SPECIAL STUDY

Early Transition Country Initiative

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EBRD EVALUATION DEPARTMENT

European Bank
for Reconstruction and Development

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Abbreviations

EvD	Evaluation Department
EITI	Extractive Industry Transparency Initiative
ETCI	Early Transition Country Initiative
IA	Integrated Approach
IC	Investment Councils
IFI	International Financing Institution
LTT	Legal Transition Team (EBRD)
MSME	Micro, small and medium size enterprises
OCE	Office of the Chief Economist (EBRD)
OCU	Official Co-Financing Unit (EBRD)
RO	Resident Office (EBRD)
SBIC	Small Business Investment Committee (EBRD)
SRD	Stakeholder Relations' Department (EBRD)
TC	Technical Cooperation
TEECCA	Business Group 'Turkey, Eastern Europe and Caucasus and Central Asia' (EBRD)
TIMS	Transition Impact Monitoring System

Defined Terms

the Bank	European Bank for Reconstruction and Development.
Early Transition Countries (ETC)	The ETC's include Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan, and Uzbekistan
output	A tangible result from the operation(s); usually a good and/ or service produced/ delivered; typically things that can be purchased.
outcome	The short- or medium-term observable effects of the operation(s); typically things that cannot be purchased but must be accomplished
impact	The long-term expected and realised transition impact as well as other/ additional effects of an operation(s)

Executive Summary

The EBRD launched the Early Transition Country Initiative (ETCI) in 2004 to increase its operational reach to and impact upon transition-related challenges in its lowest income countries of operation. This study focused on a representative sample of ETCI operations to examine project-specific design-related issues as well as the linkages between investments, policy dialogue and technical cooperation, against the background of the challenges identified for specific countries and the larger objectives of the ETCI itself. While it has been informed by previous evaluation work on several ETCI-instruments (ETCF, DLF, DIF, and MCFF), the questions this study sets out are different and substantially broader. Specific projects were reviewed along the following basic dimensions:

- **Context** - What specific underlying transition challenge or market problem is it intended to address, or opportunity is it intended to help capture relative to the Bank's higher-level objectives and strategies?
- **Specification of Objectives** - The specification and clarity of the project's objectives and their alignment across different dimensions (physical, financial, commercial, transitional) and different instruments (investment, policy dialogue);
- **Intervention Logic -** The clarity of the operational and causal linkages between project activities, operational objectives, and expected results. How effectively does the operation identify the channels through which it will have impact?
- **Quality of Monitoring** - Are relevant and appropriate performance indicators and baseline data incorporated into project design, and what will be monitored and reported?, This is particularly relevant for the ETCI as it counts smaller project sizes and larger project numbers, resulting in higher monitoring efforts per operation leader.

The evaluation identified several specific findings that might usefully inform thinking about how the Initiative might evolve. These pertain for instance to the country-level Investment Councils. Despite their very valuable activities and contributions to sector reform, it was found that individual performance targets and benchmarks are not set out with sufficient clarity to allow meaningful tracking of performance or mid-course correction.

Because the ETCI is essentially a structured approach for using existing Bank processes and instruments, many findings are not unique to the Initiative itself. Indeed, many have relevance and applicability to Bank operations more widely. These include:

- Implementation experience and lessons tend to not be very effectively shared across teams — there is little evidence of wider institutional learning;
- Project designs tend to lack consistency in integrating different project objectives;
- There is a lack of consistency in how 'outcomes' are distinguished from 'outputs';
- Transition impact expectations are very often stated in terms of 'market size' instead of 'market structure' which tends to diminish their reach and ambition;
- Baseline data are generally lacking, so progress on key fronts cannot reliably be demonstrated;
- Key operational performance data, such as for instance the expected commercial success of an operation, is sometimes not clearly defined, nor effectively monitored;

– Policy dialogue and TC are confirmed as key instruments to tackle stubborn challenges, and determine continued support. At the same time, however, they are too often not effectively connected to investments, nor accompanied by effective performance metrics and monitoring plans of their own.

On the basis of these findings the study suggests that the effectiveness of the initiative could be increased by: strengthening the project design and review process to ensure improved "quality-at-entry" in the form of baseline metrics, greater clarity in measurable criteria for performance impact, and a more systematic focus on transition performance monitoring and reporting. It also invites use of a more integrated approach in applying the Bank's various instruments (investments and TC). A broader issue raised indirectly by these findings is whether the particular transition challenges in these countries, the track record to date, and the inherent constraints on the resources the Bank can bring to bear argument for a higher degree of operational selectivity at both the sectoral and strategic levels.

1 Introduction and Evaluation Approach

1.1 The Early Transition Country Initiative

The EBRD launched its Early Transition Country Initiative (ETCI) in 2004 to address some increasingly evident operational challenges in its lowest income countries of operation. Challenges included political and/or economic instability and minimal transition progress over more than a decade. Its original purpose was to increase the number of Bank operations in seven countries[1] and to extend their reach in order to accelerate transition. By enabling domestic private sector activities, the Initiative was also intended to contribute to poverty alleviation in the region.

The ETCI is neither a corporate policy nor a strategy. Country-specific goals, objectives and priorities continue to be defined in country strategies and through sector policies, while the ETCI aims to provide incentives, resources and instruments to accelerate transition on a country-targeted basis.

The ETCI is based on three interlinked pillars[2], namely:

i) the Bank's readiness to take on more risk in these countries, while respecting sound banking principles;
ii) the Bank's commitment to increasing its dedicated resources at HQ, in the Resident Offices (ROs), and in regional hubs; and,
iii) more efficient and deeper support from the donor community through synchronised grant funding (Technical Cooperation/ Assistance) as well as 'concessional' loans.

The Initiative is also intended to leverage the Bank's direct policy dialogue, including by launching Investment Councils in selected countries to facilitate public-private dialogue and contribute to an improved domestic business and investment climate.

The ETCI has led to a significant expansion of Bank activities in terms of commitments, disbursement and mobilisation of donor funds in the target region. The 2011 update on the ETCI noted that the ETC's accounted for 30 per cent of all EBRD transactions at end-2010 compared to just eight per cent in 2004. Between 2004 and 2010 the Bank completed some 560 transactions in the ten ETCs. The number of annual transactions rose from 32 (2004) to 114 (2010) and the 2010 annual business volume equalled €828 million. The average transaction size is around €3 million, with the Bank completing more than 22 transactions in 2010 that were less than €1 million.

Donors have provided €184 million through nearly 600 technical cooperation projects, with annual TC commitments growing to €49 million in 2010. Funds originate from three principal sources, bilateral funding, the multilateral Early Transition Country Fund (ETCF), and the Bank's Shareholder Special Fund (established in 2008).

An EvD mid-term-review of the ETCF in 2007 recommended that an evaluation of the entire Initiative be undertaken at a stage of greater maturity.[3] Since then EvD has completed numerous focussed evaluations

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[1] The ETCI originally included Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan; Mongolia was added in 2006, Belarus in 2009, and Turkmenistan in 2010.
[2] 17 March 2004, a *Revised Approach and Action Plan for Early Transition Countries*
[3] See EvD 2007 Special Study on the ETCF

of ETCI instruments and projects; OCE presented a study on 'Poverty Situation and Transition Impact of EBRD Operations in the ETCs' in November 2010.[4]

1.2 Evaluation approach

Given the substantive evaluation work[5] already undertaken, this study adopted a different approach. It considers a sample of stand-alone ETCI operations to look at the specification of objectives, and how the challenge of monitoring and measurement of the achievement of these objectives was met. Importantly, EvD sought to understand the design linkages between investment and technical cooperation against the background of the important policy challenges identified for these specific countries. The primary objective of the evaluation was to identify approaches, patterns and practices in implementing the Initiative from which operationally useful insights could be drawn for the future. This is in line with EvD's effort to extract findings that contribute more effectively to organisational learning and improved practices and outcomes.

Annex 1 provides the evaluation approach in more detail whilst the Box below summarises what this evaluation is *not* about.

The ETCI evaluation was not undertaken to:

- judge or rate performance of the whole Initiative or its individual operations;
- assess newly established ETCI procedures or lending instruments such as the Small Business Investment Committee or the local currency initiative;
- compare the Initiative with other possible instruments that the Bank might have applied in the region or conclude on its utility;
- review the overall 'success' of the ETCI in terms of achieved transition impact and/or decrease of transition gaps

Management expressed considerable interest in this approach, and worked closely with EvD to identify specific operations for review. In the event, ten recently-approved ETCI operations were selected, typically consisting of an investment and one or more TC assignments as well as attached policy dialogue. Individual transactions were selected from the main ETCI sub-regions, and from across a variety of sectors. Recently evaluated operations were not selected.[6] Box 1 overleaf shows the breakdown of the sample.

The sample is considered representative by ETCI managers in terms of expectations for transition impact and innovative design features. Although two projects conducted within Financial Sector framework programmes, the sample does not contain any (other) of the ETC typical framework instruments such as DIF, DLF, or MCFF. This was a deliberate decision in view of the related comprehensive evaluation work in the recent past (compare to footnote 5).

[4] Elaborated by Halcrow Group Limited, December 2010
[5] Including, the DIF (2006 & 2008); TFP (2008), DLF and MCFF (2009); as well as assessments of relevant TC support, including BAS (2006) and the aforementioned mid-term review of the ETCF (2007).
[6] This was in line with the requests of different Operation Teams, not to approach the same client for a second time. In addition, the Operation Teams asked EvD not to visit three out of the 10 selected case study projects for different reasons.

Box 1: Country and Sector-coverage of selected Case Studies

	<u>Eastern Europe and Caucasus</u>	<u>Central Asia</u>
Bank Equity		1
MEI	2	1
Natural Resources		1
Power & Energy	1	1
Small Business Finance	1	1
Transport	1	

In addition to these ten operations, the evaluation also looked into the design *and* function of EBRD-supported Investment Councils (ICs) in three countries (Tajikistan, Mongolia, and Armenia), with a comparison to another case (Georgia) without an IC-type institutional arrangement.

2 Design aspects of selected ETCI operations

Project design quality assurance differs among international finance institutions depending on institution-specific characteristics and circumstances. Nevertheless, in all cases it includes a systematic review of such features as operational opportunities, financial soundness and risk, implementation considerations, strategic relevance in light of mandate and strategies, the soundness of the feasibility assessment, and the likelihood that expected results will be achieved and can be measured. It has been demonstrated that projects that score well in these design aspects (showing a high “quality at entry”) tend to show better project performance and greater impact.[7] This is because:

– projects built upon a robust analysis of the underlying causes of the problem (or unrealised opportunity), and a plausible set of cause and effect responses, are much more likely to produce the intended results than those lacking this rigour; and

– projects with well-designed and clearly specified performance benchmarks and targets are more effectively monitored, allowing emerging problems to be quickly identified and addressed, and yielding solid performance information that is useful for execution and subsequent project design.

A key aspect of this process must be to ascertain whether expected results or outcomes have been specified at the entry point with sufficient clarity so as to allow adequate monitoring and measurement and, ultimately, an evidence-based view as to whether the intended objectives have been, or are likely to be accomplished. The basic metrics of “evaluability” are targets, indicators and baseline data for key indicators, which are a means to monitor and report on progress during implementation and after completion. In their absence, an assessment of non-financial performance is at best a subjective exercise, often lacking an adequate evidence basis from which to draw credible conclusions or extract more widely applicable lessons.

[7] IFC’s Evaluation Department concluded already in 2002: *“[…] that quality at entry into IFCs portfolio [and…..] are key determinants of project outcomes.”* See more details at: http://www.ifc.org/ifcext/ieg.nsf/AttachmentsByTitle/AnnRev01Findings.pdf/$FILE/AnnRev01Findings.pdf

This approach to project design and monitoring quality assurance has increasingly become standard practice within the community of international financial institutions. This in part reflects higher shareholder and client expectations and scrutiny with respect to demonstrable outcomes. But it also increasingly reflects a higher institutional-level appreciation of the value of timely and reliable feedback on performance. The EBRD has not yet used the 'evaluability' concept, but does apply entry threshold requirements with respect to potential transition impact, as well of course as expected risk-adjusted returns. This study looks at the selected operations through lens of their design and articulated objectives, as illustrated below.

Figure 2: Illustrative Project-level Design Features

Quality of monitoring			
Monitoring process	Timeliness of TIMS reports	Quality of benchmarks	Inclusion of TC and policy dialogue

Intervention logic		
Results' chain	Risks and mitigation measures	Coherence of measures, incl. investment, TC and policy dialogue

Project objectives			
Wider reform context	Project operational objectives	Expected transition impact	Other project objectives

Project diagnostic		
Sector description/ Project Context	Strategic alignment of Objectives (incl. Country Strategies)	Other considerations, incl. previous lessons and capacity of client

2.1 Project diagnostic

Contextual Diagnostic. Any operation should be based on a clear statement of the problem it is intended to help address or the opportunity it will help capture. The project design should thus clearly address the underlying issues. It should cover trends in sector performance, highlight key issues, constraints, strengths and opportunities, and analyse why the situation to be addressed has come about.

The ten operations reviewed here did indeed examine sector and institutional constraints, and sought to explain how the proposed operations would respond to such constraints. However, less than half offered an analysis of why sector performance was sub-optimal, or discussed measures that the respective governments (with the support of EBRD or other development partners) were taking to improve this performance. As a result, it was in most cases difficult to determine if operations were focussed on the symptoms of sector deficiencies or their underlying causes. In one example one of the major constraints to MSME lending was identified to be the lack of cash-flow based lending, yet the project did not include any activities to address this.

ETCI Strategic Alignment. A well-designed ETCI operation will be conceptually aligned with ETCI goals and objectives and with relevant country and sector strategies. The Evaluation Team reviewed the formal

ETCI Board documents over time and the relevant country strategies (see the overview of operational priorities in Annex 3) and consulted in-depth with the responsible Management at headquarters and RO heads in the field. The results are summarised in Figure 3 below.

Figure 3: Summary of ETCI objectives on different levels

	Key-statements/ objectives expressed by the ETCI Management[8]
Rationale, Objectives and Operational Requirements	
Regional level	**Rationale**: a Bank-wide framework for the institution to underpin its resolve and engagement to meet the specific challenges of the ETCs and make a difference going forward. The EBRD's private sector oriented operational framework can play a pivotal role in unlocking the economic potential in the seven countries and providing longer-term sustainable solutions to poverty alleviation. **Operational objectives** – Demonstration projects in regional cooperation
Country and/ or Sector level	– Targeted policy and institutional reform – Broadening the base of local private sector investments (domestic and FDI) – Enhanced SME development – Provide finance for medium to large local enterprises – Innovative intervention in public sector reform
Project level	**Operational requirements for individual projects** – Sound banking (standard requirement) – Transition Impact (standard requirement) – Additionality (standard requirement) – ETC toolkit for providing smaller projects – (Greater) Risk Appetite – More TC support – Better aligned with policy dialogue
Inputs, Assumptions and Risks	
Beyond project level	**General Inputs** – Bank's commitment to increase its dedicated resources at HQ and in Resident Offices, incl. allocation of "ETC dedicated" seasoned sector bankers in key sectors such as FI, Small Business, Agribusiness, Power and Infrastructure; – Support to "Local Investors' Councils" with involvement of Prime Ministers and EBRD senior management, – Adapt mainstream instruments in the core sectors for example DLF – Identify and work with new partners such as CSO, regional investors, international foundations, etc. – Improve internal procedures to be more efficient in considering smaller scale operations.
Project level	**Assumptions and Risks:** – Bank's readiness to take on more risk in these countries, – Increased availability and predictability of TC and Official Co-financing;

[8] As laid down in the ETCI 'Ur-paper', the website and other sources;

	– Transition impact potential is expected to be at good or higher rating but the average risk to Transition Impact will be higher. – Project profitability expectations lower than the Bank's norm

All reviewed projects were well-aligned with ETCI goals and objectives and the sector priorities highlighted in country strategies - bearing in mind the very broad specification of both. All involved some measure of targeted policy and institution reform and, with the exception of the two urban transport projects, were designed to broaden the base of private sector investments. Enhanced SME development was an explicit objective of the support to domestic banks, while innovative approaches for public sector reform were pursued in the power and energy sector and MEI. One project for instance, was the first renewable power generation project and was also designed to establish the institutional arrangements for public-private partnerships.

Drawing on Lessons. A well-designed operation will specifically incorporate lessons from completed and ongoing Bank operations, and relevant lessons from comparable work elsewhere. The projects reviewed all drew important and relevant findings from previous experience, and discussed how these would be reflected in the design of the respective operations. The case study of the MEI water project was built on a careful assessment of lessons from two previous operations and from support for urban water development in other parts of Central Asia. However, lessons were in almost all cases limited to the same sector or sub-sector as the project in question. Likewise, in no case were lessons drawn from the experience of other development partners, even where there was considerable overlap in issues, such as tariff increases or corporate development. In the financial framework operations, lessons from past operations with the same partner financial institutions were not explicitly recorded but nonetheless appear to have been taken into consideration. In this regard, current initiative of the MEI Team to conduct a workshop on urban transport issues in the region is particularly commendable.[9]

Institutional Capacity. Effective institutional capacity is required to implement EBRD investments and EBRD-supported policy and regulatory reforms. In practice, the degree to which the project client, sponsors and regulatory authorities had sufficient institutional capacity to adequately implement the projects, was often not clearly assessed or documented in project design. In large projects, special project vehicles were established to work around the problem of a bankrupt project sponsor, although the issue of how the ultimate project sponsor could emerge from administration was not discussed. In smaller ETC operations, it was assumed that a corporate development TC could introduce new management practices simultaneously (i.e. IFRS accounting, management information systems, corporate planning systems, personnel and financial management systems) without assessing the degree to which participating institutions had the staff, financial resources or legal authority to adopt such innovations. In the case of the urban transport project in the Caucasus for instance, the capacity of the municipality or the Ministry of Finance to pay for services on a performance-contract basis was not established prior to the project, contributing to considerable delays in reform implementation.[10]

[9] Information as of March 2012

[10] The Team has however learnt this lesson and informed that TC support for exactly this purpose would be on its way

2.2 Project objectives

Wider Reform Context. Most interventions were related in varying degree to broader sector challenges. Good practice examples include those found in the case studies of the mining operation, the power and water supply projects. Among those, *one* provides an excellent example of effective cooperation with the international community to establish the Extractive Industry Transparency Initiative (EITI) in the country. Another positive case study showed use of the EBRD's integrated approach.

Other project designs showed only partial alignment with the government's sector reform policies, the activities of other development partners or major investors active in a particular sector to tackle persistent challenges to transition. Some projects constituted a second or final phase to an existing intervention where sector challenges had been more explicitly addressed.

Specification of Project Objectives. One particular observation in this regard concurs with findings from other evaluation work as flagged in EvD's AEOR. Specifically, there is no overarching project design methodology or practice that integrates financial, physical and transitional objectives into a unified project development and management tool[11]. This is evident in numerous ways when looking across projects. For example, definitions of financial and operational objectives and objectives related to transition can overlap or be set out in different ways. There is a lack of consistency in how 'outcomes' are distinguished from 'outputs' at the level of objectives and success indicators. In many cases, the project implementation itself was defined as the main objective with a number of defined outputs. Well-established good practice in project design gives high priority to clarity and consistency in this key area (see clarification of these terms in Box 2 on page 14).

Transition Objectives. Transition-related objectives are of course at the heart of the EBRD model and must be reflected in project design. Some cases showed ambitious *ex-ante* transition impact objectives. These included one which supported a policy framework for good governance in the mining sector; and another to open the power sector to private generation. But in other cases transition-related objectives were much more modest. Here an ETCI operation supported a well advanced institution that was already following good international practice in a highly competitive market. Another case of a transport project evidenced conflicting transition objectives: positive effects at the corporate level came at the cost of an increasing share of the public sector, with crowding out of private service providers. In general, it appears that only about half of the projects were designed to address the "market structure" which is in some tension with the market-structure challenges that are an essential feature of the ETCs and justification for the Initiative.

Environmental Objectives. Several projects had explicit environmental improvement objectives, and all relevant operations included high-quality environmental impact assessments. In one project, the environmental impact assessment was an attempt to apply international standards to a private mining project, and included measures to substantially improve environmental and social practices. Smaller ETCI projects also identified and tackled environmental deficiencies with considerable vigour.

Social development objectives. Several projects identified poverty conditions in ETC and mobilised grant co-financing to include poverty reduction or social development considerations. However, this did not result in any specific related parameters being incorporated as project objectives or tracked as

[11] Referred to variously in other organisations, public and private. as a results matrix, impact model, or logical framework.

indicators in project monitoring processes. Some sovereign operations included an affordability assessment but no effort was made to define measures to safeguard affected customers from expected tariff increases; this is common practice with these types of operations and there is a very large body of evidence on how it can effectively be accomplished. Likewise, while potential impacts on poverty alleviation, livelihood improvements or social development were cited as part of the project rationale in MSME operations, these were not then integrated into project design nor tracked during project implementation. This is further discussed in section 3.2.

2.3 Intervention logic

The Results Chain. Viewed from within the confines of each operation, the linkage between project objectives, expected results, and proposed activities was reasonably well-defined. All of the projects had multiple objectives, with specific physical (or engineering), financial performance, corporate development and regulatory reform objectives and targets. Resources were assigned to different project components to address the different objectives. Technical feasibility was assessed and often defended on the basis of independent studies and financial and economic returns were calculated and judged sufficient to achieve project success. The internal coherence, particularly in the technical, financial and environmental dimensions of project design was a core strength of the EBRD's ETCI operations. This appeared sometimes less so in terms of transition expectations. In many cases this was due to a rather vague link between the investment on one side, and the TC operations and policy dialogue on the other. TC related outputs or outcomes are for instanced not consistently monitored in the project TIMS reports even though they may be the primary generator of transition impacts (as one example demonstrated).

Risks and Mitigation. The risks attached to ETCI projects, in terms of financial performance and in terms of transition impact achievements, are generally considered higher than elsewhere. The case studies confirmed this assumption, typically pointing to the following:

i) macro- and political risks - economic growth, commodity shocks, political instability, and devaluation;

ii) market risks - price, production volumes, and input costs;

iii) regulatory risks - insufficient implementation of agreed reforms or adverse regulatory change; and

iv) sponsor/client performance – generally insufficient implementation of corporate reforms.

Key assumptions and significant risks were clearly identified in all operations. A good example of a risk assessment that merits replication was given in one case where the Board document shows a comprehensive 'risk tree' identifying specifics and clearly determining related mitigation measures. Risks were generally addressed by including covenants linked to implementation of agreed corporate development measures, or by providing TC to assist project sponsors or regulatory authorities to design project-enabling reforms. In several instances Operation Teams asserted that, on the basis of past trends, risks were simply unlikely to materialise. With regard to political and regulatory risks, there was a tendency to incorporate rather weak risk-mitigating measures, given the substantial challenges that projects were facing.

Incorporating Policy Dialogue and TC. A general characteristic of these operations was the extensive use of TC and policy dialogue to structure projects and to amplify the transition impact; indeed this was built into the core ETCI model. TC was extensively used to prepare projects, to undertake environmental assessments, to assist in project management, to build corporate development capacity, and to assist in regulatory strengthening and reform. Policy dialogue was undertaken to foster sector reform, mostly in operations with public sector clients.

But despite the central assigned role for these instruments in the ETCI, in most cases policy dialogue and TC objectives were neither clearly defined nor fully integrated into the design and monitoring systems of the investment project. Note should be taken that there are different reporting systems for TC and investment projects existing in the Bank (as is described below). Still, and already at the design stage, there are three issues regarding the integration of policy dialogue and TC which merit consideration:

(i) Bank TCs were typically defined as a long list of objectives and activities, with little discussion of what these TC were actually to achieve (again, the output versus outcome problem);

(ii) only half integrated the goals and objectives of project-associated TCs in project transition benchmarks, or in project financial targets and covenants, and

(iii) project related policy dialogue, while often critical to project success, was neither formally planned nor reported on.

Projects Designed in Isolation. As noted above, the projects sometimes lacked an explicit wider reform context. Although several had clear and well-articulated policy reform intentions, their design included little discussion of the Government's sector reform plans or policies, or of the activities of other development partners/investors active in a particular sector. This makes it difficult to assess how the EBRD's support would contribute to a larger (and possibly more harmonised) effort to improve sector performance. There was also little presentation of the links to and possible synergies with Bank projects in other sectors, with the activities of the Legal Transition Team (LTT) and TAM/BAS or the work of ICs. An apparent tendency to view and develop projects in isolation from other EBRD, donor and government initiatives weakens the ability to design a programme built on exploiting possible synergies, sunk costs and work in progress.

2.4 Quality of monitoring

Monitoring Processes. No project included an explicit monitoring plan of any kind, although several were quite complex, with multi-faceted institutional and policy reform and complex investments in several locations. It was generally assumed that the project sponsors would provide, at indeterminate cost, the data required to track financial performance and transition impact. Whether these data were regularly collected, accurate or readily available was not assessed. It was also assumed that EBRD operation leaders would track performance in sector policy, although without allocating specific resources to this task. Insufficient arrangements for project monitoring contribute inevitably to weaknesses in reporting, leading to difficulties in demonstrating operational impact during evaluation. For instance, one operation defined very good outcome-related indicators; yet neither the client nor the Operation Team maintained records to accurately monitor them. It is important to recall in this context, that the ETCI portfolio shows to be especially monitoring-intensive, which is due to the combination of 'smaller project size', larger number of projects per operation leader, and higher risk ratings (in comparison with the overall Bank portfolio).

Incomplete TIMS coverage. Within the sample group, six projects have been found in the Bank's Transition Impact Monitoring System (TIMS) whilst four were not available at the time of evaluation, partly because OCE only issues such reports after the first implementation year (that is less than 18 months after signing). Another reason is that the second or third project in a row with the same client is not monitored, as for instance in the Multi-Bank Frameworks reviewed. In the case of a project involving a bank loan, transition impact was not monitored at all, nor were the clients aware of the transition objectives of that particular project.[12] The reporting and updating of TIMS results is coinciding with the annual 'project monitoring reports' and hence, is in some cases well-linked to progress on the ground, in others less so. The TIMS reports for two projects for instance were not up-to-date with information on

[12] For the reason that the operation had been approved directly by the Bank's Credit Department, and not OpsCom or SBIC. The design of the two financial sector frameworks differed substantially. The operation with one example showed overall a good design with sound objectives specified at different levels and the provision of baseline data.

project implementation, other reports failed to capture new developments at the sector or institutional level.

Transition benchmarks. Similar to transition objectives, the monitoring benchmarks set by OCE are systematic and reflect several years of experience in implementing projects in difficult environments. As stated above project outputs or milestones for project implementation are often confused with "transition outcomes" and were incorrectly set as performance benchmarks. The majority of TI benchmarks were process-, or more accurately, execution - oriented; that is they were designed primarily to assess whether project inputs or outputs were delivered, rather than whether intended outcomes or impacts were achieved. This observation echoes findings from OCE papers on transition impact in ETCs in 2010.[13] Box 2 below takes the opportunity to explain these terms and their interpretation in EBRD's specific context in greater detail:

Box 2: Output, Outcome and Impact

	OECD	Interpretation in EBRD's context
Output	Good and/ or service produced/ delivered by the intervention (e.g. rehabilitated road)	A tangible result from the operation(s) which is usually a good and/ or service produced/ delivered (things that can be purchased)
Outcome	Initial change attributable to the intervention (e.g. reduced transport time and cost)	The short- or medium-term realised transition impact of the operation(s) often targeting a change in behaviour (things that cannot be purchased but must be accomplished)*
Impact	Further long term change attributable to the intervention (e.g. development of trade)	The long-term expected and realised transition impact as well as other/ additional effects of an operation(s)

* such as the introduction of IFRS, tariff increases, etc.

Other weak areas identified included no transition benchmarks specified to track performance against project objectives in several instances. Sometimes expectations are only vaguely described, such as 'successful performance' without giving quantitative performance targets. This goes in particular for anticipated 'demonstration effects'. These were in some cases described as a particularly important transition impact, but no actual performance indicators or evidence could be provided to allow an informed judgment as to effectiveness and results. Only three cases presented the baseline data in TIMS reports and this was usually just related to one out of a number of benchmarks (with one laudable example found).

TC and policy dialogue monitoring. The financial and technical details of investment operations were generally monitored and reported on in a timely manner. However, the same cannot be said for the tracking of TC and policy dialogue performance. The Bank's reporting regimes are strictly separated between these two instruments and – whilst this makes sense in logistic and organisational aspects – it hampers a coherent reporting on achievements. In the case of TC, there has been, again, a tendency to report on inputs and activities ("the consultant delivered X") rather than on outcomes; this in turn largely reflects the original articulation and design of the TC. Reporting supervised by the Bank's Official Co-Financing Unit (OCU) requires an annual progress report, and a completion report upon the official commitment closure. Sometimes, results originating from TC -work are reflected in monitoring reports for the investment operation and/or TIMS. Nonetheless, and as a general rule, these two areas are reported

[13] In 2010 OCE did a number of interesting papers to assess the individual transition impact of ETCI operations and the particular role of TC herein taking for instance evidence from MSME lending operations.

on separately, even if they are closely intertwined. Project-related policy dialogue, while often critical to an operation's success, is neither formally planned nor reported on. Similar to the investment side, the monitoring burden cannot be overestimated in this particular area of operations, requesting an appropriate allocation of manpower and other resources.

3. Building impact into project design

3.1 Ex-ante Transition Impact

Projects that are well-designed should produce significant impacts, either directly or through good practices that are demonstrated and then scaled-up by others. The full impacts of the ten case study operations examined will take several years to unfold. Of these, the *ex-ante* transition impact potential was in three cases rated as '*excellent'*, in five as '*good'*, and in one case as *'satisfactory'* (one project was not rated). Most of the projects had a '*high'* or in two cases even an '*excessive'* risk attached, though in some cases the risk was lowered to 'medium' during project implementation. Judging from both the assessment of the project design and the field visits undertaken it appears as if the following projects will show major transition impacts:

– In the case of a mining sector project, the team envisaged new corporate governance and environmental standards for private domestic mining projects that are already being emulated by two large domestic mining companies, and contributed to an improved approach to regulating and licensing mining companies. Due to an excellent cooperation with other donors and IFIs, the project has also contributed to the country becoming the third country to accede to the Extractive Industries' Transparency Initiative (EITI) with the mining company representative serving on the tri-party EITI working group;
– A wind farm project some six years in the making, has already established precedents for power purchase and off-take agreements, and for tariffs for renewable energy, all of which is likely to provide the market infrastructure for other private investments in renewable energy and conventional power. The investment project was underpinned by an especially well designed TC project 'Renewable Energy Regulatory Development Road Map';
– One power and energy project would – in the eyes of the Evaluation Team - deserve an 'excellent' rating for its transition impact[14]. It is contributing to the creation of a market for power exports which will enable the country to attract substantial investment in private sector hydropower development. It is also the only operation in the sample that is expected to be an important 'demonstration project in regional cooperation' (one of the main overall ETCI goals);
– One project is being implemented with the help of OCE's new Integrated Approach and shows clear benefits from this. The TC work is particularly well designed and is not only supervised by the Banking Operation Team but also by an OCE staff member. This facilitates the effective integration of the objectives at different levels, including sector-wide policy reform with decentralised service management, public enterprise corporatisation and the use of public service contracts.

Other design factors which appear to contribute to transition impacts in the ten cases include:

(a) ample TC in preparing sponsor enterprises for Bank assistance (in business planning, project preparation, environmental assessments) and in reviewing and formulating improved regulatory frameworks;

[14] Rated 'Good' at project appraisal. A similar case of another equity investment was also found to be underrated in terms of transition impact. On the other hand, two others had rather generous ratings of TI potential.

(b) strong project ownership from two sides, the project sponsors that are bound by project covenants, and the regulatory authorities that are convinced through policy dialogue;

(c) close coordination with other IFIs to establish an agreed division-of-labour in assisting the authorities in particular reform areas.

Not all projects, however, are likely to have substantial transition impacts. For example, the two commercial bank projects in the sample that aimed at MSME appeared rather modest in their transition impact expectations (with one being rated *Satisfactory* and the other one not being rated). This impression was gained despite or maybe due to the fact that several rounds of EBRD finance and TC support had been provided previously. A preliminary finding from this would be that progress within a multi-bank framework is not sufficiently tracked to provide evidence on achievements across the participating banks. A second possibility is, that the individual participating bank has developed to such a stage in the meantime, that its individual challenges do not align well any longer with the given framework.

3.2 Inclusion of social impacts

No poverty or livelihood impacts were explicitly factored into the design of the projects examined, although poverty alleviation was identified as one of the ultimate goals of the Initiative[15] and is at times addressed in country strategies. Strategies for Central Asia, for instance, make an explicit link between increased private sector participation in mining and poverty alleviation. And a project there did produce substantial impact in this regard, yet that was never made explicit in the individual project design nor in its impact monitoring.

An MEI project was intended to improve provision of clean drinking water to the poor, in a way that saves considerable amounts of time for low-income women and makes them less vulnerable for water-borne diseases. In summary , the impact of ETCI operations on income, distribution and poverty-related issues can in specific cases be substantial. An extra monitoring effort would in these cases be justified to map and to track, and yield useful lessons and evidence-based stories. Going forward the Bank should seize the opportunity to include planning and monitoring of social effects of its operations especially if it continues to rely on the generous support of the ETCF and other donors.

4. Improving ETC investment environments

4.1 Investment Councils (ICs)

The ETCI was developed to help the Bank increase its reach and effectiveness in countries facing a legacy of strong top-down, decision-making combined with government bureaucracies still far from enabling private initiative. Investment Councils to be introduced as part of ETCI-related work were intended to bring together domestic business leaders and senior government officials in order to address constraints on domestic businesses; they were to serve as a forum for policy dialogue between the private and public sector, so that the concerns of the business community could be voiced, and action could be taken flexibly and quickly to improve the business setting.

Under ETCI the Bank launched its first Investment Council (IC) in the Kyrgyz Republic in 2006 followed by ICs in Tajikistan, Mongolia and Armenia. Approximately €2.9 million of TC funding has been approved for the four Councils, with average IC expenditures running at about €200,000 per annum. The ICs are often

[15] Board document for approving the ETCI

also supported by other donors, for instance through funding a staff position in the Secretariat or supplying legal experts in specific fields. Whilst the original aim was to establish such investor councils in six ETCs, this has since been reduced to four. Belarus and Turkmenistan are not at a stage where ICs can be effective; in Georgia an intended IC proved unnecessary.

Figure 8: EBRD-Supported Investment Councils in Mongolia, Armenia and Tajikistan

-	Armenia	Mongolia	Tajikistan
Name	The Armenia EBRD Business Support Office + SME Development Council	The Mongolian Consultative Council on Investment Climate and Private Sector Development	The Consultative Council for improvement of the investment climate under the President of the Republic of Tajikistan
Year of est.	May 2007 / July 2011	Feb-07	Dec-07
Chaired by:	Prime Minister	Prime Minister / Deputy PM	The President of Tajikistan
Local Counterpart	Armenian Agency for Development; Ministry of Economy	Ministry of Finance	State Committee on Investment and State Property Management
Personnel:	8 (5 funded by the EBRD)	5 (all funded by the EBRD)	7 (5 funded by the EBRD)
Others involved	IFC, OSCE	World Bank	IFC; GIZ
No. of sessions	7	10	8
Areas of activity	- Tax and Custom's administration issues; - Tax and other Inspection Reform; - SME registration and development	- Government Action Plan on doing business reforms; - PPPs, Corporate Governance; modifications to the concession law, credit information bureau, etc.	- 200-day reform programme; - amelioration of the World Bank Doing Business indicators; - specific support programme for the construction industry, ICT, etc.

No Launch in Georgia: In November 2007, following a request from the Prime Minister's Office, the EBRD provided a small TC to support the start-up of an Investment Council in Georgia. Following a change of government in 2008, political support for an EBRD-supported IC dissipated. In retrospect, there was little need for an IC - Georgian business associations are numerous, well-funded, professional and provide solid recommendations to policy makers; business associations and government leaders meet regularly; and the government has demonstrated its responsiveness to concerns raised by the business community.

4.2 Design and function of the ICs

The TC projects for the four ICs are bundled and approved as a framework[16] programme with individual 'call-off' assignments. The wider objectives as stated above are the same for all ICs while terms of Reference (ToR) are designed individually. These tend not to be strategic or thematic, but rather largely comprise descriptions of responsibilities of different positions, such as head of secretariat and advisers. The focus lies on activities and deliverables (reports and number of meetings held) rather than achievement indicators (such as private sector share of GDP, FDI inflows, number of business registrations etc.).

The IC activities are reported on at different levels at the Bank. First, there is the mandatory reporting regime supervised by OCU which delivers annual progress reports on the entire Framework for ICs. These give a brief overview of the activities and rate the performance of the Consultant as well as the overall outcome so far. In terms of results' monitoring these reports provide very little that is useful or from which more widely applicable conclusions may be drawn. They are supplemented by individual quarterly and annual reports from the individual ICs themselves. These, again, tend to emphasize detail and activities rather than accomplishments or impacts.

A direct consequence of the output-oriented project design is that the ICs cannot say with much clarity what they have achieved or are likely to achieve on the basis of available evidence. While there is evidence that ICs have helped to catalyse numerous changes in business regulations, it is unknown what effect these may have had at a wider sector level or at the level of the individual firm. An IFC performance evaluation of the Tajikistan IC, which it co-supported with EBRD, observed that "*there has been little effort to set targets for Council activity and performance, in terms of both the volume of issues addressed and its impact on the reform process.*"[17]

Most ICs have defined as a quantitative overall success indicator the country's ranking in the World Bank's Doing Business Indicator Report. Whilst this appears as a reasonable proxy at first, the reality showed that there might be different interpretations of its results.[18] It is in general not advisable to take just one indicator as a measurement for success. Apart from EBRD's own transition indicators on country- and sector level, analytic reports from OECD, IMF and others, would also be valuable means for assessing the success of the Council's work over time.

Given the wide scope of activities in which the ICs are involved it might be expected that their activities and results would be discussed with interested internal parties on a regular basis. It is not clear from available material whether departments such as the SRD, OCE and LTT are systematically informed of the Councils' progress, though it may well be that this dialogue is conducted informally. The project design of the IC Tajikistan envisaged the creation of an *Internal Advisory Board* to be chaired by the BGD TEECA; this might have wider applicability.

5. Key observations and issues to consider

5.1 Observations specific to the ETCI

[16] A TC framework operation provides an overall commitment from which funding can be drawn to finance specific work.
[17] Evaluation report on 'Public Private Dialogue on the Business Enabling Environment in Tajikistan', delivered by Malcolm Toland, on behalf of IFC Advisory Services, 2010
[18] In the case of Tajikistan for instance, progress in the years 2008 to 2010 was proudly presented whilst a change in the World Bank's Doing Business methodology, led to a worse rank in 2011.

This evaluation was intended primarily to focus on design patterns and practices with respect to operations approved under the Early Transition Country Initiative. Ten case studies and three Investment Council projects were assessed through the lens of design "quality-at-entry" and evaluability relative to the objectives of the Initiative and the particular challenges and opportunities presented by the early transition countries.

A number of projects in the sample merit replication by other Operation Teams. In some cases this applies to the overall concept – such as the integrated approach in the MEI case study example; in others, it relates to project planning and implementation; and in still others to specific elements. In general, the statement of one of the interviewed Operation Leaders was very much confirmed: concentrate on getting the fundamentals right.

Naturally, the assessment of a limited project sample needs to be careful in drawing wider conclusions about the overall impact of the Initiative, for two main reasons: first, the difficulty of effective attribution of impact given the design and monitoring limitations identified in the project sample; and, second, the inherent difficulty of assessing the wider impact on major transition challenges of small operations scattered across a wide range of sectors.

The scale of the challenges, coupled with resource constraints and design issues suggests there could be greater returns to more specialisation and strategic selectivity; that is, a more deliberate focus on fewer and more specific transition gaps where the Bank could play the role of a reform catalyst, including in cooperation with other players who might help leverage its policy reform work.

These broad observations and findings suggest it would be useful to focus on the following:

- Project design/quality-at-entry could be improved by ensuring that ETCI projects:
    - set out more explicitly the transition challenges intended to be addressed, and how;
    - categorise their objectives as physical, financial, commercial or 'transition-related' and oriented at outcomes (= behavioural change) wherever feasible;
    - connect specific inputs or activities to specific intended results and monitor developments consistently;
    - establish adequate baseline data at the outset; and
    - identify clear objectives for TC/policy dialogue and monitor these effectively.

- The Investment Councils should have clear performance targets, which could be identified through a wider discussion involving all related stakeholders, and specific steps to consider would include:
    - agreement on what exactly is to be achieved by the Council; how its performance should be measured; and resources that will be required;
    - more effective engagement by the RO's in the day-to-day oversight of ICs;
    - stronger coordination and exchange of information between different Bank departments, for instance through the revitalisation of the *Internal Advisory Board*;
    - the definition of different phases and possible ways to graduate from international support in the medium- to long term.

- The Initiative could employ more programmatic or 'integrated' approaches, reinforced by more adequate monitoring and reporting of progress in specified countries and sectors:
    - ETC Country Strategies might identify fewer sectors as priorities and specify more clearly what might their results benchmarks might be;

- OCE might usefully be involved more deeply in the design and supervision of the Initiative's transition impact for finding ways to tackle stubborn challenges;
- Priority regulatory and institutional reform measures, supported by associated TC and policy dialogue, could be better captured in Transition Performance reporting;
- New approaches to incorporating poverty and well-being indicators into TIMS could be explored.

5.2 Observations with wider applicability in the Bank

Many of the above issues have relevance well beyond the ETCI and indeed echo some consistent EvD findings in the past[19]:

- Implementation experience and lessons tend to remain within the same team—there is little evidence of wider institutional learning;
- An overarching project design methodology for integrating the different project objectives is lacking - there is no apparent hierarchy of results;
- There is a lack of consistency in how 'outcomes' are distinguished from 'outputs';
- Transition impact expectations are very often stated in terms of 'market size' instead of 'market structure' which tends to diminish their reach and ambition;
- Baseline data are not systematically presented;
- Key operational performance data are not effectively monitored;
- Performance targets and benchmarks for country-level Investment Councils, a key ETCI delivery, are not set out with sufficient clarity to allow meaningful tracking of performance or mid-course correction;
- Policy dialogue and TC are very often not effectively connected to investments, nor accompanied by effective performance metrics and monitoring plans of their own.

Some of these findings are already being addressed, including a more specifically results-oriented design of TC and non-TC projects, a systematisation of transition benchmark indicators and a better link between TC results and the project related TIMS, as well as a more inclusive transition impact concept, capturing social and poverty-related effects. In addition, it was learnt that the Bank's procurement department conducts institutional capacity assessment on each new client and benchmarks their practices against OECD DAC – criteria and indicators.

The experience elsewhere that well designed projects produce better results (see page 3) should be demonstrated in the EBRD context. EvD plans to undertake work in this area during 2012[20]. In the meantime, ETCI Management, the Operation Teams and OCE are encouraged to place greater emphasis on the quality-at-entry of operations and their expected transition impacts as the available evidence points to the fact that this will produce better results.

[19] See most recently the AEOR 2011 and the Synthesis Paper on Financial Sector Operations.
[20] Including the briefing note on Evaluability (WP11) and the planned study on performance metrics (WP12)

Annex 1: Evaluation approach

Previous ETCI-related evaluation work

The Bank's Evaluation Department (EvD) has done numerous evaluations relevant for the ETCI, such as the ones focussed on specific investment facilities: DIF (2006 & 2008); TFP (2008), DLF and MCFF (2009); as well as assessments of relevant TC support, including BAS (2006) and the ETCF (2007).

Proposed Scope

The proposed new evaluation work is intended to follow upon and extend the 2007 evaluation of the ETCF, i.e. covering investments, TC and policy dialogue interventions. Its scope will be limited to ETCI activities approved after 2007, which may be completed or still ongoing. It will focus in particular on a limited sub-set of design and execution issues that have emerged with regularity in connection with specific ETCI transactions proposals as well as in the context of the Bank's periodic reviews of the implementation of the Initiative.

More specifically, the evaluation is intended to focus mainly upon:

- the clarity and sufficiency of project-level articulation of project objectives and benchmarks in light of the wider purpose of the Initiative;
- the adequacy of monitoring mechanisms in place e.g., baseline data, data collection, reporting to permit effective measurement of progress toward stated objectives; and,
- the linkages, where relevant, between policy dialogue, TC activities and investment operations, with particular attention to the Investment Councils (ICs) established in four of the ETCs and meant to foster better dialogue between the public and private sector and leading to legislation and regulatory amendments to improve the private sector.

The evaluation will also look at key ETCI delivery channels maturing only after the 2007 evaluation, including dedicated hubs; whilst it should be possible to assess the performance of the Tbilisi-hub (active since 2006), the assessment of the Istanbul-hub (active since 2011) would be limited to organisational and structural criteria.

EvD does not intend to conduct OPER-style evaluations of the sample operations, nor to produce performance ratings.

Sample population and countries

The Evaluation envisages selecting up to 10 operations in each of the four pre-identified ETCs (resulting from consultations with ETCI and OCE), through stratified purposive sampling, covering a variety of sectors, project maturity stages and success perceptions. The selected ETCs (see table below) reflect the following characteristics:

- Regional attribution: CMB or CA&M region;
- Transition status: mix of preconceived "more"-advanced" and "less"-advanced ETCI-response constellations;

– Dedicated policy dialogue mechanisms in place: the “with” and “without” IC scenarios;

Region and IC pattern	CMB	CA&M
“with” IC	Armenia	Tajikistan Mongolia
“without” IC	Georgia	

Report coverage

With the above approach in mind, the evaluation report is, tentatively, planned to cover:

- analysis of the ETCI-attributed portfolio and pipeline; validating statistical data already available and providing some more specific analyses moreover, if warranted; due consideration needs to be given that the ETCI is implemented complementary to respective country strategies and sector policies;
- assessment of the effectiveness of the key ETCI success drivers (notably, TC and staff resource allocations; policy dialogue initiatives; establishment of Investment Councils and ETCI-hubs)

Key Information sources

EvD expects:

– to make primary use of existing project and programme documents, including the recent 2011 Update report (SGS11-163) and its predecessors, the 2010 Halcrow Study and relevant material from other MDBs and Donors active in the ETCs;

– to revisit relevant past evaluation work that could inform the captioned MTR and also obtain information illuminating the take-up by the Bank of previous lessons and recommendations;

– apart from interviewing ETCI executive functions (e.g. ETCI team, ETCI hubs), EvD will obtain the views of other internal stakeholder groups, including

  - members of the Board of Directors (on record for their distinct interest in the subject matter);
  - OCE, ESD, OCU, TCCom, selection of banking team directors
  - RO heads and TAM/BAS representatives of countries to be visited (see below)

– Similarly, EvD will interview selected external stakeholder groups in the countries to be visited, including

  - relevant governmental or other public sector entities;
  - representatives of other MDBs and Donor organisations active in support of commercial operations and the business environment at large;
  - relevant parties of commercial banks, equity funds and the like which are investing in/lending to commercial entities;

- commercial departments of embassies, assumed of holding views on FDI, legal environment and general economic development as well as on the Bank's more general performance; and
- a selection of Bank TC/investment beneficiaries.

Tentative timeframe

The envisaged overall timetable is as follows:

- **June/July 2011**: Preparation of and agreement on captioned Evaluation Approach Paper consultant TOR and budget agreement; consultant procurement initiation; initial consultations with main TC contributors; securing of banking support structure for forthcoming field work,
- **July/August 2011:** Consultant contracting; evaluation concept refinement; data and information collection; field visit preparation; development of questionnaires (eventually their submissions),
- **August-October 2011:** Field visits (including ETCI hubs) and country data consolidation, preparation of draft country reports,
- **October/November 2011:** Finalising of case study assessments (intermediate output to remain on EvD files); consolidation of ETCI data collected; gap analysis and obtaining of supplementary information; preparation of first draft evaluation report,
- **November/December 2011:** Finalising of draft report for EvD internal consumption,
- **December 2011-February 2012:** OM stipulated peer review process (of case study assessments),
- **February/March 2012:** report finalisation and submission to Board.
- **March/April 2012:** Audit Committee and/or ETCF Assembly Meeting presentation of the evaluation report.

Annex 2: Operational Priorities defined for ETCs as per recent Country Strategies

<table>
<tr><th></th><th colspan="4">Financial Sector</th><th colspan="5">Corporate Sector</th><th colspan="4">Infrastructure Sector</th></tr>
<tr><th></th><th>Banking</th><th>MSME</th><th>NBFI</th><th>Equity</th><th>Agribusiness</th><th>Equity Funds</th><th>Property & Tourism</th><th>Telecoms</th><th>Mfg & Services</th><th>Natural Resources</th><th>Power & Energy</th><th>Transport</th><th>MEI</th></tr>
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Source: EBRD Country Strategies between 2007 and 2011; and further information obtained from ETCI Management