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Summary of Operation Evaluation

A Petroleum Distribution Company

October 2017

About the EBRD investment

The EBRD provided a privately owned independent petroleum distribution company in a country of operation with multiple loans and equity investments over eight years at both company and parent levels. There was limited technical assistance, principally in corporate governance, energy efficiency and road safety. Another international financial institution (IFI) was a parallel lender in all debt transactions. The company's goal was to become the second-largest player in the sector by establishing a presence in all regions of the country of operation as a quality multi-fuel retailer, transforming old stations into western-style full service stations with forecourt shops and other amenities, under the internally developed brand.

By end-2016 the Bank's debt exposure had dropped while equity exposure continued. Transition impact was expected through private ownership and increased competition, setting standards for business conduct; corporate governance;

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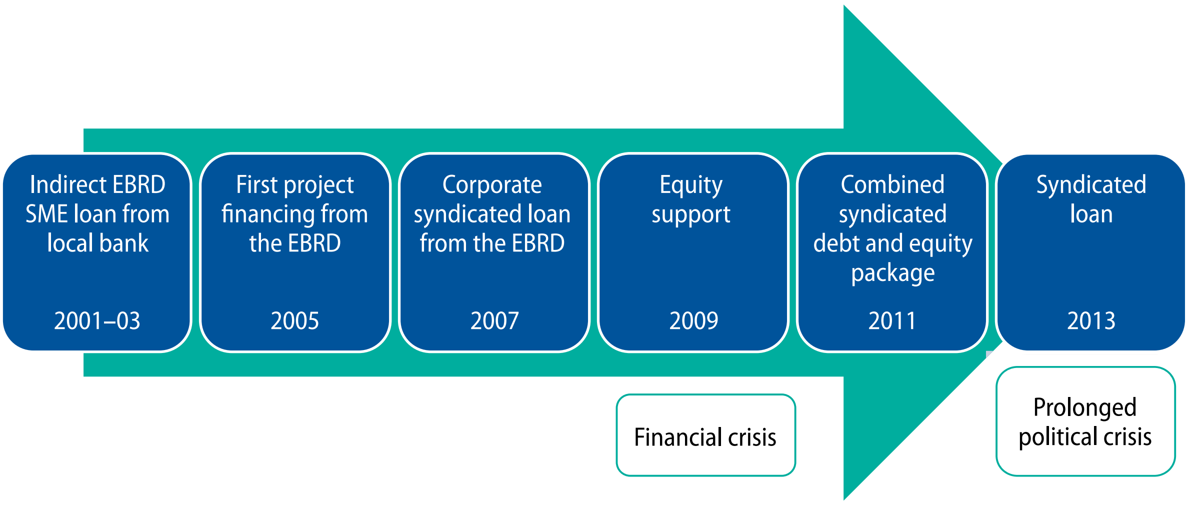
FIGURE 1 THE EBRD AND THE CLIENT – RELATIONSHIP OVER TIME



environment, health and safety practices; and energy efficiency. Issues regarding transparency and a level playing field were central to the country strategy and transition challenges.

Evaluated results

The projects were successful on operational results. There are few instances of this type of relationship in the Bank – sequential transactions using a combination of financing mechanisms – and it helped the company to grow its market share by 12 per cent over 11 years. Today it is the second-largest fuel retailer in the country of operation by number of fuel stations and the third-largest by volume, with one of the highest efficiency ratios.

The company is a founding member of the country's fuel retail traders' association, and has pushed actively for sector reform and transparency; its corporate governance standards are highly regarded. More widely, the Evaluation Department (EvD) found that the EBRD's support contributed to material changes at a sector level in quality of competition, and improved standards and innovation.

The EBRD worked well in parallel with the other IFI to provide corporate governance support for the company, assisting a programme through covenants and transition impact-monitoring benchmarks.

Transition impact

The evaluation raises questions about whether effectiveness could have been increased had the EBRD rooted its operations in a more integrated longer-term view of sector goals and drawn more effectively on the different operational objectives of its IFI partners (such as job creation). While the EBRD support spanned a decade and included both debt and equity, there was no strategic picture that guided the approach and operational choices across multiple transactions. This may have meant lost opportunities to further leverage transition through sectoral policy dialogue, although EvD acknowledges that there was some policy dialogue to improve the business environment, and notes that in the period 2010–14 policy dialogue was limited in general.

Most recently, projected road safety elements provided the majority of expected transition impact. However, there is no clarity on what transition means in this area, no real causal link between client-focused actions and more outward standards of business conduct, and no covenants that were enacted to push or reinforce the focus. Related to the shallow or unclear nature of some of the intended results, the monitoring framework used across the transactions was not sufficient to assess performance against several areas of expected impact. Transition impact benchmarks were largely output-based, and project preparation for new transactions provided the focus for monitoring.

Issues, lessons and recommendations

Box 1 presents summary findings on selected relative performance factors in the project series.

BOX 1 SELECTED RELATIVE PERFORMANCE FACTORS

Positive factors	Points for consideration
Good selection of client.	Multiple projects rather than coherent strategic framework; may lead to missed opportunities for policy dialogue and wider sector work or dilution of core objectives in later stages of support.
Well aligned with Bank strategy in the country and capitalising on opportunities for relevance and effectiveness.	Overemphasis on outputs can sometimes lead to neglect of good practice management and monitoring.
Decisive use of leverage in a context of high political/economic uncertainty demonstrated the EBRD's additionality.	Generic issues on structuring the Bank's approach to equity exits.
Sustained engagement throughout crises to protect and build on transition goals.	Excessive reliance on auxiliary issues such as road safety for transition impact without development of clear theory of change or, importantly, use of leverage to cement focus.
Solid collaboration with another IFI creditor, where the two worked well during structuring and implementation, with aligned interests and roles, particularly on corporate governance.	Missed opportunity for synergy with the other IFI and more coordinated monitoring and reporting could have allowed the EBRD a broader view of the whole project story. There is also room for further information sharing/collaboration during the project evaluation stage.
Substantial progress in environmental and social upgrades through energy-efficiency investments introduced.	
Learning and development opportunities surrounding potential areas of impact for the Bank, such as road safety and job resilience/creation.	

Recommendations and Management response

The report presents several findings and recommendations arising from the evaluation. There are five specific recommendations.

1. Where the Bank expects repeat transactions to contribute to sector, country and corporate aims, its proposals for incremental project finance should be clearly situated in the relevant sector and country strategies.

   Management response

   Management **partially agrees** *with this recommendation*.

   - Each incremental project is based on country and sector strategies valid at the time of Board approval of the respective transaction.
   - As outlined in the respective Board documents, each repeat transaction is expected to support the implementation of country and sector strategies and is built on the achievement and lessons learned from the previous transactions.
   - In the case of this project, transition impact objectives set for the initial and subsequent transactions have been met.

   Management believes no action plan is necessary for Recommendation 1.

2. Clearly articulated and resourced monitoring and results tracking plans and responsibilities should be set out for individual transactions; results monitoring and reporting of existing projects should not be accomplished through new project preparation.

   Management response

   Management **partially agrees** with this recommendation. Transition impact monitoring for a project is based on assessment of predetermined performance metrics as agreed and set out in the project Board document. In cases of repeat projects, the benchmarks for new projects are sometimes built on the basis of the previous achievements, therefore some form of existing project monitoring will take place.

   Going forward, a clearer mapping of specific transition impact objectives with monitoring indicators, as part of a streamlined transition impact assessment, will ensure better alignment between the selected transition dimensions and relevant monitoring measures for the repeat/new projects.

   Management is currently working on revising the reporting structure, which will clarify the process, timing of updates and provision of inputs specified ex ante as part of the project monitoring metrics.

3. Client commitments to actions intended to generate transition impacts should be covenanted in repeat transactions.

   Management response

   Management **partially agrees** with this recommendation. It is important to secure clients' commitment to transition impact benchmarks that can be achieved in some cases by introduction of covenants (e.g. when implementation of the respective transition impact benchmark resides solely with the client). However, in other cases the Bank should preserve some level of flexibility, and other forms of commitment (e.g. side letters, Memoranda of Understanding) may be more appropriate.

   Management believes no action plan is necessary for Recommendation 3.

4. Where financing is done jointly or in parallel with other IFIs, an actionable plan for joint or coordinated monitoring and reporting should be presented at project approval. If no such plan is agreed, the reasons for this should be clearly stated.

   Management response

   Management **agrees** with this recommendation, but would like to highlight that such coordination between IFIs at project, sector and country levels already takes place through donor coordination meetings and interactions among project teams. Timing and frequency of monitoring and reporting is synchronised to the extent possible to reduce the burden on the client. Management is aware of these concerns and scrutinises all instances when the Bank's monitoring and reporting plans are not aligned with those of other IFIs.

Management believes no action plan is necessary for Recommendation 4.

5. Equity projects should include exit plans providing clarity on targeted realistic holding periods and internal rate of return, and intended exit route.

Management response

Management **agrees** with this recommendation, but would like to highlight that this information is provided in Board documents, as was the case with this project. As for the intended exit route, the practice at the EBRD is to include several exit routes (e.g. initial public offerings, sale to a third party, put options, etc.) as the underlying conditions at the time of exit are likely to be significantly different from those anticipated at the time of approval.

Management believes no action plan is necessary for Recommendation 5.

Ratings

Criteria/subcriteria	EvD ratings	EvD weight	OPA ratings	OPA weight
1. Relevance	**Fully satisfactory** Fully satisfactory (recommended)		**Fully satisfactory**	
1.1 Strategic relevance	Fully satisfactory	Medium	Not applicable	High
1.2 Relevance of design	Partly unsatisfactory	Medium	Not applicable	Medium
1.3 Additionality – expected	Fully satisfactory	Medium	Not applicable	Medium
1.4 Additionality – demonstrated	Excellent	Medium	Not applicable	Medium
2. Results	**Fully satisfactory** Fully satisfactory (recommended)		**Excellent**	
2.1 Achievement of outputs	Excellent	Medium	Not applicable	Medium
2.2 Contribution to expected outcomes	Fully satisfactory	Medium	Not applicable	Medium
2.3 Contribution to expected impacts	Partly unsatisfactory	Medium	Fully satisfactory	Medium
2.4 Performance against benchmarks	Not applicable	Not included	Not applicable	Medium
2.5 Unanticipated results	Fully satisfactory	Not included	Not applicable	Not included
3. Efficiency	**Fully satisfactory** Fully satisfactory (recommended)		**Fully satisfactory**	
3.1 Financial performance of project/client	Fully satisfactory	Medium	Excellent	Medium
3.2 Implementation efficiency	Fully satisfactory	Medium	Not applicable	Medium
3.3 Bank investment profitability	Unsatisfactory	Low	Fully satisfactory	High
3.4 Bank handling	Fully satisfactory	Medium	Excellent	Medium
3.5 Consultant performance	Fully satisfactory	Medium	Not applicable	Not included
Overall project performance rating	**Good** Acceptable (recommended)		**Good**	
4. Derived ratings				
4.1 Transition impact	Fully satisfactory			
4.2 Environmental and social performance	Fully satisfactory		**Recommended ratings:**	
4.3 Additionality	Excellent		Excellent (recommended)	
4.4 Sound banking	Partly unsatisfactory		Partly unsatisfactory (recommended)	

The following rating scales apply:
Criteria and subcriteria: *Excellent – Fully satisfactory – Partly unsatisfactory – Unsatisfactory*
Overall performance: *Outstanding – Good – Acceptable – Below standard – Poor – Very poor*
In determining synthesis ratings, weightings can be applied to subcriteria and criteria as follows: *Low – Medium – High*

The Evaluation Department (EvD) at the EBRD reports directly to the Board of Directors and is independent from the Bank's Management. This independence ensures that EvD can perform two critical functions: reinforcing institutional accountability for the achievement of results; and providing objective analysis and relevant findings to inform operational choices and improve performance over time. EvD evaluates the performance of the Bank's completed projects and programmes relative to objectives.

Operation Performance Assessments (OPAs) are prepared by Banking teams and reviewed independently by EvD through either a desk-based Operation Performance Assessment Validation, or a more in-depth Operation Evaluation involving additional analysis and often a field visit. Operations for full evaluation are chosen deliberately, based on their potential to produce operationally useful findings because particularly important or challenging features have been identified, or for input to a broader study such as a sector strategy evaluation. The Operation Evaluation provides performance ratings, key findings and recommendations. The ratings contribute to EvD's regular reporting on institutional performance.

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This report was prepared by Shireen El-Wahab, Acting Senior Evaluation Manager. Bob Finlayson, Senior Evaluation Manager, and Nicholas Burke, Consultant peer-reviewed a draft of this report and provided valuable comments and suggestions.

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