into the Board paper. In order to inform clients, co-financiers, non-governmental organisations and other interested parties about the Bank's activities in the transport sector, the document was made available to participants at the EBRD Annual Meeting in April 1997 and the 3rd Pan-European Transport Conference held in Helsinki in June 1997. Whereas the initial TOP was drafted before any transactions were concluded, this updated policy drew on over five years' experience, a portfolio of 46 operations, and Bank commitments of nearly European Currency Unit (ECU) 1.5 billion to the sector. In addition, the Bank had undertaken more than 80 technical cooperation projects in the transport sector, valued at approximately Million European Currency Units 30.

It was explained that in the previous period (1992-97) the Bank's priority was to build up its portfolio and implement high impact projects quickly. As the portfolio evolved, fostering *transition* was described instead as the prime objective in the EBRD's operations. Finally, and more recently, considerations of country exposure and country portfolio ratio started to influence project selection and design. Similarly to 1992, the document aimed at identifying where the Bank could use its comparative advantage to best effect while it did not attempt to prescribe transport policies for the countries of operations. Consequently, six so-called *"Lines of Business"* were defined: aviation, ports, railways and intermodal transport, road transport, and urban transport.

In comparison to the latest TOP, the 1997 policy put much more emphasis on the proper handling of environmental aspects. It was, for instance, stated that all transport operations would undergo environmental appraisal in line with the Bank's Environmental Procedures,[66] for example by preparing Environmental Impact Assessments (EIA) and corresponding Environmental Action Plans (EAP).[67] Similarly, *"Sustainability'* of Bank activities was subject to discussion within the TOP for the first time (page 12 ff). Overall, the 1997 policy appears much more sophisticated, and includes a range of interesting issues for discussion (for example, a section on the limits of commercial infrastructure)[68] and specific activities for the different transition stages found within the operating countries (early, intermediate and advanced).

3. TOP 2005

Some eight years elapsed between the Bank's second and third TOP, the latter being approved in April 2005. Experience in the sector had grown further, as 108 projects had been conducted in total with a total funding commitment for the Bank of €3.5 billion. The proposed policy noted the continuing likelihood of a higher volume of transport commitments in the state sector compared to the private sector, owing to the difficulty of monetising the benefits of transport infrastructure and the capacity of the state to finance large transport projects.

[66] EBRD Environmental Procedures were approved in September 1996.

[67] Both EIA and EAP were declared mandatory for certain types of transport operations, regardless of their location. These include the construction of motorways, major highways, railway lines, airports with a runway length of 2,100 metres or more, sea ports, and inland waterways and ports that permit the passage of vessels of over 1,350 tonnes (see BDS97-8 (Final), page 12).

[68] In this part, regional and global perspectives on privately financed transport infrastructure are described, including the first lessons learned from projects in the areas of PPP and concessions (see BDS97-8 (Final), page 22ff.

The President's recommendation included a special note referring to the Bank's activities in shipping and shipyards. Due to a foregoing restructuring of the Bank's focus in the transport sector, the financing of these facilities was brought within the perimeter of the activities exercised by the Transport team.[69] Instead the urban transport activities were shifted away from the Transport team as described above.

The proposed policy reaffirmed the key role of an efficient transport sector in the operation of regional markets, as the drive to integrate national economies continued. More prominence was given than before to the cooperation between the EBRD and other IFIs. Particular importance was, for example, vested in the development of the Trans-European Network (TEN) corridors and the implementation of regional initiatives, such as the REBIS (Regional Balkans Infrastructure Study) initiative in the Western Balkans and the TRACECA (Transport Corridor, Europe – Caucasus-Asia) initiative in Central Asia and the Caucasus.

The past portfolio of transport projects was analysed more comprehensively than before, describing the Bank's involvement in detail. Transition achievements and remaining challenges were described by differentiating between geographic regions and methods or schemes. For example, one of the defined key issues was a road PPP that proved to be in an early transition stage, even if applied in a more advanced country such as the Czech Republic.[70] This was supplemented by the presentation of *lessons learned*[71] for improving the structuring, supervision and monitoring of banking transactions.

For the future, the Policy stated a couple of expectations, mostly with regard to its portfolio structure and the application of banking instruments. In more advanced countries, for example, the team wanted to increasingly undertake projects on the basis of demonstration impact. In early transition countries (ETC), institutional and regulatory development was to be the principle focus of transition. More specifically, priority fields for Bank activities were not only defined for the regions at large, but also for individual countries of operations (see Section 4 on effectiveness, as well as country reports in the appendices).

[69] It is nonetheless understood that the Shipping Operations Policy (BDS01-54(F)), which was earlier approved by the Board, remained unchanged.

[70] See BDS04-072 (Final), page 19.

[71] Out of the 109 operations in total, 47 had been subject to evaluations carried out by the Project Evaluation department (PED) at that time.

Appendix 2: Operation objectives TOP compliance

	TOP 05 reference (page)	Objective/expectation formulated	Check via...	Achieved	Comments
1	Page 4	Continued higher volume of transport commitments in state sector than private sector.	Portfolio	Yes	True throughout. In 2009, annual business volume was 72 per cent state and 28 per cent private.
2	Page 4	It is expected that in terms of annual business volume, the non-sovereign transactions will grow faster than the sovereign ones.	Portfolio	Yes	Compared with 2003, direct sovereign lending ABV has fallen from 61 per cent to 18 per cent, sovereign guarantee from 23 per cent to 22 per cent and non-sovereign risen from 16 per cent to 60 per cent.
3	Page 4	Increase in the number of public sector non-sovereign and private sector transactions.	Portfolio	Unclear	Numbers of projects per year are small so variance is large. No clear pattern [Transport team sees clear growth pattern: 2002 – 1 followed up to 4 by 2008].
4	Page 4	Continued cooperation with other IFIs.	Board doc/DTM	Yes	Just under a third of the operations involved co-financing or parallel financing from other IFIs.
5	Page 4	In more advance transition environments, the Bank will undertake projects primarily on the basis of demonstration impact – innovative transactions.	TIMS	Unclear	In about 25 per cent of cases – but numbers are very small [Transport team comments that this mainly applies to CEB countries with mainly equity and PPP operations].
6	Page 4	In less advanced transition countries, institutional and regulatory development will continue to be the principle focus of transition.	TIMS	Yes	In around 40 per cent of cases.
7	Page 4	In early transition environments, the Bank recognises an ongoing need to reinforce transition over a series of transactions [..] and to maintain momentum over time in its reform dialogue with clients and governments.	Portfolio	Unclear	In around 40 per cent of cases – but numbers are small [Transport team comments that there are a series of projects with clients and governments in WBS, for example Serbia road and rail, Albania roads, Bosnia road and rail, Croatia roads and so on].
8	Page 18	*Road (PPP)*: Increasingly the development of PPP is starting to have an impact on rebalancing the portfolio.	Portfolio	No	Six road PPPs – two under each TOP. Steady but not increasing.
9	Page 19	Encourages the funding of roads to be put on a sustainable and	TIMS/objectives	Yes	The vast majority of road projects included measures

		predictable basis....and will seek to promote transparency of funding for roads.			related to funding.
10	Page 20	Vehicle standards and their enforcement, vehicle weights and dimensions, exhaust emissions, overloading, safety, fuel quality standards.	TIMS/objectives	No	Not observed in many projects.
11	Page 21	*Railways:* The present EBRD railway pipeline reflects the changes that have taken place in the sector and fragmentation of the client base. There are relatively fewer large loans to vertically integrated railway enterprises and more, smaller loans to railway sector companies.	Portfolio	Yes	Sample is small, but a number of more recent cases included measures related to break-up of national rail company or focused on specific areas (freight, communications, electricity supply and so on).
12	Page 21	*Railways:* The EBRD pipeline encompasses not only core railway transportation activities but also support for specific aspects of railway restructuring.	Board doc/portfolio	Yes	As above.
13	Page 21	*Railways:* Growth in finance leasing operations secured on rolling stock assets. This is expected to continue with the EBRD providing active support to private sector investors interested in setting up rolling stock leasing operations in the region.	Portfolio	Yes	Few cases: IPL, BTS, Freight One, NPK.
14	Page 23	*Ports/shipping:* Facilitate transition and funding by linking financing to technical assistance for the development and subsequent implementation of restructuring measures.	TC portfolio	No/unclear	Small number of operations (7) but such TC did not appear to be a common feature. [Transport team comments that most projects tend to be private and therefore would not have TC attached.]
15	Page 23	*Ports/shipping*: Aim to make the port authorities independent of public funding. This will pace the way for lending to publicly owned port authorities without a sovereign guarantee.	Portfolio	No/unclear	Three of the seven projects included tariff/funding reform. [Transport team comments that the Constanta Port project was a non-sovereign deal.]
16	Page 23	*Ports/shipping*: In the Baltic states, concentrate on co-financing with local banks. In the Baltic and Adriatic, arrange parallel finance with regional development banks.	Board doc	No/unclear	Three of the seven projects involved co-financing or parallel financing.
17	Page 23	*Ports/shipping*: Supporting private entities in the sector; advising port authorities on concession agreements.	Portfolio/TC portfolio	No/unclear	Three of the seven projects involved a concession.
18	Page 24	*Ports/shipping:* Current and anticipated congestion of roads (and rail) […] by switching traffic to inland waterways are expected to increase the attractiveness of this transport mode in the medium to long term.	Portfolio	No	No inland waterways operations.
19	Page 26	*Ports/shipping:* Continue to target key opportunities involving shipyards.	Portfolio	No	A series of very early shipping projects included linkages to shipyards constructing the vessels. Nothing recently.
20	Page 27	*Aviation:* Support new entrants (for example, budget or regional airlines).	Board doc		One budget airline operation.
21	Page 27	*Aviation:* Help existing carriers improve management, commercial and operational performance with a focus on air safety and environmental benefits. Finance state-owned airlines only as part of a process leading to sound commercial corporate structure and governance and	Board doc	No	Only one (very early) operation with an existing carrier.

		ultimately to privatisation.			
22	Page 27	*Aviation:* Selectively encourage consolidation of the airline industry.	Board doc	No	Only two airline operations.
23	Page 27	*Aviation:* Finance second-hand western aircraft and aircraft or equipment manufactured in the region.	Board doc		One such operation.
24	Pages 28/29	*Aviation:* The Bank will also encourage regional cooperation between air navigation service providers and the implementation of the European Single Sky Initiative.	Board doc		Small number of projects: recent examples referred to the European Single Sky Initiative where relevant. [Transport team comments that there would be never less than 30 projects, as there is only one air navigation system per country.]
25	Page 29	*Aviation:* In intermediate and advance countries […] the Bank will seek to promote further involvement of private investors [for example, by] Design-Build-Operate (DBFO) concession schemes, Joint Venture agreements, PPP or outright privatisation. […] the Bank will endeavour to support the venture with most demonstration effects, on a commercial basis.	Portfolio/Board doc	Yes	All but the earliest airport projects had private sector features.
26	Page 29	*Aviation:* Support private initiatives in provision of ancillary support services.	Board doc	Yes	All but the earliest airport projects had private sector features.

Appendix 3: Relevance – related highlights from the Country Reports

TOP compliance[72] with EBRD's mandate	Relevance of individual projects/portfolio[73]
Albania (for SEE)	
The Bank will continue to support the upgrading of transport networks in Albania with emphasis on regional linkages and regional integration, in order to facilitate trade and economic growth […] upgrading and rehabilitation of priority sections of the national, regional and local road networks and will continue to coordinate closely with other donors and IFIs.	*General* – All EBRD projects address immense shortcomings and bottlenecks in the transport infrastructure of the country, which hamper socio-economic development, economic growth and regional integration. *Roads* – The EBRD's operations, together with the GoA[74] and other donors, contributed to the improvement of the most important priority corridors and concentrates nowadays on missing links, feeder roads and rural road system to improve access and mobility of the rural poor.
Croatia (for CEB)	
[…] the Bank intended to seek new markets and promote further market liberalisation through commercialisation and privatisation by way of PPP or introducing the concessionaire approach. The Bank planned to work closely with other IFIs, commercial banks, and private investors in pursuing these objectives and being additional in a number of ways, which may include acting as the anchor lender alongside other commercial lenders; leading the market; and by taking project development risks not acceptable to the market.	*General* – The projects the Bank has been involved in, the tagged-on policy dialogue and the efforts regarding the design of the project concept and the resulting transition impact, show the relevance of the Bank's activities in Croatia. *Ports* – The overall direction of the Maritime Domain and Seaports Act of 2003 is being supported by the structure of the project into two stages, with Stage 1 preparing the physical environment towards an attractive opportunity for the private sector to carry out the port operations and the extension for other tourism-related investment and activities.
Georgia (for EEC)	
The rehabilitation of decaying physical infrastructure is a major challenge in Georgia. This is important to enable the country to take advantage of its geographic position as an important transit link between the South Caucasus, Central Asia and Europe. […] The Bank will focus on commercial financing to private operators.	*Air* – New airport terminals in Batumi and Tbilisi were relevant in terms of tackling problems with quality, service and safety, however they might have been based on over-optimistic traffic forecasts. *Rail* – The Trans-Caucasian Railway Project aimed to enhance the physical and economic viability of the trans-Caucasian railway route as a key international transit freight link.
Russia	
[…] in support of greater involvement of private companies in the provision of transport services, the Bank's efforts will be	*General* – Albeit the financial contribution of the EBRD is miniscule in comparison with the overall needs, the project and the TC

[72] In both aspects, that is, of the TOP itself as well as the individual Country Strategy (section on Transport).
[73] Answering the question as to whether the activities and outputs of the project would be consistent with the overall goal and the attainment of its objectives as well as with the intended impacts and effects.
[74] Government of Albania.

directed towards financing the needs of private rail operators in rolling stock and/or leasing, and encouraging private railway infrastructure development and upgrading (for example, short freight lines, with industrial clients).	operations selected for implementation to relieve crucial transport bottlenecks, which otherwise would stay for a longer period. *Rail* – JN Wagon (which was supplemented by three more similar projects) was confirmed to support the key element of the railway reform, among others, by strengthening private operators in this sector.
Tajikistan (for CA)	
The main transition goal in this sector is to improve the quality of transport infrastructure in a way that is commensurate with the limited public resources available and that creates the basis for sustainable future operations of infrastructure enterprises, where possible through the attraction of private investment.	*Roads* – The key road sector issue today is the establishment of an effective road maintenance programme and how to implement a road rehabilitation programme (CS: Tajik roads). *Air* – The aviation sector will continue to play a vital role for land-locked Tajikistan (TSA Air Fleet Upgrade Project).

Appendix 4: Transition impact retrospective (TIR)

TIR 1 – Overview on the bank's TI in the transport sector (2000)

None	Minimal	Moderate	Significant	Very significant
Kyrgyz Republic	Albania Armenia Bosnia and Herzegovina Czech Republic FYR Macedonia Moldova Slovak Republic Tajikistan Turkmenistan	Azerbaijan Belarus Bulgaria Croatia Georgia Lithuania Russia Slovenia Ukraine Uzbekistan	Estonia Hungary Kazakhstan Latvia Poland	Romania

TIR 2 – Overview on the bank's TI in the transport sector (2005)

None	Minimal	Moderate	Significant	Very significant
Armenia ↓ Belarus ↓ Bulgaria ↓ Kyrgyz Republic ↓ Latvia ↓ Moldova ↓ Slovak Republic ↓ Slovenia↓ Turkmenistan ↓	Azerbaijan ↓ Czech Republic Estonia ↓ Tajikistan	Albania ↑ FYR Macedonia ↑ Georgia Hungary ↓ Kazakhstan ↓ Lithuania Poland ↓ Russia Serbia and Montenegro Ukraine Uzbekistan	Bosnia and Herzegovina ↑ Croatia ↑ Romania ↓	

TIR3 – Overview on the bank's TI in the transport sector (2009)

None	Minimal	Moderate	Significant	Very significant
Belarus Bulgaria Estonia ↓ Kyrgyz Republic Latvia ↓ Lithuania ↓ Mongolia Slovak Republic Slovenia Turkmenistan Uzbekistan ↓	Poland ↓	Armenia ↑ Azerbaijan ↑ Croatia ↓ FYR Macedonia Georgia Kazakhstan Moldova ↑ Montenegro Romania ↓ Tajikistan ↑ Ukraine	Bosnia and Herzegovina Hungary↑ Russia ↑ Serbia ↑	Albania ↑

NB: Similar to the TIR-2005, the judgement of aggregate transition impact is made on a scale from *no involvement* in the past five years (previously *none*), *limited* (previously *minimal*), *moderate*, *significant*, to *very significant*.

Assessment of transition challenges by sector (ATC)

ATC in the transport sector of EBRD operating countries (2005)

Remaining transition challenges were assessed against the Bank's transition milestones and rated on a scale from negligible (smallest remaining challenge), small, medium to large (largest remaining challenge). The table below summarises the assessment:

Country	Structure and extent of markets	Market institutions and policies	Market-based conduct, skills and innovation
Albania	Large	Large	Large
Armenia	Large	Large	Large
Azerbaijan	Large	Large	Large
Belarus	Large	Large	Large
Bosnia and Herzegovina	Large	Medium	Medium
Bulgaria	Medium	Medium	Medium
Croatia	Medium	Medium	Medium
Czech Republic	Medium	Medium	Medium
Estonia	Small	Small	Small
FYR Macedonia	Medium	Large	Large
Georgia	Large	Large	Large
Hungary	Medium	Small	Small
Kazakhstan	Medium	Medium	Large
Kyrgyz Republic	Large	Large	Large
Latvia	Medium	Medium	Medium
Lithuania	Medium	Medium	Medium
Moldova	Large	Large	Large
Poland	Small	Medium	Medium
Romania	Medium	Medium	Medium
Russia	Large	Large	Medium

Serbia and Montenegro	Large	Medium	Large
Slovak Republic	Medium	Medium	Medium
Slovenia	Medium	Medium	Medium
Tajikistan	Large	Large	Large
Turkmenistan	Large	Large	Large
Ukraine	Large	Large	Large
Uzbekistan	Large	Large	Large

ATC in the transport sector of EBRD operating countries (2009)

Country	Structure and extent of markets	Market institutions and policies	Overall Rating/positive trend ↑
Albania	Large	Large	Large
Armenia	Medium	Medium	Medium ↑
Azerbaijan	Medium	Large	Medium ↑
Belarus	Large	Large	Large
Bosnia and Herzegovina	Medium	Medium	Medium
Bulgaria	Medium	Medium	Medium
Croatia	Medium	Medium	Medium
Estonia	Medium	Small	Small
FYR Macedonia	Medium	Medium	Medium ↑
Georgia	Medium	Medium	Medium ↑
Hungary	Small	Small	Small
Kazakhstan	Medium	Medium	Medium ↑
Kyrgyz Republic	Large	Large	Large
Latvia	Medium	Small	Medium
Lithuania	Medium	Medium	Medium
Moldova	Large	Large	Large
Mongolia	Large	Medium	Large
Montenegro	Medium	Large	Medium
Poland	Small	Small	Small ↑
Romania	Small	Medium	Medium
Russia	Medium	Medium	Medium
Serbia	Medium	Medium	Medium ↑
Slovak Republic	Medium	Medium	Medium
Slovenia	Medium	Medium	Medium
Tajikistan	Large	Large	Large
Turkey	Medium	Medium	Medium
Turkmenistan	Large	Large	Large
Ukraine	Large	Large	Large
Uzbekistan	Large	Large	Large

Appendix 5: Policy dialogue on PPPs in the Russian transport sector

1 Introduction

The Russian economy urgently needs the country's infrastructure to be upgraded as it had already started to hit capacity constraints before the crisis of 1998. For example, according to estimates of Roads of Russia, only 35 per cent of roads meet required standards and, of those, 25 per cent are overloaded. With required investments in infrastructure estimated at around $1.5 trillion, the Russian Government has been actively pursuing a policy to promote private sector involvement to address the huge needs for infrastructure upgrade for which its own budgetary resources would be insufficient. Moreover, the efforts are aimed at attracting the private sector not only for the much-needed funding but also to use private sector expertise to improve project design, reduce costs and ensure a high level of services post-construction. Supporting the launch and implementation of public-private partnership (PPP) models has therefore been a priority in the Bank's strategy in the transport sector in Russia.

The introduction of PPP models is new for Russia, with PPP frameworks only recently developed and still largely untested. While one of the Bank's policy objectives is to provide financing for PPP projects, work on specific projects has to be complemented and supported by policy dialogue to improve the regulatory framework and disseminate best practices more generally, and also to promote the PPP model in the regions (that is, at the regional rather than the federal level). The Russian government has become increasingly open for related consultations, thus creating more opportunities for various working and discussion groupings, both formal and *ad hoc* ones set up for particular tasks. Since 2007 the EBRD has gradually increased its focus on policy dialogue with the Russian authorities in infrastructure by setting up the novel position of a Director for Infrastructure and Energy in the Moscow Resident Office (RO), including the explicit task of promoting policy dialogue; by creating in 2008 the position of a PPP adviser working with the Russian PPP centres (Roads of Russia and Vnesheconombank); and in 2009 by assigning a senior counsel-concessions/PPP specialist to the Moscow RO.

These measures resulted in the day-to-day availability and expertise of specific PPP staff now based in and working from Moscow, who provided a unique opportunity for the Bank to become consistently invited to and involved in the work of such important vehicles as:

- the PPP Sub-Committee of the Russian Duma Economic Policy Committee, providing expert commentaries on every legislative bill concerning PPPs (established in 2008)
- the Foreign Investment Advisory Council PPP working group with the Ministry of Transport (2007-08)
- the Federal Antimonopoly Service Expert Panel, discussing private sector involvement procedures (2007-08)
- the Ministry of Economic Development Working Group, elaborating the amendments to the Concessions law (throughout 2009)
- the Ministry of Transport Working Group, revising the proposed amendments to the draft Concessions Law (January–March 2010).

In the following some tangible results are presented to which the Bank markedly contributed.

2 Concession legislation

2.1 Analysis of best standards and current practices

The Bank has been actively following and providing input into the development of the legal framework for concessions.

As part of the overall development of the PPP legislation in Russia and neighbouring countries, the EBRD in 2005 commissioned and made available to the Russian authorities a “Report on Best International Practices in PPP with Regards to Regional Policy Issues”, put together by a transport consulting firm (TC-financed by the Bank) based on analyses of existing regional PPP undertakings and the commensurate fiscal policy in eight countries. The countries were carefully selected to observe the diversity in terms of their administrative (federation versus unitary) and legal (continental versus common law) systems as well as the state of PPP development: Australia, Croatia, the Czech Republic, Hungary, the Netherlands, Portugal, Romania and the UK .[75]

The Bank also engaged an international law firm to prepare a study (November 2005) on “Legal Impediments to Non-Sovereign Financing of Infrastructure in Russia”. The study provided guidance on global best practice as well as commenting on the Law on Concession Agreements #115 adopted in Russia on 21 July 2005.[76] In addition, and as a member of the Ministry of Economic Development Working Group, the Bank provided extensive feedback on the Model Concession Agreement for the transport sector using internal resources and working with a number of law firms.

2.2 Amendments to concession legislation

The adoption of the Law on Concession Agreements by the Russian Federation and the regional PPP law by St Petersburg (the Bank has provided a number of commentaries on the former, and has partaken in a consultation process on the latter) enabled the launch of a number of important transport PPP projects (Moscow-St Petersburg Road, Odintsovo By-pass, Western High Speed Diameter, Pulkovo Airport, Orlovsky Tunnel, Nadex light rail), with the Bank engaging with the grantors (relevant public sector authorities empowered to negotiate and ultimately grant a concession contract) as a potential lender to the private preferred bidder following completion of the tender processes. At the same time the Bank continues the dialogue on necessary improvements to the PPP regulatory framework that would facilitate a successful financial closing of key PPP transport projects.

As a member of the Foreign Investors Advisory Council Working Group on PPPs in transport, the Bank (together with an international law firm and one of the big four consulting firms) provided regular feedback to the Ministry of Transport on necessary improvements to the legislation and played a leading role in promoting amendments to the Law on Concession Agreements (with certain amendments already enacted in June 2008).

Notwithstanding these amendments, the legal framework for concessions requires further improvement. To promote these, the EBRD prepared a set of materials, including the background papers, draft

75 www.ebrd.com/country/sector/law/concess/ppp/index.htm

76 www.ebrd.com/country/sector/law/concess/ppp_Copy/index.htm

recommendations and draft Resolution for the Russian State Duma PPP Expert Council (June 2009), and hosted one of its sessions. The session debated the issue of direct agreements between lenders and grantor, including the right of lenders to eventually take over the concession and direct management in case of default – an issue that is very important for private sector projects, having a direct impact on the cost of finance and the decision of sponsors/lenders on risks and ultimately on their investment decision.

Throughout 2009 and early in 2010, the EBRD representatives took part in two *ad hoc* working groups (under the Ministry of Economic Development and under the Ministry of Transport, as referred to above) providing valuable input to discussions of the new proposed amendments to concession laws, including with the Deputy Minister for Economic Development, debating, lobbying for and providing specific examples of EBRD experience in other countries, in particular, on step-in rights and direct agreements between grantor and lenders as important legal instruments creating enforceable comfort for lenders and ultimately reducing the cost of financing. Such recommendations have been included in the Governmental draft amendments to the Concessions Law for 2010.

3 Other elements of PPP framework

At the request of the Ministry of Economic Development and the Ministry of Finance, the above noted RO team provided relevant documents and studies of best practices on the issue of state support for PPPs and respective budget accounting. The Bank also provided feedback aimed at necessary improvements to the procedures of the investment fund that was set up by the Russian government in support of PPPs (the Fund has been set aside as a part of the considerable surplus in budget revenues from oil export resulted from high market price).

Within the framework of the Russian State Duma PPP Expert Council, EBRD representatives provided a series of commentaries on a draft Infrastructure Bonds Law that is likely to impact on any project financing, including PPP-based projects, therefore directly affecting many of the future EBRD investments in infrastructure.

The Bank has taken an active part in discussing the concept and further providing input to the development of a template PPP regional law, the work supported through the activities of the State Duma PPP Expert Council and led by the PPP Centre of Vnesheconombank (the Russian Development Bank, “VEB”). The document developed as a result of such efforts is the basis for multiplication and has proved to have received a genuine interest on the part of many Russia’s regions (Russia’s administrative hierarchy structure includes three levels: federal, regional/sub-sovereign and municipal), including at least four regions that have approved their regional PPP laws largely using the template.

4 Promotion/dissemination of best practice PPP model

The Bank provided organisational and financial support for the joint publication with the Russian Duma PPP Sub-Committee of a PPP materials book based on a roundtable held at the Duma in 2008, comprising articles by leading experts, PPP federal and regional decision makers as well as a collection of related materials compiled and commissioned by the EBRD.[77] There are over a thousand copies of the publication and its distribution list includes all the regional authorities and legislatures of Russia, business associations and NGOs, and large municipalities engaged in PPP projects.

77 www.ebrd.com/country/sector/law/concess/ruspub.htm

The EBRD designed, co-produced and sponsored the development of two training modules within the initiative of the UN Economic Commission for Europe and participated actively in the presentation of the UN ECE Training Module Programme in Moscow in October 2008. The 72-hour training modules "How to Create the Best Legal Framework for Successful PPPs" and "The Concession Agreement and Its Elements", at the time of writing, will be publicly available towards the end of 2010 including in English and Russian.

The EBRD has been invited to join the advisory board of one more PPP Centre set up under the United Russia party and providing another useful platform for explanatory work and lobbying efforts. Within its framework the EBRD Russia representative has taken part in a roundtable in Sochi in September 2009 and the Legal Transition team (LTT) representative in a roundtable in Moscow in February 2010.

The Bank has participated in the discussions organised by Vnesheconombank PPP Centre's Working Group on template documentation for PPP regional/municipal projects, including models and procedures (since October 2009–).

EBRD representatives regularly speak at conferences, seminars and interviews, support publications. The Bank has provided materials for the launch of the specialist web site of the Russian State Duma PPP Expert Council (March 2010: www.ppp-lawrussia.ru).

5 Support for project preparation and implementation

An important contribution towards improving the framework for PPPs and the practical implementation of concessions has been the Bank's feedback to the public authorities on specific projects under preparation. Thus the Bank, together with the International Finance Corporation (IFC) engaged an international law firm at an early stage of the Orlovsky Tunnel Project, prior to awarding the concession, to provide feedback to the grantor on the draft concession agreement to improve its bankability. The Bank retained another law firm to advise on bankability issues for the Pulkovo Airport project and with the signing of the PPPA of Pulkovo Airport (and financial close reached 28 April 2010), a precedent will be established for a number of other PPP projects in the pipeline, in particular in defining how to address critical issues such as conflict of laws, transfer of ownership, arbitration and lenders' direct agreements. The Bank engaged one of the law firms to provide Roads of Russia, responsible for federal road concessions on behalf of the Ministry of Transport, with a generic template of a direct agreement between the grantor and creditors, which is a key condition for arranging finance for concessions and reducing its possible costs.

The Bank's transport PPP expert based in the Bank's Moscow office is working with Roads of Russia on providing technical assistance for the development of federal PPP projects and with the Vnesheconombank PPP centre on promoting PPPs in the regions. This work relates to both the financial and technical aspects of PPPs at a stage of project preparation and is highly relevant to increasing the capacity building of the public sector. A similar work with the same two clients, involving the legal aspects of PPPs, is undertaken jointly by the Bank's Moscow-based PPP experts and the Moscow-based Legal Transition team concessions specialist.

At the end of 2008, the Bank mobilised TC funds from the European Commission to provide support to Roads of Russia in preparing and implementing federal road PPP projects. In particular, this includes assistance in developing the concession-monitoring framework that shall be applied to the currently negotiated concession contracts and those in the future. This capacity building TC also includes the funding of external experts to support the preparation of the future concession projects as the next phases of the M-10 project (Moscow–St Petersburg motorway) and first sections of the Central Ring Road of Moscow (so called TsKAD project).

Below is a summary of the EBRD's involvement in the policy dialogue to promote PPPs in Russia.

The Bank's involvement in developing a PPP legal framework in Russia	
EBRD teams involved in the policy dialogue	– Russia team (represented by Director for Infrastructure and Energy, Russia Business Group) – Transport team – Municipal and Environmental Infrastructure team – Office of Chief Economist – Legal Transition team of OGC – OGC Banking teams
Activity fields	– Ministry of Transport – Foreign Investment Advisory Council Working Group on PPPs in Transport – Roads of Russia – Federal Anti-monoploy Serviveincluding through its Expert Council – Ministry of Economy, including through its Working Group on Municipal Utilities – Expert Council of the PPP Sub-Committee of the Russian Duma Economic Policy Committee – Vnesheconombank PPP Centre – Various municipal and infrastructure conferences (Moscow, Sotchi, St Petersburg) – Publication of PPP materials – Periodic consultations with representatives of the State Duma Communal Services Committee – Continuous consultations with the Government (Prime Minister's Office) including through its Legal Office's staff
Potential investments directly benefiting from the above dialogue work	– Moscow-St Petersburg Road – Pulkovo Airport – Orlovsky Tunnel – Nadex – Rosvodokanal (signed 2008)
Associated institutional support/capacity building	– "Legal Impediments to Non-Sovereign Financing of Infrastructure in Russia" prepared by GLN (funded by Legal Transition team), €40,000, 2004 – "International Practice on Tendering Municipal Leases", prepared by GLN (funded by Legal Transition team), €40,000, 2007 – "Development of a Template for Holding Tenders (taking into account the Concession Policy)" prepared by Clifford Chance (funded from MEI budget), €30,000, 2007 – "Review of the Orlovsky Tunnel Draft Concession Agreement" prepared by Clifford Chance (funded from MEI budget), €35,000, 2008

	– "Review of key principles for the establishment of well-balanced long-term contractual relations in the municipal sector" prepared by Urban Institute (funded from MEI budget), €25,144, 2008 – Development of a template between a concession grantor and creditors, prepared by Freshfields for Russian Roads (funded from the Banking team's budget), 2008 – "Report on Best International Practices in PPP with Regards to Regional Policy Issues", prepared by Atkins (funded by Legal Transition team through TC, 2005

Appendix 6: Lesson highlights

The following comprises summary highlights of lessons learned from a mix of more recent OPER work thus, reflecting ‘fresh’ experience collected in implementing the Bank’s transport operations.

Transition impact realism

A number of TI lessons emphasise the importance of extensive due diligence at project appraisal stage to identify potential TI risks and to set achievable milestones rather than over-charging a single investment intervention with the reform of an entire sector. For instance, the Bank’s financing of the Ukraine - Railway Development Project (BDS99-101; investment OPER) was conditional upon concrete measures and conditions prior to Loan Effectiveness[1] and translated into certain Key Loan Covenants. In retrospect, unsurprisingly, the Project failed to deliver on various TI requirements. The Evaluation department arrived at the view that the Bank’s primary attention should have been on a strategic multi-phase sector reform with an appropriate gestation period (and defined milestones) within which the cited investment project could well have played an important role as part of the first development phase. In a sense, and corroborated through similar observations made in quite a number of transport project evaluations in the past, the Bank’s interventions are more geared to contribute towards, rather than directly target, the sector reform needs.

Lesson

Formulation of transition objectives and impacts towards sector reforms in combination with project asset financing needs careful crafting. Including, the following aspects come to mind: relevance of sector reform (“corporatisation / commercialisation – corporate self-financing capacity / adoption of commercial principles”); leverage potential by the Bank (“small loan – large sector”); reform capacity, willingness and determination by the public authority and political system on the recipient side as well as on the part of the Bank (“long-term process – logical sequencing with clear definition of milestones, timeframes for events and interventions”).

Procurement

The evaluation of the Ukraine - Railway Development Project (BDS99-101; investment OPER) found that in a situation where the Client organisation does not possess prior relevant procurement expertise (which needs to be assessed as part of the due diligence process) the Bank should consider providing related procurement training prior to project approval. Ideally such training should be phased into the project procurement design stage during project preparation, thus allowing for a participatory preparation process. The training consultant could be retained for related supervisory services during project implementation, smoothing the transition from planning to implementation. Even if this resulted in a prolonged preparatory process, the attendant benefits (e.g. time and interest savings) may well adequately compensate for this front-loading of activities.

Presentation of: (i) a proposal to the competent authority under the prevailing legislation to convert UZ from a State Administration to an independent commercial corporate entity; (ii) presentation of a draft five-Year Business Plan; (iii) presentation of a schedule of its track renewal programme including deployment plan for the maintenance equipment; (iv) presentation of an Environmental Action Plan; (v) opening of a Debt Service Account; and (vi) establishment of a Project Implementation Unit (PIU).

Lesson

Early involvement of the Bank's in-house procurement experts (or related consultant expertise) is advised, if the Client's organisation does not possess relevant procurement expertise. As part of the early stages of project preparation an assessment needs to be undertaken by the Bank to ascertain the Client's familiarity with international competitive procurement procedures, resulting training needs and its institutional capacity to carry out related processes during project implementation. Resulting eventual gaps the Bank should consider addressing already as integral part of the project preparation process and thus mitigating for prospective implementation disturbances.

Coordination with other IFIs

A frequent observation made in evaluation work is the potential for closer cooperation among International Financial Institutions (IFIs) and Donor Agencies in the field, a task in which the Bank's Resident Offices (ROs) should play a key role. This requirement (or better: lack of corresponding response) came to prominence in EvD 's evaluation2 of the Azerbaijan - Silk Road Project (BDS04-048; investment OPER), a road whose rehabilitation was segmented and co-financed over a period of more than 10 years by a host of IFIs and Donors. More specifically, it was learned that in the case of multi-financier project participation, the success of loan execution and institutional reform is considerably enhanced through close coordination amongst the stakeholders, eventually with one party taking the lead in the coordination processes. This observation remains valid, in principal, even though individual segments and co-financier involvements might occur sequentially over a period of time. Given the often notable differences between MDB mandates, project loan agreements, pertinent procurement rules and other differences, establishing a coordinating forum, eventually lead by the party with the highest leverage potential, will ensure a better overall project outcome than a fragmented approach by each intervention party individually. The establishment and institutionalisation of said coordination role (and allocation of commensurate organisational capacities and budgetary resources) should be made a key feature of ROs performance measurement.

Lesson

In a multi-financier project participation, the success of loan execution and institutional reform is considerably enhanced through close coordination amongst these stakeholders, eventually with one party taking the lead in the coordination processes. Given the often notable differences between MDB mandates, project loan agreements, pertinent procurement rules and other differences, establishing of a coordinating forum, eventually lead by the party with the highest leverage potential, ensures a better overall project outcome than a fragmented approach by each intervention party individually.

Monitoring and Bank's responsiveness

The importance of sustained Government commitment to reforms is crucial, but was lacking to a degree in the Kazakhstan - Atyrau Airport Operation (OPER of TC operations relating to BDS01-132). In this case desired sector level reforms were subsequently overridden by protectionist policies at the central level; the anticipated TC support on regulatory issues could not be implemented. The Bank appears to have acquiesced in this fate. Apart from calling for close monitoring and responsiveness by the

Bank, this may also raise the question as to whether more weight could have been placed on the intended sector reform agenda by cross-leveraging through other transport or other public sector interventions by the Bank.

Lesson

Management should show perseverance and creativity in pursuing required sector reform. The OT must carefully monitor the Government's commitment to reform. Any developments opposing intended sector reform should be identified and mitigated as soon as possible. For instance, asking for an intensified policy dialogue involving the Bank's Senior Management, or the approval of stand-alone TC operations in order to 'save' individual elements of reform.

Sustainability of transition

It was frequently observed, that the long term sustainability of the Bank's investment needed to be enhanced through adequate routine maintenance and repair. As with the Azerbaijan Silk Road Project, the evaluation of the Kazakhstan – Road Sector Development Project (BDS00-126; investment OPER) also demonstrated the need for future road project designs to include provisions for ensuring the appropriate execution of maintenance work, in addition to ensuring the adequacy of maintenance resources per se.

Lesson

Project sustainability hinges on the provision of sufficient resources (financial and personnel), presence of skills, and supply of equipment for routine and periodic maintenance. Strong commitment of the benefiting government needs to be ensured in this respect. This requires productive and sustained dialogue with the respective Government to enable policy and institutional change