



# ROOM DOCUMENT NO. 3

**DAC WORKING PARTY ON AID EVALUATION**

## **GOOD PRACTICE STANDARDS FOR EVALUATION OF PRIVATE SECTOR INVESTMENT OPERATIONS**

**Submitted by the Multilateral Development  
Banks'  
Evaluation Cooperation Group**

**Agenda item No. 5**

---

**34<sup>th</sup> meeting  
22-23 May 2001**

## **Multilateral Development Banks (MDBs) The Evaluation Cooperation Group (ECG)**

The Evaluation Cooperation Group (ECG) was established by the heads of evaluation in the Multilateral Development Banks (MDBs) in February 1996. Membership includes the African Development Bank (AfDB), the Asian Development Bank (AsDB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IDB), and the World Bank Group (WBG), i.e., the World Bank proper and its private sector affiliate, the International Finance Corporation (IFC). The European Investment Bank (EIB) became a member in October 1996.

The major purposes of the ECG are:

- i. to strengthen the use of evaluation for greater MDB effectiveness and accountability ,
- ii. to share lessons from MDB evaluations and contribute to their dissemination,
- iii. to harmonize performance indicators, evaluation methodologies and approaches,
- iv. to enhance evaluation professionalism within the MDB, and to collaborate with the heads of evaluation units of bilateral and multilateral development organizations, and
- v. to facilitate the involvement of borrowing member countries in evaluation, and promote their evaluation capacity.

Participation in the Group is voluntary, decisions are reached by consensus, and the Chair rotates among the Members on an annual basis. The AfDB's Director, Operations Evaluation Office recently assumed his rotation as Chair. Prior to this, the EBRD, WBG, IDB and ADB evaluation heads have held the post. Since its establishment, the ECG has met semi-annually.

*MULTILATERAL DEVELOPMENT BANKS (MDB)  
EVALUATION COOPERATION GROUP (ECG)*

MDB-ECG Good-Practice Standards for  
Evaluation of  
Private Sector Investment Operations

**VOLUME 1:  
MAIN TEXT**

**February 21, 2001**

## CONTENTS

	<b>Page</b>
<b>I. BACKGROUND AND CONTEXT .....</b>	<b>1</b>
1.1 From the MDB Task Force Report .....	1
1.2 From the MDBs' response.....	1
<b>II. PURPOSE, GUIDING FRAMEWORK, PRINCIPLES APPLIED,     SCOPE AND DEFINITIONS .....</b>	<b>1</b>
2.1 Purpose of this memorandum: .....	1
2.2 Guiding framework .....	2
2.3 Application of principles .....	2
2.4 Scope and limitations of this memorandum.....	2
2.5 Definitions.....	3
<b>III. ROLES OF INDEPENDENT AND SELF-EVALUATION.....</b>	<b>5</b>
3.1 Structure and role of independent evaluation .....	5
3.2 Role of self-evaluation .....	7
<b>IV. EVALUATION TIMING, POPULATION, COVERAGE AND SAMPLING</b>	<b>7</b>
4.1 Timing.....	7
4.2 Population for sampling.....	8
4.3 Evaluation coverage: .....	8
4.4 Sampling .....	8
<b>V. DOCUMENTATION, PROCESS FAMILIARIZATION AND REVIEW .....</b>	<b>9</b>
5.1 Documentation .....	9
5.2 Familiarization and execution.....	10
5.3 Review and independent validation .....	10
<b>VI. EVALUATIVE SCOPE .....</b>	<b>11</b>
6.1 Performance dimensions evaluated and indicators rated .....	11
6.2 Framework's evaluative rationale and efficacy .....	12
6.3 Performance ratings and benchmarks .....	12
6.4 Lessons learned and recommendations for follow-up .....	13
6.5 Standard XASR attachments.....	14
<b>VII. ANNUAL REPORTING, PROCESS TRANSPARENCY AND STAFF     INCENTIVES.....</b>	<b>14</b>
7.1 Annual synthesis reporting.....	14
7.2 Process transparency and staff performance incentives.....	15
<b>VIII. DISSEMINATION, ASSURING LESSONS APPLICATION, AND     DISCLOSURE.....</b>	<b>16</b>
8.1 Dissemination .....	16
8.2 Ensuring lessons application.....	16
8.3 Disclosure.....	16

<b>IX. IMPLEMENTATION AND PRACTICE MONITORING</b> .....	17
9.1 Ratings harmonization .....	17
9.2 Convergence progress monitoring .....	17

**Attachment 1:** Guiding Framework Documents

**Attachment 2:** Terms Used in this Memorandum & Comparable Terms in Each Member MDB

**Attachment 3:** List of Exhibits

## **MDB-ECG Good-Practice Standards for Evaluation of Private Sector Investment Operations**

### ***I. Background and Context***

**1.1 From the MDB Task Force Report:** “The development of objective indicators of performance is also essential for the public accountability of the MDBs and their ability to justify their use of public resources to shareholder governments, parliaments, and the public. Currently, it is not possible to compare their operational results, or even to describe them in a common language. Major public sector institutions like the MDBs must be able to account for their efforts in readily understood terms. *A common methodology for evaluating their portfolios should be developed and kept up to date overtime, with best practices in evaluation techniques being identified and disseminated. A determined effort should be made to harmonize performance indicators and evaluation criteria, taking into account the differing circumstances of each institution.*\* The lessons learned from these evaluations should be shared among the MDBs with a view to applying them quickly in new operations.” Development Committee, Task Force on Multilateral Development Banks, "Serving a Changing World--Report of the Task Force on Multilateral Development Banks", March 15, 1996, page 18 para. 50.

**1.2 From the MDBs' response:** "The [Evaluation Cooperation]\*\* Group will continue its efforts *to make evaluation results comparable and to have their findings properly translated into operational standards.* Meeting in Hong Kong in October 1997, the MDB presidents ... strongly endorsed further intensification of collaboration among MDB evaluation units in harmonizing evaluation standards and activities, defining more effective linkages between independent and self-evaluation ... *The harmonization dialogue will be extended to country evaluations, non-lending services, and evaluation of private sector operations.*" Development Committee, "Report from the Multilateral Development Banks on Implementation of the Major Recommendations of the MDB Task Force Report", March 26, 1998, page 4.

### ***II. Purpose, Guiding Framework, Principles Applied, Scope and Definitions***

**2.1 Purpose of this memorandum:** In pursuit of the above commitment, the Working Group members' (the Members') objective here is to define and help establish good-practice standards, consistent with broadly accepted evaluation principles,<sup>1</sup> for application in their evaluations of, and related synthesis reporting on, their MDBs' private sector investment operations. Beyond the ECG's committed harmonization agenda, which aims at convergence of evaluative standards and reporting practices among the MDBs to cater

---

\* Italics added for relevance to this memorandum.

\*\*Words in square brackets are added for contextual clarity.

for accountability needs, the standards described here also aim to cater for evaluation's other main purposes -- coherent linkage of evaluation with operational standards in pursuit of corporate missions and objectives, and corporate learning from experience for improved results (sections 1.1-1.2).

**2.2 Guiding framework:** The Members have developed this paper within the overall framework of the OECD DAC evaluation principles, the ECG principles and objectives -- both as set forth in the documents listed in the Attachment -- and the coherence principles of results-based management. The Members have intended that the objectives, principles and practices described in this memorandum, be fully consistent with those set forth in the referenced guiding framework principles.

**2.3 Application of principles:** The standards of practice described in this memorandum:

- derive from the established DAC evaluation principles of impartiality and independence, credibility, usefulness, participation, inter-agency cooperation, feedback and follow-up;
- reflect the good-practice design features of e.g. financial accounting/reporting and the International Organization for Standardization (ISO) in specifying standards, procedures and independent verification; are specifically tailored to be responsive to the special characteristics and institutional learning and accountability needs of those MDBs or their sub-units whose missions include private sector development in developing and/or transitioning market countries; whose primary activity is making investments in private enterprises without recourse to sovereign or, normally, unconditional third-party guarantees; and who report their evaluation findings to their Boards and/or to the public;
- are designed to be coherent with the operational policies and standards that were in place at operation approval (for accountability) and as evolved up to the time of evaluation (for learning);
- are informed by the Member agencies' performance measurement methods and experience to date in applying them in the evaluation of private sector operations; and
- recognize that while the individual Member agencies' missions vary, the Working Group's harmonization agenda necessarily implies that evaluation practice standards must be sufficiently consistent in their design and application to achieve the purpose described in section 2.1 above.

**2.4 Scope and limitations of this memorandum:** These standards are intended for application in evaluation of *individual private sector investment operations* and corporate-level synthesis reporting in relation to them. At the same time, recognizing that harmonization involves a progression from first principles to details, these standards reflect a prioritization within that process and thus involve limitations.

*Scope:* To meet part of the ECG's primary agenda of harmonization for institutional accountability, this memorandum's scope necessarily extends (but is not limited) to:

- the governance structure of the central evaluation department,

- the split of responsibilities between independent and self-evaluation,
- project maturity at evaluation,
- sampling representativeness and portfolio coverage,
- scope of evaluation,
- performance indicators,
- measurement methods,
- rating system design,
- benchmark consistency,
- diligence and rigor of execution,
- rigor of the independent review process to ensure impartiality of judgments,
- coherence and transparency in results synthesis in annual reviews and corporate process reporting,
- inclusion of evaluation findings in corporate scorecard reporting, and
- a level playing field in public disclosure standards.

*Limitations:*

- These project- and related synthesis-level harmonization standards do not encompass the full scope of the MDBs' private sector evaluation activities (such as sector, program, thematic and country evaluations) that are needed to support broader accountability judgments of institutional effectiveness, or as may be judged efficacious by individual MDBs for meeting their mission-specific institutional learning needs.<sup>ii</sup>
- Even for investment operations, relative to informing strategy, the Members recognize that the minimum early-maturity portfolio coverage and performance representativeness standards prescribed here (section 4.3) will not cater for learning needs down to the sub-sector level (for example, the relative performance of venture funds within the financial sector). Nor will the minimum sampling levels necessarily support inferences about corporate year-on-year performance trends or departmental *inter se* performance for success rates falling within the associated confidence intervals.<sup>iii</sup>
- Most importantly to this memorandum's primary purpose, these standards will not provide a complete basis for harmonization and MDB *inter se* results transparency until the Members have reached agreement on ratings guidelines for each generic indicator (including their benchmarks). The Members intend to do so in a future addendum to section 6.3 of this memorandum.

**2.5 Definitions:** The terms used in this paper have the following meanings and abbreviations; comparable terms used in each Member agency are in Attachment 2:

- *CED*: the MDB's central evaluation department, being the corporate unit charged under its mandate with supporting the self-evaluation system for investment operations and reviewing its main products -- the XASRs -- in addition to producing annual reviews of the MDB's evaluation results, other independent evaluation studies and related dissemination responsibilities;
- *the company*: generally, the legal entity owning and implementing the project, and the MDB's investment counterparty;<sup>iv</sup>

- *disclosure*: the systematic distribution of evaluation findings through various media (including mainly the MDB's external website) to the public at large, normally according to certain restrictions specified in a Board-approved disclosure policy;
- *dissemination*: the systematic distribution of evaluation findings through various media within the MDB, generally without restriction as to contents, with the aim of promoting awareness and reinforcement of corporate objectives, success standards, accountability, and use of lessons for improved results;
- *early operating maturity* of an investment, for other than financial markets operations featuring identifiable sub-projects, is the year during which the project has generated *at least* 18 months of operating revenues for the company, reflected in at least two sets of its audited financial statements; in the case of financial intermediary operations featuring distinct, identifiable sub-projects, refers to the project year when substantially all of the intermediary's sub-projects financed by the MDB's operation have reached at least 18 months past final disbursement of sub-loans (or sub-investments in the case of equity fund projects – see section 4.1);
- *Expanded Annual Supervision (monitoring) Report (XASR)*: a standard, one-time annual supervision report for the year when the project reaches early operating maturity, with an attached evaluative addendum (*expanded* refers to the evaluative addendum). The addendum is a concise five-to-ten page document, executed in a standard template according to a set of instructions prepared by the CED, and featuring (1) analysis of specified performance dimensions with rated indicators (sections 6.1 and 6.3), and (2) lessons learned for avoiding outcome shortfalls and getting better results in both future and portfolio operations (section 6.4). XASRs are executed on all -- or a representative sample of sufficient size to support meaningful performance inferences (sections 4.2-4.4) -- "regular procedure" operations.<sup>v</sup> CED-verified XASR findings and performance ratings form the core of the scope of the CED's annual synthesis report (the annual review);
- *independent evaluation*: evaluations undertaken by the MDB's central evaluation department (CED), including Performance Evaluation Reports (PERs), XASR Assessments (XASR-As), special studies and annual reviews, the latter based largely or in part upon the findings of CED-verified XASRs, PERs and relevant portfolio performance data;
- *the investment*: the MDB's financing instrument that is specific to the operation being evaluated: mainly loans, loan guarantees, quasi-equity and equity investments;
- *net approvals population (NAP)*: the population of MDB investments, mostly those five years past Board approval, that has reached early operating maturity and is ready for sampling for XPSRs and PERs;
- *the operation*: the MDB's objectives, activities and results in making and administering its investment as partial financing of the company's project;
- *Performance Evaluation Report (PER)*: an evaluation report prepared by the CED on an individual investment operation; it addresses the same scope and applies the same evaluative research depth standards (e.g. field visit-based), guidelines, measures and ratings standards as the XASR;

- the *project*: generally, the company's capital project or program and related business activity that has been partially financed by the MDB's investment selected for evaluation;<sup>vi</sup>
- *self-evaluation*: evaluation of an investment operation (through an Expanded Annual Supervision Report, XASR) that is undertaken by the staff of the MDB's operational department that has day-to-day, front-line responsibility and accountability for monitoring, administering and reporting on the investment operation that is being evaluated;
- *XASR Assessment (XASR-A)*: CED's instrument for conveying the findings of its desk review of each XASR; its scope includes a judgment of their quality (responsiveness to scope guidelines, research depth, application of guideline-prescribed standards, and objectivity), appropriateness of assigned performance ratings, appropriateness and completeness of identified lessons, and issues for discussion in a Management-led review meeting (if CED recommends the XASR for such a review).

### ***III. Roles of Independent and Self-evaluation***

**3.1 Structure and role of independent evaluation:** The CED operates according to a Board-approved mandate (policy statement) that specifies its mission, scope of responsibilities, governance structure and key operating principles.

*Structure:* The mandate's provisions are designed to ensure CED's independence, its relevance to the MDB's mission, and its delivery of its corporate accountability and learning value-added (**Exhibit 1** provides an illustrative example). Specifically, CED's reporting line, staff, budget and functions are organizationally independent from the MDB's operational, policy and strategy departments and related decision-making.<sup>vii</sup> Independence does not imply isolation -- CED operates with full autonomy but in close consultation with the MDB's other departments to ensure as far as possible (subject to the primacy of sound evaluative principles and practices) coherence of corporate standards (as among operations, portfolio and strategy analysis and evaluation) and good prospects for corporate ownership of CED's findings and recommendations for improvement. In general, its role is to ensure the relevance, quality, impartiality and usefulness of the products of the MDB's evaluation system. To meet its responsibilities, under its mandate CED has a scope of responsibility that extends to all determinants of the MDB's operational results. CED has unrestricted access to the MDB's staff, records, co-financiers, clients and projects. CED transmits its reports to the MDB's Board after review and comment by relevant corporate units, but without any management-imposed restrictions on their scope and contents. Its manager holds grade-rank at least equal to operational department directors. In relation to the evaluation of individual investment operations, CED executes its mandate by:

- defining, writing and continuously refining the MDB's evaluative standards, instruments and related guidelines, in consultation with operations management, relevant corporate functional departments, and the Board's evaluation oversight committee, informed by internal experience with their application, feedback from stakeholders, and evolving internal and external good practice;

- coordinating with those MDB units responsible for strategy formulation and corporate scorecard development and related reporting (as relevant) to ensure that, consistent with the coherence principle of good-practice results-based management, (1) the evaluation measures, standards and benchmarks will serve to reinforce the corporate mission, objectives and policies, inform corporate learning needs and align as far as possible with the general corporate reporting framework; and (2) the annual review's three dimension synthesis ratings (section 6.3) are included in the integrated corporate performance reporting;
- establishing -- in consultation with each operational department -- the population of early-maturity projects for sampling; reaching agreement with management on the XASR sampling coverage (at a level consistent with the standards described in section 4.3); and conducting the sampling for XASRs and PERs to meet the standards described in section 4.4 with a view to catering for both corporate accountability and learning needs;
- providing input to the portfolio and operations departments in their development of the XASR delivery schedule with a view to minimizing review bunching and being able to meet the annual review delivery schedule;
- familiarizing the XASR teams from the operational departments with sound execution practices and providing them with operation-specific advice with the aim of achieving high responsiveness to the guidelines, efficient, consistent and objective execution, and on-schedule delivery;
- verifying XASR findings, performance judgments and ratings on the basis of systematic reviews in XASR-As, applying consistent and objective judgments;
- as relevant, supporting the MDB's senior operations management in their administration of an annual XASR best-practice awards program to recognize and help incentivate high quality, on-schedule XASR execution;
- as relevant (see sections 4.3-4.4), executing PERs on a sample of investment operations for inclusion in the scope of annual synthesis reporting;
- maintaining an evaluation database including all relevant characteristics of evaluated operations to support independent evaluation studies and annual review analysis;
- synthesizing the CED-verified XASR findings, supplemented as appropriate by its independent PERs, other evaluation studies and portfolio analyses, in annual reviews to the MDB's management and Board;
- disseminating the findings of all XASRs, PERs and CTE annual reviews and studies through instruments that allow easy retrieval, absorption and application of lessons by investment policy and strategy department staff; and
- monitoring and reporting annually to management and the Board on the quality and efficacy of the MDB's evaluation system, including application of lessons learned in new operations.

### 3.2 Role of self-evaluation: **In the interest of efficiency, ownership of XASR and annual review findings and ratings judgments, learning from experience and**

**providing accountability for results, the operations departments responsible for investment commitments and/or portfolio management, supported by relevant functional specialist units:**

- contribute to the development of evaluative guidelines and standards, including providing process feedback on problems encountered in applying them;
- establish and accomplish the XASR delivery schedule to spread the review load for the specified number of reports throughout the program year;
- execute XASRs on their investments in accordance with CED's sample selection and evaluation guidelines, being responsive to the CED's XASR-As;
- ensure XASR report quality and delivery of the annual XASR program within schedule;
- ensure that the performance indicators, standards and benchmarks used in corporate and departmental scorecard reporting are consistent with those being applied in the XASRs, and that the CED-validated XASR/PER success rates for the three evaluated performance dimensions are reported in the scorecards; and
- identify and bring to bear relevant lessons and findings from the evaluation system in screening, appraisal and structuring of new investment operations and supervision/monitoring of portfolio investment operations.

#### ***IV. Evaluation Timing, Population, Coverage and Sampling***

**4.1 Timing:** To be reliable in anticipating outcomes and therefore relevant to their purpose, evaluative judgments on an operation must be based on a long-enough track record of demonstrated operating period performance. For this reason, an operation is included in an annual approvals cohort for sampling and reporting only when its related project has reached *early operating maturity*.<sup>viii</sup>

- For financial markets projects featuring identifiable sub-projects financed by the MDB's investment, *early operating maturity* refers to the project year when substantially all sub-projects financed by the intermediary have reached at least 18 months past the intermediary's final disbursement of sub-loans; the same test applies to an equity fund project's sub-investments.
- For other than these financial markets operations, *early operating maturity* refers to the year during which the substantially completed project will have generated *at least* 18 months of operating revenues for the company, reflected in at least two sets of its audited annual financial statements.

CED establishes the project maturity status of each investment that has reached at least five years past Board approval, in consultation with the responsible operational departments. (Generally, investments will reach the early operating maturity stage at about 5-6 years after the MDB Board's approval.) Those that have not are excluded from the current evaluation year's net approvals population for sampling and rolled forward for inclusion in the population for sampling in the future year when they have reached early maturity per the above test.<sup>ix</sup>

**4.2 Population for sampling:** Having established the maturity status of each approved investment and its related project according to the above procedure, CED defines annually the “net approvals population” (NAP) for the purposes of determining evaluation coverage and sampling for XASRs and (as relevant per section 4.4) PERs.<sup>x</sup> The NAP includes all disbursed (including partially cancelled) investments -- whether still active or already closed (paid-off, sold or written off) -- that have reached early operating maturity (or for those already closed by their fifth anniversary after approval, even if they never did).<sup>xi</sup>

**4.3 Evaluation coverage:** Both approaches feature independent validation of each XASR's findings by the CED through an XASR-A.

- *Best-practice approach:* 100% XASR coverage of investments within the net approvals population.
- *Minimum good-practice standard:* As the basis for CED's reporting of success rates in its annual review, XASRs (or a combination of XASRs and PERs) are executed on a random, representative sample of sufficient size and NAP coverage to establish, within a combined rolling three-year sample at the 95% confidence level with sampling error not exceeding  $\pm 5\%$ , outcome and effectiveness success patterns (section 6.1) for each of the MDB's current strategically targeted groups.<sup>xii</sup>

**4.4 Sampling:** The CED selects the operations for XASRs and PERs from the evaluation year's NAP. Where the XASR or combined XASR/PER coverage is less than 100% of the NAP, the representativeness profile of the sample randomly selected for XASRs and PERs (subject to para. 4.3) is transparently reported in CED's annual review, along with relevant statistical confidence interval data. (**Exhibit 2** is an illustrative good-practice example, taken from an annual review, of a process description for a "best-fit" representative random sampling selection, portraying the sample's representativeness profile against its NAP.)

- *Best-practice approach:* The operations departments execute XASRs on 100% of the CED-designated net approvals population. CED then conducts an independent desk review of the findings and ratings to ensure their responsiveness to evaluative guidelines, judgment consistency and impartiality. The CED's review is summarized in an XASR-A that is circulated to the XASR teams for comments and then finalized and distributed in advance of a review meeting (if one is called for by CED or management based upon the XASR-A findings). (See section 5.3 below.)
- *Good-practice approaches:* If the operations departments do not cover 100% of the early maturity population with XASRs, as necessary to meet the section 4.3 minimum required coverage standard, or a higher coverage for learning, then the CED executes independent PERs on a random, representative (when combined with the XASRs) sample of the NAP not already covered by XASRs, of sufficient number to increase the combined, randomly selected XASR/PER coverage to the desired statistically significant threshold. In addition, besides verifying the XASR findings, CED may at its discretion for validation and learning purposes conduct PERs on a representative cross-section of those investments already covered by XASRs. Beyond the XPSR/PER coverage needed to meet the harmonization standard defined in section 4.3, if the need for corporate learning from independent reviews dictates the dedication of CED resources to purposely selected investments either already covered by XASRs

or not randomly selected, CED selects investments for additional PERs on a non-random basis.<sup>xiii</sup> However, the good-practice system's emphasis and primary reliance are upon clear specification of what is required in the XASR instructions, responsive execution by qualified and knowledgeable operational staff, and rigorous independent CED desk review, for reasons of both efficiency (including minimizing the burden on clients), management's ownership of findings, and operational staff's learning from experience.<sup>xiv</sup> In any case, CED reports the findings of its PERs on non-randomly selected operations separately in its annual review from the findings from XPSRs and PERs on randomly selected operations, so that the statistical representativeness (sampling error) of the corporate success rates can be accurately determined and reported.

*Sampling standards summary:* To meet the accountability objective of the ECG's harmonization agenda, there are four tests of sampling efficacy for minimum good-practice evaluation and related reporting of the MDB's results:

- (1) inclusion in the NAP for sampling of all disbursed "regular procedure" investments that meet the defined early maturity test;
- (2) sample coverage either (preferably) entirely through XASRs or through a combination of XASRs and PERs, at a combined rolling three-year NAP coverage rate that is sufficient to yield outcome and effectiveness success rates -- for each strategically targeted group of investments -- that are representative of their performance in the corresponding sampled NAPs within a 95% confidence interval at a maximum  $\pm 5\%$  sampling error;
- (3) transparent disclosure in CED's annual review of the randomly selected sample's evaluated synthesis results (chapter 6), separately from those of non-randomly selected operations; and
- (4) a description in the annual review of the sampling procedure followed; a transparent profiling of the XASR/PER sample's representativeness against the NAP; and portrayal of the statistical significance of the sample's (and strategic sub-samples') reported outcome and effectiveness success rates within the NAP.

## ***V. Documentation, Process Familiarization and Review***

**5.1 Documentation:** In consultation with operations and specialist departments, CED prepares, refines and disseminates instructions for the preparation of XASRs, in sufficient detail to promote consistency and objectivity in execution scope, analysis and ratings (**Exhibits 3A and 3B**). These include ratings guidelines with benchmarks and standard XASR templates that include the performance ratings matrix. CED maintains these instructions on its website and periodically refines them along with related documentation (**Exhibit 4**), such as an overview of the XASR program, a description of efficacious execution process steps, good-practice examples of XASRs from previous years' samples, and a list of execution mistakes to avoid (informed by past XASRs).

**5.2 Familiarization and execution:** CED conducts workshops to familiarize the XASR teams with requirements and supporting documentation for achieving good-practice execution. The XASR research draws from: a file review; discussions with all

available staff involved with the operation since its inception; independent research (e.g. on market prospects); a field visit to obtain company managers' insights and to the project site to observe and assess impacts; and discussions with parties who are knowledgeable of the country, company and project (e.g. MDB specialists, company employees and auditors, suppliers/customers/competitors, bankers, any relevant government officials, industry associations, and local NGOs).

**5.3 Review and independent validation:** The standard XASR transmittal memo incorporates the approval signature of the responsible operations department manager on the XASRs executed by departmental staff. Best-practice includes clearance signatures on XASRs by the technical, environmental, central economics and syndications (loan administration) departments' assigned personnel. CED conducts an independent review of each XASR to verify scope responsiveness, evident reliability of the analysis, impartiality and consistency in ratings judgments, and appropriateness and completeness of the identified lessons. Once the ambiguities or responsiveness gaps are clarified in follow-up discussion and analysis (sometimes requiring a field visit by a specialist), CED then prepares an XASR-A on the final-edition XASR that records its independent judgment on the report's quality, assigned ratings and lessons (**Exhibit 5**).

- *Minimum good-practice standard:* CED reviews with the XASR team and its manager the basis for its judgments where it comes to differing ratings from those in the final edition XASR.
- *Best-practice approach:* For XASRs so-recommended by CED, the relevant vice president or central portfolio or credit manager chairs a review meeting that is attended by the XASR team and their managers, CED, and representatives of relevant specialist departments (e.g. credit, technical and environmental, economics, legal, syndications and special operations) as relevant. The review meeting discusses issues arising from the evaluation, performance ratings and lessons; best practice clusters on the meeting agenda about three XASRs on operations in the same country or sector. Following the meeting, the XASRs may be revised at the XASR team's discretion as needed to accommodate review inputs. The review meetings are minuted.

*CED ratings variance summary:* In either case, at the end of the program year, and prior to its submission of its annual review, CED prepares a ratings validation variance memo and sends it to the responsible senior operations manager, with copies to the relevant XASR teams and their managers. (**Exhibit 6**). The extent of materiality of the differing ratings is also disclosed in the annual review's annex that describes the evaluation framework (section 7.1).

## **VI. Evaluative Scope**

**6.1 Performance dimensions evaluated and indicators rated:** While the text is concise, the scope of the XASR is comprehensive in encompassing all performance attributes and dimensions that bear on the operation's relative success considered against the MDB's private sector development mission, financial sustainability, execution effectiveness and related strategies and policies. The evaluation includes, at a minimum,

the *project's development (or transition) impacts* (the project's mission-relevant results); the *MDB investment's profitability* (contribution to its corporate profitability objective), and the *MDB's operational effectiveness* (execution quality). The operation's performance under each of these dimensions is analyzed according to standard indicators, and the operation's performance in each is rated according to specified guidelines and benchmarks. The performance reflected in the indicator ratings is then synthesized in the three dimension ratings (see also last bullet of section 6.3 below).

- *Development (or transition) outcome* encompasses the project's "results on the ground" relative to the MDB's mission. Indicators include the project's contribution, assessed in each case on a "with vs. without project" basis, to: (1) the company's business success,<sup>xv</sup> (2) the country's private sector development and/or its development of efficient capital markets and/or its transition to a market economy; (3) the enabling environment for private sector development; (4) growth of the economy (proxied by the project's real economic rate of return); (5) to the country's living standards (benchmarked by taking into account --as relevant -- the distribution of project costs and benefits among the mission-targeted stakeholder groups directly affected by the project); and (6) environmental sustainability (benchmarked against compliance with the MDB's specified standards in effect at investment approval and also at the time of the evaluation). Exhibits 3A and 3B provides illustrative guidelines for evaluating a project's development impacts. **Exhibit 7** provides a good-practice example of application of the Exhibit 3B guidelines in an XASR.
- *MDB investment's profitability* is preferably (best-practice) based on the investment's net profit contribution, measured in risk-adjusted, discounted cash flow terms with ratings benchmarks set in relation to approval-stage minimum return threshold and use of the MDB's capital.. However, if reliable transaction cost data are not available, good-practice is that the ratings are based upon the investment's gross contribution performance in relation to corresponding approval standards for minimally satisfactory performance, as a proxy for satisfactory net contribution.
- *MDB's operational effectiveness* encompasses (separately) the quality, benchmarked against sustainable corporate good practice, of the MDB's at-entry screening, appraisal and structuring work; its monitoring/supervision quality; and its role and contribution (the need for the MDB's participation relative to other available financing, and the quality of the MDB's delivered additionality over the operation's life from inception to evaluation). The latter indicator considers compliance with basic operating principles, the operation's client capacity building objectives (as relevant), its consistency with furtherance of the MDB's corporate, country and sector strategies, and its client service satisfaction.

**6.2 Framework's evaluative rationale and efficacy:** The three-dimension structure provides accountability both for mission accomplishment and, separately, the MDB's exercise of its fiduciary responsibility to its owners for the prudent and effective use of the capital and budgetary resources entrusted to it.

- It allows distinct differentiation of performance quality among the operation's contribution to: (1) the MDB's mission (first dimension addresses only the project's results on the ground), (2) the MDB's financial sustainability (second dimension), and

(3) the MDB's value-added (MDB's effectiveness) in relation to the first two dimensions.

- From an accountability perspective, to a much greater extent than is true for MDB sovereign lending operations, an important feature of the MDBs' private sector investment operations is that their outcomes are subject to largely uncontrollable enabling environment, market, sponsor/management, operating and *force majeure* risks. Hence, it is important to differentiate the quality of outcomes from how effectively the MDB itself performed its job in executing the operation.
- Only the MDB's choice of strategic priorities, its related resource allocations, and its execution effectiveness in pursuing them, are entirely within its own control. Hence, it is important that the annual review's analysis of the cross-relationships among the ratings patterns in the three dimensions make a high-level contribution to learning for improving the MDB's results.
- The quality of both the development and investment outcomes are critical to the MDB's sustainability, whereas the MDB's execution effectiveness is generally the primary driver of its operations' outcome quality.
- It follows that the MDB's objective function for its investment operations considered as a portfolio, can be summarized as follows: (1) to maximize the proportion of operations judged at evaluation to have win-win development (or transition) *and* investment outcomes, while (2) minimizing the proportion with lose-lose outcomes, and (3) continuously increasing the proportion of operations having all effectiveness indicators rated at least *satisfactory*, and (4) to achieve these results within annually assessed, outcome-informed strategic priorities for new approvals going forward.

*Rationale summary:* With the evaluative database of sufficient size to provide statistically meaningful performance success discrimination among different groups (such as strategically targeted countries or sectors vs. non-strategically targeted), the above evaluative framework is fully appropriate both for providing overall results accountability, as well as an analysis of the reasons for effectiveness shortfalls, the effectiveness links to outcome success rates, and the extent to which the MDB might achieve better outcome results by adjusting its strategic choices.

**6.3 Performance ratings and benchmarks:** Each of the evaluated performance attributes is assigned a rating according to a matrix that uses a standard four-point scale for indicator ratings and a 4 to 6 point scale for each of the three dimension synthesis ratings.

- Within the quality-descriptive rating scales (e.g. ranging from *unsatisfactory* to *excellent*), there should be balance between positive and negative characterizations (i.e. if there are four ratings, two are less than good and two are good or better).
- Ratings guidelines are specified in the CED's instructions. (**Exhibit 8** provides an illustrative summary of ratings standards extracted from the XASR instructions for inclusion in an annual review.)
- The quantitative benchmarks for the project's financial and economic rates of return (FRR and ERR) and investment profitability indicators are set appropriately in relation to each project company's cost of capital (for the project FRR), to the MDB's universal ERR benchmarks (for the project ERR), and to the MDB's return on capital

requirements, respectively. Equity investment rates of return are benchmarked (or discounted if an NPV measure is used) to reflect appropriate spreads over actual or notional loan yields for the same credit risk, in line with the policy-defined, at-entry approval standard.

- Ratings of non-quantitative indicators require that relative qualitative judgements be made. The criteria for the judgments should be clearly specified in the instructions and in the CED's annual review, and reflect the extent to which performance has been consistent with the MDB's policies, prescribed standards for corporate sustainability, and recognized good-practice operational standards.
- The three dimension ratings are each a summary qualitative performance judgment drawn from a consideration of the underlying indicator ratings, but are not a simple average of the indicator ratings.
- Because articulating an objective function and reporting on it will serve to promote improved outcomes and effectiveness, good practice is for the annual review to report the proportions of evaluated operations that achieved, respectively, a win-win (good development/transition outcome coupled with good investment outcome), mixed and lose-lose outcome, along with the proportion of uniformly satisfactory effectiveness indicator ratings and their link to these combined outcome groups. The annual review also tracks the trend in these combined win-win vs. lose-lose synthesis indicators and related all-satisfactory effectiveness scores (on a rolling three-year sample basis) over several years to show progress.<sup>xvi</sup>

**6.4 Lessons learned and recommendations for follow-up:** Lessons learned should derive in part from the performance rating patterns and an analysis of their drivers, particularly in the case of those indicators rated better or worse than *satisfactory*. They should be concise, prescriptive, and placed in the context of each material issue that was encountered in the evaluation. As relevant, they should relate the experience of the evaluated operation to the pattern of past lessons in the country or sector. The point of view and selectivity should focus on what the MDB might have done to obtain better results from the operation. A best-practice approach is for the lessons to be formatted in a four-question format as follows to provide stand-alone context to the lesson and enable seamless extraction from the XPSR without editing into the database for the web-based Lessons Retrieval Network:

- what was expected at approval;
- what actually happened;
- what went wrong or particularly well;
- what did we learn.

(**Exhibit 9** provides a best-practice example of a lessons learned section extracted from an XASR.)

**6.5 Standard XASR attachments:** These provide the basis for review and independent verification of the XASR's judgments and conclusions. They include details of:

- the project financial and economic rate of return derivations (with transparent assumptions and cashflow statements);

- a comprehensive summary of environmental, worker health and safety, and social impact compliance information for each safeguard dimension addressed in the MDB's environmental and social guidelines, with sufficient evidence from a field visit and/or client reporting to support the assigned impact and related MDB effectiveness ratings;
- the derivation of the MDB's investment profitability measure with, as relevant transparent still-to-go investment cashflow estimates and their underlying assumptions.

## ***VII. Annual Reporting, Process Transparency and Staff Incentives***

**7.1 Annual synthesis reporting:** CED prepares an annual review addressed to the MDB's management, staff and Board of Directors, whose scope includes, *inter alia*, a synthesis of the CED's validated findings from all XASRs and PERs generated and reviewed during the period covered.

- It includes an annex profiling the evaluated sample against the NAP and the basis for the XASR/PER sampling (Exhibit 2); if part of the sampling is other than random per chapter IV, the rationale applied in the selection should be explicitly stated and the associated results reported separately from those of the randomly sampled operations, with an analysis made of the directional bias in the non-random sample's reported results.
- The ratings criteria and benchmarks should be clearly described in an annex. (Exhibit 8.)
- The ratings reported should be those of CED (and be identified as such) where these differ from those assigned in the XASRs; the materiality of the difference in the XASR vs. CED validated ratings (section 5.3 and Exhibit 6) should be disclosed in an annex that profiles the evolved evaluative framework during the period covered by the findings. (**Exhibit 10**)
- There is a table showing the proportion of the evaluated sample in each performance rating category by dimension and indicator; the outcome success rates are reported by number of investments and also by their proportion of total disbursed MDB financing in the sample.<sup>xvii</sup> There is also a matrix showing each evaluated operation and its ratings, with the operations grouped in descending order by development/transition and investment outcome. (**Exhibit 11**)
- The review provides a synthesis description of the ratings patterns and their cross-cutting performance drivers under each indicator. (**Exhibit 12** is an extract of a review's description of an annual evaluated sample's development outcome dimension, showing how the indicator performance patterns are synthesized, with illustrative examples of above- and below-average performance drawn from XASRs.)
- There is an annex containing a representative sample of XASR abstracts prepared on operations selected from approximately the middle of each development/transition outcome-rating group, illustrating the application of the ratings. (**Exhibit 13** provides abstracts from four of six outcome rating groups for illustrative purposes.) There is non-disclosure of any company specifics in the content of this Appendix, to protect the confidentiality of client information.

- Best practice provides an analysis of development *and* investment win-win vs. lose-lose outcome gains from improving MDB effectiveness, and an analysis of the relative win-win over lose-lose success rates for the MDB's currently strategic targeted vs. non-targeted groups (sectors, country groups). (**Exhibit 14** is a review's executive summary providing these findings among the highlights)
- The review contains an annex that summarizes the previous year's recommendations, management responses made at the time of its Board review, Management follow-up actions taken during the past year (provided by management), and CED's comments on them. (**Exhibit 15** provides an illustrative format and content.)
- From an analysis of (i) the ratings and lessons learned patterns; (ii) other relevant CED evaluation studies and supporting investment portfolio analyses (where deeper evidence is needed on performance hypotheses from XPSR patterns); and (iii) management's implementation progress on previous CED review and special study recommendations, the annual review identifies recommendations to Management and the Board for improving the MDB's performance. Findings section references are included with each recommendation as its empirical anchor. (**Exhibit 16**)
- Management prepares and submits to the Board, for simultaneous consideration with the review in a Board discussion, a memorandum commenting on the review's findings and responding to each of its recommendations. Following discussion with the Board, Management acts to implement the endorsed recommendations.
- To be able to provide transparent feedback on follow-up, CED maintains a tracking system for recording Management's disposition of each Annual Review (and other CED special study) recommendation, based upon status statements provided by Management. CED sends a summary progress report from it to the Board as part of its annual report (section 7.2). (**Exhibit 21** is a template for tracking each recommendation in CED's database, from which summary status reports are prepared.)

**7.2 Process transparency and staff performance incentives:** In addition to its annual review covering substantive findings, CED reports annually to the MDB's management and Board on the MDB's performance in executing the self-evaluation program, including delivery of the required number of XASRs; the CED's XASR-A based assessment of their quality; and delivery/review schedule adherence. Positive incentives for good execution performance can include special corporate recognition awards for best-practice reports (individual teams) and exemplary contributions to the evaluation system (departments); **Exhibit 17** provides an illustrative example.

## ***VIII. Dissemination, Assuring Lessons Application, and Disclosure***

**8.1 Dissemination:** The CED makes available to all MDB staff, a range of user-friendly, high quality dissemination products covering the XASR/PER findings, the annual review and CTE special studies. These range from full reports to the on-line searchable lessons retrieval network (LRN), as well as on-line PowerPoint slide-shows of annual review findings. CED places primary reliance on its intranet website for document posting, widely notifies staff of new items through the corporate website, and maintains

and enhances the LRN system. **Exhibit 18** provides an illustrative example of a CED intranet homepage for disseminating evaluation documents, while **Exhibit 19** illustrates application of the retrieval capacity of an evaluation LRN system.)<sup>xviii</sup> The goal is:

- to draw attention to the existence of relevant evaluation findings;
- to make the material user-accessible and easily digestible; and
- to have measures for monitoring of accessing of lessons (e.g. trends in user sessions on the LRN system, and attendance data at CED presentations by department).

**8.2 Ensuring lessons application:** Experience has shown that achieving awareness and internalization of lessons and their systematic application in new operations, is the weakest link in the evaluation learning cycle.

- It is the responsibility of operational department managers to ensure that past lessons have been systematically researched, identified and applied in new operations.
- Standard processing documentation for new operations includes a prompt, in early stage documents, for relevant past lessons, complemented by a prompt, in final decision-stage documentation, for how the past lessons have been addressed in the appraisal and structuring of the new operation. This evidences closing of the learning loop from past experience into new operations.
- In its annual evaluation process report, CED reviews and reports to management and the Board on the quality of responsiveness to these prompts and other evidence of lessons application.
- MDB best practice is that internal corporate reporting (up to the Board) is centered around an integrated performance measurement system (IPMS) that is: (1) broadly aligned with the evaluative framework (viz. performance indicators for development/transition outcome, investment outcome and MDB effectiveness/efficiency); (2) applies coherent and consistent success standards (both as to scope and benchmarks) across the project cycle (appraisal, supervision/monitoring and evaluation), across projects, and up and down the reporting hierarchy from project-level to department- and corporate-level; and (3) integrates evaluation findings (success rates) into the scorecards.<sup>xix</sup>

**8.3 Disclosure:** Convergence among the MDBs on disclosure practices for evaluation findings is an integral part of the ECG's harmonization agenda. To protect both client company confidentiality, the candor needed for effective corporate learning, and the risk to the MDB's credit rating that partial release of investment portfolio data (and related standards and benchmarks) might entail, none of the individual operation reports are disclosed, nor is the CED's annual review. Rather, CED prepares and posts on the MDB's external website an abstract of its annual review that accurately summarizes its essential findings, including the outcome and effectiveness ratings profiles, sampling representativeness, ratings criteria and benchmarks. The MDB's disclosure policy for evaluation products should be explicit and consistent with the MDB's general disclosure policy. It covers all evaluation products, and is itself disclosed via the CED's webpage. An illustrative example of a disclosure policy covering private sector MDB evaluation products is provided as **Exhibit 20**. The MDB also includes an accurate summary of CED's major annual review findings in its Annual Report.

## ***IX. Implementation and Practice Monitoring***

**9.1 Ratings harmonization:** Members agree to review periodically their measurement methods, ratings systems, ratings guidelines and benchmarks with the aim of judging and reporting their outcomes according to consistent standards, and advancing the ECG's harmonization agenda as far as possible. To this end, they will share all evaluation documentation including self-evaluation instructions, ratings guidelines, best-practice reports and annual reviews, and annual (evaluation system quality) reports, on a confidential basis (and further subject to editing as needed to protect client confidentiality undertakings). As Members reach agreements on such methods, benchmarks and ratings standards, they will document them in subsequent refinements of this memorandum.

**9.2 Convergence progress monitoring:** Each Member will report on its progress towards these good-practice standards in successive Working Group meetings, as a basis for the ECG's periodic reports to the Presidents. They will also reference this memorandum and report on their convergence progress in their annual evaluation process review reports to their Boards. In addition to this self-reporting, the Members agree that they will arrange for periodic independent crosscutting assessments of the extent to which these (and subsequent) good-practice standards are being applied in their agencies' evaluations and annual reporting, and they will report the findings to the MDB Presidents.

*Prepared by:*  
Working Group on Private Sector Evaluation  
MDB Evaluation Cooperation Group  
February 21, 2001

## Attachment 1

### Guiding Framework Documents

- Development Committee, Task Force on Multilateral Development Banks, *Serving a Changing World--Report of the Task Force on Multilateral Development Banks*, March 15, 1996
- Development Committee, *Report from the Multilateral Development Banks on Implementation of the Major Recommendations of the MDB Task Force Report*, March 26, 1998
- Development Assistance Committee, OECD, *Shaping the 21<sup>st</sup> Century: The Contribution of Development Co-operation*, May 1996
- Report of the [G-22] Working Group On Transparency and Accountability, October 5, 1998
- *MDBs: A Partnership for Development, Growth and Poverty Reduction*, Presidents' Statement, February 9, 2001
- OECD/DAC *Principles for Evaluation of Development Assistance*, Development Assistance Committee, OECD, 1991
- Expert Group on Aid Evaluation, Development Assistance Committee, OECD, *Review of the DAC Principles for Evaluation of Development Assistance—Final Report*, February 1998
- Evaluation Cooperation Group, *Multilateral Development Banks Evaluation Cooperation Group (ECG)*, ECG/96-01-F1
- Minutes of the ECG meeting of April 22-23, 1997, ECG/97-03 (Rev), para. 8.
- Minutes of the meeting of the ECG Working Group on Private Sector Evaluation, May 29, 1998, para. 6.
- Minutes of the meeting of the ECG Working Group on Private Sector Evaluation, September 6, 2000, paras. 4.-5.

**Attachment 2**

**Terms Used in this Memorandum  
and  
Comparable Terms Used in Each Member MDB  
(As of February 21, 2001)**

<b>Memorandum Term</b>	<b>Central Evaluation Department</b>	<b>Expanded Annual Supervision Report</b>	<b>Lessons Retrieval Network</b>	<b>Performance Evaluation Report</b>	<b>XASR Assessment</b>
<b>Abbreviation</b>	<b>CED</b>	<b>XASR</b>	<b>LRN</b>	<b>PER</b>	<b>XASR-A</b>
<b>AfDB term</b>	Operations Evaluation Department	None	None for private sector projects (intended to be included in the existing retrieval system)	Project Performance Evaluation Report	None
<b>Abbreviation</b>	OPEV	--	SPEI	PPER	--
<b>AsDB term</b>	Operations Evaluation Department	None	None for private sector projects	Project Performance Audit Report	None
<b>Abbreviation</b>	OED	--	--	PPAR	--
<b>EBRD term</b>	Project Evaluation Department	Expanded Monitoring Report	Lessons Learned Database	Operation Performance Evaluation Review	XMR Assessment
<b>Abbreviation</b>	PED	XMR	LLD	OPER	none
<b>EIB term</b>	Operations Evaluation Department	Monitoring Report/ Implementation Completion Report	<i>(under review)</i>	Independent Evaluation Report	none
<b>Abbreviation</b>	EV	MR/ICR	--	--	--
<b>IDB/IIC term</b>	Office of Oversight and Evaluation	<i>[under review]</i>	<i>[under review]</i>	<i>[under review]</i>	<i>[under review]</i>
<b>Abbreviation</b>	OVE				
<b>IFC term</b>	Operations Evaluation Group	Expanded Project Supervision Report	Lessons Retrieval Network	None	XPSR Evaluative Note
<b>Abbreviation</b>	OEG	XPSR	LRN	--	EvNote

**LIST OF EXHIBITS**

*Illustrative Examples of Selected Evaluation System Documentation\**

(Illustrative and not the only – or even necessarily full -- good practice; some are partial extracts)

- Exhibit 1:** CED Mandate Statement
- Exhibit 2:** Annual Review: Description of XASR Sampling & Representativeness
- Exhibit 3A:** XASR Instructions & Report Template: Non-Financial Markets Projects
- Exhibit 3B:** XASR Instructions & Report Template: Financial Markets Projects
- Exhibit 4:** XASR Program Overview and Execution Guidelines
- Exhibit 5:** XASR Assessment: CY01 Template and CY99 Example
- Exhibit 6:** CED's XASR Ratings Validation Variance Memo
- Exhibit 7:** XASR: Good-practice Application of the Instructions (Example)
- Exhibit 8:** Annual Review: Summary of Ratings Standards
- Exhibit 9:** XASR: Best-practice Lessons Learned Summary
- Exhibit 10:** Annual Review: Evolution of MDB's Evaluation Framework
- Exhibit 11:** Annual Review: Performance Ratings Summary & Consolidated Matrix
- Exhibit 12:** Annual Review: Development (Transition) Outcome Indicator Analysis
- Exhibit 13:** Annual Review: XASR Abstracts (Application of Ratings Standards)
- Exhibit 14:** Annual Review: Executive Summary
- Exhibit 15:** Annual Review: Follow-up on Previous Year's Recommendations
- Exhibit 16:** Annual Review: Recommendations
- Exhibit 17:** Staff Incentives: XASR Program Awards Memo
- Exhibit 18:** Dissemination: CED Intranet Website
- Exhibit 19:** Dissemination: CED's Lessons Retrieval Network (LRN) Homepage
- Exhibit 20:** Disclosure: Policy on Disclosure of Evaluation Products
- Exhibit 21:** CED's Management Action Tracking System

\* Some of these documents are accessible on IFC's website under <http://www.ifc.org/oeg/>

---

## ENDNOTES

<sup>i</sup> Chapter VIII. (Evaluation Programming) section 31 of the DAC Principles states that “...agencies that have not already done so should elaborate guidelines and/or standards for the evaluation process. These should give guidance and define the minimum requirements for the conduct of evaluations and for reporting.”

<sup>ii</sup> The subject of standards and scope for integrated corporate performance reporting is deserving of separate pursuit by ECG members in a good-practice memorandum. This memorandum addresses the quality and comparability of the basic building blocks for part of that comprehensive reporting mosaic, covering the evaluation of the core investment operation portfolio. These principles are not intended to apply to synthesis reporting in special thematic studies of parts of the portfolio (e.g. sectors, countries), particularly with regard to sampling and investment maturity, since the predominant purpose of such special studies is learning, rendering sample representativeness for accountability less of an issue than in annual reporting.

<sup>iii</sup> This empirical deficiency does not necessarily present a harmonization issue for MDB inter se performance comparisons at the corporate level, so long as the statistical significance limits of all portfolio/group performance data reported to the Board are made transparent. The significance limits at the resource-constrained good-practice minimum coverage standard does, however, comprise both a learning and accountability drawback relative to each individual MDB's results-based management needs.

<sup>iv</sup> In financial markets operations, the company is the financial intermediary (in the case of: credit lines, bank equity investments, leasing companies, etc.) or in the case of funds, the fund management company (as distinct from the normally separately-owned investment fund itself).

<sup>v</sup> Investment operations committed under a special Board-approved program facility, such as for direct MDB investments in SMEs in specified countries, are evaluated on a program basis through a CED special study and are excluded from the net approvals population for sampling for XASRs or PERs.

<sup>vi</sup> In financial markets operations, the project generally refers to the financial intermediary's lending or investment program that is partially financed by the MDB.

<sup>vii</sup> Best-practice mandates include independence related provisions specifying who has decision authority for (1) hiring /terminating the CED head and staff; (2) CED head's appointment terms and reporting structure; (3) CED head's and staff's grading, performance reviews and pay increases; and (4) the CED's budget.

<sup>viii</sup> There is a recognized tradeoff between delaying evaluation long enough to have a fully reliable basis for making updated projections for outcome and impact judgments (favors later evaluation), and studying results as early as possible for their lessons, relevance to evolving corporate priorities and accountability uses (favors earlier evaluation). Another consideration is that since projections tend to prove optimistic (albeit decreasingly so -- see the next endnote) across the operation's life, earlier evaluations will tend to reach more favorable outcome judgments (weighted as they are by assumptions of better future compared to past results) than will fully ex post judgments of the same operation's results. An alternative (and easier to establish but less reliable) approach for screening for uniformly early project operating maturity, is to define the early maturity cohort as all investments for which a minimum number of months have elapsed following the MDB's final disbursement. This post-disbursement elapsed time does not automatically equate to the period of the project's generation of operating revenues.

---

<sup>ix</sup> An IFC/OEG study of predictive reliability of investment profitability ratings associated with equity rate of return forecasts ("Benchmarking IFC's Equity Investment Returns at Evaluation", Operations Evaluation Group, May 2001) found that optimism in projections of future equity cash flows and corresponding projected IRRs is the norm in forecasts made at various points throughout an investment's life, including at the early operating maturity (XASR) stage when investment department staff make evaluative estimates of the expected timing and values of still-future dividends and share sales: appraisal-normalized median equity IRR values for all exited investments having all three estimates were (1) at appraisal, 100; (2) at evaluation (average 6.3 years later), 51; and (3) at exit (ex post, average 3.0 years after evaluation), 31.) These findings suggest that an MDB that executes its XASRs/PERs relatively earlier in an operation's life, will, all else equal, tend to show a significantly better investment performance profile than an MDB that executes them later, when the weight of realized and more reliably remaining forecast cash flows dominates in the return estimates. (While the corresponding project FRR and ERR data were not available, the directional upward bias pattern over the project cycle would be similar though probably not featuring as significant a decline (equity being the residual and back-end loaded claimant on cash flows). Hence evaluation timing features as an important part of the harmonization agenda.

<sup>x</sup> The net approvals population of MDB investments excludes: dropped and cancelled investments, very small investments made under a special promotional program (see endnote 5 above), subscribed rights offerings and investments undertaken to help finance a cost overrun on a project previously financed by the MDB.

<sup>xi</sup> For already-closed investments that are selected for an XASR, the XASR consists of the last available supervision report and the attached evaluative addendum.

<sup>xii</sup> This is the minimum standard for meeting the ECG's harmonization goal in relation to the reporting of corporate results in the three evaluated dimensions. However, for being able to inform the MDB's corporate strategy, or hold departments accountable for their results, the NAP coverage will need to be higher if it is to yield statistically meaningful sub-sample results to the same standard as for corporate success rates.

<sup>xiii</sup> CED has full discretion to carry out a PER as it deems appropriate on any operation in the net approvals population, and it will normally do so in those situations where an XASR's findings raise substantive validation or credibility challenges, or where an XASR's quality was so poor, even after follow-up, as to not allow CED to independently establish the appropriateness of the XASR's ratings from the findings presented.

<sup>xiv</sup> This approach has the added benefit it frees up the CED staff to spend the major part of their time on synthesis studies and dissemination activity.

<sup>xv</sup> The project's contribution to the company's business success (in the case of capital projects) is measured by its after-tax financial rate of return (FRR, benchmarked for rating purposes against the company's weighted average cost of capital), or in the case of financial markets projects, by the project portfolio's profit contribution to the financial intermediary, or in the case of corporate balance sheet financings, the profit contribution and achievement of strategic objectives of the financed capital spending program and/or financial restructuring. The company's demonstrated and prospective overall with-project business success -- as reflected in its profitability and financial condition, management and governance quality, and environmental practices -- feature implicitly in the project's to-date and still-to-go FRR cash flow projections.

<sup>xvi</sup> In addition to the three dimension ratings and their combined outcomes profile, some MDBs report an operation's "Overall Outcome" as a bottom-line performance judgment and synthesis of the three dimensions considered all together, taking into account the extent to which the operation has met the specific objectives established for it at approval. Such "bottom-line" overall outcome judgments necessarily involve subjective weightings on a case-by-case basis across the

---

dimensions, so that the standard for the judgment cannot be made generically transparent. For this reason, other MDBs eschew assigning an Overall Outcome rating -- partly to avoid a confusion in terms with the mission-primary development/transition outcome -- in favor of reporting in their annual reviews success rates severally by dimension, and separately, jointly in combination by proportion of operations (e.g. x% had successful development outcomes, within which y% also had satisfactory investment outcomes, within which z% also featured uniformly [or generally] satisfactory MDB effectiveness). This approach avoids the problem of subjective, varying weightings that the Overall Outcome rating entails.

<sup>xvii</sup> E.g. “Projects whose development outcomes were rated at least mostly successful comprised 64% by number and 68% of the total [MDB's name] financing that was disbursed in the evaluated sample.”

<sup>xviii</sup> From para. 25 of Review of the DAC Principles for Evaluation of Development Assistance – Final Report dated February 1998: “On the matter of lessons learned from evaluations, it is clear that the users will rarely draw on such material unless required by agency leaders. The demand for the results of evaluations and the lessons they provide in an environment that promotes organizational learning is key. At the same time, the supply of lessons and other knowledge that would benefit operations needs to be easily accessed in usable form. The costs of searching out relevant material from evaluations, even when required, is a major disincentive to the lesson learning process. ‘Just in time’ practices in providing this material can facilitate use.” (italics added) The availability of webpage-based intranet dissemination and searchable databases makes accessing relevant lessons much easier than in the past. It does, however, require the development of an MDB-specific thesaurus of terms and coding of each lesson using it to enable thematic subject searches.

<sup>xix</sup> This integration of evaluative scope, measurement standards, findings and reporting with corporate- and unit-level portfolio reporting caters for the results-based management principle and reality that “what gets measured, gets done”, and that properly “what gets done, gets measured coherently and consistently.” Without this integration, there will likely be a disconnect between predominant operational/career incentives, and application of evaluation lessons for getting better outcomes, since competing short-term results pressures (viz. annual new approvals targets) will likely prevail over longer-term outcome concerns.