June 2007

Annual Evaluation Overview Report for 2007

Evaluation Department
(EvD)

European Bank
for Reconstruction and Development

ANNUAL EVALUATION OVERVIEW REPORT FOR 2007

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ABBREVIATIONS AND DEFINED TERMS

ADB	Asian Development Bank
AEOR	Annual Evaluation Overview Report
BAS	Baltic Advisory Service
BTA	Bank TuranAlem
Category A, B, C, FI	Environmental classifications of EBRD projects. See section 5.5 of the main text for a full explanation
CEB	Countries of central and eastern Europe and the Baltic states
CIS	Commonwealth of Independent States
EAP	Environmental Action Plan
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIA	Environmental impact assessment
ETC	Early transition countries
EU	European Union
EUR	Euro
EvD	EBRD's Evaluation Department
FI	(1) Financial institutions business group (2) Financial intermediary
FRM	Final Review Memorandum
GAAP	Generally accepted accounting principles
GPS	Good practice standards for private sector evaluation of the ECG
IFC	International Finance Corporation
IFI	International financial institution
IPO	Initial public offering
LLD	Lessons Learned Database
MC	Management comments
MEI	Municipal and Environmental Infrastructure
MR	Monitoring report
MSE	Micro and small enterprise
OCE	Office of the Chief Economist
OCU	Official Cofinancing Unit
OL	Operation leader
OPER	Operation Performance Evaluation Review
OT	Operation team
PCR	Project Completion Report
Phare	EC assistance programme for central Europe
PMM	Portfolio Monitoring Module
PPF	Post privatisation fund
PPP	Public-private partnership
RO	Resident office (of EBRD in a country of operation)
RSBF	Russian Small Business Fund
RVF	Regional Venture Fund
SEE	(1) Southern and eastern Europe (2) Countries of southern and eastern Europe
SME	Small and medium-sized enterprises

Tacis	EC Assistance Programme for eastern Europe, the Caucasus and Central Asia
TAM	Turnaround Management Programme
TC	Technical Cooperation
TC Com	Technical Cooperation Committee
TCFP	Technical Cooperation Funds Programme
TI	Transition impact
TIMS	Transition Impact Monitoring System
WB	World Bank
WG	Working group
WHR	Warehouse receipts
WTO	World Trade Organisation
XMR	Expanded Monitoring Report (investment operations)
XMRA	XMR Assessment

Ex-ante	before project signing at project appraisal
Ex-post	after project signing at post-evaluation

EXECUTIVE SUMMARY OF THE ANNUAL EVALUATION OVERVIEW REPORT FOR 2007

1. The evaluation function

The annual evaluation overview report (AEOR) synthesises the findings of the EBRD's Evaluation Department (EvD) regarding the Bank's mandate performance and helps the Bank fulfil its accountability obligations towards the Board of Directors. EvD also helps preserve the corporate memory of the Bank by collecting "lessons learned" through project evaluation and preparation of special studies.

2. Investment performance judged against the Bank's mandate

Key performance ratings of investment operations
As highlighted in chapter 1 of the report the EBRD has continued to do well overall and has implemented projects that largely meet the Bank's mandate. On transition impact (TI) the Bank's projects continue to score positively, with 77 per cent achieving *satisfactory* to *excellent* rating for the period from 1996 to 2006. In respect of overall performance of projects, 57 per cent of evaluated projects achieved *successful* to *highly successful* ratings between 1996 and 2006, indicating that the good scores on TI are tempered by a more modest financial performance of the projects during the period of observation, compared with original projections.

The fact that 23 per cent of the evaluated projects were given *negative* to *marginal* ratings on TI shows that some of the Bank's operations are implemented in difficult environments where obstacles to realising transition impact remain. Of the projects evaluated in 2006, 61 per cent reached a *successful* to *highly successful* overall performance rating, while 79 per cent were rated *satisfactory* to *excellent* for TI.

Performance of country groups
Evaluated projects in early transition countries (ETCs) have had relatively low financial performance ratings, affecting the realisation of their full TI potential. There are encouraging signs in the projects evaluated in the period from 2004 to 2006 where over 70 per cent have rated *satisfactory* or better for project financial performance, including correspondingly improved TI and overall performance ratings. However, the numbers remain small. Over the last four years projects in Russia and south-eastern Europe have achieved the best ratings both for overall performance and for TI.

Performance of sectors
Ratings for overall performance and TI are now very similar across all three sectors. Formerly, infrastructure projects had better results than projects in other sectors. While this sector has maintained a steady performance in recent years, projects in the financial institutions sector and the industry and commerce sector have shown a marked improvement.

3. Monitoring and evaluation of TI

Review of the transition impact monitoring system (TIMS)
Chapter 2 explains that the TIMS, which was approved in December 2002 and implemented in January 2003, constitutes an important addition to the Bank's "scorecard". The main objective of the TIMS exercise is to strengthen the monitoring of the transition impact while projects are being implemented. The process requires interventions from the staff of the

Office of the Chief Economist (OCE), the Credit/Portfolio Review Unit and the Banking Department.

Comparison of outcomes of TIMS outcomes with EvD evaluations
The report compares the outcomes of 108 operations that have been evaluated by EvD and are monitored in TIMS. Although the sample is still small, it appears that EvD's ratings for TI are higher than those of the OCE. This may be because EvD considers all transition indicators in its ratings, while the OCE concentrates on the two or three main transition priorities selected at Board approval for the project.

Furthermore, many operations in TIMS fall into category five, just below the Bank's threshold of four. A number of projects in this category could move above the threshold of four towards the end of their life, hence the differences between TIMS and EvD results may not be as high as they appear in the first instance. A further comparison of the small number of completed projects with a final rating in TIMS shows a closer correspondence to EvD's ratings.

Relevance and effectiveness of TIMS benchmarks
EvD reviewed the latest TIMS checklists for 53 of the most recent projects entered into TIMS. The categorisation of transition objectives was compared with the standard transition guidelines. It was found that the original concept of TI was sometimes diluted into other considerations that were only indirectly related to TI. It was also found that much use was made of TI categories whose contours are fuzzier than others like market expansion and demonstration effect, at the expense of more binding categories like business standards or frameworks for markets.

In section 2.3.3 of the AEOR, EvD proposes some changes to the benchmarking system. It is also suggested that now would be the right time to reflect on the standard seven TI criteria to see the extent to which they still reflect the essence of the Banks mandate.

4. Integrity in bank operations
The EBRD is committed to maintaining the highest level of ethical standards in its own performance and the behaviour of its customers. The Bank has developed a set of guidelines to articulate the standards. In chapter 3 of the AEOR EvD presents a number of integrity issues that it dealt with in its operation performance evaluation reviews (OPERs). The issues cover areas including the relationship with shareholders, the relationship with the community, the relationship with government and local authorities and proper checks and balances.

5. Selected lessons learned from direct equity operations
In view of the importance of direct equity operations for the Bank to enhance TI, EvD has collected some principal lessons from its experience with equity operations. Chapter 4 of the AEOR presents a summary of a wider paper that has been prepared as background to the AEOR. The chapter's discussion of achievement of the Bank's mandate includes issues such as board representation, shareholder relations and business standards. The section on investment handling includes issues such as monitoring, environmental compliance and use of technical cooperation and twinning arrangements.

6. Evaluation of technical cooperation operations
In compliance with its fiduciary responsibility towards the contributors to its Technical Cooperation (TC) Funds Programme, the Bank puts emphasis on the evaluation of TC projects. Accordingly, TC projects are subject to a mandatory self-evaluation process in the form of project completion reports (PCRs) and to an independent evaluation process on a

sample of the PCRs. Chapter 5 gives details on EvD's TC evaluation work, started in 1993, including 64 operation performance evaluation reviews (OPERs) and 23 special studies on sectors and themes that covered numerous TC operations.

Overall, 20.8 per cent of completed TC operations had been evaluated in-depth through an OPER report by the end of 2006. When adding TC operations evaluated through special studies, the cumulative coverage ratio for the period from 1991 to 2006 is 63.9 per cent. The report reviews the outcomes of key TC evaluations in 2006.

7. Evaluation recommendations: uptake by management and review by the Audit Committee

Chapter 6 lists the evaluation reports that have been discussed in the Audit Committee during 2006. It highlights how the committee has reacted to important evaluation findings and lessons learned and concludes with a review of the new reporting system to the Board on follow-up of evaluation recommendations by management. This system had been proposed in the AEOR for 2006 and approved by the Board of Directors in July 2006.

EvD thinks that the new system of follow-up by management of evaluation recommendations, although only functioning during a period of about six months in 2006, worked well and that management has responded in a balanced and constructive way. EvD further suggests that in some cases the Audit Committee could have given more detailed guidance to Management on how to follow up some of the evaluation recommendations. Such guidance is particularly required when EvD and Management have opposing views.

8. Validation by the Evaluation Department of performance ratings assigned during the self-evaluation process

The Banking Department prepares a self-evaluation report in the form of an expanded monitoring report (XMR). EvD's evaluation may result in different performance ratings than assigned by the operation team (OT) in the respective XMRs. As described in Chapter 7, XMR ratings were validated by independent evaluation in 64 per cent of cases.

Five per cent of XMR ratings were upgraded by EvD and 31 per cent downgraded. Transition impact was the indicator most likely to be rated lower (42 per cent) by evaluators. Experience gained through TIMS might improve the rating of TI over time and reduce the difference between the TI ratings assigned by EvD and the operation staff.

It appears that there is room for improvement as some teams in the Banking Department score better than others. By monitoring the differences observed over time and by organising targeted training sessions the differences might decrease over time.

1. PERFORMANCE OF INVESTMENT OPERATIONS ASSESSED AGAINST THE EBRD'S MANDATE

1.1 Introduction

The EBRD's Evaluation Department (EvD) helps preserve the corporate memory of the Bank by evaluating projects and carrying out special studies on sectors, programmes and special themes. EvD synthesises its overall findings, including the Bank's performance on its mandate, in this annual evaluation overview report (AEOR). It thereby complies with its accountability obligations towards the Board of Directors and Management. To ensure an optimal lessons-learned orientation, EvD assists the banking teams and others during the early stages of project preparation in using the relevant lessons.

This process ensures that this experience is applied to the selection and design of future projects. The experience gained from the Bank's past performance and the generic and specific lessons and recommendations presented in this and other evaluation reports are also available for the Bank's future strategic orientation. Management's comments to this report are presented to the Board of Directors in a separate communication produced in parallel to this document.

Last year's AEOR reported on the important change that the Evaluation Department had become fully independent from Management in June 2005. Subsequently, a new evaluation policy was prepared.[1] The box below presents experience gained during 2006 in executing the new policy and reports on the interactions between Management and EvD around evaluation reports.

Gaining further experience with the independent position of the evaluation function in the EBRD

During 2006, the first full year of the Evaluation Department (EvD) reporting exclusively to the Board of Directors, EvD, Management and the Board gained further experience with the new independent status of the evaluation function. In particular, the systematic review of EvD reports by Management and the receipt of subsequent comments by Management showed at times opposite views that in some cases could not easily be reconciled.

When needed, the Audit Committee played an important role by allowing Management as well as EvD to explain their views during Committee meetings. On one occasion a joint paper was presented to the Board of Directors in which Management and EvD expressed areas of agreement and disagreement. It was crucial to find common grounds. This new system of commenting on evaluation reports allows for a better scrutiny of EvD reports by Management and stimulates EvD to intensify the report review process with the relevant departments in the Bank.

The level of access to information set by EvD staff during the execution of the evaluation function was extensively discussed between Management and the Board of Directors. In September 2006 Management and the Board of Directors reached agreement on a protocol in respect of EvD "access to information" stipulating that the Chief Evaluator will act as gatekeeper of this process. During the interactions between Management and EvD on issues described above, relationships had become somewhat strained. The Audit Committee welcomed improving relations, evidenced through the above-mentioned joint paper on one specific evaluation and agreement on an adequate flow of information.

1.2 Evaluation performance indicators

By the end of 2006, 732 investment projects of the Bank's total cumulative portfolio of 1,451 projects had reached a stage ready for evaluation. Since the start of the Bank in 1991 EvD has

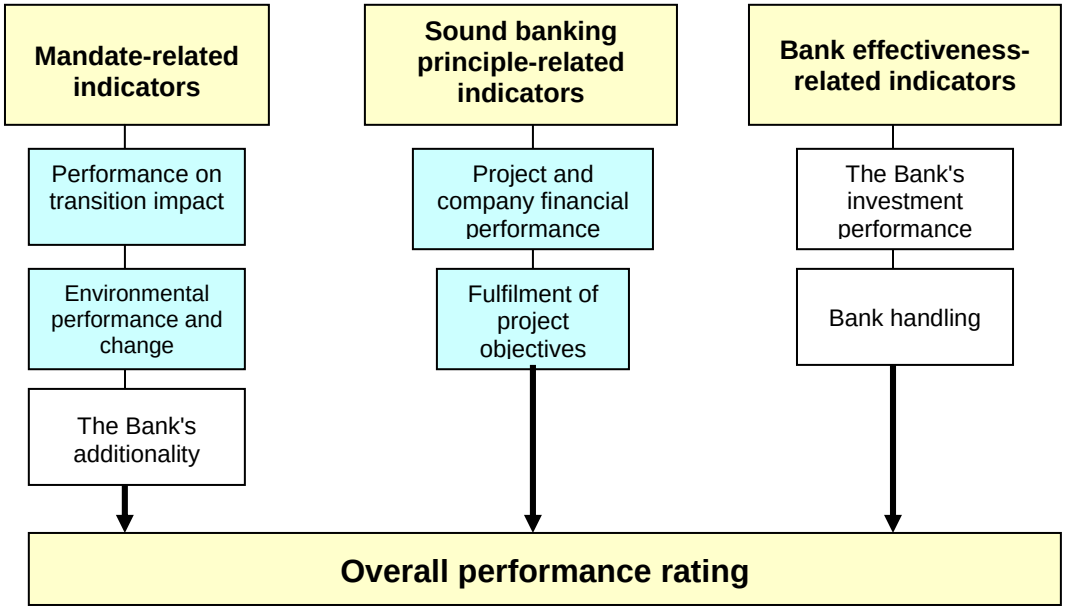
[1] The Evaluation Policy of the EBRD is presented on the Bank's web site at http://www.ebrd.com/projects/eval/showcase/core.htm.

evaluated a total of 547 (or 75 per cent) of these investment projects. In total, 520 of these projects, evaluated since the beginning of 1996, form the basis of the analysis that follows.[2]

These 520 projects constitute 74 per cent of the projects that became ready for evaluation in the period from 1996 to 2006. A well balanced sector and country coverage in the sample of evaluated projects has secured a broad representation of the overall portfolio of the Bank. Section 1.3 of this chapter and section 10 of appendix 8 provide details about the size and representation of the sample of evaluated projects.

The evaluation performance indicators that allow EvD to assign the overall performance rating are primarily based on the Bank's mandate to foster transition in its countries of operations. The relevant indicators consist of the following:

Evaluation performance indicators[3]



Blue indicator boxes represent indicators that define results the project-level and as such make up the transition outcome rating.[4]

The evaluation of transition impact focuses on the broader effects that the project has on the sector and economy at large. Three key areas covering seven transition impact indicators, as used by the Bank during the screening and approval of projects, are applied when evaluating transition impact in Bank projects:

Project contributions to the structure and extent of markets

- Greater competitive pressures (1)
- Market expansion via linkages to suppliers and customers (2)

Project contributions to market organisations, institutions and policies that support markets

- Increased private sector participation (3)

[2] During 2005 EvD revisited all evaluation reports dating back to 1996 and updated their performance ratings to conform to the rating system introduced in 2004. With the addition of operations evaluated in 2006, this has resulted in a complete and consistent database of 520 projects evaluated over the period 1996-2006, which has been used as the basis for the analysis in this chapter and in Appendix 8.

[3] Details on the EBRD's operation performance rating system at post-evaluation, with details on the benchmarks for each of the rating criteria are presented in appendix 1 of EBRD's *Evaluation Policy* (see footnote 1 for the EBRD's web site address).

[4] Presenting evaluation findings based on results on project-level, that is, transition outcome, makes the findings more comparable with other multilateral development banks (MDBs). See further details in appendix 8, section 1.

- Institutions, laws, regulations and policies that promote market functions and efficiency (4)

Project contributions to business behaviour

- Transfer and dispersion of skills (5)
- Demonstration effects and innovation (6)
- Higher standards of corporate governance and business conduct (7)

EvD assigns a rating to the short-term verified transition impact of a project that can be checked at the post-evaluation stage. It also rates the longer-term transition impact potential that can still be realised. EvD then reviews the risk that the project may not realise its full transition potential and assigns a rating of low, medium, high or excessive risk. Appendix 7.1 presents the list of transition objectives used by EvD and the Office of the Chief Economist (OCE) when assessing transition impact *ex-ante* (before project signing) and *ex-post* (after project signing at post-evaluation).

The transition matrices highlighted in appendix 7.2 for projects evaluated in 2006 illustrate how EvD deals with measuring *ex-post.* Appendix 8 gives details on the overall performance scores and shows how the seven underlying performance rating categories behave for all evaluated projects. The main findings of the detailed analysis presented in appendix 8 are described in Sections 1.4 to 1.8 of chapter 1.

1.3 Evaluation system and joint evaluation

1.3.1 *Functioning of the evaluation system*

The evaluated operations referred to in this AEOR are based

- on the post-evaluation of a sample of evaluated projects undergoing an operation performance evaluation review (OPER) and
- on the assessment of a sample of expanded monitoring reports (XMRs), the self-evaluation reports prepared by operational staff.

With the existing evaluation system EvD fulfils the objective of evaluating a sufficient number of operations to fully comply with its accountability objective. This is done through covering all of the Bank's operations ready for evaluation looking at all self-evaluation reports that are produced by operation staff during the year with different degrees of evaluation intensity. The quality management objective is adequately fulfilled through conducting a sophisticated lessons-learned dissemination process.

Here, evaluation staff provide lessons through the lessons-learned database (LLD) to operation staff allowing this important material to be available early on during the project appraisal and preparation process. EvD staff check the use of lessons through reviewing the quality of sections covering lessons from past experience in operation reports before Board approval.

EvD thinks that the self-evaluation system, whereby operational staff prepare XMRs and evaluation staff provide bankers with the necessary assistance during the preparation of the self-evaluation documents, works adequately in respect of generating lessons learned. However, as suggested in chapter 7, there is still room for improvement regarding assignment of performance ratings by operational staff during the self-evaluation process.

For the third time EvD conducted an analysis comparing the ratings assigned to projects by bankers with the ratings assigned by EvD during the validation process of performance ratings. The total level of downgrades by EvD over the past years remains at just over 30 per cent. In 42 per cent of the cases transition impact was downgraded the most by EvD. The regular training sessions for

bankers on the preparation of their XMRs, conducted by EvD, aim at further improving quality of the self-evaluation process.

1.3.2 *Project selection for evaluation*

The EvD normally undertakes OPER exercises after the investment has been made, that is, at least 18 months after last disbursement of a loan and two years after last disbursement of equity. In addition, at least one year of commercial operation must have occurred evidenced by one year of audited financial accounts. In 2006 a total of 27 projects ready for evaluation were selected for an OPER or special study exercise.[5] This was based on a purposive sample comprising 34 per cent of operations ready for evaluation.[6]

The XMR assessments (XMRAs) carried out by EvD comprised a total of 25 projects (or 40 per cent of ready operations) and are selected on a random basis. Evaluation, therefore, covered a total of 65 per cent of projects ready for evaluation in 2006. Appendix 8, section 1.3, presents the selection methodology of projects for evaluation and shows that there are no biases in the sample of projects covered by this annual review.

1.3.3 *Joint evaluation*

In recent years the Audit Committee of the Board of Directors has emphasised the importance of carrying out evaluation exercises jointly with other international financial institutions (IFIs) and bilateral institutions. The first joint evaluation exercise took place in 1997 when EvD evaluated the Bank's Regional Venture Funds (RVFs) jointly with the European Commission (EC). In 2005 one project in Croatia was jointly evaluated with the Council of Europe Development Bank in Paris thereby gaining important experience.

During 2006 a joint evaluation was carried out with the European Investment Bank, and the results (regarding an environmental project in northern Russia) were shared with the Nordic Investment Bank. Information was also shared with the Asian Development Bank (ADB) on a small and medium enterprise (SME) project in Uzbekistan. EvD endeavoured to arrange joint evaluations with the World Bank and International Finance Corporation (IFC) on two other projects, but it was not possible to coordinate the evaluations. EvD reported in more detail on joint evaluation in its *Work Programme Completion Report for 2006* (BDS07-052 [Rev 1]).

1.4 Overall performance

During the period from 1996 to 2006, 57 per cent of evaluated operations were given *successful* or *highly successful* ratings.[7] This is shown in chart 1.1 below presenting the cumulative scores of the overall performance ratings.

57 per cent of evaluated operations were given *successful* or *highly successful* ratings on overall performance for the period from 1996 to 2006.

As highlighted in chart 1.2 below, in 2004, 73 per cent of projects rated *successful* and *highly successful*, a very high level compared with previous years. This has decreased during the following two years, and in 2006 these ratings totalled 61 per cent.

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[5] In fact, 35 operations were selected, but some were then grouped for evaluation purposes into 23 OPERs and one operation-focused special study, as reported in EvD's *Work Programme Completion Report for 2006* (BDS07-052 [Rev1]). A total of 27 projects were rated individually and are included in the 2006 figures presented in this chapter and appendix 8.

[6] Projects ready for evaluation on which an OPER report is prepared are selected on a purposive basis, meaning projects are selected based on lessons-learned potential, risk for the Bank, a project's high profile and so on.

[7] Weighting by volume of investment yields better results reaching 70 per cent *successful* or higher and 20 per cent *partly successful* ratings. The *unsuccessful* ratings share is 10 per cent.

This level is more in line with the steady improvement observable since a low point of 46 per cent in 2001, and despite the fall in the last two years it remains higher than in any year before 2004. The proportion of projects rated *highly successful* has continued to rise in recent years from none in 2001 to 19 per cent in 2006. At the same time, the number of projects rated *unsuccessful* fell from 24 per cent in 2001 to eight per cent in 2006.

Chart 1.1: Overall performance, cumulative percentage distribution of assigned ratings (401 investment operations evaluated 1999-2006)

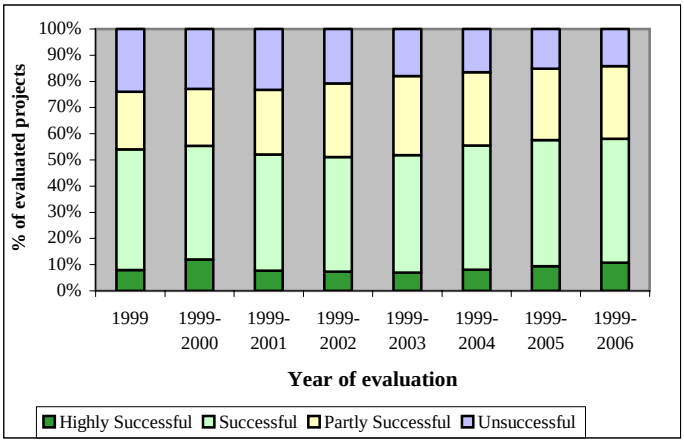
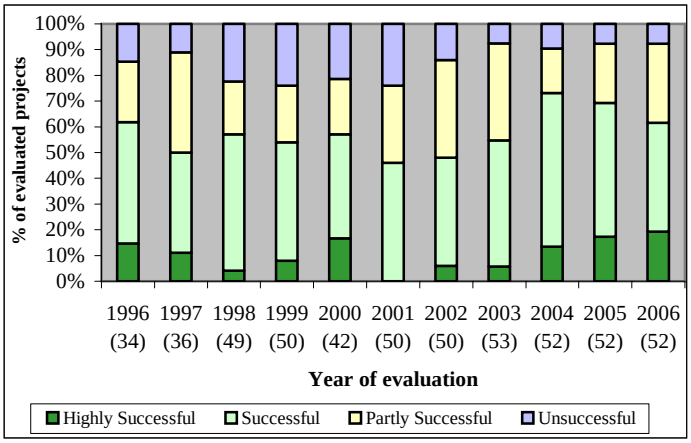


Chart 1.2: Overall performance, percentage distribution of assigned ratings (520 investment operations evaluated 1996-2006)



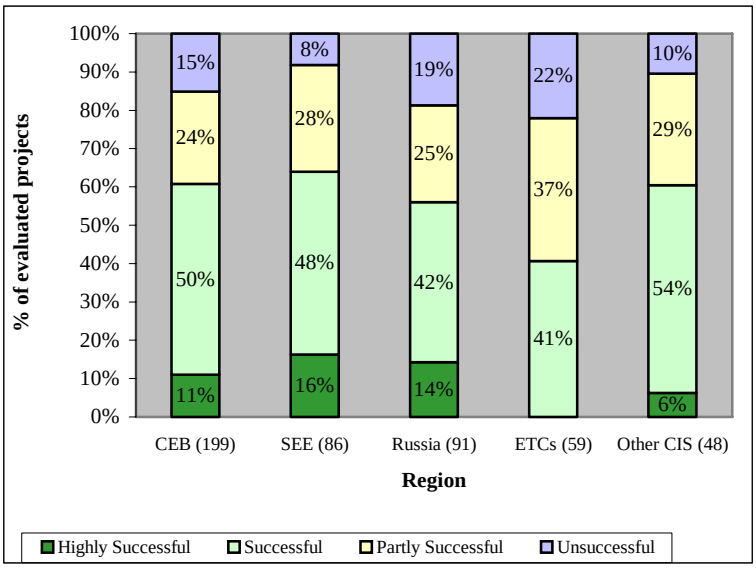
In the cumulative overall performance 57 per cent of the cases achieved positive scores. This may seem modest compared with the average score on transition impact where 77 per cent of cases rated *satisfactory* to *excellent* – much higher than the above score on overall performance (see section 1.5). However, experience has shown that projects scoring *satisfactory* on transition impact tend to be associated with an overall rating of *partly successful*.[8] Indeed, the number of projects rated *good* to *excellent* for transition impact (60 per cent) is much more closely aligned to the results for overall performance.

In addition, the relatively lower than average rating for financial performance – around 65 per cent rated *satisfactory* to *excellent* and only around 40 per cent rated *good* or *excellent* – partly determines the outcomes for overall performance (see section 1.7). From an investment perspective many parts of the region in which the Bank operates remain risky. This continues to be the case even for more recent EBRD projects developed in advanced transition economies.

Chart 1.3 shows the classification of overall performance ratings by country groups for all investment operations evaluated since 1996. The performance of projects in Russia has improved in recent years, so that region is now only slightly behind others in overall performance ratings. Only projects in early transition countries (ETCs) are significantly less successful than projects in other regions.

[8] Of the 119 projects rated *satisfactory* on transition impact since 1996, 64 had an overall performance rating of *partly successful*.

Chart 1.3: Percentage distribution of overall performance ratings on 513 post-evaluated investment operations in 1996-2006 by country groups



Note: 37 regional projects are omitted.

The analysis in section 2.3.1 of appendix 8 shows, however, that performance in ETCs is better than in the late 1990s when only 27 per cent were rated *successful* or better. In 2000 to 2002, 47 per cent of projects in this region were rated *successful*. In the period from 2003 to 2006 it was 44 per cent. Furthermore, the proportion of *unsuccessful* projects in this region has fallen from 33 per cent in the late 1990s to only 11 per cent in the period from 2003 to 2006. However, none of the 59 projects in this region has been rated *highly successful*.

The seven countries in this region have suffered from political instability and face difficult transition challenges (mainly due to the small size of domestic and export markets), underdeveloped financial systems, public governance issues and corruption. This very poor investment climate results in a low level of foreign investment and creates major challenges for the EBRD.

1.5 Transition impact and environmental performance and change

1.5.1 Performance on transition impact

Charts 1.4 and 1.5 below present the performance ratings on transition impact, applying the six-point rating scale that was introduced in 1999. Of a total of 520 projects evaluated from 1996 to 2006, 77 per cent achieved *satisfactory* to *excellent* ratings.

77 per cent of evaluated operations obtained *satisfactory* to *excellent* ratings on transition impact for the period from 1996 to 2005.

This score is a very important accomplishment that confirms the Bank's mandate compliance. However, 23 per cent of the evaluated projects obtained ratings from *negative* to *marginal*. This shows that the Bank operates in difficult environments where many obstacles to transition remain.

Chart 1.5 shows that ratings for transition impact have risen significantly from a low point in 2001 when the repercussions of the Russian financial crisis of 1998 had a severe impact on evaluation outcomes (see appendix 8, section 3, for further analysis).[9] Unusually good results in 2004 have

[9] Most of the projects evaluated in 2001 were Board approved in or before 1998, so were potentially affected in their early stages by the 1998 financial crisis in Russia.

again been followed by a drop in the period from 2005 to 2006. Nevertheless, the overall upwards trend from 2000 to 2006 is still visible in chart 1.5.

The proportion of projects rated *excellent* has continued to rise, although the proportion rated *good* or *satisfactory* has fallen since 2005. It is too early to say that a new downward trend is developing but another year's results should enable more accurate predictions.

Chart 1.4: Cumulative percentage distribution of transition impact ratings on 520 post-evaluated investment operations in 1996-2006

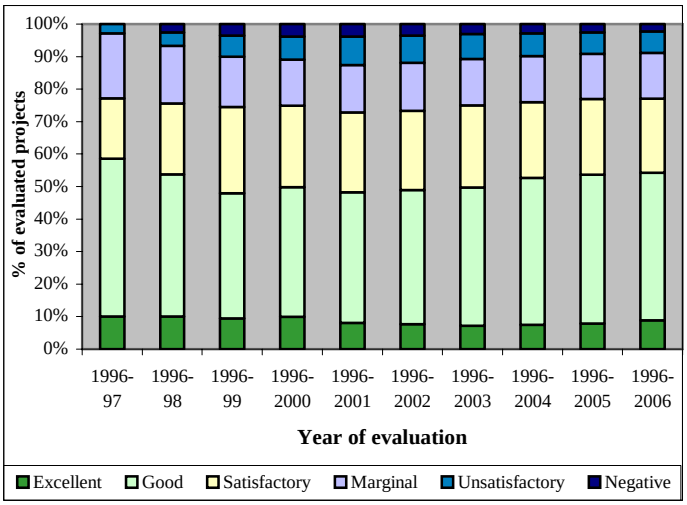


Chart 1.5: Percentage distribution of transition impact ratings on 520 post-evaluated investment operations in 1996-2006

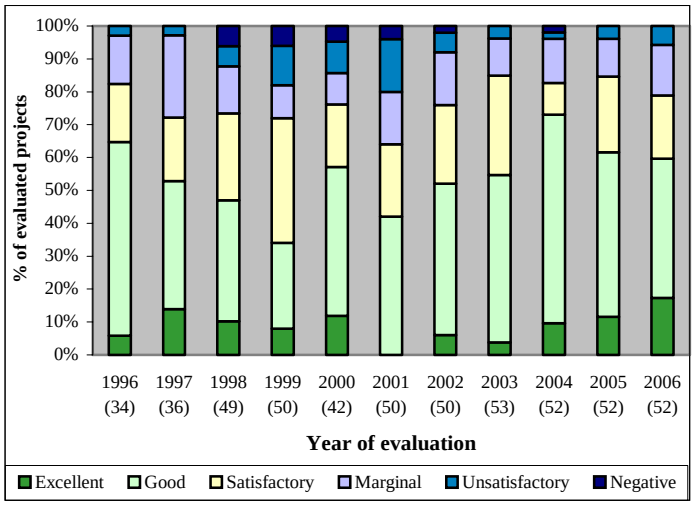
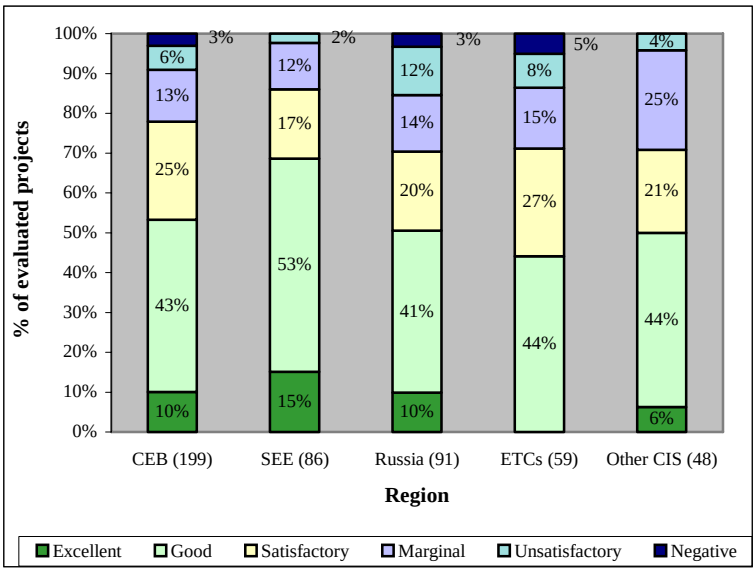


Chart 1.6 presents the distribution of transition impact rating by country groups for the 469 projects evaluated in the period from 1996 to 2006 (less 37 regional projects). The best performance is found in south-eastern Europe (SEE).[10] The time-sequence analysis in appendix 8, section 3.3, shows that transition impact has improved in most regions since the period from 2000 to 2002, except in the ETCs where results have remained virtually unchanged.

However, within the period from 2003 to 2006 there appears to be some improvement with over 70 per cent of the 15 ETC projects evaluated in 2004 to 2006 rated *satisfactory* or better. This reflects the financial performance observed among the Bank's projects in that region evaluated by EvD, which also show improvement in the period from 2004 to 2006. Positive financial performance, where the sustainability of a project is not threatened, is a necessary condition for transition impact to unfold but it is not a reliable condition as some financially successful projects can still score low on transition impact.

[10] In chart 1.6 the category "Other CIS" comprises Belarus, Kazakhstan, Turkmenistan and Ukraine.

Chart 1.6: Percentage distribution of transition impact ratings on 513 post-evaluated investment operations in 1996-2006 by country groups

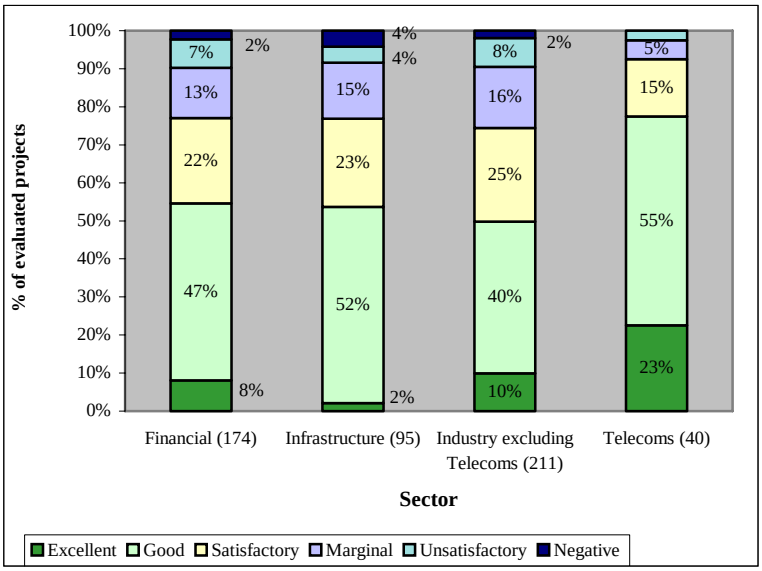


Note: 37 regional operations are omitted.

Chart 1.7 below shows transition impact ratings by sector. In the past years differences in results between sectors have become much less apparent. The industry sector still performed marginally less well than the others overall. However, section 3.4 of appendix 8 shows that its performance in recent years has been much improved with 63 per cent of evaluated projects in the period from 2003 to 2006 rated *good* or *excellent*.

Infrastructure (formerly the best performing sector) has maintained similar results to previous years but lost its lead over the other sectors as they have improved. The financial sector is the best performing sector in recent years with 66 per cent of projects rated *good* or *excellent* in the period from 2003 to 2006 (see also appendix 8, section 3.4).

Chart 1.7: Percentage distribution of transition impact ratings on 520 post-evaluated investment operations in 1996-2006 by sector groups



Note: Infrastructure comprises municipal, power, energy efficiency and transport sectors but excludes shipping. Industry and commerce includes agribusiness, general industry, natural resources, property/tourism and telecommunications sectors.

1.5.2 Environmental performance and environmental change

The EBRD was established with a specific environmental mandate. Article 2, clause vii, of the *Agreement Establishing the European Bank for Reconstruction and Development* encourages the Bank "to promote in the full range of its activities environmentally sound and sustainable development". Environmental performance is included in the *ex-post* assessments.[11]

As presented in chart 1.8 and 1.9, environmental performance in the period from 1996 to 2006 was rated *good* or *excellent* in 56 per cent of cases and *satisfactory* in a further 31 per cent. Over the period from 1996 to 2006, only three per cent of the projects evaluated were rated *unsatisfactory* in respect of environmental performance and none was rated *highly unsatisfactory*. In addition, for the last two years no project has been rated less than *marginal*.

87 per cent of evaluated operations obtained ratings of *satisfactory* to *excellent* on environmental performance for the period from 1996 to 2006.

Chart 1.8: Cumulative ratings on environmental performance (1996-2006)

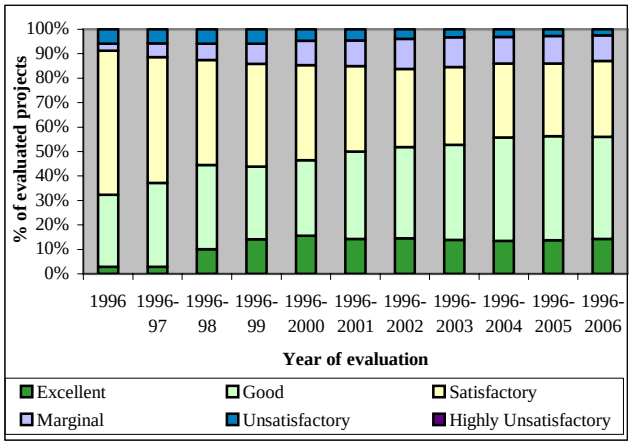
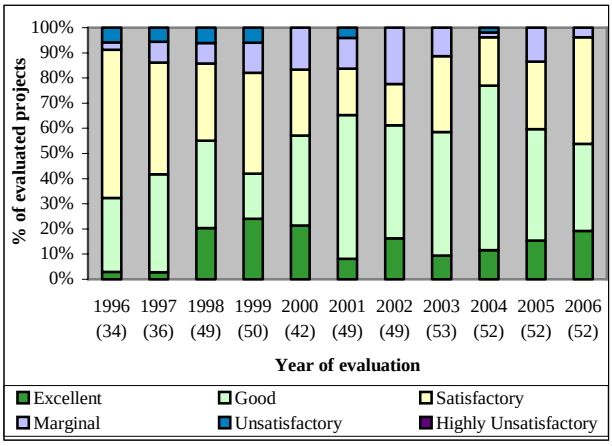


Chart 1.9: Ratings on environmental performance (1996-2006)



In respect of environmental change, 23 per cent of the evaluated projects were rated *substantial* or *outstanding*, while 52 per cent achieved *some* environmental change.[12] In previous AEORs, EvD noted that the Bank achieved its most impressive results for environmental change in category A projects (which, on entry, are judged to represent significant environmental liability)[13].

This observation implies that the EBRD is best able to achieve its environmental mandate in projects that present the largest amount of environmental risk. The banking and the environmental departments emphasised appropriate measures to mitigate risk for projects in this category. Cumulative results through this year confirm this observation: 55 per cent of category A projects have achieved *outstanding* or *substantial* environmental change in the period from 1996 to 2006, compared to 23 per cent of all projects during the period. 94 per cent of category A projects and 75 per cent of all projects have attained at least *some* environmental change.

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[11] Environmental performance of projects is measured by accumulating the environmental and health and safety performance indicators: environment (the status of the environment in the project vicinity), health and safety (the way in which health and safety and respective risk assessment systems are effectively applied and the extent of compliance with these systems), pollution loads and energy efficiency (the extent to which the emissions are significantly lower that the regulatory limits), environmental management (the level of compliance with the agreed environmental action plan), and public consultation and participation (whether the public consultation and participation has been carefully planned and organised with a responsible person in charge).

[12] The extent of environmental change (environmental impact) is measured as the difference between the environmental performance before the project started and its performance at the time of evaluation.

[13] The EBRD's environmental categories are defined on the web site at http://www.ebrd.com/about/policies/enviro/procedur/procedur.pdf. Category A projects are those projects presenting the greatest environmental risk.

EvD considers the above ratings for environmental performance and change to be positive, in particular, as the potential for environmental change is not a primary consideration at the time of project selection except in areas that have a significant environmental impact such as energy efficiency, municipal and environmental infrastructure (MEI) and other sectors. Further details on environmental performance and change are presented in appendix 8, section 7.

1.6 The Bank's additionality in projects

Since the establishment of the EBRD the Bank's additionality in projects has been very good in the majority of cases.[14] On a cumulative basis, from 1996 to 2006, 62 per cent of the projects evaluated rated the Bank's additionality as *verified in all respects*, 26 per cent *verified at large* and only 12 per cent *verified in part* or *not verified* (chart 1.10).

The Bank's additionality in projects was rated *verified in all respects* and *verified at large* in 88 per cent of the cases for the period from 1996 to 2006.

Chart 1.10: Cumulative ratings on the Bank's additionality (1996-2006)

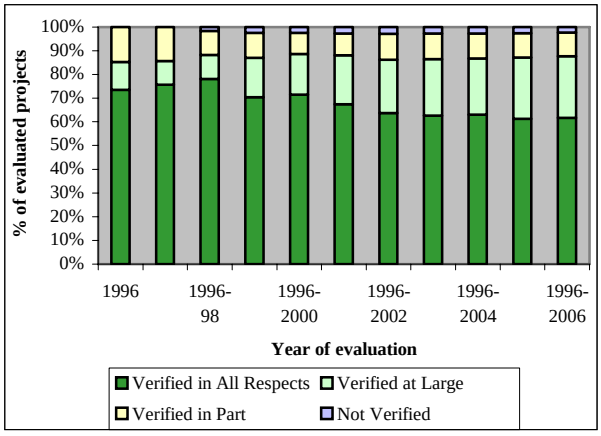
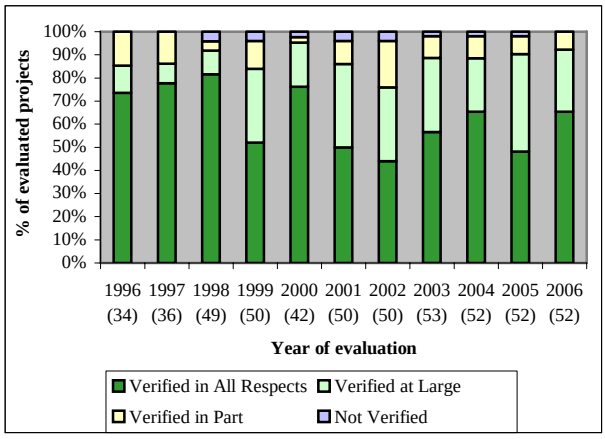


Chart 1.11: Ratings on the Bank's additionality (1996-2006)



Regarding annual variations of additionality, the figures in chart 1.10 and 1.11 show a stable position compared with the previous year, when looking at both *verified in all respects* and *verified at large* categories.[15] Looking just at the *verified in all respects* category, additionality from 2001 onwards has been much lower then in the late 1990s. If a delay of about three years between project signature and evaluation time is accounted for, it is interesting to see that the downturn broadly corresponds to projects signed since the 1998 Russia crisis.

Section 4.2 of appendix 8 shows that additionality ratings for evaluated projects in Russia and the ETCs had a midpoint downturn in the period from 2000 to 2002, followed by a recent improvement. Central Europe and the Baltic states (CEB), SEE and other CIS countries show a continuing fall in the number of projects rated *verified in all respects*. The majority of projects rated *not verified* or *verified in part* – 50 (78 per cent) out of 64 projects are found in CEB or Russia.

Additionality ratings by sector over the same periods show that FIs and industry and commerce have both recovered somewhat from a downturn in the period from 2000 to 2002. Infrastructure and telecoms, which both had higher additionality during that period, have maintained a high percentage of projects rated *verified in all respects* or *verified at large* among more recent evaluations,

[14] The Bank's additionality in projects is verified in terms of whether the Bank provides financing that could not be mobilised on the same terms by markets and/or whether the Bank can influence the design and functioning of a project to secure transition impact.
[15] The upturn in the performance of additionality is more pronounced when focusing on the *verified in all respects* category only.

although the proportion of highest ratings has continued to fall, especially in telecoms. This may indicate a decrease in the level of strict financial additionality.

1.7 Project financial performance[16]

Project financial performance compares the findings at evaluation with the original expectations when the project was appraised. These findings show that the share of investment operations that achieved ratings of *satisfactory* to *excellent* on project financial performance has improved over several years from a low point in 2001 of 42 per cent to 71 per cent in 2006. The total score in these categories over the period from 1996 to 2006 was 65 per cent.[17] Almost one in six of all project financial performance ratings, however, remain *unsatisfactory* or *highly unsatisfactory*.

Project financial performance was rated *satisfactory* to *excellent* in 65 per cent of the cases for the period from 1996 to 2006.

Chart 1.12: Cumulative ratings on project financial performance (1996-2005)

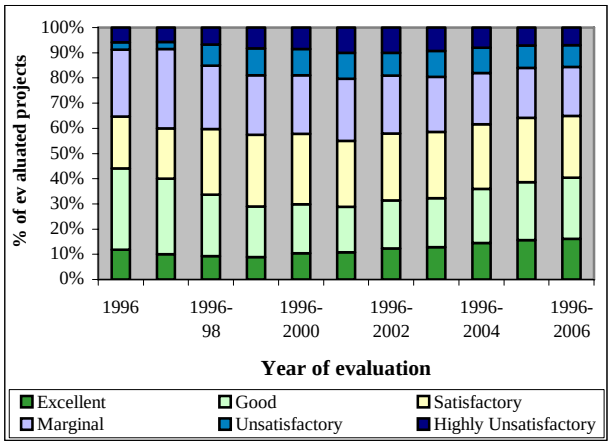
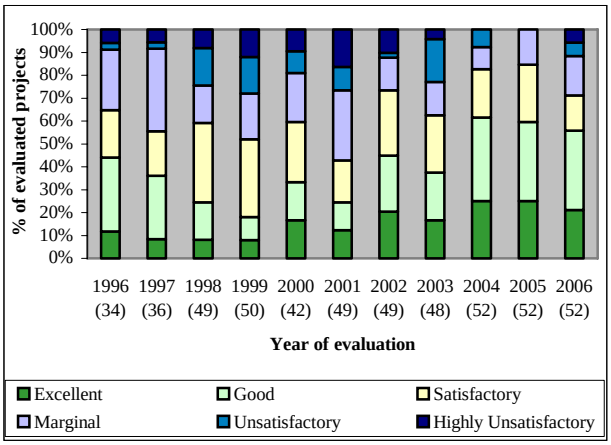


Chart 1.13: Ratings on project financial performance (1996-2005)



Evaluation data support the fact that financially sustainable projects are more difficult to achieve in ETCs where the systemic constraints and risks are high. In ETCs only 42 per cent of projects rate *satisfactory* to *excellent* for financial performance (Appendix 8, section 5).

This demonstrates the need to focus attention on the systemic constraints at sector level that are likely to directly affect the financial performance of the project. Good results were obtained for other CIS countries, but this was mostly due to good performance in Ukraine.

In the past infrastructure projects have been more likely to be rated *satisfactory* to *excellent* for project performance than projects in industry and commerce and the financial sector. Section 5.3 of appendix 8 shows that in the period from 2003 to 2006 the infrastructure sector has performed marginally less well than the other two sectors, with only 72 per cent of projects rated *satisfactory* to *excellent*.

However, there has been very little difference between the sectors, as industry and commerce reached 74 per cent and the financial sector 76 per cent. Infrastructure shows the lowest proportion of projects rated either *excellent* or *highly unsatisfactory*, reflecting perhaps the relative stability of

[16] In appendix 8, section5, more details are given on project financial performance while in the same section company financial performance is also dealt with.
[17] The project financial performance by volume of investments is *good* or *excellent* for 48 per cent of evaluated projects.

projects in this sector, where many projects are either state sector or have some state or municipal involvement.

1.8 Findings and conclusions based on performance of evaluated operations in 2006

Results of evaluated operations in 2006 have fallen a little in comparison to the exceptionally high levels of 2004. However, it is still too early to speak of a new downward trend. Russia in particular has continued to improve performance of recent years. Only the ETCs still lag behind other regions. The following are more detailed findings and conclusions:

- In total, 57 per cent of the evaluated projects in the period from 1996 to 2006 achieved *successful* to *highly successful* overall performance ratings This is a lower than for transition impact which reached a *satisfactory* to *excellent* rating in 77 per cent of the cases. The overall performance reflected in part the modest financial performance of projects compared with original projections. However, the positive outcome in the transition impact component leads EvD to the conclusion that the Bank is doing well overall and has implemented projects which largely meet the Bank's mandate.

- Performance ratings across all the indicators show a pattern of recovery from a low point in the period from 2001 to 2002. This is due to the Russian crisis of 1998, given an average delay of four years between project approval and *ex-post* evaluation. However, there is variation among regions and sectors, with performance in ETCs still behind other regions.

- Transition impact over the last three years has been highest in the evaluated projects in SEE countries and in Russia while projects evaluated in CEB and other CIS countries score lower on transition impact.

- Evaluated projects in ETCs have had relatively poor financial performance, affecting the realisation of their full transition impact potential. It is important to enable this group of countries to reach and maintain a level of performance comparable to the higher levels seen in other regions several years ago.

  There are encouraging signs in the 15 ETC projects evaluated in the period from 2004 to 2006. There, 70 per cent of projects have achieved *satisfactory* or better project financial performance, with correspondingly improved transition impact and overall performance ratings. However, the numbers are too small to attest to a significant improvement. EvD is currently preparing an evaluation of the ETC Fund and findings from this study will be available in time for next year's AEOR.

- The number of projects rated at least *verified at large* for additionality has remained steady for the last four years.

2. MONITORING AND EVALUATION OF TRANSITION IMPACT

2.1. Introduction

The transition impact monitoring system (TIMS), which was approved in December 2002 and implemented in January 2003, constitutes an important addition to the Bank's "scorecard" which has been built up over the past years. The main objective of the TIMS exercise is to strengthen monitoring of the transition impact while projects are being implemented.[18] The process requires interventions from the staff of the OCE, the Credit/Portfolio Review Unit and the Banking Department.[19] The OCE is responsible for operating TIMS with the help of the Banking Department.

EvD paid regular attention to the developments of the entire process as well as to TIMS findings and ratings.[20] Given the continuous growth in TIMS activities, it is useful to provide an updated comparison between TIMS outcomes and EvD evaluations for a sample of 108 operations that have both an *ex-ante* and *ex-post* transition impact rating. The comparison is presented in the first part of this chapter.

In the second part EvD is for the first time presenting an evaluation of the relevance and effectiveness of the benchmark categories used so far in TIMS. This is to identify what transition priorities are monitored in practice and the extent to which the current guidelines are conducive to appropriate categorizations of transition targets and benchmarks for monitoring purposes.

2.2 Comparison of TIMS outcomes with EvD evaluations

2.2.1 What is to be compared

The TIMS process generates a series of reports for each project that reflect the history of the transition performance during the life of the project. Contrastingly, EvD evaluations are typically made after project completion for selected projects. Both EvD and TIMS use a rating structure that summarises the performance of a project at a particular time.

While there are some methodological differences (see box 2.1), both approaches have enough in common to allow a comparison of their respective aggregated outcomes, as they rely upon the same fundamental rating categories established in 1999. The comparison places TIMS outcomes in a broader framework of the evaluation cycle that goes beyond project implementation. In this section EvD identifies a common sample of projects that had both TIMS monitoring and EVD ratings. Further, EvD uses the sample to compare the latest TIMS to the EvD *ex-post* ratings, and derives conclusions on current TIMS rating properties.

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[18] The transition monitoring system is expected to meet essentially three objectives: (a) improving the structure of the projects by fine tuning the balance between transition target, covenants and risk mitigating factors; (b) addressing transition impact issues as soon as they arise; and (c) providing a regular assessment of progress in achieving transition impact (See the Executive Committee paper of December 2002). A summary description of the TIMS methodology is provided in the *2005 Strategic Portfolio Review* (Report BDS 06-52, pages 28-9).

[19] The Banking Department is to share with the OCE recent achievements or failures measured against project stated objectives and discuss with the OCE further actions that will help accelerate transition, in the context of the project monitoring module (PMM) reporting. The Credit/Portfolio Unit provides space for discussion by allowing economists to hear from the bankers in credit review meetings and let them debate on transition issues at the end of the meeting, although the OCE holds separate meetings with bankers if required. OCE economists are assigned to specific sectors and convey their findings in a TIMS review checklist that monitors the progress against at least two predefined transition objectives set at appraisal and translates the outcome of the analysis into ratings.

[20] A first evaluation of the process was reported on in the AEOR for 2004 and preliminary comparisons of TIMS and EvD project ratings were presented in the AEORs of 2005 and 2006. See AEOR for 2004 (BDS 04-069), Chapter 7, section 7.3.1 and the AEORs for 2005 (BDS 05-117) and 2006 (BDS 06-122 – Final), chapter 2.

Box 2.1: Commonality and variants in the TIMS and EvD rating systems

The OCE and EvD make the same distinction between the transition impact potential of a project and the risks to transition impact in their respective evaluations. The transition potential and risk are measured along the same ordinal scales. The methodology was presented first to the Financial and Operations Policies Committee (FOPC) in a 1997 memorandum called *Transition impact of projects* (CS/FO/97-3), and confirmed later by the Board following the adoption of the memorandum *Moving Transition Forward* (see BDS 99-24 – Rev1).

EvD focuses on *ex-post* performance and works with three categories of ratings separating (a) short term realised transition, (b) remaining transition potential, and (c) risk attached to the remaining potential. These enter, as components, into an overall transition impact rating. The rating scale used by EvD (and the Banking Department for projects at entry and expanded monitoring reports) includes all the above components at different levels of transition impact performance. These are:

1 excellent
2 good
3 satisfactory
4 marginal
5 unsatisfactory
6 negative (only *ex-post*)

The OCE monitors ongoing implementation and uses only two categories: transition potential and risk. Any change in short-term observed performance in TIMS is registered mostly within changes of original risk: the higher the short-term performance, the lower the risk to the overall potential. In the context of the strategic management of the Bank's portfolio, the OCE has developed a rating system from one to eight that combines risk with transition impact potential in order to assess how both flow and stock of projects are achieving their expected impact on transition (see the *2006 Strategic Portfolio Review* [BDS 07-069, pages 29-41]). The OCE combinations of transition impact potential and risk are classified and ranked as:

1 Excellent/ negligible
2 Excellent/low – good/ negligible,
3 Excellent/medium – good/ low – satisfactory/ negligible
4 Excellent/ high – good/medium – satisfactory/low
5 Good/ high – satisfactory/medium
6 Satisfactory/high – marginal/low or negligible
7 Marginal, high/medium
8 Unsatisfactory/any risk, any rating/excessive

On that part of the Bank's portfolio which includes both *ex-ante* and *ex-post* ratings, it appears appropriate comparing the TIMS expected transition impact with the EvD overall transition impact, as they both reflect the performance realised transition, in addition to remaining potential. The TIMS assessment of expected transition is rated according to the one to eight ordinal scales defined in the portfolio analysis of the budget for 2005. The EvD *ex-post* overall transition ratings refer to the one to six OCE/EvD scale of 1999.

2.2.2 The common sample of 108 projects

The TIMS latest ratings from the OCE/TIMS portfolio database and the ex post ratings from the EVD evaluation database have now 108 projects in common. There are a number of features in the EVD sample that facilitate the comparison with TIMS.[21] The sample, however, is still relatively small as it only represents 19 per cent of the 567 projects currently being monitored in TIMS.

[21] First, although EvD sometimes groups operations for evaluation purposes, care was taken to include in the sample of 108 projects only the results from evaluation reports that had a clear lead operation monitored in TIMS. Evaluations covering several distinct operations, or focusing on a different lead operation from the corresponding TIMS reports, were excluded.

Secondly, these 108 projects include three operations which were completed before the introduction of the new final TIMS review system and for which EVD uses the data of their last regular TIMS review (impact plus risk). Third, the average period between

In addition, as shown in table 2.1 below, the sample is not fully representative of the population of all projects evaluated by EvD during the period from 2001 to 2006 as they have few *unsatisfactory* and no *negative* projects and a high proportion of projects rated *excellent*. In addition this EvD sample is somewhat low on infrastructure projects that may take a long time to mature.[22] Therefore, the findings could still change substantially over the coming years when the sample size increases.

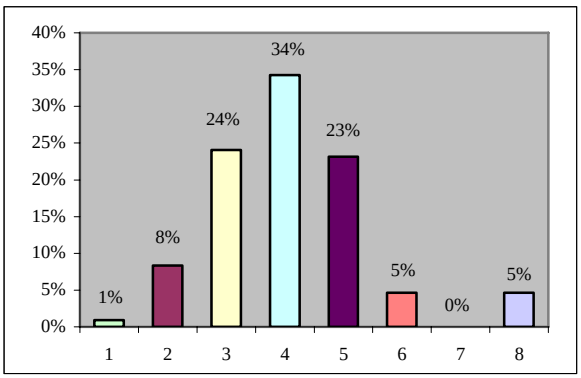
Table 2.1: Distribution of overall transition impact ratings in the 108 project sample compared with larger EvD project groups

	Excellent	Good	Satisfactory	Marginal	Unsatisfactory	Negative
All projects 1996-2006	9%	45%	23%	14%	7%	2%
All projects 2001-06	8%	50%	21%	14%	6%	1%
Projects in the sample of 108	17%	52%	16%	11%	4%	0%

2.2.3 The results of the comparison

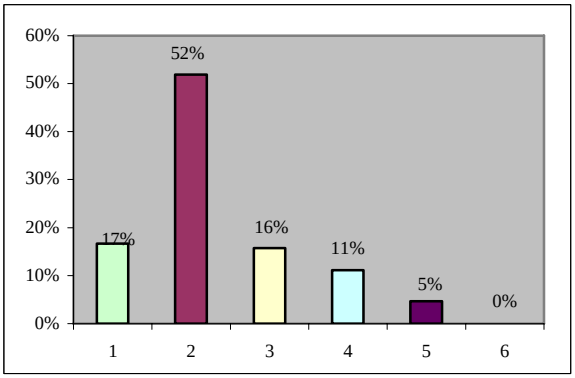
When compared with the most recent TIMS ratings of the sample of 108 projects in common with EvD, the results show further improvement in transition impact from the EvD evaluations. The highest proportion of TIMS ratings (34 per cent) lies in *excellent/high* and *good/medium* to *satisfactory/low* range (4), while the largest number of projects (52 per cent) fall under *good* (2) in the EvD's categories (charts 2.1 and 2.2).

Chart 2.1: Latest TIMS updated expected transition impact ranking of 108 projects assessed and evaluated in 2000 to 2006



Key: 1=Excellent/ negligible
2=Excellent/low – good/ negligible
3=Excellent/Medium – good/ low – satisfactory/ negligible
4=Excellent/ high – good/medium. – satisfactory/low
5=Good/ High. – Satisfactory/Medium
6=Satisfactory/high – marginal/low or negligible
7=Marginal, high/medium

Chart 2.2: EvD overall transition impact rating of 108 projects assessed and evaluated in 2000 to 2006



Key: 1=Excellent
2=Good
3=Satisfactory
4=Marginal
5=Unsatisfactory
6=Negative

Board approvals (when the TIMS rating starts) and EVD evaluations is relatively short in the sample. It is three years only compared with four years for the entire population of the 520 projects evaluated by EvD evaluated since the beginning of 1996.

[22] About one third of the evaluated projects in the EvD sample are in the FI sector (34 per cent), half (49 per cent) in industry and the remaining (17 per cent) in infrastructure.

8=Unsatisfactory/any risk, any rating/excessive

When the rating categories are aggregated on both sides (charts 2.3 and 2.4) the results appear divergent, with 68 per cent of TIMS project ratings in the positive range 1 to 4 (from *excellent/negligible* to *satisfactory/low*) and 84 per cent of EvD ratings in the 1 to 3 range (*excellent to satisfactory*). One reason for the difference could be that EvD evaluates transition impact systematically through the full range of standard indicators while TIMS focuses on the two or three main transition priorities selected at Board approval for the project.[23]

Chart 2.3: Latest TIMS updated expected transition impact ranking of 108 projects assessed and evaluated in 2000 to 2006

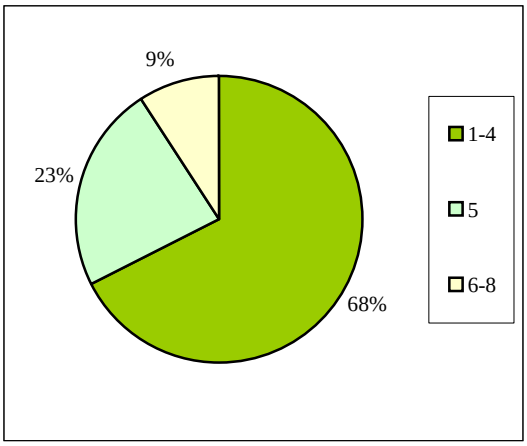
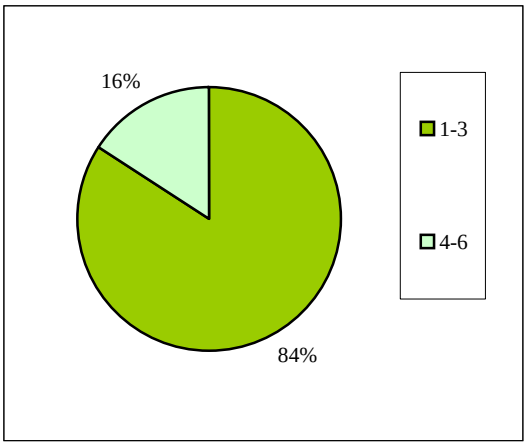


Chart 2.4: EvD Overall transition impact rating of 108 projects assessed and evaluated in 2000 to 2006



Another reason for the difference may result from the timing of TIMS reviews. The category 5 in TIMS, which is the tranche immediately below the Bank's threshold of 4, remains, with 23 per cent, fairly large (see chart 2.3 above). A number of projects entering in this category, originally or during monitoring, could very well move above the threshold of 4 towards the end of the life of the project as they are already close to it.

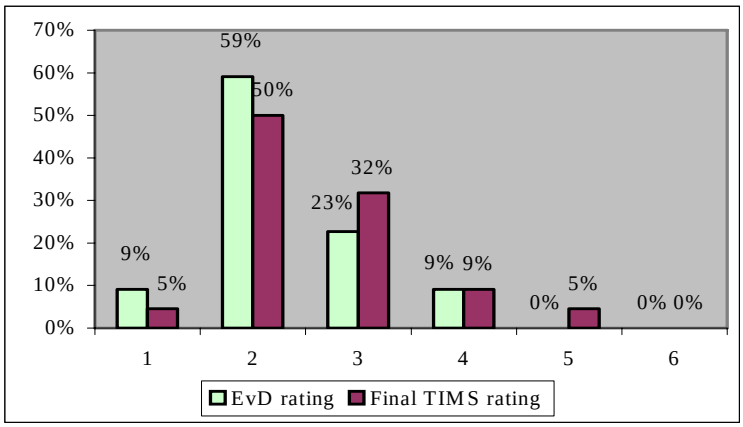
Therefore, the differences between TIMS and EvD results might not be as high as they appear in the first instance. Indeed, this is what we tend to observe when the final rating of TIMS given at closure of a project is compared with the EvD rating of the same project. The evaluation scale used by TIMS at closure then becomes directly comparable to the EvD scale 1 to 6 for overall TI performance (see box 2.1). Chart 2.5 below provides the results for a common sample of 22 projects that have been closed and rated at closure (or after) by both EvD and TIMS.[24] The differences observed in the previous charts 2.3 and 2.4 are now reduced.[25]

[23] In its *ex-ante* assessment of the transition potential of an operation the Bank typically concentrates on its two, perhaps three, most salient transition indicators/objectives and so does TIMS. This is different from EvD reviews *ex-post* of the transition impact of a project through all the seven transition indicators of the EBRD guidelines.

[24] This year TIMS has introduced a new category of ratings for completed projects that have been subject to a final TIMS review. These ratings do not follow the usual OCE's categorisation (1-8), because the risk component has been deleted at this stage. The completed project carries only a rating of the impact level achieved at completion. There are 22 of these projects, and their final impact rating can be directly compared with EvD's overall transition impact rating.

[25] Perhaps the differences could become even less pronounced if the period between two TIMS reviews is lengthened for projects whose transition impact often appears after long delays, like tariff increases in infrastructure projects for example.

Chart 2.5: Comparison of EvD Overall Transition Impact Ratings with OCE Final Transition Ratings for 22 projects assessed and evaluated in 2000 to 2006



2.3 Relevance and effectiveness of TIMS benchmarks

In order to monitor the progress of the transition impact of a project, TIMS relies upon transition objectives, operational objectives and benchmarks recorded on a checklist for each project.[26] The transition objectives in principle reflect the transition priorities set in the Board document.[27] The operational objectives, which are to be closely modelled on the transition objectives, are registered in a different section called 'monitoring indicators'.

The monitoring benchmarks are selected to track the achievements of each one of the operational objectives. The categories used for transition objectives, operational objectives and benchmarks are to conform to the EBRD's guidelines of transition impact and the related seven transition indicators that have been made available to the Bank's staff, the clients and the public.[28] The TIMS reviewers are in fact monitoring projects on the base of nine indicators rather than seven because OCE has decomposed "demonstration effect" into three components with equal weight: (a) new products and processes, (b) successful restructuring, and (c) ways to finance activities.

In the last few years the OCE and Bank staff have created a wealth of transition benchmarks to monitor the achievement of selected transition objectives. Within its mandate to regularly evaluate the process, the analytical approach and the overall outcome of the TIMS, EvD will focus in this section on the relevance and the effectiveness of the above mentioned transition objectives and benchmarks in order to identify priorities and the extent to which the sub-objectives benchmarks help supporting the stated main objectives.

2.3.1 A sample of 53 TIMS checklists

The EvD exercise consisted in a review of latest TIMS checklists of the most recent projects entered into TIMS. The sample consists of 53 projects monitored during 2006 and first quarter of 2007. The findings were systematically recorded on a master worksheet in terms of presence or absence of a

[26] A TIMS project review checklist is designed to confirm or change the transition impact ratings assigned to a project at entry as a result of the assessment of transition progress achieved at the time of the review. The monitoring assessment is done against specific and verifiable transition impact objectives, measurable benchmarks and the expected implementation dates, which are presented in the project document approved by the Board. A typical TIMS document includes eight sections: project details (1), main transition objectives (2), rationale for transition impact (3), monitoring indicators, divided into (operational) transition impact objectives, monitoring benchmarks and implementation timing (4), benchmark comments (5), other Comments (6), status quo, and TIMS ratings (8). This EvD review concentrates on the objectives and benchmarks found in sections 2 and 4.

[27] See section 2 of the checklist.

[28] The transition impact indicators are documented in appendix 7.1. These guidelines originate in two Board documents CS/FO/97-3 and BDS99-24 (see box 2.1), and they are available on the EBRD external web site under the heading "Understanding transition impact" found at www.ebrd.com/country/sector/econo/impact.htm.

particular categorization component as compared with the standard ones. The sample covers the three Bank sector groups with a large representation of FIs.

Table 2.2: Sector composition of the sample

Sector group	Number of projects	Percentage in the sample
Financial institutions	31	59%
Industry	16	30%
Infrastructure	6	11%

Two distinct analyses were performed. First a strict separation was done when a transition impact category used in a TIMS checklist was not judged by EvD to be completely conforming to the standard TI guidelines.[29] That particular 'borderline category' was then reclassified under a more appropriate heading (outside the standard TI indicators) to better reflect its content, for example project physical completion, financial or commercial performance.

A complication arose with the environment category where guidelines are not clear.[30] For the purpose of this exercise and for analytical purposes only, EvD proposed to first, separate environment from the rest, leaving for later the discussion on what should be part of the standard transition impact categories and what should not be.

During this exercise, EvD found many "borderline" cases (see examples in section 2.3.2[b]). For these cases, however, it could be argued at length on whether they should or not fit into the standard indicators (1 to 7) of the guidelines, depending on the extent to which the guidelines should be strictly interpreted. Therefore EvD undertook, again for analytical purposes, a second exercise, constraining *all* the categories of the sample to fit into the closest standard guideline and compare the results with the findings of the first exercise.

2.3.2 Results of the analysis

Results are displayed according to the three levels of indicators in the checklist: the transition objectives selected, the operational objectives and how they relate to the former, and the content and consistency of the benchmarks.

(a) Transition objectives

Table 2.3 indicates the frequency of occurrence of the different main transition impact objectives. Demonstration effect objectives appear 34 times or in 64 per cent of the projects. They occur mostly (71 per cent) in three sectors: industry, agribusiness and infrastructure. They occur also as a constant objective in the equity funds projects. Market expansion follows with 40 per cent of the occurrences, with a large contribution from projects in the FIs sector. Frameworks for markets, skills transfer and new standards for business conduct are the least used categories.

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[29] The Bank uses three broad categories of transition impact sources to assess the transition potential of its operations, both *ex ante* at the project preparation stage, and *ex-post* in the project evaluation. They are (i) the creation, expansion and improvement of markets; (ii) the establishment and strengthening of institutions and structures that support markets; and (iii) the adoption of behaviour patterns and skills that are market-based. These comprise seven transition indicators/objectives as presented in detail in appendix 7.1.

[30] The 1999 Board Document "Moving transition forward (BDS 99-24 – Revision 1) only says that 'The promotion of environmentally sound and sustained development is an integral part of the Bank's core business without formally integrating environment into transition. The subject was discussed a little more in the 1997 Board document that specified the seven key indicators of transition impact (CS/FO/97-30). Without formally including environment in the seven indicators, the text mentions that environmental benefits and transition impact concepts are intertwined and should be part of the same story.
It is also stated that "well functioning markets should take account of environmental effects though market economies vary significantly in the degree to which this is achieved". The latter part of this sentence might leave room for specific environmental effects that are distinct from transition impact, that is to say, markets are not the only channel through which environmental benefits occur. This brings forward a specific aspect of environmental benefits that can stand as externalities to markets.

Table 2.3: Distribution of transition objectives

Main transition objectives	Number of occurrences	Percentage of the sample
Competition	13	25%
Market expansion	21	40%
Private ownership	12	23%
Frameworks for markets	6	11%
Skills transfer	7	13%
Demonstration effect	34	64%
New standards for business conduct	8	15%
Not recorded	3	6%

(b) Operational Objectives and Benchmarks
Many TI operational objectives provided by TIMS reviews in the monitoring section are clearly stated. For example, the Savola Kazakhstan Project includes three clear transition impact objectives:

- expansion of markets in other sectors through project linkages
- competition in the sector of the project and
- demonstration of new replicable behaviour activities generated by the project.

On other occasions, however, operational objectives are more difficult to interpret and to place in the standard transition impact categories. For example, the Western Balkans SME Banka Popullore has four objectives: (i) institutional building, (ii) financial intermediation, (iii) operating efficiency, and (iv) sustainability. The transition impact objective called ”commercialization” found in Brasov Urban Transport Project is also hard to classify when the standards are rigorously interpreted. The authors probably wanted to refer to demonstration of successful restructuring.

The ‘borderline’ monitoring indicators (operational objectives and benchmarks) can be classified into more appropriate categories that are linked to transition impact but cannot strictly be included into the transition impact standard categories. They could be proxies for the standard TI indicators or preconditions for achieving transition impact. The physical completion of a project, its commercial or financial success, are clearly preconditions for transition impact.

A reduction of subsidies attached to a micro-lending or SME programme could be a proxy for improvements in business practices at corporate level. In both cases, these items are not formally included in the agreed set of standard transition indicators that guide the Bank’s assessments. Table 2.4 reflects the reclassification of monitoring indicators found in TIMS containing precondition or proxy categories identified during the review of the sample of the 53 projects.

Table 2.4: Distribution of operational objectives and related benchmarks

Monitoring indicators	**TI objectives**		**Monitoring benchmarks**	
	Occurrence	%	Occurrence	%
Competition	13	25	4	8
Market expansion	18	34	5	9
Private ownership	9	17	4	8
Frameworks for markets	5	9	4	8
Skills transfer	6	11	6	11
Demonstration effect	24	45	7	13
New standards for business conduct	14	26	12	23
Added proxies for the above indicators or preconditions for transition impact				
Physical completion of the project	1	2	2	4
Commercial performance	8	15	41	77
Financial performance	13	25	28	53
Development	6	11	11	21
Environmental performance	0	0	3	6
Financial intermediation	12	23		
Implementation of covenants			10	19
Technical assistance, institution building	8	15	16	30
Category unclear	1	2	16	30
Not recorded	2	4	1	2

Compared with the findings of the previous table we notice a reduction in the number of occurrences under “demonstration effect objectives” and related benchmarks. This is the result of the introduction of more specific categories that better reflect the content of both sub-objectives and benchmark earmarked as different from transition impact. It also indicates that one transition impact category, demonstration effect, can lead to many interpretations, absorb a large variety of project transition impact objectives and may in the end not be so reliable for monitoring purposes.

It could be, however, argued that these new additional categories might in the end belong to a wide interpretation of the concept of transition and that such a detailed analysis is too rigorous when it assesses the overall achievement of the Bank’s transition mandate. Accordingly, a second reading of the checklists could then lead to constraining every transition impact objective observed into the original list of standards.

When an attempt is made to completely reclassify the operational objectives and benchmarks into the standard TI indicator categories (see table 2.5 below), the demonstration effect objective appears in 45 projects of the 53. It is therefore ahead of all other indicators, even of the previous exercise.[31] Market expansion indicators are in second position, with a higher frequency as well.

[31] The re-allocation of the added items into the standard transition impact categories (1 to 7) was based on a case by-case judgment for each individual project. In general, one would expect physical, commercial and development performance items to be integrated into demonstration effects; environmental performance into frameworks for markets, or standards for business conduct; technical assistance into skills transfers and frameworks for markets and financial intermediation into market expansion or demonstration effects.

Table 2.5: All operational objectives and benchmarks constrained into the standard transition categories

Monitoring indicators	TI objectives		Monitoring benchmarks	
	Occurrence	%	Occurrence	%
Competition	14	26	11	21
Market expansion	26	49	29	55
Private ownership	8	15	7	13
Frameworks for markets	10	19	8	15
Skills transfer	18	34	17	32
Demonstration effect	45	85	41	77
New standards for business conduct	16	30	23	43
Not recorded	2	4	-	-

(c) Transition and Operational objectives

Returning now to the expanded table 2.4 of monitoring indicators and comparing it to table 2.3 (distribution of the transition objectives), it is noticeable that there are a number of operational objectives classified as monitoring indicators which do not have an equivalent among the main transition objectives initially selected. Of course, some TIMS reviews do consider the same objectives both as main transition impact objectives and as monitoring indicators. For example, a steel project in Bosnia and Herzegovina indicates the same objectives: market expansion and demonstration of successful restructuring.

But other TIMS reviews appear quite prolific in creating a variety of monitoring indicators that are hard to connect with the main transition objectives as shown in the four examples below:

- The electric project in Russia considers “frameworks for markets” and “demonstration of successful restructuring” as *main* transition objectives but adds “standards for business conduct” as a new objective to the subjective list.
- A banking project in Kosovo considers the main transition impact objectives “competition” and “market expansion” while employing the monitoring indicators “institutional building”, “financial intermediation”, “operating efficiency” and “sustainability”.
- The Kazakhstan project indicates “market expansion” and “skills transfer” as transition objectives but uses “market expansion” and “setting business standards and practices” as transition impact operational objectives at the level of the monitoring indicators.
- The commercial Bank SME project has one main transition impact objective and three monitoring indicators, two of them unrelated to the main objective.

TIMS uses monitoring indicators for SME projects that do not appear to be always directly related to the standard TIs (see box 2.2). It is not clear why this should happen. Some tidying up seems necessary for internal consistency purposes.

Box 2.2: Thin links between transition impacts for SME projects and standard transition impacts.

The transition impact objectives in projects targeted to provide SME finance through participating banks used in TIMS are the following: institution building, financial intermediation, operating efficiency and sustainability. Each one of these objectives has two to six associated benchmarks. These indicators are not formally part of the standard TI indicator list, but they constitute a necessary base to assess TI for these operations. One still has to do the proper mapping between these indicators and the standard TIs.

Some TIMS indicators have a direct link with the standard TIs, like the effectiveness of training programmes (skills transfer) or the reduction of subsidies attached to SME or microfinance operations (better business practices). But several have only indirect links that are not always easy to assess or monitor. For example, the number of loans delivered to new borrowers *should* lead to releasing a financial constraint and increase access to finance (market expansion). This link is not necessarily guaranteed and verifiable. In practice most financial indicators are directed to market expansion, demonstration effects and skills transfer.

(d) The quality of monitoring benchmarks

In the sample, 91 per cent of the projects (or 48 projects) have quantified or well defined benchmarks with straightforward targets to reach. For example, one of the benchmarks of Mladost Sid (now named Victoria Oil), an agribusiness sector project, is the passing of the warehouse receipt law (WHR) by the Serbian National Assembly. One of the benchmarks in the TBC Bank SME project mentioned is the "successful implementation of the credit line and 10% increase in total SME lending from USD 90 million at end-year 2004 to USD 100 million".

Some monitoring benchmarks, however, are more difficult to read. For example almost all the TIMS reviews on Group for Small Business projects include as benchmarks all the requirements/covenants of the projects without indicating to which TI categories they are attached. The Tajikistan MSEFF-Agroinvest project, for example, listed the following benchmarks under the TI objective "institutional building": (i) " number of AIB MSE units set-up (7 by the end of 2006) under the facility; (ii) number of loan officers (40) trained; (iii) Compliance with mandate (i.e., average loan amount for the outstanding loan portfolio below USD 5,000)".

It may be appropriate to re-classify these benchmarks into their respective TI categories.[32] Some TI benchmarks are so numerous that they almost look like shopping lists. For example, the ETC Non-Bank micro-finance institution (MFI) framework Bai-Tushum project has nine monitoring benchmarks.[33] Perhaps the number could be reduced for more effective monitoring.

Another important feature of the TIMS review is the implementation timing. An implementation timing framework for each one of the benchmarks was found in 50 TIMS.[34] When possible, these implementation timings are generally specific with deadlines. Some exceptions can be noticed although it could be a matter of discussion if strict deadlines are necessary.

A good example is found in the Emerging Europe Convergence Fund II project. One of the timing benchmarks is "the percentage of companies in which the Fund manager will assume board position" with implementation timing "during the life of the Fund". It could be argued that from a strict TI point of view, the demonstration effect would be better served if some dates were provided.

2.3.3 Conclusions

- The current TI classification guideline seems to address all the needs when interpreted in the most extensive way. This however tends to dilute the original concept of transition impact

[32] The institution building components that are reallocated to the standard 1-to-7 transition categories could still be gathered in a separate memo line called "institution building" in order to reflect progress achieved under this objective.
[33] The nine items are: "number of loan extended, volume of loan extended, size of the loan, expansion of branch network, proportion of rural borrowers, arrears ratio, subsidy to number of loans, subsidy to volume of loans, sustainability".
[34] There is no explanation why the remaining three reviews have no implementation timing.

into other considerations that are only indirectly related to transition impact. Also, encouraging the use TI categories whose contours are by definition fuzzier than others, like market expansion and demonstration effect, happens at the expense of more binding categories like business standards or frameworks for markets.[35]

- In order to avoid a proliferation of borderline objectives and benchmarks, it might be appropriate for the Banking Department and the OCE, as part of their monitoring activities, to (a) reduce the number of proxies for TI monitoring indicators and (b) discuss the opportunity to develop a new benchmarking system that would clearly separate the preconditions for effective transition and environmental performance from the core of transition impact, the evaluation of which should strictly rely upon the institutionally defined TI categories.

- For consistency purposes, the TI operational objectives in the monitoring section of the checklist of the monitoring indicators (section 4) should be fully compatible with the main transition objectives (section 2) of the checklist. There is no reason to find secondary objectives in section 4 that do not have an equivalent in the main objectives selected section 2 (see footnote 26 on page 17).

- Benchmarks do not always capture the TI objectives in the monitoring indicators section of the checklist. There is a need in a number of cases to further harmonise objectives with benchmarks. In addition, some benchmarks are difficult to track. Their formulation should be improved to facilitate tighter monitoring. If this is not possible they should be dropped until better ones are found.

- Regarding environment, it appears that the indicators are included in an *ad hoc* manner into various TI categories. This makes it harder to track performance and changes in this area. The solution could be to either formally include environment in the standard TI indicators by classifying it as an eighth standard category, or to keep it separate as a parallel environmental impact category, with stand-alone environmental performance and change ratings, which is essentially what Bank XMRs and EvD OPERs now have. The advantage of the first option is that it would provide more incentives for better monitoring of environmental impacts.

- The standard transition impact criteria (1 to 7) were conceived about 10 years ago. With the fast changing business environment worldwide, now would be the right time to reflect upon these TI categorisations in order to see the extent to which they still reflect the essence of the Bank's mandate.

  It would also be good to assess whether they need to be associated with other indicators from other fields such as development, poverty alleviation, institutional building, or sustainability which are not strictly transition impact items, that is, immediate processes that lead to full market economy but are in one way or another affecting transition.

[35] How to prove replication for demonstration effects during project monitoring, or even ex post, is not always so straightforward: in property and trade projects, demonstration effect is relatively easy to show when for example the Bank support to the a new shopping mall has led to the creation of other malls in the same geographical area. But demonstration effects for better procurement rules and practices in agribusiness, or innovative ways to finance municipalities, appear more difficult to prove.

3. INTEGRITY IN BANK OPERATIONS

3.1 Introduction

The EBRD is committed to maintaining the highest level of ethical standards in its own performance and the behaviour of its customers. The Bank has developed a set of guidelines to articulate the standards and thus help customers understand some of the broader concerns that reputable lenders and investors have when considering a potential loan or investment.[36]

The success of a client company hinges on sound relationships with its various constituencies: customers, shareholders, lenders, employees, suppliers, the community in which it operates, government and local authorities. Lenders and investors will want to satisfy themselves that the company has a sound and stable relationship with these constituencies. The Evaluation Department has dealt with a number of integrity issues in its evaluation reports, a selection of which will be discussed in this chapter.

3.2 Relationship with shareholders

It is essential for investors and lenders to be satisfied with the systems and procedures whereby shareholders can oversee the performance of management and participate in key decisions.

a. Transparent structure

A transparent shareholding structure with disclosure of the voting rules and of the beneficial ownership of major blocks of shares is essential. Inadequate information about the identity of large shareholders could lead to fears about possible connections with criminal elements, which would clearly disqualify companies from obtaining investment or loans from reputable sources. It would also make it more difficult for shareholders to monitor situations where certain shareholders might have specific objectives that are at odds with those of other shareholders.

EvD found in one evaluation of an equity investment in a bank that major shareholders may have adopted questionable business practices that cast doubt on their fitness to manage and act as bank shareholders. A lesson learned was that EBRD bankers, following sound banking standards, should make every attempt to recognise indications of improper practices. The task is difficult because such behaviour is usually deliberately hidden and difficult to prove. Bank staff must be encouraged and supported in their endeavours to document any examples of dubious practice so that any financial or reputational risks to the Bank can be avoided.

In another project EvD found that control of the client bank was exercised largely through a web of intermediate holdings owned by individuals who acted for the ultimate beneficial owners in the absence of any written agreement. A lesson learned is that the Bank as a shareholder must be satisfied that there is full transparency with regard to shareholding structure and beneficial ownership of the corporation. This requires full disclosure of the ultimate beneficial owners.

b. Disclosure

Good governance implies a systematic and open communication with shareholders through the provision of properly audited accounts, information about the progress of the company and explanations of the major decisions taken by management in the form of an annual operational and financial review included in the annual report. In one EBRD equity investment the exit was exercised earlier than foreseen because of a disagreement between the EBRD and another shareholder over corporate governance matters that resulted from the discovery of a case of insider trading.

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[36] The key aspects of integrity that the EBRD is focusing upon in its operations are recorded in the integrity checklist that the OL must fill out during project preparation and update during implementation.

A lesson learned is that corporate governance failings should be recognised as precursors of likely serious financial underperformance. Speed of reaction to corporate governance issues is therefore essential.

c. Division of responsibilities

A well-established division of authority between the various governing bodies of the company is essential to maintain positive long-term relations with investors and lenders. It is important to have a Board of Directors that acts in a fiduciary capacity on behalf of the entire body of shareholders and that, in the case of a public company, includes a sufficient number of Directors who are truly independent from the Executive Management. Companies need to address concerns that may arise when government officials or representatives are appointed as Directors.

EvD found in the evaluation of an equity investment in a bank that EBRD's contribution through its independent nominees is very valuable to clients and can be used by investee companies as evidence of their adherence to good standards of corporate governance. A ***lesson learned*** is that the Bank should carefully assess the reputation risk assumed through the appointment of a nominee as independent director**.** This is particularly important when the Bank's shareholding is not of sufficient size to influence a majority of the votes on the board.

3.3 Relationship with the community

As any company is an integral part of the local community in which it resides, a sound relationship with the community is essential. Companies must be sensitive to the concerns of the local population and communicate and consult with relevant public interest groups.

They must especially be aware of the impact of their activities on the environment and abide by all applicable environmental laws and regulations. While caring for the environment is presented here as a responsibility of the company towards the immediate community, this responsibility can extend much farther to include all other communities and areas whose environment may be affected by the activities of the company.

In a major oil project, although the local company had commissioned studies on the potential effects on a protected species, the environmental groups active locally continued to express concerns regarding the cumulative effects of various associated projects on the species. A lesson learned is that in complex projects the civil society dimensions may change during the life cycle of the project and consequently the public disclosure and consultation process needs continuous attention.

In the case of another EBRD project, the environmental audit emphasised concerns related to lack of public consultation. Subsequently, a strong and open public consultation process was established. A lesson learned is that it is very important to select a neutral and communicative coordinator for the public forum in order to avoid disputes between parties.

3.4 Relationship with government and local authorities

Well-managed companies abide by the laws of the countries in which they operate and pay taxes. This is the best and only lasting way of maintaining a sound relationship with government authorities. It is thus a fundamental principle of sound lending and investing to require that client companies deal with local and central government authorities in a measured way without resorting to bribery or other improper ways of influencing administrative decisions.

An SME project sought to foster a private-sector lending focus among participating banks that could only take hold if broader institutional reforms were taken forward in the banking system and in the entire economy. The project, however, financed a series of visible, large, greenfield joint venture projects that attracted non-transparent practice, causing negative demonstration effects. A lesson learned is that SME programmes that disburse scarce resources subject to central approvals are vulnerable to corruption.

Loan agreements with intermediary banks should contain broad representations that disbursements will not be subject to unauthorised payments or remuneration. Partner banks and sub-borrowers should contractually undertake to report corruption to the EBRD. Breaches of these undertakings should interrupt disbursements and permit acceleration of the loan to the partner bank.

In the evaluation mentioned in the second paragraph under section 3.2.a, EvD also found evidence to suggest that a shareholder group had used the client bank to finance a questionable acquisition of oil field interests from the State in partnership with politically exposed persons (PEPs). A lesson learned is that while external auditors rely on the company's management to disclose other firms that may be related parties of the company, the auditors may face pressures from their clients to limit disclosure to the minimum necessary. The EBRD must be vigilant in this respect and challenge the external auditors when necessary for the sake of transition impact.

3.5 Proper checks and balances

A proper system of checks and balances is necessary to ensure the ongoing integrity of the company and of its relationship with the relevant constituencies. Such a system of checks and balances is part of corporate governance for which basic guidelines have already been articulated. It is based on the general principles of disclosure, management accountability, separation of responsibility and sound internal controls.

The cornerstone of a disclosure policy is the publication of a comprehensive annual report, including annual accounts with a report from independent external auditors. However, the disclosure policy should also encompass proper disclosure to the relevant bodies of all important relationships between the company or its officials and other parties.[37]

The procurement regulations in a large energy project were found to be complex and obscure. Neither did they comply with internationally accepted procurement rules and practice. The Bank insisted that a consultant should be engaged to support the client in revising the procurement procedures to align them with EBRD policies.

The procurement regulations are now unified and obligatory for all operations of the client. A lesson learned is that enforcement of new procurement rules can act as a catalyst for change. Internationally accepted procurement rules will increase the transparency and usually result in significant cost savings.

In another project the Bank was lending to a company that operates assets leased from an undercapitalised special purpose offshore entity. The impenetrable multi-company accounting structures could have been used to hide any misuse of funds disbursed by the Bank to the off-shore owners of the project assets.

The lease became a taint on the project's reputation and contributed to the client's mounting financial difficulties. A lesson learned is that projects that are embedded in complex ownership and

[37] The relevant bodies could be senior management, Board or shareholders.

business structures involving remote outside sponsors, offshore entities and novel contractual arrangements may adversely affect the business and investment climate in an early transition stage country, notably when local authorities and institutions are not equipped to deal with such structures.

3.6 Conclusion

In this very first collection of evaluations of operations on the subject of integrity, as referred to in the EBRD guideline, EvD is presenting a high diversity of findings, depending upon the particular aspect of integrity that the Bank staff encountered – or in some cases did not recognise. EBRD has a positive experience when it comes to develop sound dialogue with multiple stakeholders of the local community where the project is located and beyond.

Another positive finding relates to EBRD's insistence on acceptable procurement rules to be applied beyond project, at both national and international levels. In the projects reviewed the EBRD integrity performance can still improve in the areas of relations with governments and with corporate shareholders.

4. SELECTED LESSONS LEARNED FROM DIRECT EQUITY OPERATIONS

4.1 Introduction

This chapter focuses on lessons learned from the EBRD's direct equity investments. Under the Bank's transition mandate the chapter refers to past and current Bank experiences in the EBRD's representations on the board of client companies, shareholder relations, minority rights and good business practices. On this last issue, the Chapter addresses the difficulties of dealing with slow reforming countries and small investors.

The Bank's handling of direct equity operations relies heavily upon project monitoring, environmental compliance and dedicated technical cooperation. All these aspects lead to the question of the EBRD's current institutional capacity to further expand equity operations.

4.2 Achievement of Bank's mandate

4.2.1 EBRD's board representation in client companies

Successful transition requires that the EBRD's representative on the board of directors, either a Bank staff member or someone from outside the Bank, puts forward corporate governance concepts that sometimes oppose local, political and internal culture. Improving corporate governance through equity investments requires clear and measurable objectives. With these objectives, Bank procedures regarding nominees on the supervisory board may need to be updated.

a. Corporate governance

The EBRD's role is to use the equity vehicle to promote high standards of corporate governance. Nominees to the supervisory board must focus on these standards. Deep industry-insight can be as critical as interpersonal skills and corporate governance understanding. It is not enough, however, to assume that the Bank's board nominee will alone improve corporate governance. Issues must be identified, targets set for all parties involved and a monitoring process installed.

The shareholder agreement could stipulate that the board will work with the EBRD to reach agreement on the governance improvement plan. In the absence of management's acceptance to such improvements prior to signing, in principle no investment should be made. However, if under these circumstances the Bank decides to make the investment, for instance in view of transition impact potential, institutional development related measures should be promoted during the time the Bank is a shareholder of the company.[38]

b. Procedures to monitor equity investments

The Bank should introduce proper procedures in equity operations that enable it to adequately perform its control functions. Specific objectives for the Bank's board nominee should be defined from the outset. It is proposed that in addition to the existing reporting procedures for a Bank's board nominee, a board member from outside the Bank, should prepare half yearly reports on his/her achievements/interventions with respect to these objectives and also regarding any other Bank mandate related issues.

The distribution of the report should be very restricted. This reporting could be followed up with an informal interview by the Bank's Equity Unit in order to obtain a better insight into the effectiveness of the Bank's nominee on a particular supervisory board.

[38] The measures will for instance relate to internal audit and risk management.

4.2.2 Shareholder relations, minority rights

In order to improve corporate governance and transparency, it is important to initially understand all partners' motives and inter-connections on the board. For an initial public offering (IPO) especially, the Bank should know all parties involved and carefully evaluate the ownership objectives of key shareholders. Due diligence and negotiation work should end up in many cases with shareholder agreements that protect minority ownership situations.

As the EBRD is constrained by policy from acquiring controlling shareholder interests in financial institutions, it must seek formal agreements with other shareholders on the future investee company policy and objectives. During due diligence into possible equity investments in financial institutions, extra investigations into management and shareholders' integrity, motives and capacities will increase confidence of private lenders.

It can happen that a large number of board members are representatives of employees. They are often not familiar with the task of controlling management. It is then difficult for the Bank's representative to affect change in behaviours. Only very good contacts and strong personal commitment can help understand and influence such a situation.

A weak minority equity ownership position can harm the Bank's impact and reputation. Matters can be made worse in the absence of a shareholder agreement. The Bank cannot influence a corporate strategy in a decisive and sustainable way if, in the absence of a shareholder agreement, controlling shareholders oppose the Bank's advice.

The weak shareholding position undermines the effectiveness of the Board's nominee representative. It often impedes timely exit and leaves the Bank in an awkward situation that it cannot remedy or escape from. If the Bank is to exercise real influence as a minority shareholder, it is desirable to negotiate an effective shareholder agreement as a condition of the EBRD's investment.[39]

4.2.3 Business standards and practices

In its equity investments the Bank must assess the quality of the management of the client company. For financial intermediaries due diligence in this area should go beyond assessment of business strategies and portfolio management.

a. Quality of management

When preparing a project involving a share participation in a company, particular attention should be paid to the capabilities of senior management. Their background and experience should be individually evaluated and the current management methods should be analysed. It is often easier to audit financial results, production activities or environment conditions and to take appropriate actions in these areas than it is to audit the management of a company.

Early transition countries have seen a proliferation of individuals with strong character and large shareholding in companies they consider as their own and manage accordingly. The Bank should investigate cautiously the prospect for managerial and corporate governance changes before engaging in serious negotiation with a company. Especially as a potential shareholder these issues need extra attention.

b. ETCs

When the pace of political, economic and financial sector reform has been slow, the Bank's participation can help build an institution with sound governance to provide banking services to

[39] It is of course not possible to negotiate a shareholders agreement in the case of a publicly listed company.

private sector businesses which otherwise have to rely on unreformed state-owned banks. The Bank's presence can also afford some protection from government interference.

c. Small investments

Where the Bank is able to support existing financial institutions with a direct experience of the local market, it can have an immediate impact on the real sector as well as improving the quality of the local intermediary's loan portfolio. The Bank should continue to seek out local financial institutions that demonstrate the capacity to grow into sound banks.

The Bank can use its mandate to invest in risky transition environments to a competitive advantage by seeking out unique early investment candidates with an upside potential. When small investments incur high processing costs, the justification to go ahead could be made on strategic grounds due to the specifics of the countries of operations (ETCs) or because they lead to further more rewarding operations.

4.3 Bank investment handling

4.3.1 Monitoring projects

The presence of a strong strategic investor does not exonerate the Bank from diligently exercising its monitoring responsibility and carefully considering any modifications to the strategic objectives of the sponsor as well as cases of third party lending. When a change of ownership occurs, the Bank should be fully satisfied with it.

a. Due diligence in all circumstances.

When a strategic investor is present, the Bank should still exercise its due diligence with care and attention. It is even more important when the Bank assumes a directorship responsibility and is generally regarded by its partners and the central bank as the champion of corporate governance. This requires specific expertise from the Bank's representative in the monitoring of good banking practice and corporate governance as well as a continuous attendance of board meetings.

Changes in the strategic objectives of the sponsor cannot always be foreseen and may reduce the rationale for the Banks continued involvement and transition impact prospects. The legal documentation must provide for an effective exit mechanism in the case of such an eventuality. This may include a clear focus on one financial criterion that may facilitate negotiations where an exit may have to be negotiated.

b. Third party lending

The EBRD may find itself under pressure to tolerate material lapses in corporate governance and transparency by the client in order to safeguard large unrealised capital gains in the equity of public companies. For example, if complying with international financial reporting standards (IFRS) requires disclosure of related parties and transactions with those parties, the Bank could be pressed to accept that the client withholds information about the existence of such related parties from the market.

c. Changes of ownership

Any material change of ownership of one of the Bank's investments normally triggers a review of project documents by the Bank to determine if the change of control affects the Bank's contractual rights. This is especially important when a Bank representative sits on the company's board and when stock is publicly listed. Also, the Bank has to be satisfied that the change of ownership has occurred in a transparent and lawful manner that protects the rights of minority shareholders and is consistent with the Bank's objectives in the project.

4.3.2 Environment compliance

Equity deals should systematically include environmental undertakings. Compliance with these undertakings should be then carefully monitored, especially in the case of FI equity financing. More generally lack of compliance should trigger a consideration to exit (called "environmental put"). Client banks often need additional specific training in applying the EBRD's environmental procedures in the case of equity investments. In addition, current environmental categorisation may need to be revised to better accommodate requirements from equity operations.

a. Special undertakings

It is very difficult to structure environmental performance criteria into equity-only deals, in particular where the Bank's equity position is minimal. In these deals the EBRD should ensure that the sponsor has clearly established the procedures and resources to support an environmental management system that meets project expectations. Therefore the appraisal process needs to primarily focus on the sponsor's management systems.[40] References to specific environmental undertakings should be documented in such a way that non-compliance would trigger a consideration to exit.

b. EBRD's environmental category system

When the Bank has debt/equity deals, the covenants are often and more easily built into the debt side, but when the debt may be paid off, the EBRD can be left with an equity deal without any environmental covenants. When the EBRD has equity only in a project, bought, at times, through public offering or on the open exchange, it may be difficult to add in special environmental undertakings. EvD has recommended that in the revision of the *Environmental Policy*, the Bank consider adding a new equity environmental classification to capture the reality of these deals and to effectively acknowledge the Bank's limitations to impose special environmental undertakings.

4.3.3 Technical cooperation and twinning arrangements

Linking equity and technical assistance input can leverage the Bank's institutional influence and control. Twinning programmes provided by well-managed Western commercial banks are a potentially effective way for introducing Western market know-how in case of absence of equity sponsors. They also can support good turnaround interventions.

a. Relevance of twinning programmes

The provision of technical assistance through a twinning programme should be seen as a key tool in implementing a high-risk banking project although it cannot fully compensate for faulty client selection. Arrangement of twinning support reinforces the Bank's message of good corporate governance and delivers essential skills to ensure that the Bank's equity investment can be used productively. Where a strategic equity partner cannot be attracted from the outset, twinning programmes of consultancy services provided by well-managed commercial banks are a potentially effective alternative for introducing market know-how.

b. Turnaround management

The use of EBRD funds for effective turnaround management support has potentially high returns as long as a previous analysis indicates that the troubled investee company is a good candidate. The alternative of accepting domestic co-sponsor and management inactivity could result in complete failure. Incentive remuneration to external turnaround expertise can justify generous sharing or returns when the risks are significant.

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[40] Alternatively, for greenfield projects ensuring that the project is designed and built to our specifications, as verified by an independent engineer, is the most effective guarantee that it will be operated in compliance with our expectations.

4.4 Conclusion

Successful transition in equity operations requires that the EBRDs puts forward corporate governance concepts that oppose sometime local, political and internal culture. Improving governance requires clear and measurable corporate objectives well shared among stakeholders. Therefore the particular interests and motivations of all shareholders should be carefully analysed to ensure that the strategic priorities of the sponsors are aligned with the strategic objectives.

For this reason, it is important that the EBRD initially understands all partners' motives and inter-connections on the board. The Bank must also assess the quality of the management of the client company. Partnership structuring must ensure enduring commitment and balancing of interests over time. Due diligence and negotiation work should end up in many cases with shareholder agreements that protect minority ownership situations.

The positive impact on a client's corporate governance would typically bring about strong evidence of the Bank's additionality. Although equity investments can offer important opportunities for strong transition impact, they carry limitations in respect of the Bank's remedies compared to loan financing. This is why the design and functioning component of additionality in these operations should include only realistic transition impact objectives.

Small equity transactions may produce significant transition impact in conditions of extreme economic and political uncertainty. Given the difficulty of such operations, however, the Bank must continue to build expertise to support the equity deals, including investments in leasing firms.

5. EVALUATION OF TECHNICAL COOPERATION OPERATIONS

5.1 TC evaluation coverage

5.1.1 Introduction

Technical cooperation (TC) activities are primarily used to facilitate the EBRD's core investment operations and enhance the fulfilment of its transition impact mandate. In compliance with its fiduciary responsibility towards the contributors to its Technical Cooperation Funds Programme (TCFP), the Bank's main TC funding source, and other funding facilities, the Bank is obliged to exercise the same attention for TC operations as it does for investments funded from the Bank's own resources.

Accordingly, TC operations are subject to a diligent appraisal, monitoring and self-evaluation process. Details of these process steps are documented in: (a) the TC request package to the TC review committee for the appraisal stage, notably including the TC project profile and consultant terms of reference; (b) the project progress reports during monitoring stages; and (c) the project completion report (PCR) upon completion. These are independent from the mandatory self-evaluation process for each TC operation. EvD carries out independent evaluations based on a sample of completed TC operations. Independent TC evaluation work broadly falls into two categories:

(a) in-depth evaluations of individual or a group of TC operations in the form of an operation performance evaluation review (OPER) or a special study, often a mid-term review of a TC fund or programme, which typically involve a field visit and occasionally consultant input. From 2002 a total of six such TC OPERs have been produced per year; and

(b) an evaluation special study (desk-study-type) comprising PCR assessments of around 20 cases per year.[41]

5.1.2 TC evaluation coverage by EvD

Since 1993, when EvD started TC evaluation work, 64 OPERs and 23 special studies on sectors and themes have been carried out covering many TC operations. In addition, since 1998 a total of five PCR reviews and assessment synthesis exercises and four PCR assessment synthesis studies have been completed.[42]

Overall, these reports, though very different in scope and evaluation focus, have covered over 1,450 TC-funded consultant assignments, involving approximately €444 million of funding from some 30 individual countries and 28 multi-donor funds under the EBRD's TCFP.[43] The total volume of evaluated TC operations based on an OPER exercise, as a percentage of the volume of TC operations with a completed PCR (see table 3.1) has increased from 18.9 per cent in 1998, when the PCR review and assessment work was introduced, to 20.8 per cent in 2006. The coverage ratio rises to 63.9 per cent if groups of TC commitments covered in special studies on sectors and themes are included.

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[41] During the PCR assessment process EvD evaluates the project results and impact achievements (reliability and accuracy of report content) in greater depth.

[42] Starting from 2003 the OCU has taken on the PCR review function, concentrating on reviewing report quality and fulfilment of objectives.

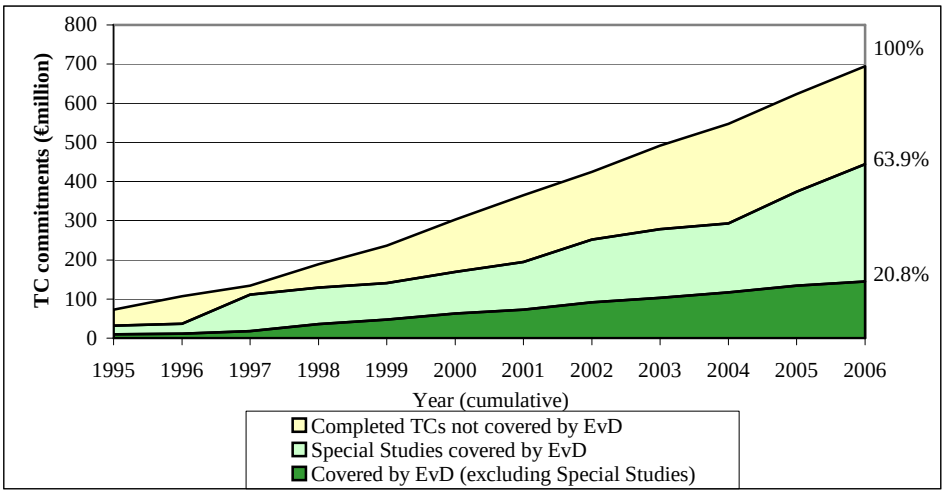
[43] This represents about 41 per cent of total TCFP funding commitments or 36 per cent of cumulative TCFP funding mobilisation. From 31 December 2006 onwards the Bank was successful in mobilising €1,218.1 million of TC funding of which €1,065.3 million or 87 per cent was committed.

Table 5.1: Technical cooperation evaluation coverage status in 1991-2006 (€ million)

TC completion and PCR coverage		1991-96	1991-97	1991-98	1991-99	1991-2000	1991-2001	1991-2002	1991-2003	1991-2004	1991-2005	1991-2006
a.	PCRs completed	107.5	134.0	188.8	236.5	302.8	364.8	424.4	491.8	547.4	623.1	694.4
b.	TC operations evaluated through OPER reports	11.8	17.8	29.3	32.1	36.6	41.1	49.2	56.5	63.4	74.4	82.9
c.	PCR assessments by EvD	-	-	3.4	8.7	13.8	18.9	23.1	27.9	34.5	40.5	42.7
d.	PCR reviews by EvD	-	-	3.1	6.3	12.7	12.7	19.0	19.0	19.0	19.0	19.0
e.	Total TC operations (**b+c+d**)	11.8	17.8	35.8	47.1	63.2	72.7	91.4	103.5	116.9	133.8	144.7
f.	Evaluation coverage (**b+c+d**)/**a** (%)	11.0%	13.3%	18.9%	19.9%	20.9%	19.9%	21.5%	21.0%	21.4%	21.5%	20.8%
g.	TC operations related to evaluation special studies	24.7	93.4	93.4	93.4	106.4	121.8	160.8	174.6	175.5	240.0	299.2
h.	Total TC operations evaluated (**b+c+d+g**)	36.5	111.1	129.1	140.5	169.6	194.4	252.1	278.0	292.5	373.9	443.7
i.	Evaluation coverage (**b+c+d+g**)/**a** (%)	33.9%	82.9%	68.4%	59.4%	56.0%	53.3%	59.4%	56.5%	53.4%	60.0%	63.9%

Chart 5.1 below presents the information from table 5.1 in graphic form. It shows clearly the trends of TC evaluation over the past ten years. It should be noted that through the evaluation of investment operations that have an important TC component (for example, project preparation, implementation and so on), EvD provides further important assessments to TC donors. In fact the evaluation results of these projects reflect indirectly on the outcome of the respective TC operations.

Chart 5.1: Evaluation coverage of technical cooperation commitments for 1995-2006 (€ million)



When selecting TC operations for evaluation, EvD also takes into account TCFP funding sources, sector distribution of evaluation work in general and lessons-learned potential of TC operations. Appendix 9 highlights the contributions of donors to TC operations that have been evaluated by EvD through an OPER exercise. It also shows that most of the donors with relatively high contributions to the Bank's TCFP are adequately represented in the Bank's evaluation activities through TC OPER exercises.

5.2 Performance evaluation of TC operations

Performance outcomes of the evaluation of TC operations do not lend themselves to aggregation of overall evaluation results in the same way as investment operations. This is mainly because of two reasons. Firstly, given their mainly 'facilitating' role as noted earlier, TC results (different from outcomes that are assessable upon TC completion) and impacts often only come to full fruition in the wake of investment implementation and, hence, can be ascertained only at a later stage.

Secondly, EvD does not select TC operations randomly. Rather, it selects TC operations for which an OPER report will be produced on the basis of size (individual or group of related TC operations exceeding €200,000), lessons-learned relevance and potential, and other practical considerations (for example, country, sector, banking unit spread; more recent TC operations where direct beneficiary counterparts are assumed to be still with the TC recipient and so on). Nevertheless, EvD's TC evaluation experience leads to the conclusion that the Bank has improved the preparation of TC operations.

In recent years, the Bank has been paying greater attention to the preparation and use of TC donor funds. This can be attributed in part to the TC Review Committee, which reviews and approves all acceptable TC funding requests. In the Committee, which is chaired by the Vice President for Environment, Procurement and Administration, all relevant departments participate. The good collaboration between the TC Review Committee and the Operations Committee (the equivalent on the investment side) also improves the efficient use of donor funds for TC.

Also, the continued positive contribution of the Official Co-financing Unit (OCU) to the quality of TC operations in general should be mentioned. This has been possible through the strengthening of the monitoring and self-evaluation capacity of the OCU. In addition, the assistance provided by the Consultancy Services Unit (CSU) in terms of reviewing the terms of reference and helping with consultant selection in relation to the TC operations helps securing a good quality at entry.

5.3 TC-related evaluation work in 2006

The TC operations that were evaluated in 2006 directly (through TC OPER exercises) were funded by donor contributions from Canada, Denmark, Germany, the Netherlands, Sweden, Chinese Taipei , the United Kingdom, the United States, EC Tacis, the EU-EBRD Investment Preparation Facility and the EBRD Technical Cooperation Special Fund. The TC operations evaluated indirectly (through special studies) in 2006 were funded by donor contributions from Austria, Belgium, Canada, Denmark, Finland, France, FYR Macedonia, Germany, Italy, Japan, Luxembourg, Montenegro, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, the EU and several multi-donor funds including the Balkan Region Special Fund, the Baltic Technical Assistance Special Fund, the Nordic Council Technical Cooperation TAM Programme and the Early Transition Countries Fund.

These operations were mostly approved between 2000 and 2005 and cover the following sectors: community/social services, construction, energy, finance, local authority services, manufacturing and transport and storage. By TC type, they involved advisory services, project implementation, project preparation and sector work. They were linked to investment operations representing €872.5 million.

5.3.1 TC OPER reports

Under its work programme for 2006 EvD carried out six TC OPER exercises. For the TC OPERs the following ratings were assigned:

- Belarus SME Line of Credit (Belarus): *Successful*
- Russian Road Sector Reform (Russian Federation): *Successful*
- Warsaw Metro Project (Poland): *Partly Successful*
- Belgrade Municipal Infrastructure Reconstruction (Serbia): *Successful*
- Municipal Environmental Loan Facility (Romania): *Successful*
- Microfinance Bank Azerbaijan (Azerbaijan): *Successful*

5.3.2 TC-related special studies

a. BAS Programme evaluation
The Business Advisory Services Programme (BAS) was established in 1995 and has since been active in 19 countries and raised commitments of over €52 million to fund its operations. It was last evaluated by the EvD in 1997 when the BAS Programme was still in its infancy. This current evaluation focused on the period from 2000 to 2005, which covers the start of the BAS Programme expansion period to the most recent full year of operation.

The programme was rated *successful* overall, with some reservations over sustainability, which was rated *satisfactory*. The evaluation noted "unrealised opportunities for the BAS Programme that would bring it closer to long term sustainable development via market development".

b. Evaluation of Post-Privatisation Funds (PPFs)
In addition, in 2006 EvD evaluated the Post-Privatisation Funds (PPFs) programme, which involved the commitment of approximately €169 million to six equity funds with substantial TC support. By the end of 2005 over €40 million of TC had been disbursed. Fund performance varied, and the contrasting levels of performance by fund managers and differences in local investment climate were important factors.

Overall and on balance, the PPF concept was rated *successful*, since the evaluation team considered that the *good* results obtained by three of the funds under review more than outweighed the *marginal* or *unsatisfactory* performance of other funds, particularly in view of the successes in arranging follow-on funds with private capital. TC performance was rated *good* for three of the funds, *marginal* for one and *unsatisfactory* for two, largely in line with the ratings assigned to the investment operations.

c. Evaluation special study on PCR Assessments
In addition, EvD conducted assessments of 19 Project Completion Reports submitted by bankers on the completion of TC assignments during the previous year. The TC operations assessed totalled €2.25 million for projects in 11 countries of operation (plus five regional commitments). Funds came from 11 individual bilateral donors plus three EU commitments, including one EU-Phare. The commitments funded advisory services, project implementation, project preparation and sector work.

Sectors covered included energy, finance, transport, local authority services and telecommunications. EvD is of the opinion that the OLs responsible for the TC operations covered under the 2006 PCR assessment exercise have done their self-evaluation work in a satisfactory way, as it agrees with 74 per cent of the overall ratings of the sample of TC operations assigned during the self-evaluation process. As observed in PCR assessment exercises of previous years, *highly successful* TCs in the sample are often driven by *excellent* client commitment or consultant performance, in combination with *good* or *excellent* Bank performance. Less successful projects mostly show *marginal* ratings for fulfilment of objectives as well as bank handling, client commitment and TI.

The study again noted a weakness in records management, which had been identified by EvD in the AEOR for 2005 and other reports over a number of years. A TC working group was formed to address the issue in the period from 2006 to 2007 and delivered a progress report to the Audit Committee on 13 May 2007. A *TCLink* electronic filing system, analogous to the *ProjectLink* system for investment operations, is expected to be rolled out in 2007, with further phases of records management enhancements during 2008.

A number of recommendations were made in the study and discussed with the OCU, some of which addressed issues recurring from previous PCR assessment exercises. These related both to improving the quality of TC assignments and to improving the Bank's internal controls and procedures for managing TC, ensuring that efficient access to TC funds for bankers is balanced against necessary accountability to donors. A selection of the recommendations is presented in appendix 4.2.

6. REVIEW OF EVALUATION ACTIVITIES BY THE AUDIT COMMITTEE AND FOLLOW-UP OF EVALUATION RECOMMENDATIONS

6.1 Introduction

This chapter highlights how the Audit Committee has reacted to important evaluation findings and lessons learned. It concludes with a review of the new reporting system to the Board on follow-up of evaluation recommendations by Management. This system had been proposed in the AEOR for 2006 and approved by the Board of Directors in July 2006. In the sections that follow EvD reviews the reactions by Management and the Audit Committee on evaluation recommendations.

More specifically, section 6.2 lists the evaluation reports that have been discussed in the Audit Committee during 2006. In section 6.3 EvD reviews the observations on evaluation findings and lessons learned, including evaluation recommendations, as presented in the minutes of meetings of the Audit Committee during the first half of 2006. Section 6.4 provides a process review of the new system of follow-up to evaluation recommendations by Management, a system that became operational on 26 June 2006.

6.2 Review of evaluation reports by the Audit Committee

During 2006 the Audit Committee discussed EvD-prepared evaluation reports and reports related to the evaluation function prepared by Management as presented in table 6.1:

Table 6.1: Reports in respect of evaluation discussed in the Audit Committee during 2006

23 January 2006: Operation performance evaluation reviews on: - Mobile telephone company in central Europe - Real estate development in central Europe Report on EvD's work programme: - Work Programme Final Report for 2006 **6 February 2006:** Operation performance evaluation reviews on: - Mortgage project in eastern Europe - Regional transportation project **20 March 2006:** Report on EvD's work programme: - Work Programme Completion Report for 2005 Operation performance evaluation reviews on: - Leasing project in central Europe - Steel project in Russia **9 May 2006:** Evaluation special study on: - Direct investment facility (DIF) Operation performance evaluation review on - Commercial bank in eastern Europe **25 May 2006:** Operation performance evaluation reviews on: - SME financing in central Europe - Real estate financing in Central Asia **7 June 2006:** Operation performance evaluation reviews on: - TC OPER on private road network management project in Poland - Regional dairy project Evaluation special study: - Regional Venture Funds **12 June 2006:** Operation performance evaluation review on: - Small business financing programme in Central Asia Report on the evaluation function: - Access to information for EvD **6 July 2006:** Operation performance evaluation review on: - Commercial bank operation	**10 July 2006:** Evaluation report: - Annual Evaluation Overview Report for 2006 **24 July 2006:** Operation performance evaluation review on: - Commercial bank operation **18 September 2006:** Evaluation report: - EvD Work Programme Preliminary Report for 2007 Report on the evaluation function: - Access to information for EvD **19 September 2006:** Operation performance evaluation reviews on: - Commercial bank operation **16 October 2006:** Operation performance evaluation reviews on: - Retail project in Eastern Europe - Agribusiness project in Eastern Europe Evaluation special study: - Assessment of Technical Cooperation Project Completion Reports **17 October 2006:** Operation performance evaluation review on: - Commercial bank operation **20 November 2006:** Evaluation special studies: - Mongolia Cooperation Fund: evaluation mid-term review - Achieving the Bank's environmental mandate through financial Intermediaries **11 December 2006:** Operation performance evaluation reviews on: - Agribusiness project in central Europe - Oil and gas project in Central Asia Evaluation special study: - Property Sector Policies Evaluation

6.3 Observations on evaluation findings and lessons learned as presented in the minutes of meetings of the Audit Committee during the first half of 2006

Based on the issues raised and lessons learned presented in the above mentioned reports, the Committee commented on a number of issues, including several recommendations during the period from 1 January to 26 June 2006. Some of the observations made during the discussions and considered relevant by the Committee are the following:

- ***The use of technical cooperation in respect of mortgage financing***

Although it is clear that technical cooperation cannot solve all problems, the Audit Committee is of the view that EvD's conclusion that sometimes the use TC funds to support efforts by private sector associations to lobby for improved land and mortgage registries should be endorsed.

- ***The importance of an adequate land registry for mortgage financing***

The Committee is of the opinion, as was argued in this evaluation report, that land registry to support mortgage legislation is essential. The respective TC project with the local authorities did not proceed and, when after several years the establishment of the land registry institution saw considerable delays, more emphasis should have been put on perfecting the mortgage legislation.

The Committee requested Management to inform the Board about the establishment of the land registry in the respective country.

- ***Informing the Board about material changes in a project's investment plan***

Part of the investment plan of a transport project had been cancelled and the believes that in such case the Board should have been informed as this constituted a material change. A significant change in the investment plan execution can also have a negative influence on transition impact.

- ***Change in ownership to undesirable partners demands EBRD's exit***

Where the Bank realises that a new group of shareholders comprises undesirable business partners, the Bank needs to exit the project in the shortest possible time. In such circumstances the Bank can use the policy dialogue instrument, although in these situations the Bank cannot always avoid running reputation risk.

- ***Bank staff should avoid becoming president of the board of investee companies***

It is important that the Bank avoids having staff members operating as presidents of boards of directors or of supervisory boards. However, such situations cannot always be avoided. The Audit Committee thought that, in exceptional cases and for limited times only, such positions should be possible. In such circumstances certain Bank staff can be considered as "respected outsiders", which can help sorting out crisis situations.

- ***The importance of policy dialogue in unreformed environments***

The Committee stressed in one project the importance of having full transparency in projects to allow for a balanced judgement by the Board of Directors. In unreformed environments where authorities are reluctant to cooperate with the Bank to enhance transparency in important areas, there is a drastic need for political commitment from the local authorities. In these circumstances working closer with institutions like the World Bank can be important, but this should not lead to undue constraints for the Bank.

- ***The importance of public private partnerships (PPPs) as a transition vehicle***

Questions were raised by the Committee during a discussion of a TC operation in the transport sector about the usefulness of a public private partnership (PPP) approach. The Committee agreed that the PPP concept is a good one and asked Management and EvD to organise a workshop to provide the Board with a better understanding of the key success factors of PPPs in practice.

6.4 Review of the system of follow-up of evaluation recommendations by Management

6.4.1. Background

Since the Evaluation Department became fully independent from Management in June 2005, Management has had the opportunity to provide formal Management's comments (MCs) to evaluation reports. However, as no system existed to inform the Board of Directors on the follow-up of evaluation recommendations by Management, EvD proposed the establishment of a new system as presented in the AEOR for 2006. This system became operational on 26 June 2006 when the AEOR for 2006 and the respective Management's comments – in principle adopting the system – were distributed to the Board of Directors.

The Board of Directors in July 2006 confirmed the proposed system. Below, EvD reports on the uptake by Management of evaluation recommendations through carrying out a "process analysis". This allows the Board of Directors to become aware of the working of the system and the way in which Management has responded to the recommendations.

6.4.2. Selection of projects for the review

For this "process analysis" of the new system EvD reviewed the following reports which were sent to the Board of Directors.

Name of reports	Dispatch to Board of Directors
OPER reports	
Commercial bank operation	26 June 2006
Evaluation special studies	
Telecommunications, informatics and media sector policies evaluation	26 July 2006
Assessment of TC PCRs	27 July 2006
Property sector policies evaluation	12 September 2006
Achieving the Bank's environmental mandate through financial intermediaries	15 November 2006

6.4.3 Evaluation recommendation matrix

The process review of EvD is based on the review of an "evaluation recommendation matrix" in which the evaluation recommendations are presented and in which Management the follow-up actions that have been taken after each accepted recommendation. In preparing the evaluation recommendation matrix EvD presents, in a special column, the content of the review by the Audit Committee of the respective evaluation in order to guide Management through Audit Committee's actions on the recommendations.

6.4.4 Process analysis of the evaluation recommendation follow-up system

Upon completion of the evaluation recommendation matrix by EvD in March 2007 the Matrix was presented to Management with the request to complete its final column to explain what follow-up actions have been taken in respect of the recommendations it has accepted. In respect of Management's follow-up on individual recommendations in the reports the following observations can de made by EvD:

- **Commercial bank operation:** Management's response concentrated on a joint note in which Management and EvD highlighted the areas of agreement and disagreement. In respect of the current relationship with the commercial bank in the context of new financing, Management refers to the recent information session on the commercial bank. In EvD's view a more detailed response on the actions taken in the meantime to enhance transparency with this client would have been welcomed. The Audit Committee in its deliberations on the respective evaluation report had reminded Management that "[t]he strength of the Bank depended on the ability of the control functions to do their job and to report their findings even if these were sensitive or the lessons drawn from them disputed".

- **Telecommunications, informatics and media sector policies evaluation:** Management responds positively to the recommendations and mentions that the new sector policy will take the recommendations into account and adequate explanation will be given if another direction is chosen. Also the close working relationship of the Telecoms Team and the Legal Transition Team (LTT) was highlighted on furthering joint objectives in respect of regulatory regimes and the use of TC. Management had difficulty in adopting a systematic approach to incentivise and appraise stand-alone TC activities.

- **Assessment of TC PCRs:** Management highlights in its follow-up that it will introduce a six-point rating system in the PCRs as suggested by EvD. It will also remind banking teams of the

importance to coordinate well with the Official Co-financing Unit in order to enhance coordinated donor approaches.

- **Property sector policies evaluation:** Management provides extensive responses to EvD's recommendations, and the Audit Committee had commented positively on some of them. In the area of "fostering transparent privatisation of urban land and its commercial development", Management argues that there has not been demand for advice on land use from municipalities.

  This might have been due to the fact that in many municipalities the allocation of land to development has moved forward with excellent results without much need for IFI advice. At the same time Management recognises that vested interests obstructing transparency in some other cities might not welcome advice. Although the Bank might not find a high demand for advice, EvD remains of the view that the Bank might enhance its policy dialogue role, particularly in those municipalities where vested interests are obstructing transparency.

  In addition, EvD would have appreciated a more concrete reaction in respect of "concentration of work by the Legal Transition Team in the property sector for countries of operations with large remaining transition challenges in the sector". It is promising to see that Management gives consideration to extending the reach of focus areas.[44]

  In respect of the recommendation to "assess and address the remaining transition challenges" it is good to see that the LTT has prepared standards for mortgage laws and mortgage securitisation and that it intends to conduct a new study on the effectiveness of mortgage legislation throughout the region. Also, the initiatives taken through investors councils in four ETC countries supporting a structured approach towards policy dialogue in the sector is commendable.

  But to "enhance the transition in the property sector" EvD is of the view that the Bank could selectively offer more stand-alone TC in collaboration with other IFIs and donors. The question must be asked in this respect whether the manpower in the LTT is sufficient to take certain initiatives in the focus areas with the intensity needed to create a critical mass. The reaction of the Audit Committee was positive in case more resources for the LTT were needed.

- **Achieving the Bank's environmental mandate through financial intermediaries:** Management already implements the recommendation to "enhance the environmental responsibility in financial institutions". In this context the Environment and Sustainability Department (ESD) is currently developing an FI environmental coordinator e-mail circulation list and preparing a biannual newsletter. Management reacts in principle positively in respect of "monitoring of FIs" by the ESD.

  In respect of "resources issues concerning environmental monitoring", Management refers to the meeting of the Budget and Administration Affairs Committee of 29 November 2006, in particular in respect of training of environmental intermediaries. EvD considers this to be a positive development in respect of the resources issue. Management, however, does not state explicitly that local consultants can also be used by resident offices (ROs) to carry out monitoring tasks for the Bank, something Management, in EvD's opinion, should seriously consider.

  The Management's comments express reservations in respect of EvD's recommendation to "vary efforts in training and monitoring for different types of countries" (for example, new EU

[44] Capital markets, corporate governance, concessions, insolvency secured transactions, telecommunications and some limited judicial building initiatives.

versus CIS). However, EvD's main motivation for this recommendation was that through concentrating on the more challenging parts of the region scarce resources could be used in a more efficient way. Therefore, EvD suggests revisiting this recommendation during the *Environmental Policy* update.

In respect of the recommendation on risk categorisation, Management mentions that it has reservations about the recommendation to raise the bar to EU and World Bank standards for sub-projects in certain high risk sectors (for example, oil and gas, power and energy and so on), as many countries are, in fact, implementing EU standards as a result of the harmonisation process.

Although this might be true for a group of countries, there is still a considerable number of countries in which the environmental bar in respect of sub-project of equity funds in sectors of high environmental risk should be raised to arrive at a level playing field. This is an area that, in EvD's view, also needs renewed attention by the Board of Directors during the deliberations on the *Environmental Policy* update.

6.4.5 Result of the process analysis

EvD is of the view that the new system allowing Management to follow up on EvD recommendations, although only functioning during a period of about six months in 2006, worked well and that Management has responded in a balanced and constructive way, referring back extensively to the respective Management's comments and sometimes to Board deliberations on an evaluation. In respect of some issues EvD felt obliged to reiterate the specific recommendation.

EvD further concludes that in some cases, such as the study on achieving the Bank's environmental mandate through FIs and the study on property sector policies evaluation, the Audit Committee could have given more detailed guidance on how Management should follow-up some of the evaluation recommendations. Such guidance is in particular required when EvD and Management have opposing views.

7. VALIDATION BY EVD OF PERFORMANCE RATINGS ASSIGNED DURING SELF-EVALUATION

7.1 The self-evaluation process and validation of ratings by EvD

When a project is ready for evaluation, the operation team prepares a self-evaluation document, the expanded monitoring report. The XMR builds on the basic monitoring report (MR) by adding information requirements that are relevant for a self-evaluation document (that is, relating to achievement of objectives, environmental performance, transition impact, lessons learned generated and overall assessment). The operation team provides a qualitative description of the performance of the project and assigns a performance rating to each indicator.

The evaluation that is conducted by EvD, which starts with a review of the XMR, may result in different performance ratings than assigned by the operation team (OT). In its annual overview report each Evaluation Cooperation Group (ECG) member, including EvD, must present an analysis of the differences between the self-evaluation ratings of the operation team and the independent evaluation ratings of EvD in order to conform to the good practice standards (GPS) for private sector evaluation instigated by the ECG[45].

7.2 Comparing the ratings from the self-evaluation and the independent evaluation process

Ratings are provided for nine indicators: overall performance, transition impact, environmental performance, extent of environmental change, additionality, project financial performance, company financial performance, fulfilment of objectives and bank handling. This analysis covers the 444 projects evaluated since the current automated XMR system was introduced in the first half of 1998.

Previously, the XMR was almost entirely descriptive, formally and systematically rating only the overall performance. In addition there have been a small number of operations for which a full XMR was not provided.[46] Furthermore, bank handling was not introduced as an indicator until 1999 in XMR assessments and 2002 in OPER evaluations.

For this analysis, it is necessary to have a clear rating assigned in both, the XMR and the OPER and XMR assessment reports. Evaluation reports dating back to 1996 were revisited in 2005 and missing ratings assigned to create a complete database, as mentioned in chapter 1. However, a number of XMRs have individual performance categories rated “not applicable” to the project under review and these missing ratings could not be assigned retrospectively by EvD. Therefore the figures presented below clearly indicate the number of comparisons that were possible to make for each indicator. These vary in some instances.

[45] The ECG is an official working group where heads of evaluation departments of multilateral development banks (MDBs) collaborate with the European Investment Bank (EIB) and the International Monetary Fund (IMF).

[46] This might occur, for example, if the project was in corporate recovery and an XMR was not practical; if a single evaluation covered several linked projects with separate XMRs; or, if a project was completed and the relevant staff left the Bank before an XMR was completed, in which case a briefer memo from portfolio management staff might be accepted instead.

Table 7.1: Differences in performance ratings between self-evaluation and independent evaluation

Indicator	Upgraded by EvD	Unchanged by EvD	Downgraded by EvD	Number of comparisons
Overall performance	3%	66%	30%	431
Transition impact	4%	54%	42%	428
Environmental performance	6%	64%	31%	420
Extent of environmental change	10%	73%	17%	411
Additionality	9%	69%	22%	430
Company financial performance	6%	66%	28%	418
Project financial performance	3%	62%	35%	421
Fulfilment of objectives	4%	60%	36%	422
Bank handling	4%	56%	40%	424
All ratings	5%	64%	31%	3807

Table 7.1 above and chart 7.1 below show that while the majority of XMR ratings remained unchanged, (64 per cent of all the ratings compared) 31 per cent were downgraded. The greatest number of downgrades was on TI (42 per cent) and bank handling (40 per cent). The overall performance rating was downgraded for 30 per cent of projects. Far fewer ratings were upgraded: only 5 per cent in total. The highest number of upgrades occurred in relation to environmental change, which also displays the smallest number of downgrades.

Chart 7.1: Graphic representation of the differences in performance ratings between self-evaluation and independent evaluation

Table 7.2 below shows the maximum upgrade and downgrade for each rating category. The maximum upgrade for any category is never greater than the maximum downgrade. Not only are ratings more likely to be downgraded than upgraded but they are likely to be downgraded further.

Table 7.6: Overview of maximum down grades and upgrades when comparing the differences between the self-evaluation and independent evaluation ratings

Indicator	Maximum upgrade (no. of rating points)	Maximum downgrade (no. of rating points)	Number of reports with maximum downgrade
Overall performance	1	3	1
Transition impact	3	4	2
Environmental performance	2	3	2
Extent of environmental change	2	2	7
Additionality	3	3	2
Company financial performance	2	3	2
Project financial performance	2	3	1
Fulfilment of objectives	2	3	1
Bank handling	1	4	1

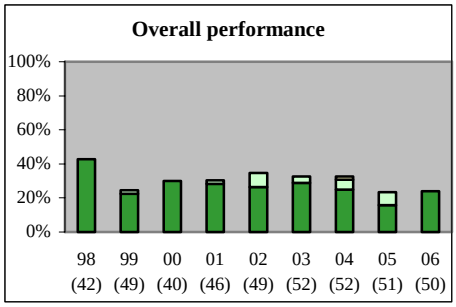
7.3 Development of the observed differences over time

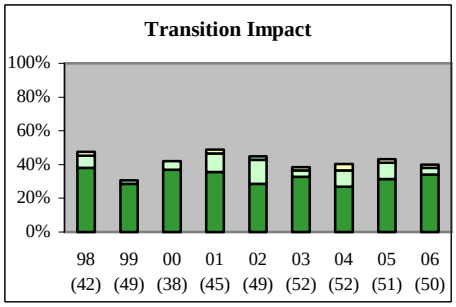
A study of the results over time does not show a decrease in differences between XMR and evaluation ratings. The pattern for most indicators is unclear (see charts 7.2 to 7.10). In 2006 compared to previous years there was a fall in the number of adjustments for transition impact, additionality and bank handling. Transition impact and bank handling are the indicators that EvD most frequently downgrades, therefore any improvement in these indicators is welcomed.

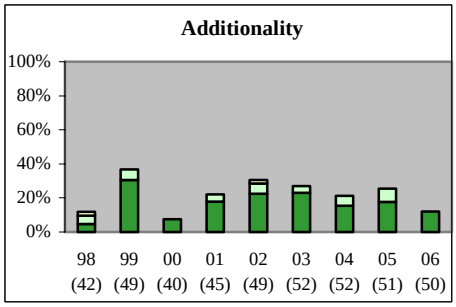
However, there were clear increases in the number of downgrades for fulfilment of objectives, environment performance, environmental change, and company and project financial performance. The total of the cumulative proportion of ratings downgraded remained static at 31 per cent. It is important that the development of the difference between the ratings is monitored in the AEOR and that efforts are made to reduce the differences. EvD's activities in respect of XMR workshops can contribute to a positive development in this respect.

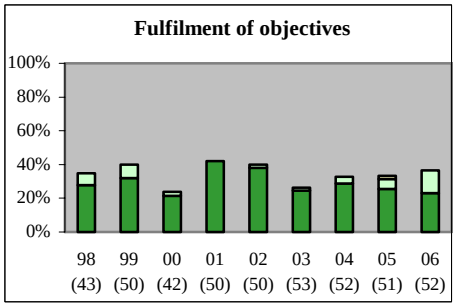
In particular, closer inspection of company and project financial performance revealed that some of the differences in ratings could be explained by occasional confusion over the precise definition of these indicators as used by EvD. Future XMR workshops will include a focus on this issue.

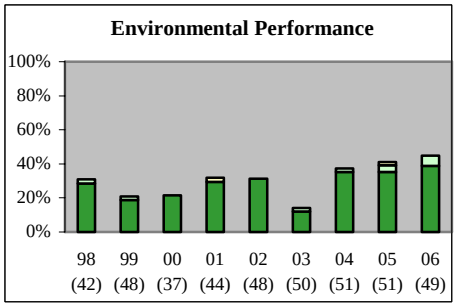
Graphs 7.2-7.10: Differences over time in evaluation performance ratings assigned by operation staff and independent evaluators

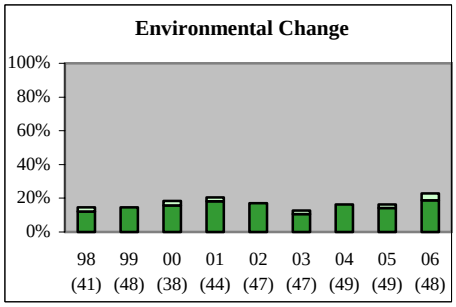


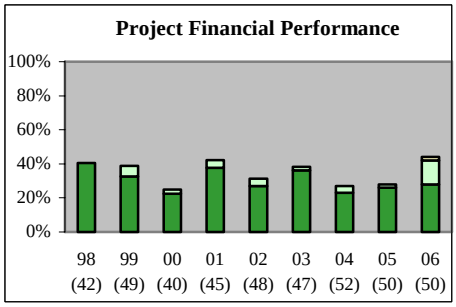


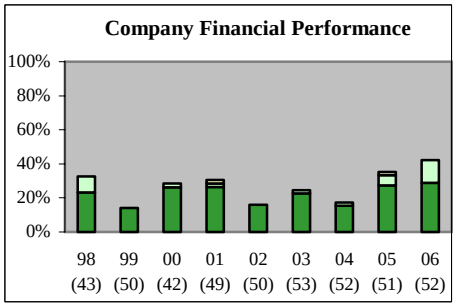


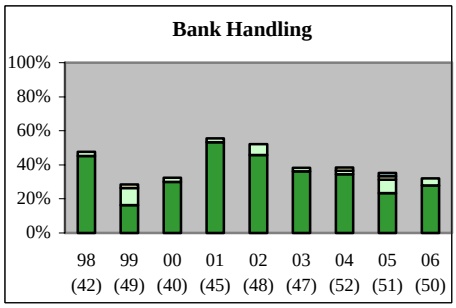












Key to charts

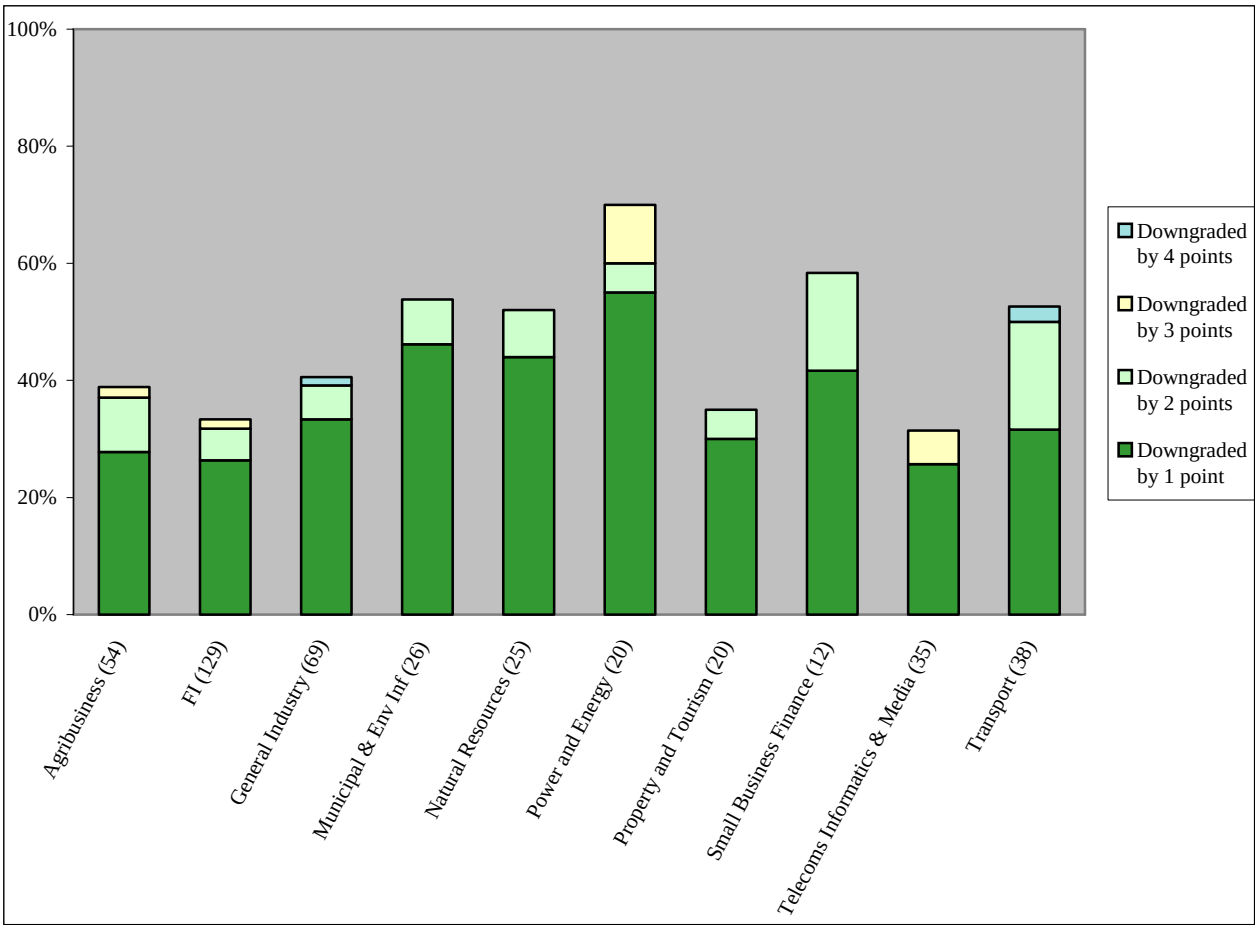
Downgraded by 1 point	Downgraded by 2 points
Downgraded by 3 points	Downgraded by 4 points

The bracketed numbers shown beneath the years indicate the total number of comparisons made for that year, including XMRs upgraded or unchanged.
The chart shows downgrades as a percentage of the total number of comparable reports for each year.

7.4 The transition impact rating

The indicator most frequently downgraded by EvD was transition impact, at 42 per cent. Further analysis of this rating shows a great deal of variation between sector teams. Chart 7.11 below shows that the teams whose ratings were most frequently downgraded by EvD were power and energy utilities (70 per cent), the Group for Small Business (59 per cent) and municipal and environmental infrastructure (54 per cent). The results for 2005 showed transport with the highest cumulative score at 73 per cent.

Graphs 7.11: Differences across sector teams in evaluation performance ratings assigned by operation staff and independent evaluators



7.5 Major conclusions

Overall, XMR ratings were validated by independent evaluation in 64 per cent of cases. Five per cent of XMR ratings were upgraded by evaluators and 31 per cent downgraded (the same result as found in 2006). Transition impact was the indicator most likely to be rated lower (42 per cent) by evaluators. The gap between XMR and evaluation ratings does not appear to be narrowing. Indeed, for some indicators it has increased in recent years.

The above developments indicate that EvD and Management should continue actively to train bankers through existing XMR training workshops. These workshops should also enhance communication with the operation teams during the preparation of the XMR. Although there will always be a positive bias in the self-evaluation performance ratings, the aim remains to bring the standards applied by the bankers more closely in line with the standards applied by EvD.

However, it should be noted that XMR training is aimed at new bankers, who often have the task of drafting XMRs, while the final decision on ratings in an XMR may be taken by more senior staff, whom XMR training does not reach. It is EvD's view that the differences observed do not represent a cause for concern, but that there is room for improvement. It is expected that, by monitoring the differences observed over time, a better judgement can be made about developments in the future, including possible further corrective actions.

ANNUAL EVALUATION OVERVIEW REPORT 2007

LIST OF APPENDICES

Basic data sheet: Operation performance ratings on the 22 OPERs prepared in 2006

Operation	Year of Board Approval	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 1	2003	SLOVAK REPUBLIC	PRIVATE	E	Excellent	Excellent	Substantial	Highly Successful
Project 2	2002	RUSSIAN FEDERATION	PRIVATE	L	Excellent	Good	Some	Highly Successful
Project 3	2004	RUSSIAN FEDERATION	PRIVATE	E	Excellent	Good	Some	Highly Successful
Project 4	2004	<REGIONAL>	PRIVATE	E	Good	Good	Substantial	Successful
Project 5	1999	POLAND	STATE	L	Good	Good	Substantial	Successful
Project 6	2001	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Substantial	Successful
Project 7	2002	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Some	Successful
Project 8	1999	KAZAKHSTAN	STATE	L	Good	Good	Some	Successful
Project 9	2002	UZBEKISTAN	PRIVATE	L	Good	Good	Some	Successful
Project 10	2000	CROATIA	PRIVATE	L	Good	Satisfactory	Substantial	Successful
Project 11	1996	<REGIONAL>	PRIVATE	E	Good	Satisfactory	Some	Successful
Project 12	2003	HUNGARY	PRIVATE	L	Satisfactory	Excellent	Outstanding	Successful
Project 13	2002	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Satisfactory	Outstanding	Successful
Project 14	1999	KAZAKHSTAN	STATE	L	Satisfactory	Satisfactory	Some	Successful
Project 15	2000	POLAND	PRIVATE	L	Satisfactory	Good	Substantial	Partly Successful
Project 16	2003	RUSSIAN FEDERATION	STATE	L	Satisfactory	Good	Some	Partly Successful
Project 17	2002	<REGIONAL>	PRIVATE	L	Satisfactory	Good	Some	Partly Successful
Project 18	2001	POLAND	PRIVATE	L	Satisfactory	Satisfactory	Substantial	Partly Successful
Project 19	1998	UZBEKISTAN	STATE	L	Marginal	Satisfactory	Outstanding	Partly Successful
Project 20	1998	KAZAKHSTAN	PRIVATE	L	Marginal	Marginal	Substantial	Partly Successful
Project 21	2000	<REGIONAL>	PRIVATE	E	Unsatisfactory	Satisfactory	None/ Negative	Unsuccessful
Project 22	2001	SLOVAK REPUBLIC	PRIVATE	L	Unsatisfactory	Marginal	None/ Negative	Unsuccessful

[1] E=Equity; L=Loan

[2] The range is Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative

[3] The range is Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Highly Unsatisfactory

[4] The range is Outstanding/Substantial/Some/None/Negative

[5] The range is Highly Successful/Successful/Partly Successful/Unsuccessful

Basic data sheet: Operation performance ratings on the 25 XMR assessments prepared in 2006

Operation	Year of Board Approval	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 1	2003	CROATIA	STATE	L	Excellent	Excellent	Substantial	Highly Successful
Project 2	2004	POLAND	PRIVATE	L	Excellent	Excellent	Substantial	Highly Successful
Project 3	2003	ALBANIA	PRIVATE	L	Excellent	Excellent	Some	Highly Successful
Project 4	2002	FYR MACEDONIA	PRIVATE	E/L	Excellent	Excellent	None/ Negative	Highly Successful
Project 5	2003	BULGARIA	PRIVATE	E/L	Excellent	Good	Some	Highly Successful
Project 6	2003	ROMANIA	PRIVATE	L	Excellent	Good	Some	Highly Successful
Project 7	2003	<REGIONAL>	PRIVATE	L	Good	Good	Substantial	Highly Successful
Project 8	2002	<REGIONAL>	PRIVATE	L	Good	Excellent	Substantial	Successful
Project 9	1998	LATVIA	STATE	L	Good	Good	Some	Successful
Project 10	2003	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	None/ Negative	Successful
Project 11	2003	SERBIA	PRIVATE	L	Good	Good	None/ Negative	Successful
Project 12	2005	KYRGYZ REPUBLIC	PRIVATE	L	Good	Satisfactory	Substantial	Successful
Project 13	2004	LITHUANIA	STATE	L	Good	Satisfactory	Some	Successful
Project 14	2004	KAZAKHSTAN	PRIVATE	L	Good	Satisfactory	None/ Negative	Successful
Project 15	2003	<REGIONAL>	PRIVATE	E	Good	Satisfactory	None/ Negative	Successful
Project 16	1997	UKRAINE	STATE	L	Good	Satisfactory	None/ Negative	Successful
Project 17	2003	UZBEKISTAN	PRIVATE	L	Good	Excellent	Substantial	Partly Successful
Project 18	2003	<REGIONAL>	PRIVATE	L	Good	Excellent	Some	Partly Successful
Project 19	1999	<REGIONAL>	PRIVATE	E	Satisfactory	Good	Substantial	Partly Successful
Project 20	2004	RUSSIAN FEDERATION	PRIVATE	E/L	Satisfactory	Satisfactory	None/ Negative	Partly Successful
Project 21	2002	KAZAKHSTAN	PRIVATE	L	Satisfactory	Satisfactory	None/ Negative	Partly Successful
Project 22	2003	RUSSIAN FEDERATION	PRIVATE	L	Marginal	Excellent	Some	Partly Successful
Project 23	2003	UKRAINE	PRIVATE	L	Marginal	Satisfactory	Some	Partly Successful
Project 24	1999	CZECH REPUBLIC	PRIVATE	E	Marginal	Satisfactory	None/ Negative	Partly Successful
Project 25	1997	<REGIONAL>	PRIVATE	E	Marginal	Satisfactory	None/ Negative	Unsuccessful

[1] E=Equity; L=Loan

[2] The range is Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative

[3] The range is Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Highly Unsatisfactory

[4] The range is Outstanding/Substanital/Some/None/Negative

[5] The range is Highly Successful/Successful/Partly Successful/Unsuccessful

Basic data sheet: Operation performance ratings on the 219 OPERs prepared in 1996-2005

Operation	Year of Board Approval	Year of evaluation	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 1	2000	2005	CZECH REPUBLIC	PRIVATE	L	Excellent	Excellent	Outstanding	Highly Successful
Project 2	2001	2004	RUSSIAN FEDERATION	PRIVATE	E	Excellent	Excellent	Outstanding	Highly Successful
Project 3	1995	1997	CROATIA	PRIVATE	E/L	Excellent	Excellent	Substantial	Highly Successful
Project 4	1993	1996	HUNGARY	PRIVATE	E	Excellent	Excellent	Substantial	Highly Successful
Project 5	2003	2005	UKRAINE	PRIVATE	L	Excellent	Good	Substantial	Highly Successful
Project 6	1999	2004	UKRAINE	PRIVATE	L	Excellent	Good	Substantial	Highly Successful
Project 7	2000	2002	RUSSIAN FEDERATION	PRIVATE	L	Excellent	Good	Substantial	Highly Successful
Project 8	1997	2000	KAZAKHSTAN	PRIVATE	L	Excellent	Good	Substantial	Highly Successful
Project 9	2000	2004	POLAND	PRIVATE	L	Excellent	Good	Some	Highly Successful
Project 10	1991	1997	HUNGARY	PRIVATE	E/L	Excellent	Good	Some	Highly Successful
Project 11	1993	1997	SLOVENIA	PRIVATE	E/L	Excellent	Good	Some	Highly Successful
Project 12	1992	1996	<REGIONAL>	PRIVATE	E	Excellent	Good	Some	Highly Successful
Project 13	1998	2000	CROATIA	PRIVATE	L	Excellent	Good	Some	Highly Successful
Project 14	1995	1999	LITHUANIA	PRIVATE	L	Excellent	Good	Some	Highly Successful
Project 15	1998	2000	CZECH REPUBLIC	PRIVATE	E	Excellent	Satisfactory	Some	Highly Successful
Project 16	1993	1995	ROMANIA	PRIVATE	E	High			Highly Successful
Project 17	1993	1994	ROMANIA	PRIVATE	L	High			Highly Successful
Project 18	1993	1994	POLAND	PRIVATE	E	High			Highly Successful
Project 19	1991	1993	CZECH REPUBLIC	PRIVATE	E	High			Highly Successful
Project 20	1993	2000	SLOVENIA	STATE	L	Good	Excellent	Some	Highly Successful
Project 21	1992	1996	ROMANIA	PRIVATE	L	Good	Good	Substantial	Highly Successful
Project 22	2003	2005	ROMANIA	PRIVATE	L	Good	Good	Some	Highly Successful
Project 23	1994	1996	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Some	Highly Successful
Project 24	1994	1996	POLAND	PRIVATE	L	Good	Good	Some	Highly Successful
Project 25	1994	1999	RUSSIAN FEDERATION	PRIVATE	E/L	Good	Satisfactory	None/ Negative	Highly Successful
Project 26	1997	2000	RUSSIAN FEDERATION	PRIVATE	L	Excellent	Excellent	Some	Successful
Project 27	1994	1997	POLAND	PRIVATE	L	Excellent	Good	Some	Successful
Project 28	2003	2005	HUNGARY	PRIVATE	L	Good	Excellent	Outstanding	Successful
Project 29	1999	2002	UKRAINE	PRIVATE	L	Good	Excellent	Substantial	Successful
Project 30	1996	2002	LATVIA	STATE	L	Good	Excellent	Substantial	Successful
Project 31	1995	2002	UKRAINE	PRIVATE	L	Good	Excellent	Substantial	Successful
Project 32	1995	2001	RUSSIAN FEDERATION	PRIVATE	L	Good	Excellent	Substantial	Successful
Project 33	1995	1998	UKRAINE	PRIVATE	L	Good	Excellent	Substantial	Successful
Project 34	2002	2004	RUSSIAN FEDERATION	PRIVATE	L	Good	Excellent	Some	Successful
Project 35	1997	1999	ESTONIA	PRIVATE	L	Good	Excellent	Some	Successful
Project 36	2001	2004	RUSSIAN FEDERATION	PRIVATE	L	Good	Excellent	Some	Successful
Project 37	1997	2002	CZECH REPUBLIC	PRIVATE	E	Good	Excellent	None/ Negative	Successful
Project 38	1996	2004	<REGIONAL>	PRIVATE	E/L	Good	Good	Substantial	Successful

Basic data sheet: Operation performance ratings on the 219 OPERs prepared in 1996-2005

Operation	Year of Board Approval	Year of evaluation	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 39	2002	2004	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Substantial	Successful
Project 40	2001	2003	UKRAINE	PRIVATE	L	Good	Good	Substantial	Successful
Project 41	1992	1997	LATVIA	STATE	L	Good	Good	Substantial	Successful
Project 42	1994	1997	SLOVENIA	PRIVATE	E/L	Good	Good	Substantial	Successful
Project 43	1994	1996	POLAND	PRIVATE	L	Good	Good	Substantial	Successful
Project 44	1998	2001	SLOVAK REPUBLIC	PRIVATE	L	Good	Good	Substantial	Successful
Project 45	1996	2000	<REGIONAL>	PRIVATE	E	Good	Good	Substantial	Successful
Project 46	1996	2000	RUSSIAN FEDERATION	PRIVATE	E/L	Good	Good	Substantial	Successful
Project 47	1995	2005	<REGIONAL>	PRIVATE	E	Good	Good	Substantial	Successful
Project 48	1999	2005	TURKMENISTAN	PRIVATE	L	Good	Good	Substantial	Successful
Project 49	2000	2004	AZERBAIJAN	PRIVATE	E/L	Good	Good	Substantial	Successful
Project 50	2000	2004	ESTONIA	PRIVATE	L	Good	Good	Substantial	Successful
Project 51	1999	2002	CROATIA	STATE	L	Good	Good	Substantial	Successful
Project 52	1996	2004	RUSSIAN FEDERATION	STATE	L	Good	Good	Some	Successful
Project 53	1997	2003	KYRGYZ REPUBLIC	PRIVATE	L	Good	Good	Some	Successful
Project 54	2000	2003	BULGARIA	PRIVATE	L	Good	Good	Some	Successful
Project 55	1999	2002	<REGIONAL>	PRIVATE	L	Good	Good	Some	Successful
Project 56	1997	2000	RUSSIAN FEDERATION	PRIVATE	E	Good	Good	Some	Successful
Project 57	1994	1996	ESTONIA	PRIVATE	E/L	Good	Good	Some	Successful
Project 58	1998	2001	POLAND	PRIVATE	E	Good	Good	Some	Successful
Project 59	1997	2001	ESTONIA	STATE	L	Good	Good	Some	Successful
Project 60	1996	2001	FYR MACEDONIA	PRIVATE	E/L	Good	Good	Some	Successful
Project 61	1998	2001	AZERBAIJAN	PRIVATE	L	Good	Good	Some	Successful
Project 62	1998	2001	KAZAKHSTAN	PRIVATE	L	Good	Good	Some	Successful
Project 63	1997	2000	BULGARIA	PRIVATE	E/L	Good	Good	Some	Successful
Project 64	1995	1998	HUNGARY	PRIVATE	E	Good	Good	Some	Successful
Project 65	2000	2005	POLAND	STATE	L	Good	Good	Some	Successful
Project 66	1999	2004	CROATIA	PRIVATE	L	Good	Good	Some	Successful
Project 67	1997	2003	ROMANIA	PRIVATE	L	Good	Good	Some	Successful
Project 68	2002	2004	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	None/ Negative	Successful
Project 69	2001	2002	POLAND	PRIVATE	L	Good	Good	None/ Negative	Successful
Project 70	1994	2001	<REGIONAL>	PRIVATE	E	Good	Good	None/ Negative	Successful
Project 71	1997	2000	ROMANIA	PRIVATE	L	Good	Good	None/ Negative	Successful
Project 72	1999	2004	BULGARIA	PRIVATE	E/L	Good	Good	None/ Negative	Successful
Project 73	1999	2002	<REGIONAL>	PRIVATE	E	Good	Good	None/ Negative	Successful
Project 74	1999	2005	AZERBAIJAN	STATE	L	Good	Satisfactory	Substantial	Successful
Project 75	1994	1998	ROMANIA	STATE	L	Good	Satisfactory	Substantial	Successful
Project 76	1992	1996	HUNGARY	STATE	L	Good	Satisfactory	Substantial	Successful
Project 77	1995	1999	ESTONIA	STATE	L	Good	Satisfactory	Substantial	Successful
Project 78	1995	1998	HUNGARY	PRIVATE	L	Good	Satisfactory	Substantial	Successful

Basic data sheet: Operation performance ratings on the 219 OPERs prepared in 1996-2005

Operation	Year of Board Approval	Year of evaluation	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 79	1997	2003	RUSSIAN FEDERATION	PRIVATE	L	Good	Satisfactory	Substantial	Successful
Project 80	1999	2005	GEORGIA	PRIVATE	E/L	Good	Satisfactory	Some	Successful
Project 81	2000	2003	SLOVAK REPUBLIC	PRIVATE	E	Good	Satisfactory	Some	Successful
Project 82	1992	1996	UKRAINE	PRIVATE	E	Good	Satisfactory	Some	Successful
Project 83	1997	1999	BOSNIA AND HERZEGOVINA	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 84	1993	1998	ROMANIA	STATE	L	Good	Satisfactory	Some	Successful
Project 85	1997	2005	KAZAKHSTAN	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 86	1997	2004	UKRAINE	PRIVATE	E	Good	Satisfactory	Some	Successful
Project 87	2001	2003	ROMANIA	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 88	2000	2005	CZECH REPUBLIC	PRIVATE	E/L	Good	Satisfactory	None/ Negative	Successful
Project 89	2002	2005	CROATIA	PRIVATE	L	Good	Satisfactory	None/ Negative	Successful
Project 90	1993	1996	LATVIA	STATE	L	Good	Satisfactory	None/ Negative	Successful
Project 91	2003	2005	SERBIA	PRIVATE	L	Good	Marginal	Some	Successful
Project 92	1995	2002	RUSSIAN FEDERATION	PRIVATE	E	Good	Marginal	Some	Successful
Project 93	1992	1995	SLOVAK REPUBLIC	PRIVATE	L	Medium			Successful
Project 94	1992	1995	CZECH REPUBLIC	PRIVATE	L	Medium			Successful
Project 95	1992	1995	HUNGARY	PRIVATE	L	Medium			Successful
Project 96	1993	1995	CZECH REPUBLIC	PRIVATE	E	Medium			Successful
Project 97	1993	1995	POLAND	PRIVATE	L	Medium			Successful
Project 98	1992	1994	POLAND	PRIVATE	L	Medium			Successful
Project 99	1992	1994	HUNGARY	PRIVATE	L	Medium			Successful
Project 100	1992	1994	HUNGARY	PRIVATE	L	Medium			Successful
Project 101	1992	1994	HUNGARY	PRIVATE	L	Medium			Successful
Project 102	1991	1993	HUNGARY	PRIVATE	L	Medium			Successful
Project 103	1993	2001	SLOVAK REPUBLIC	PRIVATE	E/L	Satisfactory	Good	Outstanding	Successful
Project 104	1997	2001	UZBEKISTAN	STATE	L	Satisfactory	Good	Substantial	Successful
Project 105	1996	1999	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Good	Substantial	Successful
Project 106	2003	2005	LITHUANIA	STATE	L	Satisfactory	Good	Substantial	Successful
Project 107	2000	2004	UKRAINE	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 108	1994	1999	ESTONIA	PRIVATE	E/L	Satisfactory	Good	Some	Successful
Project 109	1994	1999	BELARUS	STATE	L	Satisfactory	Good	Some	Successful
Project 110	1994	1998	ROMANIA	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 111	1993	1998	SLOVENIA	STATE	L	Satisfactory	Good	Some	Successful
Project 112	2000	2003	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 113	1997	1999	BOSNIA AND HERZEGOVINA	PRIVATE	E	Satisfactory	Good	None/ Negative	Successful
Project 114	1995	1998	KYRGYZ REPUBLIC	PRIVATE	E/L	Satisfactory	Satisfactory	Substantial	Successful
Project 115	1999	2004	KAZAKHSTAN	PRIVATE	L	Satisfactory	Satisfactory	Some	Successful
Project 116	1997	2003	ESTONIA	PRIVATE	L	Satisfactory	Satisfactory	Some	Successful
Project 117	1993	1997	UZBEKISTAN	PRIVATE	L	Satisfactory	Satisfactory	Some	Successful
Project 118	2000	2005	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Satisfactory	Some	Successful

Basic data sheet: Operation performance ratings on the 219 OPERs prepared in 1996-2005

Operation	Year of Board Approval	Year of evaluation	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 119	2001	2005	UKRAINE	PRIVATE	L	Satisfactory	Satisfactory	None/ Negative	Successful
Project 120	1997	2004	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Satisfactory	None/ Negative	Successful
Project 121	1999	2003	KAZAKHSTAN	PRIVATE	L	Satisfactory	Satisfactory	None/ Negative	Successful
Project 122	2002	2003	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Satisfactory	None/ Negative	Successful
Project 123	1998	2005	GEORGIA	STATE	L	Satisfactory	Marginal	Some	Successful
Project 124	1993	1994	ESTONIA	PRIVATE	L	Low			Successful
Project 125	1996	1999	SLOVAK REPUBLIC	PRIVATE	L	Marginal	Satisfactory	None/ Negative	Successful
Project 126	1993	1995	RUSSIAN FEDERATION	PRIVATE	L	High			Partly Successful
Project 127	1992	2000	POLAND	PRIVATE	L	Good	Excellent	Outstanding	Partly Successful
Project 128	1997	1999	POLAND	PRIVATE	L	Good	Excellent	Substantial	Partly Successful
Project 129	1996	1998	RUSSIAN FEDERATION	PRIVATE	L	Good	Excellent	Substantial	Partly Successful
Project 130	1997	2001	GEORGIA	PRIVATE	E/L	Good	Good	Substantial	Partly Successful
Project 131	2000	2002	LITHUANIA	PRIVATE	E	Good	Good	None/ Negative	Partly Successful
Project 132	1999	2004	FYR MACEDONIA	PRIVATE	L	Good	Satisfactory	Substantial	Partly Successful
Project 133	1995	1997	GEORGIA	STATE	L	Good	Satisfactory	Some	Partly Successful
Project 134	1997	2000	RUSSIAN FEDERATION	STATE	L	Good	Satisfactory	None/ Negative	Partly Successful
Project 135	1996	2002	GEORGIA	PRIVATE	L	Good	Marginal	Some	Partly Successful
Project 136	2000	2002	RUSSIAN FEDERATION	PRIVATE	L	Good	Marginal	None/ Negative	Partly Successful
Project 137	1992	1998	BULGARIA	STATE	L	Good	Unsatisfactory	None/ Negative	Partly Successful
Project 138	1992	1995	HUNGARY	PRIVATE	L	Medium			Partly Successful
Project 139	1992	1995	RUSSIAN FEDERATION	PRIVATE	L	Medium			Partly Successful
Project 140	1991	1995	<REGIONAL>	PRIVATE	E	Medium			Partly Successful
Project 141	1992	1993	POLAND	PRIVATE	L	Medium			Partly Successful
Project 142	1999	2003	GEORGIA	PRIVATE	L	Satisfactory	Good	Substantial	Partly Successful
Project 143	1999	2002	CROATIA	PRIVATE	L	Satisfactory	Good	Some	Partly Successful
Project 144	1995	2002	FYR MACEDONIA	PRIVATE	E/L	Satisfactory	Good	Some	Partly Successful
Project 145	1998	2002	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Good	None/ Negative	Partly Successful
Project 146	1997	2005	MOLDOVA	PRIVATE	E/L	Satisfactory	Satisfactory	Substantial	Partly Successful
Project 147	1994	1999	AZERBAIJAN	STATE	L	Satisfactory	Satisfactory	Substantial	Partly Successful
Project 148	1992	1996	POLAND	PRIVATE	E/L	Satisfactory	Satisfactory	Substantial	Partly Successful
Project 149	1992	1998	RUSSIAN FEDERATION	PRIVATE	E/L	Satisfactory	Satisfactory	Some	Partly Successful
Project 150	1993	1996	HUNGARY	STATE	L	Satisfactory	Satisfactory	Some	Partly Successful
Project 151	1996	1999	MOLDOVA	PRIVATE	L	Satisfactory	Satisfactory	Some	Partly Successful
Project 152	1998	2000	BULGARIA	PRIVATE	L	Satisfactory	Marginal	Some	Partly Successful
Project 153	1999	2004	<REGIONAL>	PRIVATE	E	Satisfactory	Marginal	None/ Negative	Partly Successful
Project 154	1997	2003	HUNGARY	PRIVATE	E	Satisfactory	Marginal	None/ Negative	Partly Successful
Project 155	1994	1997	BULGARIA	PRIVATE	E	Satisfactory	Unsatisfactory	None/ Negative	Partly Successful
Project 156	1991	1995	RUSSIAN FEDERATION	PRIVATE	L	Low			Partly Successful
Project 157	1992	1994	HUNGARY	PRIVATE	E	Low			Partly Successful
Project 158	2000	2003	FYR MACEDONIA	PRIVATE	L	Marginal	Excellent	Substantial	Partly Successful

Basic data sheet: Operation performance ratings on the 219 OPERs prepared in 1996-2005

Operation	Year of Board Approval	Year of evaluation	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 159	1993	1998	POLAND	PRIVATE	L	Marginal	Excellent	Substantial	Partly Successful
Project 160	2000	2002	RUSSIAN FEDERATION	PRIVATE	L	Marginal	Excellent	Substantial	Partly Successful
Project 161	1996	2001	LATVIA	PRIVATE	L	Marginal	Excellent	Some	Partly Successful
Project 162	2001	2004	<REGIONAL>	PRIVATE	L	Marginal	Good	Some	Partly Successful
Project 163	1997	2003	UZBEKISTAN	STATE	L	Marginal	Good	Some	Partly Successful
Project 164	1995	2001	TURKMENISTAN	PRIVATE	E/L	Marginal	Good	Some	Partly Successful
Project 165	1999	2000	LITHUANIA	PRIVATE	E	Marginal	Good	Some	Partly Successful
Project 166	1996	2000	RUSSIAN FEDERATION	PRIVATE	L	Marginal	Good	Some	Partly Successful
Project 167	1996	2002	KAZAKHSTAN	STATE	L	Marginal	Good	Some	Partly Successful
Project 168	1995	2001	AZERBAIJAN	STATE	L	Marginal	Satisfactory	Some	Partly Successful
Project 169	2003	2005	AZERBAIJAN	PRIVATE	L	Marginal	Satisfactory	None/ Negative	Partly Successful
Project 170	1998	2003	HUNGARY	PRIVATE	L	Marginal	Satisfactory	None/ Negative	Partly Successful
Project 171	1994	1997	HUNGARY	PRIVATE	E/L	Marginal	Satisfactory	None/ Negative	Partly Successful
Project 172	1995	1997	UKRAINE	PRIVATE	L	Marginal	Marginal	Some	Partly Successful
Project 173	1993	1997	RUSSIAN FEDERATION	STATE	L	Marginal	Marginal	Some	Partly Successful
Project 174	1993	1996	BULGARIA	PRIVATE	E	Marginal	Marginal	Some	Partly Successful
Project 175	1998	2001	SLOVENIA	PRIVATE	E/L	Marginal	Marginal	Some	Partly Successful
Project 176	1999	2002	HUNGARY	PRIVATE	E	Marginal	Marginal	None/ Negative	Partly Successful
Project 177	1996	1999	RUSSIAN FEDERATION	PRIVATE	E/L	Unsatisfactory	Marginal	Some	Partly Successful
Project 178	1994	1999	MOLDOVA	STATE	L	Satisfactory	Satisfactory	None/ Negative	Unsuccessful
Project 179	1995	2003	CZECH REPUBLIC	PRIVATE	L	Satisfactory	Marginal	Some	Unsuccessful
Project 180	1992	1995	RUSSIAN FEDERATION	PRIVATE	E	Low			Unsuccessful
Project 181	1991	1994	POLAND	PRIVATE	L	Low			Unsuccessful
Project 182	1992	1994	CZECH REPUBLIC	PRIVATE	E	Low			Unsuccessful
Project 183	1996	1999	POLAND	PRIVATE	E	Marginal	Excellent	Some	Unsuccessful
Project 184	2001	2005	CROATIA	PRIVATE	L	Marginal	Good	Some	Unsuccessful
Project 185	1994	2002	BULGARIA	PRIVATE	E	Marginal	Good	Some	Unsuccessful
Project 186	1998	2004	KAZAKHSTAN	PRIVATE	L	Marginal	Satisfactory	Outstanding	Unsuccessful
Project 187	1995	1999	LATVIA	PRIVATE	E/L	Marginal	Satisfactory	Some	Unsuccessful
Project 188	1998	2004	SERBIA	PRIVATE	E	Marginal	Satisfactory	None/ Negative	Unsuccessful
Project 189	1993	1997	HUNGARY	PRIVATE	L	Marginal	Satisfactory	None/ Negative	Unsuccessful
Project 190	1997	2001	RUSSIAN FEDERATION	PRIVATE	L	Marginal	Marginal	Substantial	Unsuccessful
Project 191	1993	1997	UZBEKISTAN	PRIVATE	L	Marginal	Marginal	Some	Unsuccessful
Project 192	1994	1998	RUSSIAN FEDERATION	PRIVATE	E	Marginal	Marginal	None/ Negative	Unsuccessful
Project 193	1994	1996	CZECH REPUBLIC	PRIVATE	L	Marginal	Unsatisfactory	None/ Negative	Unsuccessful
Project 194	1995	1998	RUSSIAN FEDERATION	PRIVATE	E	Marginal	Unsatisfactory	None/ Negative	Unsuccessful
Project 195	1991	1993	HUNGARY	PRIVATE	L	None			Unsuccessful
Project 196	1991	1993	POLAND	PRIVATE	L	None			Unsuccessful
Project 197	1997	1999	CZECH REPUBLIC	PRIVATE	E	Unsatisfactory	Excellent	Some	Unsuccessful
Project 198	1995	2000	MOLDOVA	STATE	L	Unsatisfactory	Good	Some	Unsuccessful

Basic data sheet: Operation performance ratings on the 219 OPERs prepared in 1996-2005

Operation	Year of Board Approval	Year of evaluation	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 199	1997	2001	POLAND	PRIVATE	E/L	Unsatisfactory	Good	Some	Unsuccessful
Project 200	1998	2001	CROATIA	PRIVATE	E	Unsatisfactory	Good	Some	Unsuccessful
Project 201	1995	1998	RUSSIAN FEDERATION	PRIVATE	L	Unsatisfactory	Satisfactory	Some	Unsuccessful
Project 202	1997	2001	POLAND	PRIVATE	E	Unsatisfactory	Satisfactory	None/ Negative	Unsuccessful
Project 203	1996	2003	UZBEKISTAN	PRIVATE	L	Unsatisfactory	Satisfactory	None/ Negative	Unsuccessful
Project 204	1995	2002	UKRAINE	PRIVATE	L	Unsatisfactory	Satisfactory	None/ Negative	Unsuccessful
Project 205	2003	2005	KAZAKHSTAN	PRIVATE	E	Unsatisfactory	Marginal	None/ Negative	Unsuccessful
Project 206	1996	2000	BULGARIA	PRIVATE	E/L	Unsatisfactory	Marginal	None/ Negative	Unsuccessful
Project 207	1996	1998	RUSSIAN FEDERATION	PRIVATE	L	Unsatisfactory	Marginal	None/ Negative	Unsuccessful
Project 208	2000	2005	<REGIONAL>	PRIVATE	L	Unsatisfactory	Marginal	None/ Negative	Unsuccessful
Project 209	1992	1997	CZECH REPUBLIC	PRIVATE	L	Unsatisfactory	Unsatisfactory	Some	Unsuccessful
Project 210	1993	1999	HUNGARY	PRIVATE	E/L	Negative	Excellent	Some	Unsuccessful
Project 211	1994	1998	SLOVAK REPUBLIC	PRIVATE	E/L	Negative	Satisfactory	Substantial	Unsuccessful
Project 212	1994	2000	CZECH REPUBLIC	STATE	L	Negative	Satisfactory	None/ Negative	Unsuccessful
Project 213	1997	2001	POLAND	PRIVATE	E	Negative	Marginal	Substantial	Unsuccessful
Project 214	1995	1999	KYRGYZ REPUBLIC	PRIVATE	L	Negative	Marginal	Some	Unsuccessful
Project 215	1995	2002	RUSSIAN FEDERATION	PRIVATE	L	Negative	Marginal	None/ Negative	Unsuccessful
Project 216	1996	1999	RUSSIAN FEDERATION	PRIVATE	L	Negative	Marginal	None/ Negative	Unsuccessful
Project 217	1993	1998	ARMENIA	STATE	L	Negative	Marginal	None/ Negative	Unsuccessful
Project 218	1995	2004	MOLDOVA	PRIVATE	E/L	Negative	Unsatisfactory	None/ Negative	Unsuccessful
Project 219	1997	1998	ESTONIA	PRIVATE	E	Negative	Unsatisfactory	None/ Negative	Unsuccessful

[1] E=Equity; L=Loan

[2] The range is Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative

[3] The range is Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Highly Unsatisfactory

[4] The range is Outstanding/Substanital/Some/None/Negative

[5] The range is Highly Successful/Successful/Partly Successful/Unsuccessful

Basic data sheet: Operation performance ratings on the 268 XMR assessments prepared in 1996-2005

Operation	Year of Board Approval	Year of evaluation	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 1	1995	1998	HUNGARY	PRIVATE	E	Excellent	Excellent	Substantial	Highly Successful
Project 2	2001	2005	BULGARIA	PRIVATE	E/L	Excellent	Excellent	Some	Highly Successful
Project 3	1996	2004	RUSSIAN FEDERATION	PRIVATE	L	Excellent	Excellent	Some	Highly Successful
Project 4	2001	2003	BULGARIA	PRIVATE	L	Excellent	Excellent	Some	Highly Successful
Project 5	2001	2003	RUSSIAN FEDERATION	PRIVATE	E/L	Excellent	Excellent	None/ Negative	Highly Successful
Project 6	2002	2005	ROMANIA	PRIVATE	L	Excellent	Good	Substantial	Highly Successful
Project 7	1995	1997	HUNGARY	PRIVATE	E	Excellent	Good	Substantial	Highly Successful
Project 8	1997	2005	RUSSIAN FEDERATION	PRIVATE	L	Excellent	Good	Some	Highly Successful
Project 9	1998	2002	RUSSIAN FEDERATION	PRIVATE	L	Excellent	Satisfactory	Some	Highly Successful
Project 10	2003	2005	ROMANIA	PRIVATE	E	Good	Excellent	Outstanding	Highly Successful
Project 11	1996	1999	RUSSIAN FEDERATION	PRIVATE	E/L	Good	Excellent	Outstanding	Highly Successful
Project 12	2002	2005	RUSSIAN FEDERATION	PRIVATE	L	Good	Excellent	Some	Highly Successful
Project 13	1997	2000	BOSNIA AND HERZEGOVINA	PRIVATE	L	Good	Excellent	Some	Highly Successful
Project 14	1997	2005	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Some	Highly Successful
Project 15	2002	2004	BULGARIA	PRIVATE	E	Good	Good	Some	Highly Successful
Project 16	2001	2003	CROATIA	PRIVATE	L	Good	Good	Some	Highly Successful
Project 17	1996	2000	HUNGARY	PRIVATE	E/L	Good	Good	Some	Highly Successful
Project 18	1996	1998	ESTONIA	PRIVATE	L	Good	Good	Some	Highly Successful
Project 19	2003	2004	POLAND	PRIVATE	L	Good	Good	None/ Negative	Highly Successful
Project 20	1998	2004	ROMANIA	PRIVATE	E/L	Good	Good	None/ Negative	Highly Successful
Project 21	1999	2002	SLOVENIA	PRIVATE	L	Good	Satisfactory	Some	Highly Successful
Project 22	1993	1999	HUNGARY	PRIVATE	L	Good	Satisfactory	Some	Highly Successful
Project 23	1997	2000	ROMANIA	PRIVATE	E	Good	Marginal	Some	Highly Successful
Project 24	1995	2000	ROMANIA	PRIVATE	L	Excellent	Excellent	Some	Successful
Project 25	1997	1999	HUNGARY	PRIVATE	L	Excellent	Excellent	Some	Successful
Project 26	1997	1999	BULGARIA	PRIVATE	L	Excellent	Good	Substantial	Successful
Project 27	1995	1998	CROATIA	PRIVATE	L	Excellent	Good	Some	Successful
Project 28	1992	1998	BULGARIA	STATE	L	Excellent	Good	Some	Successful
Project 29	1997	1999	LATVIA	PRIVATE	E/L	Excellent	Good	None/ Negative	Successful
Project 30	1993	1998	ALBANIA	PRIVATE	E/L	Excellent	Good	None/ Negative	Successful
Project 31	1995	1998	POLAND	PRIVATE	E	Excellent	Satisfactory	None/ Negative	Successful
Project 32	2002	2005	BOSNIA AND HERZEGOVINA	PRIVATE	E/L	Excellent	Satisfactory	Some	Successful
Project 33	1999	2002	FYR MACEDONIA	PRIVATE	L	Excellent	Marginal	None/ Negative	Successful
Project 34	1994	1998	POLAND	PRIVATE	L	Good	Excellent	Outstanding	Successful
Project 35	2000	2005	UZBEKISTAN	PRIVATE	L	Good	Excellent	Substantial	Successful
Project 36	2001	2003	CROATIA	PRIVATE	L	Good	Excellent	Substantial	Successful
Project 37	1997	2000	<REGIONAL>	PRIVATE	L	Good	Excellent	Substantial	Successful
Project 38	1995	1998	HUNGARY	PRIVATE	L	Good	Excellent	Substantial	Successful

Basic data sheet: Operation performance ratings on the 268 XMR assessments prepared in 1996-2005

Operation	Year of Board Approval	Year of evaluation	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 39	1993	1998	POLAND	PRIVATE	L	Good	Excellent	Substantial	Successful
Project 40	2002	2005	RUSSIAN FEDERATION	PRIVATE	L	Good	Excellent	Some	Successful
Project 41	2000	2004	POLAND	PRIVATE	L	Good	Excellent	Some	Successful
Project 42	1992	2000	RUSSIAN FEDERATION	PRIVATE	L	Good	Excellent	Some	Successful
Project 43	1996	1999	CROATIA	PRIVATE	L	Good	Excellent	Some	Successful
Project 44	1997	1999	SLOVAK REPUBLIC	PRIVATE	L	Good	Excellent	Some	Successful
Project 45	1998	2004	UKRAINE	PRIVATE	L	Good	Excellent	None/ Negative	Successful
Project 46	1994	1999	KYRGYZ REPUBLIC	STATE	L	Good	Excellent	None/ Negative	Successful
Project 47	2003	2005	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Substantial	Successful
Project 48	1999	2004	POLAND	PRIVATE	L	Good	Good	Substantial	Successful
Project 49	1997	2001	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Substantial	Successful
Project 50	1995	1998	LITHUANIA	PRIVATE	L	Good	Good	Substantial	Successful
Project 51	1995	1998	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Substantial	Successful
Project 52	1992	1997	LITHUANIA	STATE	L	Good	Good	Substantial	Successful
Project 53	1992	1997	ESTONIA	STATE	L	Good	Good	Substantial	Successful
Project 54	1993	1997	ROMANIA	PRIVATE	L	Good	Good	Substantial	Successful
Project 55	1992	1996	ROMANIA	STATE	L	Good	Good	Substantial	Successful
Project 56	1996	1996	ESTONIA	PRIVATE	L	Good	Good	Substantial	Successful
Project 57	1993	1996	SLOVAK REPUBLIC	PRIVATE	L	Good	Good	Substantial	Successful
Project 58	2001	2005	<REGIONAL>	PRIVATE	L	Good	Good	Some	Successful
Project 59	2002	2005	UKRAINE	PRIVATE	L	Good	Good	Some	Successful
Project 60	2001	2005	SLOVAK REPUBLIC	STATE	L	Good	Good	Some	Successful
Project 61	1999	2005	FYR MACEDONIA	PRIVATE	L	Good	Good	Some	Successful
Project 62	2001	2005	HUNGARY	PRIVATE	L	Good	Good	Some	Successful
Project 63	2000	2005	SERBIA	PRIVATE	E/L	Good	Good	Some	Successful
Project 64	2001	2004	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Some	Successful
Project 65	1999	2004	BOSNIA AND HERZEGOVINA	PRIVATE	L	Good	Good	Some	Successful
Project 66	2000	2004	RUSSIAN FEDERATION	PRIVATE	E/L	Good	Good	Some	Successful
Project 67	2002	2004	ROMANIA	PRIVATE	L	Good	Good	Some	Successful
Project 68	2001	2004	SERBIA	PRIVATE	E	Good	Good	Some	Successful
Project 69	2002	2004	SLOVENIA	PRIVATE	E	Good	Good	Some	Successful
Project 70	1999	2004	UZBEKISTAN	STATE	L	Good	Good	Some	Successful
Project 71	2002	2004	ESTONIA	PRIVATE	E	Good	Good	Some	Successful
Project 72	1999	2004	FYR MACEDONIA	PRIVATE	E	Good	Good	Some	Successful
Project 73	2002	2004	CZECH REPUBLIC	PRIVATE	L	Good	Good	Some	Successful
Project 74	2000	2003	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Some	Successful
Project 75	1996	2003	CROATIA	PRIVATE	E	Good	Good	Some	Successful
Project 76	1996	2003	KYRGYZ REPUBLIC	PRIVATE	L	Good	Good	Some	Successful
Project 77	2001	2003	CROATIA	PRIVATE	L	Good	Good	Some	Successful
Project 78	1996	2003	ROMANIA	PRIVATE	E	Good	Good	Some	Successful

Basic data sheet: Operation performance ratings on the 268 XMR assessments prepared in 1996-2005

Operation	Year of Board Approval	Year of evaluation	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 79	2000	2003	KYRGYZ REPUBLIC	PRIVATE	E/L	Good	Good	Some	Successful
Project 80	2000	2002	POLAND	PRIVATE	E	Good	Good	Some	Successful
Project 81	1999	2002	BOSNIA AND HERZEGOVINA	PRIVATE	L	Good	Good	Some	Successful
Project 82	1997	2002	UKRAINE	PRIVATE	L	Good	Good	Some	Successful
Project 83	1998	2002	MOLDOVA	STATE	L	Good	Good	Some	Successful
Project 84	1999	2001	GEORGIA	PRIVATE	L	Good	Good	Some	Successful
Project 85	2000	2001	ARMENIA	PRIVATE	L	Good	Good	Some	Successful
Project 86	1995	2001	FYR MACEDONIA	PRIVATE	L	Good	Good	Some	Successful
Project 87	1999	2001	TAJIKISTAN	STATE	L	Good	Good	Some	Successful
Project 88	1996	2001	ROMANIA	PRIVATE	L	Good	Good	Some	Successful
Project 89	1999	2001	ROMANIA	PRIVATE	E	Good	Good	Some	Successful
Project 90	1995	2000	POLAND	PRIVATE	L	Good	Good	Some	Successful
Project 91	1994	1998	POLAND	PRIVATE	L	Good	Good	Some	Successful
Project 92	1994	1998	UKRAINE	STATE	L	Good	Good	Some	Successful
Project 93	1992	1998	ALBANIA	STATE	L	Good	Good	Some	Successful
Project 94	1995	1997	CZECH REPUBLIC	PRIVATE	L	Good	Good	Some	Successful
Project 95	1994	1996	POLAND	PRIVATE	L	Good	Good	Some	Successful
Project 96	1999	2004	<REGIONAL>	PRIVATE	E	Good	Good	None/ Negative	Successful
Project 97	1999	2004	HUNGARY	STATE	L	Good	Good	None/ Negative	Successful
Project 98	2001	2003	SLOVENIA	PRIVATE	L	Good	Good	None/ Negative	Successful
Project 99	1998	2003	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	None/ Negative	Successful
Project 100	2000	2003	RUSSIAN FEDERATION	PRIVATE	E	Good	Good	None/ Negative	Successful
Project 101	1998	2001	BOSNIA AND HERZEGOVINA	STATE	L	Good	Good	None/ Negative	Successful
Project 102	1997	2001	KYRGYZ REPUBLIC	STATE	L	Good	Good	None/ Negative	Successful
Project 103	1994	1997	CZECH REPUBLIC	PRIVATE	L	Good	Satisfactory	Substantial	Successful
Project 104	1998	2003	GEORGIA	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 105	2000	2003	UKRAINE	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 106	1994	2002	<REGIONAL>	PRIVATE	E	Good	Satisfactory	Some	Successful
Project 107	1999	2002	RUSSIAN FEDERATION	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 108	1999	2002	UKRAINE	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 109	1996	2001	ROMANIA	STATE	L	Good	Satisfactory	Some	Successful
Project 110	1996	2000	CROATIA	PRIVATE	E	Good	Satisfactory	Some	Successful
Project 111	1996	2000	CROATIA	PRIVATE	E/L	Good	Satisfactory	Some	Successful
Project 112	1996	2000	BOSNIA AND HERZEGOVINA	PRIVATE	E	Good	Satisfactory	Some	Successful
Project 113	1996	1998	CROATIA	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 114	1993	1997	RUSSIAN FEDERATION	PRIVATE	E	Good	Satisfactory	Some	Successful
Project 115	1994	1997	POLAND	PRIVATE	E	Good	Satisfactory	Some	Successful
Project 116	1994	1997	HUNGARY	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 117	1993	1996	SLOVAK REPUBLIC	PRIVATE	E	Good	Satisfactory	Some	Successful
Project 118	1993	1996	POLAND	PRIVATE	L	Good	Satisfactory	Some	Successful

Basic data sheet: Operation performance ratings on the 268 XMR assessments prepared in 1996-2005

Operation	Year of Board Approval	Year of evaluation	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 119	1993	1996	BULGARIA	PRIVATE	E	Good	Satisfactory	Some	Successful
Project 120	1994	1996	RUSSIAN FEDERATION	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 121	1993	1996	HUNGARY	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 122	1995	2004	<REGIONAL>	PRIVATE	L	Good	Satisfactory	None/ Negative	Successful
Project 123	1999	2004	CROATIA	PRIVATE	E	Good	Satisfactory	None/ Negative	Successful
Project 124	1992	1999	POLAND	PRIVATE	E	Good	Satisfactory	None/ Negative	Successful
Project 125	1997	1999	SLOVENIA	PRIVATE	E	Good	Satisfactory	None/ Negative	Successful
Project 126	1991	1997	POLAND	PRIVATE	L	Good	Satisfactory	None/ Negative	Successful
Project 127	1993	1997	UKRAINE	STATE	L	Good	Satisfactory	None/ Negative	Successful
Project 128	1994	1996	HUNGARY	PRIVATE	E	Good	Satisfactory	None/ Negative	Successful
Project 129	1998	2002	GEORGIA	PRIVATE	E/L	Good	Marginal	Some	Successful
Project 130	1997	2000	HUNGARY	PRIVATE	E	Good	Marginal	Some	Successful
Project 131	2001	2003	LATVIA	PRIVATE	E	Good	Marginal	None/ Negative	Successful
Project 132	1995	1999	SLOVAK REPUBLIC	PRIVATE	L	Satisfactory	Excellent	Some	Successful
Project 133	1999	2000	SLOVAK REPUBLIC	STATE	L	Satisfactory	Excellent	None/ Negative	Successful
Project 134	1993	1999	ROMANIA	PRIVATE	L	Satisfactory	Excellent	None/ Negative	Successful
Project 135	1995	1998	SLOVENIA	PRIVATE	L	Satisfactory	Excellent	None/ Negative	Successful
Project 136	1993	1998	SLOVENIA	PRIVATE	L	Satisfactory	Excellent	None/ Negative	Successful
Project 137	2001	2005	RUSSIAN FEDERATION	STATE	L	Satisfactory	Good	Substantial	Successful
Project 138	1997	2000	POLAND	PRIVATE	E/L	Satisfactory	Good	Substantial	Successful
Project 139	2003	2005	UKRAINE	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 140	2000	2003	CROATIA	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 141	1999	2003	LATVIA	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 142	1999	2002	POLAND	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 143	1995	2002	LATVIA	STATE	L	Satisfactory	Good	Some	Successful
Project 144	2000	2002	ALBANIA	PRIVATE	E	Satisfactory	Good	Some	Successful
Project 145	1996	2001	<REGIONAL>	PRIVATE	E	Satisfactory	Good	Some	Successful
Project 146	1998	2001	ESTONIA	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 147	1996	1999	POLAND	PRIVATE	L	Satisfactory	Good	None/ Negative	Successful
Project 148	1995	1998	KYRGYZ REPUBLIC	STATE	L	Satisfactory	Good	None/ Negative	Successful
Project 149	1993	2000	RUSSIAN FEDERATION	PRIVATE	E/L	Satisfactory	Satisfactory	Substantial	Successful
Project 150	1994	1999	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Satisfactory	Substantial	Successful
Project 151	1999	2001	HUNGARY	PRIVATE	L	Satisfactory	Satisfactory	Some	Successful
Project 152	1993	1999	<REGIONAL>	PRIVATE	E	Satisfactory	Satisfactory	Some	Successful
Project 153	1995	1998	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Satisfactory	Some	Successful
Project 154	1994	1998	LITHUANIA	STATE	L	Satisfactory	Satisfactory	Some	Successful
Project 155	1992	1996	POLAND	PRIVATE	L	Satisfactory	Satisfactory	Some	Successful
Project 156	1993	1999	SLOVENIA	PRIVATE	E	Satisfactory	Satisfactory	None/ Negative	Successful
Project 157	1997	1999	POLAND	PRIVATE	L	Satisfactory	Marginal	Some	Successful
Project 158	2001	2004	POLAND	PRIVATE	L	Excellent	Good	Some	Partly Successful

Basic data sheet: Operation performance ratings on the 268 XMR assessments prepared in 1996-2005

Operation	Year of Board Approval	Year of evaluation	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 159	1997	2000	ROMANIA	PRIVATE	E/L	Good	Excellent	Some	Partly Successful
Project 160	1997	2003	RUSSIAN FEDERATION	STATE	L	Good	Good	Substantial	Partly Successful
Project 161	2002	2005	GEORGIA	PRIVATE	L	Good	Good	Some	Partly Successful
Project 162	2000	2004	UKRAINE	PRIVATE	L	Good	Good	Some	Partly Successful
Project 163	1994	2001	SLOVENIA	PRIVATE	E	Good	Satisfactory	Some	Partly Successful
Project 164	1997	1999	TAJIKISTAN	PRIVATE	L	Good	Satisfactory	Some	Partly Successful
Project 165	1993	1996	ALBANIA	PRIVATE	L	Good	Satisfactory	Some	Partly Successful
Project 166	1995	1998	RUSSIAN FEDERATION	PRIVATE	E	Good	Satisfactory	None/ Negative	Partly Successful
Project 167	1996	1997	POLAND	PRIVATE	E/L	Good	Satisfactory	None/ Negative	Partly Successful
Project 168	1993	1996	HUNGARY	PRIVATE	E	Good	Satisfactory	None/ Negative	Partly Successful
Project 169	1997	2005	<REGIONAL>	PRIVATE	E	Good	Marginal	Some	Partly Successful
Project 170	1998	2002	POLAND	PRIVATE	L	Good	Marginal	Some	Partly Successful
Project 171	1995	2002	ROMANIA	STATE	L	Good	Marginal	Some	Partly Successful
Project 172	1995	2001	<REGIONAL>	PRIVATE	E	Good	Marginal	Some	Partly Successful
Project 173	1999	2003	BOSNIA AND HERZEGOVINA	PRIVATE	L	Good	Marginal	None/ Negative	Partly Successful
Project 174	1996	2002	ROMANIA	STATE	L	Satisfactory	Excellent	Substantial	Partly Successful
Project 175	1996	2001	POLAND	STATE	L	Satisfactory	Excellent	Substantial	Partly Successful
Project 176	1998	2001	BULGARIA	PRIVATE	E/L	Satisfactory	Excellent	Some	Partly Successful
Project 177	1997	2003	<REGIONAL>	PRIVATE	E	Satisfactory	Excellent	None/ Negative	Partly Successful
Project 178	1999	2003	POLAND	PRIVATE	L	Satisfactory	Good	Substantial	Partly Successful
Project 179	1997	2003	AZERBAIJAN	STATE	L	Satisfactory	Good	Substantial	Partly Successful
Project 180	1996	1998	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Good	Substantial	Partly Successful
Project 181	1994	1998	ESTONIA	PRIVATE	L	Satisfactory	Good	Substantial	Partly Successful
Project 182	1994	1997	LITHUANIA	PRIVATE	E/L	Satisfactory	Good	Substantial	Partly Successful
Project 183	1994	1997	BULGARIA	PRIVATE	L	Satisfactory	Good	Substantial	Partly Successful
Project 184	1996	2005	<REGIONAL>	PRIVATE	E	Satisfactory	Good	Some	Partly Successful
Project 185	1997	2003	POLAND	PRIVATE	E	Satisfactory	Good	Some	Partly Successful
Project 186	2000	2002	CROATIA	PRIVATE	L	Satisfactory	Good	Some	Partly Successful
Project 187	1997	2002	CROATIA	STATE	L	Satisfactory	Good	Some	Partly Successful
Project 188	2000	2002	POLAND	PRIVATE	E	Satisfactory	Good	Some	Partly Successful
Project 189	1997	2001	LATVIA	PRIVATE	L	Satisfactory	Good	Some	Partly Successful
Project 190	1995	2001	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Good	Some	Partly Successful
Project 191	1998	2001	LITHUANIA	PRIVATE	E/L	Satisfactory	Good	Some	Partly Successful
Project 192	1997	2000	BELARUS	PRIVATE	E	Satisfactory	Good	Some	Partly Successful
Project 193	1997	2004	HUNGARY	STATE	L	Satisfactory	Good	None/ Negative	Partly Successful
Project 194	1998	2005	CROATIA	STATE	L	Satisfactory	Satisfactory	Some	Partly Successful
Project 195	1998	2002	ESTONIA	PRIVATE	E/L	Satisfactory	Satisfactory	Some	Partly Successful
Project 196	1994	1999	POLAND	PRIVATE	E	Satisfactory	Satisfactory	Some	Partly Successful
Project 197	1993	1998	ALBANIA	PRIVATE	E/L	Satisfactory	Satisfactory	Some	Partly Successful
Project 198	1994	1997	ROMANIA	PRIVATE	L	Satisfactory	Satisfactory	Some	Partly Successful

Basic data sheet: Operation performance ratings on the 268 XMR assessments prepared in 1996-2005

Operation	Year of Board Approval	Year of evaluation	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 199	1992	1996	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Satisfactory	Some	Partly Successful
Project 200	1999	2005	POLAND	PRIVATE	L	Satisfactory	Satisfactory	None/ Negative	Partly Successful
Project 201	1995	2001	<REGIONAL>	PRIVATE	E	Satisfactory	Satisfactory	None/ Negative	Partly Successful
Project 202	1992	2000	BELARUS	STATE	L	Satisfactory	Satisfactory	None/ Negative	Partly Successful
Project 203	1994	1999	KYRGYZ REPUBLIC	PRIVATE	L	Satisfactory	Satisfactory	None/ Negative	Partly Successful
Project 204	1996	1999	UZBEKISTAN	PRIVATE	E	Satisfactory	Satisfactory	None/ Negative	Partly Successful
Project 205	1993	1997	SLOVAK REPUBLIC	STATE	L	Satisfactory	Satisfactory	None/ Negative	Partly Successful
Project 206	1992	1997	<REGIONAL>	STATE	L	Satisfactory	Satisfactory	None/ Negative	Partly Successful
Project 207	1992	1996	HUNGARY	PRIVATE	L	Satisfactory	Satisfactory	None/ Negative	Partly Successful
Project 208	1994	1996	LATVIA	PRIVATE	E	Satisfactory	Satisfactory	None/ Negative	Partly Successful
Project 209	1993	1998	ROMANIA	PRIVATE	E/L	Satisfactory	Marginal	Substantial	Partly Successful
Project 210	2002	2005	POLAND	PRIVATE	L	Satisfactory	Marginal	Some	Partly Successful
Project 211	2002	2005	<REGIONAL>	PRIVATE	L	Satisfactory	Marginal	Some	Partly Successful
Project 212	1995	1999	POLAND	PRIVATE	E	Satisfactory	Marginal	Some	Partly Successful
Project 213	1997	2003	ALBANIA	PRIVATE	L	Satisfactory	Marginal	None/ Negative	Partly Successful
Project 214	1995	2000	UZBEKISTAN	PRIVATE	E	Satisfactory	Marginal	None/ Negative	Partly Successful
Project 215	2002	2005	RUSSIAN FEDERATION	PRIVATE	L	Marginal	Excellent	Some	Partly Successful
Project 216	2000	2005	POLAND	STATE	L	Marginal	Good	Substantial	Partly Successful
Project 217	2001	2004	TURKMENISTAN	PRIVATE	L	Marginal	Good	Substantial	Partly Successful
Project 218	1996	1997	ROMANIA	PRIVATE	E	Marginal	Good	Substantial	Partly Successful
Project 219	1994	1997	ROMANIA	PRIVATE	L	Marginal	Good	Substantial	Partly Successful
Project 220	1997	2003	MOLDOVA	STATE	L	Marginal	Good	Some	Partly Successful
Project 221	1996	2003	UZBEKISTAN	PRIVATE	L	Marginal	Good	Some	Partly Successful
Project 222	1998	2002	SLOVAK REPUBLIC	PRIVATE	L	Marginal	Good	Some	Partly Successful
Project 223	1994	2001	BELARUS	PRIVATE	L	Marginal	Good	Some	Partly Successful
Project 224	1996	1999	HUNGARY	PRIVATE	L	Marginal	Good	Some	Partly Successful
Project 225	2000	2004	SLOVAK REPUBLIC	PRIVATE	E	Marginal	Good	None/ Negative	Partly Successful
Project 226	2002	2005	RUSSIAN FEDERATION	STATE	L	Marginal	Satisfactory	Some	Partly Successful
Project 227	2001	2004	SERBIA	PRIVATE	L	Marginal	Satisfactory	Some	Partly Successful
Project 228	2001	2003	KAZAKHSTAN	PRIVATE	E	Marginal	Satisfactory	Some	Partly Successful
Project 229	1999	2001	RUSSIAN FEDERATION	PRIVATE	L	Marginal	Satisfactory	Some	Partly Successful
Project 230	1996	1999	BULGARIA	PRIVATE	L	Marginal	Satisfactory	Some	Partly Successful
Project 231	1994	1998	RUSSIAN FEDERATION	PRIVATE	L	Marginal	Satisfactory	Some	Partly Successful
Project 232	1994	1997	SLOVAK REPUBLIC	PRIVATE	L	Marginal	Satisfactory	Some	Partly Successful
Project 233	1996	2002	RUSSIAN FEDERATION	PRIVATE	L	Marginal	Marginal	None/ Negative	Partly Successful
Project 234	1996	2003	<REGIONAL>	PRIVATE	E	Satisfactory	Good	Some	Unsuccessful
Project 235	1994	2000	ARMENIA	STATE	L	Satisfactory	Satisfactory	Some	Unsuccessful
Project 236	1993	1999	ROMANIA	STATE	L	Satisfactory	Satisfactory	Some	Unsuccessful
Project 237	1993	1998	BELARUS	STATE	L	Marginal	Excellent	Substantial	Unsuccessful
Project 238	2000	2002	ROMANIA	PRIVATE	L	Marginal	Excellent	Some	Unsuccessful

Basic data sheet: Operation performance ratings on the 268 XMR assessments prepared in 1996-2005

Operation	Year of Board Approval	Year of evaluation	Country Name	Portfolio Class	Operation Type[1]	Transition Impact[2]	Environmental Performance of the Project and Sponsor[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 239	1999	2002	LATVIA	PRIVATE	L	Marginal	Excellent	None/ Negative	Unsuccessful
Project 240	1995	1998	UZBEKISTAN	PRIVATE	E	Marginal	Good	Some	Unsuccessful
Project 241	1999	2004	POLAND	PRIVATE	G	Marginal	Good	None/ Negative	Unsuccessful
Project 242	1995	1998	RUSSIAN FEDERATION	PRIVATE	L	Marginal	Satisfactory	Substantial	Unsuccessful
Project 243	1994	1997	CZECH REPUBLIC	PRIVATE	L	Marginal	Satisfactory	Some	Unsuccessful
Project 244	1991	1996	CZECH REPUBLIC	PRIVATE	L	Marginal	Satisfactory	Some	Unsuccessful
Project 245	1993	1996	ROMANIA	PRIVATE	E	Marginal	Satisfactory	Some	Unsuccessful
Project 246	2002	2005	POLAND	STATE	L	Marginal	Satisfactory	None/ Negative	Unsuccessful
Project 247	1993	2000	<REGIONAL>	PRIVATE	E	Marginal	Satisfactory	None/ Negative	Unsuccessful
Project 248	1992	1996	POLAND	PRIVATE	L	Marginal	Satisfactory	None/ Negative	Unsuccessful
Project 249	1995	2000	UKRAINE	PRIVATE	E/L	Marginal	Marginal	None/ Negative	Unsuccessful
Project 250	1995	2001	MOLDOVA	STATE	L	Marginal	Unsatisfactory	None/ Negative	Unsuccessful
Project 251	1993	1998	RUSSIAN FEDERATION	PRIVATE	E	Unsatisfactory	Good	Substantial	Unsuccessful
Project 252	1997	2000	RUSSIAN FEDERATION	PRIVATE	E	Unsatisfactory	Good	Some	Unsuccessful
Project 253	1998	2001	POLAND	PRIVATE	E	Unsatisfactory	Satisfactory	Some	Unsuccessful
Project 254	1995	2000	GEORGIA	PRIVATE	E	Unsatisfactory	Satisfactory	Some	Unsuccessful
Project 255	1999	2004	AZERBAIJAN	STATE	L	Unsatisfactory	Satisfactory	None/ Negative	Unsuccessful
Project 256	1997	2002	CZECH REPUBLIC	PRIVATE	E	Unsatisfactory	Satisfactory	None/ Negative	Unsuccessful
Project 257	1996	2002	GEORGIA	PRIVATE	E/L	Unsatisfactory	Marginal	Some	Unsuccessful
Project 258	1995	1999	POLAND	PRIVATE	E	Unsatisfactory	Marginal	Some	Unsuccessful
Project 259	1999	2003	RUSSIAN FEDERATION	PRIVATE	E	Unsatisfactory	Marginal	None/ Negative	Unsuccessful
Project 260	1997	2001	SLOVAK REPUBLIC	PRIVATE	E	Unsatisfactory	Marginal	None/ Negative	Unsuccessful
Project 261	1997	2001	RUSSIAN FEDERATION	PRIVATE	E/L	Unsatisfactory	Marginal	None/ Negative	Unsuccessful
Project 262	1994	2001	SLOVENIA	PRIVATE	E	Unsatisfactory	Unsatisfactory	None/ Negative	Unsuccessful
Project 263	1994	1999	RUSSIAN FEDERATION	PRIVATE	L	Unsatisfactory	Unsatisfactory	None/ Negative	Unsuccessful
Project 264	1997	1999	RUSSIAN FEDERATION	PRIVATE	E	Unsatisfactory	Unsatisfactory	None/ Negative	Unsuccessful
Project 265	1996	1999	RUSSIAN FEDERATION	PRIVATE	E/L	Unsatisfactory	Unsatisfactory	None/ Negative	Unsuccessful
Project 266	1991	1996	CZECH REPUBLIC	PRIVATE	L	Unsatisfactory	Unsatisfactory	None/ Negative	Unsuccessful
Project 267	1996	2001	LATVIA	PRIVATE	E/L	Negative	Satisfactory	Some	Unsuccessful
Project 268	1995	2000	RUSSIAN FEDERATION	PRIVATE	E	Negative	Marginal	None/ Negative	Unsuccessful

[1] E=Equity; L=Loan; G=Guarantee

[2] The range is Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative

[3] The range is Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Highly Unsatisfactory

[4] The range is Outstanding/Substanital/Some/None/Negative

[5] The range is Highly Successful/Successful/Partly Successful/Unsuccessful

1993-2006 Technical Cooperation Operation Performance Evaluation Reviews (OPERs)

No.	Operations	Country	Sector	Industry	TC Funds Amt	Type [1]	OpsCom Approval	Funding Approved	Project Completion Report (PCR) Date	OPER Report Date	Overall Rating[2]
	1993										
1	Privatisation Advisory Programme in the Russian Fed.	Russia	State	Privatisation	5,044	AS	16-Mar-92	May-92	-	Dec-93	Successful
2	Telecommunications Master Plan	Albania	State	Telecoms	198	PP	09-Apr-92	May-92	-	Dec-93	Partly Successful
3	Banking Sector Restructuring	Romania	State	Finance	855	SW/AS	07-Aug-92	Aug-92	-	Jan-94	Successful
4	Railway Sector Survey	Regional	State	Transport	766	SW	17-Feb-92	Mar-92	22-Jun-93	Feb-94	Successful
5	Roads and Road Transport Sector Survey	Regional	State	Transport	409	SW	17-Feb-92	Apr-92	24-Sep-93	Feb-94	Successful
				Subtotal	**7,272**						
	1994										
1	Regional Training Programme	Regional	State	Finance	990	T	02-Dec-91	Jan-92	16-Feb-93	Aug-94	Partly Successful
2	Tallinn Environment Project	Estonia	State	Environment	158	PP	08-May-92	Oct-92	29-Nov-94	Dec-94	Partly Successful
3	Tourism Development for Albania	Albania	State	Tourism	223	AS	09-Apr-92	Apr-92	30-May-94	Jan-95	Partly Successful
				Subtotal	**1,371**						
	1995										
1	Wine Sector Investment Programme	Moldova	State	Agribusiness	440	PP/PI	19-Mar-93	Jun-93	21-Dec-94	Jul-95	Successful
2	SME Sector Development Project Preparation	Belarus	State	SME	174	AS	09-Jul-93	Dec-93	06-May-95	Jan-96	Successful
3	State Railways Restructuring and Rail Modernisation	Bulgaria	State	Transport	583	PP	22-Jun-94	Jul-92	03-Apr-95	Jan-96	Partly Successful
				Subtotal	**1,197**						
	1996										
1	Romanian Banking Institute	Romania	State	Finance	435	T	07-Mar-92	Apr-92	25-May-95	Aug-94	Successful
2	Bulgarian Investment Bank	Bulgaria	Private	Finance	942	AS/PP	30-Apr-93	Jun-93	11-Sep-95	Dec-94	Successful
3	Budapest Wholesale Market	Hungary	State	Agriculture	587	PP	08-May-92	Jul-92	28-Oct-93	Jan-95	Partly Successful
				Subtotal	**1,964**						
	1997										
1	Unified Gas Supply System	Russia	State	Energy	4,500	PP/PI	19-Feb-93	Apr-93	19-Jun-96	Jan-98	Successful
2	INCAR JSC Enterprise Restructuring	Russia	State	Restructuring	612	PP	15-Aug-93	Dec-93	02-Dec-96	Feb-98	Unsuccessful
3	Perm Motors JSC Enterprise Restructuring	Russia	State	Restructuring	862	PP	15-Aug-93	Dec-93	02-Dec-96	Feb-98	Partly Successful
				Subtotal	**5,974**						
	1998										
1	Project Preparation TC MEI Investment Programme	Croatia	State	Environment	179	PP	27-Nov-95	Feb-96	11-May-98	Jan-99	Partly Successful
2	EC Phare/Tacis Framework Contracts for FIs	Regional	Private	Finance	2,951	PP	18-Feb-94	Aug-94	-	Jan-99	Successful
3	Environmental Due Diligence of FIs	Regional	Private	Environment	3,264	PP/AS/PI	14-Mar-94	Aug-94	06-Mar-98	May-99	Successful
4	Privatisation Advisory Programme	Ukraine	State	Privatisation	2,730	PP/AS	03-May-91	Jun-92	28-Feb-95	Sep-98	Partly Successful
5	Aktau Port Rehabilitation	Kazakhstan	State	Transport	2,364	PP/PI/SW	28-May-93	Aug-93	20-Jan-94	Aug-98	Partly Successful
				Subtotal	**11,489**						
	1999										
1	Mining Privatisation	Kazakhstan	State	Mining	406	PP/AS	20-May-94	May-94	18-Mar-96	Oct-99	Partly Successful
2	Municipal Utility Development and Investment Programme	Ukraine	State	Environment	1,042	PP	22-Mar-96	Jun-96	16-Mar-98	Jan-00	Successful/ Unsuccessful
3	Telecom Legislative and Regulatory Development	Lithuania	State	Telecom	289	AS	02-Feb-96	Nov-96	05-Jan-00	Jan-00	Successful
4	Swiss American Micro Enterprise Programme	Moldova	Private	SME	1,078	PP	03-May-96	Aug-96	16-Jul-99	Jan-00	Partly Successful
				Subtotal	**2,815**						

1993-2006 Technical Cooperation Operation Performance Evaluation Reviews (OPERs)

	2000										
1	Railways Modernisation	Russia	State	Transport	844	PP/AS	01-Jun-93	Aug-93	19-Apr-96	Jul-00	Partly Successful
2	Credit Worthiness of the City of Zagreb	Croatia	State	Environment	184	PP	17-Oct-97	Jan-98	23-Mar-99	Jan-01	Successful
3	SME Credit Line I and II	Kyrgyz Republic	Private	SME	2,233	PP/AS/PI	04-Jun-93	Nov-93	01-Jun-95	Jan-01	Successful
4	Power Market Twinning Programme	Ukraine	State	Energy	1,297	PP/AS/PI	08-Mar-96	Mar-97	22-Feb-00	Jan-01	Unsuccessful
				Subtotal	**4,557**						
	2001										
1	Telecommunications Emergency Reconstruction Project	Bosnia and Herz.	State	Telecoms	1,870	AS/PI	03-Oct-97	Dec-97	22-Feb-00	Jul-01	Highly Successful
2	Mutnovsky Independent Power Plant	Russia	State	Energy	1,319	PP/AS/PI	07-May-93	May-93	16-Sep-94	Dec-01	Partly Successful
3	Road Rehabilitation and Upgrading	Azerbaijan	State	Transport	755	PP	19-Apr-96	May-96	03-Aug-99	Dec-01	Unsuccessful
4	Creditworthiness Assessment of City of Wroclaw	Poland	State	Energy	481	AS/PI	25-Jul-97	Aug-98	-	Jan-02	Successful
				Subtotal	**4,425**						
	2002										
1	Turkmenbashi Port Development Project	Turkmenistan	State	Transport	2,895	AS/PI	19-Sep-95	07-Jul-95	16-Jul-99	Jun-02	Successful
2	Enterprise Investment Demonstration Project	Kyrgyz Republic	Private	Finance	1,405	PP/PI	16-May-97	19-Jun-97	22-Feb-02	Aug-02	Unsuccessful
3	Enguri Rehabilitation Project	Georgia	State	Energy	453	PP/PI	04-Aug-95	18-Aug-95	17-Jun-97	Nov-02	Partly Successful
4	Emergency Electricity Power Reconstruction Project	Bosnia and Herz.	State	Energy	2,150	AS/PP/PI/T	19-Jan-96	01-Jul-96	22-Feb-00	Mar-03	Highly/Partly Successful
5	Tajikistan Overlay Network	Tajikistan	State	Telecoms	457	AS/PP	06-Oct-95	21-Dec-95	21-Feb-97	Mar-03	Partly Successful
6	Energy Efficiency TC Studies	Russia	State	Energy	779	PP	07-Mar-97	01-Apr-97	05-Jun-02	Feb-03	Unsuccessful
				Subtotal	**8,139**						
	2003										
1	Inst. Dev. & Mgt. of Baku Port	Azerbaijan	State	Transport	991	PI	01-May-98	24-Jul-98	23-Sep-02	Apr-03	Successful
2	Norsi Oil Refinery	Russia	Private	Oil & Gas	1,165	PP	25-Jul-97	07-Aug-97	05-Jun-02	Aug-03	Partly Successful
3	Env. Support to Budapest Bank Credit Line	Hungary	Private	Finance	281	PP/PI	07-Jun-96	13-Feb-97	05-Jun-02	Dec-03	Partly Successful
4	Technical Assistance to Uzbekneftegas	Uzbekistan	State	Oil & Gas	1,443	PP/AS	03-Mar-95	01-Apr-95	05-Jun-02	Oct-03	Partly Successful
5	Scoping Study for Railway Restructuring Project	Bosnia & Herz.	State	Transport	199	PP	04-Apr-00	30-Jun-00	05-Jun-02	Mar-04	Successful
6	Azeri Multi Bank Framework Financing Facility	Azerbaijan	Private	Finance	3,227	PP/PI/AS/T	12-Jul-96	19-Aug-96	13-Nov-02	Feb-04	Partly Successful
				Subtotal	**7,306**						
	2004										
1	Gostomel Glass Factory	Ukraine	Private	Manufacturing	172	PP	30-May-01	07-Aug-01	13-Aug-03	Jul-04	Successful
2	Air Navigation System Modernisation	Tajikistan	State	Transport	500	PI	31-Oct-01	29-Oct-02	17-Sep-04	Aug-04	Successful
3	KTZ Kazakh Rail TC	Kazakhstan	State	Transport	976	PP/AS	28-Feb-97	14-Mar-97	20-Jan-04	Jan-05	Successful
4	Romanian Ports Commercial Enhancement Prog.	Romania	State	Transport	320	PP	13-Feb-98	26-Aug-09	05-Jun-02	Jan-05	Partly Successful
5	BGZ Pre-Privatisation	Poland	State	Finance	4,161	PP	27-Feb-98	07-Apr-98	28-Jan-04	Feb-05	Successful
6	Bydgoszcz Water Supply	Poland	State	Municipal	779	PP/PI	08-Mar-96	16-Jun-00	05-Jun-02	Apr-05	Successful
				Subtotal	**6,908**						
	2005										
1	Sakhalinmorneftegaz	Russia	State	Mining	317	PI	13-Jun-01	25-Sep-01	07-Dec-01	Apr-06	Partly Successful
2/3	The Mongolian Cooperation Fund[2]	Mongolia	Private	Various	6,865	PP/PI/AS/T	30-May-01	14-Jun-01	26-Aug-03	Oct-05	Successful
4	Privatisation of Electricity Distribution Companies	Bulgaria	State	Energy	984	AS	06-Feb-02	07-May-02	26-Jul-05	Apr-06	Highly Successful
5	Sofia District Heating Rehabilitation	Bulgaria	State	Energy	1,552	PI	20-Jul-99	22-Nov-01	10-Feb-04	Feb-06	Successful
6	Private Sector Road Network Management	Poland	Private	Transport	1,262	PP/AS	23-Nov-99	12-Jun-00	06-Feb-03	Jan-06	Unsuccessful
				Subtotal	**10,979**						
	2006										
1	SME/MSE Lines of Credit Belarus	Belarus	Private	SME	726	PI	09-May-00	29-Jun-00	30-Jan-03	Apr-07	Successful
2	Road Sector Reform	Russia	State	Transport	1,412	PP/SW	28-Nov-01	08-Jan-02	17-Oct-02	Jan-07	Successful
3	Warsaw Metro & PPP Task Force Support	Poland	State	Municipal	1,486	PP	29-May-02	18-Dec-02	14-Mar-05	Jun-06	Partly Successful
4	Belgrade Municipal Infrastructure Reconstruction	Serbia	State	Municipal	668	PP/PI	24-Jul-98	30-May-01	05-Jun-02	May-07	Successful
5	Municipal Environmental Loan Facility	Romania	State	Municipal	800	PI	17-Dec-03	05-Feb-04	NA	May-07	Successful
6	Microfinance Bank of Azerbaijan	Azerbaijan	Private	SME	3,437	PP/PI	04-Jun-01	18-Dec-01	01-Sep-03	May-07	Successful
				Subtotal	**8,529**						

Note: The totals may not add up to the sum of the component parts due to rounding.

[1] AS=Advisory Services; PP=Project Preparation; SW=Sector Work; T=Training; PI=Project Implementatio

[2] Counts as two OPERs for workprogramme delivery

1993-2006 Special Studies and Evaluation Progress Reviews

	Operation	Country	Sector	Industry	EBRD Finance	TC Funds Amt	Type [1]	Board Approval	Report Date	Report Type
	1994									
1	Russia Small Business Fund I	Russia	Private	SME	1,899	2,851	Line of Credit/TC	26-Jul-93	Jul-94	Special Study/Mid-Term Review
				Sub-Total	**1,899**	**2,851**				
	1995									
1	Russia Small Business Fund II	Russia	Private	SME	14,842	5,355	Line of Credit/TC	26-Jul-93	Mar-95	Special Study/Mid-Term Review
2	Regional Bank Training Centre	C.Asia	State	Finance	n.a.	1,704	TC	10-Nov-92	Oct-95	Mid-Term Review
3	Agribusiness Project Preparation Units	Regional	State	Agribusiness	n.a.	4,590	TC	18-May-92	Sep-95	Special Study
4	Project Preparation TCs	Regional	State	Various	n.a.	8,349	TC	n.a.	Dec-95	Special Study
5	Belarus SME Credit Line	Belarus	Private	Finance	22,783	1,420	Loan/TC	01-Nov-94	Jan-96	Mid-Term Review
				Sub-Total	**37,625**	**21,417**				
	1996									
1	SME Credit Line Project	Ukraine	Private	Finance	92,030	-	Loan	29-Nov-94	Dec-96	Special Study/Mid-Term Review
2	Wholesale Market Special Study	Hungary	State	Agriculture	46,553	3,455	Loan/TC	n.a.	Jan-97	Special Study
3	Regional Bank Training Centre TC	Uzbekistan	State	Finance	n.a.	1,704	TC	10-May-92	Sep-96	Evaluation Progress Review
				Sub-Total	**138,583**	**5,159**				
	1997									
1	Kyrgyzstan SME Credit Line	Kyrgyz Rep	Private	Finance	7,974	1,888	Line of Credit/TC	11-Nov-94	May-97	Mid-Term Review
2	Russia Small Business Fund III	Russia	Private	SME	277,677	32,707	Line of Credit/TC	26-Jul-93	Jul-97	Special Study/Mid-Term Review
3/4	Regional Venture Funds	Russia	State	SME	113,487	20,814	Equity/TC	n.a.	Aug-97	Special Study
5	Business Advisory Service	Baltics	Private	Finance	n.a.	4,196	TC	n.a.	Sep-97	Mid-Term Review
6	TAM Programme	Regional	Private	Priv/Restr	n.a.	11,417	TC	n.a.	Feb-98	Special Study
7	Financial Institutions Development Project	Russia	Private	Finance	32,297	-	Loan	23-May-94	Jan-98	Mid-Term Review
				Subtotal	**431,435**	**71,022**				
	1998									
1	Sample of PCR Reviews and Assessments	Various	Private/State	Various	n.a.	7,377	TC	Various	Jan-99	Special Study
2	Regional Bank Training Centre TC	Uzbekistan	State	Finance	n.a.	1,704	TC	10-May-92	Sep-96	Evaluation Progress Review
				Subtotal	**0**	**9,081**				
	1999									
1	Sample of PCR Reviews and Assessments	Various	Private/State	Various	n.a.	9,445	TC	Various	May-00	Special Study
2	Thematic Study on SME Support	Various	Private	SME	n.a.	n.a.	n.a.	n.a.	Jun-00	Special Study
3	Nuclear Safety Account	Various	n.a.	Energy	n.a.	n.a.	n.a.	n.a.	Nov-00	Special Study
4	Technical Cooperation Funds Programme	Various	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	Jul-00	Special Study
				Subtotal	**n.a.**	**9,445**				
	2000									
1	Sample of PCR Reviews and Assessments	Various	Private/State	Various	n.a.	11,941	TC	Various	Jan-01	Special Study
2	Post-Privatisation Funds	Various	Private	n.a.	137,067	18,871	Equity /TC	n.a.	n.a.	Special Study
3	Evaluation of Environmental Performance	Various	n.a.	Environment	n.a.	n.a.	n.a.	n.a.	n.a.	Special Study
4	Scope Paper on Country Strategy Evaluation	Kazakhstan	n.a.	n.a.	n.a.	n.a.	n.a.	04-Oct-00	n.a.	Scope for Special Study
				Subtotal	**137,067**	**30,812**				

1993-2006 Special Studies and Evaluation Progress Reviews

	2001									
1	Sample of PCR Assessments	Various	Private/State	Various	n.a.	7,023	TC	Various	Jan-02	Special Study
2	Direct Investment Facility	Various	SME	Various	34,413	3,029	Equity	24-Feb-98	Nov-01	Mid-Term Review
3	Legal Transition Programme	Various	n.a.	Various	n.a.	11,667	n.a.	n.a.	Oct-01	Mid-Term Review
4	Financial Institutions Development Programme	Russia	Private	Finance	32,297	1,140	Loan	23-May-94	Aug-02	Special Study
5	Energy Efficiency of the Bank's Operations	Various	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	Feb-02	Special Study
				Subtotal	**66,710**	**22,861**				
	2002									
1	Sample of PCR Reviews and Assessments	Various	Private/State	Various	n.a.	15,227	TC	Various	Feb-03	Special Study
2	Regional Trade Facilitation Programme	Various	Private	Various	300,000	519	Guarantee/Loan/TC	13-Dec-94	Mar-03	Special Study
3	Russia Small Business Fund IV	Russia	Private	SME	294,418	38,492	Line of Credit/TC	26-Jul-93	Apr-03	Mid-Term Review
4	EBRD's Investments in Equity Funds	Various	Private	SME	1,500,000	n.a.	Equity Funds	Various	Oct-02	Mid-Term Review
				Subtotal	**2,094,418**	**54,237**				
	2003									
1	Sample of PCR Assessments	Various	Private/State	Various	n.a.	5,458	TC	Various	Mar-04	Special Study
2	TurnAround Management Programme	Regional	Private/State	Various	n.a.	4,458	TC	Various	Apr-04	Special Study
3	Extractive Industries	Regional	Private/State	Various	n.a.	n.a.	Equity/Loan	Various	May-04	Special Study
4	Country Strategy Evaluation	Slovak Rep.	Private/State	Various	n.a.	n.a.	Equity/Loan/TC	n.a.	Mar-04	Country Strategy Evaluation
5	Microfinance Institutions	Various	Private	SME	21,019	11,355	Equity/Loan/TC	n.a.	Sep-04	Country Strategy Evaluation
				Subtotal	**21,019**	**21,271**				
	2004									
1	Sample of PCR Assessments	Various	Private/State	Various	n.a.	6,586	TC	Various	May-05	Special Study
2	MSME Delivery Mechanisms	Regional	Private	SME	n.a.	n.a.	Equity/Loan/TC	Various	Jan-05	Special Study
3	Grain Receipts Programme	Regional	Private	Agribusiness	347,277	953	Loan/TC	Various	Nov-04	Special Study
4	Power & Energy Sector Strategy Review	Regional	Private/State	Various	n.a.	n.a.	Equity/Loan/TC	n.a.	Mar-05	Sector Strategy Evaluation
5	Country Strategy Evaluation	Croatia	Private/State	Various	n.a.	n.a.	Equity/Loan/TC	Various	Mar-05	Country Strategy Evaluation
6	Country Strategy Evaluation	Azerbaijan	Private/State	Various	n.a.	n.a.	Equity/Loan/TC	n.a.	Apr-05	Country Strategy Evaluation
				Subtotal	**347,277**	**7,539**				
	2005									
1	Sample of PCR Assessments	Various	Private/State	Various	n.a.	5,977	TC	Various	May-06	Special Study
2	Telecommunications Sector Strategy Review	Regional	Private/State	Telecoms	n.a.	n.a.	Equity/Loan/TC	n.a.	May-06	Sector Strategy Evaluation
3	Property & Tourism Sector Strategy Review	Regional	Private/State	Property &	n.a.	n.a.	Loan/TC	n.a.	May-06	Sector Strategy Evaluation
4	DIF Programme	Regional	Private/State	Finance	68,825	1,153	Equity/Loan/TC	24-Feb-98	Apr-06	Special Study
5	Conditionality and Waivers	Croatia	Private/State	n.a.	n.a.	n.a.	Equity/Loan/TC	n.a.	Nov-05	Country Strategy Evaluation
6	Application of Environmental Guidelines in FI Projects	Azerbaijan	Private/State	Finance/Environ	n.a.	n.a.	Equity/Loan/TC	n.a.	May-06	Country Strategy Evaluation
7	Regional Venture Funds	Russia	Private	Finance	266,464	84,011	Equity/TC	Various	Apr-06	Special Study
				Subtotal	**68,825**	**91,142**				
	2006									
1	Sample of PCR Assessments	Various	Private/State	Various	n.a.	2,247	TC	Various	May-07	Special Study
2	Post-Privatisation Funds	Regional	Private	Finance	137,067	26,318	Equity/TC	n.a.	Mar-07	Special Study
3	Business Advisory Services	Regional	Private	Finance	n.a.	34,632	TC	n.a.	Apr-07	Special Study
4	Financial Sector Strategy Review	Regional	Private/State	Finance	n.a.	n.a.	Equity/Loan/TC	n.a.	May-07	Sector Strategy Evaluation
5	Danube River Basin	Regional	Private/State	Environment	n.a.	n.a.	Equity/Loan/TC	n.a.	May-07	Special Study
				Subtotal	**0**	**63,196**				

Note: The totals may not add up to the sum of the component parts due to rounding.

[1] TC=Technical Cooperation

SELECTED LESSONS LEARNED FROM INVESTMENT OPERATIONS EVALUATED IN 2006

A. TRANSITION IMPACT

1. Project Selection

The Bank should only become involved in participation financing structures when it is satisfied that the deal structure is adequate to safeguard the Bank's mandate goals. In the event that a project is documented using non-EBRD standard forms of legal agreements, the Bank should ensure that the legal documentation includes provision for the furnishing of information to the Bank for the purpose of monitoring environmental performance and transition impact. The Bank should only take part in a participation financing if all participants assent to the Bank's requirements with regard to the furnishing of such information. If this is not acceptable to other participants, the Bank should consider restricting itself to direct financing of the client.

The importance of consolidation in selected sectors. In sectors, such as the financial sector, where consolidation is desirable, but is constrained by underdeveloped market conditions or complex regulatory requirements, the Bank may be in a strong position to support the process of consolidation. In transition economies private owners are frequently reluctant to consider sharing ownership and control even when the economic case for merger is strong. In the present case, the Bank pursued the opportunity to stimulate enterprise consolidation with an excellent outcome, thereby enhancing economic value and promoting financial sector transition.

EBRD's success depends on successful reform programmes by the countries of operations. It is important to acknowledge the primacy of sound, country-led reform programmes to the ability of EBRD to carry out its mission. In order for the EBRD to be able to "assist the recipient member countries to implement structural and sectoral economic reforms," the country must take the appropriate concrete steps in the transition process. This may seem obvious, but many countries of operations have not taken the concrete steps in sectoral reform that would allow EBRD to successfully assist the transition process through project finance. In such cases, otherwise promising EBRD projects may have limited transition impact because of the lack of adequate sector reforms, which only the country authorities can undertake.

2. Project design

Engaging NGOs in innovative community based programmes. Moving from general critical comments by NGOs to engaging them in innovative community based programmes is a challenging task. Some healthy competition for funding contributions by the sponsor may be constructive to identify NGOs who wish to improve community benefits with well thought out sustainable development programmes.

A carefully designed institution building plan can enhance investment returns for the Bank as well as promoting transition goals. In the present case, the client's undertaking to implement the agreed institution building plan was secured in key agreements between the Bank and the client. Successful implementation of the plan has contributed significantly to the client's commercial success and increase in value in addition to the achievement of transition goals at corporate and industry level.

Transition momentum needs to be maintained when designing a follow-on investment. In repeat financing when a different financing mode is applied, the project design and structure should build on the state of progress or, if not, the unfulfilled covenants and the Bank's mandate-related conditionality should be maintained.

3. Role of the Sponsor

It is important for the Bank to identify and prioritise clearly its objective when co-investing with foreign sponsors. In terms of Transition Impact**,** a foreign sponsor would typically be expected to contribute to skills transfer, increased competition, market expansion and in-roads in corporate governance. This may be successfully achieved independently from controlling the share capital of the investee company. In this case, the transfer of ownership did not materialise essentially because local shareholders formed, over time, a different opinion as to the suitability of such a transfer. One of the Bank's Objectives was therefore not met. It is very difficult to anticipate whether an eventual majority control by a strategic foreign investor will remain as critical to deliver transition impact over time, as it appears to be when the investment is first considered. In setting its investment objectives, the Bank should have a higher level of expectation to achieve specific Transition Impact targets than to second guess local shareholders position after several years of operation.

Training programmes are important ingredients in creating an increasingly local workforce. Citizens of the Kyrgyz Republic represent 94% of the total workforce of 1737 employees as of the end of 2005, and this high proportion demonstrates the successful adaptation of the Kyrgyz citizens to employment opportunities and to the training programmes instituted by the sponsor and continued by the company. The benefits of drawing a high proportion of the workforce from within the Kyrgyz Republic have included very good operating cost performance, in a unique and challenging location.

Positive influence of venture capital partner on investee company. The board presence of the venture capital partner can increase management efficiency and facilitate implementation of Western business practices. In this case, the independent directors were accepted as equal partners bringing in a balancing effect on the strategic decision making. They contributed to the implementation of proper monitoring and steering processes that contributed to an improved perception and valuation of the company.

The importance of regular interaction between venture capital investor and investee company. Intensive and regular interaction at all levels between the venture capital investor and the investee company is crucial for a successful outcome. In this case the venture fund manager was committed to supporting change in the business culture of the investee company and set up regular communications at different levels: Board, Finance Department etc. Initially Board Meetings took place once per month then every two months thereafter. More regular meetings took place with the financial analysts. Through this intensive interaction at different levels from the outset, the venture fund management was part of the team that influenced and changed the business culture. It was also easier to identify issues early on and to contribute to solutions.

B. ENVIRONMENT

At appraisal the Bank should assess the environmental performance and liabilities of company and sponsor as a whole. This is especially important where other aspects of company or sponsor operations beyond the immediate activities benefiting from Bank financing involve activities that are environmentally sensitive. Staff of the Bank's Environment Department and/or expert consultants should pay on-site visits to client and sponsor operations as appropriate at an early stage in project appraisal in order to make a preliminary assessment of likely environmental and social impacts.

The Bank must consider the potential for exposure to environmental liabilities regardless of the 'use of proceeds'. Refinancing and working capital finance related to environmentally sensitive activities may expose the Bank to risks associated with these activities. Therefore, in assessing environmental vulnerability and in determining environmental screening category, the Bank should look beyond the immediate use of proceeds to the underlying business activities of the client.

The Bank should take a proactive approach in requiring sponsors to practise public disclosure and consultation. As well as initial consultations, sponsors should be encouraged to adopt a programme of regular discussions with local communities, environmental and other interested groups, where appropriate. The environmental action plan could include an outline of ongoing consultation procedures to be following by the sponsor.

Proper consideration of conditionality for future acquisition approvals during the structuring of the operation. In the structuring of Bank operations which contain various future acquisitions to be financed with EBRD funding and which require future approvals from the Bank it is important to pre-agree with the client from the outset the environmental information and standards to be applied. This would facilitate later approval and monitoring of acquisitions.

Ensure adequate funds are allocated to implement the EAP. If funds are allocated for environmental investments it is more likely that they will be implemented. The EBRD should seek to obtain cost estimates for each proposed action under the investment plan. Based on these cost estimates, a financing plan should also be prepared and perhaps included in the loan agreement or, as in this case, as part of the acquisition costs.

For track maintenance and rehabilitation projects the existence of an asbestos problem, and mitigating measures, need specific attention. Infrastructure rehabilitation projects are often perceived as environmentally less sensitive, since they mostly entail replacement of "old" by "new" components. Or, if environmental damage exists, it has occurred "before" (e.g. tracks passing through sensitive wildlife areas), and the rehabilitation work cannot change this retrospectively. But, the danger of asbestosis is a railway-specific subject that should be mandatory addressed during environment due diligence at appraisal.

Completion of partly built projects should have the same attention as Greenfield projects: Had the Bank carried out A-level environmental due diligence on this Project and thus covered additional aspects, the case could arguably be made that a better, more all-inclusive and larger-scale project management framework may have resulted, which in the long term may have lowered overall costs to the citizens of the City.

C. SOUND BANKING

1. Appraisal and due diligence

Bankers should be aware of a higher probability of prepayment of working capital facilities where the Bank's additionality is primarily based on assumption of political risk. Sponsors of acceptable creditworthiness will easily substitute commercial banks for the EBRD to provide funding on the strength of their own balance sheet while, should the country risk improve, it either becomes more acceptable for the Sponsor to assume it or cheaper to insure commercially than through the Bank's lending. This should be taken into consideration in the investment profitability projections which should not go beyond a few years.

Projections by industry consultants are only one input and should not replace the need for conservative structuring of transactions. This particular project in the tourism sector illustrates that forecasts especially in the hotel industry are difficult and may be overturned by a variety of events. In no case should positive forecasts reduce the need for conservative structuring involving

adequate additional claw backs to main sponsors in times of significant deterioration of trading environment.

The importance of branded products for company growth in the highly competitive cosmetics products sector. Branded products are essential for expanding market share in the fast growing Russian consumer market. International brand names have aggressively entered and defined new standards. In this case, the Company's strategy to give priority to branded products turned out to be the key to success. Globally the consumer market has moved to local and global brand names. Local producers that cannot invest heavily into branded products are at risk to lose market share especially when the global brands start building up distribution systems supported by advertising campaigns. The introduction of branded products was supported by concentrating on combined measures from the plant modernisation programme, continuing quality improvements and extension of the product range. The modernisation programme increased productivity and operating efficiency and reduced manufacturing personnel by 20%. New packaging machines also facilitated the adoption of international standards for presentation and packaging.

Prerequisites for a successful IPO of a local consumer products company. Prerequisites for a successful IPO include a highly motivated management which strives for product innovation and positive sales growth in the main markets, sound financial performance, adoption of international accounting standards and corporate transparency. In this operation the Company's approach from the outset was focused on a successful IPO in 3-5 years time. This meant giving high importance to all crucial ingredients, international accounts, modern management systems, improved sales and market share with mainly branded products. The successful IPO confirmed the validity of this approach.

Careful benefit estimates are imperative when the economic and financial viability of large-scale investment operations rests on critical impacts that are difficult to predict and verify. If the case made for a sizeable investment with a large share of sophisticated and particularly expensive components is not convincing on economic and financial grounds, doubts might be cast on the rationale and the objectives of the Project. Therefore, the Bank should ensure due diligence in the assessment of the impacts that are crucial for the justification of large-scale investment programmes, notably in the case when vast sums are spent on elaborate equipment.

Identifying success factors to underpin effective development of financial institutions. The present case illustrates a number of factors whose presence may promote the successful outcome of Bank investments in financial institutions. Among them are:

- Willingness of owners to appoint professional managers and to separate ownership from management.
- Acceptance of strict limits to related party transactions which in any event must be conducted on an arm's length commercial basis.
- Willingness to accept IFIs as shareholders with a blocking minority stake.

2. Design and Structuring

It is important to strike a proper balance between maximum risk mitigation for the Bank and client's political risk protection. Too strictly defined conditionalities for the release of a sponsor guarantee after materialisation of "specific events" under carve-out provisions may lead to an ineffective or partly effective protection from the client standpoint. This will, in turn, prompt the client to seek alternative cover for its risk as soon as it becomes commercially available.

When the economics of a project financing rests on its Sponsor's undertakings post completion, the obligation to complete must be unconditional. In this case, the Bank was understandably not willing to take the commercial risk in a commodity based project which was

tailored to the needs of the sponsor, even though a degree of operating risk may have been acceptable post completion. The Bank must be able to rely on completion taking place so that the more significant commitments of the Sponsor can be activated. With a cap set on non completion, the Sponsor could easily arbitrage between the cost of its technical and commercial obligations at a time when the latter became unsustainable.

Inter creditor agreements must be as protective as possible of the Bank's rights when it is a majority lender in a parallel loans situation. It is particularly important to avoid giving lenders individual rights to accelerate their own loans; such a decision should in turn be subject to a majority vote based on every lender's outstanding claim. The same should apply to decisions regarding the enforcement of securities.

Support undertakings by key sponsors in greenfield projects need to address working capital needs in early operating years especially in projects without long term off take agreements. Even well known sponsors should be required to provide reasonable support undertakings for cash flow short falls in early operating years. This is particularly important when the main sponsor is a construction company. In cases where the Bank is in a sub-debt provider, it is crucial to structure from the outset the mechanism for additional capital injections in case of lower than expected cash flows and to define criteria for a possible conversion of the sub-debt into equity.

A 50/50 joint venture increases the risk of management deadlock detrimental to a project. In this case, the bank acted with tact and diplomacy which may have been helped by the increasingly favourable economics of the project which created a strong incentive to find a solution. This was obtained by elevating controversial issues at shareholders level, thereby by-passing local susceptibilities. It also required sweeping management changes to give the new agreement a chance to work satisfactorily.

The negative impact of prepayment of a project loan may be alleviated through proper pricing. The profitability of an investment is analysed on the basis of its IRR through discounting net cash flows. In addition to the collection of a prepayment penalty fee, the loss of higher margins on reducing principal amounts at the tail end of the facility's life are easily compensated by fees received up front and calculated on the full amount of the facility. The Bank should always seek to maximise up front fees collection particularly in situations where fluctuating commodity prices are an unpredictable possible cause for prepayment.

Apart from financing considerations, the assigning of project components to project parties, and their eventual subsequent reallocations, needs to consider each party's comparative advantage in terms of delivery strength. In many instances the criticality of foreign exchange resources and their funding sources, determine the distribution of project components among lender and borrower/project implementing agent. There are other considerations as well, such as delivery strength, particularly in the context of socio-politically controversial components. It could be argued that in this project, the Bank should have maintained the original allocation of components and possibly have resisted that the staff retrenchment component be transferred to the Borrower in lieu of a widened scope of machinery and equipment (foreign exchange) financing. Thus, a more poignant and effective approach towards staff retrenchment would have been possible.

Performance criteria should be part of the required completion tests of any major environmental infrastructure project: When undertaking an environmental infrastructure project, completion should be based on both physical and performance criteria.

Project restructuring must take a holistic, overall project perspective and not be confined mainly to financial and credit considerations. Projects normally have a variety of dimensions, including financial, technical, environmental and managerial aspects that all need to be properly (re-considered during restructuring). Failing to do so can jeopardise the overall project's viability.

By failing to go beyond financial matters, the Bank missed a key opportunity to further advance its environmental (e.g. sludge disposal and phosphorus reduction) and transition impact (private sector operation) objectives.

Advantages of Integrated approach with a single project scope for Co-financing in infrastructure projects. The integrated approach, which considers all the components regardless of financiers in a single project scope, appears to be more sound and effective for implementation and monitoring. In addition, it helps to ensure the quality of the project. Discrepancy of defined project scope among co-financing parties needs to be reconciled as it would make monitoring and evaluation rather difficult.

3. Monitoring

Importance of flexibility in the use of loan proceeds. Changes in the utilisation of loan proceeds may be in the interest of borrower and lender. In this case, obtaining an early change of utilisation of proceeds allowed the Company to step up plant modernisation measures in order to increase the range of brand production for immediate market penetration which was important in the positioning against the pressures from multinationals entering the domestic market. This timely and successful step increased internal cash generation which then was used for the acquisition of a German cosmetics company which added further international experience, brand products and access to interesting markets.

Capturing information about significant changes in business interests where the Bank client is a key business of an entrepreneur. Prominent shareholders or senior managers of companies in which the Bank has invested may take opportunities to invest personal funds in ventures that, as a consequence, become related to the client company. Even in the absence of business transactions between such entities, there is potential for increased credit and reputational risks to the Bank arising from new related party connections. To enable the Bank to assess the possible impact of such risks, operation teams should seek to obtain details of material changes in the business interests of persons in positions of influence in a Bank client to be reported to Credit annually or semi-annually as part of the regular monitoring process.

D. EBRD-RELATED LESSONS

1. Due diligence and appraisal

Supporting a domestic producer without strategic industry partner requires more Bank staff time. The support of a fast growing domestic group is more time consuming as a local company may need to create centralised holding functions that multinationals have already developed and tested. This process requires substantial financial, organisational and management resources and the Bank needs to take a more active support role.

Appraisal realism needs more attention. Projects with high Development Impact but low Transition Impact (TI) credentials should not be ‘over-sold’ on TI grounds in order to attract EBRD approval. Projects with lower TI potential may well deserve appreciation through over-compensating elements, such as environmental benefits, delivery expediency in a critical situation, etc.

2. Monitoring

The banking team must refer any significant contemplated CAPEX affecting EH&S to ED. This is important as the creation of potential new hazards could be regarded as a material change in the project. ED would need to opine on the level of approval required as well as on the process to be followed such as the requirement for public consultation or an EIA. Even if the financial impact on the project profitability is positive and credit considerations are of little concern, such projected investments must be scrutinised by ED.

Pragmatic handling or pre-disbursement waivers. It is not easy doing business in the Bank's countries of operations and bankers must take calculated risks. In the face of asymmetric information and implementation risks from internal disclosure, pragmatic decisions can preserve transition impact potential and help to strengthen nascent business relationships with strong partners.

Board approval does not exonerate the banking team from revisiting the underlying credit strength of a project until disbursement. In sensitive commodity price driven projects, when the Sponsor is unlikely to weather a long period of market downturn it is important to re-evaluate the impact of market changes on a project prior to signing. This may justify demands for better protection from the Sponsor. Also, the Bank should be satisfied that no major adverse changes have occurred before initial disbursement since it could otherwise object to disbursing or make it subject it to improved credit protection.

Where consultant performance deficiencies start giving raise to concerns, early contract termination should be seriously considered. Consultant performance needs close monitoring and early signs of deficiencies need to be met with decisive action. Where timely warnings fail to impact, early termination of the contract, penalty payments, and "blacklisting" of the consultant should be considered.

E. RELATIONS WITH AUTHORITIES AND REGULATORS

Difficulty in reassuring tariff increases in a political context. Confronting voter's preference, even a well-thought through contractual framework could have a limited enforceability for increasing user charges. The municipality and a water company, when committing to the water infrastructure project, should be encouraged to promote and raise public awareness of the need for water investments to support the necessary tariff increases.

The Bank should not overstretch the leverage of sovereign guarantees to prescribe broad sector and policy reforms. The Bank's focus should be on commercial lending to private sector projects with intrinsic transition impacts. The decision to resort to sovereign guarantees should be based on a sound assessment of project benefits and credit risks, but not be driven by the security needs of co-financiers or by the desire to covenant far-reaching policy changes. When recourse is made to sovereign guarantees on the basis of sound banking principles, there is no need to vindicate the lending operation or the co-financing arrangement through sovereign commitments to bold policy changes.

Structuring of conditionality in loans to a state owned company may not only need actual Management support but also higher Governmental consensus. The structuring of conditionality in a highly visible Government owned company may need to consider the higher level Government objectives. Supporting a reform minded Management is desirable but may also be risky in case of Management changes, which may lead to a reduction of the effectiveness of the conditionality due to new Company policies and objectives.

Early identification of potential security issues in state owned companies. State owned companies may be subject to specific negative pledge conditions imposed by the World Bank or IMF. This requires substantial due diligence and possibly obtaining written clarifications from the relevant IFI so that eventual bottlenecks can be avoided early on.

SELECTED LESSONS LEARNED FROM TECHNICAL COOPERATION OPERATIONS EVALUATED IN 2006

A TC Preparation and Design

Carry the policy dialogue ahead of the project. In difficult business environments, it appears more effective to front load the technical assistance for the policy dialogue before starting an operation, in addition to developing it while the operation is being implemented.

Fully involve the client in the formulation of the TC programme. The thorough discussion of and agreement on the key-components between Bank and Client shall take place before the design of the TC operation. This is to make sure that all the key dimensions of the sector reform are included, thus greatly facilitating ownership at implementation and creating a solid ground for transition impact to occur.

Avoid conflicts of interests for involved partners in project institutions. Any fundamental issue seeded at the project formulation stage – i.e. an insufficient distinction between the selection of managers and the selection of service providers - is prone to appear in adverse situations during the implementation. Such a difference must be thoroughly explained and anchored in project design and related contracts.

Long-term view of deep pocket donors is crucial for sustainability of a newly established institution. When establishing an IFI-led brand new institution, the IFI shareholders should take sufficient contingent events into account. Underestimated scale of assistance would not only create an administrative burden but also an uncertainty of funding, which would jeopardise the transition achievement made for years.

Upfront defining of the graduation, timing and conditions. As TC funds are limited, project stakeholders need to plan proactively and carefully the step-by-step TC graduation process. The target milestone for this process, such as the degree of localisation and self-sufficiency / sustainability or similar, should be set up and agreed upon by the IFI shareholders at the beginning.

B TC Administration and Resource Management

The state of TC files still requires urgent management attention. The poor state of TC files is a recurrent theme highlighted by EvD and needs decisive attention by individual team managements as well as centrally, by the management of Banking Department. Until the new computer-based system *TCLink* is established, OLs are advised to maintain an electronic 'Master File' of their own including the most important documents of a TC project for easy access

Change of Operation Leadership continues to be an issue. Changes of Operation Leader are not infrequent and tend to jeopardise the continuity of the project, partly due to the absence of formal hand-over procedures. Management needs to develop more awareness of the potentially detrimental effects of staff reallocations and install appropriate procedures to prevent the Bank's institutional memory being lost.

Addressing Transition Impact potential in TC operations has improved but requires further attention. Although transition impact has become a mandatory design element of TC operations, it appears that the "facilitating" role which TC operations used to play in the Bank's operations is still predominant among a number of OLs. OCE now comments on the transition impact of those TCs that are considered by TC Com, but smaller TCs avoid this process. There is a lack of clear understanding among some OLs of the distinction between TI created directly by the TC, and its

role in facilitating TI arising from the related investment operation. More guidance is needed in this area.

OLs need additional guidance on TC management especially on the definition and assessment of operational objectives, the rating of project success, the design of TC Transition Impact as well as methods for ensuring Donor Visibility. Existing ad-hoc training for OLs - e.g. the guidance on how to design Terms of Reference that is provided by CSU - is to be supplemented by more consistent and mandatory measures through the Human Resources Department under coordination of OCU.

Bank-internal optimisation of resource utilisation and delegation of work needs more focus. If, for practicality reasons, combining different tasks are considered within one TC operation, such tasks need to be assigned to multi-disciplinary teams, endowed with commensurate time and budgets.

It is recommended to extend the role of a TC Coordinating / Contact Person to each Banking Team. At present, some teams have a central point of contact for all TC assignments, which allows the development of experience in dealing with TC funds. It is recommended that this practice be extended to all teams in Banking. In addition, adequate formal procedures need to be centrally installed and enforced by the Banking Department to ensure an appropriate transfer of TC operation-related corporate memory once operation responsibilities change and to prevent the loss of files and information.

Actions and allocation of resources at the beginning of the project would increase the chance of success to achieve a difficult sector agenda. Gaining public and local government's support to unpopular reform steps, i.e. tariff increases is easier when people still maintain a fresh impression of the commencement of large construction works.

Recommendation to develop specific "TC incentives" for Banking staff. EvD advises the inclusion of TC aspects in the annual individual and/or team performance records (score cards), namely the number and size of TC operations managed, project performance and quality of Lessons Learned generated by the Operation Team. One Business Group already includes information on TCs in its scorecards.

C TC Monitoring and Supervision

Large sequential sector facilities provide opportunities of successful policy dialogue. Feedback from project implementation is the most useful input for long-term sector programmes. Lessons Learned and effectively incorporated into the project cycle facilitate the projects in achieving successes, thereby gaining trust and good understanding of the Bank's long-signed endeavours in the sector.

Politically 'charged' operations require Bank senior management's particular attention. Operations of politically high visibility (such as major infrastructure investments in capitals) require special oversight by the Bank's most senior management supplementing monitoring activities at working levels.

Quickly react to market signals. The Bank should be prompt and pragmatic in reacting when the underlined lending activity of the TC programme does not work as well as expected. Possible reactions could be to switch the TC support to a more dynamic and profitable lending category, or to incorporate more knowledge transfer elements i.e. to ensure an institutional TI to the benefit of the Client.

Make provision for risk of discontinuity in client relations. When a TC programme runs over several years and involves major institution building, there is some probability of staff turnover among TC project counterparts, including high government officials. When this occurs, Banking

staff must make extra efforts to keep the TC programme on track which requires in turn that EBRD management frees the necessary resources.

More efforts should be made to secure the generation of Lessons Learned, especially in cases with a rating of partial or no success. OCU might consider the possibility of fully reviewing Lessons Learned in projects that are self-rated *Partly Successful* or *Unsuccessful* by the OL. A short meeting could be held in these cases, with participants from OCU, EvD and the Banking Team to draw conclusions on present challenges and their meaning for future operations.

D TC and its role for Policy Dialogue and Sector Reform

Sharing the policy dialogue with other IFIs. Past and current sector policies in a country of operation appear to provide a strong relative advantage to public banks' operations. This appears especially true for countries at early stages of transition. The acquired sector experience should be shared between the different operators, namely the IFIs, aiming at common, tailor-made action in the field.

Provide timely advice throughout the reform process. When the Government is in the middle of a sector reform and asks for TC support, the Bank should be prompt in mobilising resources and finding consultants that can step in and provide real time advice.

Keep close contact with the former client after the completion of a TC programme. When the Bank has made a major technical assistance contribution to a sector reform and the corresponding consultancy contracts are completed, the Bank staff should keep in close contact with the former client to be able to respond to any new demand for advice that may further strengthen the sector reforms.

Raise the Bank's advocacy at the highest levels to promote sector reforms. When a government prepares an important legislation and the Bank is working with one main interlocutor, it should liaise with as many of the other stakeholders groups as possible, in order to extend its advocacy and increase its impact. This may require several interventions in the field of senior Bank management.

Regularly document progress in policy dialogue. No matter how delicate and confidential the policy dialogue is, it should be regularly documented and disclosed in one way or another, so that its progress can be assessed by the relevant stakeholders on its content and timing, and corrective actions can be taken.

SYSTEM TO REPORT ON UPTAKE BY MANAGEMENT IN RESPECT OF EVALUATION RECOMMENDATIONS TO THE BOARD OF DIRECTORS

Since the Evaluation Department became fully independent from Management in June 2005, Management has had the opportunity to provide formal Management's Comments (MCs) to evaluation reports. The MCs explain whether there is general agreement with EvD's findings and recommendations. It was, however, experienced that in cases where Management agrees with the findings and recommendations of an evaluation report and chooses not to provide comments, it does not inform the Board how it wants to implement the recommendations and in what time frame. Even if Management disagrees with certain findings and recommendations of an evaluation report and provides extensive MCs[1], the Comments often do not highlight how and when Management intends to implement the recommendations it agrees to. This was one of the reasons why the Annual Evaluation Overview Report (AEOR) for 2006 presented a system to follow-up evaluation recommendations by Management. During the discussions in the Audit Committee and the Board of Directors in July 2006 the proposed system was adopted.

In the bullet points below the most important issues for the implementation of the system of follow-up of evaluation recommendations are presented and it is highlighted in what way the Board will be informed about the working of the system:

- *Content of Management's Comments:* When Management rejects an evaluation recommendation, Management must provide clear explanations so that the Audit Committee when reviewing the evaluation report and the respective Management's Comment (MC) can reflect on Management's opinion concerning individual recommendations. The system would work optimally if recommendations that are accepted by Management would be discussed in advance of Audit Committee review by EvD and by those responsible within Management for follow-up, in particular how Management intends to follow-up the recommendation and in which time frame.

- *Review in the Audit Committee:* During the discussion in the Audit Committee of the selected evaluation reports the Audit Committee has the opportunity to discuss the recommendations of the reports and the respective MCs. In particularly in those cases where Management disagrees with the recommendation it will present its opinion in the minutes of the Audit Committee. In case there are no MCs the Audit Committee assumes that there is agreement by management on the recommendations. The content of the Minutes in respect of the evaluation recommendations will appear in the Annual report of the Audit Committee to the Board of Directors, following the Terms of Reference of this Committee. If needed, this allows the full Board to elaborate on certain evaluation recommendations at the time this report is presented to them.

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[1] In practice, Management's Comments have been limited to those cases where major disagreements between EvD and Management existed and Management has not provided comments when there is agreement. Since Management started providing comments on EvD report in September 2005, of the 50 OPERs and TC OPERs only 7 (or 14 per cent) received Management's Comments.

- *Selection of evaluation reports for discussion in the Audit Committee:* In the selection of evaluation reports for discussion in the Audit Committee the Committee will take into account whether recommendations have been presented in evaluation reports. In principle all evaluation reports where MCs have been presented will be selected.

- *Reporting to the Board of Directors on the uptake of recommendations:* In the AEOR, EvD reports to the Board on the functioning of this system and highlights the actions that have been taken by Management in the uptake of evaluation recommendations. To allow EvD to prepare such reporting, in February each year, EvD request from Management a reaction on the status of the follow-up of evaluation recommendations, including those highlighted in the Audit Committee Minutes.

- *Quality of evaluation recommendations.* It is important that recommendations are presented by EvD in a clear and concise way and that the recommendations have adequate operational relevance. Each recommendation should be answerable in principle with a simple "yes" or "no", of course followed by the necessary explanations. Recommendations of a more generic nature can be better presented as lessons learned.

INVESTMENT OPERATION DATABASE

1 THE DATABASE

The figures in this appendix apply the Bank's investment operation counting methodology to the evaluated database[1].

Table 1: Investment Operation Database Summary
(as at 31 December 2006)

All investment operations	No.	%	MEUR	%
Bank Portfolio				
Board-approved	1,568.7	108%	37,588	113%
Signed	1,450.7	100%	33,348	100%
12 Months + Past Board Approval	1,383.0	95%	32,050	96%
Of which subject to Evaluation				
Total ready for Post-Evaluation	833.7	57%	16,284	49%
With OPER Reports	329.8	23%	7,657	23%
With XMR Assessment	310.1	21%	4,967	15%
With XMR Review	193.9	13%	3,660	11%
PRIVATE SECTOR	No.	%	MEUR	%
Bank Portfolio				
Board-approved	1,286.8	110%	29,052	116%
Signed	1,174.5	100%	24,957	100%
12 Months + Past Board Approval	1,128.2	96%	24,268	97%
Of which subject to Evaluation				
Total ready for Post-Evaluation	708.1	60%	13,023	52%
With OPER Reports and Special Studies	292.8	25%	6,609	26%
With XMR Assessments	262.9	22%	3,804	15%
With XMR Review	152.4	13%	2,609	10%
PUBLIC SECTOR	No.	%	MEUR	%
Bank Portfolio				
Board-approved	281.9	102%	8,536	102%
Signed	276.2	100%	8,391	100%
12 Months + Past Board Approval	254.9	92%	7,782	93%
Of which subject to Evaluation				
Total ready for Post-Evaluation	125.6	45%	3,261	39%
With OPER Reports	37.0	13%	1,047	12%
With XMR Assessments	47.1	17%	1,163	14%
With XMR Review	41.5	15%	1,051	13%

Source: Data Warehouse and Board Monthly Information Report, December 2006

Table 1 outlines EvD's evaluations of investment operations against the Bank's total investment operations portfolio at the end of 2006. The investment operation count applied by EvD corresponds to 241 Operation Performance Evaluation Reviews (OPERs), 13 Special Studies on

[1] Bank Operation Count (Opcount) = a measure of the number of full operations. The Bank allocates a count of one to standalone operations in which all facilities are signed and active, and a count of one to framework operations and their associated sub-operations. Partially signed or partially cancelled stand-alone operations are allocated a fractional count, depending on the proportion of signed active facilities within the operation.

specific operations, 293 Expanded Monitoring Report (XMR) Assessments and 185 XMR Reviews carried out during 1993-2006, in total 732 ready operations[2].

1.1 PORTFOLIO PROFILE AND EVALUATION COVERAGE

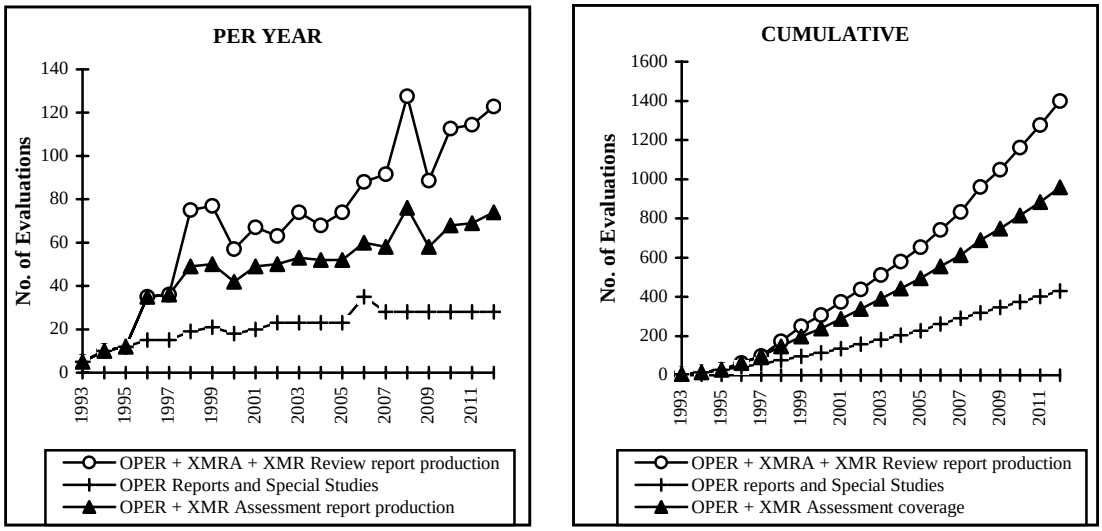
1.1.1 Part of the portfolio ready for evaluation.

By the end of 2006, 833.7 investment operations (708.1 private sector and 125.6 state sector) were judged ready for post-evaluation (in accordance with prevailing Operations Manual (OM) procedures). In total 241 OPERs, 13 Special Studies on specific operations, 193 XMR assessments and 185 XMR Reviews cover 100 per cent of operations ready for post-evaluation up to 2006 (this equates to 1,079 distinct operation identity numbers being evaluated out of 1,342 ready for evaluation). Twenty three OPERs or Special Studies on investment operations were produced in the 2006 plan (comprising only 34 per cent of operations ready for post-evaluation). Therefore, a selection process for these 23 reports took place using criteria such as large Bank exposures, transition impact relevance, complexity, lessons learned potential, large state sector and classified operations. Please see section 1.3 of Appendix 8 for further details on the selection process.

1.1.2 Growing numbers of ready operations and evaluation coverage ratio.

Chart 1 indicates that the number of projects ready for post-evaluation fell slightly in years 2000 and 2002 but has risen since then. The figure is expected to increase further over the next few years as the Bank approves more and smaller projects. In 2008 it is expected that nearly 130 operations per year will be ready for evaluation, dropping again in 2009 before rising gradually to over 120 by 2021. In reality, these numbers are likely to be smoother than indicated in chart 1. For 2007 the total number of operations identified as ready for post-evaluation is 92.

Chart 1: OPER Coverage of Investment Operations Ready for Post-Evaluation 1993-2012



[2] In total 243 OPER reports have been produced. However, one report from 2001 revisited an operation already evaluated in 1996, and another, from 2003, evaluated the progress of a broad client relationship rather than evaluating any individual operations. Therefore these two OPERs have been discounted throughout this AEOR when considering the number of operations evaluated.
The statistics used in Chapter 1 and Appendix 8 only cover evaluations conducted since 1996, when a more consitent rating system was introduced.

1.2 OVERVIEW OF THE INVESTMENT EVALUATION DATABASE

1.2.1 Timing of the evaluations.

The 833.7 operations were self-evaluated by the operation team, on average, 24 months after final disbursement of the Bank's investments and 51 months after Board approval. In 2004, EvD implemented a new policy on the timing of evaluations in order to conform to the requirement of the Good Practice Standards for Private Sector Evaluation (GPS) of the Evaluation Cooperation Group (ECG) that the project should have reached "early operating maturity".[3] Since the implementation of the new guidelines, projects have been self-evaluated by the operation team, on average, 10 months after early operating maturity and EvD has published independent evaluation reports, where applicable, an average of 13 months after early operating maturity.

The high attrition of Bank staff is a factor in the timing of evaluation: many staff involved in projects leave the Bank by the time evaluation takes place. This complicates evaluation. The OPER execution timing is therefore geared to providing an early post-evaluation performance feedback for lessons, quality management and accountability, and in most cases is an assessment which occurs relatively early in the operating period. It follows, however, that not all evaluation judgements can be final, particularly for assessments concerning *transition impact* and equity *investment performance.*

1.2.2 The representivity of the sample of selected operations.

The 639.8 operations subjected to OPERs, Special Studies and XMR Assessments comprise a growing portion of the Bank's Board-approved portfolio. By the end of 2006 it had reached a cumulative evaluation coverage level of 44 per cent of the total number of signed operations and 38 per cent in value terms. As evaluation coverage levels increase the relevance of the evaluation findings for the portfolio as a whole also increases (see also sections 1.3 and 10 of Appendix 8 for the coverage of the sample of operations evaluated since 1996).

1.2.3 The composition of the evaluated portfolio.

Among the 451.3 independently evaluated loan investments, 82.7 facilities are fully pre-paid and 99.5 facilities are fully repaid, while 10.2 operations have been written off. Of the *equity investments*, 13.2 operations have been written off, 103.3 operations have fully divested facilities and 34.2 operations have partially divested facilities.

1.2.4 Diversification of the selected operations for evaluation.

Of the evaluated investment portfolio, there is a reasonably diversified balance of:

- *Countries.* The following 27 countries have been covered: Albania (1.3 per cent), Armenia (0.5 per cent), Azerbaijan (2.0 per cent), Belarus (0.8 per cent), Bosnia & Herzegovina (1.1 per cent), Bulgaria (4.1 per cent), Croatia (4.2 per cent), Czech Republic (3.5 per cent), Estonia (3.7 per cent), FYR Macedonia (1.4 per cent), Georgia (2.4 per cent), Hungary (6.5 per cent), Kazakhstan (3.5 per cent), Kyrgyz Republic (1.6 per cent), Latvia (2.7 per cent), Lithuania (2.2 per cent), Moldova (1.9 per cent), Poland (10.9 per cent), Romania (6.3 per cent), Russian Federation (18.5 per cent), Serbia (1.1 per cent), the Slovak Republic (3.7 per cent), Slovenia

[3] An operation has reached *early operating maturity* when (a) the project financed will have been substantially completed, (b) the project financed will have generated at least 18 months of operating revenues for the company and (c) the MDB (EBRD) will have received at least one set of audited annual financial statements covering at least 12 months of operating revenues generated by the project.

(2.7 per cent), Tajikistan (0.3 per cent), Turkmenistan (0.5 per cent), Ukraine (4.7 per cent) and Uzbekistan (2.2 per cent), besides Regional operations (5.7 per cent);[4]

– *Operation Teams.* Twelve sector teams[5] have been covered, and all three regional business groups, besides Corporate Recovery;

– *Industries* (according to Bank standard industry name). In total 59 industries were covered;

– *Investment types.* 56 per cent are straight senior debt operations, 29 per cent are ordinary share investments, seven per cent are a combination of ordinary shares and senior debt, two per cent are straight subordinated debt, two per cent are a combination of senior debt and subordinated debt; the remaining percentage is a combination of the investment products above and preference shares, guarantees and other off-balance sheet facilities, and other participating interests.

It can be concluded the evaluated operations cover a great variety of countries, sectors, operation teams and types of deals, which form an excellent basis to generate lessons learned.

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[4] The only two countries not covered are Mongolia and Montenegro, both recent additions: (Montenegro became a separate member of the Bank in June 2006, following its split with Serbia).

[5] In 2006, existing Energy Efficiency projects were transferred to MEI, and Energy Efficiency Team began to generate a new portfolio of energy-saving operations. None of these has yet been evaluated.

ASSESSMENT OF STRENGTH OF TRANSITION POTENTIAL & CHECKLIST OF TRANSITION CRITERIA/OBJECTIVES FOR *EX ANTE* AND *EX POST* APPLICATION

ASSESSMENT OF STRENGTH OF TRANSITION POTENTIAL

1. COUNTRY SECTOR AND REGIONAL CONTEXT

a. Current stage of transition *(advance transition country or otherwise)*
b. State of sector reform and development *(largely unreformed or otherwise)*
c. Conditions for market entry and competition *(few players versus strong competitive pressures)*

2. THE TRANSITION CHALLENGES FACING SECTOR, COUNTRY AND REGION

a. Market reform objectives in the Bank's country or sector strategy
b. Economic priorities facing the country
c. Application of the transition indicators *(TI Checklist)*
   - Structure and extent of markets
   - Market organisations, institutions and policies that support markets
   - Business behaviour and practices

3. THE WAY CHALLENGES ARE ADDRESSED IN THE SELECTION AND DESIGN OF THE PROJECT

a. Consistency with Bank country/sector strategy;
b. Key project covenants and undertakings *(strong set of transition-related covenants is likely to be a sufficient sign of transition potential; it is not a necessary condition)*;
c. TC components *(TC-funded programmes that can help achieve some of the transition objectives)*;
d. Policy dialogue

CHECKLIST OF SEVEN TRANSITION CRITERIA/OBJECTIVES

PROJECT CONTRIBUTIONS TO THE STRUCTURE AND EXTENT OF MARKETS

1. GREATER COMPETITIVE PRESSURES

Project contributes to greater competition in the project sector: efficiency, innovation and customer orientation of other suppliers through competitive pressure.
To what extent does the project directly improve the competitive environment and/or extend the use of market-type mechanisms in the economy? (e.g. more rational pricing, significant new entry into the market, setting new quality or technical standards that other firms must follow, trade facilitation, etc.)

2. MARKET EXPANSION VIA LINKAGES TO SUPPLIERS AND CUSTOMERS

Stimulation of competitive behaviour through the project entity's interactions with suppliers (*backward/upstream linkages*) and clients (*forward/downstream linkages*); project contributions to the integration of economic activities into the national, regional or international economy, in particular by lowering the cost of transactions.
(a) To what extent does the project change the market behaviour of local suppliers of inputs? (backward linkages);
(b) To what extent does the project change the market behaviour of downstream marketing and/or processing activities of customers? (forward linkages)

CHECKLIST OF TRANSITION CRITERIA/OBJECTIVES (CONT.)

PROJECT CONTRIBUTIONS TO MARKET ORGANISATIONS, INSTITUTIONS AND POLICIES THAT SUPPORT MARKETS

3. INCREASED PRIVATE SECTOR PARTICIPATION

Significant increase or consolidation of private provision of goods and services, including provision of public goods and services and support for entrepreneurial initiative (e.g. unbundling in infrastructure projects).

To what extent does the project contribute directly to increased private ownership?

4. INSTITUTIONS, LAWS, REGULATIONS AND POLICIES THAT PROMOTE MARKET FUNCTIONING AND EFFICIENCY

Creation/strengthening of public and private institutions that support the efficiency of markets; improvements to the functioning of regulatory entities and practices; contributions to government policy formation and commitment, promoting competition, predictability and transparency; contributions to laws that strengthen the private sector and the open economy. Improved legislation, regulation and legal and regulatory implementation.

To what extent is the project associated with institutional spin-offs effects giving rise to improvements in the functioning of existing institutions or in the establishment of new institutions and practices important for a market-type economy?

PROJECT CONTRIBUTIONS TO BUSINESS BEHAVIOUR AND PRACTICES

5. TRANSFER AND DISPERSION OF SKILLS

Project contributes to significant upgrading of technical and managerial skills in the economy beyond the project entity.

To what extent does the project create, upgrade or transfer new skills relevant to a market economy? (e.g. management, marketing, financial and banking skills, specialised technical skills, etc.)

6. DEMONSTRATION EFFECTS FROM INNOVATION

Demonstration of (replicable) products and processes which are new to the economy; demonstration of ways of successfully restructuring companies and institutions; demonstration to both domestic and foreign financiers of ways and instruments to finance activities. New ways of financing restructuring instruments.

To what extent does the project create a new and easily replicable line of activity? (demonstration effects, e.g. in manufacturing or finance, incl. new modes of financing industrial projects, new products, enterprise restructuring)

7. HIGHER STANDARDS OF CORPORATE GOVERNANCE AND BUSINESS CONDUCT

Improved governance standards that are highly visible and invite replication in non-project entities.

To what extent does the project give rise to improvements in corporate governance and/or the business culture? (incl. fostering entrepreneurship, improving decision-making processes, encouraging innovation and strategic thinking in business)

TRANSITION IMPACT ANALYSIS FROM OPER REPORTS ON INVESTMENT OPERATIONS EVALUATED IN 2006

Agribusiness

TI checklist categories	STEPS OF RATING TRANSITION IMPACT *EX POST*	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating[1]**	**Rating[2]**	**Rating[3]**
3	**Private ownership** The client was already privatised before EBRD's involvement.	N.A.	N.A.	N.A.
5	**Skill transfers** The sponsor installed a new expatriate senior management team. The sponsor also introduced modern management systems and production techniques, raising the skills level of key staff in so doing.	Satisfactory	Marginal	Low
6	**Demonstration effects** The operation enabled the client to restructure its balance sheet by refinancing existing short-term debts thus rationalising its borrowings. The refinancing supported the ongoing investment programme with the rationalisation of production facilities and the introduction of new technologies.	Satisfactory	Marginal	Low
7	**New standards for business conduct** The sponsor has introduced international standards of management practice in most areas. However, a centrally coordinated approach to environmental, health and safety issues has yet to be adopted.	Satisfactory	Marginal	Low
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition** Under the sponsor's guidance the client has improved productivity and efficiency. The client has maintained its competitive position in the market.	Good	Marginal	Low
2	**Market expansion** Backward linkages to suppliers improved with demonstration effect for the sector after a change in strategic direction which was, however, adopted only after significant difficulties arose with the implementation of the sponsor's original intentions.	Satisfactory	Marginal	Low
3	**Private ownership** The client was already privatised before EBRD's involvement.	N.A.	N.A.	N.A.
4	**Frameworks for markets** The operation was not designed to influence public or private institutional development.	N.A.	N.A.	N.A.
5	**Skills transfers** There is no evidence that the operation contributed to skills transfer outside the client entity.	N.A.	N.A.	N.A.
6	**Demonstration effects** The operation helped create a viable financial structure to permit the sponsor's restructuring of the client to proceed. As a result of the restructuring, which is ongoing, the client has improved efficiency and introduced new production methods and technologies. These are likely to have a strong influence on the market. However serious damage to the client's reputation in the public eye was caused by apparently false	Satisfactory	Marginal	Low

[1] **This range is: Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative.**
[2] **This range is: Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative.**
[3] **This range is: Low/Medium/High/Excessive.**

	allegations of improper conduct at one of its plants.			
7	**New standards for business conduct** In the early years of the restructuring the sponsor focused principally on production and distribution issues. Improvements are still needed in management practices and systems in some important areas.	**Marginal**	**Marginal**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Satisfactory**	**Marginal**	**Low**
	OVERALL TRANSITION IMPACT RATING:[4]	**Satisfactory**		

[4] **This range is: Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative.**

Agricultural Commodities Financing

TI checklist categories	STEPS OF RATING TRANSITION IMPACT EX POST	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership** A subsidiary of the Company which is privately held already existed in one of the two countries of investment; the other operation is a new one. No privatisation is involved in a market already dominated by privately owned foreign or domestic traders.	**Marginal**	**Marginal**	**Low**
5	**Skill transfers** Extensive training took place at both subsidiaries with few expatriates posted. When problems developed with one entity, the overhauling of management was handled from the other country with the transfer of the regional manager. The Company has a policy of rotating its foreign managers through headquarters; thus the regional head at HQ was previously the head of a different region.	**Good**	**Good**	**Low**
7	**New standards for business conduct** Both subsidiaries are operated under high Western standards of corporate governance. They adhere to HACCP techniques and the European Code of Good Trading Practice.	**Good**	**Good**	**Low**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition** The project allowed for increased activity by a reputed international trader in each country. Farmers and local traders benefit from enhanced transparency and competitive bidding for agricultural commodities.	**Good**	**Good**	**Low**
2	**Market expansion** The project had a positive impact on market expansion as evidenced by the increase in the portfolio of traded commodities in one of the countries by 140% in two years while the volumes traded in the other country where more stable. This represents a modest market share commensurate with the size of the parent company. Direct lending to farmers for pre-harvest financing did not materialise beyond a USD 150,000 loan made in one country, neither did the company actually invest in infrastructure as was envisaged; this is however still considered with a USD 10 million approval from the parent company board of directors for this purpose.	**Satisfactory**	**Satisfactory**	**Medium**
3	**Private ownership** Both companies are 100% owned by a privately held international sponsor, not a significant departure from prevailing situation in the respective markets**.**	**Marginal**	**Marginal**	**Low**
4	**Frameworks for markets** The company indicated willingness to cooperate with the Bank in the promotion of the warehouse receipt programme. This was not put to use as progress in one country did not materialise as expected while the programme is stranded in the other country. Through its selective choice and professional monitoring of silos, the Company contributes positively to the institutional improvement of the sector downstream. In addition, the Company, as a participant in the off takers guarantee facilities of another of the Bank's agricultural commodities financing programmes, facilitated the expansion of this alternative to warehouse receipt financing. Recouping VAT remains a significant problem in both countries. In one country, the company operates under a two pronged corporate organisation and has devised some innovative	**Satisfactory**	**Satisfactory**	**Low**

	though expensive structure to overcome this hurdle.			
5	**Skills transfers** Given the size of the Sponsor's operations in both countries, not a very significant dispersion of skills can be expected outside the subsidiaries themselves. Management did not report any significant level of poaching from competitors. There is, however, pressure on local farmers to improve the quality of their output in a context of more transparent and fairer trading; similarly warehouses need to upgrade their reliability and management in order to qualify for the Company's business.	**Good**	**Good**	**Low**
6	**Demonstration effects** Transparent and effective trading practices by a Western company have a positive, albeit limited by relatively modest volumes, demonstration effect on the market. This could have been amplified had the warehouse receipt legislation been fully implemented in both countries.	**Satisfactory**	**Satisfactory**	**Low**
7	**New standards for business conduct** The borrowers are fully compliant with high Western standards of corporate governance observed by the parent company.	**Good**	**Good**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Satisfactory**	**Satisfactory**	**Low**
	OVERALL TRANSITION IMPACT RATING:	**Satisfactory**		

Bank

TI checklist categories	STEPS OF RATING TRANSITION IMPACT *EX POST*	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership** As agreed with EBRD at the time of the equity investment, approximately 4% of shares held by a government agency were purchased by the majority shareholder group. The bank is now fully privately owned.	**Good**	**Good**	**Low**
5	**Skill transfers** There has been systematic skills transfer from staff trained under an EBRD small business facility to other staff of the bank. The bank has developed internal training and audit functions for small business lending. The institution building programme has resulted in improved organisational structure and management practices and a fully functioning board of directors independent of management.	**Excellent**	**Excellent**	**Low**
6	**Demonstration effects** The bank has developed new products for the retail and SME markets with an emphasis on cross-selling. The bank is soon to merge with a sister bank which is benefiting from the demonstration effect of the improved product range and business methods that the client has developed during its relationship with EBRD.	**Excellent**	**Excellent**	**Low**
7	**New standards for business conduct** The institution building programme has introduced new standards and improved decision making and product innovation. Departments within the bank have been encouraged to improve their own practices in cooperation with other departments based on skills transferred under the institution building programme.	**Excellent**	**Excellent**	**Low**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition** The project has positioned the client to benefit from improvements in efficiency, product innovation and customer orientation in the increasingly competitive retail and SME sectors. In this way the project has directly improved the competitive environment for financial sector consumers setting new standards of service for others to follow. Assets more than doubled in 2005 and the branch network continues to expand.	**Excellent**	**Excellent**	**Low**
2	**Market expansion** The bank has expanded the market for financial services by leveraging its existing relationships with corporate clients and cross-selling to both retail and business customers. As well as assisting the expansion of the local economy through its growing consumer loan book, the bank is actively developing mortgage products thereby assisting the local construction industry. The bank has expanded the market for term deposits, as demonstrated by the changing profile of deposit liabilities. While in 1999 only around 25% of its deposit base was made up of term deposits, the proportion of term deposits had grown to more than 80% by 2004.	**Excellent**	**Excellent**	**Low**
3	**Private ownership**	**n/a**	**n/a**	**n/a**
4	**Frameworks for markets**	**n/a**	**n/a**	**n/a**
5	**Skills transfers**	**Excellent**	**Excellent**	**Low**

	Staff who have undergone training at the bank under the project have engaged in exchanges with staff of a sister bank, thus disseminating the skills acquired. In addition, SME and retail borrowers have benefited from the disciplines imposed by improved credit appraisal processes and, in the case of business borrowers, the requirement to provide regular financial information for monitoring purposes.			
6	**Demonstration effects** The strongest and potentially most lasting demonstration effect relates to the client's success in attracting funds on the local and international capital markets. As recently as November 2006 the client placed Eurobonds with two leading western banks acting as arrangers. The restructuring of management and systems that resulted from the institution building programme also sends strong demonstration signals to competitors.	**Excellent**	**Excellent**	**Low**
7	**New standards for business conduct** With the encouragement of EBRD, the client has worked consistently to improve standards of governance, transparency and disclosure. The forthcoming merger with a sister bank is the result of focused strategic thinking intended to maximise the benefit of synergies.	**Excellent**	**Excellent**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Excellent**	**Excellent**	**Low**
	OVERALL TRANSITION IMPACT RATING: Overall transition impact is rated *Excellent* based on the achievements observed in the following areas: the expansion of a competitive financial market in regions in which the client has built a strong franchise; the institutional strengthening of the client through improved governance, management, operations and systems; and the promotion of appropriate market behaviour in an increasingly competitive environment. The remaining transition impact potential is also rated *Excellent*, chiefly in view of the synergies and further growth that can be expected to result from the forthcoming merger. The risk to achieving the remaining potential is rated *Low* in view of the commitment of the principal shareholder to the merger and earlier experience in merging banks successfully.	**Excellent**		

Cement Producer

TI checklist categories	STEPS OF RATING TRANSITION IMPACT EX POST	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership** Particularly in the acquisitions the Company participated in privatisations and contributes to the increase of private ownership.	**Good**	**Excellent**	**Low**
5	**Skill transfers** The Company has emphasised training of workers and key managers and is introducing managers to new acquisitions and their operations.	**Excellent**	**Excellent**	**Low**
6	**Demonstration effects** As the only domestically owned group in the cement market the Company has a strong visibility. As one of the first groups expanding into neighbouring markets there is a regional effect through the acquisitions.	**Good**	**Good**	**Low**
7	**New standards for business conduct** The Bank has encouraged the set up of a holding structure with centralized functions to support the growing group. The strategic approach to acquisitions and improved purchasing and financial reporting facilitate the management of the group.	**Good**	**Good**	**Low**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition** The Company had taken over an outdated cement plant which was upgraded to be more competitive and also to meet the EU environmental norms. As a result the Company maintained its market share and is successfully competing with other cement companies in the country and the region.	**Excellent**	**Excellent**	**Medium**
2	**Market expansion** For the plant upgrades the Company contracted both foreign and local suppliers. Through these backward linkages the Company also established standards for quality and timeliness of delivery.	**Good**	**Good**	**Low**
3	**Private ownership** The Company has participated in privatisations to acquire building materials companies in the region.	**Good**	**Good**	**Low**
4	**Frameworks for markets** There was no institution building component in this project, however the Company maintains an active dialogue with various Ministries etc. and thus contributes to the debate.	**N.A.**	**N.A.**	**N.A.**
5	**Skills transfers** In setting up the holding company, the Company has retained specialist consultants for accounting etc. Staff training programmes with new equipment and selected management training courses are also available.	**Good**	**Good**	**Low**
6	**Demonstration effects** Acquisitions in neighbouring countries give a positive demonstration effect and contribute to regional integration.	**Good**	**Good**	**Low**
7	**New standards for business conduct** Introduction of holding structure and stronger financial etc. controls of the expanding group.	**Good**	**Good**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Good**	**Good**	**Low**
	OVERALL TRANSITION IMPACT RATING:	**Good**		

Hotel

TI checklist categories	STEPS OF RATING TRANSITION IMPACT *EX POST*	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership** Privately owned special purpose company from outset.	**N.A.**	**N.A.**	**N.A.**
5	**Skill transfers** The hotel employs and trains a substantial number of employees to run an international hotel of the highest standards. In fact, the hotel received a top award from the hotel operator confirming the high standards of staff in terms of service and friendliness.	**Good**	**Good**	**Low**
6	**Demonstration effects** The efficiently and well designed rooms as well as the smooth operations have a good demonstration effect in the local hotel market.	**Good**	**Good**	**Low**
7	**New standards for business conduct** The international hotel operator runs this hotel well for international business travellers and to international standards typical for one of the largest hotel operator in the world.	**Good**	**Good**	**Low**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition** The Bank's objective to contribute to more competition in the higher end of the hotel market was achieved in full, unfortunately the untimely opening took place at a time of decreasing visitor numbers and substantial increase of other hotel beds in this category resulting in disappointing results for the hotel owners. However, giving the users excellent value choices for low prices.	**Excellent**	**Excellent**	**Low**
2	**Market expansion** The City moved in a very short time from an underserved market in terms of international quality hotel rooms to a hopefully temporary oversupply. The fact that many international chains are now present should help in the future in particular once the City manages to expand its offerings in terms of conventions and other destination features attracting more business and other visitors. In an improved market situation the hotel is well positioned to be able to attract the business visitors who are willing to pay for a better product.	**Good**	**Good**	**Low**
3	**Private ownership**	**Good**	**Good**	**Low**
4	**Frameworks for markets**	**N.A.**	**N.A.**	**N.A.**
5	**Skills transfers** According to the hotel management it is difficult for the hotel to attract trained staff. Furthermore, staff trained by the hotel move to other hotels either within the country or elsewhere and hence there is some skills transfer.	**Marginal**	**Marginal**	**Low**
6	**Demonstration effects** Some, but given the fact that several international hotel groups are present locally, the effects are limited.	**Marginal**	**Marginal**	**Low**
7	**New standards for business conduct** Same as above re demonstration effects.	**Marginal**	**Marginal**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Satisfactory**	**Satisfactory**	**Low**
	OVERALL TRANSITION IMPACT RATING:	**Satisfactory**		

Insurance Company

TI checklist categories	STEPS OF RATING TRANSITION IMPACT EX POST	Short-Term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership** Increased private ownership is demonstrated by the 28 companies now in the market, a gradual improvement over a five year period. Some companies have consolidated while others have made acquisitions.. The restructuring of the insurance industry following the resolution of the major problems with motor third part liability (MTPL) has resulted in increased confidence amongst all competitors even though there was some instability introduced to the market in 2004 when one company underpriced its products in an attempt to gain market share. This has now been resolved EBRD contribution of expert knowledge in negotiating with the Government was a feature in overcoming practical difficulties with MTPL originally.	**Excellent**	**Excellent**	**Low**
5	**Skill transfers** The sponsor has proved to be a very skilful operator. It has brought to the market a world class ethic, in terms of its operation and product development and this has led to extensive skills transfers throughout its operation. There has been significant training in management, product development and sales and marketing techniques which are in accordance with exacting standards laid down by the western parent company. It has involved locals to a significant degree in management and other positions. This was a special contribution of the sponsor.	**Good**	**Good**	**Low**
6	**Demonstration effects** The sponsor brought to the market a successful record in restructuring companies. By undertaking the takeover of the local company by the sponsor's local subsidiary to form the project company it completely reorganised the pricing of products in motor insurance and revamped the local company's life assurance suite of products. This has given a strong lead to the market which is obliged to follow the project company which is the market leader. In addition its strong financial and business reporting mandate is a template for future entrants to the market in the insurance business.	**Excellent**	**Excellent**	**Low**
7	**New standards for business conduct** The sponsor, through the project company, introduced modern focused business practices in terms of innovation, efficiencies and restructuring as well as a strong corporate governance ethic. In terms of business conduct during a particularly difficult year in 2004 when underpricing threatened stability in the market it resolutely refused to follow and by its leadership at that critical time played a major role in maintaining stability.	**Excellent**	**Excellent**	**Low**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition** The demonopolisation of the motor sector from 2002 has resulted in a stronger overall market, greater competition, appropriate pricing strategies and the elimination of substantial under-reserving of claims. Marketing has been restructured leading to greater efficiencies in the sector, more companies have entered the market and some have made additional acquisitions. Companies and intermediaries are now competing for new customers with new product development contributing to growth in the sector. EBRD role was instrumental in assisting the sponsor with this process of demonopolisation leading to the success noted.	**Good**	**Good**	**Low**

2	**Market expansion** The main effects of the changes to the MTPL system and privatisation are evident from the market environment which has mainly been influenced by the entry of foreign insurance companies. They have brought a new higher standard and quality of insurance products. Most of the companies are foreign owned while several have mixed foreign and local ownership. Claims and expense ratios in motor insurance are gradually being lowered with experience and also as market and legislative improvements take place.	**Good**	**Good**	**Low**
3	**Private ownership** This has been the significant feature of the changed market since the resolution to the MTPL crisis in 2001. All of the companies are now privately owned. EBRD would have assisted in the process through its perceived influence on the sponsor and on the Government.	**Excellent**	**Excellent**	**Low**
4	**Frameworks for markets** The Finance Ministry controlled the Insurance Industry until 2000. It was conflicted in this role as it was also the founder shareholder in the monopoly state insurance company. Privatisation resulted in a reconstruction of the supervisory role in 2002 and finally in 2006 the National Bank was assigned supervision of the insurance industry. Its purpose is to control the stability of the financial market, the protection of customers and compliance with the rules of competition. To the extent that EBRD used its influence on the government particularly in 2002, this has to be considered a success.	**Good**	**Good**	**Low**
5	**Skills transfers** The development of the merger with backing from the sponsor gave a strong signal to the market. The introduction of advanced training techniques by the project company and the advent of other international companies would have contributed to the advance of competition in the market.	**Good**	**Good**	**Low**
6	**Demonstration effects** The sponsor with its restructuring capability gave a strong lead to the market. In addition by refusing to follow the price cutting example of one company it sent a message to the market that ethics, transparency and pricing policy would set the standards to be followed.	**Good**	**Good**	**Low**
7	**New standards for business conduct** The sponsor introduced a strong strategic focus to its business operations. In addition corporate governance standards at all levels of the company would have been particularly evident to its competitors in the wider market.	**Good**	**Good**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Excellent**	**Excellent**	**Low**
	OVERALL TRANSITION IMPACT RATING:	**Excellent**		

Light Manufacturing

TI checklist categories	STEPS OF RATING TRANSITION IMPACT EX POST	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership** Venture fund equity investment leads the way to IPO and subsequent broadening of ownership structure, reduction of stake of former majority owner who started the restructuring process.	**Excellent**	**Excellent**	**Low**
5	**Skill transfers** New equipment leads to skills transfer, training of workers to higher skill levels for the highly automated manufacturing and packaging plants.	**Good**	**Good**	**Low**
6	**Demonstration effects** Substantial capital investment programme to international standards, meeting environmental requirements.	**Excellent**	**Excellent**	**Low**
7	**New standards for business conduct** Introduction of high Corporate Governance standards gets recognition in national ratings, international accounting standards, management information system.	**Excellent**	**Excellent**	**Low**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition** Capital investment programme in order to be able to successfully compete with international and national competitors on branded products.	**Excellent**	**Excellent**	**Low**
2	**Market expansion** Buying ingredients in local market is a good backward linkage example, also packaging material and TV advertising on local channels. An old factory was successfully turned around and enabled to compete again against Russian and foreign producers.	**Excellent**	**Excellent**	**Low**
3	**Private ownership** Company was privately owned prior to first Bank operation.	**N.A.**	**N.A.**	**N.A.**
4	**Frameworks for markets** Company does not have influence on sector regulation.	**N.A.**	**N.A.**	**N.A.**
5	**Skills transfers** Highly disciplined labour force has good reputation in local labour market.	**Good**	**Good**	**Low**
6	**Demonstration effects** Successful restructuring of an old style state enterprise into a modern company able to compete with own brand names with domestic and international competition. Corporate governance and international accounting standards, improved performance leading to successful IPO.	**Excellent**	**Excellent**	**Low**
7	**New standards for business conduct** Independent directors on the Board, high transparency and corporate governance standards, international accounting.	**Excellent**	**Excellent**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Excellent**	**Excellent**	**Low**
	OVERALL TRANSITION IMPACT RATING:	**Excellent**		

Mining Project

TI checklist categories	STEPS OF RATING TRANSITION IMPACT EX POST	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership** The second Bank transaction with the company contributed directly to increased private ownership. The formerly majority Government owned joint venture company was converted into a listed company with management control. This will also allow a longer term view on new exploration and commitments to truck renewal plans.	**Excellent**	**Excellent**	**Low**
5	**Skill transfers** All skills, except top management, have been successfully transferred. Longer term commitments now ensure a continuation of this process.	**Excellent**	**Excellent**	**Low**
6	**Demonstration effects** The company is applying some of the experiences learned in the new deposits elsewhere. In particular there is a new approach to sustainable development efforts.	**Good**	**Good**	**Low**
7	**New standards for business conduct** The IPO and listing facilitated Management's commitments to highest international standards on all fronts and full application of Equator Principles. International mining analysts are now monitoring the performance in more detail based on the new standards of reporting.	**Good**	**Good**	**Low**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition** The Project sets excellent benchmarks in terms of new technology introduced for pollution management and also introduction of bigger trucks in order to achieve higher efficiency in the operation.	**Good**	**Good**	**Low**
2	**Market expansion** The Project continues to source local food supplies (vegetables, cheese etc.) and contributes in sustainable development projects to micro credit, pool of farming machinery, seeds etc. in particular in the villages in the immediate proximity. Mining equipment is typically internationally sourced, but locally assembled and serviced. The Project has over the years substantially contributed to a substantial workload of a local gold refinery.	**Good**	**Good**	**Low**
3	**Private ownership** The company's IPO and listing showed how Government owned assets can be moved in a transparent way to a listed private company. This process was prepared with various independent advisors with involvement of IFIs and the listing-related public disclosure obligations have increased the transparency of the Project and facilitated access to information.	**Good**	**Good**	**Low**
4	**Frameworks for markets** It appears that since recent political disturbances, the Government's support and commitment to the Extractive Industries Transparency Initiative and more transparency in licensing has been reduced. It is not yet clear whether this is due to new senior people in the administration or due to the new President's wish to keep more authority for direct decision making. There is a question mark regarding the Government's commitment to improve the framework for more transparency in new licensing process/overall stability for foreign mining investors.	**Marginal**	**Marginal**	**High**
5	**Skills transfers** The Project has contributed to increased commercial skills and	**Good**	**Good**	**Low**

	understanding of commercial valuations of mining assets. The continued studies of the Project have involved local consulting companies alongside international specialists. This has contributed to transfer specialised technical skills to local consultancy companies.			
6	**Demonstration effects** The Project provides a good model for other mining companies to follow. It provides also the comfort that the framework was not affected by a change of political power in the country.	**Good**	**Good**	**Low**
7	**New standards for business conduct** The Project has clearly set new standards for other mining companies which seek IPO and subsequent listing. The question remains though whether the Government wishes to facilitate other similar international investments in the mining sector.	**Good**	**Good**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Good**	**Good**	**Low**
	OVERALL TRANSITION IMPACT RATING:	**Good**		

Motor Vehicle Component Manufacturing

TI checklist categories	STEPS OF RATING TRANSITION IMPACT EX POST	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership** The project did not involve any privatisation. The Sponsor, however, was the first western company of its type to invest in the country on its own. To do so, it acquired existing land and buildings, which were owned by an agricultural co-operative, the municipality and some farmers. The process of land purchases proved to be extremely cumbersome and the Company is already seeking clearance from the district government for further land purchase in case a decision to extend the project is taken next year. At the corporate level, the land acquisitions and rebuilding of brown field facilities was a painful but eventually successful experience in dealing with local, regional and federal bureaucracy. Based on such experience, it can be assumed that in the longer term incremental acquisition may be processed more smoothly.	**Satisfactory**	**Good**	**Medium**
5	**Skill transfers** The industry involves a complex, capital intensive and highly technological process which is not taught in universities. The Company needs to hire locals and train them thoroughly, in the country as well as abroad. Main selection criteria are the ability to work with machines, be logical thinkers and possess language abilities. Operators are typically fully trained to achieve required quality standards after 4 to 6 months. At the same time, the Company needs to start up with a relatively high level of expatriates. They are currently 25, including 10 in the capital for management, financial and marketing functions and 15 on location for manufacturing, representing 7 different nationalities. The Company's policy is to select among trained locals those who have the potential to take over managerial functions and to this effect, 10 locals are slated to have a long term training programme abroad in 2007 while in excess of 100 employees in 2005 were offered a shorter term training opportunity abroad. The ultimate objective is to run the Company with no more than 2 to 3 expatriates. It took 15 years for the Sponsor's subsidiary in South America to get to that stage.	**Excellent**	**Excellent**	**Low**
6	**Demonstration effects** The Company's high standards of staff training, health and safety records and the career opportunities inherent to a rapidly growing company allows it to be highly selective in its recruitment. The reputation of the Sponsor as a leading world wide manufacturer helps promote competition among its different subsidiaries. This operation was thus rated best in the world in 2005 for productivity improvements.	**Good**	**Good**	**Low**
7	**New standards for business conduct** The Sponsor established a brand new manufacturing facility through the conversion of an old plant. This involved major upgrading of existing land and building, introduction of strict environmental and health and safety procedures, including clearing all existing asbestos. These high standards are also applied to all franchised and partnership points of sales using the Company's logos. The Company must comply with the group's reporting requirements and applies IFRS standards. In dealing with numerous inspections and bureaucratic harassment, the Company systematically challenges in courts of law unfair or incorrect claims by the various local, regional or federal representatives rather than negotiating more expeditious and less expensive settlements.	**Excellent**	**Excellent**	**Low**

	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	Rating	Rating	Rating
1	**Competition** When the Sponsor decided to invest in manufacturing in the country, none of its foreign competitors had yet dared enter the market. One competitor's strategy was to try and cooperate with the largest local manufacturer. Another attempted to set up a joint venture with a local manufacturer but it collapsed as the relationship between the partners broke down. Following the Sponsor's lead, two international competitors are currently investing in greenfield operations in the country. Other local manufacturers have upgraded their operations, in one case with the help of a western partner, in order to compete in a market which is increasingly looking for higher value products. The Sponsor's investments have demonstrated that locally made tyres can be of equivalent value as imports but more competitively priced than imports. The project has thus significantly contributed to enhancing competition both in terms of higher value and lower price. Given the fast growing market, this is bound to have a long term impact.	**Excellent**	**Excellent**	**Low**
2	**Market expansion** Competitive interaction from major manufacturers, including the Sponsor, has had a significant impact on domestic consumption. In the context of an increase in disposable income in the country, consumers are made aware of better product quality available through the development of retail networks which foreign and domestic manufacturers are developing through investments in more points of sale and training of staff. As a result, the market is expanding fast with a 48% forecast growth in the number of units sold between 2005 and 2011 and a doubling of the market in the next 10 years. The market segment primarily targeted by the Company is the car replacement market there is however a lot of pressure from newly installed foreign car manufacturers to be domestically supplied and the Sponsor was the first foreign manufacturer to have a 100% owned presence in the country. The Truck market is also likely to contribute significantly to the overall forecast market expansion. In every segment of the top brands, the Sponsor's investment in the country contributes significantly to the expansion of the market through supplying similar quality standard products as the imported ones at a lower cost. With a 21.5% share of the "accessible" market, the Company plays a leading role in the expansion of the branded products market.	**Excellent**	**Excellent**	**Low**
3	**Private ownership** The acquisition by the Company of the industrial estate formerly occupied by a co-operative agricultural plant has represented a major boost to the local economy. The plant had closed down following its bankruptcy and 4000 local individuals had to find another job which for most of them meant working in the capital, 80 km away. No public investment was available to compensate for the economic losses suffered. The Company created 962 local jobs. Through sub-contracting a number of activities and creating disposable income locally, the project has significantly contributed to the local and regional economy. It is also the largest tax contributor in the district.	**Excellent**	**Excellent**	**Low**
4	**Frameworks for markets** It has proven very difficult for the Company to cut through the red tape of bureaucratic controls and delays. The project was delayed by failure to secure timely visas for the main contractor's employees, due to late planning permission obtained to develop the expatriates' housing complex and to the long lead time to import equipment and machinery for the plant. The Company has also not been successful in attempting to change existing regulations which prohibit the recycling of used products by the manufacturer; similarly, reprocessing of waste is not allowed and the monopoly of waste management cannot be broken. The Company is subject to a very high number of inspections which are often repetitive and usually futile, resulting in significant waste of	**Marginal**	**Good**	**Medium**

	time and money to challenge their outcome. It could be hoped however that through good relationship entertained with the district authorities and the significant contribution of the project to the local economy some of the bureaucratic hurdles become easier to overcome in the future.			
5	**Skills transfers** The impact of staff development is significant at the corporate level but much less noticeable at the industry level as there appears to be no poaching of trained staff by competitors. Indeed, staff turn over of approximately 20% appears to be within normal standards. According to Management, most employees leaving the Company are attracted by more highly paid but seasonal jobs related to the tourist industry. Acquired elementary language skills are likely to be one of the considerations. On the other hand, the Company is very much involved in collaboration with traffic police to assist in road safety; it has strong connections with the State Technical University's Department of Transport and shares knowledge on road safety as well as energy savings with its senior staff. It also supports local schools for language laboratories, education as well as sport activities.	**Good**	**Good**	**Low**
6	**Demonstration effects** The Company has definitely contributed to setting higher standards in the industry and triggered investments from local and foreign competition to keep up with the momentum it had set. Most noticeable are the decisions by two international competitors to follow the Sponsor's example and invest in greenfield operations in the country; however the upgrading of existing facilities by major domestic manufacturers is also evidence that the Sponsor's promotion of better quality products is being replicated throughout the industry.	**Excellent**	**Excellent**	**Low**
7	**New standards for business conduct** The group's high standards of business conduct have not found much room for replication outside the corporate level. Indeed as mentioned earlier, the group is still facing significant bureaucratic harassment and is unable to implement a waste management strategy or to re-process used products as would be mandatory in Western Europe. Also, as the Company imports and exports a significant proportion of its sales in, or production from the country, intra-group pricing is applied and the banking team is not in a position to determine the extent of such transfer pricing policies.	**Marginal**	**Marginal**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Good**	**Good**	**Low**
	OVERALL TRANSITION IMPACT RATING:	**Good**		

Oil Project

TI checklist categories	STEPS OF RATING TRANSITION IMPACT EX POST	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership** Both parties in the joint venture were publicly traded. The joint venture *per se* had no impact on privatisation but it was meant to enhance the perception that privatised oil companies are able to adjust to Western standards management in order to attract first class investors. The drawn out bickering between the partners initially showed that this was difficult to materialise. While a workable agreement was eventually put in place, the buying out of one party by the parent of the other gives the impression that such standards are reluctantly implemented and under dire necessity only. The ability of the partners to avoid excessive publicity around their internal struggle was however a positive feature.	**Good**	**Satisfactory**	**Medium**
5	**Skill transfers** Transfers of skill was a key feature of the transition impact potential of this project and was indeed carried out through the western partner's high standards of management and technology brought to the joint venture. Although this was not without meeting some reluctance from the local partner's side, due to high cost (e.g. re-design of some engineering in the West due to the local design being ill adapted to advanced Western technology), definite inroads had been achieved, particularly in the fields of Health and Safety. The EvD interview with the western partner left little hope that any of these skills will remain post buy-out.	**Good**	**Marginal**	**Medium**
6	**Demonstration effects** The most significant aspect of demonstration effect has been the syndication market appetite for a non-PSA project finance transaction. This was a successful achievement since at the time of approval, most projects were deemed to be better sheltered from the vagaries of government take if operating under the contractual protection of a PSA. This was even more remarkable since the project carried no export obligation or offtake agreement. The better than anticipated economics of the project made the financing a very good investment to participating banks and could have set a precedent in non recourse financing in the country. This did not occur, however, as completion was delayed due to transportation bottlenecks and the local partner was unwilling to bear the cost and conditionalities of a project loan while excess cash flow was building up. Furthermore, few non PSA developments seem to have taken place since then, while, unexpectedly, PSAs have proven not to be the most effective protection against sovereign versatility.	**Excellent**	**Satisfactory**	**Medium**
7	**New standards for business conduct** The project company has been at the forefront in the region in terms of environmental compliance and corporate practice in general. Although the environmental targets of gas flaring reduction was not achieved, health and safety procedures under the joint venture must have been of higher standards than would have been the case absent the western partner. It should be noted on the other hand that the western partner has complained about not being able to systematically organise tenders for the sales of crude oil and pointed out that the local partner was using with some ambiguity its transportation capacity allocation regarding shipments from the joint venture. With the take over of the JV by the local partner, some if not most benefits of the early achievements are likely to be lost.	**Good**	**Marginal**	**Medium**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**

1	**Competition** The Joint Venture was established in a region where the local partner enjoyed a dominant position. While it has again full control over the project, the influence of the western partner both in terms of advanced technology and corporate governance was a welcome challenge to this quasi monopolistic regional position. Some aspects, maybe more on the technical side, should survive the buy out.	**Good**	**Satisfactory**	**Medium**
2	**Market expansion** The project Company achieved a high level of production by the second half of 2005 and would be able to produce the target level if and when the transportation capacity issue is solved. This increase in oil production did contribute to a significant expansion of the market locally and will necessarily trigger or speed up capacity enhancement investments in the transportation network, thereby establishing distinct forward linkages in terms of economic impact of the project at the national level.	**Good**	**Good**	**Low**
3	**Private ownership** The awarding of a production licence to the partnership on an equity basis as opposed to a PSA can be highlighted as a positive indicator of transition impact which had significant repercussions beyond the project itself. PSAs would typically bring in private sector operators but within a legal framework that is closer to a public service concession than an equity risk/return type investment. Associating a foreign strategic investor to such a legal framework was a novel step made credible to the lenders by the significant equity investment committed by both partners. The subsequent withdrawal of the western partner eventually took much of this meaningful impact away.	**Excellent**	**Marginal**	**Low**
4	**Frameworks for markets** As mentioned above, the ability of the Bank to syndicate a non PSA transaction structured as non-recourse post completion and based on non dedicated domestic sales was a major breakthrough in terms of legal framework and banking acceptability thereof. Furthermore, the negotiation with the local partner of an indemnity in case the validity of the transfer of the production licence would be challenged, showed that some of the legal framework deficiencies can be successfully overcome as demonstrated by its acceptability by the banking syndicate. Unfortunately, the non recourse phase of the project financing was eventually abandoned and the loan itself was short lived, mitigating the longer term impact of such achievements.	**Excellent**	**Good**	**Medium**
5	**Skills transfers** With the repatriation of all foreign skilled workers, subsequent to the local partner's take over of the project company, it remains to be seen whether any of the acquired skilled during the joint venture period may have any spill over effect beyond the project itself. Based on the foreign partner's assessment of the unlikely sustainable legacy of its training of local staff and introduction of modern technologies at the company level, skills transfers at the level of the industry or the economy as a whole are bound to be very limited indeed.	**Marginal**	**Marginal**	**Low**
6	**Demonstration effects** Higher standards in environmental, health and safety practices should have had a positive demonstration effect but there is no assurance that such standards survived the termination of the joint venture. Although there is no evidence that the non PSA project financing set a precedent for subsequent similarly structured transactions, recent experience would indicate that the supposedly comforting framework of PSAs in the country may have been over estimated. The transaction has demonstrated that lenders are no worse off with the normative approach.	**Excellent**	**Good**	**Medium**
7	**New standards for business conduct** The joint Venture was a true 50/50 partnership with no independent referee or honest broker holding a decisive albeit small share of equity as a last resort recourse in case of conflicts. This was initially very difficult	**Good**	**Satisfactory**	**Low**

	to operate but the conflict resolution provided in the new shareholders agreement was a very positive achievement in improving business conduct. It could have had an impact through possible replications in similar situations either in the sector or at the county level. The example set will not have been put in practice long enough, however, to have a significant impact. The negotiations between the partners to terminate the joint venture appear to have resulted in a deal which was viewed, at least by the western partner, as equitable. Although details of the transaction are not public, the parting of the partners in good terms is indicative of good standards of business conduct on the part of a major local oil company.			
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Good**	**Satisfactory**	**Medium**
	OVERALL TRANSITION IMPACT RATING:	**Good**		

Oil transportation company

TI checklist categories	STEPS OF RATING TRANSITION IMPACT EX POST	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership** The Bank knew from the outset that the company would not be privatised due to its strategic importance.	**N.A.**	**N.A.**	**N.A.**
5	**Skill transfers** Technical assistance on the environmental risk assessment side and the switch to IAS statements was expected to lead to skills transfers.	**Good**	**Good**	**Low**
6	**Demonstration effects** The efforts towards more transparency at the Company level in terms of environmental focus and dedicated team as well as the switch to IAS were expected to lead to demonstrations effects in other state-owned companies.	**Satisfactory**	**Satisfactory**	**Low**
7	**New standards for business conduct** Introduction of IAS statements should get recognition	**Satisfactory**	**Satisfactory**	**Medium**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition** It was expected that the company with IAS would be able to better price transportation costs and that this would start a higher degree of competition between the various types of transport modes: pipeline system, rail car, road tankers.	**Good**	**Good**	**Medium**
2	**Market expansion** The XMR expects that the more competitive pricing of the company's products would facilitate updating of refineries. This is not so easy since new refineries have very long lead times. One new refinery has recently been announced.	**Satisfactory**	**Satisfactory**	**Medium**
3	**Private ownership** Company was and continues to be publicly owned	**N.A.**	**N.A.**	**N.A.**
4	**Frameworks for markets** Bank started tariff discussions.	**N.A.**	**N.A.**	**N.A.**
5	**Skills transfers** Some skills transfer through training on environmental side and through environmental consultant.	**Good**	**Good**	**Low**
6	**Demonstration effects** It is not clear to what extent other state-owned companies look at the company for inspiration.	**Marginal**	**Satisfactory**	**Medium**
7	**New standards for business conduct** Independent directors on the Board, high transparency and corporate governance standards, international accounting.	**Satisfactory**	**Satisfactory**	**Medium**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Satisfactory**	**Satisfactory**	**Medium**
	OVERALL TRANSITION IMPACT RATING:	**Satisfactory**		

Power Transmission Company

TI checklist categories	STEPS OF RATING TRANSITION IMPACT *EX POST*	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership** Government policy is to keep the transmission system in state hands. There have been no plans to privatise the company.	**N.A.**	**N.A.**	**N.A.**
5	**Skill transfers** Project helped transfer valuable expertise and skills with regard to project management, system and network operation, and financial reporting.	**Good**	**Good**	**Low**
7	**New standards for business conduct** Project company is subjected to a new Grid Code and has achieved higher technical and operational standards.	**Good**	**Good**	**Low**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition** Project has improved the network infrastructure for a competitive wholesale electricity market.	**Good**	**Good**	**Low**
2	**Market expansion** The size of the wholesale electricity market has increased and new trading instruments and services have been introduced.	**Good**	**Good**	**Low**
3	**Private ownership** Government policy is to keep the transmission system in state hands. There have been no plans to privatise the company.	**N.A.**	**N.A.**	**N.A.**
4	**Frameworks for markets** Legal, institutional and regulatory changes have improved the framework for market-driven power sector operations, but the regulatory process needs additional streamlining and credibility.	**Good**	**Good**	**Low**
5	**Skills transfers** Project facilitated the transfer of skills and know-how for improving the structure and operation of wholesale electricity market.	**Good**	**Good**	**Low**
6	**Demonstration effects** Project inspired the spread of new electricity trading instruments.	**Good**	**Good**	**Low**
7	**New standards for business conduct** Project helped establish new operational benchmarks for power generation and wholesale electricity trading, and introduced new standards for transmission network utilization.	**Good**	**Good**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Good**	**Good**	**Low**
	OVERALL TRANSITION IMPACT RATING:	**Good**		

Private Equity Funds

TI checklist categories	RATING TRANSITION IMPACT EX POST	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership** Some of the funds invested in firms that were being privatised or had been privatised. The funds brought in private investment discipline.	**Good**	**Good**	**Low**
5	**Skill transfers** About 40% of the firms were clearly successful investments for the funds, but about one third were unsuccessful. Even in the cases of failed firms, skills were likely transferred in the form of lessons learned.	**Satisfactory**	**Satisfactory**	**Low**
6	**Demonstration effects** Although the number of successful firms was limited, the exits from the successful firms demonstrated some liquidity, and some good returns of 100%+ in short-term investments and very substantial profits in several cases, especially in the telecoms industry. Risk is high because of high dependency on telecoms returns that seem unlikely to be renewed in the future.	**Satisfactory**	**Satisfactory**	**High**
7	**New standards for business conduct** Even in the cases of failed firms, new standards for business conduct will likely have been demonstrated and transferred.	**Good**	**Good**	**Low**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition** Number of new funds entering the market. (source: EVCA) The stable fee structure in the industry suggests an oligopolistic structure. There are important barriers to entry. Fund managers seem to operate as price makers with respect to their investors as there seems to be excess demand by investors for private equity investment despite the disappointing track record of returns.	**Satisfactory**	**Satisfactory**	**Medium**
2	**Market expansion**	**Good**	**Good**	**Medium**
3	**Private ownership** See above.	**NA**	**NA**	**NA**
4	**Frameworks for markets** NA: not targeted by sector strategy or the projects.	**NA**	**NA**	**NA**
5	**Skills transfers**	**Good**	**Good**	**Medium**
6	**Demonstration effects** Returns were high enough, if not inspiring, to keep attracting both managers and investors to the asset class.	**Satisfactory**	**Satisfactory**	**Low**
7	**New standards for business conduct** The advent of private equity funds was an innovation in the region. It demonstrated new concepts of ownership and investment (via the Limited Partner/General Partner model). It helped to start a fund industry in certain countries.	**Good**	**Good**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Good**	**Good**	**Medium**
	OVERALL TRANSITION IMPACT RATING:	**Good**		

Rail Project

TI checklist categories	STEPS OF RATING TRANSITION IMPACT *EX POST*	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership** Apart from some spin-off activities that remained under the company's control, no further progress along a privatisation agenda intended.	**Satisfactory**	**Satisfactory**	**Low**
5	**Skill transfers** Along with the procurement of state-of-the-art machinery and equipment, training in their operation and maintenance was provided by suppliers, both on-site and at supplier facilities. Management training and skill set training in track maintenance management, financial, economic and commercial areas could have been offered to mid and senior level managers.	**Satisfactory**	**Satisfactory**	**Low**
6	**Demonstration effects** Skill training obtained by the Project Implementation Unit (PIU), particularly regarding procurement matters, was also adopted by other units within the company.	**Satisfactory**	**Satisfactory**	**Low**
7	**New standards for business conduct** On the side of administration and overall management progress has been made by adopting commercial thinking. On the technical/operational side, however, the potential provided by the procured modern machinery and equipment has yet to be explored.	**Satisfactory**	**Good**	**Low**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition**	**N.A.**	**N.A.**	**N.A.**
2	**Market expansion**	**N.A.**	**N.A.**	**N.A.**
3	**Private ownership** Same as under Step I, apart from some spin-off activities, that remained under the company's control, no further progress along a privatisation agenda intended.	**Satisfactory**	**Satisfactory**	**Low**
4	**Frameworks for markets** Progress in track rehabilitation and staff retrenchment occurred, however, the newly introduced completely different ownership structure poses a considerable risk in terms of uncertainty.	**Satisfactory**	**Satisfactory**	**Medium**
5	**Skills transfers**	**N.A.**	**N.A.**	**N.A.**
6	**Demonstration effects**	**N.A.**	**N.A.**	**N.A.**
7	**New standards for business conduct**	**N.A.**	**N.A.**	**N.A.**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Satisfactory**	**Satisfactory**	**Medium**
	OVERALL TRANSITION IMPACT RATING:	**Satisfactory**		

Wastewater Treatment Plant Outsourcing Project

TI checklist categories	STEPS OF RATING TRANSITION IMPACT EX POST	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership**	**Not Applicable**		
5	**Skill transfers** The company incorporated into the contract with the contractor a condition that the contractor accepts and trains the company's employees for the 15-year operation period. On the expiry of the contract, such employees will be re-transferred to the company.	**Marginal**	**Satisfactory**	**Low**
6	**Demonstration effects** The Environmental Authority and the company are fully satisfied with the final quality delivered from this outsourcing attempt. The company is currently considering a few similar transactions.	**Satisfactory**	**Satisfactory**	**Medium**
7	**New standards for business conduct**	**Not Applicable**		
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition**	**Not Applicable**		
2	**Market expansion** Outsourcing non-core functions is a positive step for the company to introduce more efficiency and streamline its businesses, although it is still at a trial stage. More advantages are likely to be recognised in the mid / long-term.	**Satisfactory**	**Satisfactory**	**Medium**
3	**Private ownership**	**Not Applicable**		
4	**Frameworks for markets** Through the Project, the company has significantly raised the industry's environmental standard beyond the mandatory level.	**Good**	**Good**	**Low**
5	**Skills transfers**	**Not Applicable**		
6	**Demonstration effects** The engineering success of the Design-Build-Operate would probably be a trend setter in the region as the way of delivering high quality facilities with strong accountability and liability. However, no discernable replication has appeared.	**Satisfactory**	**Satisfactory**	**Medium**
7	**New standards for business conduct** The long-term financing, which was expected at appraisal as a potential transition enhancement, did not come through.	**Satisfactory**	**Satisfactory**	**High**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Satisfactory**	**Satisfactory**	**Medium**
	OVERALL TRANSITION IMPACT RATING:	**Satisfactory**		

Waste Water Treatment Plant Project

TI checklist categories	STEPS OF RATING TRANSITION IMPACT EX POST	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership.** No Privatisation intended.	N.A.	N.A.	N.A.
5	**Skill transfers** Learning about modern plant construction and its operating from foreign private sector consortia. The Plant is now applying acceptable environmental standards.	Excellent	Good	Medium
6	**Demonstration effects.** Since it was a quasi- greenfield project there were no inter-departmental demonstration effects involved.	N.A.	N.A.	N.A.
7	**New standards for business conduct.** These are closely related to Skill Transfers and, apart from the operation and maintenance issues, also concern planning for future expansions.	Good	Good	Medium
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition.** The utility service constitutes a natural monopoly with no competition intended.	N.A.	N.A.	N.A.
2	**Market expansion.** With the completion and commissioning of the Plant a vast community waste water sewage producers.	Good	Good	Low
3	**Private ownership.** No Privatisation intended. The Project embraced private sector initiative at its early stages and construction risk was shared, but the Project did not add in the end to the private provision of (O&M) services in the sector.	Marginal	Marginal	Low
4	**Frameworks for markets.** Through competitive procurement for goods and services private sector forward- and backward-linkages are believed to have been created.	Satisfactory	Satisfactory	Low
5	**Skills transfers.** Since each waste water treatment plant has a uniquely technology incorporated there is little skill transfer possible.	N.A.	N.A.	N.A.
6	**Demonstration effects.** Some demonstration effects are associated with the recognition that the private sector can solve problems more efficiently. But, the awarding of the main construction contract without competition and on a negotiated basis constitutes a negative compensation.	Marginal	Marginal	Low
7	**New standards for business conduct.** These are closely related to Skill Transfers and concern, apart from the operation and maintenance issues, also to planning for the benefit of future expansions.	N.A.	N.A.	N.A.
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	Satisfactory	Satisfactory	Low
	OVERALL TRANSITION IMPACT RATING:	**Satisfactory**		

Water Supply and Sewerage Services Development Programme

TI checklist categories	STEPS OF RATING TRANSITION IMPACT EX POST	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	STEP I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	**Rating**	**Rating**	**Rating**
3	**Private ownership**	**Not Applicable**		
5	**Skill transfers** Skill transfer within the utility took place from management and PIU to all employees. This has contributed to transform the utility into an efficiency-oriented utility service company.	**Good**	**Satisfactory**	**Low**
6	**Demonstration effects**			
7	**New standards for business conduct** Corporate Development Programme improved the utiltity's operations in a significant way. Corporate governance has been strengthened enabling the management board to take strong initiatives for changes. Financial and budgeting practices and resource allocation have been improved incorporating international standards.	**Excellent**	**Good**	**Low**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition**	**Not Applicable**		
2	**Market expansion** Financing capacity of the utility as well as the City has significantly increased as a result of borrowing without a municipal guarantee. The Project has led to the larger endeavour, which is to issue the utility revenue bond.	**Good**	**Good**	**Medium**
3	**Private ownership**	**Not Applicable**		
4	**Frameworks for markets** The Project is the first investment which developed and applied a municipal support agreement (MSA). Through the MSA, the tariff setting mechanism has changed to reflect the cost recovery principle, which was the Bank's major sector agenda.	**Good**	**Good**	**Medium**
5	**Skills transfers** The utility regularly conducts conferences and workshops for the other municipalities and the water utility companies for dissemination of its acquired experience and knowledge. The utility has established a consulting arm.	**Excellent**	**Good**	**Low**
6	**Demonstration effects** Replication of using MSA has been made to a number of the Bank's projects in the MEI sector. A Ukrainian water company is interested in cooperation with the utility.	**Good**	**Good**	**Low**
7	**New standards for business conduct** MSA is a new standard in MEI lending.	**Good**	**Good**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Good**	**Good**	**Low**
	OVERALL TRANSITION IMPACT RATING:	**Good**		

OUTCOME OF PERFORMANCE RATINGS OF THE BANK'S INVESTMENT OPERATIONS[1]

1. POST-EVALUATION OUTCOME

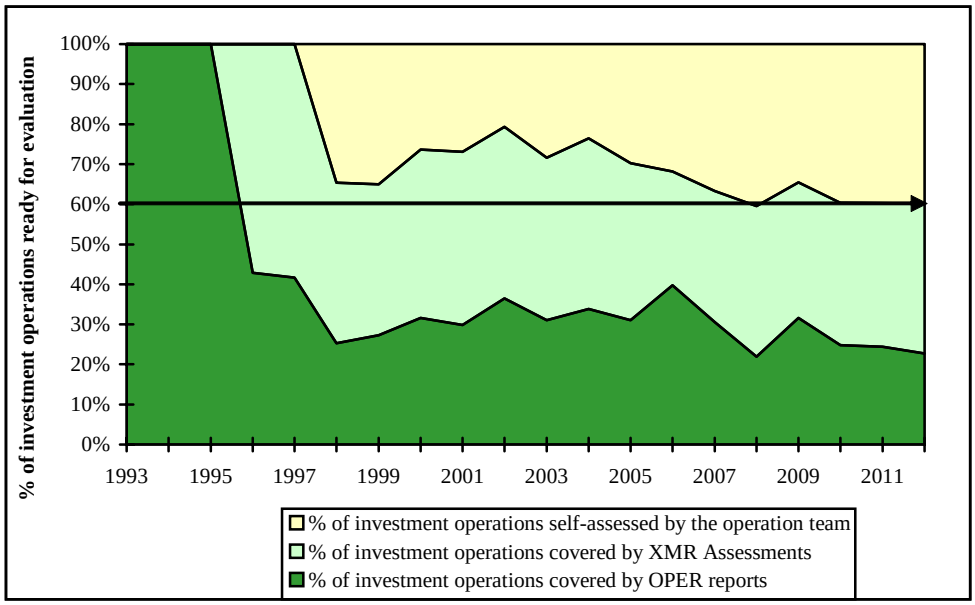
1.1. GENERAL

This Appendix analyses performance ratings of evaluated investment operations. It seeks to draw conclusions and serves as a basis for some recommendations in the main text. Projects for evaluation are selected from all fully disbursed projects in the portfolio considered ready for evaluation.[2] Performance evaluations of individual projects are generally only conducted once in their lifetime, normally with no subsequent re-validation.

1.2. EVALUATION COVERAGE IN 2006

The Bank's evaluation policy sets a minimum annual coverage ratio of 60 per cent (increased from 50 per cent in 2004) to ensure a good representation of projects, accountability and timely identification of relevant lessons. Chart 1.1 presents the actual and projected coverage ratio. Experience in the past has been that the number of projects actually ready for evaluation is more evenly spread than in the projections and a few projects are lost each year due to cancellations and bundling of projects under evaluation.

Chart 1.1: Evaluation coverage for investment operations (actual to 2006 and projected)



In 2006 the Operation Performance Evaluation Reviews (OPERs) covered 34 per cent of all new projects ready for evaluation. An additional 31 per cent was covered with independent assessment reports by EvD on bankers' expanded monitoring reports (XMR assessments).[3] This brought the

[1] Appendix 6 presents an overview of the investment operation and evaluation databases.

[2] Investment projects are considered ready for evaluation *one and a half years* after the last disbursement of loans and two years thereafter in cases of equity or combined equity/loans. At least one year of commercial operations, with at least one year of audited accounts, should normally have passed for all investment projects.

[3] An XMR assessment takes about four days work of EvD staff. It does not involve a field mission and is based on a desk-study. It includes: a) study of the XMR (a joint monitoring and self-evaluation report by bankers); b) review of project documents and various industry reports; c) interviews with operation teams, other EBRD staff and sometimes external parties; and d) independent validation of performance ratings and lessons. The performance ratings assigned to projects that are XMR assessed are aggregated in the overall performance rating of all evaluated projects as presented in this report. Lessons from XMR Assessments are included in EvD's Lessons Learned Database (LLD).

year's coverage to 52 projects or 65 per cent of ready operations, which is well above the increased minimum coverage ratio.[4]

1.3. SIZE AND REPRESENTATION OF THE SAMPLE OF EVALUATED PROJECTS

Selection of projects for evaluation is described in detail in Appendix 3 of the Evaluation Policy Review of 2004 (BDS04-24 (Rev 1)). For the exercise of performance evaluation in this AEOR for 2006, the total sample comprises OPER and XMR assessments by EvD on 520 projects evaluated in 1996-2006.[5] The projects were selected to represent a cross-section of all EBRD operations, while also looking at the prospect of generating useful lessons. The annual evaluation coverage was 100 per cent at the end of 1996 and well over the 60 per cent target thereafter, as shown in Chart 1.1. A total of 732 investment projects had reached the ready-for-evaluation stage by the end of 2006. The evaluated sample of 520 projects is fairly large (71 per cent) and represents a reasonably balanced cross-section of all EBRD projects. The evaluated share of all 1,451 signed projects was lower at 44 per cent, as many of the more recently approved operations had not yet reached the evaluation stage.[6] Section 10 of this Appendix presents an analysis of the country, sector representation in the sample as well as and the risk rating distribution of the evaluated sample. The sample of projects selected from the groups of operations ready for evaluation continues to be a good representation of the Bank's portfolio as a whole.

1.3.1. Selection of projects for evaluation:

In 2006, EvD selected 35 operations for evaluation through 22 OPERs and one Special Study evaluation. Some of the operations were grouped for evaluation purposes, and this process resulted in 27 individually rated evaluations as included in the 2006 figures presented in this appendix and Chapter 1. The 27 evaluations were selected according to the following criteria:

- **Lessons learned potential of an operation:** the expectation that the evaluation can generate rich lessons
- **Whether a project is high profile:** these projects can have important political/transition connotations or can be flagship operations in a country where the project has high demonstration effects
- **The Bank's risk in a project, including environmental risks:** this can be reputation risks for the Bank or risks due to the size of the investment
- **Whether an operation is under-performing:** impaired operations tend to contribute considerably to the crop of lessons learned
- **Likelihood of replication of the operation:** lessons from these projects help in enhancing the projects that the Bank is working on at the moment, or will work on in the future
- **Country and sector coverage:** it is important to evaluate projects from as many sectors, Banking teams and countries as possible to represent a cross-section of the portfolio.

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[4] The evaluation coverage gap is compensated, in part, by EvD's review of all XMRs. In contrast to OPERs and XMR assessments, XMR reviews do not seek to validate self-evaluation ratings and no editing is made of the lessons. In contrast, the reviews seek to ascertain completeness and clarity in consultation with the teams and report the quality ratings given with EvD's sign-off. The independent OPER reports, XMR assessments and quality-control by XMR reviews, together cover 100 per cent of all operations ready for evaluation.

[5] During 2005, the evaluation database was reviewed and ratings brought in line with the current rating system to create a consistent database of 469 projects evaluated in 1996-2005.

[6] See Appendix 6 for more detailed data; records on signed operations may also at times divide one operation into separate commitments.

In this way EvD identifies the projects which have the greatest potential for learning from EBRD's experience. However, this can lead to a bias towards unsuccessful projects, which are particularly good sources of lessons. As EvD also uses evaluation outcomes to report on success rates for accountability purposes, it is necessary to balance the sample with a random selection of the remaining projects not selected for full evaluation through OPERs. EvD conducts several random samples of the operations not selected as OPERs, and analyses the sector and country coverage and the risk distribution of the samples to find the one which sample, *when combined with the OPERs already selected*, provides the best match for EBRD's portfolio as a whole.

1.3.2. Weighting the results:

In 2006, once operations had been grouped for evaluation purposes, there was a population of 80 projects ready for evaluation, of which 52 were evaluated by EvD. The population is split into two strata:

- *Stratum 1:* 27 projects evaluated through OPERs or Special Studies (33.75 per cent of 80)
- *Stratum 2*: The remaining 53 projects (66.25 per cent of 80) not selected for evaluation through an OPER report. The random sample of 25 XMR Assessments constitutes 47.2 per cent (25/53) of stratum 2.

For weighting purposes, the 25 XMR Assessments must be given a 66.25 per cent weighting in the overall results. Table 1.1 below give the weighted and un-weighted outcomes for Overall Performance for 2006:

Table 1.1: Outcomes for Overall Performance of projects evaluated in 2005

EvD Report Type	Highly Successful	Successful	Partly Successful	Unsuccessful	Number of reports
OPERs	11%	48%	30%	11%	27
XMRAs	28%	36%	32%	4%	25
Overall result – Un-weighted	19%	42%	31%	8%	52
Overall result – weighted	22%	40%	31%	6%	52

It can be seen that the overall result is almost identical in both cases. It should be noted that OPER reports show a greater proportion of *unsuccessful* projects than XMR Assessments. This results from the bias among OPERs towards *unsuccessful* projects rich in lessons learned material, as mentioned above, and the resulting bias away from *unsuccessful* projects among XMR Assessments which are selected from a stratum from which many *unsuccessful* projects have already been removed.

1.3.3. Standard error of the sample:

The distribution of the results about the mean was calculated by first giving the outcomes for the 52 evaluated projects numerical values, i.e. *highly successful*=1; *successful*=2; *partly successful*=3; *unsuccessful*=4. The mean score for 2006 was 2.26, which is in the *successful* range (i.e. between 1.5 and 2.5), but moving towards *partly successful*. The standard deviation is 0.87 and the standard error of the sample 0.12. Therefore the 95 per cent confidence interval for the mean is a score between 2.02 and 2.50 – still just within the *successful* range.

2. PERFORMANCE RATING OF EVALUATED PROJECTS

2.1. THE COMPOSITE OVERALL PERFORMANCE RATING OF A PROJECT

The *overall performance* rating of an evaluated operation builds on several underlying performance ratings, derived from the Bank's mandate. Transition impact is the overriding individual rating for all operations. Environmental performance and change are significant indicators for projects with high environmental risks. The following broad performance dimensions are addressed:

a. Transition impact

- *transition impact* is defined as the effects of a Bank project on businesses, markets or institutions that contribute to the transformation from central planning to a well functioning market economy

b. The environment

- *environmental performance* measures how well the environmental objectives of the project (institutional, emissions control, regulatory compliance, social issues and public participation) were identified and have been met

- *environmental change* is measure as the difference between the environmental performance before the project started and its performance at the time of evaluation

c. Additionality

- *the Bank's additionality* in terms of whether the Bank provides financing that could not be mobilised on the same terms by markets and/or whether the Bank can influence the design and functioning of a project to secure transition impact

d. Sound banking principles

- *project and company (financial) performance* provide the sustainability element to allow transition impact to enfold beyond the project/company, and

- *fulfilment of project objectives* concerns the extent of verified and expected risk weighted fulfilment potential of the operation's process and project objectives (efficacy) upon validation of their relevance

e. The Bank's investment performance

- *the Bank's investment performance* measures the extent to which the gross contribution of a project is expected to be sufficient to cover its full average transaction cost and contribute during its life to the Bank's net profit. Unlike the other dimensions, however, it does not represent any impact of the project on the ground in the country.

f. Bank handling

- *Bank handling* assesses the due diligence, structuring and monitoring of the project, as undertaken by all departments and units involved in the operation process, and the Bank as a whole. A judgement is made on the quality of the work and on how effectively the Bank carried out its work during the life of the project. Positive and negative lessons are generated. In case operations are evaluated that are handled by the Corporate Recovery Unit, Bank Handling will also take into account problem recognition, remedial action and recovery efforts.

In the past, multilateral development banks (MDBs) have had different ways of measuring overall performance and performance with respect to their mandates. However, the MDBs have been asked, by their shareholders, to harmonise their evaluation procedures and processes, to ensure their results are more comparable with the outcomes of other MDBs. Therefore, the evaluation departments of the MDBs, through the Evaluation Cooperation Group (ECG), have attempted to harmonise their rating systems so that some comparisons can be made. For the EBRD, this means that the Bank, apart from the presentation of performance evaluation based on all indicators, will also measure *transition outcome*. *Transition outcome* combines the ratings that measure results on the ground in the respective countries. The composite rating categories for the *transition outcome* rating are: transition impact; environmental performance and change; project and company financial performance; and fulfilment of project objectives. The *overall performance* as presented in Section 2.2 of this Appendix and the *transition outcome* ratings, when compared, are highly similar. The Bank-related ratings that are not related with results on the ground, i.e. the Bank's *Additionality*, *Bank Handling* and the Bank's *investment performance* have a limited impact on the Overall Performance rating.

2.2. OVERALL PERFORMANCE RATINGS 1996-2006

Table 2.1 and Chart 2.1 present the assigned *overall performance* ratings given to evaluated EBRD investment projects. The outcome for all projects assessed since 1996, when EvD introduced refined methods of evaluation, is shown. These projects represent 71 per cent of all EBRD investment projects which had completed the investment phase and were ready for evaluation by the end of 2006. A further 27 projects, constituting 100 per cent of projects ready for evaluation in 1993-95, are omitted from the statistics because they were evaluated before a refined and consistent system of evaluation had been introduced. Of 520 evaluated projects discussed in the following sections, there is a good level of representation in terms of country, sector and risk classification compared to all disbursed operations as shown in Section 10 of this Appendix.

Chart 2.1: Overall performance, percentage distribution of assigned ratings
(520 investment operations evaluated 1996-2006)

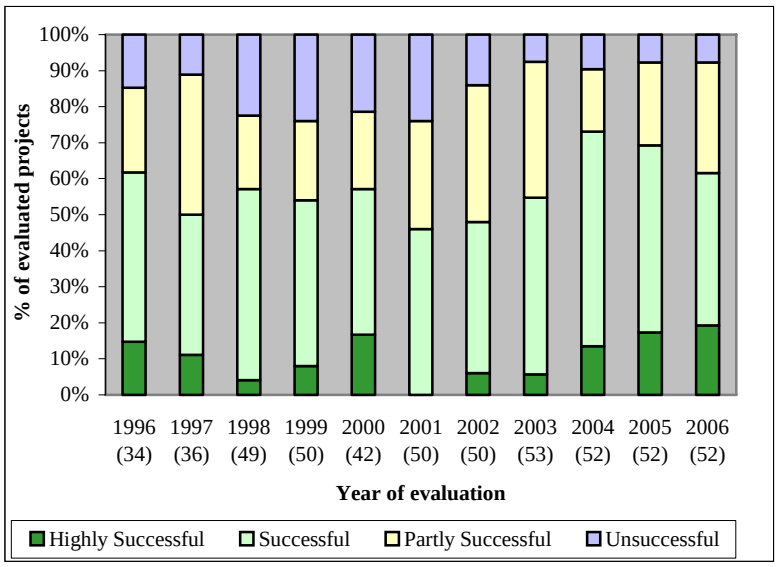


Table 2.1: Overall performance, percentage distribution of assigned ratings
(520 investment operations evaluated 1996-2006)

Year of evaluation	Unsuccessful	Partly successful	*Sub-total*	Successful	Highly successful	*Sub-total*	No. of evaluations
1996	15%	24%	*39%*	46%	15%	*51%*	34
1997	11%	39%	*50%*	39%	11%	*50%*	36
1998	22%	21%	*43%*	53%	4%	*57%*	49
1999	24%	22%	*46%*	46%	8%	*54%*	50
2000	21%	22%	*43%*	40%	17%	*57%*	42
2001	24%	30%	*54%*	46%	0%	*46%*	50
2002	14%	38%	*52%*	42%	6%	*48%*	50
2003	8%	38%	*46%*	48%	6%	*54%*	53
2004	10%	17%	*27%*	60%	13%	*73%*	52
2005	8%	23%	*31%*	52%	17%	*69%*	52
2006	8%	31%	*39%*	42%	19%	*61%*	52
1996-97	13%	31%	*44%*	43%	13%	*56%*	70
1996-98	17%	27%	*44%*	47%	9%	*54%*	119
1996-99	19%	25%	*44%*	47%	9%	*56%*	169
1996-2000	19%	25%	*44%*	46%	10%	*56%*	211
1996-2001	20%	26%	*46%*	46%	8%	*54%*	261
1996-2002	19%	28%	*47%*	45%	8%	*53%*	311
1996-2003	18%	29%	*47%*	45%	8%	*53%*	364
1996-2004	17%	28%	*45%*	47%	8%	*55%*	416
1996-2005	16%	27%	*43%*	48%	9%	*57%*	468
1996-2006	15%	28%	*43%*	47%	10%	*57%*	520

Rather more than half (300 of 520 evaluated projects, or 57 per cent) of the operations evaluated obtained ratings in the *successful–highly successful* bracket.[7] Throughout the 1990s this share varied around the 50 per cent mark but showed no definite pattern. A clear and steady rise was visible following a low point of 46 per cent in 2001, reaching 73 per cent of projects rated *successful* or *highly successful* in 2004. Since then this level has fallen back a little, and it is not yet clear whether this represents a new downward trend or a levelling-off following unusually high results in 2004. The results for 2006 remain higher than in any year before 2004. The proportion of projects rated *highly successful* in 2006 (19 per cent) was higher than in any previous year, while the proportion rated *unsuccessful*, at 8 per cent, equalled the previous lowest level.

[7] Weighting by volume of investment yields better results, with 70 per cent *Successful* or higher, 20 per cent *partly successful*, while the *unsuccessful* ratings share is 10 per cent.

Across the whole period, 10 per cent of the projects scored *highly successful* overall, while rather more were rated *unsuccessful* (15 per cent). Projects with the highest overall rating scored well on transition impact and the other performance indicators. Over three quarters of *unsuccessful* projects scored *unsatisfactory* or *highly unsatisfactory* for project financial performance (see Section 6 of this Appendix). This resulted in low sustainability and lost positive external factors in the sector and economy as a whole. Only sustainable projects can yield significant transition impact, via linkages or positive demonstration of successful market-driven reform of enterprises.

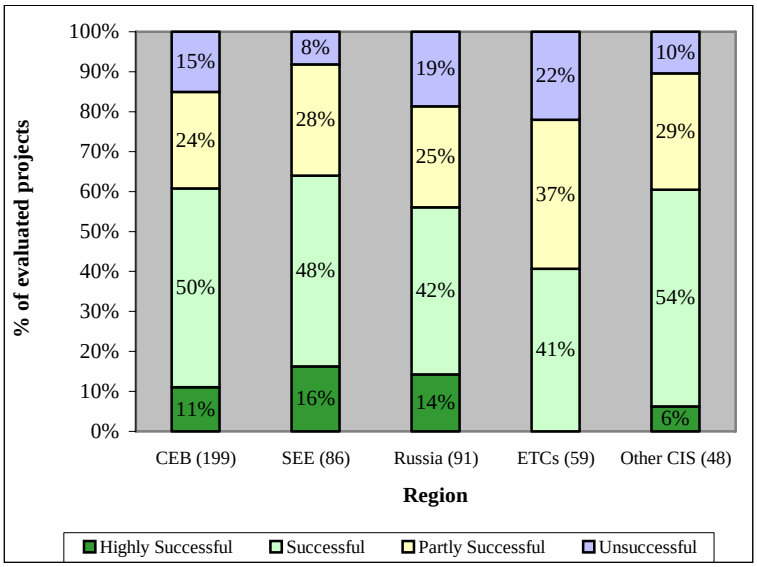
The overall performance outcome may seem modest, with 43 per cent of the projects rated only *partly successful* or *unsuccessful.* However, it must be remembered that the region remains a risky investment environment, and this continues to be true even for the more recent EBRD projects developed in more advanced transition economies, as EBRD is supporting further deepening of the transition process in more challenging areas where business opportunities are low and financial intermediation limited. Moreover, the need to secure the Bank's additionality in projects means that the EBRD must accept at times relatively high-risk projects as sponsors for lower-risk projects in these countries can readily attract financing from the market. This constraint continues to put high demands on the Bank to select and structure projects that mitigate both the industry and sector-specific risks in the particular investment environment and the risks to transition impact.

2.3. PERFORMANCE RATINGS BY COUNTRY GROUPS

2.3.1. Regional comparisons.

Chart 2.2 below shows that in the central and eastern Europe and the Baltics (CEB), south-eastern Europe (SEE) and Other CIS (excluding Russian and ETCs) groups of countries, 60 per cent or more of evaluated projects now fall in the *successful* or *highly successful* bracket. Success rates overall in Russia were slightly lower, at 56 per cent, though this shows a steady and continuing improvement from previous years. ETCs still lag behind with only 41 per cent of projects rated *successful* or *highly successful* overall.

Chart 2.2: Overall performance ratings by country groups
(483 investment operations evaluated 1996-2005)

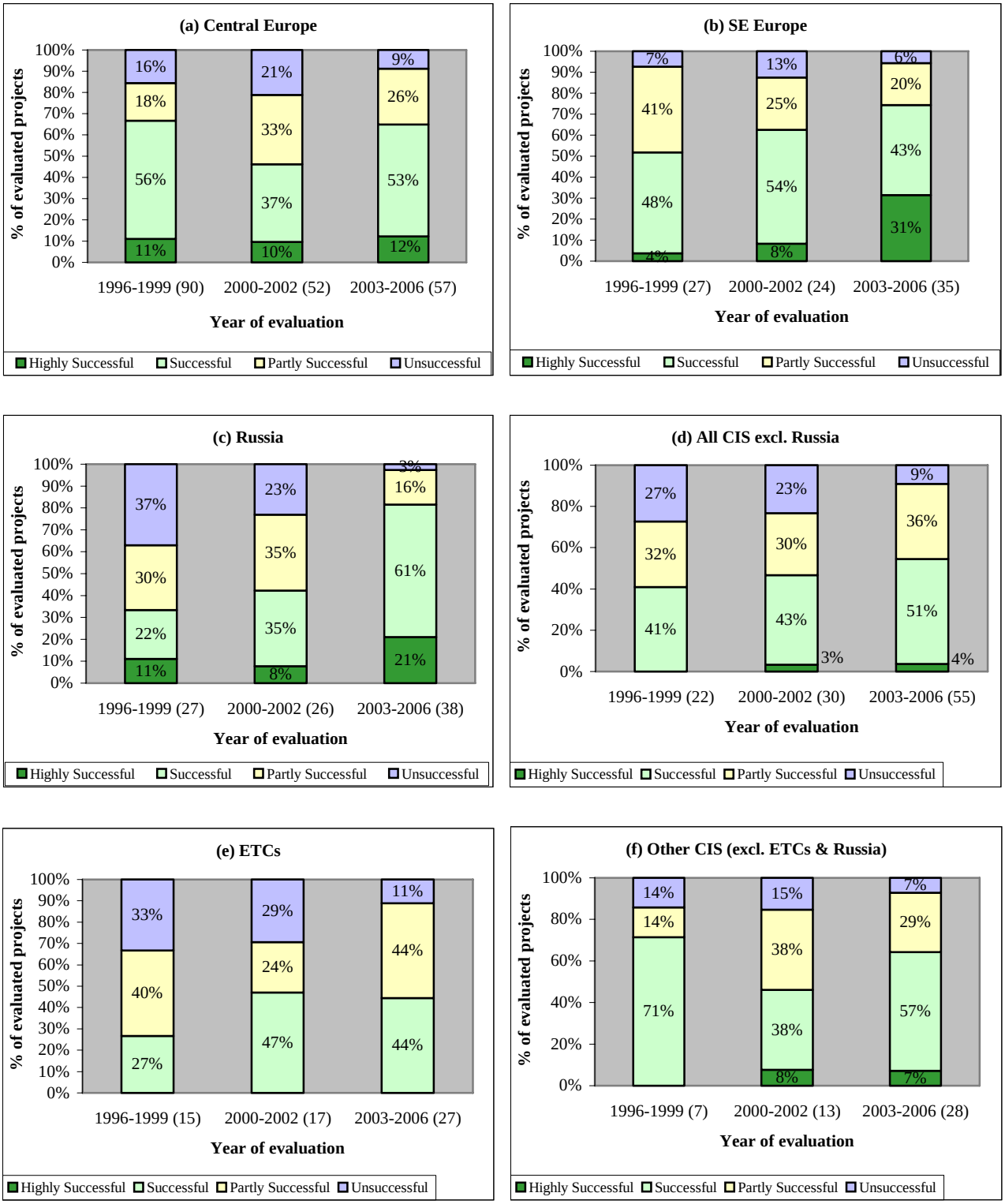


Note: 37 regional projects omitted
CEB: Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia
SEE: Albania, Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Romania, Serbia and Montenegro
ETCs: Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan, Uzbekistan
Other CIS: Belarus, Kazakhstan, Turkmenistan, Ukraine

The average success ratings in the various country groups suggest that investment projects in countries where the characteristics of the planned economy prevailed longest may face the highest financial and transition risks. Projects in Russia, the Caucasus and Central Asia still face more difficult challenges than did projects in the early 1990s in central Eastern Europe and the Baltic states, and more recently those in the more reform-oriented countries in south-eastern Europe. It should be noted, however, that the CIS group is quite diversified, with major differences among its countries. Ukraine (which provides the majority of evaluated projects in this group) and Kazakhstan are far better performers than Belarus and Turkmenistan. In Ukraine, 76 per cent of the 23 operations are rated *successful* or better, and in Kazakhstan eight out of the 15 projects, while in Belarus and Turkmenistan, only two of the eight projects evaluated falls into this category.

The pattern in Chart 2.3 shows the change in overall performance ratings over time for the main geographical areas.

Chart 2.3: Overall performance ratings: Changes by year in the major country groups



Note: 37 regional projects omitted
See chart 2.2 for list of countries in each region
"All CIS excl. Russia" is a combination of ETCs and other CIS

2.3.2. Central and Eastern Europe and the Baltics.

The results for CEB closely mirror the overall results reported in 2.2 above, reaching a low point in 2000-02 before rising strongly in the last four years. The improvement in the overall rating in 2003-06 is associated with a similar pattern in the ratings for Fulfilment of

Objectives, Project Financial Performance and Transition Impact, though the picture on Additionality is less clear. Following the poorer outcomes in 2000-02, the overall performance ratings appear to have recovered to the level they achieved in the late 1990s.

2.3.3. South-eastern Europe.

Performance in SEE improved steadily but not dramatically during the 1990s. Over the last five years it has risen to reach 74 per cent rated *successful* or better in 2003-06, with an even stronger increase in the number of projects rated *highly successful*.

2.3.4. Russia.

The improvement in overall performance in Russia over the last three years has been dramatic, after a long period of limited success throughout the 1990s and beyond. This statistically significant improvement in performance may be a result of the improving economic environment and greater stability in Russia, which has allowed companies to perform well and achieve their aims, where previously efforts were directed to financial survival.

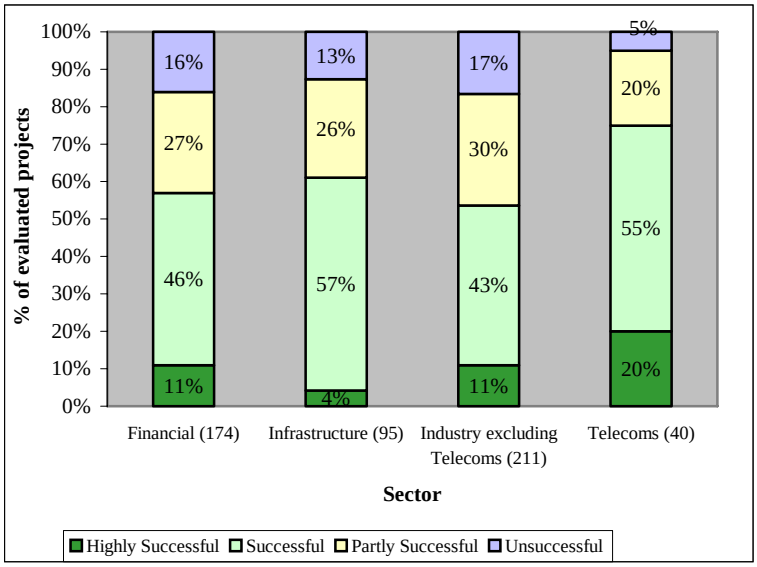
2.3.5. The early transition countries (ETCs).

This is the only region where the number of projects rated *successful* has fallen in 2003-06 compared to previous years. In the last four years only 44 per cent of projects were rated *successful* and no project in this region has ever been rated *highly successful*. However, results appear to be improving year on year, as the 2003-06 period is influenced by a poor set of results in 2003. In that year 12 projects from this region were evaluated, most of them originally approved in the mid to late 1990s, and only a third of them were rated *successful*. It may be that this outcome was a delayed effect of the 1998 crisis. Since then, a further 15 projects have been evaluated of which eight – just over half – were rated *successful*. The number of projects evaluated in this region is still small compared to CEB, SEE and Russia, so it is difficult to draw conclusions.

2.4. OVERALL PERFORMANCE RATINGS BY SECTORS

Looking at the sectoral breakdown cumulatively for all projects evaluated since 1996, there is very little difference between the performance of all the sectors excluding Telecoms. There is also very little change from last year's results. Infrastructure leads the other sectors slightly in terms of projects rated *good* or *excellent*. It has the fewest projects rated *highly successful*, but also the fewest rated *unsuccessful*.

Chart 2.5: Overall performance ratings by sector groups
(520 evaluated investment operations, 1996-2006)

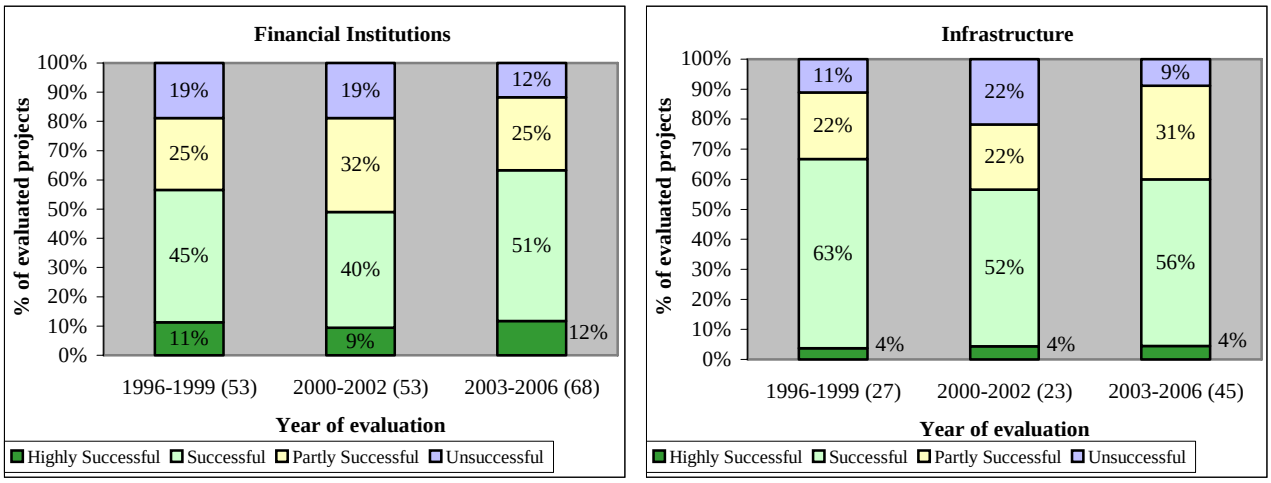


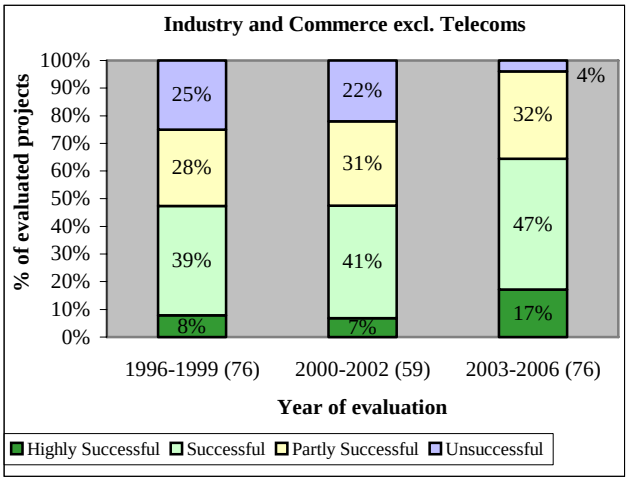
Infrastructure = municipal/environment, power, energy efficiency and transport;
Industry = agribusiness, general industry, natural resources, commercial services, property/tourism, and telecommunications

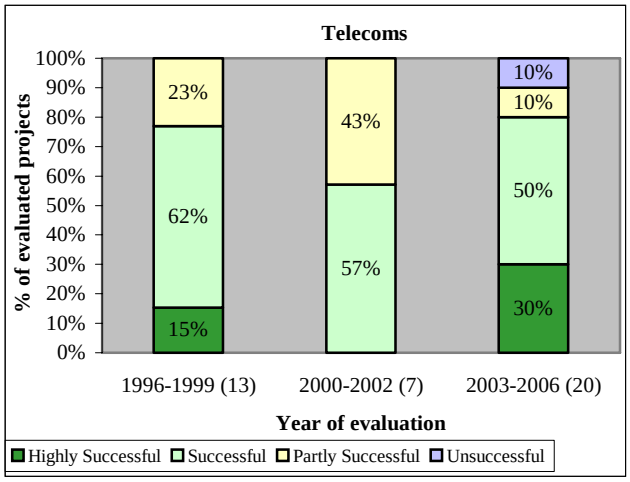
The time series data in chart 2.6 confirms findings from previous years: performance in Infrastructure has fallen since the late 1990s, when it was the best performing sector, to become the worst performing sector with only 60 per cent projects rated *successful* or *highly successful* in 2003-06. However, this decline seems now to have levelled off, with results in 2003-06 slightly improved on 2000-02.

Financial Institutions (FI) has shown an improvement in 2003-06 after several years' decline, while the performance in Industry and Commerce has improved significantly in recent years, with 64 per cent of projects rated *successful* or *highly successful* in 2003-06.

Chart 2.6: Overall performance ratings: changes by year in the major industry sectors







Note: 37 regional projects omitted. See chart 2.2 for list of countries in each region

3. THE TRANSITION IMPACT (TI) RATING

3.1. METHODOLOGY

The case presentations in Appendix 7 illustrate the evaluation methodology used after project signing (*ex-post*). This uses the same framework and indicators as the *ex-ante* (before project signing) methodology, applied by the Bank during the approval stage of new projects. It should be noted that this methodology includes short-term verified impact, the assessed potential for further transition impact, as well as an assigned risk for the realisation of this potential. From 2000 a six-grade scale was applied for all post-evaluated operations, similar to the scale adopted for *ex-ante* assessment of TI potential and attendant risks by OCE. As for other indicators, projects evaluated in 1996-2005 have been revisited and re-rated according to the current rating system. An analysis of the projects which have been rated both *ex-ante* by OCE and *ex-post* by EvD can be found in chapter 2.

3.2. THE DISTRIBUTION OF TI RATINGS

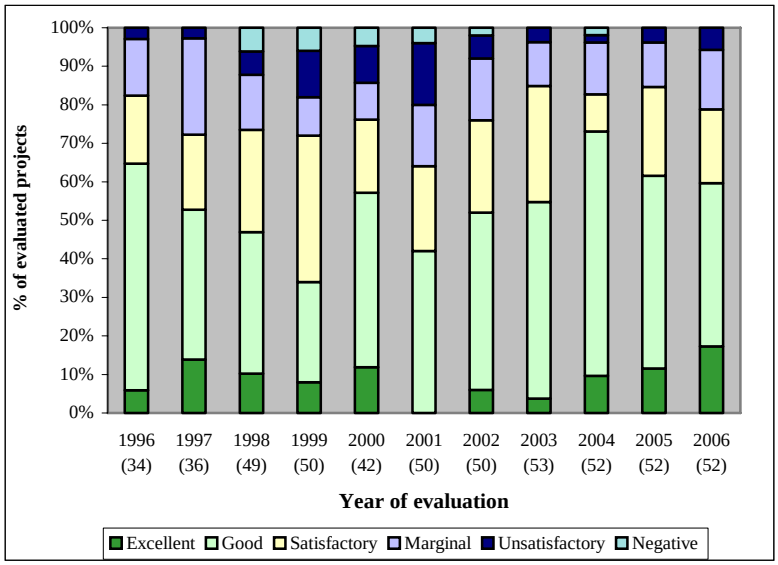
TI ratings carry a high weight in the overall performance ratings of projects. Table 3.1 shows the distribution of the *ex-post* TI ratings by EvD since 1996. As for the Overall Performance rating, there appears to have been a steady improvement from a low in 2001 to a peak in 2004, and then a slight fall in the last two years, although the share of projects rated *excellent* continues to rise. The share of projects with *good* to *excellent* ratings over the 10 years is 54 per cent; while 77 per cent of the projects were rated *satisfactory* or higher, but it is notable that nine per cent of the projects during the same period rated *unsatisfactory* or *negative*.[8]

[8] Weighting by volume of investment yields better results, with 61 per cent *Good* or *Excellent* and 83 per cent rated *Satisfactory* or higher.

Table 3.1: TI ratings of 469 investment operations evaluated –1996-2006

Period	Negative	Unsatis-factory	Marginal	*Subtotal negative - marginal*	Satisfactory	Good	Excellent	*Subtotal satisfactory - excellent*	Total projects evaluated
1996	0%	3%	15%	*18%*	18%	58%	6%	*82%*	34
1997	0%	3%	25%	*28%*	19%	39%	14%	*72%*	36
1998	6%	6%	14%	*26%*	27%	37%	10%	*74%*	49
1999	6%	12%	10%	*28%*	38%	26%	8%	*72%*	50
2000	5%	10%	10%	*25%*	19%	44%	12%	*75%*	42
2001	4%	16%	14%	*34%*	24%	42%	0%	*66%*	50
2002	2%	6%	16%	*24%*	24%	46%	6%	*76%*	50
2003	0%	4%	11%	*15%*	30%	51%	4%	*85%*	53
2004	2%	2%	13%	*17%*	10%	63%	10%	*83%*	52
2005	0%	4%	12%	*16%*	23%	49%	12%	*84%*	52
2006	0%	6%	15%	*21%*	19%	43%	17%	*79%*	52
1996-1997	0%	3%	20%	*23%*	19%	48%	10%	*77%*	70
1996-1998	2%	4%	18%	*24%*	22%	44%	10%	*76%*	119
1996-1999	4%	7%	15%	*26%*	27%	38%	9%	*74%*	169
1996-2000	4%	7%	14%	*25%*	25%	40%	10%	*75%*	211
1996-2001	4%	9%	14%	*27%*	25%	40%	8%	*73%*	261
1996-2002	4%	8%%	14%	*26%*	25%	41%	8%	*74%*	311
1996-2003	3%	8%	14%	*25%*	25%	443%	7%	*75%*	364
1996-2004	3%	7%	14%	*24%*	24%	45%	7%	*76%*	416
1996-2005	2%	7%	14%	*23%*	23%	46%	8%	*77%*	468
1996-2006	2%	7%	14%	*23%*	23%	45%	9%	*77%*	520

Chart 3.1: TI ratings of 520 investment operations evaluated 1996-2006



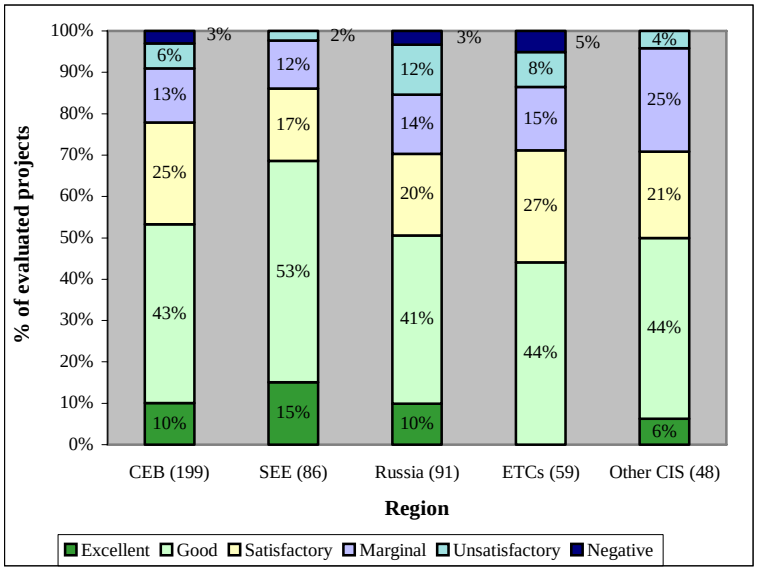
3.3. TRANSITION IMPACT RATINGS BY COUNTRY GROUPS

Chart 3.1 presents the TI rating distribution by country groups of 483 projects[9] evaluated in 1996-2006. Again, the ETCs fall behind the other regions, with 44 per cent of projects rated *good* and none *excellent*, compared with around 50-53 per cent rated *good* or *excellent* in CEB, Russia and the Other CIS groups, and 68 per cent in SEE. However, a large number of ETC projects achieve a *satisfactory* rating. The number of projects rated *satisfactory* or above is 71 per cent in each of Russia, ETCs and Other CIS, with CEB ahead on 78 per and SEE the best region with 85 per cent *satisfactory* or above. It has been noted in previous AEORs that a *satisfactory* rating for transition impact is often associated with a *partly successful* rating for overall performance. Of the 16 ETC projects rated *satisfactory* for TI, nine are rated *partly successful* overall and two *unsuccessful*. All but one of these projects (rated *partly successful* and *unsuccessful* for overall performance, and *satisfactory* for TI) had project financial performance rated *marginal* or below, which contributed to the lower overall performance rating[10].

The low financial performance also appears to have had an impact on the TI rating itself. It might be expected that the ETC region would have the highest transition impact, given the challenges remaining to be addressed, but poor financial performance appears to have limited this. Only 24 of the 59 ETC projects are rated *satisfactory* or better for project financial performance[11] and 17 of these (71 per cent) also achieve a *good* TI rating, six achieve *satisfactory*, one *marginal* and none less than *marginal* TI. Thus, those ETC projects which performed well financially also performed well in terms of transition impact. Looking at the same numbers from a different direction, 65 per cent of the 26 ETC projects rated *good* for transition impact also had *satisfactory* or better financial performance, only 37.5 per cent of the 16 projects rated *satisfactory* for TI performed well financially, and only one project with less than *satisfactory* TI had financial performance which was *satisfactory* or better. It appears that financial sustainability is necessary but not sufficient for a project to achieve transition impact.

[9] Thirty-seven regional projects were omitted.
[10] Both the *unsuccessful* projects involved a flawed concept: although achieving many of their objectives and having some transition impact, the result was an unsustainable project with no market. The single project with a *Good* project financial performance encountered shareholder issues, unsuccessfully mitigated by EBRD's handling, which damaged an otherwise successful project.
[11] Two projects which were evaluated through Special Studies were not rated for project financial performance.

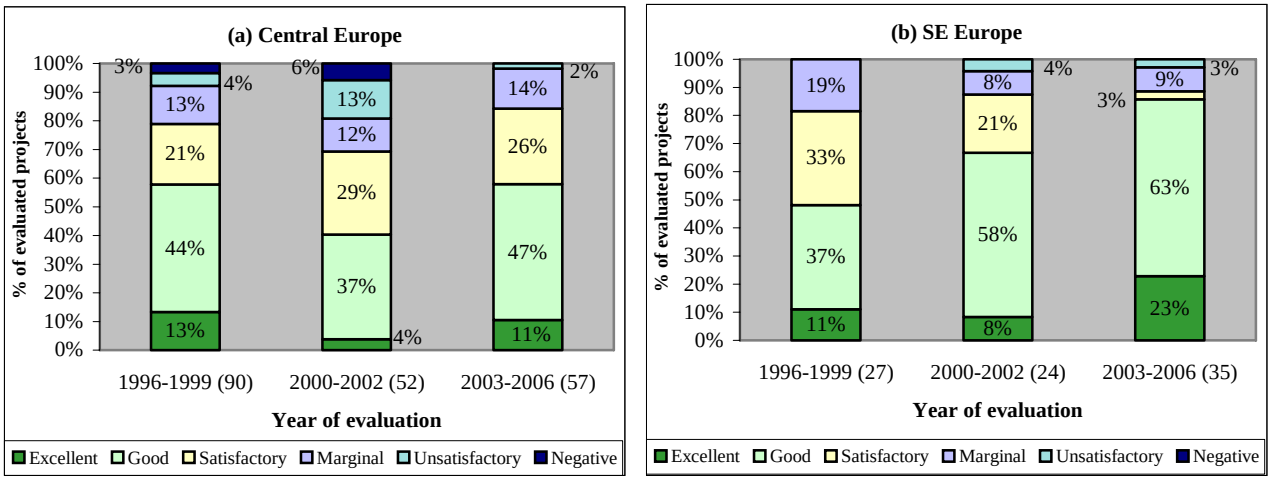
Chart 3.2: TI ratings of 483 post-evaluated investment operations in 1996-2006 by country groups

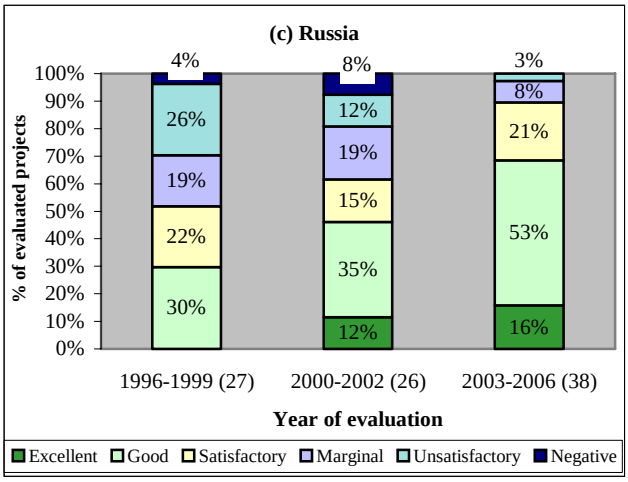


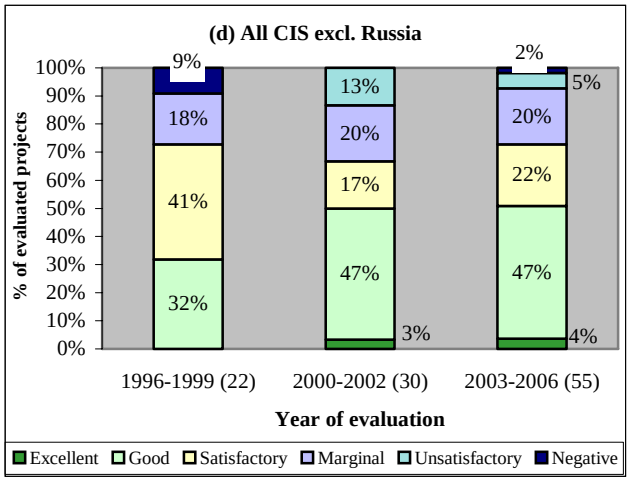
Note: 37 regional projects omitted. See chart 2.2 for list of countries in each region

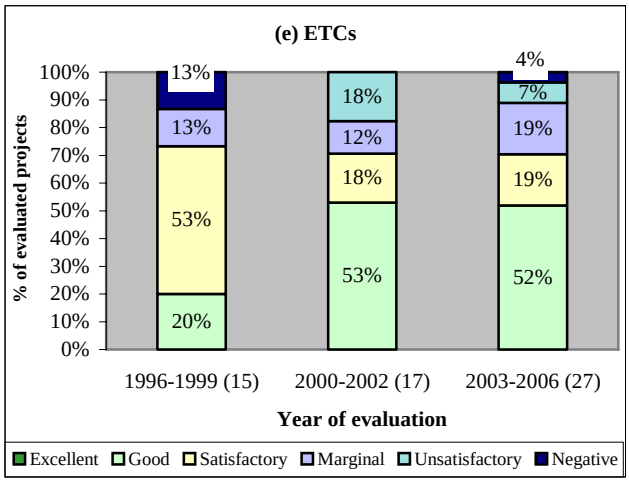
Time series analysis indicates that Transition Impact ratings continued to improve in CEB, SEE and Russia. For the most recent period, Russia now outperforms CEB in the percentage of projects rated *good* or *excellent* and both CEB and SEE in the proportion rated *satisfactory* to *excellent*. SEE remains the highest rated region at the *good* to *excellent* level. Performance in the ETCs and the remainder of the CIS has been more muted. Both these regions perform less well than the others at both the *good-excellent* and the *satisfactory-excellent* level and they are not showing a great deal of improvement over the 2000-02 period. However, as for the overall rating, the performance of ETCs has shown an improvement from year to year within the period 2003-06: of the 15 projects evaluated in 2004-06, nine (60 per cent) were rated *good* for transition impact and a further two were rated *satisfactory*. Similar results are seen for other indicators, including project financial performance where 11 of the 15 projects were rated *satisfactory* or above in this period.

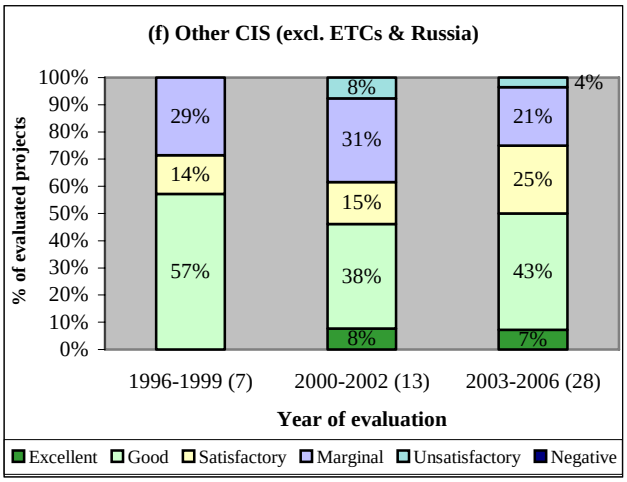
Chart 3.3: Transition impact ratings: changes by year in the major country groups









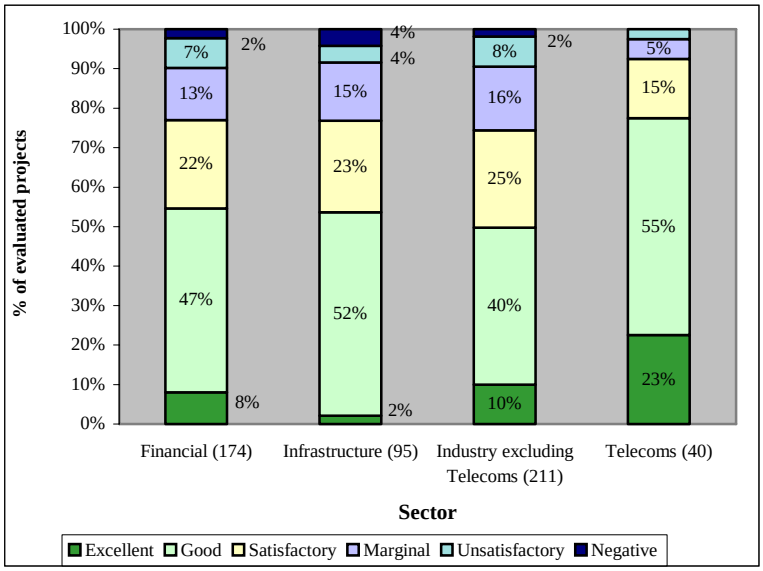


Note: 37 regional projects omitted. See chart 2.2 for list of countries in each region

3.4. TI RATINGS BY SECTORS

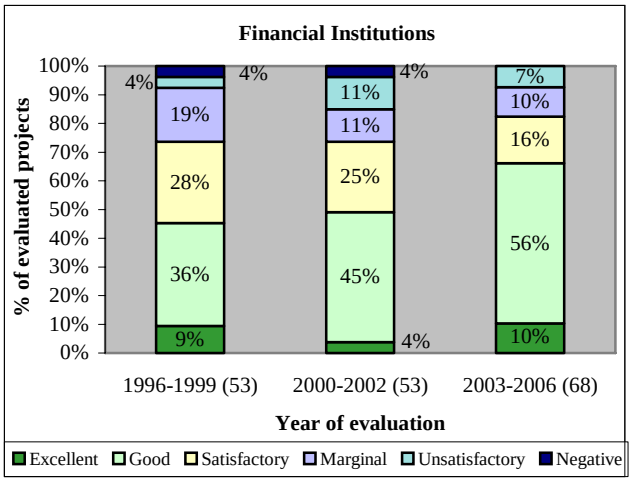
The sectoral breakdown for this indicator shows the same pattern as for the Overall Performance rating: the infrastructure sector has slightly better performance than the other sectors, but fewer projects with the highest rating – *excellent* in this case. As Infrastructure projects used to achieve significantly higher transition impact ratings than other sectors, it must have received lower TI ratings in recent years. This is shown in Charts 3.5 and 3.6.

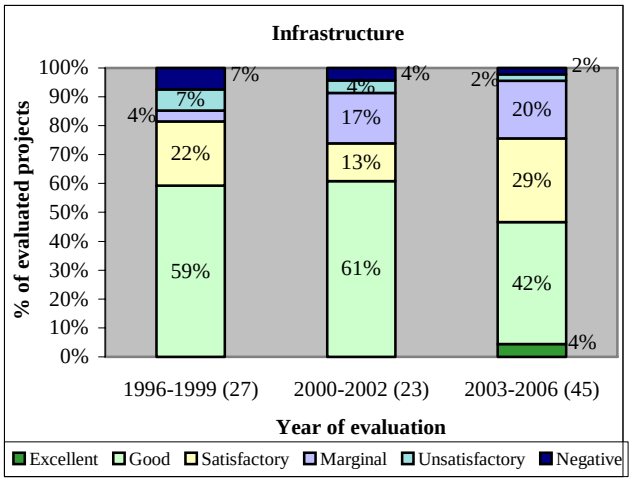
Chart 3.5: TI ratings 1996-2006 by sector groups (520 investment operations)

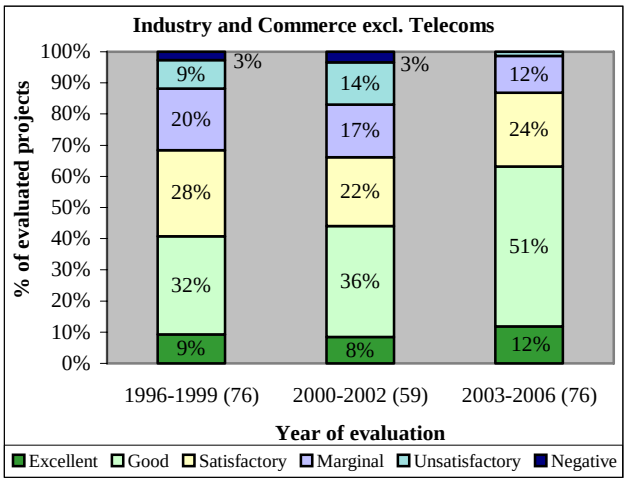


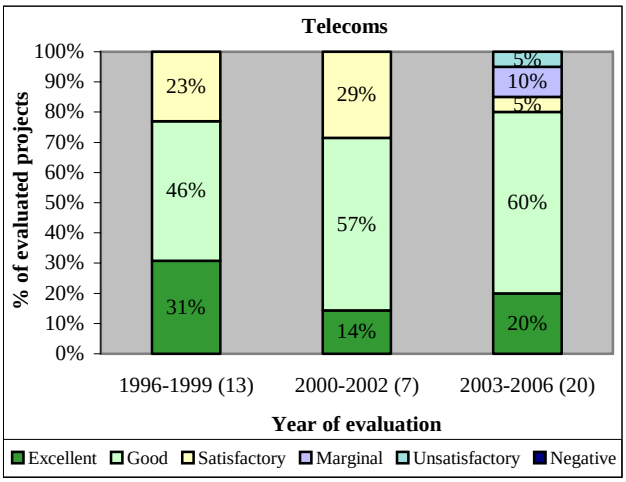
See chart 2.6 for description of each sector

Chart 3.6: Transition impact ratings: changes by year in the major industry sectors









The time series data above show that Financial and Industry projects have improved their TI ratings in 2003-06 compared to the 2000-02 period. Over the same period, the number of Infrastructure projects rated *satisfactory* to *excellent* has remained stable. There has been a

fall in the number of Infrastructure projects rated *good*, but the numbers are not large and are disproportionately affected by a relatively poor set of results in 2003.

4. ADDITIONALITY

4.1. EVALUATED ADDITIONALITY OF 520 OPERATIONS CONFIRMS ADHERENCE TO THE BANK'S MANDATE

Project evaluation seeks to assess the Bank's additionality in two ways. The foremost is an assessment of whether the EBRD financing was decisive for the realisation of the project, i.e. that it could not have been carried out for lack of alternative financing from markets. Whether the Bank was additional in terms of influencing the design and functioning of the project is a second consideration: the Bank may for example have requested an equity participation and board representation to improve on corporate governance standards or have conditioned its participation to compliance with higher environmental standards than would have been achieved with market financing only. The weight given to the two aspects of additionality is given in table 4.1 below, taken from EvD's Evaluation Policy Review paper of 2004, which shows the criteria a project must meet to be rated highly for additionality.

Table 4.1: performance rating benchmarks for additionality

RATING OF ADDITIONALITY	
Ratings	**BENCHMARKS**
Verified in all respects	No other financial institutions are willing to provide financing at the same or better condition than the Bank. The terms and conditions are not attractive to other banks and the country risk is still high. The client accepts tough conditionality to secure transition impact.
Verified at large	Some competition with market financiers, but the Bank's terms and conditions, although more demanding than competition's, prevail since sponsors/clients or co-financiers appreciate the Bank's political comfort. In such cases, specific project design and structuring may also be significant for enhanced transition impact. The Bank may also have contributed specific country- or sector knowledge or helped enhance corporate governance standards. Repeat financing to a second phase of a project, may fall into this category.
Verified only in part	Competition from commercial financiers is significant and terms and conditions are almost identical, but the Bank's participation (e.g. in a bond issue) may have helped an earlier implementation of the project than would have otherwise been possible. No significant features are added to design and functioning to enhance transition and/or catalyse other financing.
Not verified	Competition fully established for financing and the Bank's terms and conditions fail to provide for any material transition impact enhancement and pricing premium to account for the availability of the Bank's Preferred Creditor Status.

Of 520 operations evaluated in 1996-2006, 62 per cent had additionality *verified in all respects*, while 26 per cent had additionality *verified at large*. This left 12 per cent of projects with additionality *verified in part* or *not verified* (Table 4.2). Very few projects were rated in the latter group.[12] A number of operations with low additionality were follow-on projects or otherwise linked to other facilities with the same client. It is important that in the case of an established relationship, additionality is reassessed for each new operation in the series. Nevertheless, 88 per cent of projects with additionality verified fully or at large supports the EBRD's additionality requirement under the Bank's mandate and confirms that there was no crowding out of market financing.

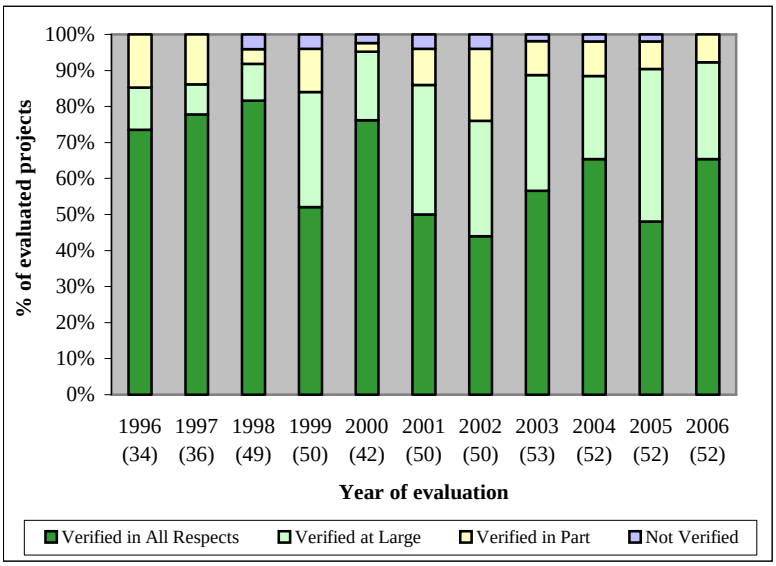
[12] Only 12 evaluated operations have received the lowest additionality rating (between 1996 and 2006). The rating was assigned due to the projects' low financial additionality, combined with a design and structure that was non-conducive to improved transition impact or sound banking, or a failure to enforce conditionalities in the project agreements.

Table 4.2: Additionality, percentage distribution of assigned ratings
(5209 investment operations evaluated 1996-2005)

Ratings	1996-97	1996-98	1996-99	1996-2000	1996-2001	1996-2002	1996-2003	1996-2004	1996-2005	1996-2006
Not Verified	0%	2%	2%	2%	3%	3%	3%	3%	3%	2%
Verified in Part	14%	10%	11%	9%	9%	10%	10%	10%	10%	10%
Subtotal	*14%*	*12%*	*13%*	*11%*	*12%*	*13%*	*13%*	*13%*	*13%*	*12%*
Verified at Large	10%	10%	17%	17%	21%	23%	24%	24%	26%	26%
Verified in All Respects	76%	78%	70%	72%	67%	64%	63%	63%	61%	62%
Subtotal	*86%*	*88%*	*87%*	*89%*	*88%*	*87%*	*87%*	*87%*	*87%*	*88%*
Total (No. of projects)	70	119	169	211	261	311	364	416	468	520

Regarding annual variations of additionality, it is striking that the only variation in recent years is on the boundary between *verified in all respects* (65 per cent in 2006) and *verified at large*. After very high results in the early years of the Bank, the proportion of projects rated *verified in all respects* fell to 52 per cent in 1999 and there have been several years since then where only around 50 per cent of evaluated projects achieved the highest rating. However, results have been more positive in 2004 and again in 2006.

Chart 4.1: Additionality, percentage distribution of assigned ratings
(520 investment operations evaluated 1996-2006)

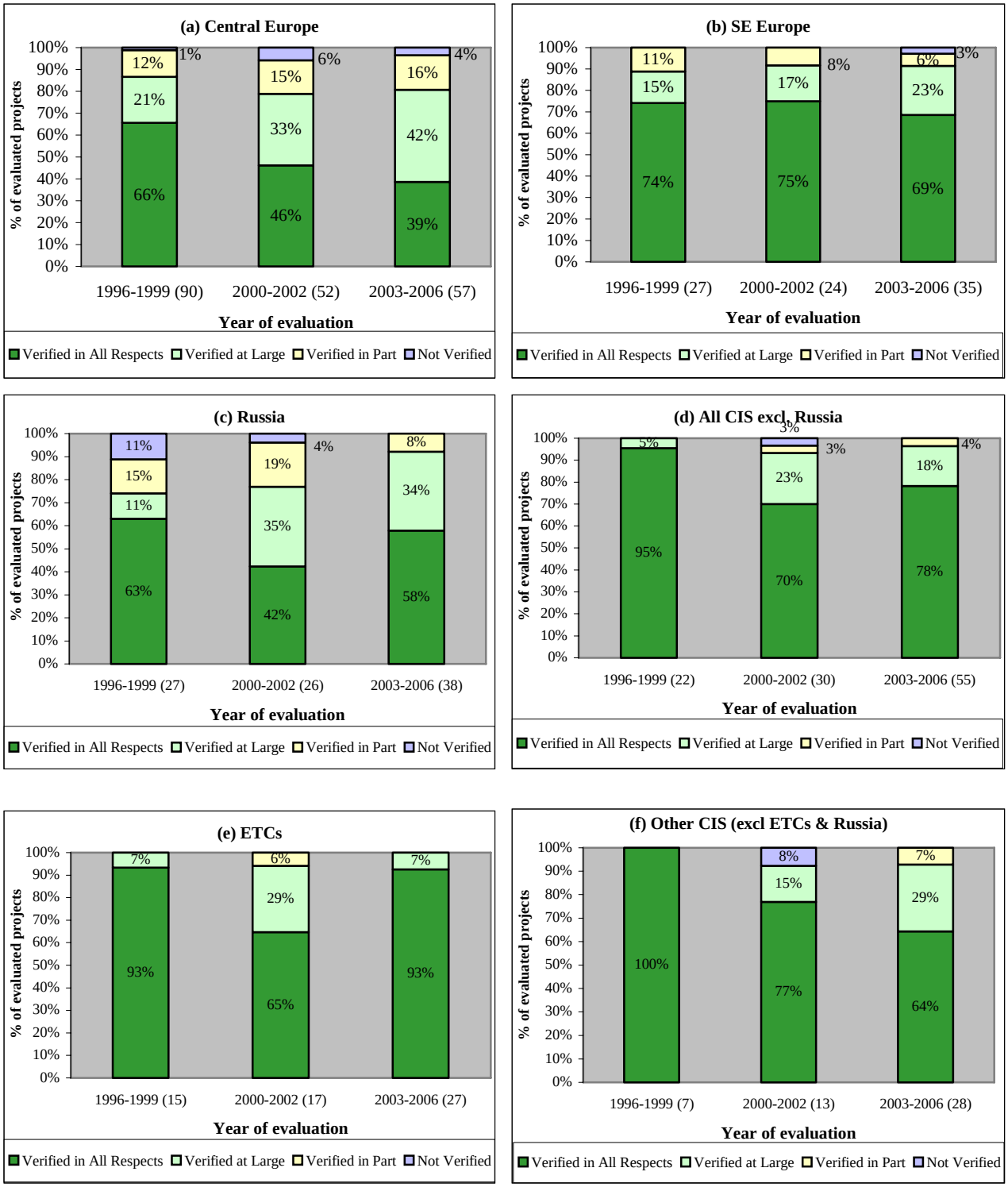


4.2. TIME VARIATIONS OF ADDITIONALITY BY REGION AND SECTOR

Chart 4.2 shows additionality ratings, by region and over time. Russia and the ETCs show a downturn in the middle period, 2000-02, followed by a recent improvement. CEB and Other CIS show a continuing fall in the number of projects rated *verified in all respects*[13] while SEE also shows a slight fall. By far the majority of all the projects rated *not verified* or *verified in part* – 50 out of a total of 64, or 78 per cent – are found in CEB or Russia. Only two projects outside these regions are *not verified*; 12 projects outside these regions are *verified in part*, of which seven are in SEE.

[13] However, note the small sample numbers in some cases, which reduces the significance of some of the figures.

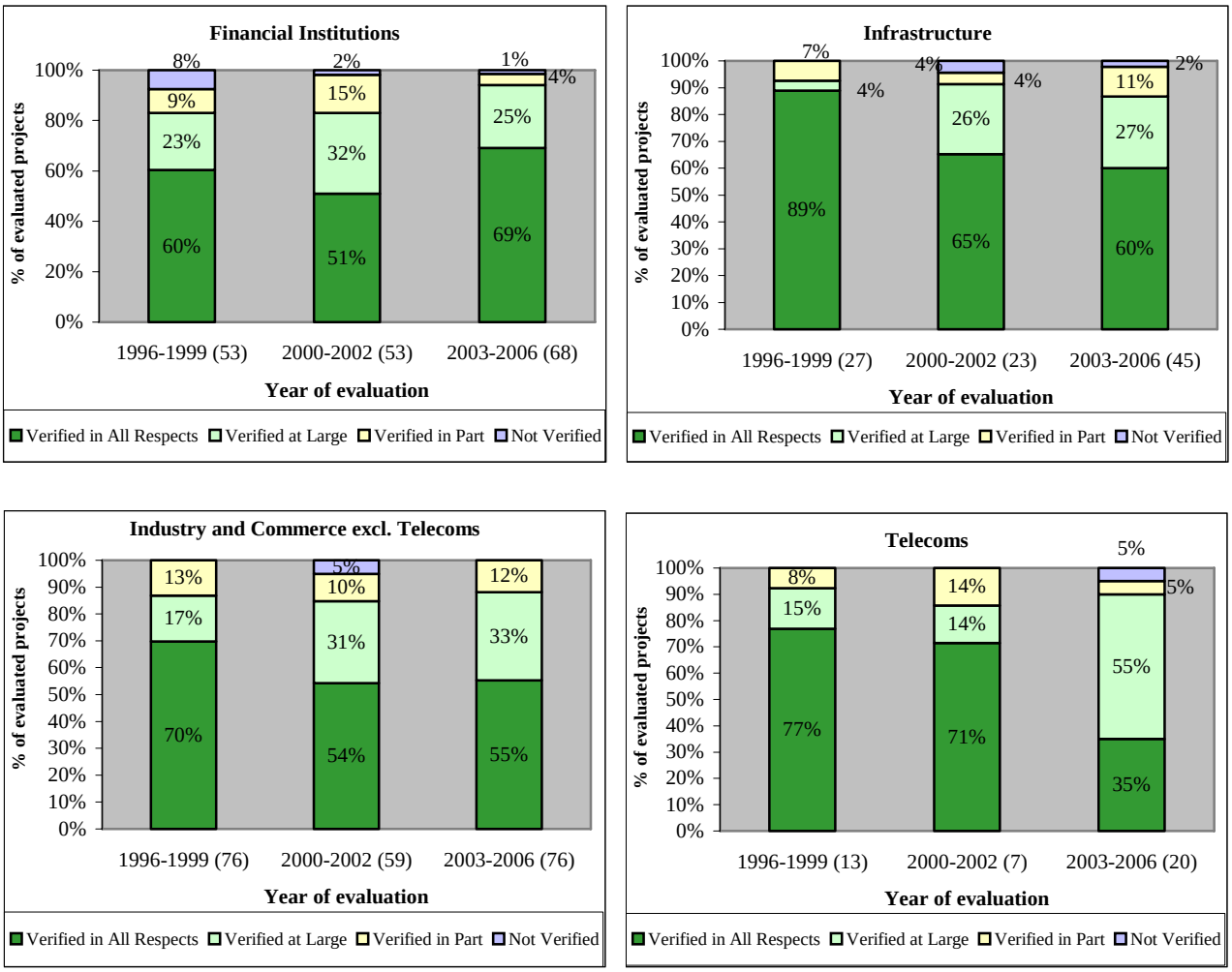
Chart 4.2: Additionality ratings: changes by year in the major country groups



Note: 37 regional projects omitted. See chart 2.2 for list of countries in each region

Chart 4.3 indicates additionality ratings, by sector and over the same periods as above. Ratings have held steady or improved in recent years in FI and Industry and Commerce, while Infrastructure and Telecoms, which both had higher additionality in the early years, have declined more recently.

Chart 4.3: Additionality ratings: changes by year in the major industry sectors



5. COMPANY AND PROJECT FINANCIAL PERFORMANCE

5.1. COMPANY AND PROJECT FINANCIAL PERFORMANCE RATINGS 1996-2006

The company and project financial performance ratings reflect whether the Bank financed sound and economically viable operations. Sustainable and financially viable projects are a key condition for sustained transition impact. The company performance ratings are based on the profitability, debt-service performance, financial status and prospects of borrowers and investee entities. Project performance is also assessed using indicators, such as financial internal rates of return (FIRR), that reflect a company's success and financial strength.[14] The financial performance ratings of 513 evaluated operations by the end of 2006[15] are presented in Charts 5.1 and 5.2:

[14] The key financial and economic performance indicators are addressed in each of the respective OPER reports; the macro-economic viability is captured in some types of projects in the economic internal rate of return, EIRR.

[15] For this indicator and those following, the number of evaluated projects is reduced by seven operations which were evaluated through Special Studies and were formally rated only for Overall Performance, Transition Impact and Additionality.

Chart 5.1: Company performance, percentage distribution of assigned ratings
(513 investment operations evaluated 1996-2006)

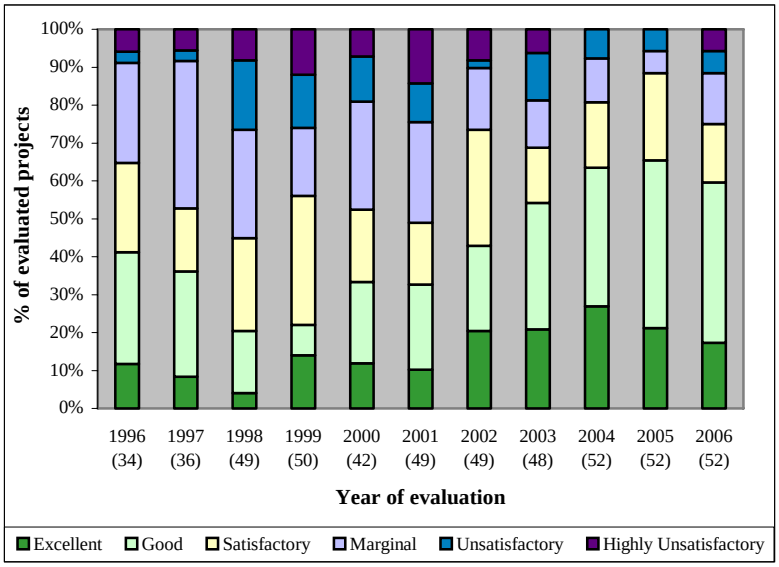


Table 5.1: Company performance, percentage distribution of assigned ratings
(513 investment operations evaluated 1996-2006)

	1996-97	1996-98	1996-99	1996-2000	1996-2001	1996-2002	1996-2003	1996-2004	1996-2005	1996-2006
Highly Unsatisfactory	6%	7%	8%	8%	9%	9%	9%	8%	7%	7%
Unsatisfactory	3%	9%	11%	11%	11%	9%	10%	10%	9%	9%
Marginal	33%	31%	27%	27%	27%	26%	24%	22%	21%	20%
Satisfactory	20%	22%	25%	24%	23%	24%	23%	22%	22%	21%
Good	29%	24%	19%	19%	20%	20%	22%	24%	26%	27%
Excellent	10%	8%	9%	10%	10%	12%	13%	15%	16%	16%
Total (No. of projects)	**70**	**119**	**169**	**211**	**260**	**309**	**357**	**409**	**461**	**513**

Chart 5.2: Project performance, percentage distribution of assigned ratings
(513 investment operations evaluated 1996-2006)

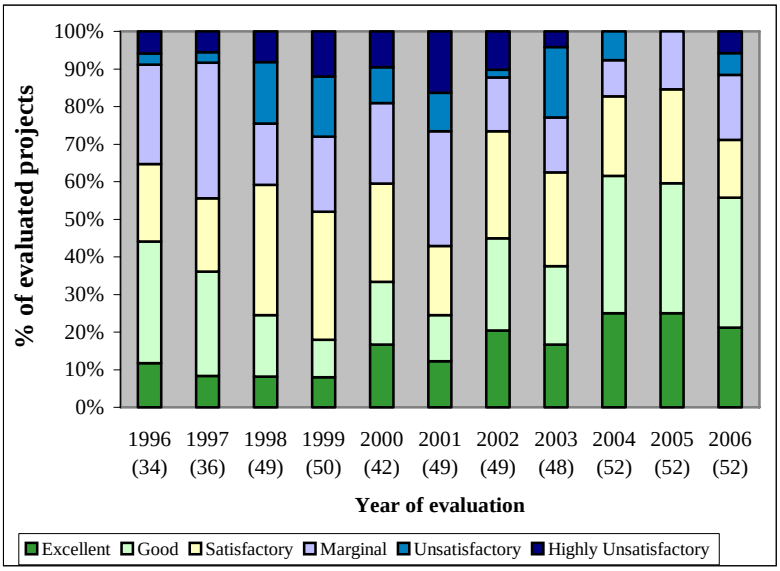


Table 5.2: Project performance, percentage distribution of assigned ratings
(513 investment operations evaluated 1996-2006)

	1996-97	1996-98	1996-99	1996-2000	1996-2001	1996-2002	1996-2003	1996-2004	1996-2005	1996-2006
Highly Unsatisfactory	6%	7%	8%	9%	10%	10%	9%	8%	7%	7%
Unsatisfactory	3%	8%	11%	10%	10%	9%	10%	10%	9%	9%
Marginal	31%	25%	24%	23%	25%	23%	22%	20%	20%	19%
Satisfactory	20%	26%	28%	28%	26%	27%	26%	26%	25%	25%
Good	30%	24%	20%	19%	18%	19%	19%	22%	23%	24%
Excellent	10%	9%	9%	10%	11%	12%	13%	14%	16%	16%
Total (No. of projects)	**70**	**119**	**169**	**211**	**260**	**309**	**357**	**409**	**461**	**513**

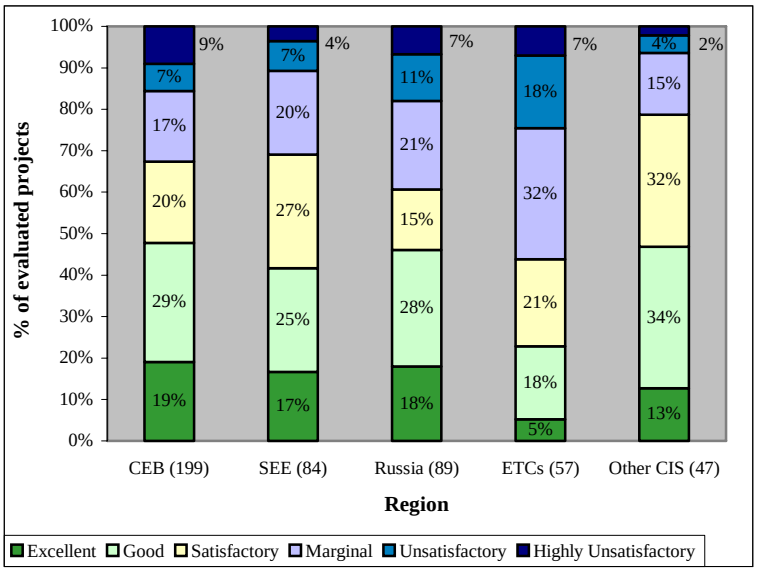
The close correlation between company and project performance reflects the fact that these ratings may be identical (as in greenfield investments) or closely interrelated. The above tables show that results have tended to improve after a low period in 1999-2001, although the figures for 2006 are less good than for 2005. The improvement over time is likely to reflect a general up-turn in the economic performance of the area, with recovery from the problems following the Russian banking crisis of 1998. In the last three years the average proportion of combined *good* and *excellent* rated projects has been around 60 per cent (63 per cent for company performance; 59 per cent for project performance), which compares with levels around 30-40 per cent in previous years.

5.2. COMPANY AND PROJECT FINANCIAL PERFORMANCE RATINGS BY COUNTRY GROUPS

It can be seen from Charts 5.3 and 5.4 that a geographical breakdown of evaluated projects produces results that mirror those for other ratings: the ETCs have fewer projects rated *satisfactory* to *excellent* than other regions and also substantially the greatest number of projects with *unsatisfactory* or *highly unsatisfactory* ratings for company and project performance. The extent to which this may affect the overall performance and achievement of

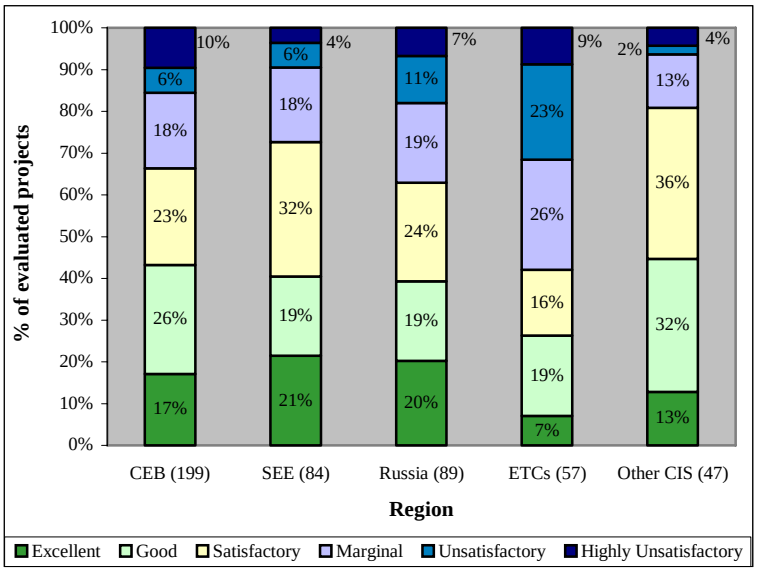
transition impact is discussed in section 3.3 of this appendix. It is interesting that the other CIS countries have a relatively good performance but, as in the case of the Overall Performance rating, the better outcomes from Ukraine and Kazakhstan outbalance the weaker results from Belarus, in particular. It should also be noted that this indicator, like many others, is rated with reference to the projections made at appraisal, so that an Excellent or Good rating means that the project has outperformed projections. This helps to explain why more advanced transition regions do not hugely outperform other regions: the projections may have been set higher at appraisal.

Chart 5.3 Company financial performance ratings by country groups
(476 investment operations evaluated 1996-2006)



Note: 37 regional projects omitted. See chart 2.2 for list of countries in each region

Chart 5.4 Project financial performance ratings by country groups
(476 investment operations evaluated 1996-2006)



Note: 37 regional projects omitted. See chart 2.2 for list of countries in each region

5.3. COMPANY AND PROJECT FINANCIAL PERFORMANCE RATINGS BY SECTOR GROUPS

As shown in chart 5.5, the Industry sector has the greatest number of projects rated Excellent, though the three main sectors all have a similar proportion of projects in the top two categories. Industry also has a large number of projects with the lowest ratings, though this differential is less than in previous years. Further time series analysis shows that the Industry sector has outperformed the others in recent years, with 25 per cent of projects rated Excellent for Project Financial Performance in 2003-06; during this period only nine per cent of Infrastructure projects were rated Excellent for this indicator.

Chart 5.5 Project financial performance ratings by sector groups
(513 investment operations evaluated 1996-2006)

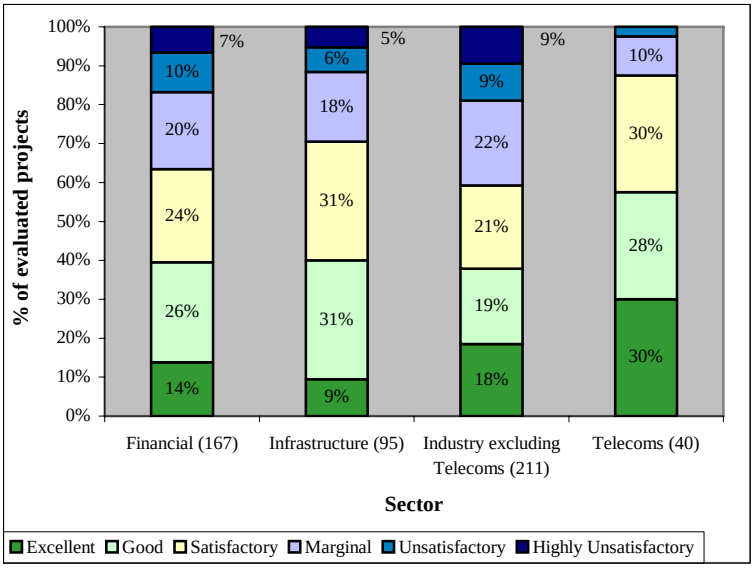
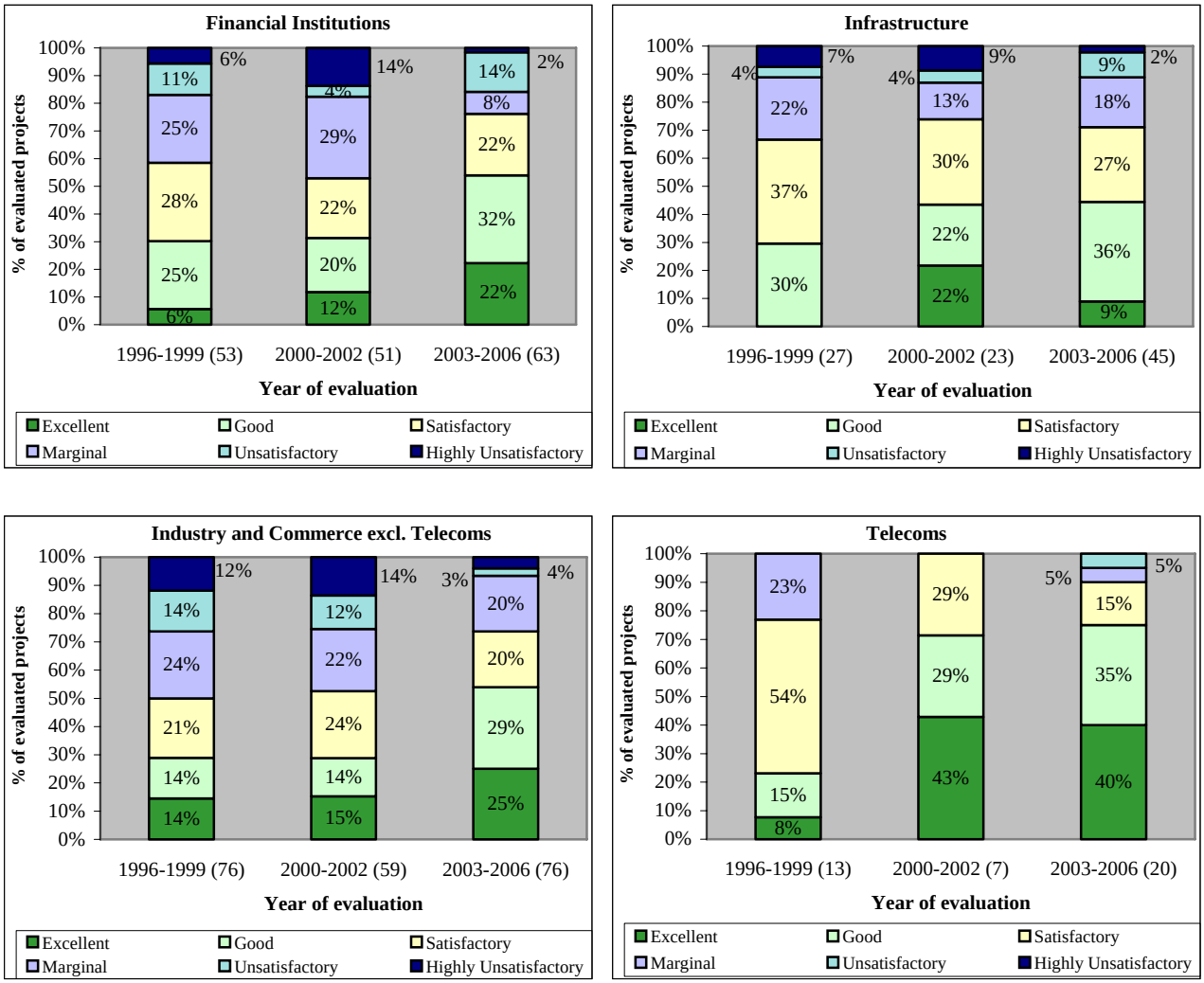


Chart 5.6 below shows the development over time of project financial performance ratings in the major industry sectors. In the past, projects in the infrastructure sector performed noticeably better than the financial and the industry and commerce sectors, at the *satisfactory* to *excellent* level. In recent years (2003-06), performance in the infrastructure sector has changed very little, while performance in the financial and industry and commerce sectors has improved to the extent that they have marginally outperformed the infrastructure sector over this period. However, the difference between the sectors is small, with 72 per cent of infrastructure projects rated *satisfactory* to *excellent* in 2003-06, 74 per cent of projects in the industry and commerce sector and 76 per cent in the financial institutions sector.

Chart 5.6 Project financial performance ratings: changes by year in the major industry sectors



6. FULFILMENT OF PROJECT OBJECTIVES

Fulfilment and relevance of project objectives is assessed against the objectives submitted at project approval. Chart 6.1 presents post-signing evaluation ratings on objective fulfilment. The pattern and trend resemble that for many other ratings: performance reached a low point in 2001 and appears to have improved somewhat since then, though the results for 2006 are somewhat below those for the previous two years.

Chart 6.1: Fulfilment of objectives, percentage distribution of assigned ratings
(513 investment operations evaluated 1996-2006)

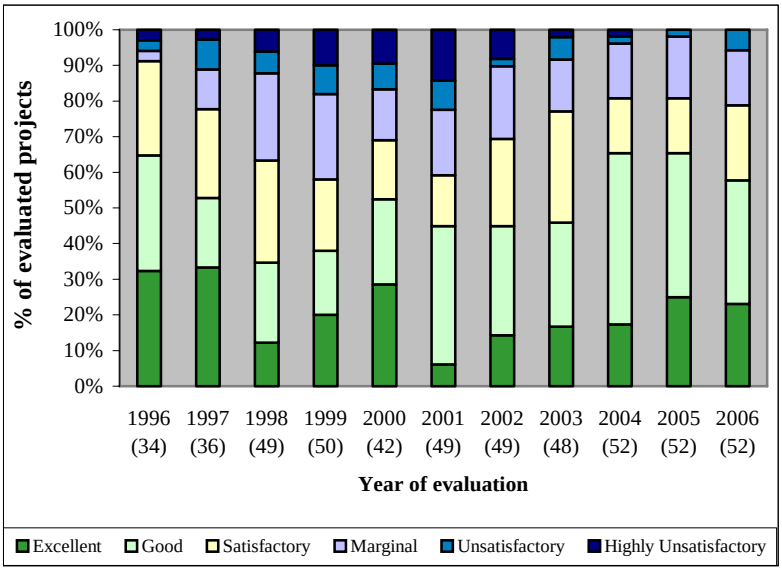


Table 6.1: Fulfilment of objectives, percentage distribution of assigned ratings
(513 investment operations evaluated 1996-2006)

	1996-97	1996-98	1996-99	1996-2000	1996-2001	1996-2002	1996-2003	1996-2004	1996-2005	1996-2006
Excellent	33%	24%	23%	24%	21%	20%	19%	19%	20%	20%
Good	26%	24%	22%	23%	26%	27%	27%	30%	31%	32%
Satisfactory	26%	27%	25%	23%	22%	22%	23%	22%	21%	21%
Subtotal	*84%*	*76%*	*70%*	*70%*	*68%*	*68%*	*69%*	*71%*	*72%*	*73%*
Marginal	7%	14%	17%	17%	17%	17%	17%	17%	17%	17%
Unsatisfactory	6%	6%	7%	7%	7%	6%	6%	6%	5%	5%
Highly Unsatisfactory	3%	4%	6%	7%	8%	8%	7%	7%	6%	5%
Subtotal	*16%*	*24%*	*30%*	*30%*	*32%*	*32%*	*31%*	*29%*	*28%*	*27%*
Total (no. of projects)	**70**	**119**	**169**	**211**	**260**	**309**	**357**	**409**	**462**	**513**

7. THE ENVIRONMENT

7.1. THE ENVIRONMENTAL REQUIREMENT

Projects are designed and conditioned to fulfil all aspects of the Bank's mandate, including the environmental policy of the Bank at the time of appraisal. Environmental ratings form part of the overall performance rating. Environmental evaluation concerns the physical environment, social environment, as well as occupational health and safety, and issues such as public

consultation. The analysis in this Appendix refers to 58 evaluated projects during 1996-2006[16].

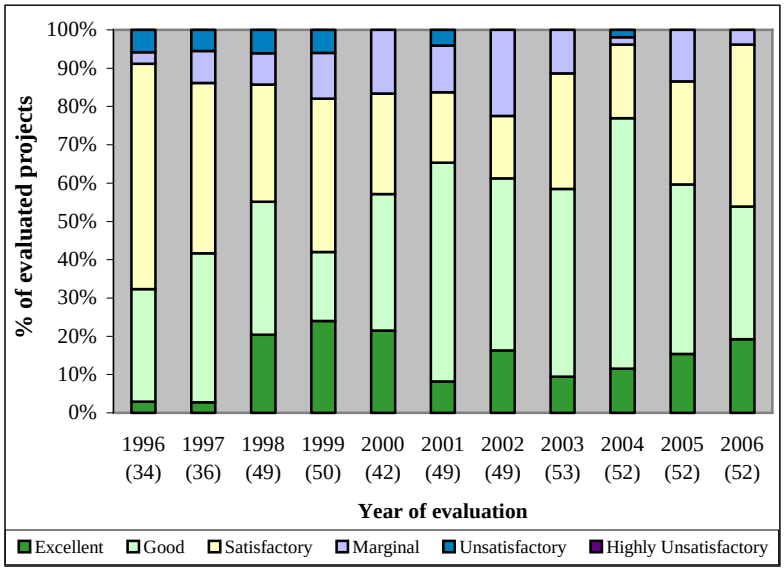
7.2. ENVIRONMENT RATING SYSTEM

The series from 1996-2006 covers two environmental dimensions: The first dimension concerns environmental performance of the sponsor, e.g. the preparation and implementation of environmental action plans; compliance with contractual environmental conditions and statutory regulations etc. The second dimension is the extent of environmental change (positive or negative) brought about by the evaluated operation. Under Bank Handling, EvD also considers environmental bank handling with respect to categorization, environmental due diligence, audits and project monitoring.

7.3. EVOLUTION OF ENVIRONMENTAL RATINGS

The Charts and Tables 7.1 and 7.2 present ratings of environmental performance and of the extent of environmental change as assigned to 518 evaluated projects in 1996-2006.

Chart 7.1: Environmental performance, percentage distribution of assigned ratings (518 investment operations evaluated 1996-2006)



[16] Two projects evaluated through Special Studies were not rated for Environmental Performance or Extent of Environmental Change.

Table 7.1: Environmental performance, percentage distribution of assigned ratings
(518 investment operations evaluated 1996-2006)

	1996-97	1996-98	1996-99	1996-2000	1996-2001	1996-2002	1996-2003	1996-2004	1996-2005	1996-2006
Excellent	3%	10%	14%	16%	14%	15%	14%	14%	14%	14%
Good	34%	34%	30%	31%	36%	37%	39%	42%	42%	42%
Satisfactory	51%	43%	42%	39%	35%	32%	32%	30%	30%	31%
Subtotal	*89%*	*87%*	*86%*	*85%*	*85%*	*84%*	*85%*	*86%*	*86%*	*87%*
Marginal	6%	7%	8%	10%	10%	12%	12%	11%	11%	10%
Unsatisfactory	6%	6%	6%	5%	5%	4%	3%	3%	3%	3%
Highly Unsatisfactory	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Subtotal	*11%*	*13%*	*14%*	*15%*	*15%*	*16%*	*15%*	*14%*	*14%*	*13%*
Total (no. of projects)	**70**	**119**	**169**	**211**	**260**	**309**	**362**	**414**	**466**	**518**

Chart 7.2: Extent of environmental change, percentage distribution of assigned ratings
(518 investment operations evaluated 1996-2006)

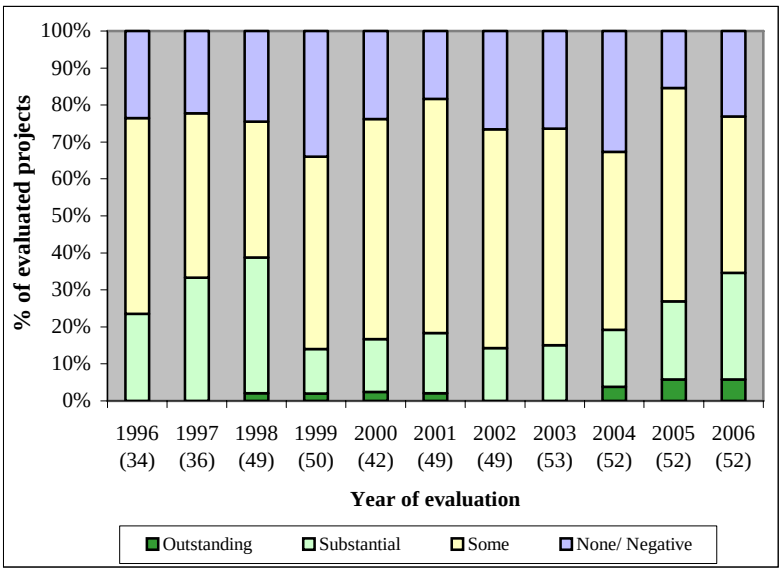


Table 7.2 Extent of environmental change, percentage distribution of assigned ratings (518 investment operations evaluated 1996-2006)

	1996-97	1996-98	1996-99	1996-2000	1996-2001	1996-2002	1996-2003	1996-2004	1996-2005	1996-2006
Outstanding	0%	1%	1%	1%	2%	1%	1%	1%	2%	2%
Substantial	29%	32%	26%	24%	22%	21%	20%	20%	20%	21%
Subtotal	*29%*	*33%*	*27%*	*25%*	*24%*	*22%*	*21%*	*21%*	*22%*	*23%*
Some	49%	44%	46%	49%	52%	53%	54%	53%	53%	52%
None/ Negative	23%	24%	27%	26%	25%	25%	25%	26%	25%	25%
Subtotal	*71%*	*67%*	*73%*	*75%*	*76%*	*78%*	*79%*	*79%*	*78%*	*77%*
Total (no. of projects)	**70**	**119**	**169**	**211**	**260**	**309**	**362**	**414**	**466**	**518**

Some 87 per cent of evaluated operations obtained a *satisfactory* or better rating of environmental performance of the sponsor. A total of 10 per cent were rated *marginal* in this respect and only 3 per cent were evaluated as having *unsatisfactory* performance (no projects were rated *highly unsatisfactory*). The ratings confirm that the Bank has generally been successful in improving the environmental performance of projects, with very few exceptions.

The extent of environmental change of evaluated projects was rated as *substantial* or *outstanding* in 23 per cent of the cases, *some* for 52 per cent and *none/negative* for 25 per cent. The rating system introduced in 2004 no longer distinguishes between *none* and *negative*. Financial institutions and SME financing projects involve lower environmental risk than operations in natural resources, power and energy, heavy industry, chemical and process industries. Investments in heavy industry, chemical processing etc. may have higher potential for environmental change in brownfield projects, but they may also present higher or excessive turnaround and financial sustainability risks.

8. BANK HANDLING

Bank Handling assesses the due diligence, structuring and monitoring of the project and judges the quality of the work of the Banking Department, in particular the Operation Team, and support departments involved in the operation process, including Environmental Department.

Chart 8.1: Bank Handling, percentage distribution of assigned ratings
(513 investment projects evaluated 1996-2006)

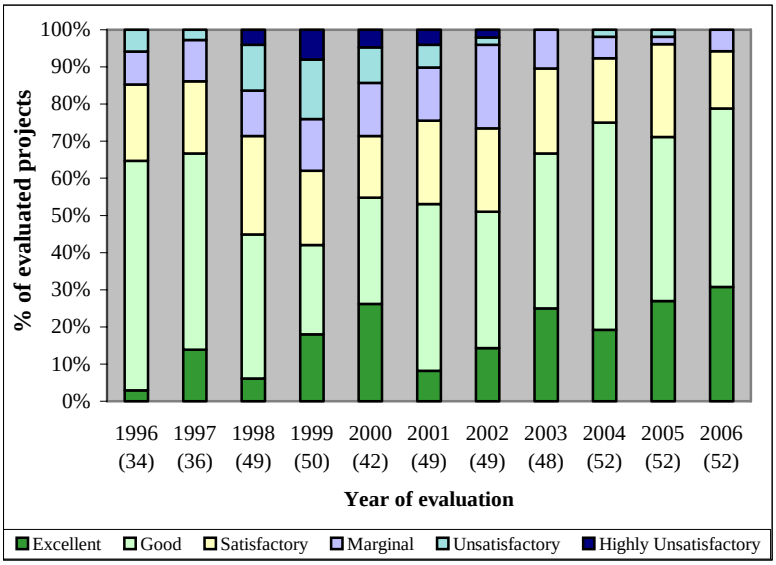


Table 8.1: Bank Handling, percentage distribution of assigned ratings
(513 investment projects evaluated 1996-2006)

	1996-97	1996-98	1996-99	1996-2000	1996-2001	1996-2002	1996-2003	1996-2004	1996-2005	1996-2006
Excellent	9%	8%	11%	14%	13%	13%	15%	15%	16%	18%
Good	57%	50%	42%	39%	40%	40%	40%	42%	42%	43%
Satisfactory	20%	23%	22%	21%	21%	21%	22%	21%	22%	21%
Subtotal	*86%*	*80%*	*75%*	*74%*	*74%*	*74%*	*76%*	*78%*	*80%*	*82%*
Marginal	10%	11%	12%	12%	13%	14%	14%	13%	12%	11%
Unsatisfactory	4%	8%	10%	10%	9%	8%	7%	6%	6%	5%
Highly Unsatis-factory	0%	2%	4%	4%	4%	4%	3%	3%	2%	2%
Subtotal	*14%*	*20%*	*25%*	*26%*	*26%*	*26%*	*24%*	*22%*	*20%*	*18%*
Total (no. of projects)	**70**	**119**	**169**	**211**	**260**	**309**	**357**	**409**	**461**	**513**

The results show that 61 per cent of the operations rated for bank handling have achieved a rating of *good* or *excellent* and a further 21 per cent *satisfactory*. However, nearly a fifth of evaluated projects obtained a less than satisfactory rating. This group of projects, in particular, generated important lessons learned.

Chart 8.2 Bank Handling by sector groups
(513 investment projects evaluated 1996-2006)

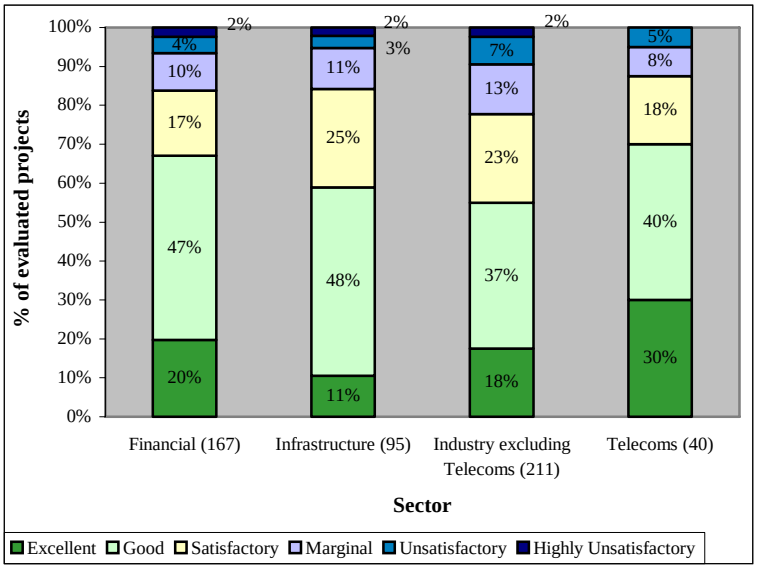
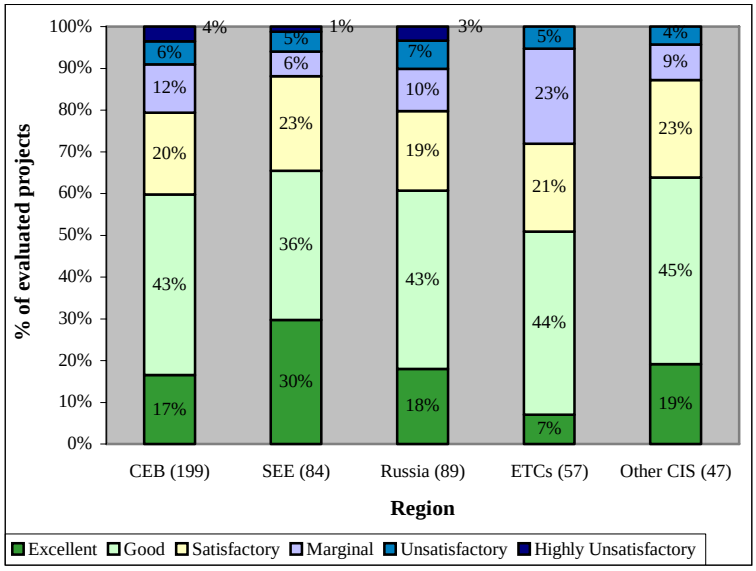


Chart 8.3 Bank Handling by country groups
(476 investment projects evaluated 1996-2006)



Note: 26 regional projects omitted. See chart 2.2 for list of countries in each region

Comparing the results in different sectors and regions, it can be seen that the ratings for bank handling are lowest among industry projects and among ETCs, and highest in SEE countries and financial sector projects.

9. THE BANK'S INVESTMENT PERFORMANCE

In calculating the Bank's investment performance, EvD uses the model developed by Strategic and Corporate Planning and Budgeting Department and introduced in 2000, which is used by the banking department on projects at the approval stage. EvD uses actual recorded costs and risk ratings to recalculate the investment performance at the time of evaluation.

Chart 9.1: The Bank's investment performance, ratings distribution in OPER reports 1996-2006

	1996-97	1996-98	1996-99	1996-2000	1996-2001	1996-2002	1996-2003	1996-2004	1996-2005	1996-2006
Excellent	38%	33%	26%	25%	21%	18%	16%	14%	14%	15%
Good	0%	2%	3%	2%	3%	5%	9%	13%	14%	15%
Satisfactory	17%	21%	22%	29%	34%	34%	35%	36%	36%	35%
Subtotal	*55%*	*56%*	*51%*	*56%*	*58%*	*57%*	*60%*	*63%*	*64%*	*65%*
Marginal	21%	15%	16%	14%	14%	16%	16%	15%	17%	15%
Unsatisfactory	21%	17%	17%	15%	12%	11%	10%	9%	8%	8%
Highly Unsatisfactory	3%	13%	16%	15%	16%	16%	14%	13%	11%	12%
Subtotal	*45%*	*44%*	*49%*	*44%*	*42%*	*43%*	*40%*	*37%*	*36%*	*35%*
Total (no. of projects)	**29**	**48**	**69**	**87**	**107**	**129**	**147**	**170**	**193**	**220**

The sample number is smaller than for other indicators as only OPER reports are rated for this indicator. Over the period, 65 per cent of fully evaluated operations achieved a *satisfactory* or better rating for investment performance.

10. COMPARISON OF THE SAMPLE OF EVALUATED PROJECTS WITH THE BANK'S PORTFOLIO OF SIGNED OPERATIONS

10.1. SAMPLE SIZE

The full evaluated sample comprises OPER and XMR assessment reports by EvD on 469 projects evaluated in 1996-2005. As described in section 1 of this appendix, the projects were selected with structured sampling to combine the level of representation with potential for useful lessons. The annual coverage was 100 per cent by the end of 1996 and well over 65 per cent thereafter (see Appendix 8, Chart 1.1). The sample represents 72 per cent of all 654 investment projects that had reached the ready-for-evaluation stage. The evaluated share of all signed projects by end 2005 was lower, at 36 per cent, as many more recently approved projects were still under implementation.[17] Charts 10.1-10.9 below illustrate the level of representation in respect of *countries*, *sectors* and *facility risk* ratings.

[17] See Appendix 6 for more detailed data; records on signed operations may also at times split one operation into separate facilities.

10.2. COUNTRY REPRESENTATION.

The charts below confirm a good level of representation of the evaluated sample in respect of *country* coverage compared with the projects ready for evaluation.

Country distribution[18]

Chart 10.1: Cumulative signed EBRD operations

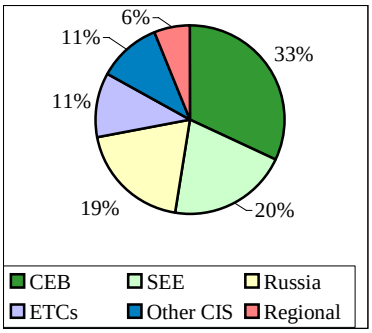


Chart 10.2: All projects ready for evaluation

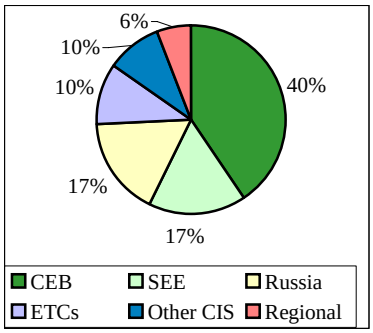
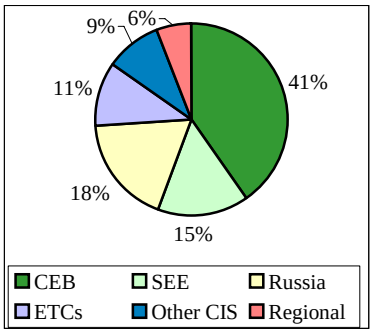


Chart 10.3: EvD's evaluated sample



Compared to the Bank's total signed operations, there is an over-representation of projects in CEB and an under-representation of projects in SEE. Most of the projects ready for evaluation in the first few years of the bank's existence were in Central Europe, reflecting the Bank's portfolio at the time. More recent commitments have a higher share in countries of the CIS and in south-eastern Europe, many of which are not yet ready for evaluation. In particular, the Bank's involvement in some of the countries in the former Yugoslavia was delayed by the political situation there, and only now are projects in Serbia starting to become ready for evaluation.

10.3. SECTOR REPRESENTATION

Charts 10.4 to 10.6 present the comparative *sector* distribution. There is an over-representation in the evaluated sample in respect of industry and commerce, at the expense of infrastructure. This reflects the fact that infrastructure projects have long gestation periods, tending to delay their evaluation.

Sector distribution of projects by numbers of projects:

Chart 10.4: Cumulative signed EBRD operations

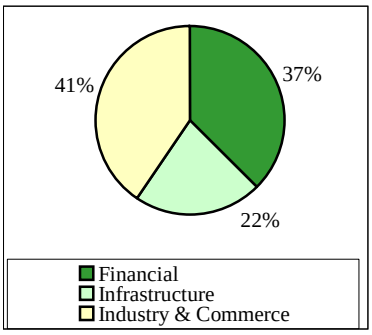


Chart 9.5: All projects ready for evaluation

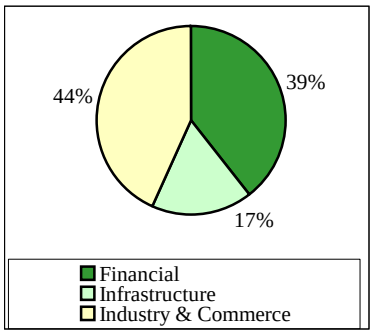
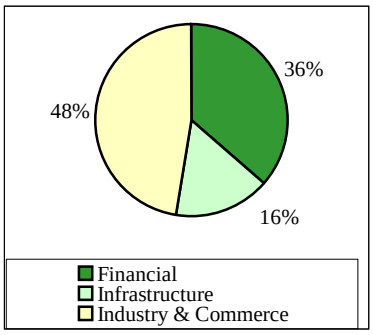


Chart 9.6: EvD's evaluated sample



[18] Weighting by volume did not change the below picture significantly.

10.4. FACILITY RISK RATING LEVEL OF REPRESENTATION

The following charts present overall portfolio *facility risk* ratings as at 31 December 2006. There is a slight over-representation of projects with either a very high or a very low risk rating. Projects with a low risk rating tend to become ready for evaluation quickly, as they generally have not faced substantial problems or delays. EvD also tries to capture projects with a high risk rating and ensure that when they are ready for evaluation they are selected.

Facility risk distribution by numbers of projects:

Chart 10.7: Cumulative signed EBRD operations

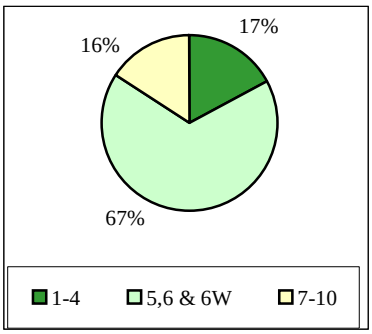


Chart 10.8: All projects ready for evaluation

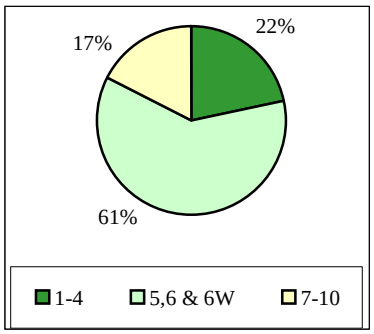
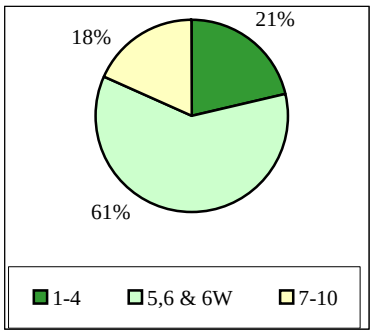


Chart 10.9: EvD's evaluated sample



10.5. A GOOD LEVEL OF REPRESENTATION IS CONFIRMED FOR EVALUATED PROJECTS: CONCLUSION

The sample of 520 evaluated investment projects by the end of 2006 represents well all the projects ready for evaluation, with a 71 per cent sample coverage. There is also agood representation of the signed portfolio. The evaluated sample will always take a few years to reflect gradual changes to country and sector patterns in the signed portfolio, as it takes time for the more recent projects become ready for evaluation.