

## EvD Special Study: Performance Metrics – How well do EBRD projects specify expected results?

### Management Comments

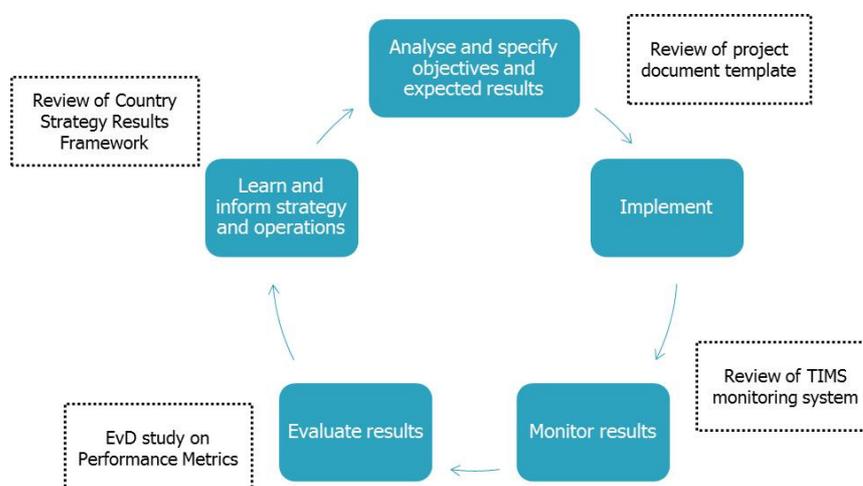
#### Summary

- As a number of important reviews on issues related to performance metrics are currently underway but not complete, Management’s comments at this stage are indicative rather than definitive.
- Before considering use of the evaluation checklist, we need to work further with EvD on the underlying evaluation concept and in particular the proposed hierarchy of results which is proposed to replace aspects of the current methodology and terminology used at the Bank.
- The proposed hierarchy involves a “cause and effect” cascade from project objectives through outputs to ultimate impact (and greater focus than currently on definition of project outputs/objectives). This works less well for certain types of EBRD projects than typical development bank projects. But in other types of projects there may be benefits from introducing this approach, which would then need to be assessed against the costs of changing to and then maintaining a new approach. Further joint work with EvD on case studies would help clarify the above issue.
- Meanwhile Management is exploring the scope for improvement of the match of project-level objectives with a possible results framework at the country strategy level, and is also exploring how to improve the quality of transition benchmark definition and monitoring. EvD’s analysis and recommendations are very relevant to these initiatives.

#### 1. Related reviews and initiatives

A number of interconnected reviews with respect to the project results framework are currently ongoing in parallel, including 1) the review of project document template; 2) the review of effectiveness of the TIMS monitoring system as part of the results task force, 3) review of country strategy results framework; and 4) this EvD study. These reviews are interrelated and the results of each review will inform discussions and decisions on others (Figure 1). Hence, the management comments to this study at this time are not definite.

Figure 1: Project Results Framework



Management agrees that important improvements could be made to the current system of transition metrics in relation to potential enhancements to the presentation of results. Management agrees that as part of the review of project document template further improvements could be made to the presentation of envisaged results in the Board documents by rationalising the structure of the document and clarifying the description of project objectives in the transition impact section. In particular, improving the quality of monitoring benchmarks and ensuring baseline data for all transition impact benchmarks are already recognized by the task force reviewing the TIMS monitoring system.

Management agrees that the presentation of interdependence of results in the transition impact section could be improved by a better match of the project objectives with the higher level objectives at the country and sector level, in particular through intermediate objectives of Frameworks, IAs, or special initiatives, as applicable. The on-going work on country and sector strategy results orientation and specific results framework would help with clearer links of project-level and country-level transition objectives.

In preliminary discussions with EvD, it was generally agreed that the enhancement to the presentation of the envisaged results could be done in the Transition Impact section 3.1 of the project document template, and not by expanding section 3.5. Indeed, section 3.1. of the project document containing the analysis of the transition impact objectives and the benchmark table is the centre part of the project result framework. The current benchmark setting is conceptually based on the “results chain” that extends from EBRD inputs, investment, TC and policy dialogue, via client-level changes, “outcomes”, to systemic changes or transition impacts beyond the client, although the terms input, output, outcome and impact are not explicitly used. Section 3.5 could be made redundant in the new project document template.

## **2. Proposed change in terminology and methodology**

Management acknowledges the importance of evaluability of results of our transactions and would like to thank you the EvD for the analysis. The importance of results is reflected in the Bank’s current established project results framework comprising of a clear operationalization of the transition impact concept and the project Transition Impact Monitoring System (TIMS). The main objective of TIMS is to enable monitoring and a regular on-going assessment of progress with transition impact results of projects between approval and completion. It does so by providing a clear explanation of how the project will achieve transition impact results in the context of transition challenges in a given sector and country; stating the main project transition objectives; and setting a number of benchmarks against which project performance is measured. Indeed, the EvD study findings based on the project sample analysis are positive and encouraging with respect to the evaluability of projects in the EBRD.

Nevertheless, the study recommendations include both improvements to the current system as well as a proposal for a significant change in the approach to the results presentation. The proposed change in the approach to results by the study envisages the design of EBRD specific definitions of “output”, “outcome”, and “impact” and consistently presenting a clear hierarchy of results for each project. It implies a need to focus more on the definition and distinction of project-level objectives i.e. disaggregation and grouping of expected results into constituent elements of newly defined output/outcome/impact terms in a “cause-effect” relationship and setting monitoring benchmarks accordingly.

Management believes that additional analysis currently missing in the study is necessary to better understand and demonstrate the potential benefits and costs of the implementation of the recommended change in the approach to presenting results. While there are potential benefits from the proposed option of a change in the approach to results, in particular from impact assessment and evaluation perspective, its application is expected to have significant implications in terms of staff resources and costs across the organisation. It is unclear whether the benefits of the proposed refinements exceed the costs of their implementation. It is also unclear whether making explicit the hierarchical relationship in the results presentation, i.e. applying the entire results chain and using terms output, outcome and impact for each project, does not only introduce a process burden but it is essential for producing better project results.

Management believes that given the Bank's mandate of transition impact in terms of market structure, behaviour and institutional reform, the causal link between the physical objectives of the project, outputs, and the higher level objectives, impact, is much weaker compared to more classic development bank projects aimed at the objective of poverty alleviation. The application of the causal results chain output/outcome/impact, in our case the causal link between transition objectives ("impact"), and project-level outputs or outcomes, may be applicable for some types of projects but not for others. For instance, for projects where demonstration effect is the main TI objective, project-level outputs or outcomes, such as introduction of a new technology, are necessary (in cause-effect relationship) for delivering impact. Indeed for such cases the transition impact benchmark table already includes all three levels of the results chain, although not using the terms "output/outcome". In other cases transition objectives, "impact", have only a very limited "cause and effect" relationship to project-level outputs or outcomes. This is the case for instance with objectives related to regulatory reform, and some aspects of institutional change. The connection with project-level objectives whether expressed as outputs or outcomes is mainly then at most indirectly through the way in which the Bank's credibility and relationship with its client is affected.

Management believes that the issue of consistently presenting and monitoring operational objectives as direct results expected from a successful investment should be seen as part of and not separate to the proposal of presenting a clear hierarchy of results. For cases where it is deemed essential that the results are presented in a hierarchical causal relationship, the operational objectives would be the "outputs" in such relationship.

There are also potentially significant costs in terms of staff and non-staff resources (including due to the proposed additional procedural requirements, such as introduction of an "evaluability assessment checklist"), and potential risks implied by the proposed approach. The potential costs and risks relate to retraining, overcoming potential confusion about classification of benchmarks into new categories, additional information collection and processing, systems of supervision and enforcement to achieve the required quality control, and associated IT system changes. The transition focus achieved by the current system, or an improved version of it without the proposed shift in methodology/terminology may be weakened.

### **3. Way forward**

Management suggests having a more concrete discussion, based on thorough review of specific project types, on what are the potential substantial benefits and costs of the proposed option of a change in the

approach to results compared to the incremental improvements of the current system. The management invites the EvD to apply/retrofit the proposed option to a number of projects covering a range of different categories/types of projects in terms of transition impact objectives focus (i.e. review different projects across sectors, such as a project with a small enterprise where demonstration effect is the main objective, infrastructure projects where changes in the regulatory environment is the objective, etc.). The review would also conclude if substantial changes are similar for all project types of the EBRD, or if not identify the project types for which a clear hierarchy of results is essential and would result in substantial benefits. Finally, the review would identify the associated costs for different ways of implementing the new approach.

Following this specific example review and in the light of conclusions of benefits versus costs analysis, the management would consider to pilot the proposed change in approach to results for the identified category of projects for which a clear hierarchy of results would result in substantial benefits.

At the same time, the results of the various related reviews described in section 1 will become clearer and better inform the course of actions in relation to the approach to results presentation in the project documents.

Management believes that the Bank could possibly consider the value of monitoring some operational objectives (direct effect of the investments financed) for external communication purposes. Namely, it could consider necessary that a few specific output/outcome indicators (1-2 indicators to be determined for some sectors) with higher communication value for the Bank to be collected systematically at project level.