July 2005

Annual Evaluation Overview Report 2005

Evaluation Department

(EvD)

European Bank
for Reconstruction and Development

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APPENDICES

ABBREVIATIONS AND DEFINED TERMS

AEOR	Annual Evaluation Overview Report
BAS	Business Advisory Services Programme
Category A, B, C, FI	environmental classifications of EBRD projects (see Section 5.5 for a full explanation)
CEB	central Europe and the Baltic states
CEDB	Council of Europe Development Bank
CIS	Commonwealth of Independent States
CSU	Consultancy Services Unit
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECG	Evaluation Cooperation Group
ED	Environment Department
EI	extractive industries
EIA	environmental impact assessment
ETC	early transition country
EU	European Union
EvD	Evaluation Department (formerly PED)
Ex ante	at project signing
Ex post	at project completion
FI	(1) Financial institutions business group (2) Financial intermediary
GAAP	Generally accepted accounting principles
GPS	Good practice standards
IEE	initial environmental examination
IFC	international Finance Corporation
IFI	international financial institution
IMF	International Monetary Fund
IPO	initial public offering
ISO	International Organization for Standardization
JV	joint venture
LLD	lessons learned database
MDB	multi-lateral development bank
MEI	municipal and environmental infrastructure
MFI	microfinance institution
MIS	management information system
MSE	micro and small enterprise
MSME	micro, small and medium-sized enterprise
NGO	non-governmental organisation
OCE	Office of the Chief Economist
OCU	Official Co-financing Unit
OPER	Operation Performance Evaluation Review
PB	partner bank
PCR	project completion report for TC operations
PED	Project Evaluation Department (now EvD)
Phare	EC assistance programme for central Europe
PPP	public-private partnership
PSA	production sharing agreement
SEE	south-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
TCFP	Technical Cooperation Funds Programme
TI	transition impact
TIMS	Transition Impact Monitoring System
TOR	terms of reference
WTO	World Trade Organization
XMR	Expanded Monitoring Report

EXECUTIVE SUMMARY

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. This evaluation helps the Bank to 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 special studies.

INVESTMENT PERFORMANCE JUDGED AGAINST THE BANK'S MANDATE

Performance ratings of investment operations. The EBRD has continued to do well and has implemented projects which largely meet the Bank's mandate. On transition impact (TI), the Bank's projects continue to score positively with 78 per cent achieving a *Satisfactory - Excellent* rating for 2000-04. With respect to overall project performance, 55 per cent of evaluated projects achieved *Successful - Highly Successful* ratings during 1996-2004. This mainly reflected the modest financial performance of projects reviewed during this period. The cumulative outcome for overall performance contrasts with the result obtained by projects evaluated in 2004 which achieved *Successful - Highly Successful* overall performance ratings in 73 per cent of cases. The fact that 22 per cent of the evaluated projects were given a *Negative – Marginal* rating for transition impact indicates that some of the Bank's operations are implemented in difficult environments where obstacles to realising a project's full transition impact potential remain.

Performance of country groups. Overall performance in the early transition countries (ETCs) has continued to lag behind other regions. This performance is largely due to relatively poor financial performance in a very difficult investment climate. The transition impact of projects has been moderate, while additionality has been high in the ETCs. An improvement in overall performance in Russia over the past two years has been significant, after a long period of limited success during the 1990s and beyond. South-eastern Europe continues to score well, while performance in central Europe and the Baltic states appears to have recovered from a downturn in 2001-02.

Sector performance. Performance in the infrastructure sector has been hit by the relatively poor performance in the ETCs, where a significant amount of infrastructure projects is concentrated. The financial institution sector has shown an improvement in the last two years after several years of decline, while industry and commerce also continues a long-term trend of improvement (interrupted in 2001-02).

FURTHER ANALYSIS OF TRANSITION IMPACT POTENTIAL AND RELATED RISKS

In Chapter 2 it is argued that transition impact potential and risk dimensions should be considered together and not individually. Using a new rating scale from 1 to 8 that measures expected transition impact, EvD found that 64 per cent of 247 completed projects were rated level 4 or above. This was higher than the Bank's scorecard objective of 55 per cent for expected transition impact. In addition, the Bank's Office of the Chief Economist has systematically rated and monitored 382 newly signed projects under the transition impact monitoring system (TIMS) and found that 61 per cent of projects were level 4 or above. An explanation of these results could be that the analysis was carried out on projects approved and evaluated during 2000-04, and therefore reveals a positive recovery from the 1998 Russian crisis. If future outcomes remain above the 55 per cent mark, this scorecard objective for expected transition impact should be reviewed in the light of these results and other relevant information, to better reflect the performance capabilities of the Bank.

To make meaningful comparisons between the ratings given *ex ante* (at project signing) and *ex post* (at project completion), a group of 59 projects have been identified that carry both ratings. The current findings from this relatively small group are in line with the results from larger groups, but highlight a range of completed projects which have achieved poor transition impact ratings. In Chapter 2, EvD recommends that the Bank should consider exercising a "corporate recovery" approach towards these projects to attempt to restore their transition impact potential.

LEARNING FROM EXPERIENCE IN EARLY TRANSITON COUNTRIES

As part of the EBRD's 2005-08 Medium Term Strategy Update, the Bank highlighted its strategic priority towards the poorest countries of the Commonwealth of Independent States. These include Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan. The objective of the ETC Initiative is to enable the Bank to create new opportunities and increase transition impact. The ETC Initiative rests on the Bank's readiness to take on more risk in these countries, while respecting sound banking principles. However, when projects are developed that carry more risk, the Bank should further enhance measures to mitigate these risks. In that respect, lessons learned from the Bank's project experience in ETCs to date can help identify specific risk and issues, and highlight alternatives in terms of project design and monitoring. The lessons categories detailed in Chapter 3 focus on (a) building expertise in particular market segments; (b) ensuring substantive and well targeted technical cooperation (TC) support; (c) prioritising institution building and advisory services; and (d) undertaking high level policy dialogue.

EVALUATION OF TECHNICAL COOPERATION OPERATIONS

The Bank focuses as much on the evaluation of TC projects as it does on investments funded from the EBRD's own resources. TC projects are subject to a mandatory self-evaluation and an independent evaluation. Since 1993, when EvD started evaluating TC projects, 52 operation performance evaluation reviews (OPERs) and 20 special studies on sectors and themes, covering numerous TC operations, have been conducted. The cumulative volume of evaluated TC operations based on an OPER report, as a percentage of the volume of TC operations with a completed self-evaluation remained stable at 21.4 per cent in 2004. If groups of TC commitments covered in special studies are included, the coverage ratio is 53.4 per cent, a small decrease compared with 57.2 per cent cumulative coverage in 2003.

One of the key lessons learned again this year was that the poor state of files documenting TC operations requires urgent management attention. In addition, it is clear "quality at entry" is an important determinant for TC (and often investment) success. Moreover, a smooth and effective cooperation among the Bank, the TC recipient and beneficiary, and related public sector authorities and private sector parties involved, are important for project success.

RECOMMENDATIONS FROM EVALUATION ACTIVITIES, INCLUDING COUNTRY STRATEGY EVALUATIONS

Chapter 5 presents recommendations from evaluation special studies on micro, small and medium-sized enterprise financing. The report mentions the importance of adopting standard definitions for micro, small and medium-sized enterprises and recommends devising indicators for the measurement of transition and social impacts. The importance of distinguishing between transition and developmental goals when reviewing the Bank's SME strategy is also highlighted in the report. The AEOR concludes that some mechanisms for micro, small and medium-sized enterprise financing have functioned more effectively in some countries and regions than others. The lessons learned should enable the Bank to target instruments more precisely than in the past.

Chapter 5 also presents the recommendations from EvD's extractive industries (EI) sector review and the power and energy utilities sector review, both carried out in 2004. These reports provide important inputs for the Bank when it prepares its new Energy Policy. The EI sector review recommends that the Bank should move from a "compliance" approach to an "added value" approach when considering environmental performance. It stresses the need to improve monitoring of EI projects and the need to expand the project fence line when considering broader project linkages.

The recommendations for investment operations evaluated in 2004 include the need to apply "Chinese walls" in the Bank when dealing with projects that simultaneously involve both equity and debt. In particular the establishment of appropriate rules on "Chinese walls" within the Bank requires management attention.

The report also indicates the importance of correctly categorising environmental risks in projects (Category A, B or C). The volume of Category C projects (projects with minimal or no future adverse environmental impacts) as a proportion of direct investments has grown considerably to 40 per cent in 2004. The report suggests that earlier involvement by the Environment Department in project screening and design phases may allow for greater opportunities to add value on environmental issues.

Chapter 6 presents the recommendations from the country strategy evaluations (CSEs) on Croatia and Azerbaijan, both part of a pilot phase. The recommendations cover strategy design, post conflict issues, low-income countries, strategy implementation and coordination with other international financial institutions and the bilateral community at the country level. EvD is preparing a synthesis report for consideration by the Board and Management in July 2005 about the pilot phase.

Chapter 7 describes the interaction between EvD and the Audit Committee, thereby highlighting a number of recommendations from evaluation reports which have been discussed in more detail by the Committee. The process of discussing evaluation reports in the Audit Committee and highlighting selected recommendations in the AEOR can help management with the necessary follow-up of key recommendations and on the side of the Board strengthens the lessons learned uptake.

VALIDATION BY EVD OF PERFORMANCE RATINGS ASSIGNED DURING SELF-EVALUATION

The Banking Department prepares a self-evaluation report on all projects ready for evaluation. EvD's evaluation may result in different performance ratings than assigned by the operation team (OT). Chapter 8 describes that the ratings in the self-evaluation reports were independently validated in 65 per cent of cases. Five per cent of these ratings were upgraded by EvD and 30 per cent downgraded. Transition impact was the indicator most likely to be rated lower (41 per cent) by evaluators. Experience gained with TIMS might improve the rating of transition impact over time and reduce the difference between the TI ratings assigned by EvD and the operation staff. It is difficult to make a judgement on whether the observed differences between the ratings of the self-evaluation and the independent evaluation systems are acceptable or not. It is, however, EvD's view that the differences observed do not represent a cause for concern, but that there is room for improvement. By monitoring the differences observed over time, a better judgement can be made about developments in the future.

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. EvD synthesises its overall findings, including the Bank's performance against its mandate in this Annual Evaluation Overview Report (AEOR). This evaluation enables the Bank to comply with its accountability obligations towards the Board of Directors and management. To ensure this corporate memory is utilised, EvD assists the banking teams and others during the early stages of project preparation by providing relevant "lessons learned" from past projects. This process ensures that past 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 report are therefore available for the Bank's future strategic orientation. Management's Comments to the AEOR for 2005 are presented in Appendix 11.

An update of the evaluation policy was prepared and presented to the Board at the beginning of 2004. Later that year some amendments to the Evaluation Policy Review of 2004 were approved by the Board which further enhance the harmonisation of the evaluation process among multi-lateral development banks (MDBs). The box below gives details of the updates to the evaluation policy and describes some more recent developments in respect of EvD's independence.

EVALUATION POLICY REVIEW OF 2004

The Evaluation Policy Review of 2004, which was approved by the Board in February 2004, reviews the evaluation practices and procedures that have evolved over the years in the Bank and presents the necessary updates. The report is based on: (1) the integration of experience gained by EvD during the six years of project evaluation since the last update; (2) more than 10 years of the Bank's learning experience; (3) changes in the Bank's modus operandi and its organisation; and, (4) enhanced harmonisation efforts in recent years with other MDBs. Particular attention is given to defining project evaluation distinctly from other functions in the Bank and establishing an approach to project evaluation which places critical importance on independent accountability and transparency and learning.

An update of the Review was approved by the Board of Directors in October 2004. In this document some changes were incorporated to move closer to good practice standards in private sector evaluation established by the MDBs' Evaluation Cooperation Group (ECG). In addition, changes relating to EvD's independence, based on recent changes to the terms of reference of the Audit Committee of the Board of Directors, were incorporated.

FULL INDEPENDENCE OF THE EVALUATION FUNCTION FROM MANAGEMENT

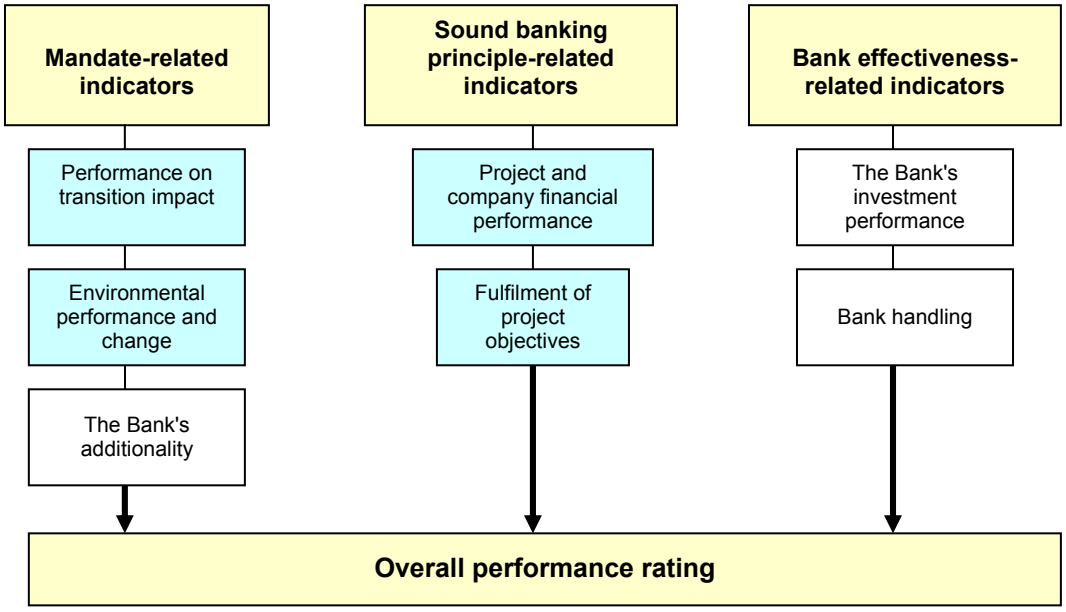
A new organisation and status of the evaluation function was approved by the Board of Directors in 2005. This guarantees that the evaluation function in the EBRD is conducted with the required degree of independence from management and operations. This change enhances the Board of Directors' ability to perform their collective duty of accountability to the Bank's members and other stakeholders. The reform results in a change of name from the Project Evaluation Department (PED) to the *Evaluation Department (EvD,)* reflecting the fact that evaluation goes beyond the project level. In addition EvD became a separate department not linked to any other department in the Bank. The title of the head of evaluation has been changed to *Chief Evaluator*. Some changes in the procedures by which the Department prepares and delivers its reports have also been introduced.

1.2 EVALUATION PERFORMANCE INDICATORS

By the end of 2004, 579 investment projects of the Bank's total cumulative portfolio of 1,140 had reached a stage where they were ready for evaluation. Since the establishment of the Bank in 1991, EvD has evaluated a total of 443 (or 76 per cent) of these investment projects. 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 and Section 10 of Appendix 8 provide details about the size and representation of the sample of evaluated projects.

The evaluation performance indicators, which 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[1]



The indicator boxes that are presented above in blue make up the indicators that define "results on the ground" and as such make up the *transition outcome* rating.[2]

The evaluation of *transition impact* focuses on the broader effects of the project on the sector and economy at large. Seven transition impact indicators, as used by the Bank during the project screening and approval stages, cover privatisation, competition, linkages to other sectors and skills transfer as well as the development of frameworks for markets, demonstration effects and corporate governance standards. EvD evaluates the *short-term transition impact* of a project that can be verified at the post-evaluation stage, as well as 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. Appendix 7.1 presents the list of transition objectives used by EvD and OCE when assessing transition impact *ex ante* (at

[1] 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 the EBRD's Evaluation Policy Review of 2004, which is available on Bank's web site: www.ebrd.com.

[2] Presenting evaluation findings based on "results on the ground", i.e. *transition outcome*, makes the findings more comparable with other multilateral development banks. See further details in Appendix 8, section 1.

project signing) and *ex post* (at project completion). The transition matrices highlighted in Appendix 7.2 for each project evaluated in 2004 illustrate how EvD deals with measuring (a) realised transition impact; (b) the longer-term transition potential still to be realised and (c) the risk that full transition potential has been realised during the life of the project. Appendix 8 gives details on the *overall performance* scores and shows how the seven underlying performance rating categories behave for all evaluated projects.

1.3 EVALUATION SYSTEM AND JOINT EVALUATION

1.3.1 Functioning of the evaluation system

The evaluated operations referred to in this AEOR include the operation performance evaluation review (OPER) of a sample of projects and the self-evaluation reports prepared by operational staff. With the existing evaluation system EvD assesses a sufficient number of operations to fully comply with its accountability objective. EvD reviews all of the self-evaluation reports that are produced during the year with different degrees of intensity. The quality management objective is fulfilled by disseminating lessons learned through the lessons learned database (LLD) to operation staff during the project appraisal and preparation process. EvD staff also check the use of lessons in Board reports.

EvD has found that the self-evaluation system, whereby operational staff evaluate projects and EvD assist bankers with the preparation of these self-evaluation documents, adequately generates lessons learned. However, there is room for improvement in assigning performance ratings by operational staff (see Chapter 8). During the year, EvD compared the ratings assigned to projects during the self-evaluation process by bankers with the ratings assigned by EvD during the validation process of performance ratings. The overall level of downgrades by EvD stayed at just over 30 per cent, with transition impact being the indicator most downgraded by EvD (41 per cent of cases). EvD is conducting regular training sessions with bankers to improve the quality of self-evaluation documents.

1.3.2 Project selection

OPERs are normally undertaken by EvD after the investment has been completed, (18 months after the last disbursement of the loan or two years after the last disbursement of equity). In addition at least one year of commercial operation must have occurred evidenced by one year of audited financial accounts.[3] In 2004, a total of 23 projects were selected for an OPER, based on a purposive sample[4] comprising 33.3 per cent of operations ready for evaluation. The self-assessment reports of 30 projects (or 43.5 per cent of ready operations) were selected at random and assessed by EvD. Evaluation, therefore, covered a total of 76.8 per cent of projects ready for evaluation in 2004. 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

Over the past years, the Audit Committee has emphasised the importance of the evaluation function jointly carrying out evaluation exercises 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) with the European Commission (EC). However, it has not been possible to identify other cases for joint evaluation mainly due to the fact that other MDBs mainly concentrate on the public sector. Although the International Finance Corporation (IFC) might seem a good candidate to participate in joint

[3] Appendix 10 includes a flow chart of the evaluation process relating to the evaluation of investment operations.

[4] Projects ready for evaluation on which an OPER is prepared are selected on a purposive basis, i.e. projects are selected based on lessons-learned potential, risk for the Bank, a project's high profile, etc.

evaluation, there is limited possibility of collaboration in this area as their evaluation methodology concentrates on *indirect evaluation* (i.e. on validating self-evaluation reports), while EvD concentrates on the *direct evaluation* methodology during which field visits take place. Over the years, the IFC and the EBRD have exchanged lessons learned from experience extensively and sometimes both institutions share the content of evaluation special studies. During 2005 one joint evaluation will take place with the Council of Europe Development Bank (CEDB) covering a small and medium-sized enterprise (SME) financial institutions project in Croatia. It is expected that by pooling resources for this evaluation exercise with the CEDB, efficiency improvements can be reached and mutual learning can be enhanced. In future years, EvD will continue emphasising joint evaluation.

1.4 OVERALL PERFORMANCE RATINGS

During 1993-2004, 55 per cent of evaluated operations were given *Successful* or *Highly Successful* ratings,[5] as shown in Chart 1.1, where the cumulative scores of the overall performance ratings are presented.

55 per cent of evaluated operations were given *Successful* or *Highly Successful* ratings for overall performance during the period 1993-2004.

As highlighted in Chart 1.2, in 2004 the *Successful* and *Highly Successful* rated projects reached 73 per cent. A steady improvement has occurred following a low of 46 per cent in 2001, when 8 per cent of the projects scored *Highly Successful* overall, and 17 per cent were rated *Unsuccessful*.[6] However, this increase in *Successful* and *Highly Successful* rated projects from 53 per cent in 2003 to 73 per cent in 2004 is quite drastic and is unlikely to reflect a trend, rather a one-off result (see Appendix 8).

Chart 1.1: Overall performance, cumulative (443 investment operations evaluated 1993-2004)

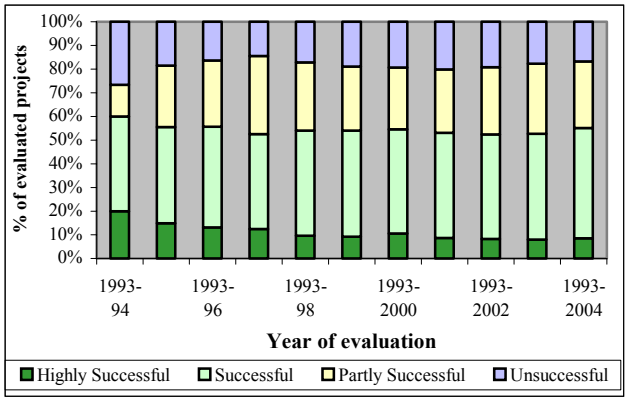
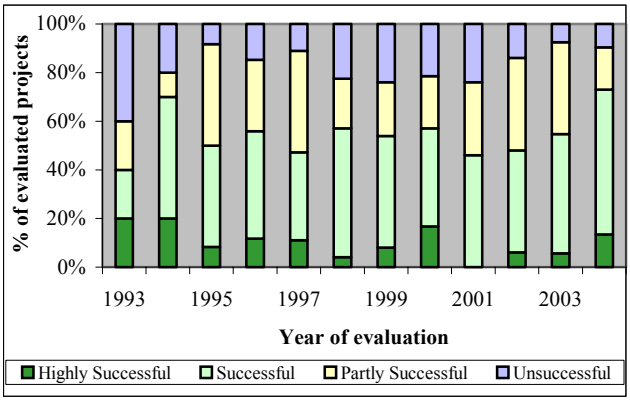


Chart 1.2: Overall performance, annual (443 investment operations evaluated 1993-2004)



The cumulative overall performance rating during the period (positive scores in 55 per cent of cases) may seem modest when compared with the average score for transition impact (78 per cent *Satisfactory – Excellent)*. The relatively lower average rating for financial performance partly drives the outcomes for overall performance (see Section 1.7). In addition, projects which score *Satisfactory* transition impact tend to be associated with an overall rating of

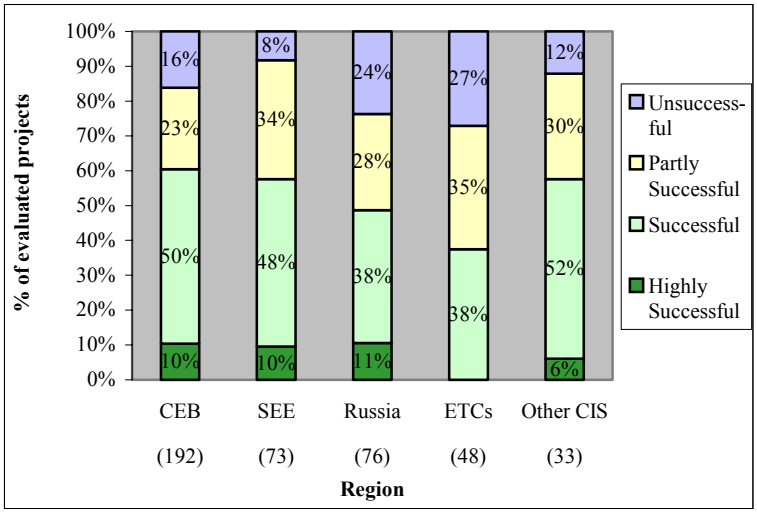
[5] Weighting by volume of investment yields better results with 66 per cent *Successful* or higher, 22 per cent *Partly Successful*, while the *Unsuccessful* ratings share is 12 per cent.

[6] The proportion of projects rated *Highly Successful*, has risen in recent years from none in 2001 to 13 per cent in 2004. At the same time, the number or projects with an *Unsuccessful* fell from 22 per cent in 2001 to 8 per cent in 2003 and 10 per cent in 2004.

Partly Successful which has a downward effect on the overall performance rating.[7] Further, many parts of the region in which the Bank operates remain risky from an investment perspective. This continues to be true even for the more recent EBRD projects developed in advanced transition economies. In particular, in these countries, where the Bank needs to demonstrate its additionality, it must sometimes accept relatively high-risk projects.

Chart 1.3 shows the breakdown of overall performance by country groups, for all investment operations evaluated since 1993. South-eastern Europe and the "Other CIS" group show nearly as good an overall performance as central Europe and the Baltic states (CEB), which was the best performing region in the early years of the Bank.

Chart 1.3: Distribution of overall performance, by country groups (422 investment operations evaluated 1993-2004)



Note: 21 regional projects are omitted

Chart 1.3 also shows that operations in the early transition countries (ETCs),[8] have scored lower on overall performance than in other regions. These seven countries have suffered from political instability and face difficult transition challenges, mainly due to the small size of domestic and export markets, underdeveloped financial systems and public governance issues. This poor investment climate results in a low level of foreign investment and creates major challenges for EBRD investments. The challenges for the Bank operating in ETCs are discussed further in Chapter 3.

The analysis in Appendix 8 shows, however, that performance in ETCs is better than in the late 1990s when only 21 per cent of projects were rated *Successful* or better. In particular, 62 per cent of projects evaluated in 2001-02 were rated *Successful*, although success rates have fallen again to 38 per cent over the last two years.

[7] Of the 53 projects rated *Satisfactory* for transition impact since 2000, 30 had an overall performance rating of *Partly Successful*.

[8] Early transition countries (ETCs): Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan.

1.5 TRANSITION IMPACT AND ENVIRONMENTAL PERFORMANCE AND CHANGE

1.5.1 Performance of transition impact

Charts 1.4 and 1.5 present the performance ratings for transition impact, applying the six-point rating scale[9] that was introduced in 1999. Of the 247 projects evaluated in 2000-04, 78 per cent achieved *Satisfactory - Excellent* ratings.

78 per cent of evaluated operations obtained *Satisfactory-Excellent* ratings for transition impact during the period 2000-04.

This score is an important accomplishment and confirms the Bank's compliance with the mandate. However, 22 per cent of the evaluated projects obtained a rating of *Negative - Marginal* which shows that the Bank operates in difficult environments where many obstacles to transition remain. Chart 1.5 shows a clear upward trend in transition impact ratings since a low in 2001, when the repercussions of the Russian financial crisis of 1998 had a severe impact on evaluation outcomes (see Section 3 of Appendix 8 for further analysis).[10]

Chart 1.4: Cumulative transition impact ratings (247 investment operations evaluated 2000-04)

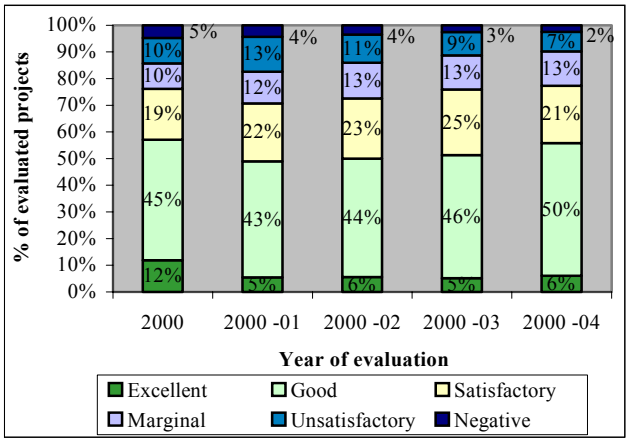


Chart 1.5: Annual transition impact ratings (247 investment operations evaluated 2000-04)

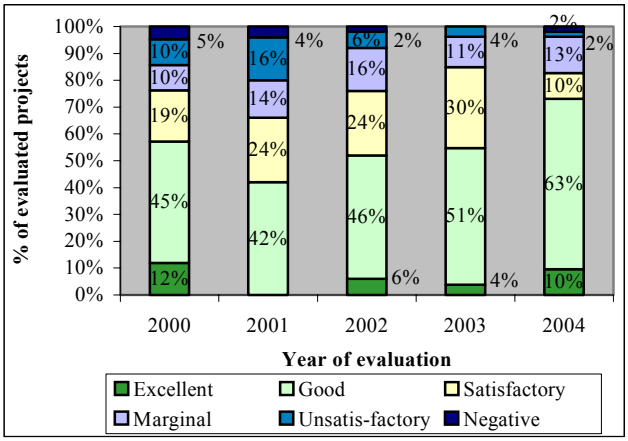


Chart 1.6 presents the transition impact (TI) ratings of 230 projects[11] evaluated in 2000-04, distributed into country groups. The best performance is found in south-eastern Europe (SEE) and Russia.[12] The time-sequence analysis in Appendix 8, Section 3.3 shows that transition impact has improved in most regions from a low point in 2001-2002, but that the reverse has happened in the ETCs and other CIS countries excluding Russia. This is probably linked to a fall in financial performance, particularly in the ETCs, during the same period. It has been experienced in the past that transition impact cannot be achieved without financially sustainable projects.

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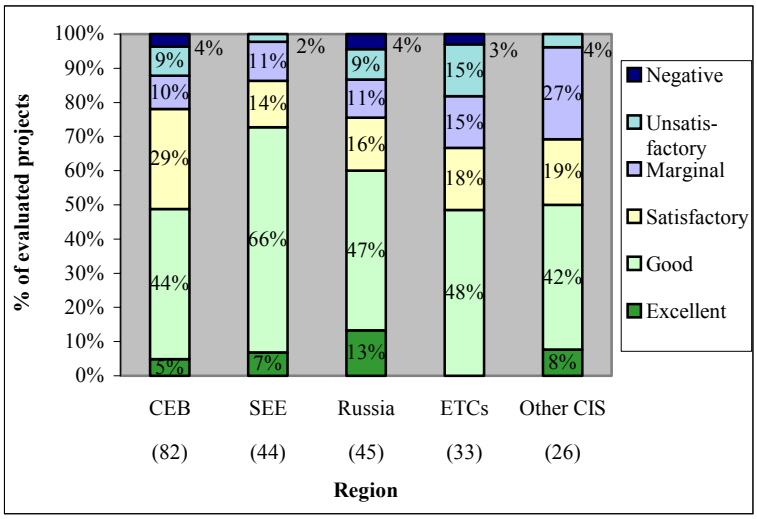
9 In April 1999 the five-point rating scale (*High, Medium, Low, None, Negative*) for measuring transition impact was changed into a six-point rating scale (*Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Negative*). The same six-point scale is used *ex ante* and *ex post* ratings (see Appendix 8, Section 3.2). Therefore, in 2000 EvD started with a new time series in rating projects on transition impact.

10 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.

11 Seventeen regional projects have been omitted from the total of 247 evaluated projects for transition impact.

12 Other CIS countries, excluding Russia, are: Belarus, Kazakhstan, Turkmenistan and Ukraine.

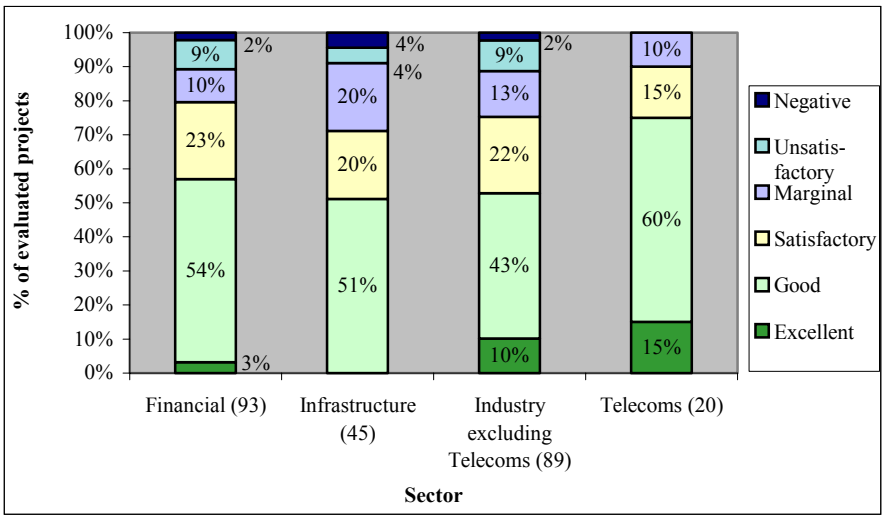
Chart 1.6: Transition impact by country groups
(230 investment operations evaluated 2000-04)



Note: Seventeen regional operations are omitted.

Chart 1.7 shows assigned TI ratings by sector. It seems that differences in results between sectors, observed in past years, have become much less apparent. In fact, infrastructure (formerly the best performing sector) has performed worst for transition impact in 2003-04. Only 25 per cent of eight infrastructure projects evaluated in 2003 and 50 per cent of 14 infrastructure projects evaluated in 2004 rated *Good,* with no projects rated *Excellent* (see Appendix 8, Section 3). This may be because of the relatively low performance of projects in ETC countries, where a substantial proportion of infrastructure projects are located (32 per cent of infrastructure projects evaluated in 2003-04). Only one of the infrastructure projects evaluated in the last two years was located in the high-performing SEE region.

Chart 1.7: Transition impact by sector
(247 investment operations evaluated in 2000-04)



Infrastructure - Municipal, power, energy efficiency and transport, excluding shipping;
Industry and commerce - agribusiness, general industry, natural resources, property/tourism and telecommunications

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 EBRD encourages the Bank "to promote in the full range of its activities environmentally sound and sustainable development". Environmental

performance[13] is included in the *ex post* assessments. Environmental performance in 1996-2004 was rated *Good* or *Excellent* in 82 per cent of cases. By major sectors, in terms of all past evaluated data, environmental performance on a four point rating scale[14] was rated *Good* or *Excellent* in 89 per cent of the cases for infrastructure, 78 per cent for industry and commerce (excluding telecoms) and 78 per cent for financial institutions (FI). Over the period 1996-2004, only 2 per cent of the projects evaluated were rated *Unsatisfactory* in respect of environmental performance.

82 per cent of evaluated operations obtained ratings of *Good* or *Excellent* for environmental performance during the period 1996-2004.

In respect of environmental change,[15] 19 per cent of the evaluated projects were rated *Substantial* or *Outstanding*, while 54 per cent achieved *Some* environmental change.

In the previous AEOR, EvD noted that the EBRD achieved its most impressive results for environmental change in Category A projects,[16] which are judged to represent the most significant environmental liability. This observation implies that the EBRD is best able to achieve its environmental mandate in projects that present the largest amount of environmental risk. In Chapter 5, Section 5.5 EvD analyses historical patterns with respect to project environmental categorisations.

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

1.6 ENHANCING 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.[17] On a cumulative basis from 1993-2004, 62 per cent of the projects evaluated rated the Bank's additionality as *Verified in all respects*, 27 per cent *Verified at large* and only 11 per cent *Verified in part* or *Not verified* (Chart 1.8).

The Bank's additionality in projects was *Verified in all respects* and *Verified at large* in 89 per cent of the cases for the period 1993-2004.

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13 Environmental performance of projects is measured by accumulating the environmental and health and safety performance indicators: *environment* being 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 in this respect; *pollution loads and energy efficiency*: the extent to which the emissions are significantly lower than the regulatory limits; *environmental management*: the level of compliance with the agreed environmental action plan; *public consultation and participation*: whether the public consultation and participation has been carefully planned and organised with a responsible person in charge.

14 The four point rating scale is *Excellent, Good, Marginal* and *Unsatisfactory*. Although EvD started a new six point rating scale in 2003, the results are still presented based on the four point rating scale to preserve an adequate series of data.

15 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.

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

17 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.

Chart 1.8: Cumulative ratings on the Bank's additionality (1993-2004)

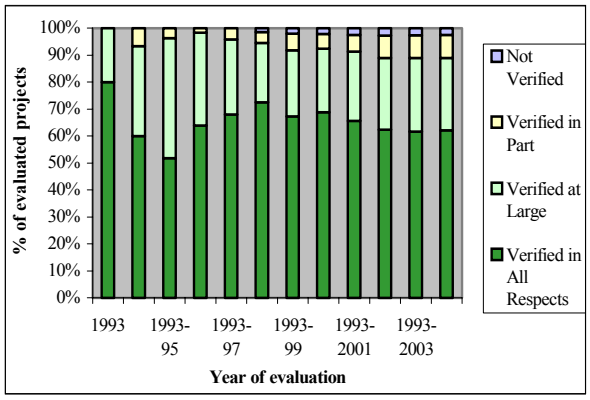
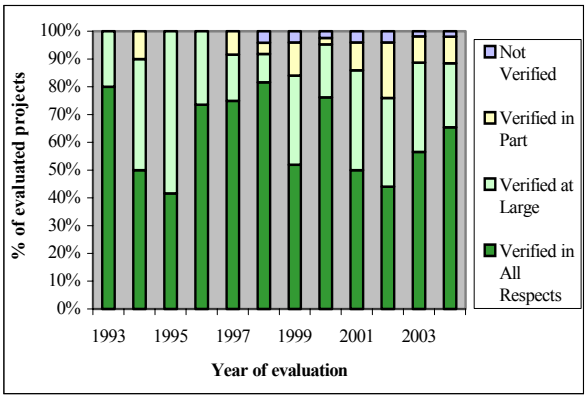


Chart 1.9: Ratings on the Bank's additionality (1993-2004)



Regarding annual variations of additionality, the data for last year's annual review showed a deterioration since 2000 and only a slight recovery in 2003. The updated figures in Chart 1.9 show a stable position compared with the previous year, when reviewing both *verified in all respects* and *verified at large* categories.[18] If a lag of about three years between project signing and evaluation time is accounted for, it is interesting to see that the downturn broadly corresponds to projects signed before the 1998 Russia crisis and the emerging upturn relies mostly on projects signed after the crisis. It could well be that the design and functioning of projects was strengthened in the regions and the sectors mostly affected by the crisis. Further analysis of regional and sector variations of additionality is given in Appendix 8, Section 4.

1.7 PROJECT FINANCIAL PERFORMANCE[19]

Project financial performance compares the findings at evaluation with the original expectations when the project was appraised. These findings show on an aggregated basis that the share of investment operations that achieved *Good - Excellent* ratings for project financial performance remained fairly stable at 57 per cent in 1993-2004.[20] Almost one in six of all project financial performance ratings, however, remain *Unsatisfactory.*

Project financial performance was rated *Good* or *Excellent* in 57 per cent of cases for the period 1993-2004.

Evaluation data support the fact that financially sustainable projects are more difficult to achieve in the early and intermediate transition countries, including Russia, where the systemic constraints and risks are high. Project financial performance rated *Good* or *Excellent* is as low as 29 per cent in the ETCs (Appendix 8, Section 5). This shows the need to focus attention on the systemic constraints at sector level that are likely to directly affect the financial performance of a project. Good results were obtained for the "Other CIS" countries, but this was mostly due to good performance in Ukraine.

Although in the past infrastructure projects have been more likely to be rated *Good* or *Excellent* for project performance, it has had the lowest ratings for this indicator in the last two years, with only 50 per cent of operations achieving a *Good* rating. This seems to reinforce the link between the performance of infrastructure projects and the performance of

[18] The upturn in the performance of additionality is more pronounced when focusing on the *verified in all respects* category only.

[19] In Appendix 8, Section 5 more details are given on project financial performance and company financial performance.

[20] The project financial performance by volume of investments is *Good* or *Excellent* for 66 per cent of evaluated projects, supporting a cyclical upturn with a 2004 outcome clearly above 2003.

operations in ETC countries, as discussed in Section 1.4. Industry shows the highest number of projects rated either *Excellent* or *Unsatisfactory*, reflecting the risks and potential rewards of projects in this sector. Many of the less successful industry operations are complex reform projects without a strong strategic sponsor. Positive financial performance, where the sustainability of a project is not threatened, is a necessary condition for transition impact to unfold. However, positive financial performance is not a sufficient condition alone as some financially successful projects can still score low on transition impact.

1.8 FINDINGS AND CONCLUSIONS BASED ON PERFORMANCE OF EVALUATED PROJECTS IN 2004

Compared with last year's annual review, it is noticeable that:
— the overall performance has improved
— part of this overall improvement has come from Russian operations and to a lesser extent from SEE
— additionality has recovered from the lower level of 2001
— recent performance trends for ETCs needs to be redressed.

More detailed findings and conclusions follow:

- In total 55 per cent of the evaluated projects in 1996-2004 achieved *Successful - Highly Successful* **overall performance** ratings. This mainly reflected the modest financial performance of projects compared with original projections. Of evaluated projects in 2000-04 a total of 78 per cent scored positively for **transition impact**. This positive outcome for transition impact leads EvD to conclude that the Bank is doing well 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 2001-02, related to the Russian crisis of 1998. However, there is variation among regions and sectors, with performance in ETCs and in infrastructure projects falling over the same period.

- **Transition impact** is highest in the evaluated projects in south-eastern Europe (SEE) and Russia, while projects evaluated in central and eastern Europe and the Baltic states (CEB) and other CIS countries score lower on transition impact.

- Evaluated projects in the **ETCs** continue to have relatively poor financial performance, which undermines the realisation of their full transition impact potential. The relatively low transition impact ratings of infrastructure projects in recent years may also be due to a significant proportion of them being located in ETCs. Focus should be given to project quality in the ETC group through improved monitoring mechanisms and more institutionally targeted TC, supported by enhanced policy dialogue. This will help to ensure improvements in overall project performance since the late 1990s are not lost. It is also important these countries are able to reach and maintain a level of performance comparable to those seen in other regions several years ago.

- Following a decline, **additionality** has begun to recover in the past two years, rising across all sectors and regions except in some CIS countries and in infrastructure projects. The upturn observed in 2003 for both rating categories *verified in all respects* and *verified at large*, however, was not the start of a trend with these scores staying at the same level

of just above 90 per cent. EvD concludes that the consolidation of the relatively high levels of additionality for all projects evaluated so far must be judged positively.

2. TRANSITION IMPACT AND RELATED RISK

2.1 INTRODUCTION

The *ex post* assessment of transition impact is divided into two main components, i.e. the *verified short term impact* and the *remaining potential to realise full transition impact*. EvD also assesses *ex post* the risk of realising a project's remaining transition impact potential. The *ex ante* assessment of transition impact assessment, in contrast, relies only upon the assessed potential of transition impact and the risk associated in fully realising it.

When preparing, monitoring, and then evaluating projects, it is essential to consider the transition impact potential and risk dimensions together, and not just focus on one dimension alone. To this effect, EBRD management introduced a new institutional scorecard target in the Bank's Budget for 2005 which combines ratings for transition impact potential and risk. This scorecard enables the direct assessment of the *expected* transition impact, whether it is the full potential recorded *ex ante* or the remaining potential identified *ex post*. The combination levels of transition impact potential and risk are classified and ranked in Table 2.1, with one the highest and eight the lowest:

Table 2.1: Rankings by expected transition impact

Expected TI rank	Transition impact potential and risk to realise that potential*
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/Negligible*
7	Marginal, *High/Medium*
8	Unsatisfactory, *<any>; <any>, Excessive*

* Italic rating categories refer to *risk* to realise the transition potential.

At the time of signing, all Bank projects must satisfy minimum standards of transition impact potential and risk, irrespective of their contribution to other objectives such as profitability or adherence to country or sector strategies.[21] To fulfil this requirement, a new TI target based on the *expected* transition impact of Bank projects under implementation was proposed. The *stock target* retained in the presentation of the 2005 Budget stipulates that 55 per cent of TIMS-reviewed[22] projects must be at the expected transition impact rank of 4 or above.

Since April 1999, OCE and EvD have made the same distinction between the transition impact potential of a project and the risks to transition impact in their respective *ex ante* and *ex post* evaluations.[23] Transition impact potential and risk are measured along the same

[21] Consequently, less than "satisfactory" projects and projects with "excessive" risks are not presented to the Board for approval.

[22] In January 2003, OCE set up a transition impact monitoring system (TIMS) to record regularly the progress on transition of Bank projects during implementation.

[23] The methodology was developed in 1999.

ordinal scales.[24] This chapter concentrates on the link between potential transition impact and risk when assessed *ex ante* and evaluated *ex post*. The TI comparators *ex post* will be the *remaining* potential and the associated risk.[25] This chapter reviews:

(a) the *remaining* TI potential of the 247 projects evaluated *ex post* from February 2000. Analysis of these projects' overall transition impact was given in Chapter 1 (see also Section 2.2)

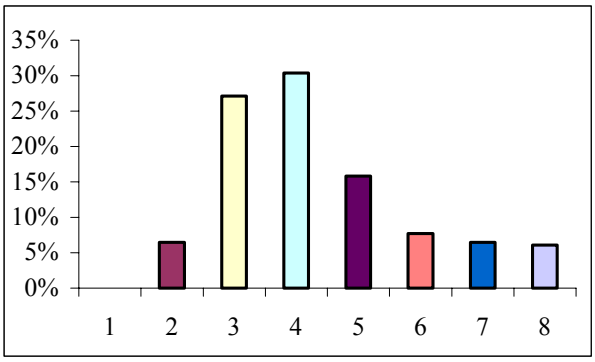
(b) the *ex post* TI performance of a smaller group of 59 projects, that were approved after May 2000 and monitored and rated through the TIMS. These projects enable a comparison between the *ex ante* and *ex post* TI ratings (see Sections 2.4 and 2.5).[26]

2.2 TRANSITION POTENTIAL OF 247 EVALUATED PROJECTS

Chart 2.1 presents the performance ratings for *remaining transition impact potential* and associated risk for 247 projects evaluated *ex post* and classified along the TI rankings described in Table 2.1. Sixty-four per cent of the evaluated projects are at level 4 or above, a ratio that is higher than the Bank's scorecard objective for expected transition impact (55 per cent).

This evaluation finding complements the conclusions of Chapter 1 that overall transition impact has been good for projects evaluated during the period 2000-04, with 78 per cent rating *Satisfactory - Excellent*. This result brings some light to the remaining potential component of this overall rating, and its associated risk, indicating that projects still carry good *expected* TI potential (64 per cent at level 4 or above). It is important to realise that in the majority of cases a substantial TI potential remains present when the Bank exits from an operation.

Chart 2.1: Expected transition impact*
(247 projects evaluated *ex post* 2000-04)



* Expected transition = remaining potential x associated risk

[24] EvD's rating scale includes an additional category of '*negative*' for transition impact when evaluating *ex post*. This category is not relevant for new projects (*ex ante* assessments).

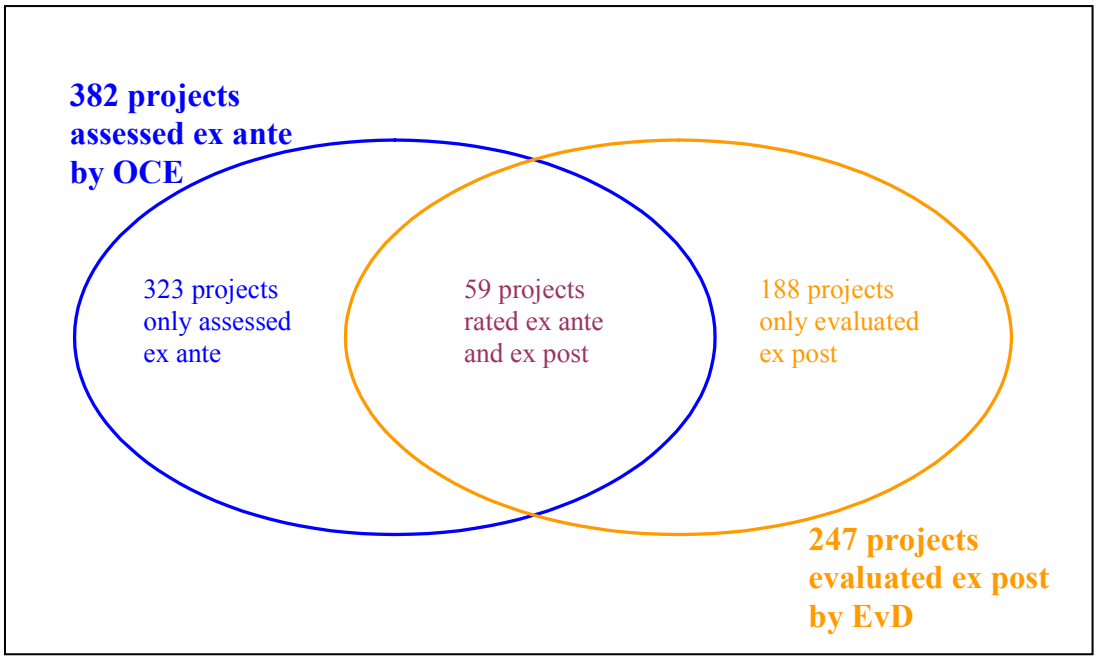
[25] TIMS reviews confirm or change the transition impact ratings assigned to projects at entry as a result of the assessment of transition progress achieved at the time of the review. The monitoring assessment is done against specific and verifiable transition impact objectives, measurable benchmarks, and the expected implementation dates, which are presented in the project document approved by the Board. TIMS measures "expected transition impact", which is composed of the sum of "realised transition impact" at the time of the TIMS review plus the "potential transition impact" still remaining multiplied by the "risk" which is at the time of the review corrected up- or downwards depending on fulfilment of objectives formulated for each of the transition impact indicators. When observed progress is repeated over time and becomes substantial, OCE may also change the rating of the level of potential transition impact. To the extent that EvD uses an explicit transition impact rating on the *short term realised* component that OCE carries as part of the *expected potential transition impact*, the comparison between OCE and EvD transition impact ratings remains for the time being limited to the *potential* component of the transition impact.

[26] Transition benchmarks are identified and monitored in TIMS throughout the life of the project.

2.3 LACK OF DIRECT COMPARABILITY BETWEEN OCE AND EvD LARGE SAMPLES

While EvD has evaluated the performance of 247 projects between February 2000 and December 2004 (Group 1),[27] OCE has systematically rated and monitored 382 new projects (Group 2) and found that, when classified according to the 1 to 8 expected TI rankings, a proportion of 61 per cent of projects were level 4 or above. This performance, however, is not directly comparable to EvD's findings (64 per cent level 4 or above) under the same 1 to 8 classification. This is because the projects reviewed *ex post* from February 2000 onwards are not automatically those that were rated under TIMS by OCE. To make the comparison meaningful, the group of projects which is further analysed must carry both *ex ante* and *ex post* ratings. As of December 2004 there were only 59 projects in this group (Group 3).[28] Chart 2.2 describes the relationship between the three groups of projects.

Chart 2.2: Comparing project transition impact ratings *ex ante* and *ex post* for three groups of projects



2.4 EXPECTED TRANSITION POTENTIAL OF 59 COMPLETED PROJECTS

To compare OCE and EvD's ratings for transition impact for the 59 completed projects, the *ex ante* TI ratings were obtained from the TIMS portfolio database. The *ex post* ratings[29] were obtained from EvD's evaluation database. The transition indicators used to rate the projects *ex ante* and *ex post were* sourced from the Bank's checklist.[30] The new combined TI

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27 EvD started to record transition impact in 1996, but with a five-point rating scale (*High, Medium, Low, None, Negative*). In April 1999 the five-point scale was changed to a six-point rating scale (*Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Negative*) and applied to both *ex ante* (OCE) and *ex post (*EvD) evaluations. The same risk scale was also utilised by OCE and EvD (*Low, Medium and High).* In 2000 EvD started with a new time series in rating projects on transition impact which has applied to 247 projects up to January 2005.

28 The date of 31 December 2004 was chosen as a common 'cut off line' for all the three groups of projects analysed in this chapter.

29 EvD uses the "remaining potential transition impact" with the remaining "risk" in comparing OCE/TIMS outcomes, which is not fully identical to the "expected transition impact" of OCE which contains a realised transition impact portion next to the "potential transition impact" (with the remaining risk). EvD uses a separate rating for "realised transition impact".

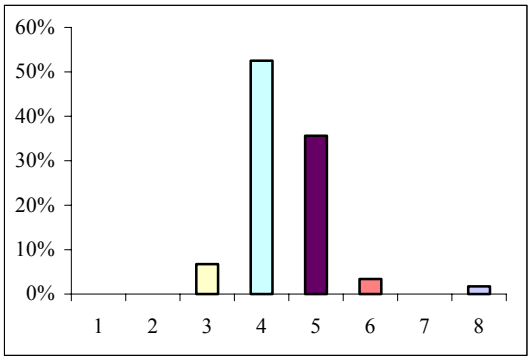
30 The Bank uses three broad categories of transition impact sources to assess the transition potential of its operations, both at the project preparation stage (*ex ante*) and in the project evaluation (*ex post*). They are (i) the creation, expansion and improvement of markets; (ii) the establishment and strengthening of institutions and structures that support markets; and (iii) the adoption of behaviour patterns and skills that are market-based, in total comprising 7 transition indicators/objectives as presented in detail in Appendix 7.1. In its assessment during project preparation of the transition potential of an operation, the Bank typically

level/risk rating scale of 1 to 8 was applied for this comparison of *ex ante* and *ex post* evaluations. The current group of 59 projects is still very small, only representing 15 per cent of the 382 projects monitored so far in TIMS. It is expected that as the group of new and completed projects with both *ex ante* and *ex post* ratings grows, the outcomes will change substantially. Therefore, early interpretations must be made with caution.

The current findings from the group of 59 projects as they appear in Charts 2.3-2.5 indicate that a large percentage of projects migrated from low rating levels (5) to higher levels (2) showing a net upgrade in the ratings. These findings tend to corroborate others in the Bank's 2004 Strategic Portfolio Review where upgrades of TIMS project ratings changed in the same direction from 2003 to 2004 for a larger group of projects.[31]

The group of 59 projects also shows that 59 per cent *expected* transition impact *ex ante* (Chart 2.3) and 78 per cent *expected* remaining transition impact *ex post* (Chart 2.5) to be at a level 4 or above. The outcomes indicate an overall improvement in expected TI potential, as the projects evolve from the signing stage to full implementation. This confirms the OCE and EvD findings of performance improvements from *ex ante* to *ex post* on larger but not strictly comparable groups of projects (382 and 247 respectively) over the period 2000-04.

Chart 2.3: Expected transition impact of 59 projects assessed *ex ante* in 2000-04



The results from the most recent TIMS review of the 59 sampled projects, presented in Chart 2.4, show 64 per cent at level 4 or above (see Chart 2.4). This is part way between the *ex ante* (59 per cent) and *ex post* (78 per cent) results. This shows that there has been some improvement in expected transition impact (59 to 64 per cent) but not as much as shown in the *ex post* outcome (78 per cent). The different results can be partly explained by the fact that:
(a) EvD looks to all transition objectives/indicators
(b) the sample of 59 is still very small and is likely to change once the cohort becomes much bigger.

concentrates on its two, perhaps three, most salient transition indicators/objectives. In the project evaluations all sources of transition impact are assessed not to miss any of the realised and verifiable transition effects.

31 The 2004 Strategic Portfolio Review indicates that the 2004 TIMS portfolio TIMS-reviewed projects at 31December 2004), consisted of 382 projects (312 in the 2003 TIMS). One way to assess the performance of the Bank's portfolio of projects at the end of 2004 is to see how the distribution of the 382 projects across the expected transition impact rankings changes between signing and at the end of the observation period (31 December 2004). Positive numbers in the high ranks (say, rank 3 and above) signify an improvement in the portfolio. By contrast, positive numbers in the low ranks (say, rank 6 and below) signify a worsening of the portfolio. When the positive numbers in the high ranks outweigh the positive numbers in the low ranks, the net result implies positive transition impact achievements at portfolio level. The TIMS data for 2004 show that there were 97 upgrades and 59 downgrades in the expected transition impact in the Bank portfolio reviewed at the end of 2004.

Chart 2.4: TIMS expected transition impact rating of 59 projects assessed *ex ante* in 2000-04

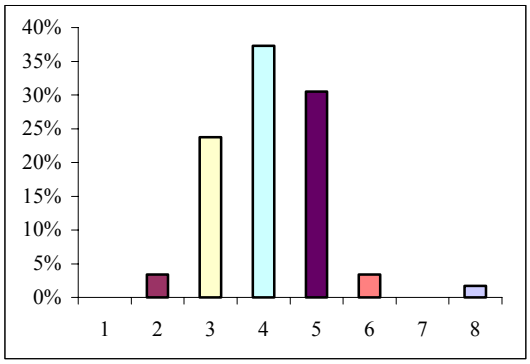
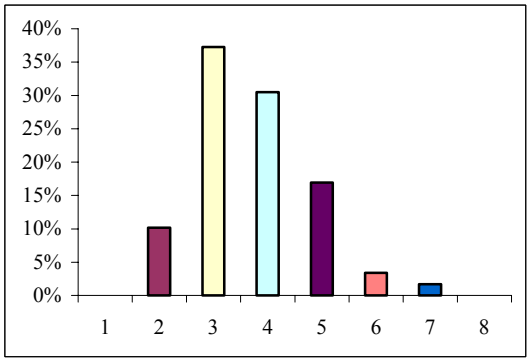


Chart 2.5: Expected transition impact rating of 59 projects evaluated *ex post* in 2000-04



2.5 A NEW COMPARISON INCLUDING EvD'S SHORT TERM VERIFIED TI COMPONENT

It is also possible to make comparisons between *ex ante* and *ex post* for the sample of 59 projects without the new 1 to 8 scale. An earlier more conventional approach which separated the TI performance level analysis from the risk analysis according to the classical 1 to 6 *satisfactory/unsatisfactory* scale (see Chapter 1 and Appendix 8) can be used. The results are presented in Charts 2.6 to 2.10.

Charts 2.6 and 2.7 compare the potential transition impact of projects *ex ante* and the *remaining* transition impact *ex post*, without considering any associated risk. They indicate a clear improvement in the *Excellent* and *Good* categories (73 per cent *ex ante* and 82 per cent *ex post*), implying that the projects have improved their potential of generating transition impact over the years during implementation.

Chart 2.6: Transition impact potential of 59 projects assessed *ex ante* In 2000-04

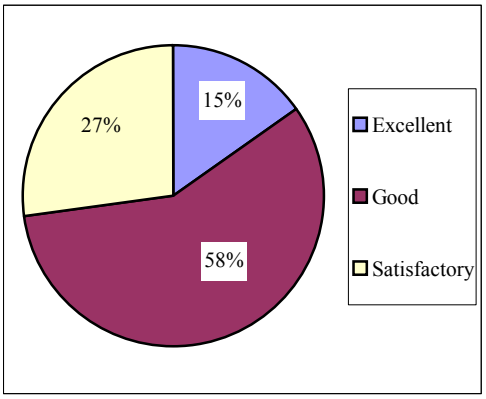


Chart 2.7: Transition impact potential of 59 projects evaluated *ex post* in 2000-04

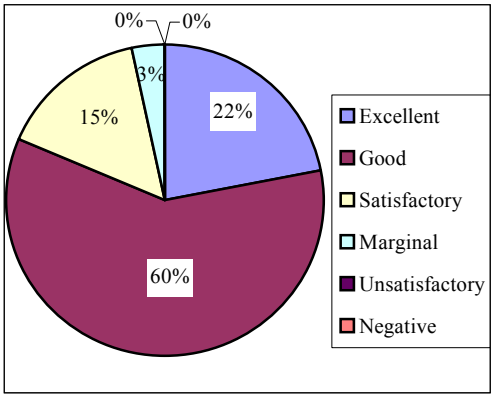
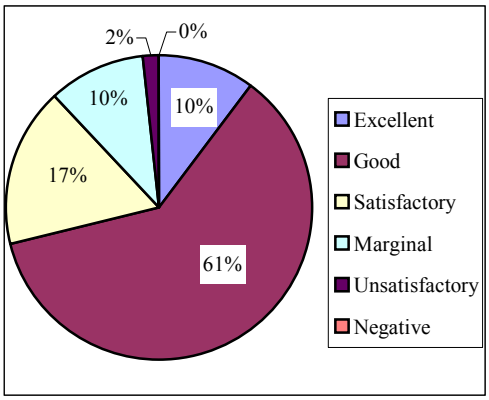


Chart 2.8 indicates the score of the short term verified (realised) transition impact *ex post*. It is observed that the proportion of projects rated *Good* and *Excellent* is only slightly lower than *ex ante* (71 per cent in Chart 2.8 compared with 73 per cent in Chart 2.6), confirming the overall good performance of realisations so far. This *ex post* performance, however, carries a proportion of 10 per cent of achievements that are rated as *Marginal* and 2 per cent *Unsatisfactory*. Therefore, about 12 per cent of projects (about 7 projects of 59) will not

generate a satisfactory or above transition impact, in spite of the overall good performance of the group of 59 projects under observation.

Chart 2.8: Short-term verified transition impact of 59 projects evaluated *ex post* in 2000-04



Finally Charts 2.9 and 2.10 compare the *risk* attached with the *original* potential to the *risk* attached to the *remaining* potential. It is noticeable that during implementation the risk to realise potential has been reduced (*Low-Medium* risk from 62 to 86 per cent). Therefore the probability of the original potential being realised becomes higher over time. The interpretation could be that through monitoring projects under TIMS, the Bank was able to implement important risk mitigating factors leading to lower risk. The group of projects is, however, for the time being too small to reach any definite conclusions. In the coming years detailed comparisons of the applications of the transition impact indicators/objectives *ex ante* (2-3) and *ex post* (in principle all 7) should be possible as well.

Chart 2.9: Transition risk of 59 projects assessed *ex ante* in 2000-04

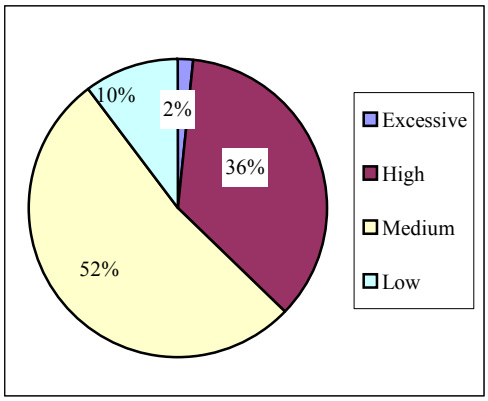
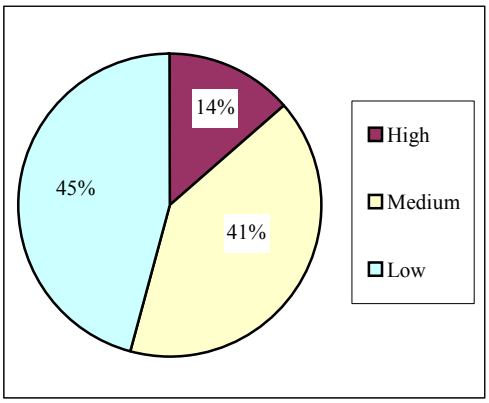


Chart 2.10: Transition risk of 59 projects evaluated *ex post* in 2000-04



2.6 CONCLUSION

Sixty-four per cent of the 247 projects (Group 1) evaluated *ex post* had the potential to achieve level 4 or above for remaining transition impact, above the 55 per cent scorecard objective set by the Bank (see Table 2.1). Expected transition impact for the 382 projects (Group 2) assessed *ex ante* also scored 61 per cent in these categories.[32] One interpretation could be that the analysis was carried out on projects approved and evaluated over the period 2000-04 and these projects revealed a positive recovery from the 1998 Russian crisis. Should future results remain above the 55 per cent scorecard objective for ratings 4 and above,[33] the corresponding scorecard objective should be reviewed to better reflect the performance capabilities of the Bank.

Applying the more traditional analysis (separating transition potential and risk) to the group of 59 projects (Group 3) with both *ex ante* and *ex post* ratings tends to confirm the findings of the new analysis using 1 to 8 scale of combined TI and risk. At the same time, this more traditional analysis draws attention to the fact that there are a significant number of projects in the group of 59 projects with *ex post* ratings of *Marginal* or *Unsatisfactory* for short-term transition impact (12 per cent as shown in Chart 2.8). In EvD's view the often less positive outcomes on *short term realised transition impact* could be captured in TIMS all the way during implementation not only in the text of the reports (as done at the present time), but also through a *separate rating category.* This would on the one hand make the outcomes *ex ante* and *ex post* more comparable, while on the other hand it would facilitate an early Bank response. The Bank could even consider exercising a more "corporate recovery" approach towards projects that tend to realise hardly any transition impact potential or that even show a negative transition impact, as observed through the *short term realised transition impact*.

3. EARLY TRANSITION COUNTRIES - LEARNING FROM EXPERIENCE

3.1 INTRODUCTION

As part of the EBRD's 2005-08 Medium Term Strategy Update, the Bank highlighted its strategic priority to the poorest member countries in the CIS. These include: Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan and Uzbekistan. The objective of the ETC Initiative is to enable the Bank, within its mandate, to create new opportunities to increase transition impact.

The ETC Initiative rests on the Bank's readiness to take on more risk in these countries, while respecting sound banking principles. When projects are developed that carry more risk, however, the Bank should also consider measures to mitigate these risks. In that respect, lessons learned from the Bank's project experience in the ETCs can identify specific issues and highlight ways that risks can be mitigated through project design and monitoring. In the 2004 AEOR, EvD reported on experience gained doing business with local sponsors in ETC environments. This year the AEOR presents a variety of sector-oriented lessons learned from evaluated projects in early transition countries.

[32] In addition, the transition impact of the group of 59 projects (Group 3) is clearly above the 55 per cent scorecard objective (64 per cent *ex ante*, 78 per cent *ex post)*.

[33] The rating category 4 includes the following ratings: *Excellent, High – Good, Medium – Satisfactory, Low.*

3.2 LESSONS LEARNED FROM EVALUATED OPERATIONS IN ETCS

Among the lesson categories identified in the boxes below, some deal directly with the content of the project, others relate more to the positive externalities that must be developed to make a project successful in an ETC environment. While the scope of each lesson is usually broad enough to apply to several sectors, the cases presented below specify for which sector or Bank product (equity or loan) in particular the lesson would apply most.

Market assessments for particular products should be developed and expertise in particular market segments should be built.

CASE STUDIES:

Bank equity. A new investment project requires a high degree of familiarity by operational staff with the regulatory and operational specifics of the investee market. This knowledge can be usefully applied in a new project if it is provided by strong local staff with a clear commitment and incentive to work for its successful start-up.

Natural resources. The preparation of an adequate statistical base and transparent financial information is extremely important for the financial evaluation of a project and for the successful initiation of a commercialisation/privatisation process. This is particularly important where the Bank is including covenants which require substantial progress on commercialisation and ultimately privatisation in the sector.

Transport. Project risk assessment requires a more thorough and realistic analysis of the political environment. If during appraisal a situation of high uncertainty is identified, the worst-case-scenario should not be excluded. Fuel import statistics and projections may be particularly challenging if the statistical base is weak and if substantial changes in the structure of the economy are taking place.

Agribusiness. Success in the market place requires product quality. The project should concentrate on activities supporting production of a marketable quality, and on measures supporting the project's marketing efforts. Sponsors are needed as TC components alone cannot provide sufficient support to a long-term presence in Western markets.

High level policy dialogue should be undertaken.

CASE STUDIES:

Bank lending. It may not be possible for the Bank to ensure full transparency of operations in environments where such transparency is not welcomed. Nevertheless, opportunities for policy dialogue to convey messages about sound governance and business conduct should be used as a potent catalyst in the transition process.

Non-bank financial institutions. Equity projects are at a disadvantage if financial sectors and exchange rate regimes remain subject to excessive government intervention and control. In such situations it would be better to await the results of policy dialogue, as the Bank's small investments have not proved an adequate lever for reforms.

Power and energy utilities. It is pointless to set unrealistic targets for price liberalisation of the energy sector when they are likely to be politically untenable. Proper assessment of the socially acceptable price increases is all the more critical when enforcement through tariff collection is a condition to achieving such targets.

Municipal and environmental infrastructure. Developments in the regulatory and legal framework and in tariff reform usually have a direct impact on municipal infrastructure projects. These cannot, however, be influenced or controlled at utility company level. In circumstances where regulatory frameworks are weak or absent, the Bank should expand policy dialogue and project monitoring to protect its projects against undue interventions during all phases of the project cycle.

Substantive and well targeted TC support should be ensured.

CASE STUDIES:

Bank lending. Experience has shown that local bank staff trained under a Bank TC operation sometimes leave their position because of better employment opportunities elsewhere in the market. Often the skills they have acquired through the training are in high demand. To a certain extent, this kind of "staff turnover" is unavoidable. But it is important that adequate measures are taken through, for instance, providing incentives schemes and other forms of benefits for the retention of well-trained staff. It is also important that the participating banks give continuity to training programmes within their institutions or as a joint exercise.

Environment. Where capacity of environmental authorities to enforce environmental laws and regulations is recognised to be weak, the Bank should consider teaming up with other multilateral or bilateral agencies or use available TC funding.

Natural resources. Scenarios for the commercialisation/privatisation of a state oil company should be undertaken with a TC component separated from the project. This will ensure progress on the important issue of how the ownership of the State Oil Company with its many employees will evolve as foreign strategic investors take over an increasing share of oil and gas production.

Power and energy utilities. Investment operations justified on account of potential transition effects should be bundled with sufficient TC resources for initiating and sustaining the desired reform process. At the same time the client can be assisted in designing and implementing the necessary steps of transition, notably in cases where transition implies a turnaround. TC should facilitate achieving covenant compliance.

Transport. The assignment of a tender process to government entities may need to be complemented by TC to ensure transparency and efficiency of the process. Early involvement of such TC support is also in the interest of the Bank to obtain best possible outcomes of the sales efforts.

High priority should be given to institution building and advisory services.

CASE STUDIES:

Small business finance. Capacity and institution building support linked to micro and SME lending should focus on the participating banks and avoid spreading available TC resources too thinly to meet wider institution building aims. Institution building for more enabling domestic environments in terms of legislation, regulation, and taxation for micro and small business development may best be served by parallel TC support.

Power and energy utilities. It is essential to achieve an acceptable level of legal framework and sector reform prior to starting privatisation programmes. The Bank is in a position to assist governments, through policy dialogue and direct advice, in this respect. The Bank must identify the channels through which its leverage may be optimised.

Development of small and medium-sized enterprises should be enhanced.

Generic applications:

- Assessment of transition impact of SME projects channelled through financial intermediaries requires accurate and robust reporting on sub-loan performance and sub-project ownership.

- When securitisation legislation is still in its infancy, it can slow the development of secured lending business. Active policy dialogue often needs to be more persistent over the long run for investments predicated on legislation changes to be successful.

- Adequate access to reliable electricity is a must for small firms. Project design should take into account the most likely scenario for power provision (rather than assuming a better future) and avoid projects involving equipment that is not well adapted to the likely state of power supply.

4. EVALUATION OF TECHNICAL COOPERATION (TC) OPERATIONS

4.1 TC EVALUATION COVERAGE

4.1.1 Introduction

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 (the Bank's main TC funding source) and other funding facilities, the Bank is obliged to exercise the same attention for TC projects as it does for investments funded from the Bank's own resources. Accordingly, TC projects are subject to a diligent appraisal, monitoring and self-evaluation process.

The results of these process steps are documented in:

(a) the Technical Cooperation Request (TCR) package submitted to the TC Review Committee (TC Com) during the appraisal stage. This includes the TC Project Profile and consultant terms of reference (TOR)

(b) project progress reports prepared during monitoring stages

(c) the Project Completion Report (PCR).

In addition, independent evaluations based on a sample of completed TC operations are carried out by EvD.

Independent TC evaluation work falls broadly into two categories:

(a) in-depth evaluations of individual or groups of TC operations in the form of an Operation Performance Evaluation Review (OPER). This involves a field visit and occasionally consultant input (from 2002 onwards, six TC OPERs have been conducted each year)

(b) a desk-study PCR Assessment (20 cases per year). Given their restricted scope and depth, the evaluation value of the PCR Assessment work is understandably less than can be expected from fully-fledged OPER work on TC operations.[34]

4.1.2 TC evaluation coverage by EvD

Since 1993, when EvD started TC evaluation work, 52 OPERs and 20 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 two PCR Assessment synthesis studies have been completed.[35] Overall, these reports, though very different in scope and evaluation focus, have covered more than 1,100 TC-funded consultant assignments, involving approximately €292 million of funding from some 29 individual countries and 28 multilateral funds under the EBRD's Technical Cooperation Funds Programme (TCFP). This represents about 31 per cent of total TCFP funding commitments or 27 per cent of cumulative TCFP funding mobilisation.[36]

The total volume of evaluated TC operations based on an OPER report, as a percentage of the volume of TC operations with a PCR (see Table 4.1) has increased from 18.9 per cent in 1998, when the PCR review and assessment work was introduced, to 21.4 per cent in 2004. If groups of TC commitments covered in special studies are included, the coverage ratio rises to 53.4 per cent.[37]

Table 4.1: Technical cooperation evaluation coverage status 1991-2004 (€ million)

	TC completion and PCR coverage	1991-96	1991-97	1991-98	1991-99	1991-2000	1991-2001	1991-2002	1991-2003	1991-2004
a.	PCRs completed	107.5	134.0	188.8	236.5	302.8	364.8	424.4	491.8	547.4
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
c.	PCR assessments by EvD	-	-	3.4	8.7	13.9	18.9	26.1	31.1	34.5
d.	PCR reviews by EvD	-	-	3.1	6.3	13.0	13.0	19.3	19.3	19.3
e.	Total TC operations (**b+c+d**)	11.8	17.8	35.7	47.1	63.5	73.0	94.6	107.0	117.2
f.	Evaluation coverage (**b+c+d**)/**a** (%)	11.0%	13.3%	18.9%	19.9%	21.0%	20.0%	22.3%	21.8%	21.4%
g.	TC operations related to Evaluation Special Studies	24.7	93.3	93.3	93.3	106.6	122.3	160.0	174.2	174.9
h.	Total TC operations evaluated (**b+c+d+g**)	36.5	111.1	129.1	140.4	170.1	195.3	254.7	281.3	292.1
i.	Evaluation coverage (**b+c+d+g**)/**a** (%)	33.9%	82.9%	68.4%	59.4%	56.2%	53.5%	60.0%	57.2%	53.4%

[34] During the PCR Assessment process, EvD evaluates the project results and impact achievements (reliability and accuracy of report content) in greater depth. See Appendix 10 for an overview of the evaluation system of TC operations.

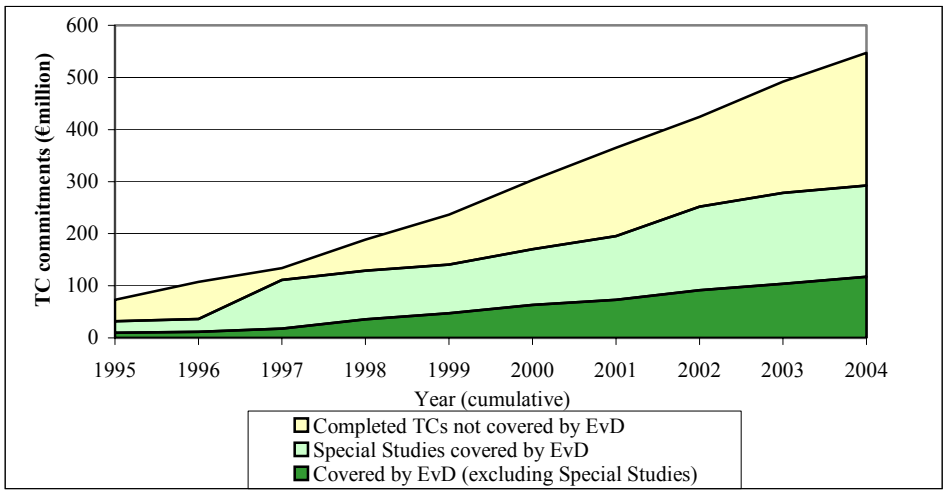
[35] Starting from 2003, OCU has taken on the PCR review function, concentrating on reviewing report quality and fulfilment of objectives.

[36] As at 31 December 2004 the Bank was successful in mobilising €1,096.9 million of TC funding of which €947.7 million or 86 per cent was committed.

[37] As EvD concentrates on the evaluation of larger TC operations, the total numbers of TC operations evaluated is relatively small. In total 46 OPER reports on investment operations have been prepared since 1993, comprising 180 TC commitments. This amounts to 5 per cent of the Bank's 3,450 TC commitments.

Chart 4.1 presents the information from Table 4.1 in graphic form. It shows clearly the trends of TC evaluation coverage since 1995. It should be noted that EvD, through the evaluation of TC-supported investment operations, provides further important assessments to TC donors.

Chart 4.1: Evaluation coverage of technical cooperation commitments 1995-2004 (€ million)



When selecting TC operations for evaluation, EvD also takes into account TCFP contributors, 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 shows that most of the countries with relatively high contributions to the Bank's TCFP are adequately represented in the Bank's TC evaluation activities.

4.2 PERFORMANCE EVALUATION OF TC OPERATIONS

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 'facilitating' role, 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. Hence, these can only be ascertained at a later stage. Secondly, EvD selects TC operations for which an OPER report will be produced on the basis of size (individual or group of related TCs exceeding €200,000), lessons learned relevance and potential, and other practical considerations (e.g. country, sector, banking unit spread; more recent TCs where direct beneficiary counterparts are assumed to be still with the TC recipient, etc.). Both these processes differ from the methodology for selecting investment operations for evaluation.

EvD's TC evaluation experience, nevertheless 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. The good collaboration between the TC Review Committee and the Operations Committee also improves the efficient use of donor funds for TC. In addition, the 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 its monitoring and self-evaluation capacity. Also, the assistance provided by the Consultancy Services Unit (CSU) in terms of reviewing the terms of reference and consultant section has enhanced quality at entry.

4.3 TC-RELATED EVALUATION WORK IN 2004

4.3.1 TC OPERs

In 2004 six TC projects were subjected to an in-depth OPER exercise. These TC operations were funded by donor contributions from Germany, Taipei China, Sweden, the UK and the US, as well as EC Phare and EC Tacis. These operations were approved between 1997 and 2002 and cover the following sectors: manufacturing, transport and storage, finance and services of local authorities. By TC type, they involved advisory services, project implementation and project preparation. They were linked to investment operations representing €49.6 million.

4.3.2 Special study on PCR Assessments

EvD conducted assessments of 20 Project Completion Reports submitted by bankers on the completion of TC assignments during the previous year. The TC assignments assessed totalled €6.3 million and were located in 11 countries (plus two regional commitments). Funds came from seven individual donor countries, plus EC Phare and Tacis and two multilateral funds. Approved between 1998 and 2003, the commitments funded advisory services, project implementation, project preparation and training. Sectors covered included finance, transport, services of local authorities, energy, construction, manufacturing and community/social services.

In EvD's view, the Operation Leaders (OLs) responsible for the 20 TC projects covered under the 2004 PCR Assessment exercise have satisfactorily done their self-evaluation work, although there is still room for improvement. EvD agrees with 65 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, less successful TC operations had weaknesses in at least one of the following key areas: client commitment, bank handling, or consultant performance. Some of the issues concerned are presented in more detail in the next section and in Appendix 4.2.

4.3.3 Key lessons learned from TC evaluations

Issues and lessons learned from the body of 2004 TC evaluation work are presented in Appendix 4.2. Some key lessons learned are presented below:

- **The state of TC files requires urgent management attention.** As observed and reported in the past, TC file keeping discipline leaves much to be desired. Files are often incomplete, fragmented (including, stored or archived at different locations at HQ, RO and the external archive), and occasionally the demarcation of draft and final versions of documents is unclear. TC monitoring, administration and self-evaluation are jeopardised, exacerbated by frequent changes of operation leadership. The 2004 newly introduced electronic filing system ("*ProjectLink*") was not extended to include TC files.

- **'Quality at entry' is an important determinant for TC (and often investment) success.** The smooth and effective cooperation between the Bank, the TC recipient and beneficiary, the related public sector authorities and private sector parties is necessary for project success. The securing of (a continuous) commitment by the TC recipient was also found to be a crucial success driver.

  The evaluation also found that in ETCs an 'arms'-length' handling of the TC operations does not yet seem appropriate. This would require the provision of additional

administrative and senior management resources by the Bank and a longer implementation perspective.

TC input required over a longer term is also needed when reform processes continue for extended periods and require follow-up activities. The need for identifying and involving key stakeholders was highlighted as an essential 'quality at entry' dimension. Finally, securing upfront commensurate consultant skills and adequate management abilities proved crucial for complex institution building programmes.

5. FINDINGS AND RECOMMENDATIONS FROM EVALUATION ACTIVITIES IN 2004

In this chapter recommendations are presented from evaluation special studies and OPER reports on investment operations prepared under EvD's 2004 Work Programme. It is intended that this presentation of the recommendations together in one chapter will assist management with monitoring follow-up of mentioned recommendations.

5.1 RECOMMENDATIONS FROM EVALUATION SPECIAL STUDIES ON MSME FINANCING

During 2004 EvD completed two special studies relating to the financing of micro, small and medium-sized enterprises (MSMEs). These covered micro finance institutions (MFIs) and delivery mechanisms for MSME financing. The findings allow some general conclusions to be drawn about the effectiveness of the Bank's MSME operations to date. The reports contain recommendations aimed at improving project performance and transition impact.

5.1.1 General conclusions

- The Bank has been broadly successful in developing an effective approach to MSME investment and support through tailored programmes. Those programmes that have been rated *Partly successful* overall, or *Marginal* or *Satisfactory* for transition impact, share common risks relating to questions of sustainability and exit.
- To secure sustained benefit from Bank interventions, partner bank (PB) intermediaries should work toward replacing EBRD funding with funds from other sources.
- It is clear from the experience of the past decade that some mechanisms (equity or debt) have functioned more effectively in some countries and regions than others. This experience enables the Bank to target instruments more precisely.
- It is worthwhile to note that a downturn in the business cycle may contribute to the curtailment of exit opportunities in the case of equity funds, and may lead to deterioration in the repayment record of small business loans.

5.1.2 Standard definitions for micro small and medium-sized enterprises should be adopted

The EBRD should adopt standard definitions of what constitute micro, small and medium-sized enterprises to achieve consistency in performance monitoring, data collection and impact analysis. The primary criterion for an enterprise to be considered an MSME should be number of employees. It seems appropriate to adopt the EU criteria of fewer than 10 employees for a micro enterprise, fewer than 50 for small and fewer than 250 for medium-sized. Annual sales or balance sheet totals may be used as an additional eligibility check. The Bank should consider applying an independence criterion to exclude enterprises that are part of a larger grouping. In cases where a lending programme is reliant on a particular lending methodology, loan size limits should be set that take account of the capacity of the lending methodology and the skills and experience levels of intermediating banks.

5.1.3 Indicators for the measurement of transition and social impacts should be devised.

It is recommended that the EBRD devise a set of indicators to facilitate the measurement and analysis of transition and social impacts of MSME operations. Both institutional and market performance indicators are required. Institutional indicators should measure financial performance and management capacity. Standard financial indicators should be supplemented by measuring the financial impact of implicit and explicit subsidies, including the subsidy implicit in below-market funding from all sources. Profitability by product type should also be estimated for intermediating banks. Market performance indicators should be designed to permit monitoring and comparison of real-sector impact over time. Client-based information includes details of market sector, time in business, levels of sales and fixed assets, employment numbers and profitability. Where possible, the collection of data on MSME lending should encompass loans made from the intermediating banks' own funds, as well as loans from the EBRD's credit lines.

5.1.4 The management of MSME operations should be controlled by a single team.

The EBRD should bring the management of present and future operations within the scope of responsibilities of a single team. The Bank must coordinate investment activities in the financial sector to maximise the transition impact of EBRD operations through a well-balanced portfolio. The portfolio must have a clear strategy for financial sector development in each country and region.

5.1.5 The goals of institution building and outreach should be reconciled.

a. The EBRD should clarify and distinguish between transition and developmental goals. The EBRD's strategy for SMEs would benefit from a more rigorous review of MFIs. In particular, the Bank should determine whether microfinance banks are set up to achieve true sustainability and attractive returns for market investors within a targeted time horizon. The need for long term subsidisation, whether explicit in the form of TC or implicit in the form of below-market funding, would appear to run counter to sound banking principles, but may be justified if developmental goals take precedence. Clear policy decisions are, therefore, needed for the future.

b. The feasibility of achieving outreach through cooperation with existing non-bank microfinance institutions should be explored. There exist examples of micro-credit operations that are lending successfully to very small businesses without being formal banks. These operations are well-managed and operationally self-sufficient without the high fixed and additional operating and compliance costs of a bank. There is potential for the EBRD to consider re-financing carefully selected institutions of this kind where they have demonstrated their ability to generate sufficient revenues to cover costs, including financing costs on commercial terms, without the necessity to reward shareholders for risk.

c. The Bank should consider commissioning an impact study or studies in selected countries. The terms of reference for independent qualified consultants should reflect some key transition indicators. It may be appropriate to include certain social criteria (impact on family incomes, employment etc.) in these studies, but they should not be key evaluation factors since the operations have not been designed or monitored with a focus on these aims.

5.1.6 Shareholder goals should be agreed at the beginning of a project.

a. With a view to optimising transition impact, the EBRD should seek an agreed exit horizon with other shareholders. The Bank should seek joint sponsor confirmation that the overriding aim of a project is to develop the MFIs into niche organisations with proven earnings capacity. This will provide a timely exit to a strategic investor and would demonstrate the achievement of transition impact.

b. The EBRD should reassess MFIs in country expansion strategies and consult with co-sponsors. Agreement should be reached on consolidation of an MFI's existing branch network as opposed to accelerated regional expansion. The aim should be more organic growth from the current base to test the MFI's true earnings potential. This will also provide a foundation for sustainability with a refocus on efficiency and competitive strength.

5.1.7 Any future IFI-sponsored MFI launches with EBRD equity participation should have clear shareholder agreements on the intermediate and ultimate goals. This will facilitate coherent strategic direction. Sponsor agreements should specify strategic monitoring criteria and milestones and define exit horizons. Moreover, the shareholders' agreements and the structuring of jointly sponsored operations should strike an effective balance of stakeholder contributions and rewards.

5.1.8 The EBRD should introduce enhanced monitoring procedures for microfinance bank investments. From the EBRD's risk management perspective, the continued fast expansion of SME lending by banks specialising in micro-lending needs to be closely monitored. Adjusted returns analysis taking account of explicit and implicit subsidies should form part of regular monitoring reports to assess efficiency more rigorously and to foster transparency.

Some additional recommendations from the special studies on MSME financing are shown in Appendix 5.

5.2 RECOMMENDATIONS FROM EVD'S ENERGY SECTOR SPECIAL STUDIES

The Bank is in the process of drafting a new Energy Policy. To allow use of lessons from past experience in this area, EvD completed an extractive industry sector review in 2004 and a power sector review in 2005 (SGS05-34)). During the formulation of this new Energy Policy the Bank will also take into account EvD's evaluation special study on energy efficiency (undertaken in 2002), the recommendations of which were presented in the AEOR for 2003. This section of the report presents the recommendations from the two former studies and therefore should be read in the context of the two reports. [38]

5.2.1 Recommendations and conclusions from the extractive industries sector review

a. The Bank should revisit its 1999 natural resources policy/strategy. The new energy policy should define what the EBRD will and will not support, and should address issues such as "no-go zones", future generation and stabilisation funds, governance, corruption, etc. All EBRD activities in extractive industries (EI), no matter which Banking Team is responsible for the activity, should be covered by the policy/strategy. At the 2004 Annual Meeting, senior

[38]. The power sector review and the extractive industries review, including comments from EBRD management, as well as a summary of the energy efficiency special study, are available on the EBRD's web site: www.ebrd.com.

Bank staff indicated that the Bank is considering developing an integrated energy strategy which will include oil and gas exploration and development operations. This suggests the need for a separate mining strategy. The new strategy(ies) should be proactive, technical and strategic in approach.

b. The EBRD should move from a "compliance" approach to an "added value" approach when considering environmental performance. The Bank's environmental mandate incorporates "additionality" and "transition impact" as relevant concepts for environment. A major objective of the EBRD is not simply to ensure that projects meet national environmental standards – t the responsibility of national environmental agencies – but rather to help address environmental legacy issues and improve overall environmental conditions in the region.[39]

c. GHG reductions and offsets (improved environmental quality and business opportunities) should be promoted. The current focus of the EBRD's strategy is to reduce GHG within the context of each project. This is necessary, but not sufficient objective. Within the former Soviet Union, a significant portion of the excessive pollution comes from inefficient use of coal, oil and gas in heating and power production systems. The proposed integrated energy strategy would support the concept of looking across the energy extraction, production and use cycle.

d. The Bank must improve internal processes of tracking and monitoring the environmental dimension of projects. This recommendation combines various internal procedures and issues which need to be addressed – specifically how projects are monitored and tracked (coding system), how the Bank defines environmental change, and whether to adopt a sustainable development approach.

e. The Bank needs to expand the project fence line to consider broader project linkages. The Bank tends to define the scope of EI projects too narrowly. When problems have occurred it has more often been the result of something outside the immediate context of the project that has caused the project to under-perform. These include changing market conditions, transportation infrastructure, regulatory, tax and tariff impacts, environmental issues and growing civil society engagement. Neither scale nor scope is being sufficiently considered in project design to maximise transition impact. Bankers need to be more rigorous and demanding in carrying out project risk analysis. Further, the sector policy/strategy covering natural resources should incorporate all EI activities in the Bank, not just those under the natural resources banking team.

f. Large EI projects have regional development implications. The Bank needs to look for linkages across sectors. The Bank's objectives align, but do not necessarily coincide, with that of EI project sponsors. The EBRD's mandate is larger. It may be unreasonable to expect larger EI project sponsors to become promoters of regional development. The EBRD needs to better coordinate within and between banking teams to support major natural resource projects with SME, MEI and other sector projects so as to maximise transition gains, as per the Bank's current approach to the BTC project.

A strategic environmental assessment is one tool that the Bank could utilise to better understand local social and environmental conditions and link them to transition objectives.

[39] The Bank issued its initial Environmental Policy in 1992. It was updated in 1996 and again in 2003. The 2003 Policy for the first time incorporated social issues. The Bank "adds value" by ensuring that its direct investment projects meet international EU/World Bank standards; however, addressing environmental legacy issues is not a project selection criteria.

Large EI projects are catalysts for regional development. Individual bankers will not be able to fully design into their projects cross-sector project clustering and/or donor coordination to maximise regional transition impact. Management must work across banking teams and support donor collaboration. EvD strongly believes that such clustering will result not only the addition of project specific transition impact but also in the multiplication of project specific benefits to support regional and country level transition.

5.2.2 Recommendations and conclusions from the power and energy utilities sector review

a. The Bank should update its 2000 Energy Policy. In the new policy the Bank needs to reflect the new reality of higher fossil fuel energy prices, address the less than adequate performance of generation projects, and expand support for energy efficiency. At the same time, it must diversify its renewable energy portfolio and establish intellectual leadership on the types of regulatory structures appropriate for the power sector in the EBRD's countries of operations.

b. The Bank should consider moving from a practice of supporting state sector projects to promoting privatisation and supporting non-sovereign and private sector sponsors. The existing portfolio heavily relies on state sector projects with less than satisfactory results. Where the Banking Department has worked with the private sector the results have been substantially better. In some countries the state sector (sovereign and non-sovereign) may remain the only option if the Bank wishes to stay engaged; however, the Bank should promote privatisation where possible.

c. The Bank should continue to focus on early and intermediate transition countries but also support renewable energy in advanced countries. The Banking Department should be commended for its boldness to "move east" from the start. Unfortunately, the results have been strikingly better in advanced countries than in the early and intermediate transition countries. The Banking Department should remain focused on these countries in line with the Bank's overall strategy, but should develop a better model for engagement. The EU emphasis on renewable energy, however, creates a new investment opportunity in the advanced countries.

d. The Bank needs to take a country-wide strategic perspective. When presented with a specific project, the Bank's approach is to evaluate each project on its own merit. This model works for private sector ventures in a competitive market, but when working on utility projects in natural monopolies – particularly state sector projects – it is important to understand the larger context.

e. In line with its environmental mandate, the Bank should further develop and diversify its renewable energy portfolio. While fossil fuel may be under priced in some countries of operations, this under pricing will not last. A new reality for fossil fuel prices is emerging. Regional alternatives include nuclear, renewable energy and addressing demand-side issues. The new EU members have committed to producing 12 per cent of their energy from renewable sources by 2010. The Bank should work with host governments to proactively promote renewable energy alternatives.

f. The new Energy Policy should be directly and explicitly linked to the Bank's Environmental Policy. Projects in the energy sector often have significant environmental impacts. Future power sector projects will not only be subject to the new Energy Policy but

will also be subject to the Environmental Policy and other relevant Bank policies. Due to the importance of this sector, EvD recommends that the new policy contain explicit links to the Environmental Policy, indicating how the Bank's investments in this sector will help it achieve its environmental objectives, meet environmental standards and improve environmental quality. Assignment of project environmental classifications (A, B, C, and FI) has implications for the Bank's environmental due diligence and project monitoring processes. Projects over 300 megawatt should normally be classified as Category A. The increasing use of the Category C classification on large investments in this sector is a potential cause for concern.

g. It is important to get the policy environment right to achieve successful project outcomes. Getting the policy environment right must be a precondition to successful project implementation. The Bank needs to continue to work with other donors, allocate pre-project TC funding, and work closely with host governments on critical but difficult policy shifts in the sector. This will accelerate the move toward market economies, achieve better project outcomes and fulfil the Bank's transition mandate.

5.3 RECOMMENDATIONS FROM THE SPECIAL STUDY ON THE GRAIN RECEIPT PROGRAMME

a. Risks of transfer pricing materialising need to be prevented. It is important for the Banking Team to clearly specify to its clients that the Bank does not condone abusive trade practices and may occasionally require justification that trading is carried out on an arms-length basis as a condition to extending credit or renewing an existing facility. While this may not prevent any form of transfer pricing, it would reduce the Bank's resulting reputation risk.

b. Exposure should be adequately reported. From a credit control perspective, the Bank should know the aggregate exposure to counterparties at all times, similar to the maximum exposure under a facility. It is important to ensure that the Bank's maximum credit limit to international traders or other counterparties with whom it conducts direct business includes the maximum amount of guarantee that was approved for conditional off takes or under other forms of credit comfort under programmes managed by third parties.

c. Systemic risks with particular traders should be identified. It would be desirable to monitor the Bank's indirect exposure under financed commodities. While transactions are always structured so as to eliminate market risks, systemic risks affecting specific commodities may have an impact on particular traders over exposed to such commodities and therefore indirectly on the Bank's counterparties.

d. Exposure per counterparty should be limited. It would be advisable to take a conservative interpretation of the €10 million - €25 million exposure limit. This should also be applied to the Bank's aggregate exposure to a single counterparty or group, as opposed to an individual transaction.

e. The Board should be informed on a no-objection procedure basis about project variances. Irrespective of the framework boundaries, the Board should have an opportunity to comment on transactions which are distinctly different from the originally approved framework. This should be done through a no-objection procedure rather than a monthly information report. This could be the case when, for instance, in the final version of a negotiated facility, the Bank's additionality has been severely reduced even though sound banking principles and transition impact were preserved or possibly enhanced.

f. Joining forces of a selected group of warehouses is one way to enhance the grain receipts programme. The example of Kazakhstan, where an indemnity fund has been successfully put in place following the enactment of grain receipt legislation, shows that it may be preferable to have a "club" approach whereby the better or financially stronger warehouses initially join forces. In countries where implementation of an indemnity fund meets too many hurdles, it may be more practical and no more risky for the Bank to use collateral managers in the selection and monitoring of warehouses, irrespective of their certification by a government agency. Evidently, if obtainable, an insurance against fraud should also be sought. It should be noted that there has not yet been any claim made against an indemnity fund. This means that the ability of an indemnity fund to cover such risks as fraud is so far untested. Due diligence about, and selective approach of, warehouses are likely to be at least as important as the comfort of an indemnity fund.

g. Short-term facilities do not need to be presented as term facilities to secure approval. The multi-year presentation is both unnecessary and misleading. Additionality can be sufficiently verified through other aspects of the programme and need not be artificially enhanced with the appearance of a longer-term credit extension than would normally be available in the market. Furthermore, it could give the wrong impression that the programme addresses long-term financing requirements. Much as such investments may be needed in the primary agricultural sector or, downstream, for transportation and storage infrastructure this is totally outside the scope of the programme. Short-term working capital facilities should not need to be dressed up into term facilities to secure approval.

h. Local legal counsel should be used to identify direct grain receipts risks. It is very important that projects involving direct grain receipts risk are scrutinised by local legal counsel, with a view to determine the extent of such risk and whether mitigating measures such as the registration of security would be appropriate.

i. The importance of comparative performance analysis at project, client or portfolio levels should be emphasised. Since the Bank's risk capital model cannot be used for the purpose of comparative loss features of projects, other methods can be developed. For the purpose of this study, an evaluation of the risk adjusted return on assets was attempted. The Bank's project profitability model is conceptually similar to this approach. It should not be restricted to analysis of projects prior to signing and the Bank could consider making it considerably more user friendly to bankers and/or other users for comparative performance analysis at project, client or portfolio levels.

5.4 RECOMMENDATIONS FROM PROJECTS EVALUATED IN 2004

Environmental cost should be included in the project cost at appraisal and adequate monitoring should be undertaken. It is essential to ensure that the environmental cost is properly incorporated in the investment and finance plans of the project and in the internal rate of return calculation (financial and economic). This should be done irrespective of the financing source. During project implementation, the Bank needs to monitor the costs for the environmental component in a project in the same manner as for the major project components.

The Environment Department should strengthen the implementation design for the environmental component of a project. Environmental due diligence should gain a reasonable assurance that the borrower has fully understood the monitoring scope and requirements, no matter which source is financing. If there is an environmental component, the appraisal team should make sure that adequate budget is allocated.

The Bank should initiate a study to identify the potential projects in Russia and the benefit they might bring to the overall energy market. Part of the study could involve an investigation of the feasibility of investing in new power plants, for instance natural gas-fired combined cycle power plants, with low specific investment costs and much higher efficiency, instead of into the refurbishment of existing power plants.

Appropriate rules on Chinese Walls within the Bank should be established. Bank management should update the Operations Manual so as to provide clear guidance to Banking Teams on appropriate Chinese Wall rules of engagement. All operation staff faced with Chinese Walls situations should receive a specialised half day training session. It is important that the issue of appropriate rules on Chinese Walls is addressed in cooperation with the Office of the Chief Compliance Officer.

5.5 OTHER EVALUATION FINDINGS: RETROSPECTIVE ANALYSIS OF CHANGES IN ENVIRONMENTAL CLASSIFICATIONS

5.5.1 Environmental classifications. The EBRD's 2003 Environmental Policy defines how operations are classified and the procedures for assigning such categories. Based on the nature of the operation, it is the Environment Department's task to screen each operation and assign the appropriate environmental category, which include (italics added by EvD for emphasis):

For direct investments:

- **Category A** – "Projects are classified as Category A when *the project* receiving EBRD funding could result in potentially *significant adverse future environmental impacts* which, at the time of screening, cannot readily be identified or assessed." Such operations normally require an Environmental Impact Assessment (EIA).
- **Category B** – "Projects are classified as Category B when *the project* receiving EBRD funding could result in *future environmental impacts* which are *less adverse* than those of Category A projects, taking into account their nature, size and location, as well as the characteristics of the potential environmental impacts." Such operations normally require an Environmental Analysis (EA).
- **Category C** – "Projects are classified as Category C when *the project* receiving EBRD funding is likely to result in *minimal or no adverse future environmental impacts* and therefore requires neither an EIA nor an EA."
- **Initial Environmental Examination (IEE) -** An IEE is carried out where insufficient information is available at the time of screening to determine the appropriate category. The IEE is conducted by EBRD environmental staff and results in the operation being classified into Category A, B or C.

For financial intermediaries:

- **Category FI** – "A proposed project is classified as FI if it involves investment of EBRD funds *through a financial intermediary* (FI)."[40]

[40] From undertaking sector reviews (on extractive industries and power and energy) EvD commented on a different level of environmental scrutiny for FI operations in these sectors. However, neither study allowed for an in-depth look at such investments. In this respect it is important to mention that the FI Business Group in the Banking Department has requested EvD to carry out a special study on the *application of environmental guidelines in financial institution operations.* This study is to be undertaken by EvD in 2005.

At screening, the Environment Department (ED) also determines whether an Environmental Audit is required (Category 1) or not (Category 0). ED uses environmental audits to access past and existing liabilities.

5.5.2 Identification of Category C operations in a growing portfolio. While carrying out evaluation exercises in 2004, EvD questioned the environmental category assigned to selected direct investment operations, specifically whether selected operations assigned a C Category should have been Category B or A. While it was possible to further study the respective outcomes looking at individual OPER reports, it was considered important in this respect to assess how the Bank has assigned Category A, B and C projects in the Bank's portfolio from the establishment of the Bank. Chart 5.1 and 5.2 below show the growth of the EBRD's total portfolio by volume and year of approval, indicating the assignment of category A, B C or FI project. (Note: Charts 5.1 and 5.2 below refer to the year of approval, rather than the year of evaluation, as in most other charts in this AEOR.)

Chart 5 1: Growth in volume of the EBRD portfolio by year of approval and by environmental category

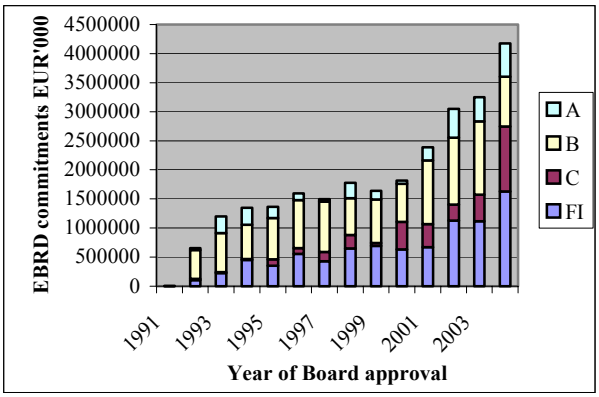
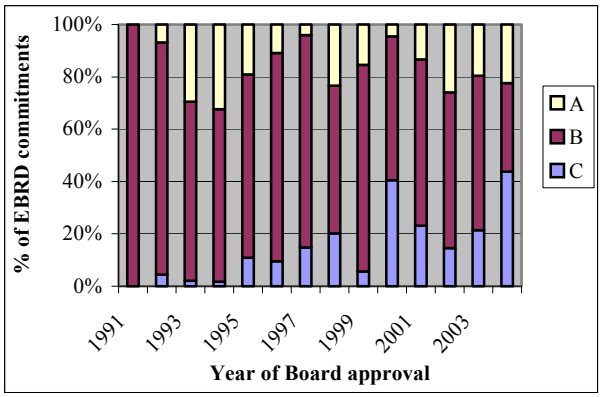


Chart 5 2: Proportional growth in volume of the EBRD portfolio (excluding FI projects) by year of approval and by environmental category



Studying Chart 5.1, the largest growth is observed in the FI category, which by volume accounts for 34 per cent of the cumulative portfolio. In 2004 FI accounted for 39 per cent of volume and 58 per cent of the number of operations. By volume, there has also been an increase in Category C operations, and some growth in Category A operations. Chart 5.2 shows the percentage growth of the EBRD's direct investment portfolio (excluding FI operations) by volume and year of approval. This shows that the trend in Category A operations has been relatively stable, at about 20 per cent, whereas the proportion of Category C operations has been growing (now above 40 per cent). The portion of Category B operations has declined. Category C operations reached an initial peak following the Russian crisis as the bank implemented several working capital operations. It then declined to about 20 per cent for three years, but has risen again in 2004.

5.5.3 Role of the Environment Department in assigning environmental classifications. ED classifies operations as they are designed and developed by the Banking Teams. For Category C operations, as appropriate, ED is able to address existing and potential environmental impacts by requiring environmental audits (Category 1) and incorporating additional environmental requirements into the operations' legal documents. The list of Category C operations in the portfolio includes many which clearly have *minimal or no* environmental impacts. There are some, however, in which the operation or project receiving

EBRD funding may have *potential future* environmental impacts.[41] This may be the case for working capital, equity financing or multi-project facilities, where the investment vehicles may limit the EBRD's ability to address environmental impacts, even though the operation may result in future environmental impacts. Examples include a post-privatisation restructuring and rehabilitation investment in a water utility, a working capital investment in a steel plant, and equity investments via multi-project facilities. EvD argues for both earlier and greater involvement by ED in project design so as to maximise the potential to "add value" on environmental issues in each project undertaken by the Bank.

The EBRD's environmental categorisations for direct investments should be expanded. ED is planning on updating the environmental policy in 2006. The Bank may wish to consider:

(1) expanding its screening definitions in respect of environmental categorisation. This will account for direct investment structures where the EBRD's role in addressing potential environmental impacts is limited, but where the underlining investments may led to significant environmental impacts

(2) developing new categories to account for new investment structures, for example, create a new category for equity-only operations.

5.5.4 Performance evaluation of Category A, B and C operations. In its 2002 special study on environmental performance, EvD indicated that the Bank can have its most significant positive environmental impact in Category A operations. EvD accepts that Category B operations may be equally important. However, taking into account the increasing level of Category C operations as presented in Chart 5.2 it could be questioned whether this limits the Bank's ability to deliver on its environmental mandate of achieving "*environmentally sound and sustainable development*".[42] It is therefore important to better understand the evaluation results for Category C operations. For instance, what is the additionality of the operations assigned Category C ratings and how do they perform in respect of overall performance? When testing a project for additionality features, environmental considerations are key elements through which the Bank verifies additionality. In particular, environmental considerations are used in those cases where additionality cannot be verified in full and when the design and functioning elements play an important role in the decision making process.

[41] The EBRD now refers to "operations" rather than "projects." As per the Bank's external web site, EvD understands the project/operation to be that which is described in the Project Summary Document (PSD) and the Operations Report, unless amended by the operation team.

[42] The mandate of the Bank is achieved not simply by following the Bank's environmental procedures, but by achieving positive environmental impacts.

Chart 5.3: Proportional ratings of the Bank's additionality by environmental category for direct investments (1993-2004)

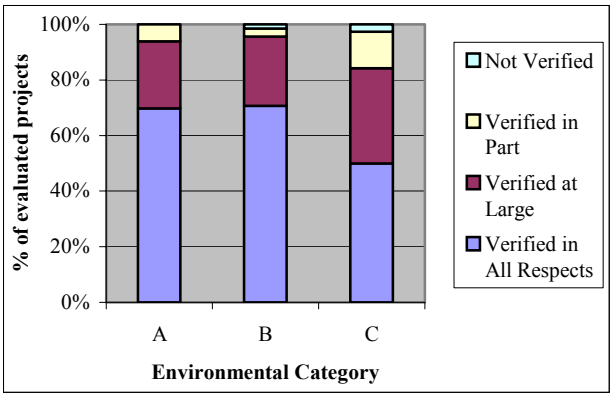


Chart 5.4: Proportional ratings of the Bank's overall performance by environmental category for direct investments (1993-2004)

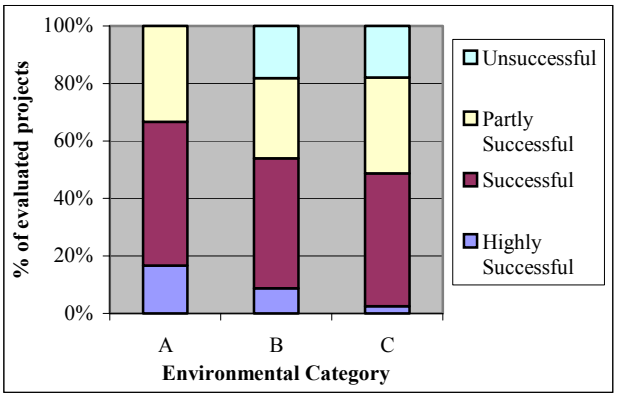


Chart 5.3 compares ratings on additionality by environmental projects category based on all past evaluation results. The environmental risk rating (i.e. the environmental category assigned to the operation at approval stage) and additionality are independent variables. Historically Category C operations have proven to be less additional. Overall performance of the three environmental project categories are shown in Chart 5.4 for completed direct investments. Category A operations outperform Category B operations, which outperform Category C operations on EvD's overall performance measure.

5.5.5 Conclusions. Faced with investment instruments such as working capital, equity and multi-project facilities that limit the Bank's ability to seek direct environmental improvements in projects, the Bank is classifying an increasing proportion of the portfolio as Category C. This category has reached a level of 40 per cent of volume of new direct investment operations (excluding FI operations) in 2004. This development causes some concern as it seems likely that part of the environmental dimension in projects is missed, namely some of the Category C projects should probably have been Category B or even Category A projects. In addition the fact that Category C operations are associated with lower degree of verified additionality, and in addition under-perform Category A and B operations on overall performance rating, it seems warranted that serious efforts are made to improve the categorisation process so that a wider environmental dimension is identified at appraisal when the Bank still has sufficient leverage to push for important design and functioning elements in projects, in particular concerning key environmental measures.

The role of the Environment Department in the project screening and design phases should be enhanced. For a more in-depth analysis of environmental risks in Bank activities, earlier involvement by ED is required. This will ensure that wider environmental considerations of the Company are considered, rather than just the risks associated with the Bank's operation/facility (equity, working capital, etc.). The presence of ED in project screening and during the design phases may allow for greater opportunities to add value on environmental issues.

6. SELECTED RECOMMENDATIONS FROM 2004 COUNTRY STRATEGY EVALUATIONS

6.1 INTRODUCTION

The most salient recommendations emerging from the country strategy evaluations performed in 2004 for Azerbaijan and Croatia are detailed below, with particular attention to strategy design, post conflict issues, low income economies, strategy implementation, transition impact and coordination with other IFIs and donors.

6.2 STRATEGY DESIGN

6.2.1 Short and long-term objectives. The Bank should continue to adapt to the changing business environment, selecting sectors that meet the long-term goals of each strategy. Statements of short-term and long-term goals should be clearly set out. The fine line between the Bank's short-term and long-term involvement in a sector should depend on the government's immediate commitment to reforming the sector. For example:

- In industry, if reforms attached to large-scale privatisation are not ready while privatisation of an SME has been successfully implemented, the short-term objective (for the next two years) should be investments supporting the SME. The medium to long-term objective should be large-scale privatisation, with possible short-term TC for the privatisation process or legal transition.

- In railways, if the government cannot commence reform immediately, investment in railways should be part of long-term goals, while the Bank decides to undertake the necessary policy dialogue and implement TC assignments in the short term.

6.2.2 Tailoring the number of objectives. Country strategies promoting high sector diversification do not generate high transition impact at a country level. This is because investments related to policy dialogue and TC are spread too thinly across sectors to make a substantial impact. Combining objectives of reconstruction and regional integration with transition impact further diversifies the strategy and weakens transition. Future strategies should concentrate on a more limited number of sectors with a balanced combination of projects, technical assistance and policy dialogue.

6.2.3 More awareness of the political context. In the 1990s the Bank's strategies focussed on large-scale privatisation, although the appropriate environment for foreign investment was often not present. Future strategies should more carefully consider the country's political situation.

6.3 POST-CONFLICT ISSUES

6.3.1 Selecting key sectors. Post-conflict economies are faced with a multitude of objectives that can be reached simultaneously in a wide range of areas (e.g., transition impact, cross-border links, reconstruction, private sector development). The Bank's strategies should continually focus on those sectors that are well positioned in the economy to enable the Bank to achieve several objectives at the same time. Small and medium-sized enterprises and agribusiness are two of these sectors.

6.3.2 Alleviation of shortages of essential services and job creation. When a country at an early stage of transition is considerably slowed by war and shortages in the supply of essential utilities, the preconditions for generating transition impact are not present. The first strategic priorities should be reconstruction, alleviation of shortages and job creation. When a minimum of market conditions is met, the strategies should attempt to move from infrastructure and natural resource investments to more direct private sector development activities.

6.3.3 Microfinance. Strategies which pursue both post-conflict recovery and transition impact objectives such as employment and income generation, should promote appropriate financial instruments. These include microfinance programmes, which are implemented either through existing commercial banks (downscaling from SME to micro businesses) or non-bank financial institutions.

6.4 LOW INCOME ECONOMIES

6.4.1 Poverty alleviation and transition to market economies. The poverty situation in ETCs cannot be ignored. Within these segments of society which carry the cost of adjustments towards the market economy, there is a potential purchase power to develop that economy. Among the various paths to transition, the ones that ensure the minimum welfare will provide enough social safety net for durable transition to occur. This approach also requires coordination with other members of the international community, who set poverty alleviation as a primary target in these countries. The strategies in the Bank should be consistent with the private sector development component of poverty alleviation strategies prepared by the local government with the assistance of the international community.

6.4.2 Regional development should be encouraged. Regional development within a country calls for better infrastructure networks: roads, power and water supply. In addition, the Bank is supporting the creation of regional branches of microfinance banks and the training of more loan officers. The EBRD could be also more involved in supporting regional objectives in clustering investment programmes, or some of their components, at regional level.

6.5 STRATEGY IMPLEMENTATION

6.5.1 Sector portfolio allocations. Good implementation of a strategy should be evidenced by the appropriate timing of changes in portfolio allocations across sectors. The financial sector in Croatia, starting with SME lending and then moving to bank privatisation, was in line with the pattern of reforms noted in the analysis of the business environment.

6.6 TRANSITION IMPACT

6.6.1 Technical assistance as a strategic instrument. Allocation of technical cooperation resources among projects should be done to maximise the potential transition impact in the sectors that the strategies are supporting.

6.6.2 Technical cooperation work could precede Bank investments. In the past, when institutional reforms were associated with a project in the utilities and infrastructure sectors, the restructuring and commercialisation plan often could not be implemented due to limited political willingness or institutional capability. In the future, a TC grant aimed at supporting

the institution building of a large company could precede the lending phase, to pave the way for reforms associated with future operations.

6.6.3 Appropriate financial instruments for SMEs. When competition to supply lending products to SMEs increases among financial intermediaries, the Bank should provide support through other instruments, such as equity investment and loan guarantees.

6.7 COORDINATION WITH OTHERS

6.7.1 Focusing on the Bank's comparative advantage. The Bank should use its relative advantage in supporting recovery by engaging in operations that have a direct and immediate impact on the private sector. The Bank should also aim to minimise the share of public sector projects in its portfolio. Other IFIs can make a major contribution to the reform of public administration and utilities through policy loans, as well as through direct lending for the rehabilitation of state infrastructure.

6.7.2 Better coordination with other IFIs. Coordination meetings at high level with other IFIs to formulate policies are vital to increase the overall efficiency and harmonisation of the Bank's activities with other members of the international community.

6.7.3 Better coordination with governments and state agencies. Regular coordination meetings and closer cooperation with the Ministry of Finance will help the Bank to achieve its goals. The Bank's activities and use of donors' funds must be made more transparent to the local authorities.

6.7.4 Common formal framework among donors and local counterparts. When sector reforms require difficult policy changes, the Bank's policy dialogue should be steady and carried out in close cooperation with other international and bilateral institutions. This should be done within a formal framework where the government and the private sector can participate. Full ownership of the consultation process by the government, NGOs and the local business community is essential for the policy dialogue to succeed. In low income countries, the poverty reduction strategy framework could make a good forum for public and private sector reforms.

7. AUDIT COMMITTEE'S REVIEW OF EVALUATION REPORTS

7.1 EVALUATION REPORTS DISCUSSED BY THE AUDIT COMMITTEE

In 2003 the Audit Committee initiated a systematic review of evaluation reports on investment operations and evaluation special studies. It was felt that by discussing evaluation reports in the Audit Committee regularly, recommendations by management could be followed-up and the uptake of lessons learned on the side of the Board could be strengthened. Also the accountability function of evaluation could be enhanced and the systematic review would provide an important challenge for EvD to maintain a high quality for its reports. During 2004 the Audit Committee discussed the five evaluation special studies and nine OPER reports:

13 February 2004
Special study: Trade Facilitation Programme

2 July 2004
Special study: Extractive industry review
Special study: Turn Around Management Programme (TAM)

20 September 2004
OPER: Municipal waste-water system in eastern Europe
OPER: Power and energy project in the Caucasus

18 October 2004
OPER: Relationship with Western commercial bank

21 October 2004
OPER: Oil storage project
OPER: Heavy metals manufacturer in central Europe

1 November 2004
OPER: Steel plant in the CIS

15 November 2004
Special study: Micro finance institutions

29 November 2004
Special study: Grain warehouse receipt programme
OPER: Air Cargo Terminal

13 December 2004
OPER: Metal products manufacturer in central Europe
OPER: Oil pipeline in southern Europe

7.2 REVIEW OF RECOMMENDATIONS AS PRESENTED IN THE MINUTES OF THE AUDIT COMMITTEE MEETINGS

Based on the recommendations in the OPERs and the discussions in the Audit Committee, the Committee highlighted some recommendations. Issues highlighted by the Audit Committee were the following:

a. Independence of the evaluation function. Several times during the year the Committee stressed the importance of further independence of EvD, in particular the independence of EvD in respect of its budget. On the latter issue the Chairman of the Audit Committee had written a letter to the Chairman of the BAAC. In the mean time initiatives have been taken by management and the Board of Directors to change the status and organisation of the evaluation function so that department and its head report fully to the Board of Directors.

b. Use of lessons learned when reviewing existing policies. The Committee urged that the Bank should make sure that lessons learned are taken on board when reviewing existing policies. As a follow-up to this recommendation EvD has adopted in its work programme for 2005 a new approach whereby each future sector policy update would benefit from a sector policy evaluation carried out prior to the update of the sector policy. Therefore in 2005 two sector policy evaluations will be carried out, one on property and tourism and one on the telecommunications and media sector. This allows the implementation of lessons learned and

recommendations presented in the sector policy evaluations when the Banking Department updates these policies in the second half of 2005 and early 2006.

c. Evaluation special study on extractive industries. The Committee noted the finding that the necessary condition for improving performance was the need to expand the "fence-line" of extractive industry projects during appraisal. The Committee also took note of the various recommendations that the Bank should move from a compliance-based approach on environmental performance to a value-added approach, incorporating measures for promoting sustainable development.

d. Evaluation of the TurnAround Management programme.
The Audit Committee recognised the importance of the recommendation in EvD's evaluation special study that the Bank should consider sharing in the cost of the TAM programme, thereby "anchoring" the programme in the Bank. The Bank has subsequently decided to meet the cost of rent and services for TAM/BAS operations and to fund the three most senior staff positions for the programme.

e. Process of discussion of evaluation reports in the Audit Committee:
The Committee decided to review Board summaries of forthcoming EvD reports regularly and on the basis of these discussions decide which reports should be discussed. The first discussion respectively took place in the Audit Committee meeting of 21 October 2004.

f. The importance of improved global, cross-border supervision of larger Western commercial banks active in the Bank's countries of operations. The Committee concluded that the Bank should consider taking an initiative to strengthen the coordination of supervision between the local Western central bank and the regulators in each of the respective countries. This could be done in cooperation with other IFIs, notably the IMF. Following a respective request by management, EvD organised a visit in January 2005 to the Western central bank concerned and to the central bank in one of the Bank's countries of operations. The Vice President Risk Management led the mission. EvD's report on this mission is being reviewed by management.

g. Improved environmental policy monitoring by larger Western commercial banks with an extensive Bank relationship. The Committee noted that the Bank should seek ways to encourage better environmental policy monitoring by the larger Western commercial banks of their network banks in the EBRD's countries of operation. Management mentioned that it would exercise the right to a "put" option if the commercial bank's environmental performance would meet low compliance.

h. Functioning of public private partnerships in early transition countries. During the discussion of one of the OPER reports it was noted by the Committee that often the structure of public private partnerships (PPPs) is too complex to function in an early transition country. The Committee noted that in such countries the Bank's capacity to understand the situation should be bolstered, and should not be confined to sophisticated models, but should involve speaking a lot to country specialists and local players.

i. Waivers of project conditions. The Committee mentioned that it would be good if an analysis was made of the waivers that the Bank did in order to identify any patterns, and possible reasons. In response to this request, EvD has incorporated an evaluation special study in its 2005 work programme called "Waivers of project conditions".

8. VALIDATION BY EvD OF PERFORMANCE RATINGS ASSIGNED DURING SELF-EVALUATION

8.1 THE SELF-EVALUATION PROCESS AND VALIDATION OF RATINGS BY EvD

When a project is ready for evaluation, the Banking Team prepares a self-evaluation report. This report builds on the basic monitoring report by adding information requirements that are relevant for a self-evaluation document (i.e., relating to achievement of objectives, environmental performance, transition impact, lessons learned and overall assessment). The Banking 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 includes a review of the self-evaluation report, may result in different performance ratings from those assigned by the Banking Team. To conform with the good practice standards (GPS) for private sector evaluation, instigated by the Evaluation Cooperation Group (ECG),[43] EvD must present an analysis of the differences between the self-evaluation ratings of the Banking Team and the independent evaluation ratings of the Evaluation Team.

8.2 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 345 projects evaluated since the beginning of 1998, when the current, automated self-evaluation system was introduced. Before that time, the self-evaluation was almost entirely descriptive, with only the overall performance formally and systematically rated. In addition there have been a small number of operations for which a full self-evaluation was not provided.[44] Furthermore, bank handling was not introduced as an indicator until 1999 in self-evaluation assessments and 2002 in OPER evaluations.

For this analysis, it is necessary to have a clear rating assigned both in the self-evaluation and in the OPER and the self-evaluation assessment reports. There are a number of cases where a performance category is rated “not applicable".[45] Therefore the figures presented in Table 8.1 clearly indicate the number of comparisons for each indicator and may vary considerably.

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43 The ECG is a working group in which the heads of evaluation departments of the multi-lateral development banks collaborate.

44 This might occur, for example, if the project was in corporate recovery and a self-assessment report was not practical, or if a project was completed but the relevant staff left the Bank before the report was finalised. In these cases a briefer memo from portfolio management staff might be accepted instead.

45 This can be seen in Appendix 1, where several charts show the number of operations as "NA".

Table 8.1: Differences in performance ratings between self-evaluation and independent evaluation

Indicator	Upgraded	Unchanged	Downgraded	Number of comparisons
Overall performance	3%	64%	33%	336
Transition impact	5%	54%	41%	333
Environmental performance	6%	67%	27%	316
Extent of environmental change	9%	75%	16%	310
Additionality	8%	69%	23%	333
Company financial performance	6%	70%	24%	304
Project financial performance	3%	64%	33%	310
Fulfilment of objectives	3%	59%	38%	331
Bank handling	1%	63%	36%	226

Table 8.1 and Chart 8.1 show that while the majority of ratings for overall performance given in self-evaluation reports remained unchanged (64 per cent), up to 33 per cent were downgraded. Most differences were seen in the ratings for transition impact, where up to 41 per cent were downgraded by one or more ratings. Fulfilment of objectives and bank handling were also downgraded by 38 and 35 per cent respectively. Fewer ratings were upgraded. As transition impact is now rated through the transition impact monitoring system (TIMS), the relatively high percentage of downgrading on transition impact might improve over time.

Chart 8.1: Differences in performance ratings between self-evaluation and independent evaluation

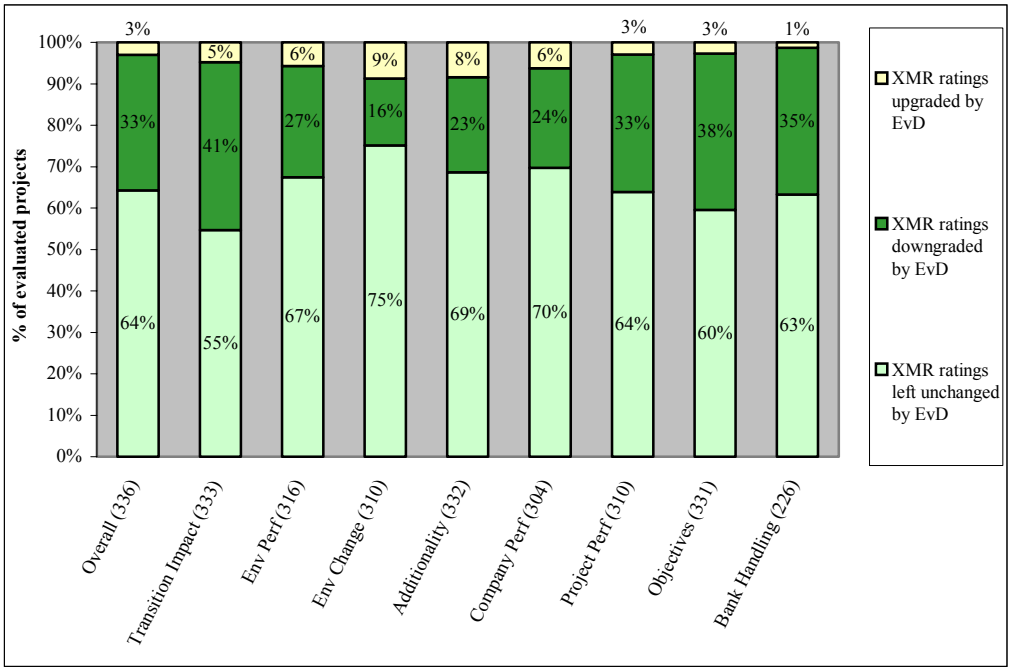


Table 8.2 shows the maximum upgrade and downgrade for each rating category. For most indicators, the maximum possible change is 3 points between the highest and lowest possible ratings. Around five of the nine indicators have been downgraded from the highest rating to the lowest on at least one occasion. The exceptions are environmental change, project and company performance and fulfilment of objectives. No indicator has been upgraded to the maximum possible extent, and in the case of overall performance and bank handling, there has never been an upgrade of more than a single point.

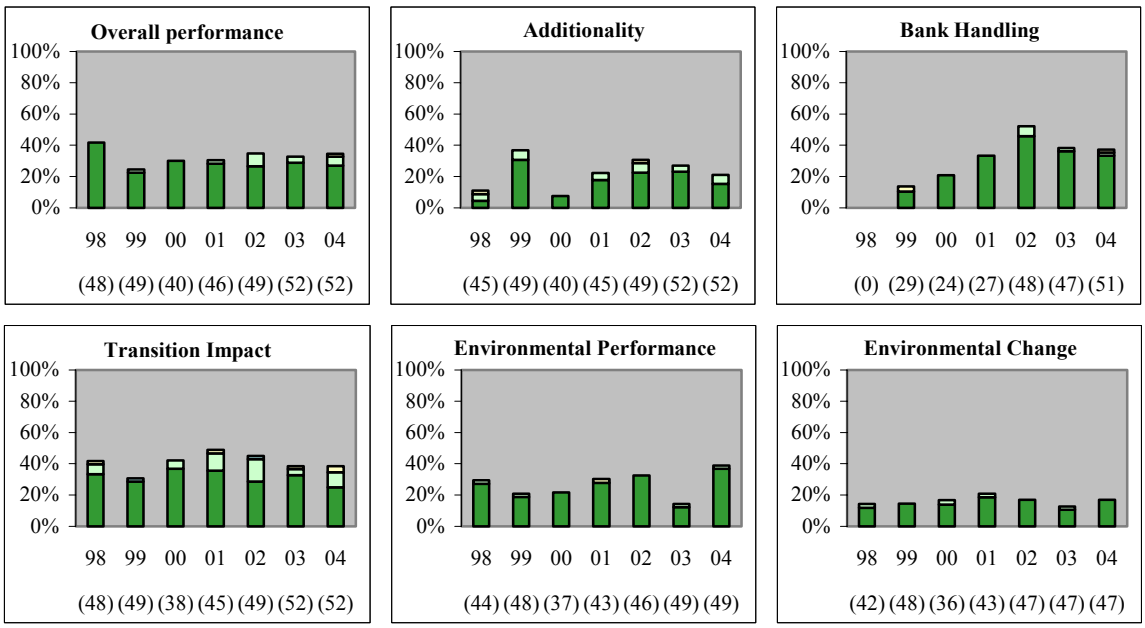
Table 8.2: Overview of maximum downgrades and upgrades when comparing the differences between the self-evaluation and independent evaluation ratings

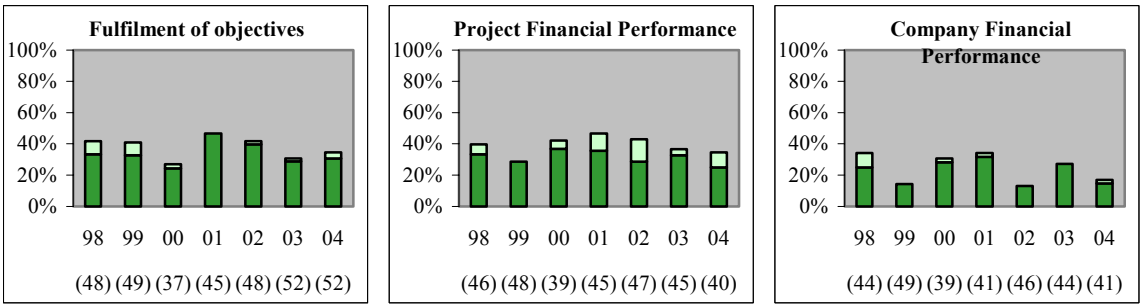
Indicator	Maximum upgrade (no. of rating points)	Maximum downgrade (no. of rating points)	Number of reports with maximum downgrade
Overall performance	1	3	1
Transition impact	3	4	2
Environmental performance	2	3	1
Extent of environmental change	2	2	4
Additionality	2	3	2
Company financial performance	2	2	7
Project financial performance	2	2	6
Fulfilment of objectives	2	2	13
Bank handling	1	3	2

8.3 DEVELOPMENT OF THE OBSERVED DIFFERENCES OVER TIME

A study of the results over time shows the differences between self-evaluation and independent evaluation ratings has not become smaller. The overall performance and a few individual indicators appear to show a growing disparity (see Charts 8.2-8.10) while the pattern of other indicators is less clear. It is important that the differences between the ratings are monitored in the AEOR and that efforts are made to reduce these differences. In particular EvD's activities in respect of self-evaluation workshops can contribute to a positive development in this area.

Graphs 8.2-8.10: 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.

8.4 MAJOR CONCLUSIONS

a. Overall, self-evaluation ratings were validated by independent evaluation in 65 per cent of cases. Five per cent of the self-evaluation ratings were upgraded by independent evaluators and 30 per cent downgraded. Transition impact was the indicator most likely to be rated lower (41 per cent) by evaluators. Experience gained with TIMS might improve the rating of transition impact over time and reduce the difference between the TI ratings assigned by EvD and the operation staff.

b. The gap between self-evaluation and independent evaluation ratings does not appear to be narrowing; indeed, for some indicators it has clearly increased in recent years.

c. These developments indicate that EvD and management should continue actively to train bankers through existing self-evaluation workshops. These workshops should enhance communication with the Banking Teams during the preparation of the self-evaluation report. The main aim is to bring the standards applied by the bankers more closely in line with the standards applied by EvD.

d. It is difficult to make a judgement on whether the observed differences between the ratings of the self-evaluation and independent evaluation systems are acceptable or not. It is EvD's view that the differences observed do not represent a cause for concern, but that there is room for improvement. However, by monitoring the differences observed over time, a better judgement can be made about developments in the future.

Basic data sheet: Operation performance ratings on the 23 OPERs prepared in 2004

Operation	Year of Board Approval	Country	Portfolio Class	Type[1]	Transition Impact[2]	Environmental Performance of Sponsor and Bank[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 1	2001	RUSSIAN FEDERATION	PRIVATE	E	Excellent	Excellent	Outstanding	Highly Successful
Project 2	2000	POLAND	PRIVATE	L	Excellent	Good	Some	Highly Successful
Project 3	1999	UKRAINE	PRIVATE	L	Excellent	Good	Substantial	Highly Successful
Project 4	2002	RUSSIAN FEDERATION	PRIVATE	L	Good	Excellent	Some	Successful
Project 5	2001	RUSSIAN FEDERATION	PRIVATE	L	Good	Excellent	Some	Successful
Project 6	2002	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Substantial	Successful
Project 7	1999	CROATIA	PRIVATE	L	Good	Good	Some	Successful
Project 8	1996	<REGIONAL>	PRIVATE	E/L	Good	Good	Substantial	Successful
Project 9	1999	BULGARIA	PRIVATE	E/L	Good	Good	None	Successful
Project 10	1996	RUSSIAN FEDERATION	STATE	L	Good	Good	Some	Successful
Project 11	2002	RUSSIAN FEDERATION	PRIVATE	E/L	Good	Good	None	Successful
Project 12	2000	ESTONIA	PRIVATE	E/L	Good	Good	Substantial	Successful
Project 13	2000	AZERBAIJAN	PRIVATE	E/L	Good	Good	Substantial	Successful
Project 14	1997	UKRAINE	PRIVATE	E	Good	Satisfactory	Some	Successful
Project 15	2000	UKRAINE	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 16	1999	KAZAKHSTAN	PRIVATE	L	Satisfactory	Satisfactory	Some	Successful
Project 17	1997	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Satisfactory	None/Negative	Successful
Project 18	1999	FYR MACEDONIA	PRIVATE	L	Good	Satisfactory	Substantial	Partly Successful
Project 19	2001	<REGIONAL>	PRIVATE	L	Marginal	Good	Some	Partly Successful
Project 20	1999	<REGIONAL>	PRIVATE	E	Satisfactory	Marginal	None	Partly Successful
Project 21	1998	SERBIA AND MONTENEGRO	PRIVATE	E	Marginal	Satisfactory	None	Unsuccessful
Project 22	1998	KAZAKHSTAN	PRIVATE	L	Marginal	Satisfactory	Outstanding	Unsuccessful
Project 23	1995	MOLDOVA	PRIVATE	L	Negative	Unsatisfactory	Negative	Unsuccessful

[1] E=Equity; L=Loan

[2] The range is Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative for projeccts evaluated from 2000; High/Medium/Low/None/Negative before 2000

[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 29 XMR assessments prepared in 2004

Operation	Year of Board Approval	Country	Portfolio Class	Type[1]	Transition Impact[2]	Environmental Performance of Sponsor and Bank[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 1	1996	RUSSIAN FEDERATION	PRIVATE	L	Excellent	Excellent	Some	Highly Successful
Project 2	1998	ROMANIA	PRIVATE	E/L	Good	Good	None	Highly Successful
Project 3	2002	BULGARIA	PRIVATE	E	Good	Good	Some	Highly Successful
Project 4	2003	POLAND	PRIVATE	L	Good	Good	None	Highly Successful
Project 5	2000	POLAND	PRIVATE	L	Good	Excellent	Some	Successful
Project 6	1998	UKRAINE	PRIVATE	E/L	Good	Excellent	None	Successful
Project 7	2002	CZECH REPUBLIC	PRIVATE	L	Good	Good	Some	Successful
Project 8	1999	FYR MACEDONIA	PRIVATE	E	Good	Good	Some	Successful
Project 9	2002	ESTONIA	PRIVATE	E	Good	Good	Some	Successful
Project 10	1999	POLAND	PRIVATE	L	Good	Good	Substantial	Successful
Project 11	1999	UZBEKISTAN	STATE	L	Good	Good	Some	Successful
Project 12	1999	HUNGARY	STATE	L	Good	Good	None	Successful
Project 13	2002	SLOVENIA	PRIVATE	E	Good	Good	Some	Successful
Project 14	2001	SERBIA AND MONTENEGRO	PRIVATE	E	Good	Good	Some	Successful
Project 15	2002	ROMANIA	PRIVATE	L	Good	Good	Some	Successful
Project 16	2000	RUSSIAN FEDERATION	PRIVATE	E/L	Good	Good	Some	Successful
Project 17	1999	BOSNIA AND HERZEGOVINA	PRIVATE	L	Good	Good	Some	Successful
Project 18	1999	<REGIONAL>	PRIVATE	E	Good	Good	None	Successful
Project 19	2001	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Some	Successful
Project 20	1995	<REGIONAL>	PRIVATE	L	Good	NA	NA	Successful
Project 21	1999	CROATIA	PRIVATE	E	Good	Satisfactory	NA	Successful
Project 22	2001	POLAND	PRIVATE	L	Excellent	Good	Some	Partly Successful
Project 23	2000	UKRAINE	PRIVATE	L	Good	Good	Some	Partly Successful
Project 24	2000	SLOVAK REPUBLIC	PRIVATE	E	Marginal	Good	None	Partly Successful
Project 25	2001	TURKMENISTAN	PRIVATE	L	Marginal	Good	Substantial	Partly Successful
Project 26	2001	SERBIA AND MONTENEGRO	PRIVATE	L	Marginal	NA	Some	Partly Successful
Project 27	1997	HUNGARY	STATE	L	Satisfactory	Good	None	Partly Successful
Project 28	1999	POLAND	PRIVATE	L	Marginal	Good	None	Unsuccessful
Project 29	1999	AZERBAIJAN	STATE	L	NA	NA	NA	Unsuccessful

[1] E=Equity; L=Loan

[2] The range is Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative for projeccts evaluated from 2000; High/Medium/Low/None/Negative before 2000

[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 174 OPERs prepared in 1993-2003

Operation	Year of Board Approval	Year of evaluation	Country	Portfolio Class	Type[1]	Transition Impact[2]	Environmental Performance of Sponsor and Bank[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 1	1998	2000	CROATIA	PRIVATE	L	Excellent	Excellent	Some	Highly Successful
Project 2	1997	2000	KAZAKHSTAN	PRIVATE	L	Excellent	Good	Substantial	Highly Successful
Project 3	2000	2002	RUSSIAN FEDERATION	PRIVATE	L	Excellent	Good	Substantial	Highly Successful
Project 4	1998	2000	CZECH REPUBLIC	PRIVATE	E	Excellent	Good	Some	Highly Successful
Project 5	1993	1996	HUNGARY	PRIVATE	E	High	Excellent	Substantial	Highly Successful
Project 6	1995	1999	LITHUANIA	PRIVATE	L	High	Excellent	Some	Highly Successful
Project 7	1994	1996	POLAND	PRIVATE	L	High	Satisfactory	Some	Highly Successful
Project 8	1992	1996	<REGIONAL>	PRIVATE	E	High	Satisfactory	Some	Highly Successful
Project 9	1993	1997	SLOVENIA	PRIVATE	E/L	High	Satisfactory	Some	Highly Successful
Project 10	1991	1997	HUNGARY	PRIVATE	E/L	High	Satisfactory	Some	Highly Successful
Project 11	1994	1999	RUSSIAN FEDERATION	PRIVATE	E/L	High	Satisfactory	None	Highly Successful
Project 12	1991	1993	CZECH REPUBLIC	PRIVATE	E	High			Highly Successful
Project 13	1993	1994	POLAND	PRIVATE	E	High			Highly Successful
Project 14	1993	1994	ROMANIA	PRIVATE	L	High			Highly Successful
Project 15	1993	1995	ROMANIA	PRIVATE	E	High			Highly Successful
Project 16	1993	2000	SLOVENIA	STATE	L	Good	Excellent	Some	Highly Successful
Project 17	1994	1996	RUSSIAN FEDERATION	PRIVATE	L	Medium	Satisfactory	Some	Highly Successful
Project 18	1995	1997	CROATIA	PRIVATE	E/L	Medium	Satisfactory	Some	Highly Successful
Project 19	1997	2000	RUSSIAN FEDERATION	PRIVATE	L	Excellent	Excellent	Some	Successful
Project 20	1995	1998	UKRAINE	PRIVATE	L	High	Excellent	Substantial	Successful
Project 21	1997	1999	ESTONIA	PRIVATE	L	High	Excellent	Some	Successful
Project 22	1992	1997	LATVIA	STATE	L	High	Satisfactory	Substantial	Successful
Project 23	1994	1998	ROMANIA	STATE	L	High	Satisfactory	Substantial	Successful
Project 24	1995	1998	HUNGARY	PRIVATE	L	High	Satisfactory	Substantial	Successful
Project 25	1992	1996	UKRAINE	PRIVATE	E	High	Satisfactory	Some	Successful
Project 26	1994	1997	SLOVENIA	PRIVATE	E/L	High	Satisfactory	Some	Successful
Project 27	1993	1998	ROMANIA	STATE	L	High	Satisfactory	Some	Successful
Project 28	1995	1998	HUNGARY	PRIVATE	E	High	Satisfactory	Some	Successful
Project 29	1997	1999	BOSNIA AND HERZEGOVINA	PRIVATE	L	High	Satisfactory	Some	Successful
Project 30	1995	2001	RUSSIAN FEDERATION	PRIVATE	L	Good	Excellent	Substantial	Successful
Project 31	1995	2002	UKRAINE	PRIVATE	L	Good	Excellent	Substantial	Successful
Project 32	1996	2002	LATVIA	PRIVATE	L	Good	Excellent	Substantial	Successful
Project 33	1999	2002	UKRAINE	PRIVATE	L	Good	Excellent	Substantial	Successful
Project 34	1997	2002	CZECH REPUBLIC	PRIVATE	E	Good	Excellent	None	Successful
Project 35	1996	2000	RUSSIAN FEDERATION	PRIVATE	E/L	Good	Good	Substantial	Successful
Project 36	1996	2000	<REGIONAL>	PRIVATE	E	Good	Good	Substantial	Successful
Project 37	1998	2001	SLOVAK REPUBLIC	PRIVATE	L	Good	Good	Substantial	Successful
Project 38	1999	2002	CROATIA	STATE	L	Good	Good	Substantial	Successful
Project 39	2001	2003	UKRAINE	PRIVATE	L	Good	Good	Substantial	Successful
Project 40	1997	2000	RUSSIAN FEDERATION	PRIVATE	E	Good	Good	Some	Successful
Project 41	1997	2000	BULGARIA	PRIVATE	E/L	Good	Good	Some	Successful
Project 42	1998	2001	KAZAKHSTAN	PRIVATE	L	Good	Good	Some	Successful
Project 43	1998	2001	AZERBAIJAN	PRIVATE	L	Good	Good	Some	Successful
Project 44	1996	2001	FYR MACEDONIA	PRIVATE	E/L	Good	Good	Some	Successful

Basic data sheet: Operation performance ratings on the 174 OPERs prepared in 1993-2003

Operation	Year of Board Approval	Year of evaluation	Country	Portfolio Class	Type[1]	Transition Impact[2]	Environmental Performance of Sponsor and Bank[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 45	1997	2001	ESTONIA	STATE	L	Good	Good	Some	Successful
Project 46	1998	2001	POLAND	PRIVATE	E	Good	Good	Some	Successful
Project 47	1999	2002	<REGIONAL>	PRIVATE	L	Good	Good	Some	Successful
Project 48	2000	2003	BULGARIA	PRIVATE	L	Good	Good	Some	Successful
Project 49	1997	2003	KYRGYZ REPUBLIC	PRIVATE	L	Good	Good	Some	Successful
Project 50	1997	2003	ROMANIA	PRIVATE	L	Good	Good	Some	Successful
Project 51	1999	2002	<REGIONAL>	PRIVATE	E	Good	Good	None	Successful
Project 52	2001	2002	POLAND	PRIVATE	L	Good	Good	None	Successful
Project 53	1994	2001	<REGIONAL>	PRIVATE	E	Good	Good	None	Successful
Project 54	1997	2000	ROMANIA	PRIVATE	L	Good	Good	NA	Successful
Project 55	1997	2003	RUSSIAN FEDERATION	PRIVATE	L	Good	Satisfactory	Substantial	Successful
Project 56	2001	2003	ROMANIA	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 57	2000	2003	SLOVAK REPUBLIC	PRIVATE	E	Good	Satisfactory	Some	Successful
Project 58	1995	2002	RUSSIAN FEDERATION	PRIVATE	E	Good	Marginal	Some	Successful
Project 59	1994	1999	BELARUS	STATE	L	Medium	Excellent	Some	Successful
Project 60	1997	1999	BOSNIA AND HERZEGOVINA	PRIVATE	E	Medium	Excellent	None	Successful
Project 61	1992	1996	ROMANIA	PRIVATE	L	Medium	Satisfactory	Substantial	Successful
Project 62	1992	1996	HUNGARY	STATE	L	Medium	Satisfactory	Substantial	Successful
Project 63	1994	1996	POLAND	PRIVATE	L	Medium	Satisfactory	Substantial	Successful
Project 64	1995	1998	KYRGYZ REPUBLIC	PRIVATE	E/L	Medium	Satisfactory	Substantial	Successful
Project 65	1995	1999	ESTONIA	STATE	L	Medium	Satisfactory	Substantial	Successful
Project 66	1996	1999	RUSSIAN FEDERATION	PRIVATE	L	Medium	Satisfactory	Substantial	Successful
Project 67	1993	1998	SLOVENIA	STATE	L	Medium	Satisfactory	Some	Successful
Project 68	1994	1998	ROMANIA	PRIVATE	L	Medium	Satisfactory	Some	Successful
Project 69	1994	1996	ESTONIA	PRIVATE	E/L	Medium	Satisfactory	Some	Successful
Project 70	1993	1997	UZBEKISTAN	PRIVATE	L	Medium	Satisfactory	Some	Successful
Project 71	1994	1997	POLAND	PRIVATE	L	Medium	Satisfactory	Some	Successful
Project 72	1994	1999	ESTONIA	PRIVATE	E/L	Medium	Satisfactory	Some	Successful
Project 73	1993	1996	LATVIA	STATE	L	Medium	Satisfactory	None	Successful
Project 74	1991	1993	HUNGARY	PRIVATE	L	Medium			Successful
Project 75	1992	1994	HUNGARY	PRIVATE	L	Medium			Successful
Project 76	1992	1994	HUNGARY	PRIVATE	L	Medium			Successful
Project 77	1992	1994	HUNGARY	PRIVATE	L	Medium			Successful
Project 78	1992	1994	POLAND	PRIVATE	L	Medium			Successful
Project 79	1993	1995	POLAND	PRIVATE	L	Medium			Successful
Project 80	1993	1995	CZECH REPUBLIC	PRIVATE	E	Medium			Successful
Project 81	1992	1995	HUNGARY	PRIVATE	L	Medium			Successful
Project 82	1992	1995	CZECH REPUBLIC	PRIVATE	L	Medium			Successful
Project 83	1992	1995	SLOVAK REPUBLIC	PRIVATE	L	Medium			Successful
Project 84	1993	2001	SLOVAK REPUBLIC	PRIVATE	E/L	Satisfactory	Good	Outstanding	Successful
Project 85	1997	2001	UZBEKISTAN	STATE	L	Satisfactory	Good	Substantial	Successful
Project 86	2000	2003	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 87	1997	2003	ESTONIA	PRIVATE	L	Satisfactory	Satisfactory	Some	Successful
Project 88	2002	2003	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Satisfactory	None	Successful

Basic data sheet: Operation performance ratings on the 174 OPERs prepared in 1993-2003

Operation	Year of Board Approval	Year of evaluation	Country	Portfolio Class	Type[1]	Transition Impact[2]	Environmental Performance of Sponsor and Bank[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 89	1999	2003	KAZAKHSTAN	PRIVATE	L	Satisfactory	Satisfactory	None	Successful
Project 90	1996	1999	SLOVAK REPUBLIC	PRIVATE	L	Low	Satisfactory	None	Successful
Project 91	1993	1994	ESTONIA	PRIVATE	L	Low			Successful
Project 92	1996	1998	RUSSIAN FEDERATION	PRIVATE	L	High	Excellent	Substantial	Partly Successful
Project 93	1995	1997	GEORGIA	STATE	L	High	Satisfactory	Some	Partly Successful
Project 94	1993	1995	RUSSIAN FEDERATION	PRIVATE	L	High			Partly Successful
Project 95	1992	2000	POLAND	PRIVATE	L	Good	Excellent	Substantial	Partly Successful
Project 96	1997	2001	GEORGIA	PRIVATE	E/L	Good	Good	Substantial	Partly Successful
Project 97	1997	2000	RUSSIAN FEDERATION	STATE	L	Good	Good	None	Partly Successful
Project 98	2000	2002	LITHUANIA	PRIVATE	E	Good	Good	None	Partly Successful
Project 99	1996	2002	GEORGIA	PRIVATE	L	Good	Marginal	Some	Partly Successful
Project 100	2000	2002	RUSSIAN FEDERATION	PRIVATE	L	Good	Marginal	None	Partly Successful
Project 101	1997	1999	POLAND	PRIVATE	L	Medium	Excellent	Substantial	Partly Successful
Project 102	1992	1996	POLAND	PRIVATE	E/L	Medium	Satisfactory	Substantial	Partly Successful
Project 103	1994	1999	AZERBAIJAN	STATE	L	Medium	Satisfactory	Substantial	Partly Successful
Project 104	1993	1996	HUNGARY	STATE	L	Medium	Satisfactory	Some	Partly Successful
Project 105	1992	1998	RUSSIAN FEDERATION	PRIVATE	E/L	Medium	Satisfactory	Some	Partly Successful
Project 106	1996	1999	MOLDOVA	PRIVATE	L	Medium	Satisfactory	Some	Partly Successful
Project 107	1992	1998	BULGARIA	STATE	L	Medium	Poor	None	Partly Successful
Project 108	1992	1993	POLAND	PRIVATE	L	Medium			Partly Successful
Project 109	1991	1995	<REGIONAL>	PRIVATE	E	Medium			Partly Successful
Project 110	1992	1995	RUSSIAN FEDERATION	PRIVATE	L	Medium			Partly Successful
Project 111	1992	1995	HUNGARY	PRIVATE	L	Medium			Partly Successful
Project 112	1996	2001	LATVIA	PRIVATE	L	Satisfactory	Excellent	Some	Partly Successful
Project 113	1999	2003	GEORGIA	PRIVATE	L	Satisfactory	Good	Substantial	Partly Successful
Project 114	1995	2002	FYR MACEDONIA	PRIVATE	E/L	Satisfactory	Good	Some	Partly Successful
Project 115	1999	2002	CROATIA	PRIVATE	L	Satisfactory	Good	Some	Partly Successful
Project 116	1998	2002	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Good	None	Partly Successful
Project 117	1998	2000	BULGARIA	PRIVATE	L	Satisfactory	Marginal	Some	Partly Successful
Project 118	1997	2003	HUNGARY	PRIVATE	E	Satisfactory	Marginal	None	Partly Successful
Project 119	2000	2002	RUSSIAN FEDERATION	PRIVATE	L	Marginal	Excellent	Substantial	Partly Successful
Project 120	2000	2003	FYR MACEDONIA	PRIVATE	L	Marginal	Excellent	Substantial	Partly Successful
Project 121	1995	2001	TURKMENISTAN	PRIVATE	E/L	Marginal	Good	Substantial	Partly Successful
Project 122	1996	2000	RUSSIAN FEDERATION	PRIVATE	L	Marginal	Good	Some	Partly Successful
Project 123	1999	2000	LITHUANIA	PRIVATE	E	Marginal	Good	Some	Partly Successful
Project 124	1995	2001	AZERBAIJAN	STATE	L	Marginal	Good	Some	Partly Successful
Project 125	1996	2002	KAZAKHSTAN	STATE	L	Marginal	Good	Some	Partly Successful
Project 126	1997	2003	UZBEKISTAN	STATE	L	Marginal	Good	Some	Partly Successful
Project 127	1998	2003	HUNGARY	PRIVATE	L	Marginal	Satisfactory	None	Partly Successful
Project 128	1998	2001	SLOVENIA	PRIVATE	E/L	Marginal	Marginal	Some	Partly Successful
Project 129	1999	2002	HUNGARY	PRIVATE	E	Marginal	Marginal	None	Partly Successful
Project 130	1993	1998	POLAND	PRIVATE	L	Low	Excellent	Substantial	Partly Successful
Project 131	1994	1997	HUNGARY	PRIVATE	E/L	Low	Satisfactory	None	Partly Successful
Project 132	1993	1996	BULGARIA	PRIVATE	E	Low	Marginal	Some	Partly Successful

Basic data sheet: Operation performance ratings on the 174 OPERs prepared in 1993-2003

Operation	Year of Board Approval	Year of evaluation	Country	Portfolio Class	Type[1]	Transition Impact[2]	Environmental Performance of Sponsor and Bank[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 133	1993	1997	RUSSIAN FEDERATION	STATE	L	Low	Marginal	Some	Partly Successful
Project 134	1995	1997	UKRAINE	PRIVATE	L	Low	Marginal	Some	Partly Successful
Project 135	1994	1997	BULGARIA	PRIVATE	E	Low	Poor	None	Partly Successful
Project 136	1992	1994	HUNGARY	PRIVATE	E	Low			Partly Successful
Project 137	1991	1995	RUSSIAN FEDERATION	PRIVATE	L	Low			Partly Successful
Project 138	1996	1999	RUSSIAN FEDERATION	PRIVATE	E/L	None	Marginal	Some	Partly Successful
Project 139	1994	1999	MOLDOVA	STATE	L	Medium	Satisfactory	None	Unsuccessful
Project 140	1995	2003	CZECH REPUBLIC	PRIVATE	L	Satisfactory	Marginal	Some	Unsuccessful
Project 141	1994	2002	BULGARIA	PRIVATE	E	Marginal	Good	Some	Unsuccessful
Project 142	1997	2001	RUSSIAN FEDERATION	PRIVATE	L	Marginal	Marginal	Substantial	Unsuccessful
Project 143	1996	1999	POLAND	PRIVATE	E	Low	Excellent	Some	Unsuccessful
Project 144	1995	1999	LATVIA	PRIVATE	E/L	Low	Satisfactory	Some	Unsuccessful
Project 145	1994	1996	CZECH REPUBLIC	PRIVATE	L	Low	Marginal	None	Unsuccessful
Project 146	1993	1997	UZBEKISTAN	PRIVATE	L	Low	Marginal	Some	Unsuccessful
Project 147	1994	1998	RUSSIAN FEDERATION	PRIVATE	E	Low	Marginal	None	Unsuccessful
Project 148	1995	1998	RUSSIAN FEDERATION	PRIVATE	E	Low	Poor	None	Unsuccessful
Project 149	1992	1994	CZECH REPUBLIC	PRIVATE	E	Low			Unsuccessful
Project 150	1991	1994	POLAND	PRIVATE	L	Low			Unsuccessful
Project 151	1992	1995	RUSSIAN FEDERATION	PRIVATE	E	Low			Unsuccessful
Project 152	1997	1999	CZECH REPUBLIC	PRIVATE	E	None	Excellent	Some	Unsuccessful
Project 153	1995	1998	RUSSIAN FEDERATION	PRIVATE	L	None	Satisfactory	Some	Unsuccessful
Project 154	1993	1997	HUNGARY	PRIVATE	L	None	Satisfactory	None	Unsuccessful
Project 155	1992	1997	CZECH REPUBLIC	PRIVATE	L	None	Marginal	Some	Unsuccessful
Project 156	1996	1998	RUSSIAN FEDERATION	PRIVATE	L	None	Marginal	None	Unsuccessful
Project 157	1991	1993	POLAND	PRIVATE	L	None			Unsuccessful
Project 158	1991	1993	HUNGARY	PRIVATE	E	None			Unsuccessful
Project 159	1995	2000	MOLDOVA	STATE	L	Unsatisfactory	Good	Some	Unsuccessful
Project 160	1998	2001	CROATIA	PRIVATE	E	Unsatisfactory	Good	Some	Unsuccessful
Project 161	1997	2001	POLAND	PRIVATE	E/L	Unsatisfactory	Good	Some	Unsuccessful
Project 162	1995	2002	UKRAINE	PRIVATE	L	Unsatisfactory	Good	None	Unsuccessful
Project 163	1996	2003	UZBEKISTAN	PRIVATE	L	Unsatisfactory	Satisfactory	None	Unsuccessful
Project 164	1996	2000	BULGARIA	PRIVATE	E/L	Unsatisfactory	Marginal	None	Unsuccessful
Project 165	1997	2001	POLAND	PRIVATE	E	Unsatisfactory	NA	NA	Unsuccessful
Project 166	1993	1999	HUNGARY	PRIVATE	E/L	Negative	Excellent	Some	Unsuccessful
Project 167	1994	2000	CZECH REPUBLIC	STATE	L	Negative	Good	NR	Unsuccessful
Project 168	1994	1998	SLOVAK REPUBLIC	PRIVATE	E/L	Negative	Satisfactory	Substantial	Unsuccessful
Project 169	1997	2001	POLAND	PRIVATE	E	Negative	Marginal	Substantial	Unsuccessful
Project 170	1995	1999	KYRGYZ REPUBLIC	PRIVATE	L	Negative	Marginal	Some	Unsuccessful
Project 171	1993	1998	ARMENIA	STATE	L	Negative	Marginal	None	Unsuccessful
Project 172	1996	1999	RUSSIAN FEDERATION	PRIVATE	L	Negative	Marginal	None	Unsuccessful
Project 173	1995	2002	RUSSIAN FEDERATION	PRIVATE	L	Negative	Marginal	None	Unsuccessful
Project 174	1997	1998	ESTONIA	PRIVATE	E	Negative	Poor	None	Unsuccessful

[1] E=Equity; L=Loan

[2] The range is Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative for projeccts evaluated from 2000; High/Medium/Low/None/Negative before 2000

[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 210 XMR assessments prepared in 1996-2003

Operation	Year of Board Approval	Year of evaluation	Country	Portfolio Class	Type[1]	Transition Impact[2]	Environmental Performance of Sponsor and Bank[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 1	2001	2003	BULGARIA	PRIVATE	L	Excellent	Excellent	Some	Highly Successful
Project 2	2001	2003	RUSSIAN FEDERATION	PRIVATE	E/L	Excellent	Excellent	None	Highly Successful
Project 3	1998	2002	RUSSIAN FEDERATION	PRIVATE	L	Excellent	Good	Some	Highly Successful
Project 4	1996	1999	RUSSIAN FEDERATION	PRIVATE	E/L	High	Excellent	Outstanding	Highly Successful
Project 5	1995	1998	HUNGARY	PRIVATE	E	High	Excellent	Substantial	Highly Successful
Project 6	1996	1998	ESTONIA	PRIVATE	L	High	Excellent	Some	Highly Successful
Project 7	1993	1999	HUNGARY	PRIVATE	L	High	Satisfactory	Some	Highly Successful
Project 8	1995	1997	HUNGARY	PRIVATE	E	High			Highly Successful
Project 9	1997	2000	BOSNIA AND HERZEGOVINA	PRIVATE	L	Good	Excellent	Some	Highly Successful
Project 10	1996	2000	HUNGARY	PRIVATE	E/L	Good	Good	Some	Highly Successful
Project 11	2001	2003	CROATIA	PRIVATE	L	Good	Good	Some	Highly Successful
Project 12	1997	2000	ROMANIA	PRIVATE	E	Good	Marginal	Some	Highly Successful
Project 13	1999	2002	SLOVENIA	PRIVATE	L	Good	Marginal	Some	Highly Successful
Project 14	1995	2000	ROMANIA	PRIVATE	L	Excellent	Excellent	Some	Successful
Project 15	1999	2002	FYR MACEDONIA	PRIVATE	L	Excellent	NA	None	Successful
Project 16	1997	1999	BULGARIA	PRIVATE	L	High	Excellent	Substantial	Successful
Project 17	1992	1998	BULGARIA	STATE	L	High	Excellent	Some	Successful
Project 18	1994	1998	UKRAINE	STATE	L	High	Excellent	Some	Successful
Project 19	1997	1999	LATVIA	PRIVATE	E/L	High	Excellent	None	Successful
Project 20	1994	1999	KYRGYZ REPUBLIC	STATE	L	High	Excellent	None	Successful
Project 21	1997	1999	HUNGARY	PRIVATE	L	High	Excellent	Some	Successful
Project 22	1995	1998	LITHUANIA	PRIVATE	L	High	Satisfactory	Substantial	Successful
Project 23	1996	1998	CROATIA	PRIVATE	L	High	Satisfactory	Some	Successful
Project 24	1995	1998	CROATIA	PRIVATE	L	High	Satisfactory	Some	Successful
Project 25	1995	1998	POLAND	PRIVATE	E	High	Satisfactory	None	Successful
Project 26	1993	1998	ALBANIA	PRIVATE	E/L	High	Satisfactory	None	Successful
Project 27	1993	1996	SLOVAK REPUBLIC	PRIVATE	E	High			Successful
Project 28	1994	1997	POLAND	PRIVATE	E	High			Successful
Project 29	1992	1997	ESTONIA	STATE	L	High			Successful
Project 30	1991	1997	POLAND	PRIVATE	L	High			Successful
Project 31	1997	2000	<REGIONAL>	PRIVATE	E/L	Good	Excellent	Substantial	Successful
Project 32	2001	2003	CROATIA	PRIVATE	L	Good	Excellent	Substantial	Successful
Project 33	1992	2000	RUSSIAN FEDERATION	PRIVATE	L	Good	Excellent	Some	Successful
Project 34	1997	2001	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Substantial	Successful
Project 35	1995	2000	POLAND	PRIVATE	L	Good	Good	Some	Successful
Project 36	1996	2000	BOSNIA AND HERZEGOVINA	PRIVATE	E	Good	Good	Some	Successful
Project 37	1996	2000	CROATIA	PRIVATE	E/L	Good	Good	Some	Successful
Project 38	1996	2000	CROATIA	PRIVATE	E	Good	Good	Some	Successful
Project 39	1999	2001	ROMANIA	PRIVATE	E	Good	Good	Some	Successful
Project 40	1996	2001	ROMANIA	STATE	L	Good	Good	Some	Successful
Project 41	1996	2001	ROMANIA	PRIVATE	L	Good	Good	Some	Successful
Project 42	1999	2001	TAJIKISTAN	STATE	L	Good	Good	Some	Successful
Project 43	1995	2001	FYR MACEDONIA	PRIVATE	L	Good	Good	Some	Successful
Project 44	2000	2001	ARMENIA	PRIVATE	L	Good	Good	Some	Successful

Basic data sheet: Operation performance ratings on the 210 XMR assessments prepared in 1996-2003

Operation	Year of Board Approval	Year of evaluation	Country	Portfolio Class	Type[1]	Transition Impact[2]	Environmental Performance of Sponsor and Bank[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 45	1999	2001	GEORGIA	PRIVATE	L	Good	Good	Some	Successful
Project 46	1998	2002	MOLDOVA	STATE	L	Good	Good	Some	Successful
Project 47	1997	2002	UKRAINE	PRIVATE	L	Good	Good	Some	Successful
Project 48	1999	2002	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Some	Successful
Project 49	1994	2002	<REGIONAL>	PRIVATE	E	Good	Good	Some	Successful
Project 50	1999	2002	BOSNIA AND HERZEGOVINA	PRIVATE	L	Good	Good	Some	Successful
Project 51	2000	2002	POLAND	PRIVATE	E	Good	Good	Some	Successful
Project 52	2000	2003	KYRGYZ REPUBLIC	PRIVATE	E/L	Good	Good	Some	Successful
Project 53	1996	2003	ROMANIA	PRIVATE	E	Good	Good	Some	Successful
Project 54	2001	2003	CROATIA	PRIVATE	L	Good	Good	Some	Successful
Project 55	1996	2003	KYRGYZ REPUBLIC	PRIVATE	L	Good	Good	Some	Successful
Project 56	1996	2003	CROATIA	PRIVATE	E	Good	Good	Some	Successful
Project 57	2000	2003	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	Some	Successful
Project 58	1997	2001	KYRGYZ REPUBLIC	STATE	L	Good	Good	None	Successful
Project 59	1998	2001	BOSNIA AND HERZEGOVINA	STATE	L	Good	Good	None	Successful
Project 60	2000	2003	RUSSIAN FEDERATION	PRIVATE	E	Good	Good	None	Successful
Project 61	1998	2003	RUSSIAN FEDERATION	PRIVATE	L	Good	Good	None	Successful
Project 62	2001	2003	SLOVENIA	PRIVATE	L	Good	Good	None	Successful
Project 63	1999	2002	UKRAINE	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 64	2000	2003	UKRAINE	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 65	1998	2003	GEORGIA	PRIVATE	L	Good	Satisfactory	Some	Successful
Project 66	1997	2000	HUNGARY	PRIVATE	E	Good	Marginal	Some	Successful
Project 67	1998	2002	GEORGIA	PRIVATE	E/L	Good	Marginal	Some	Successful
Project 68	2001	2003	LATVIA	PRIVATE	E	Good	Marginal	None	Successful
Project 69	1994	1998	POLAND	PRIVATE	L	Medium	Excellent	Outstanding	Successful
Project 70	1993	1998	POLAND	PRIVATE	L	Medium	Excellent	Substantial	Successful
Project 71	1995	1998	HUNGARY	PRIVATE	L	Medium	Excellent	Substantial	Successful
Project 72	1992	1998	ALBANIA	STATE	L	Medium	Excellent	Some	Successful
Project 73	1995	1999	SLOVAK REPUBLIC	PRIVATE	L	Medium	Excellent	Some	Successful
Project 74	1997	1999	SLOVAK REPUBLIC	PRIVATE	L	Medium	Excellent	Some	Successful
Project 75	1996	1999	CROATIA	PRIVATE	L	Medium	Excellent	Some	Successful
Project 76	1993	1998	SLOVENIA	PRIVATE	L	Medium	Excellent	None	Successful
Project 77	1995	1998	SLOVENIA	PRIVATE	L	Medium	Excellent	None	Successful
Project 78	1993	1999	ROMANIA	PRIVATE	L	Medium	Excellent	None	Successful
Project 79	1995	1998	RUSSIAN FEDERATION	PRIVATE	L	Medium	Satisfactory	Substantial	Successful
Project 80	1994	1999	RUSSIAN FEDERATION	PRIVATE	L	Medium	Satisfactory	Substantial	Successful
Project 81	1994	1998	POLAND	PRIVATE	L	Medium	Satisfactory	Some	Successful
Project 82	1994	1998	LITHUANIA	STATE	L	Medium	Satisfactory	Some	Successful
Project 83	1995	1998	RUSSIAN FEDERATION	PRIVATE	L	Medium	Satisfactory	Some	Successful
Project 84	1993	1999	<REGIONAL>	PRIVATE	E	Medium	Satisfactory	Some	Successful
Project 85	1995	1998	KYRGYZ REPUBLIC	STATE	L	Medium	Satisfactory	None	Successful
Project 86	1993	1999	SLOVENIA	PRIVATE	E	Medium	Satisfactory	None	Successful
Project 87	1997	1999	SLOVENIA	PRIVATE	E	Medium	Satisfactory	None	Successful
Project 88	1996	1999	POLAND	PRIVATE	L	Medium	Satisfactory	None	Successful

Basic data sheet: Operation performance ratings on the 210 XMR assessments prepared in 1996-2003

Operation	Year of Board Approval	Year of evaluation	Country	Portfolio Class	Type[1]	Transition Impact[2]	Environmental Performance of Sponsor and Bank[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 89	1992	1999	POLAND	PRIVATE	E	Medium	Satisfactory	None	Successful
Project 90	1993	1996	SLOVAK REPUBLIC	PRIVATE	L	Medium			Successful
Project 91	1993	1996	HUNGARY	PRIVATE	L	Medium			Successful
Project 92	1994	1996	RUSSIAN FEDERATION	PRIVATE	L	Medium			Successful
Project 93	1996	1996	ESTONIA	PRIVATE	L	Medium			Successful
Project 94	1994	1996	HUNGARY	PRIVATE	E	Medium			Successful
Project 95	1992	1996	ROMANIA	STATE	L	Medium			Successful
Project 96	1992	1996	POLAND	PRIVATE	L	Medium			Successful
Project 97	1993	1996	POLAND	PRIVATE	L	Medium			Successful
Project 98	1994	1997	HUNGARY	PRIVATE	L	Medium			Successful
Project 99	1994	1997	CZECH REPUBLIC	PRIVATE	L	Medium			Successful
Project 100	1993	1997	UKRAINE	STATE	L	Medium			Successful
Project 101	1993	1997	ROMANIA	PRIVATE	L	Medium			Successful
Project 102	1993	1997	RUSSIAN FEDERATION	PRIVATE	E	Medium			Successful
Project 103	1992	1997	LITHUANIA	STATE	L	Medium			Successful
Project 104	1997	1999	POLAND	PRIVATE	L	Medium	Marginal	Some	Successful
Project 105	1999	2000	SLOVAK REPUBLIC	STATE	L	Satisfactory	Excellent	None	Successful
Project 106	1997	2000	POLAND	PRIVATE	E/L	Satisfactory	Good	Substantial	Successful
Project 107	1993	2000	RUSSIAN FEDERATION	PRIVATE	E/L	Satisfactory	Good	Substantial	Successful
Project 108	1998	2001	ESTONIA	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 109	1999	2001	HUNGARY	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 110	1996	2001	<REGIONAL>	PRIVATE	E	Satisfactory	Good	Some	Successful
Project 111	2000	2002	ALBANIA	PRIVATE	E	Satisfactory	Good	Some	Successful
Project 112	1995	2002	LATVIA	STATE	L	Satisfactory	Good	Some	Successful
Project 113	1999	2002	POLAND	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 114	1999	2003	LATVIA	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 115	2000	2003	CROATIA	PRIVATE	L	Satisfactory	Good	Some	Successful
Project 116	1995	1998	RUSSIAN FEDERATION	PRIVATE	E	High	NA	NA	Partly Successful
Project 117	1994	1996	POLAND	PRIVATE	L	High			Partly Successful
Project 118	1992	1997	<REGIONAL>	STATE	L	High			Partly Successful
Project 119	1997	2000	ROMANIA	PRIVATE	E/L	Good	Excellent	Some	Partly Successful
Project 120	1997	2003	RUSSIAN FEDERATION	STATE	L	Good	Good	Substantial	Partly Successful
Project 121	1994	2001	SLOVENIA	PRIVATE	E	Good	Good	Some	Partly Successful
Project 122	1995	2001	<REGIONAL>	PRIVATE	E	Good	Marginal	Some	Partly Successful
Project 123	1995	2002	ROMANIA	STATE	L	Good	Marginal	Some	Partly Successful
Project 124	1998	2002	POLAND	PRIVATE	L	Good	Marginal	Some	Partly Successful
Project 125	1999	2003	BOSNIA AND HERZEGOVINA	PRIVATE	L	Good	Marginal	Negative	Partly Successful
Project 126	1996	1998	RUSSIAN FEDERATION	PRIVATE	L	Medium	Excellent	Substantial	Partly Successful
Project 127	1994	1998	ESTONIA	PRIVATE	L	Medium	Satisfactory	Substantial	Partly Successful
Project 128	1993	1998	ALBANIA	PRIVATE	E/L	Medium	Satisfactory	Some	Partly Successful
Project 129	1997	1999	TAJIKISTAN	PRIVATE	L	Medium	Satisfactory	Some	Partly Successful
Project 130	1994	1999	POLAND	PRIVATE	E	Medium	Satisfactory	Some	Partly Successful
Project 131	1996	1999	UZBEKISTAN	PRIVATE	E	Medium	Satisfactory	None	Partly Successful
Project 132	1994	1999	KYRGYZ REPUBLIC	PRIVATE	L	Medium	Satisfactory	None	Partly Successful

Basic data sheet: Operation performance ratings on the 210 XMR assessments prepared in 1996-2003

Operation	Year of Board Approval	Year of evaluation	Country	Portfolio Class	Type[1]	Transition Impact[2]	Environmental Performance of Sponsor and Bank[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 133	1995	1999	POLAND	PRIVATE	E	Medium	Marginal	Some	Partly Successful
Project 134	1993	1998	ROMANIA	PRIVATE	E/L	Medium	NA	NA	Partly Successful
Project 135	1993	1996	ALBANIA	PRIVATE	L	Medium			Partly Successful
Project 136	1994	1996	LATVIA	PRIVATE	E	Medium			Partly Successful
Project 137	1992	1996	RUSSIAN FEDERATION	PRIVATE	L	Medium			Partly Successful
Project 138	1993	1996	HUNGARY	PRIVATE	E	Medium			Partly Successful
Project 139	1993	1996	BULGARIA	PRIVATE	E	Medium			Partly Successful
Project 140	1992	1996	HUNGARY	PRIVATE	L	Medium			Partly Successful
Project 141	1994	1997	LITHUANIA	PRIVATE	E/L	Medium			Partly Successful
Project 142	1994	1997	ROMANIA	PRIVATE	L	Medium			Partly Successful
Project 143	1996	1997	POLAND	PRIVATE	E/L	Medium			Partly Successful
Project 144	1995	1997	CZECH REPUBLIC	PRIVATE	L	Medium			Partly Successful
Project 145	1993	1997	SLOVAK REPUBLIC	STATE	L	Medium			Partly Successful
Project 146	1994	1997	SLOVAK REPUBLIC	PRIVATE	L	Medium			Partly Successful
Project 147	1996	2001	POLAND	STATE	L	Satisfactory	Excellent	Substantial	Partly Successful
Project 148	1996	2002	ROMANIA	STATE	L	Satisfactory	Excellent	Substantial	Partly Successful
Project 149	1998	2001	BULGARIA	PRIVATE	E/L	Satisfactory	Excellent	Some	Partly Successful
Project 150	1997	2003	<REGIONAL>	PRIVATE	E	Satisfactory	Excellent	None	Partly Successful
Project 151	1997	2003	AZERBAIJAN	STATE	L	Satisfactory	Good	Substantial	Partly Successful
Project 152	1999	2003	POLAND	PRIVATE	L	Satisfactory	Good	Substantial	Partly Successful
Project 153	1997	2000	BELARUS	PRIVATE	E	Satisfactory	Good	Some	Partly Successful
Project 154	1998	2001	LITHUANIA	PRIVATE	E/L	Satisfactory	Good	Some	Partly Successful
Project 155	1995	2001	RUSSIAN FEDERATION	PRIVATE	L	Satisfactory	Good	Some	Partly Successful
Project 156	1997	2001	LATVIA	PRIVATE	L	Satisfactory	Good	Some	Partly Successful
Project 157	2000	2002	POLAND	PRIVATE	E	Satisfactory	Good	Some	Partly Successful
Project 158	1997	2002	CROATIA	STATE	L	Satisfactory	Good	Some	Partly Successful
Project 159	1998	2002	ESTONIA	PRIVATE	E/L	Satisfactory	Good	Some	Partly Successful
Project 160	2000	2002	CROATIA	PRIVATE	L	Satisfactory	Good	Some	Partly Successful
Project 161	1997	2003	POLAND	PRIVATE	E	Satisfactory	Good	Some	Partly Successful
Project 162	1992	2000	BELARUS	STATE	L	Satisfactory	Good	None	Partly Successful
Project 163	1995	2000	UZBEKISTAN	PRIVATE	E	Satisfactory	Marginal	None	Partly Successful
Project 164	1995	2001	<REGIONAL>	PRIVATE	E	Satisfactory	Marginal	None	Partly Successful
Project 165	1997	2003	ALBANIA	PRIVATE	L	Satisfactory	Marginal	None	Partly Successful
Project 166	1994	2001	BELARUS	PRIVATE	L	Marginal	Good	Some	Partly Successful
Project 167	1998	2002	SLOVAK REPUBLIC	PRIVATE	L	Marginal	Good	Some	Partly Successful
Project 168	1996	2003	UZBEKISTAN	PRIVATE	L	Marginal	Good	Some	Partly Successful
Project 169	1997	2003	MOLDOVA	STATE	L	Marginal	Good	Some	Partly Successful
Project 170	1999	2001	RUSSIAN FEDERATION	PRIVATE	L	Marginal	Satisfactory	Some	Partly Successful
Project 171	2001	2003	KAZAKHSTAN	PRIVATE	E	Marginal	Satisfactory	Some	Partly Successful
Project 172	1996	2002	RUSSIAN FEDERATION	PRIVATE	L	Marginal	Marginal	None	Partly Successful
Project 173	1994	1998	RUSSIAN FEDERATION	PRIVATE	L	Low	Satisfactory	Some	Partly Successful
Project 174	1996	1999	BULGARIA	PRIVATE	L	Low	Satisfactory	Some	Partly Successful
Project 175	1996	1999	HUNGARY	PRIVATE	L	Low	Satisfactory	Some	Partly Successful
Project 176	1994	1997	BULGARIA	PRIVATE	L	Low			Partly Successful

Basic data sheet: Operation performance ratings on the 210 XMR assessments prepared in 1996-2003

Operation	Year of Board Approval	Year of evaluation	Country	Portfolio Class	Type[1]	Transition Impact[2]	Environmental Performance of Sponsor and Bank[3]	Extent of Environmental Change[4]	Overall Rating[5]
Project 177	1994	1997	ROMANIA	PRIVATE	L	Low			Partly Successful
Project 178	1996	1997	ROMANIA	PRIVATE	E	Low			Partly Successful
Project 179	1993	1999	ROMANIA	STATE	L	Medium	Satisfactory	Some	Unsuccessful
Project 180	1994	2000	ARMENIA	STATE	L	Satisfactory	Good	Some	Unsuccessful
Project 181	1996	2003	<REGIONAL>	PRIVATE	E	Satisfactory	Good	Some	Unsuccessful
Project 182	2000	2002	ROMANIA	PRIVATE	L	Marginal	Excellent	Some	Unsuccessful
Project 183	1999	2002	LATVIA	PRIVATE	L	Marginal	Excellent	None	Unsuccessful
Project 184	1995	2000	UKRAINE	PRIVATE	E/L	Marginal	Marginal	None	Unsuccessful
Project 185	1995	2001	MOLDOVA	STATE	L	Marginal	Unsatisfactory	None	Unsuccessful
Project 186	1993	2000	<REGIONAL>	PRIVATE	E	Marginal	NA	NA	Unsuccessful
Project 187	1993	1998	BELARUS	STATE	L	Low	Excellent	Substantial	Unsuccessful
Project 188	1995	1998	RUSSIAN FEDERATION	PRIVATE	L	Low	Satisfactory	Substantial	Unsuccessful
Project 189	1995	1998	UZBEKISTAN	PRIVATE	E	Low	Satisfactory	Some	Unsuccessful
Project 190	1992	1996	POLAND	PRIVATE	L	Low			Unsuccessful
Project 191	1993	1996	ROMANIA	PRIVATE	E	Low			Unsuccessful
Project 192	1991	1996	CZECH REPUBLIC	PRIVATE	L	Low			Unsuccessful
Project 193	1991	1996	CZECH REPUBLIC	PRIVATE	L	Low			Unsuccessful
Project 194	1994	1997	CZECH REPUBLIC	PRIVATE	L	Low			Unsuccessful
Project 195	1993	1998	RUSSIAN FEDERATION	PRIVATE	E	None	Satisfactory	Substantial	Unsuccessful
Project 196	1995	1999	POLAND	PRIVATE	E	None	Marginal	Some	Unsuccessful
Project 197	1994	1999	RUSSIAN FEDERATION	PRIVATE	L	None	Marginal	None	Unsuccessful
Project 198	1996	1999	RUSSIAN FEDERATION	PRIVATE	E/L	None	Poor	None	Unsuccessful
Project 199	1997	1999	RUSSIAN FEDERATION	PRIVATE	E	None	Poor	None	Unsuccessful
Project 200	1995	2000	GEORGIA	PRIVATE	E	Unsatisfactory	Good	Some	Unsuccessful
Project 201	1998	2001	POLAND	PRIVATE	E	Unsatisfactory	Good	Some	Unsuccessful
Project 202	1996	2002	GEORGIA	PRIVATE	E/L	Unsatisfactory	Marginal	Some	Unsuccessful
Project 203	1997	2001	SLOVAK REPUBLIC	PRIVATE	E	Unsatisfactory	Marginal	None	Unsuccessful
Project 204	1997	2001	RUSSIAN FEDERATION	PRIVATE	E/L	Unsatisfactory	Marginal	Negative	Unsuccessful
Project 205	1994	2001	SLOVENIA	PRIVATE	E	Unsatisfactory	Unsatisfactory	None	Unsuccessful
Project 206	1997	2002	CZECH REPUBLIC	PRIVATE	E	Unsatisfactory	NA	None	Unsuccessful
Project 207	1999	2003	RUSSIAN FEDERATION	PRIVATE	E	Unsatisfactory	NA	None	Unsuccessful
Project 208	1997	2000	RUSSIAN FEDERATION	PRIVATE	E	Unsatisfactory	NA	NA	Unsuccessful
Project 209	1996	2001	LATVIA	PRIVATE	E/L	Negative	Good	Some	Unsuccessful
Project 210	1995	2000	RUSSIAN FEDERATION	PRIVATE	E	Negative	Marginal	None	Unsuccessful

[1] E=Equity; L=Loan

[2] The range is Excellent/Good/Satisfactory/Marginal/Unsatisfactory/Negative for projeccts evaluated from 2000; High/Medium/Low/None/Negative before 2000

[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

1993-2004 Technical Cooperation Operation Performance Evaluation Review (OPER) Reports

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	Banking Institute	Romania	State	Finance	435	T	07-Mar-92	Apr-92	25-May-95	Aug-94	Successful
2	Investment Bank	Bulgaria	Private	Finance	942	AS/PP	30-Apr-93	Jun-93	11-Sep-95	Dec-94	Successful
3	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	Enterprise Restructuring	Russia	State	Restructuring	612	PP	15-Aug-93	Dec-93	02-Dec-96	Feb-98	Unsuccessful
3	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	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**						

1993-2004 Technical Cooperation Operation Performance Evaluation Review (OPER) Reports

No.	Operation	Country	Sector	Industry	TC Funds Amt	Type [1]	OpsCom Approval	Funding Approved	PCR Date	OPER Report Date	Overall Rating
	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	Bosnia and Herzegovina	State	Telecoms	1,870	AS/PI	03-Oct-97	Dec-97	22-Feb-00	July-01	Highly Successful
2	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-July-97	Aug-98	-	Jan-02	Successful
				Subtotal	**4,425**						
	2002										
1	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	Rehabilitation Project	Georgia	State	Energy	453	PP/PI	04-Aug-95	18-Aug-95	17-June-97	Nov-02	Partly Successful
4	Emergency Electricity Power Reconstruction Project	Bosnia and Herzegovina	State	Energy	2,150	AS/PP/PI/T	19-Jan-96	01-Jul-96	22-Feb-00	Mar-03	Highly/Partly Successful
5	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	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 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 Oil & Gas Sector	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 & Herzegovina	State	Transport	199	PP	04-Apr-00	30-Jun-00	05-Jun-02	Mar-04	Successful
6	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	Kazakh Rail TC	Kazakhstan	State	Transport	976	PP/AS	28-Feb-97	14-Mar-97	20-Jan-04	Jan-05	Successful
4	Ports Commercial Enhancement Prog.	Romania	State	Transport	320	PP	13-Feb-98	26-Aug-09	05-Jun-02	Jan-05	Partly Successful
5	Pre-Privatisation of State Company	Poland	State	Finance	4,161	PP	27-Feb-98	07-Apr-98	28-Jan-04	Feb-05	Successful
6	Water Supply Company	Poland	State	Municipal	779	PP/PI	08-Mar-96	16-Jun-00	05-June-02	Apr-05	Successful
				Subtotal	**6,908**						

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 Implementation

1993-2004 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	2,198	2,851	Line of Credit/TC	26-Jul-93	Jul-94	Special Study/Mid-Term Review
				Sub-Total	**2,198**	**2,851**				
	1995									
1	Russia Small Business Fund II	Russia	Private	SME	15,850	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-	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	21,981	1,420	Loan/TC	01-Nov-94	Jan-96	Mid-Term Review
				Sub-Total	**37,831**	**21,417**				
	1996									
1	SME Credit Line Project	Ukraine	Private	Finance	88,793	-	Loan	29-Nov-94	Dec-96	Special Study/Mid-Term Review
2	Wholesale Market Special Study	Hungary	State	Agriculture	48,387	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-	Sep-96	Evaluation Progress Review
				Sub-Total	**137,180**	**5,159**				
	1997									
1	Kyrgyzstan SME Credit Line	Kyrgyz Rep	Private	Finance	7,693	1,888	Line of Credit/TC	11-Nov-94	May-97	Mid-Term Review
2	Russia Small Business Fund III	Russia	Private	SME	244,428	32,707	Line of Credit/TC	26-Jul-93	Jul-97	Special Study/Mid-Term Review
3/	Regional Venture Funds	Russia	State	SME	126,239	20,814	Equity/TC	n.a.	Aug-97	Special Study
5	Baltics Business Advisory Service	Baltics	State	Finance	n.a.	4,196	TC	n.a.	Sep-97	Mid-Term Review
6	TAM Programme	Regional	State	Priv/Restr	n.a.	11,417	TC	n.a.	Feb-98	Special Study
7	Financial Institutions Development Project	Russia	Private	Finance	31,161	-	Loan	23-May-	Jan-98	Mid-Term Review
				Subtotal	**409,521**	**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-	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.	137,245	19,120	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	Kazakhstan	n.a.	n.a.	n.a.	n.a.	n.a.	04-Oct-00	n.a.	Scope for Special Study
				Subtotal	**137,245**	**31,061**				

1993-2004 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	29,091	3,179	Equity	24-Feb-98	Nov-01	Mid-Term Review
3	Legal Transition Programme	Various	n.a.	Various	n.a.	12,007	n.a.	n.a.	Oct-01	Mid-Term Review
4	Financial Institutions Development	Russia	Private	Finance	31,161	1,140	Loan	23-May-	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	**60,252**	**23,349**				
	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/T	13-Dec-94	Mar-03	Special Study
3	Russia Small Business Fund IV	Russia	Private	SME	302,121	37,110	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	**2,102,121**	**52,856**				
	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.	4,789	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	23,152	11,340	Equity/Loan/TC	n.a.	Sep-04	Country Strategy Evaluation
				Subtotal	**23,152**	**21,587**				

	2004									
1	Sample of PCR Assessments	Various	Private/State	Various	n.a.	6,293	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	442,374	942	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	**442,374**	**7,235**				

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 2004

A. TRANSITION IMPACT

1. Project selection

Working Capital financing can be justifiable based on the Bank's mandate. Short term working capital facilities may allow the Bank to fulfil important objectives, such as moving transition forward in terms of pioneering more mature short term local currency lending practices in a domestic market. The banking team should not shy away from bringing forward the rationale for the Bank to engage in such a short term oriented transaction, thus establishing a more accurate prioritisation of its objectives.

Mitigating risks of small donor-supported SME funds in early transition countries. Creating ad hoc funds backed by donor-support may not lead to sustainable institution building. Past experience shows that the funds are too small and too risky to attract management by quality, established fund managers that possess the skills and infrastructure to institute a sustainable fund in the early transition environment. Therefore, delivery will not benefit from a seasoned institutional approach, causing lower chances of success. Consequently, the fund is unlikely to produce quality investment results, or adequate returns, that could capitalize a sustainable institution. Be careful to find ways, if possible, to mitigate these risks.

Leasing as a delivery mechanism for SME finance. Small ticket leasing can be a reliable way to provide long term finance to thousands of SMEs for acquisition of motor vehicles and other types of equipment. Successful outreach to SME via leasing firms depends on a strategic focus by the leasing firm on high volume, small value leasing contracts.

Commercial Success and Low Transition Impact in Low Transition Countries. Projects that achieve technical and commercial success within the confines of a centrally controlled, non-market economy may have unsatisfactory and even negative transition impact. In countries that have not implemented the principles of multiparty democracy, pluralism and market economics, the very success of such projects can reinforce distortions and cause negative demonstration effects by seeming to prove that transition is irrelevant for commercial success. The show case project can then serve the purposes of the opponents of transition.

2. Project Design

Pilot projects can enhance transition impact and environmental change. The role of the Bank may evolve from an initial emphasis on a pilot project carefully designed with insight in to the entire sector to a more syndication driven approach, providing enhancement for large international syndications. In this way the Bank's additionality and transition impact can be enhanced once the Bank's involvement reaches a certain critical mass within the sector context.

The Bank should not look at the ring fence concept as a replicable screen against integrity issues with the same partner. While creating a safe vehicle to promote good industrial and ethical practices is most convenient in the short term or as a first exercise, the Bank cannot ignore unreformed corporate governance outside the fence in the longer run. An extension of the Bank's relationship in a similar context should require strong undertakings that reforms cover deficiencies in the partner's corporate governance in addition to industrial and environmental improvements.

Innovative project finance structures may not be effective in early transition countries. Innovative financing structures which depend on a strong tradition of law may not be appropriate in early transition countries. Project parties should include not only construction companies but also substantial regional oil groups/traders/operators to ensure successful operations.

Local currency financing in highly volatile domestic markets may strongly contribute to the Bank's additionality. When financing a Project with the unconditional guarantee of its sponsor, the Bank provides an element of political protection through its Preferred Creditor Status; this may indeed be recognised through a premium in the pricing of its facilities. In order to further justify such a premium, and therefore the bank's additionality, sponsors are rightly looking for the Bank's ability to bring benefits specific to its knowledge and expertise in domestic matters.

Ensuring transparency and integrity of ownership and business structures is essential. Projects that are embedded in complex ownership and 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 prepared to cope with such structures. Business arrangements fail to be viable if accountants, tax authorities and regulatory agencies do not understand them or have no confidence in them.

For any foreseeable procurement complexities, adequate provisions in project design and implementation arrangements need to be made. Projects with 'heavy' procurement components, particularly if to be executed by a relative inexperienced entity and within a public administration known for cumbersome processes, adequate provisions need to be made already at project concept stage. This also implies allocation of commensurate man-power resources at the Bank.

Small equity transactions may produce significant transition impact in conditions of extreme economic and political uncertainty. Where the Bank is able to support existing institutions with direct experience of the local market, this can have an immediate impact on local enterprises in 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.

Terms of reference for institution building programmes should be designed to ensure that transition impact potential is realised. In the present case the results of appraisal and due diligence were used to determine the nature of consultant inputs to be supported by donor TC. In early transition countries detailed assistance in functional areas such as credit appraisal may be as important as advice on strategy and restructuring.

The objectives of Bank projects should be measurable. Objectives included in Board documents should be defined in such a way that they are measurable, this would also ensure that more care is taken in establishing and agreeing the objectives with the clients. A dialogue around measurable objectives between the Bank and the client would increase the understanding of the Bank's role as a development finance institution. Measurable objectives would also facilitate the ex-post discussion of the performance rating.

3. Role of sponsor

Importance of the Sponsor's strong environmental culture and business ethics. In project finance operations the Bank always requires high credit standards for its clients to secure the value of the Bank's investments. However, in respect of Transition Impact, this may not be sufficient and may need to be further enhanced through the exercise by the client of high standards in respect of the environment and business ethics. The demonstration effects stemming from this responsible company culture should not be underestimated.

The importance of strong sponsors that honour their agreements. Formal agreements to bind

sponsors to support a project can be critical for commercial success in high risk early transition environments that may subject projects to undue interference by the state. By the same token, such agreements may turn out to be no more valuable than the paper they were written on if they do not embody the right incentives and, most importantly, if the sponsor is either unable or unwilling to abide by the agreements. Bankers must make judgements about such ability and willingness based on the track record of the sponsor and his true economic exposure to the project.

Transition impacts are highly sensitive to sponsor performance. Therefore due diligence in sponsor selection is a matter of utmost concern. Close scrutiny is required to ascertain that sponsors have a sound business rationale, pursue a viable strategy with a credible long-term commitment, have an excellent track record demonstrating the capability to undertake the venture, are familiar with the local conditions and business environment and have a full understanding of the risks involved in the undertaking. When there is no convincing proof of high-level sponsor expertise, commitment and ability to deal over a long time frame, the Bank should refrain from entering into partnerships.

B. ENVIRONMENT

1. Project Design

The importance of explicit environmental objective in Bank operations. During the preparation of the 2005 Power and Energy Sector Review, EvD found that while most operations have *implicit* environmental objectives, only one out of 21 evaluated power sector operations had an *explicit* environmental objective. EvD encourages management to explicitly include environmental objectives into operation designs so that these objectives are monitored and tracked.

The importance of actively pursuing the Bank's environmental mandate even in adverse situations. The Bank as opinion leader should stretch the envelope and push for the adaptation of innovative features in accordance with the Bank's environmental mandate. By nurturing seeds at the right time, the Company's Carbon Fund was able to pick up speed and correspond to the directives of its Board rather swiftly. In this case, the Bank first had to demonstrate intellectual leadership and convince the borrower. As a result the Bank has gained good visibility and reputation.

Cooperation between the municipal government and the utility company in Municipality & Environmental Infrastructure Project. The Bank's visible presence and timely intervention can reduce tension between the municipal government and the utility company. The Bank's political comfort, if used wisely, could be valuable in a critical situation.

2. Appraisal

Sponsor's commitment to financing the environmental component in a project may result in uncertain implementation when financial constraint occurs. The implementation of the environmental component, which, in this case, is supposed to be financed from the borrower's own funds, could be uncertain in financing terms and inadequate in technical terms, and therefore may require professional guidance and the assurance of budget at appraisal.

Assessing local environmental regulatory capacity. EBRD should appraise not only the capacity of the Fund Manager to adhere to EBRD's environmental standards, but also the capacity of local environmental authorities to enforce environmental laws and regulations. Where capacity is

recognised to be weak, EBRD should consider teaming with other multilateral or bilateral agencies to implement a program to improve local capacity.

A client needs specific implementation arrangements for an Environmental Action Plan. The EAP implementation was not properly monitored and the reporting was unsatisfactory in the multi-project facility until the possibility of the Loan arose. The Bank's more active environmental monitoring was required to facilitate the Loan processing. Under the Loan, the situation has greatly been improved in a timely submission and quality of reports with assistance of the consultants. This was attributable to the Bank's specific guidance and instructions during due diligence, which were not made available at the time of the multi-project facility. Environmental due diligence should comprehensively include specific arrangements for periodic reporting.

Importance of occupational health and safety (OHS) aspects within the frame of general environment considerations needs appropriate recognition. Whilst environmental due diligence is normally covered as required, OHS aspects are not. If only for reputation risk considerations, this is of particular importance where the Bank outright plans to become a shareholder, but also in cases where a convertible debt provision is covenanted.

3. Project Monitoring

A site change can require a review of a need for special measures for the environment. In cases where a site change takes place during the implementation, for instance from brownfield to greenfield, specific attention needs to be drawn to environmental issues. A review can be done to establish whether special measures are required in respect of the environment, which may lead to changing the Bank's project environmental classification. For this particular project, however, no adverse impact of the site change has been seen and the lender's supervisor advised that the site was clear.

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The importance of expanding on the environmental sections in operation Monitoring Reports (MRs). As currently structured, the Bank's internal operation monitoring reports (MRs) track environmental performance, but comments are usually drafted by the Operations Team often without input from the environmental department (ED), and are limited. Involving ED in drafting MRs and expanding on environmental performance and change in the operation would enhance the Bank's capacity to track environmental performance and this would create a better basis on which to judge *environmental change* as part of evaluation exercises (OPER reports and XMR Assessments).

D. SOUND BANKING

1. Project Design

International Project Finance syndications require state of the art security structure. The documentation and corresponding legal costs may be substantial if initial project phases are relatively small. This approach also provides more comfort to the JV partners since the limited recourse nature is clearly defined. In a project with various stages and huge medium- to-long-term capital requirements initial set up costs can easily be amortised in later stages.

Design investment policies to facilitate the achievement of project objectives. Overly restrictive conditions can impede the performance of fund managers and thereby hinder the achievement of performance and transition objectives. While it is essential to include appropriate safeguards and controls, investment policies should reflect the realities of the market.

Clear Project Design Concept will help monitoring and evaluation. The original Board documents clearly stated that the project was designed as a corporate finance with broad focus on the project components. Later, it changed to a project finance deal with specific focus, but the monitoring mindset remained general, namely a corporate approach. When the project design concept changes, the implementation arrangements should also change introducing more component-specificity focusing on what the Project has actually delivered rather than broadly describing the corporate achievement.

A proactive and flexible approach to project structuring helps EBRD build strong relationships. By being proactive the Bank can propose appropriate measures to mitigate risks as they are identified. This reinforces relationships with clients and partners and can lead to greater profitability and repeat business. In times of political and economic uncertainty and nervousness among foreign investors, the Bank remains highly additional through continuing to support sound institutions.

Industry specialisation can enhance the Bank's image. Industry specialisation is key to the promotion of complex programmes as it provides a wealth of expertise from a technical and credit perspective while enhancing the Bank's image through the consistency of its marketing activity and the visibility of its own specialists.

2. Appraisal

Independent review of long-term off take arrangements are essential. It is customary and highly useful to involve specialised independent consultants for the review of key off take arrangements in order to better assess and size security structures. Flexibility for reviews and adjustments in the security package should be built in from the outset.

The ability of a domestic sponsor to continually improve techniques and quality standards should be considered seriously at appraisal. This should be part of the technical due diligence. In any future project with the same partner, the Bank ought to evaluate specific technical risks more closely if the business case is dependant on the result of a re-engineering programme.

Importance of selecting an experienced manager. When relying on the strength of a foreign sponsor, the Bank should always pay particular attention to the managerial qualities and experience of key expatriated personnel. While technical capabilities are very important, it is also critical that

the Managing Director can assess market changes, negotiate with local partners and interface with local and national/federal authorities. A solid proven track record should generally be required.

Importance of reliable market information. In early transition countries, fuel import statistics and projections may be particularly challenging if the statistical base is weak and if substantial changes in the structure of the economy are taking place.

Checking sponsor experience and capacity. Ensure that sponsors have sufficient relevant experience, technical skills and management capacity to undertake operations confidently. The Bank must be satisfied that sponsors have a reasonable expectation of meeting PSA terms and conditions and achieving PSA milestones in a timely manner. While some allowance must be made to accommodate a learning curve in a difficult environment, the sponsor must be capable of producing an early detailed implementation plan that has reasonable prospects of success.

Using expert consultants in the due diligence process. It is appropriate to use expert consultants to perform specialised aspects of due diligence. In the present case specialist consultants were employed to carry out integrity checks and to audit the performance and capacity of the client's IT systems and credit scoring technology. While the principle must be observed that it is OT's responsibility to appraise the findings of consultants and auditors critically, the careful use of inputs from expert consultants can give EBRD additional credit comfort and contribute to project design and functioning.

Penetration of consumer market at a time of economic crisis. Devaluation, unemployment and difficult macro situations affecting consumers' buying power can be expected in time of reform or lack thereof. As this could have a dramatic impact on a project ability to sell its output, sales projections should be tested against macro-shocks.

A degree of due diligence remains necessary even when operating and commercial risks are assumed by a strong sponsor. Often the full realisation of a project's Transition Impact depends on the economic and financial success of the project supported by the Bank. Where market studies have proved over optimistic, the project could be severely affected irrespective of the fact that the Bank's investment performance is adequately protected.

3. Implementation

Importance of an independent engineer with a strong local presence. The acceptance of the independent engineer and his recommendations was substantially enhanced due to his strong local presence, including engineers with an excellent knowledge of local regulations, standards and procedures. They were supported by regular visits from headquarters staff.

Importance of general contractor and owners in house expertise. A general contractor adds value in complex construction projects involving a large number of subcontractors. The owner also needs a strong in house project management expertise to be able to supervise the general contractor and contribute to the decision making process especially in the definition of the tender procedures for subcontractors and their selection. In gas pipelines the definition of quality standards for the welding works is particularly important.

The importance of completing projects in post-conflict environments. Donors rightly lose interest and enthusiasm when ambitious projects lose momentum and stall before completion. It is important to keep projects simple and focus on completion to demonstrate to donors and investors that it is possible to successfully complete a capital investment or other project in the post-conflict

environment. Completing troubled projects may require additional investment to ensure completion and an incentive compensation formula for the fund manager. The financing plan for the activity should allow for completion risks and cost overruns and find innovative ways to fund project completion as long as the marginal investments have a positive net present value.

Using loan covenants constructively. Loan covenants can be designed to help focus client attention on strategic goals while ensuring correct utilisation of EBRD funding. In the present case covenants were designed both to encourage the client to maintain its strategic focus and to give comfort to the Bank that the client's management would develop the business in the anticipated direction. The client demonstrated adherence to the covenants allowing the Bank to disburse the loan in full.

4. Project Monitoring

Tight monitoring of the performance of sub-loan portfolios can increase transition impact by improving default rates. The availability of first-loss cover enables the Bank to extend facilities in difficult environments. However, extensive due diligence and close monitoring may improve credit performance to the extent that it is not necessary to call on the first-loss cover.

Monitoring the compliance of the work with the targets set. As part of the refurbishment project procedure a target setting should take place. Clear and measurable goals should be defined and means be determined to verify how and when the achievement of those targets should be measured and registered. Payment of instalments or release of additional services to the project should be linked to the positive outcome of the performance monitoring.

Close monitoring is required for the fast-moving market: The telecom market and technology require a complex strategy and expansive analysis of multi-generation (2nd and 3rd generation technology, i.e. GSM and UMTS) licensing. UMTS investors need to monitor closely GSM market, new entrants in particular, and the regulatory environment, not only in Poland but in the region.

5. Role of sponsor

The strategic priorities of the sponsors should be aligned with the strategic objectives of a JV. This minimises the risks of sponsors walking out of a JV rather than attempting to rescue the operation which may experience a more difficult start than anticipated. This is even more important when the Bank elected to be a true equity owner and/or to provide non recourse financing.

Enforcing sponsor commitments. Obtain reasonable assurances that the sponsor's financial commitment to a project is enforceable, especially where failure by the sponsor to meet financial obligations could damage the Bank's reputation by association. In the present case, work on the development plan was delayed for several months when the original sponsor lost interest in the project. Impairment of the Bank's investment was averted only after protracted negotiations which resulted in the new sponsor taking full control of the operation. Wherever possible, the Bank should seek enforceable sponsor guarantees that can be called upon to safeguard both the project and the Bank's investment.

Advantages of working with strong private equity investors: Strong and reputable private equity investors are good partners to the Bank. Whilst they may sometimes require higher leverage than customary in corporate transactions, they install strong discipline and cash controls and provide strong incentives to management to develop the business as this is the key source of their financial returns.

Especially careful scrutiny of equity investment targets is required in the absence of a strategic sponsor. In order accurately to assess the transition impact opportunities and the risks/rewards of investments in smaller financial institutions, the Bank must develop an in-depth understanding of the client institution's target customer segment. As in this case, a hands-on approach by the banking team can enhance investment returns both financially and in terms of transition.

E. EXIT STRATEGY

The Bank should insist on a realistic strategy for exit from investee companies. In early and intermediate transition environments where capital markets are underdeveloped and illiquid, it is not realistic to propose exit via the local market. A strong shareholders' agreement can allow the Bank and the fund manager to influence the timing of exits to enhance investment returns.

The importance of long-term strategic planning in equity investments. Divergence over strategic direction can lead to untimely exit. At entry, the Bank and the investee firm could agree a general strategic plan and financing plan, including financial policies as leverage and liquidity. A carefully planned budget and financial strategy on a rolling 5 year basis, approved annually at Supervisory Board level, may signal difficulties in advance and assist in the avoidance of the untimely exits.

Public Relations Strategy. An agreed announcement of the exit by EBRD and the Company together would have helped to allay concerns as to the potential local impact. In this connection it is worth noting that the EBRD presence in a market has considerable confidence value. Exiting therefore requires a careful strategy to ensure that confidence is maintained in the investee company, even though the exit judgment exercised by the parties may be justified.

LESSONS LEARNED FROM EVALUATIONS OF TECHNICAL COOPERATION (TC) OPERATIONS EVALUATED IN 2004

1. MAINTAINING PROPER FILES OF TC OPERATIONS

Bank Handling of TC operations needs to be improved. While the quality of file keeping for investment operations has been improved partly thanks to the implementation of the "LiveLink" software in 2004 (known in the Bank as the *ProjectLink* system) and that complements, if not partially substitutes for, the hitherto physical Operational Files System (OPS), this is not so for TC operation files. The latter were not covered, and bankers as well as EvD staff completely rely on the quality of physical filing systems. The widely observed lack of appropriate file keeping discipline, a deficiency frequently noted in previous evaluation work, continues without noticeable improvements over time. Fragmentation of files (often within Bank headquarters among different staff, but also between HQ and ROs) becomes exacerbated by not infrequent changes of responsible operation leadership. Hence, coupled with the loss of 'corporate memory', the lack of filing discipline often renders TC supervision, monitoring, administration a tedious exercise. Patchy documentation often severely hampers evaluation. The transfer of responsibility, whilst regulated, is not effectively implemented.

- **The state of TC files 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. This is also the same for investment files. TC files (including TC-induced consultant reports) should be included under the Bank's "LiveLink" system.

2. DILIGENCE OF TC DESIGN AND PREPARATORY PROCESS

Also in the past, 'quality at entry', particularly the conceptualising, design and preparatory stages of TCs, has been highlighted as a crucial factor that often determines the success or failure of TC operations. And, since a main feature of TCs in the Bank's overall operational context is that of 'facilitating' Bank investments, such TC-related 'quality at entry' aspects often have direct implications for Bank investments. The following examples taken from a variety of TC evaluation cases evaluated in 2004 provide insight into this topic from different perspectives:

- **Continuous commitment by TC beneficiary and close cooperation among the Bank, TC recipient and relevant public authorities are key success ingredients.** Commitment by the TC beneficiary to the intended objectives throughout the TC process, its active involvement during TC preparation and implementation, and close cooperation among the Bank, TC beneficiary and relevant public authorities proved vital for the success of this TC operation.
- **In an early transition country (ETC) environment additional time and active Bank involvement for TC preparation and implementation needs to be allocated and ensured.** One characteristic of ETCs is the still relative strong direct involvement by public authorities into corporatised (albeit still public sector-owned) commercial entities. Commercial practices of delegation of decision-making authority (e.g., from the owner to the management) and trusting in market self-regulatory processes (e.g., transparent

competitive public tender process) are not yet well enough internalised to allow the Bank adopting an 'at arms length' approach.

- **Post-approval changes of TC focus likely require changes of consultant's terms of reference (TOR).** If the strategic focus of a TC is subsequently changed, as in the evaluation case, from "privatisation" to "commercialisation", the entire TOR may need to be re-visited and re-formulated, since privatisation and commercialisation carry two different series of objectives with different processes attached.
- **Challenging reform processes need long-term TC assistance.** TCs relating to the restructuring of a sector may need to contain follow-up elements later on to ensure continuation on the right path in complex and time consuming reform processes. This is even more so in circumstances where the target sector plays a dominant role
- **Identifying and involving of all key stakeholders is essential where sector reforms are targeted.** For the transport sector, for instance, confining TC design and preparation to the transport provider only is insufficient. Key suppliers and their customers, main passenger groups, regulators and other key players are equally important parties that need to be taken into account.
- **Using financial penalties to reinforce commitment to achieving objectives.** Where possible include financial penalties for non-performance in pre-privatisation agreements with Government bodies. In the present case the Government sought to have the financial penalty removed from the Memorandum of Understanding setting out the conditions of the TC programme. The Bank insisted on retaining the penalty in order to ensure an appropriate level of commitment to achieving the TC objectives from Government agencies and management of the client bank. A further benefit of such a penalty clause is to provide a degree of assurance to donors that parties will work diligently towards achieving stated objectives.
- **Complex TC programmes require co-ordinated monitoring by EBRD.** In the present case the use of the Steering Committee and Task Force allowed progress with implementation to be monitored relatively effectively. However, in the case of complex TC programmes, the Bank should ensure that changes in the composition of the operating team are anticipated to the extent possible to achieve a seamless handover of monitoring responsibilities and avoid implementation delays.
- **Complex institution building programmes require consultants with proven project management skills.** In the present case the multifaceted nature of the institution building programme called for disciplined management. EBRD staff was required to put in a great deal of effort in the later stages of the programme to redress weaknesses in project management on the part of the consultants. For assignments that require multidisciplinary consulting inputs, the lead consultant should preferably have interim management experience to facilitate implementation with the client.

3. POLICY DIALOGUE AND TCS

At times, for TC efficiency and effectiveness a parallel policy dialogue conducted by the Bank is indispensable. This is mainly so for TCs that are meant to trigger sector reforms or that intervene with given sector structures. Lessons from two different TC evaluation cases (both in the transport sector, but one in an accession country, and the other one in an ETC context) draw attention to the fact that a lack of accompanying policy dialogue may jeopardise the respective TCs' success.

- **Bank management needs more involvement in MDB policy strategy coordination, particularly within the ETC context.** Several of the less transition-advanced countries

are able to successfully attract assistance from various sources, often for the same sectors and time-wise in parallel or overlapping. Coordinating of resulting strategy advice is imperative.

- **When sector reforms are gradually implemented, a commensurate policy dialogue must accompany the reform course in order to maintain the momentum**. When full re-biding on all existing stevedoring contracts via competitive tendering is constrained by past ownership arrangements, and another 'second best' approach solution is taken to introduce competition among stevedoring companies, it matters to monitor closely the process and pursue a 'policy dialogue' to help generate an impact close to what was expected in the first place.

4. OCCUPATIONAL HEALTH AND SAFETY - A TC DIMENSION

Unless environmental concerns form the prime focus of TC operations, for example, when environmental due diligence work is being carried out through TC-financing, environment – particularly occupational health and safety (OHS) issues – generally seems to be given lesser attention. The following two lessons concern the same TC evaluation case, a manufacturing company to which the Bank has given a loan that carries, however, the potential to be converted into equity under certain conditions.

- **Awareness of and compliance with occupational health & safety (OHS) issues needs strengthening within the Bank and its client companies.** Generally, OHS issues appear not to rank high. For investee companies employing OHS susceptible technology and designs, covenanted routine reporting on environmental compliance, including OHS, require complementary occasional Bank-validations through spot checks.
- **Bank's awareness of the links between environmental issues and investment deal structure need strengthening.** Whilst this link is more evident for straight equity investments, it is less so for convertible debts. The value of rights for conversion of debts into equity that is meant to protect the Bank in the event of debt servicing problems by the borrower may be or become impaired if environmental (including occupational health and safety) liabilities are not valued appropriately and addressed in a timely manner.

5. LESSONS LEARNED FROM THE EVALUATION SPECIAL STUDY ON ASSESSMENTS OF PROJECT COMPLETION REPORTS (PCRS)

As noted in the main body of the AEOR (para. 4.3.2) the PCR Assessment exercise of this year reiterates and draws attention to the three critical aspects of any TC operation: "Client Commitment", "Bank Handling", and "Consultant Performance". Some of the issues concerned are highlighted in the following.

5.1 Client Commitment

Lack of Client Commitment is to a large extent related to three factors: (i) lack of capability or capacity to manage/support a TC effort; (ii) incentives for beneficiary not well aligned with the objectives/goals of the TC initiative; and (iii) external (mainly political) interference. While the first two factors, to a large extent at least, are parameters that OLs can act upon (e.g. by way of thorough institutional analysis, participatory TC design, adding of institution building components, explicit formulation of what is expected from the beneficiary), the third one is often of endogenous nature and beyond the control of OLs, nor are they predictable in many instances. Still, a thorough study of the operational environment prior to TC intervention and more involvement of local Resident Office (RO)

staff from the outset will help to mitigate, albeit not eliminate, the inherent risk. In this context it was also found that TCs aiming at the improvement of the business (or 'enabling') environment often would considerably benefit from a corresponding and supporting policy dialogue carried by senior bank management or that these be attuned to and synchronised with corresponding initiatives by other parties (e.g. bilateral donor or multilateral development bank, MDB, initiatives).

5.2 Bank Handling

Apart from deficiencies in respect of filing of TC operations as presented under section 1 above, deficiencies in other areas observed during 2004 TC evaluation exercises include: implementation work occasionally starts before the beneficiary and consultant have signed a contract; TOR are at times changed in the course of their implementation without clear documentation (often by way of OL-Consultant e-mail exchange) and authoritative approval; joint OL/Consultant/Beneficiary "kick-off" meetings and OL monitoring visits, both for mainly larger TC assignment, are often missing; inadequacy of responsibility delegation and resource allocation (e.g. between HQ and RO; between senior and more junior bankers, and support staff). The importance to maintain proper filings of TC operations is highlighted in Section 1 of this Appendix and repeated in the main text in Section 4.3.3.

5.3 Consultant Performance

Consultant Performance, obviously as well, plays a crucial role in the delivering mechanism of TCs. Apart from the consultants own capabilities and capacities, there appear to exist no, *prima facie*, clear merits of detailed and rigid execution-oriented versus more flexible result-oriented terms of reference (TOR). It all boils down to factors including the very nature of the TC assignment, aspects referred to under the two previous points, consultants' experience in similar working environments, leadership ability by the lead-consultant, and, not to forget, "luck". More specifically, this year's findings highlighted the link between Bank Handling and Consultant Performance, particularly the importance of TOR design and timing of TCs. Subdividing a TC in several phases, with the 'going-ahead' for the follow-on phase made conditional of the success of the predecessor phase, is a powerful instrument allowing the Bank to effectively supervise TC implementation. For instance, the occasionally observed reluctance of OLs (including for actual or perceived legal reasons) to terminate a TC before its completion, where warranted, can be mitigated by a phased approach. An associated obvious down-side of this approach is that resultant smaller contracts may face difficulties to attract the right calibre of (particularly international) consultant interest or that this involves additional workload for Bank staff. Since the quality of TC assignments should take precedence for many (including 'value-for-money') reasons, EvD believes that the advantages of "phasing" over-ride its potential detriments.

OTHER RECOMMENDATIONS IN RESPECT OF SPECIAL STUDIES ON MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES (MSME)

The recommendations below are a continuation of the recommendations presented on the MSME special studies presented in Section 5.1 of the main text of the AEOR for 2005.

1. Distinguish between the selection of managers and the selection of service providers in the design of future projects. If possible the selection of service providers for activities such as training should be the responsibility of the manager. The responsibilities of management and the provision of consulting services, such as training, should be separated to avoid goal conflicts and conflicts of interest and should be performed by parties who are not related.

2. In future cases the EBRD should weigh carefully the balance between incentives and monitoring as tools to maximise consultant performance. Consultants, whether individuals or consulting firms, receive fees as remuneration for their services which are normally provided for a finite period as specified in the consultant's contract. The Bank, as Principal, monitors the consultant's performance and final payment is dependent upon the satisfactory completion of the defined tasks. The award of share options to service providers should be avoided since this may lead to confusion of the roles of principal and agent with consequent moral hazard situations.

3. The business model and business plans of the micro-finance institutions (MFIs) should be rigorously tested. The EBRD should not participate in the launch of new MSE bank operations on any scale until the model's capacity for sustainable market-based financial intermediation and the exit prospects have been more thoroughly tested.

4. Prior to participating in the launch of new micro and small enterprise (MSE) banks, the EBRD should assess the viability of using existing structures to achieve micro credit outreach. Alternative approaches may be more cost effective and entail less risk than establishing a licensed bank. They include developing downscaling programmes with existing local banks and offering refinance facilities to creditworthy NGO-run MFIs or other suitable non-bank microfinance structures.

5. The profitability (revenue less associated costs, contribution to earnings) of each MFI product should be assessed. Critically, the licensed banks already have a profile that is closer to that of full-service banking than that of a delivery mechanism for micro credits. The findings of the special study suggest that there is an unknown degree of cross-subsidisation among products.

6. Consideration should be given to requiring TC beneficiaries to repay funds received if financial performance is significantly better than expected when TC operations are approved. For example, a condition of future TC operations should be that the beneficiary will repay TC funds if profits exceed a specified level and/or before any distributions to shareholders whether in the form of dividends or the capitalisation of earnings, within, say, a three-year period of TC disbursement.

7. Measures should be taken to improve and streamline TC performance monitoring and reporting in respect of MFI assignments.

- The statement of objectives should include clear targets and milestones rather than a general expression of requirements.
- Detailed reporting requirements should be set out clearly in terms of reference.

When similarly profiled assignments are undertaken with different institutions across the region, an effort should be made to standardise as much as possible the form and content of reporting by the consultant(s) to enhance comparability.

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 2004)

All investment operations	No.	%	MEUR	%
Bank Portfolio				
Board-approved	1,241.4	109%	28,847	114%
Signed	1,139.8	100%	25,322	100%
12 Months + Past Board Approval	1,088.7	96%	24,510	97%
Of which subject to Evaluation				
Total ready for Post-Evaluation	633.5	56%	12,313	49%
With OPER Reports	247.3	22%	5,915	23%
With XMR Assessment	248.7	22%	3,733	15%
With XMR Review	137.5	12%	2,665	11%

PRIVATE SECTOR	No.	%	MEUR	%
Bank Portfolio				
Board-approved	896.1	110%	22,079	117%
Signed	811.3	100%	18,890	100%
12 Months + Past Board Approval	786.2	97%	18,503	98%
Of which subject to Evaluation				
Total ready for Post-Evaluation	532.9	66%	9,709	51%
With OPER Reports and Special Studies	219.3	27%	5,063	27%
With XMR Assessments	211.6	26%	2,881	15%
With XMR Review	102.0	13%	1,765	9%

PUBLIC SECTOR	No.	%	MEUR	%
Bank Portfolio				
Board-approved	215.3	105%	6,768	105%
Signed	205.7	100%	6,432	100%
12 Months + Past Board Approval	192.2	93%	6,007	93%
Of which subject to Evaluation				
Total ready for Post-Evaluation	100.6	49%	2,603	40%
With OPER Reports	28.0	14%	852	13%
With XMR Assessments	37.1	18%	852	13%
With XMR Review	35.5	17%	900	14%

Source: Data Warehouse and Board Monthly Information Report, December 2004

Table 1 outlines EvD's evaluations of investment operations against the Bank's total investment operations portfolio at the end of 2004. The investment operation count applied by EvD corresponds to 197 Operation Performance Evaluation Reviews (OPERs), seven Special Studies

[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.

on specific operations, 239 Expanded Monitoring Report (XMR) Assessments and 136 XMR Reviews carried out during 1993-2004, in total 579 ready operations[2].

1.1 PORTFOLIO PROFILE AND EVALUATION COVERAGE

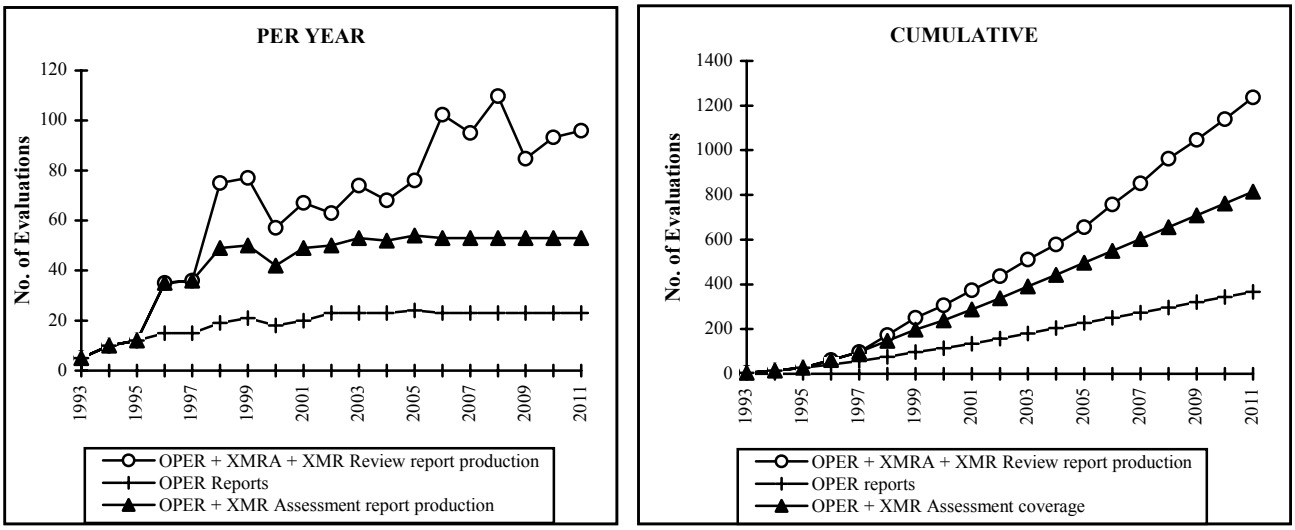
1.1.1 Part of the portfolio ready for evaluation.

By the end of 2004, 633.5 investment operations (532.9 private sector and 100.6 state sector) were judged ready for post-evaluation (in accordance with prevailing Operations Manual (OM) procedures). In total 197 OPERs, sseven Special Studies on specific operations, 239 XMR assessments and 136 XMR Reviews cover 100 per cent of operations ready for post-evaluation up to 2004 (this equates to 894 distinct operation identity numbers being evaluated). Twenty three OPERs on investment operations were produced in the 2004 plan (comprising only 34 per cent of operations ready for post-evaluation). Therefore, a selection process for the 23 OPERs 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 is predicted to rise to 96 per year in 2011. However, in reality these operations may well be more evenly distributed over the adjacent years. For 2005 the total number of operations identified as ready for post-evaluation is 76.

Chart 1: OPER Coverage of Investment Operations Ready for Post-Evaluation 1993-2011



1.2 OVERVIEW OF THE INVESTMENT EVALUATION DATABASE

1.2.1 Timing of the evaluations.

The 633.5 operations were evaluated, on average, 20 months after final disbursement of the Bank's investments and 49 months after Board approval. In 2004, EvD implemented a new

[2] In total 199 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.

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, five months after early operating maturity and EvD has published independent evaluation reports, where applicable, an average of 10 months after early operating maturity.

Eight per cent of operations were appraised and Board-approved during the first and second year of the Bank's existence when little institution quality control had been established and the Bank's learning curve was still at an early stage. The high attrition of Bank staff is another 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 663.5 operations subjected to OPERs, Special Studies, XMR Assessments and XMR Reviews - and therefore the operations' performance ratings, patterns and lessons summarised in this Report - comprise a growing portion of the Bank's Board-approved portfolio. By the end of 2004 it had reached a cumulative evaluation coverage level of 56 per cent of the total number of signed operations and 49 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).

1.2.3 The composition of the evaluated portfolio.
Among the 453.8 independently evaluated loan investments, 99.6 facilities are fully pre-paid and 97.3 facilities are fully repaid, while 11.5 operations have been written off. Of the *equity investments*, 14.2 operations have been written off, 88.2 operations have fully divested facilities and 55.2 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 (1.4 per cent), Armenia (0.5 per cent), Azerbaijan (1.7 per cent), Belarus (1.0 per cent), Bosnia & Herzegovina (1.3 per cent), Bulgaria (4.6 per cent), Croatia (4.6 per cent), Czech Republic (3.7 per cent), Estonia (4.9 per cent), FYR Macedonia (1.9 per cent), Georgia (2.0 per cent), Hungary (7.0 per cent), Kazakhstan (1.6 per cent), Kyrgyz Republic (1.4 per cent), Latvia (2.9 per cent), Lithuania (2.7 per cent), Moldova (1.9 per cent), Poland (11.8 per cent), Romania (7.7 per cent), Russian Federation (14.9 per cent), Serbia and Montenegro (0.8 per cent), the Slovak Republic (4.8 per cent), Slovenia (3.5 per cent), Tajikistan (0.6 per cent), Turkmenistan (0.5 per cent), Ukraine (5.2 per cent) and Uzbekistan (1.7 per cent), besides Regional operations (3.5 per cent);

[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.

- *Operation Teams.* Fourteen sector teams have been covered, and all three regional business groups, besides Corporate Recovery;

- *Industries* (according to Bank standard industry name). In total 56 industries were covered;

- *Investment types.* 52 per cent are straight senior debt operations, 24 per cent are ordinary share investments, 12 per cent are a combination of ordinary shares and senior debt, two per cent are straight subordinated debt, three per cent are a combination of senior debt and subordinated debt, the remaining percentage are a combination of the investment products above and guarantees, preference shares, other on balance sheet debt-style 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.

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)

EQUITY FUND
TRANSITION IMPACT ANALYSIS

	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]**
1	**Private Ownership:** *The companies in which the Fund has invested to date have all been 100 per cent privately owned, although the investment policy permits the purchase of shares in companies with up to 49 per cent State ownership.*	**Good**	**Good**	**Low**
2	**Know How:** *There has been strong transfer of know- how from the partners concerning the venture capital investment cycle. There has also been skills transfer between the Fund staff and investee companies not only on managerial concepts (governance, marketing and accounting) but also on venture capital processes (investment agreement and exit strategy). Also evidenced is the transfer of knowledge by consultants on various subjects, especially through marketing studies and MIS advice.*	**Good**	**Good**	**Low**
3	**New standards for business conduct at enterprise level:** *The Fund has screened a large number of potential investee companies. To be considered the companies had to prepare and document a business plan and satisfy requests for other information. Enquiries suggest that a good number of the screened companies have continued to use the business plan as a management tool, even though they were not selected for investment.*	**Good**	**Good**	**Low**
	STEP II: TRANSITION IMPACT AT INDUSTRY LEVEL AND ON THE ECONOMY AS A WHOLE			
1	**Competition:** *The hands-on approach of the Fund managers has stimulated competition by increasing the efficiency of investee companies which have for the most part gained increasing market shares. Competitors have been obliged to reassess their market strategies and approaches to customers.*	**Good**	**Good**	**Low**
2	**Market expansion via competitive interaction in the sector and industry:** *Investee companies that have improved their internal operations and procedures demand more effective performance from their suppliers. Customers benefiting from more efficient service seek similarly improved standards of service from other companies.*	**Good**	**Good**	**Low**
3	**Frameworks for markets; institutions, laws and policies that promote market function and efficiency:** *The Fund is helping to introduce and prove the viability of equity finance for SMEs in a transition environment, thereby establishing the principles of equity finance in the region. The Fund manager is an active participant in conferences and seminars on equity finance and financial sector issues.*	**Good**	**Good**	**Low**
4	**Skills transfer and dispersion to the industry and economy as a whole:** *The Fund stimulates the improvement of management practices in the industries in which it invests. The upgrading of technical and managerial skills by investee companies increases the pool of skills available in the areas in which the companies operate.*	**Satisfactory**	**Good**	**Low**

[1] **Ratings Scale**: ***Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Negative, N/A.***
[2] **Ratings Scale**: ***Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Negative, N/A.***
[3] **Ratings Scale:** ***Low, Medium, High, Excessive, N/A***

5	**Demonstration effects; transfer of new behaviour and patterns:** *The Fund is demonstrating that private equity funding can lead to improvements in the operational and financial performance of investee companies with greater potential rewards for their private owners as a result.*	**Satisfactory**	**Good**	**Low**
6	**New standards for business conduct:** *The Fund managers have encouraged local companies to abandon certain non-transparent schemes for example in procurement. Standards of behaviour are to a certain extent conditioned by local established practices which may take some time to overcome. The Fund manager's direct involvement in the governance of investee companies and the Fund's objective of seeking exit through sale to incoming strategic investors should bring about continuing improvements in business standards.*	**Good**	**Good**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Good**	**Good**	**Low**
	OVERALL TRANSITION IMPACT RATING:[4] *The Fund is demonstrating that in a transition environment equity finance for well-chosen SMEs can be effectively combined with technical assistance to improve the operational and financial performance of investee companies. A growing demonstration of good business conduct can be expected, although it will take time for sound governance to take root in the broader environment. The availability of TC funds for well-targeted pre- and post-investment consultancy has enabled the fund managers to screen potential investees carefully and provide ongoing support. As with any venture capital exercise, there are external and internal risks that may not be identifiable at appraisal. However, the Fund's approach to selecting companies capable of being groomed for later sale to a strategic investor is designed to mitigate both the risks to the Fund's financial success and the risks to transition impact. The involvement of strong strategic investors should help ensure that the TI benefits that accrue during the Fund's involvment in investee companies continue to grow when the Fund exits.*	***GOOD***		

[4] **Ratings Scale:** ***Excellent, Good, Satisfactory, Marginal, Unsatisfactory, Negative.*** The **Overall Rating** is not an arithmetical mean of individual ratings, since verified impact weighs more than potential impact.

AN INDEPENDENT OIL COMPANY
TRANSITION IMPACT ANALYSIS

	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:** *Although the project has not altered the balance of State ownership via the State-owned oil company, the production sharing agreement has improved the attractiveness of investing in onshore operations to small independent foreign companies.*	**Good**	**Good**	**Low**
5	**Skill transfers:** *Expatriates make up a small proportion of the staff of the company overall. The sponsor has a strong record introducing new production technology and training local staff appropriately.*	**Good**	**Good**	**Low**
6	**Demonstration effects:** *The project has introduced new technologies and best-practice management which is reflected in such matters as health and safety policies, procurement practices and environmental performance.*	**Good**	**Good**	**Low**
7	**New standards for business conduct:** *There have been significant improvements in technical and environmental standards, procurement practices, staff training and personnel practices.*	**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 is expected to assist the company in becoming a low cost producer, thus improving its competitiveness and setting a sound example for the industry.*	**Satisfactory**	**Satisfactory**	**Low**
2	**Market expansion:** *The project has established strong linkages with suppliers of goods and services. Drilling and much rehabilitation and environmental work are sub-contracted, expanding the range of opportunities for suppliers, including local suppliers, who are carefully monitored to ensure compliance with best practice.*	**Good**	**Good**	**Low**
3	**Private ownership:** *The conversion of the Joint Venture structure to Production Sharing Agreement improved the appeal of the project for foreign private investment. While the State retains a substantial financial interest in the project, the PSA structure achieves a more satisfactory balance of risks and rewards thus encouraging private investment.*	**Good**	**Good**	**Low**
4	**Frameworks for markets:** *The project has shown that the JV structure can be converted successfully to a PSA, increasing the supply of inward investment in the process.*	**Good**	**Good**	**Low**
5	**Skills transfer:** *The project includes what has become the most intensively and successfully reworked field in the region. The introduction of advanced field rehabilitation techniques is spreading technical skills in the industry.*	**Good**	**Good**	**Low**
6	**Demonstration effects:** *The conversion of a second JV to PSA is under way and the responsible State body has announced its intention of securing the conversion of remaining onshore JVs, illustrating the strong demonstration effect of the project.*	**Good**	**Good**	**Low**

7	**New standards for business conduct:** *The company operates transparently with sound management and governance practices that are still uncommon in this environment.*	**Good**	**Good**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Good**	**Good**	**Low**
	OVERALL TRANSITION IMPACT RATING:	***GOOD***		

A CONSUMER FINANCE BANK
TRANSITION IMPACT ANALYSIS

	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 was established in as a wholly private institution.*	n/a	n/a	n/a
5	**Skills transfer:** *Beginning with a specially designed business model and credit scoring system, the bank has built a strong skills base in consumer finance. The risk to potential TI may be influenced by regulatory developments.*	Good	Good	Low/ Medium
7	**New standards for business conduct:** *The bank has set standards for customer services and sound management in the nascent consumer finance sector.*	Good	Good	Low/ Medium
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	Rating	Rating	Rating
1	**Competition:** *The bank has been followed by a number of new entrants to the market attempting to emulate its success. The bank remains the market leader.*	Good	Good	Low
2	**Market expansion:** *Consumer loan penetration in the market remains low. As a result of the bank's success the market is expanding in depth and geographically.*	Good	Good	Low
4	**Frameworks for markets:** *To date the consumer finance market in the country has been largely unregulated. The experience and example of the Company is expected to lead to the creation of a body of regulation and/or legislation governing the sector.*	Good	Good	Low
6	**Demonstration effects:** *The project has had visibly strong demonstration effects evidenced by the entry to the market of a number of significant players, some of whom have foreign backing.*	Good	Good	Low
7	**New standards for business conduct:** *With strong management and sound governance the bank has set standards for the industry. While in the area of loan documentation there is room for further improvement compared with international standards and regulated markets, the bank has shown that it is responsive to concerns expressed and willing to amend procedures to reflect accepted good practice.*	Good	Good	Low/ Medium
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	Good	Good	Low/ Medium
	OVERALL TRANSITION IMPACT RATING:	***GOOD***		

A POWER PROJECT
TRANSITION IMPACT ANALYSIS

	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:** *Initial privatisation took place without the Bank's involvement, but Bank supported take-over of Project assets by committed local investor, a situation which was maintained also after restructuring processes took place.*	**N/A**	**N/A**	**N/A**
5	**Skill transfers:** *Project helped transfer valuable expertise and skills*	**Satisfactory**	**Satisfactory**	**Medium**
7	**New standards for business conduct:** *Project company achieved higher technical standards (operation and maintenance of facilities, environmental protection) but failed to improve performance in key business areas.*	**Marginal**	**Satisfactory**	**Medium**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition:** *Markets for heat are monopolistic and subjected to regulation. The Project Company supplies electricity mainly to captive consumers and does not contribute to more competition on the sector level*	**Marginal**	**Marginal**	**Low**
2	**Market expansion:** *Competition plays no role in the expansion of heat markets. The scope for The Project Company to expand electricity markets in a competitive environment is limited.*	**Marginal**	**Marginal**	**Low**
3	**Private ownership:** *Initial privatisation took place without the Bank's involvement, but Bank supported take-over of Project assets by committed local investor, a situation which was maintained also after restructuring processes took place.*	**N/A**	**N/A**	**N/A**
4	**Frameworks for markets:** *TC focusing on tariff methodology had limited impact on sector reforms; lack of adequate tariff increases contributed to oust foreign sponsors; regulatory arrangements inadequate.*	**Unsatisfactory**	**Marginal**	**Low**
5	**Skills transfers:** *Skill transfer helped improve the tariff filing and approval process.*	**Satisfactory**	**Satisfactory**	**Low**
6	**Demonstration effects Demonstration effects:** *Step II,3 in combination with project restructuring needs and political involvement send negative demonstration effects.*	**Negative**	**Satisfactory**	**Medium**
7	**New standards for business conduct:** *Adverse regulatory conditions and lack of political support prevented the Project from setting sector-wide standards for good business conduct and corporate governance.*	**Marginal**	**Satisfactory**	**Medium**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Marginal**	**Satisfactory**	**High**
	OVERALL TRANSITION IMPACT RATING:	***MARGINAL***		

A RESTRUCTURING LOAN
TRANSITION IMPACT ANALYSIS

	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 Company is majority state owned and it is expected that after restructuring some of the unbundled parts will be majority privately owned.*	**N/A**	**N/A**	**N/A**
5	**Skill transfers:** *Adoption of transparent procurement rules within the entire Organisation as new standard, the Fund assisted various energy companies with emissions inventory and preparing a project pipeline in the context of carbon credits.*	**Excellent**	**Excellent**	**Low**
6	**Demonstration effects:** *Since The Company is the holding company with majority stakes in the energy company, significant demonstration effects are expected.*	**Good**	**Excellent**	**High**
7	**New standards for business conduct:** *Restructuring Working Group open to minority shareholders, the WG functions widened beyond the restructuring issues to wider strategic development issues The Company.*	**Good**	**Good**	**Medium**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition:** *Unbundling to be completed in 2005. Up to 15% of the wholesale market is already open to competition, but the model of partial market opening somehow limited.*	**Satisfactory**	**Good**	**High**
2	**Market expansion:** *Technical rehabilitation of a substation supports electricity exports to another country. Wider potential of expanding to other markets.*	**Good**	**Good**	**Low**
3	**Private ownership** *(see above)*	**N/A**	**N/A**	**N/A**
4	**Frameworks for markets:** *Government reform efforts slower than expected at the outset, however new laws on regulation enacted and sector reform in progress. TC support to regulator contributes to improved framework.*	**Good**	**Good**	**Medium**
5	**Skills transfers:** *Impact on regional energy companies* *- replication of the procurement rules in all energy companies* *- Energy Carbon Facility skills transfer to energy companies*	**Excellent**	**Good**	**Low**
6	**Demonstration effects:** *The Company as an example to energy companies.*	**Good**	**Good**	**Medium**
7	**New standards for business conduct:** - *WG created increased transparency* - *open tendering* - *international audit and accounting standards*	**Good**	**Good**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Good**	**Good**	**High**
	OVERALL TRANSITION IMPACT RATING:	***GOOD***		

A TELECOMMUNICATIONS COMPANY
TRANSITION IMPACT ANALYSIS

	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 new company privately owned from the outset.*	N/A	N/A	N/A
5	**Skill transfers:** *Most expatriates were quickly phased out and replaced by local, trained staff.*	Good	Good	Low
6	**Demonstration effects:** *See above.*	N/A	N/A	N/A
7	**New standards for business conduct:** *See above.*	N/A	N/A	N/A
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	Rating	Rating	Rating
1	**Competition:** *Very much increased, incumbent responded positively. 50% market share duopoly risk.*	Good	Satisfactory	Low
2	**Market expansion:** *Innovative new products also copied by competitor. Increase in geographical coverage and introduction of pre paid cards contributed to market expansion.*	Excellent	Excellent	Low
3	**Private ownership:** *Foreign investors have increased their ownership in the sector above management control.*	Good	Good	Low
4	**Frameworks for markets :** *Project had no specific component addressing the inadequate regulation, lagging behind EU/WTO requirements.*	Marginal	Marginal	Medium
5	**Skills transfers:** *The Company started with 50 expatriates and reduced them to a few. Some rotation to other companies of Senior Managers and staff. Another telecommunications company also sent expatriates to counter the competitive threat.*	Good	Good	Low
6	**Demonstration effects:** *Payment behaviour by the customers improved. Due to The Company's strong brand awareness, the competition responded forcefully.*	Good	Good	Low
7	**New standards for business conduct:** *Highly motivated management, management of human capital, striving for excellence of a company from this nation, top brand recognition.*	Excellent	Excellent	Low
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	Good	Satisfactory	Medium
	OVERALL TRANSITION IMPACT RATING:	***GOOD***		

INSURANCE
TRANSITION IMPACT ANALYSIS

	STEPS OF RATING TRANSITION IMPACT *EX POST*	Short-term verified impact	Longer-Term transition impact potential	Risk to potential TI
	I: CHANGE BY THE PROJECT AT CORPORATE LEVEL	Rating	Rating	Rating
3	**Private ownership:** *In 1999 EBRD acquired a stake in an insurance group, later exchanged for shares in the holding company. The Insurance Group acquired control of a state owned composite insurer and a private pension provider.* *EBRD completed a partial exit from the Holding Company, and later the controlling shareholder exercised its call option in respect of the Bank's shares.*	**Excellent**	**Excellent**	**Medium**
5	**Skill transfers:** *The investment by EBRD in supporting the Company, which has a strong presence in the pensions and non-life sectors, has enabled the Company to demonstrate very clear and developing management structures with a carefully managed approach to selling through its agents and brokers. The company has created good opportunities for skills transfer through its comprehensive training programmes.*	**Excellent**	**Excellent**	**Low**
6	**Demonstration effects:** *The influence of EBRD on the Company is readily observed at Board level where it is acknowledged that standards of corporate governance have been raised significantly.*	**Good**	**Good**	**Low**
7	**New standards for business conduct:** *EBRD assisted in raising standards of corporate governance at Supervisory board level, gave strategic guidance from a general corporate finance and industry perspective and influenced positively at Board meeting level, agenda, financial and internal controls. Market practices may require review.*	**Good**	**Good**	**Low**
	II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	Rating	Rating	Rating
1	**Competition:** *The Group has been able to capitalise on first mover advantage. The market is heavily concentrated.*	**Good**	**Good**	**Low**
2	**Market expansion:** *The total market is still small, but it is being developed within a strengthening regulatory environment and is beginning to grow strongly.* *The regulatory environment is less well developed but insurance business has outpaced relatively high inflation since 1998. Also, the industry has created thousands of jobs in the brokerage segment.*	**Good**	**Good**	**Low**
3	**Private ownership:** *Country A: At 2004 the market has essentially been privatised. The advent of the Company and the financial equity and loan support of EBRD gave a strong impetus to privatisation and confidence on the part of other companies to invest.* *Country B: The market is still underdeveloped, although most companies have now been privatised. Legislative change has been uneven and initially low capital requirements permitted the entry of large numbers of companies. Low financial intermediation has hampered private sector development. There is a lack of insurance culture and legislation and supervision require improvement.*	**Excellent**	**Excellent**	**Medium**

4	**Frameworks for markets:** *Country A: Progress has been made to the development of legislation, but implementation presents problems. The Supervisory Commission however, has established reporting structures which provide it with regular key information on technical reserving and solvency levels. Pensions reform has made good progress with the final phase scheduled for January 2005.* *Country B: The State Pensions system is subject to ongoing reform and is based on a 3 pillar system. It lacks impetus at this stage and it will be some years before it is fully operational.*	**Good**	**Good**	**Low**
5	**Skills transfers:** *Professional and management skills introduced by the entry of foreign companies to the market leads to benefits in the economy as the market develops. All of the companies in the market have well defined training schemes and plans for staff within their own companies and this extends to their brokers and agents.*	**Good**	**Good**	**Low**
6	**Demonstration effects:** *The Company's role on industry bodies, participation in the working party reform group and in expansion through leasing and credit and investment companies has made a demonstrable contribution to the economy. The investment has supported the privatisation of a former state company giving vital support to the developing economy while in the case of another assisting that company to develop private pensions business while simultaneously helping to provide an alternative to the state social security system.*	**Good**	**Good**	**Low**
7	**New standards for business conduct:** *The influence of EBRD to corporate governance would be well known. The management team at the Company set high standards of achievement and would have been a prime mover at Industry Association level and with the regulator.*	**Good**	**Good**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Good**	**Good**	**Low**
	OVERALL TRANSITION IMPACT RATING:	***GOOD***		

AUTOMOTIVE INDUSTRY
TRANSITION IMPACT ANALYSIS

	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 Local Partner was already privatised at the time the JV was set up. The partnership with the International Sponsor had no incremental impact from this standpoint.*	N/A	N/A	N/A
5	**Skill transfers:** *The project introduced a new process for assembly lines based on the International Sponsor's standards and lean manufacturing methodology which required intensive training of staff and was successfully implemented. The JV is dedicated to on-going training in every aspect of the company management. This was observed in engineering, IT with the introduction of SAP and purchasing. The implementation and monitoring of quality standards also require special skills not commonly used in the domestic automotive industry. As new models are introduced, it can reasonably be expected that such high standards of in-house training are maintained.*	Excellent	Excellent	Low
6	**Demonstration effects:** *The uncompromising implementation of the International Sponsor's standards contributed to the highly visible timeliness of Start of Production. Employee turnover is low by the Country's standards, notwithstanding high expectations from management on productivity. Staff stability is essentially due to better working conditions, high standards of health and safety and on-going involvement at all levels of employment through training and the setting of clear and measurable targets.*	Excellent	Excellent	Low
7	**New standards for business conduct:** *The International Sponsor's standards have been implemented throughout the JV. Financial reporting is under US GAAP (soon to switch to IFRS). All major decisions are taken by the Board where the Bank plays a significant role as independent arbitrator of potential conflicts. The JV has in place very strict purchasing procedures and staff selection and training in this area warrants that purchasing decisions are free of outside interference, with heavy reliance on the International Sponsor's central purchasing unit. The JV is operating in a difficult environment and it had to face incidents of theft and poor security eventually leading to the murder of an employee. Management has taken all possible steps to remedy this situation which may still give cause for concern as its roots are not under the control of the JV itself. Standard improvements will be increasingly challenging to uphold in the longer term if an increase in size of the JV is compounded with an eventual management succession.*	Good	Satisfactory	High

	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	Rating	Rating	Rating
1	**Competition:** *The production of one of the new models raised significantly the quality standards for domestically manufactured cars. Other foreign manufacturers have to invest in the Country in order to overcome stiff import duties. A different model may not however prove as competitive as the new one, which combines the advantages of highly localised cost and advanced Western lean production techniques. The impact is felt at company level which is introducing improved comfort and safety features in its new models to enhance their marketability as well as among foreign OEMs who have announced an upgrading of their domestically manufactured products. With plans for doubling of the JV's production over the next two years, positive impact on competition will not be short lived. However, in the longer term, the JV should be facing competition from foreign OEMs at which point standards for competition are more likely to be set by such newcomers.*	**Excellent**	**Good**	**Low**
2	**Market expansion:** *The project satisfies demand for higher quality vehicles in the Country and stimulates competition to add higher value models to their offer. There is a distinct trend for suppliers to invest in manufacturing facilities in order to follow OEMs. While this may not yet be felt in the one region, the success of the JV is a contributor to this emerging trend. Most significantly, the currently envisaged power train plant will add investments and jobs in the region while helping to localise even more the content of the JV's products, including those for export. The JV also had positive forward linkages with the increase in the dealership network.*	**Good**	**Excellent**	**Low**
3	**Private ownership**	**N/A**	**N/A**	**N/A**
4	**Frameworks for markets:** *By anticipating on emission controls standards for locally marketed cars, the JV has stimulated a similar attitude from competitors and from the Local Partner. It purchases quality components and parts from selected suppliers who have to achieve ISO validation before qualifying as the International Sponsor's/Local Partner's supplier. In turn, tax exemptions which had been agreed for imports of parts have not been effectively implemented. This resulted in delays in starting up the model and requires systematic lobbying at national level supported by the Bank's policy dialogue at the highest level of government. Anticipations are that this should improve over time.*	**Satisfactory**	**Good**	**Medium**
5	**Skills transfers:** *The impact of the JV is felt to a large extent with its partner as well as with suppliers and dealers. The Local Partner has introduced new body safety developments, helped by the International Sponsor's engineers seconded to the Local Partner for this purpose. By attempting to replicate the International Sponsor's standards in the newly built assembly line for the Assembly Line, it will introduce a large degree of lean manufacturing process. The Local Partner is also implementing for its own products quality controls according to the International Sponsor's model. This is made possible through regular training provided by the International Sponsor for staff of the Local Partner. Dealers are intensively trained in the area of marketing, after sales and financial planning. Suppliers are regularly invited to visit the JV to better evaluate the quality requirements to be met. One former JV employee joined a seat manufacturing company and improved the supplier's performance to the JV by implementing skills acquired under the International Sponsor's management.*	**Excellent**	**Excellent**	**Low**

6	**Demonstration effects:** *The JV is setting an example through quality standards which are replicated to some extent by its partner but are also having an impact beyond the Local Partner.* *The new Assembly Line which the Local Partner claims to have operating is strongly inspired by the International Sponsor's model, including use of the same contractor and of facilities meeting the highest standards achieved at the JV. It should be noted that while a number of specific changes in management and investments in higher performing assets have taken place at the Local Partner, the overall management of the company is unlikely to be turned around for some time. It is also difficult to assess whether beyond superficial improvements, the Local Partner's corporate governance has been seriously impacted.* *The JV established an excellent mode of communication with the local authorities which in the opinion of the Mayor has been replicated by other foreign companies. Similarly, the strong sense of leadership of the JV's general manager has allegedly set an example among local companies.*	**Good**	**Good**	**Low**
7	**New standards for business conduct:** *While the OL reports distinct signs of improvements in the Local Partner's corporate governance, it remains to be seen whether the prevailing environment of corruption, life threatening practices and lack of transparency can be improved in a reasonable time horizon. The Local Partner is conducting business with its partner and the Bank in compliance with acceptable business standards and is for instance introducing improved purchasing techniques under the International Sponsor's influence. On the other hand, unexplained murders related to spare parts traffic are taking place and do not appear to be investigated or prosecuted with all the vigour that such criminal activity would deserve.*	**Marginal**	**Satisfactory**	**High**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS *Note: The overall rating is based on the impact of the JV in which the Bank has invested. Negative aspects of the difficult environment outside the JV's control are not reflected in this rating except for any interaction owed to the Project under evaluation.*	**Excellent**	**Excellent**	**Medium**
	OVERALL TRANSITION IMPACT RATING:	***EXCELLENT***		

WATER AND WASTE WATER UTILITY PRIVATISATION
TRANSITION IMPACT ANALYSIS

	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 Company is a fully privatised internationally owned private regulated utility.*	Excellent	Excellent	Low
5	**Skill transfers:** *With a small international management team, the company is otherwise based on a national team. International staff provide on the job training, the Owner, provides additional training to staff.*	Excellent	Excellent	Low
6	**Demonstration effects**: *Through this project, the Owner has an example of a highly successful privatisation other regions.*	Excellent	Excellent	Low
7	**New standards for business conduct:** *The Company publishes an Annual Plan, and is audited in accordance with the Country's Accounting Law and the standards issued by the Country's Accounting Standards Board, and the parent company is a publicly traded company.*	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 Owner purchased the Company through an international competitive process.*	Excellent	Good	Low
2	**Market expansion:** *Other water and waste water utilities in the Country remain under municipal or State ownership. The Company is considering expanding to adjacent communities.*	Good	Good	Medium
3	**Private ownership:** *The Company remains the only private water and wastewater utility in the Country.*	Good	Good	Medium
4	**Frameworks for markets:** *This project is the result of a full privatisation of a previously municipal owned water and waste water utility. It is now regulated by a separate regulator within the municipality. It is thus providing a basis of experience for additional privatisations in the Country.*	Good	Satisfactory	Medium
5	**Skills transfers:** *The Company team is recognized as being well qualified and well paid and as a result there has been little staff turn-over. Thus while skill transfer within the Company is high (see above) the skills transfer to the country is more limited.*	Good	Good	Low
6	**Demonstration effects:** *The Company is the only water utility privatised in the Country; however, the Government is considering additional privatisations. This project also serves as a model for regional neighbours.*	Good	Good	Medium
7	**New standards for business conduct:** *The Company's transparency with respect to its accounting procedures sets a best practice example for others companies in the Country.*	Excellent	Excellent	Medium

	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Good**	**Good**	**Low**
	OVERALL TRANSITION IMPACT RATING:	***GOOD***		

RAILWAYS MODERNISATION PROJECT
TRANSITION IMPACT ANALYSIS

	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**
1	**Private Ownership:** *The Project, as believed, contributed significantly towards the commercialisation (not privatisation) of the Railways through TC-induced policy dialogue. There is a high degree of uncertainty that the momentum for change developed so far be continued and strengthened.*	**Good**	**Good**	**High**
2	**Know How:** *Impact was impressive. Considerable changes in operational practices were induced.*	**Good**	**Excellent**	**Low**
3	**New standards for business conduct at enterprise level:** *The introduction of competitive bidding procedures and international accounting standards form the main basis for good achievements in this category.*	**Good**	**Good**	**Low**
	STEP II: TRANSITION IMPACT AT INDUSTRY LEVEL AND ON THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition:** *Move towards commercialisation took place independently, but no strive for privatisation was intended under the Project.*	**N/A**	**N/A.**	**N/A.**
2	**Market expansion via competitive interaction in the sector and industry:** *The Project successfully induced joint venture and local production/assembling undertakings.*	**Excellent**	**Good**	**Low**
3	**Frameworks for markets; institutions, laws and policies that promote market function and efficiency:** *Albeit not instrumentally influencing, but the Project did positively contribute to the reform process.*	**Good**	**Good**	**Medium**
4	**Skills transfer and dispersion to the industry and economy as a whole:** *[Company and Sector Level identical, same as Step I,2]*	**Good**	**Excellent**	**Low**
5	**Demonstration effects; transfer of new behaviour and patterns:** *[Covered under above criteria Step II, 2 and 3]*	**N/A**	**N/A**	**N/A**
6	**New standards for business conduct:** *[Same as Step I,3]*	**Good**	**Good**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Good**	**Good**	**Medium**
	OVERALL TRANSITION IMPACT RATING:	***GOOD***		

TOURISM INDUSTRY
TRANSITION IMPACT ANALYSIS

	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 Company was private-sector-owned before the Project was conceived.*	N/A	N/A	N/A
5	**Skill transfers.** *Operation and management know-how was and is being transferred from the Western operator to local staff.*	Good	Good	Low
6	**Demonstration effects.** *No demonstration effects attributable to this Project towards other operations of the Sponsor can be ascertained.*	N/A	N/A	N/A
7	**New standards for business conduct.** *Western business standards, in line with expectations by the predominantly Western tourism clientele, have been introduced and are maintained.*	N/A	N/A	N/A
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	Rating	Rating	Rating
1	**Competition.** *Competition effects were limited since, at least concerning the Sponsor's operations in the Bank's counties of operation, the Project did not add capacities, but improved services by way of refurbishing pre-project existing facilities.*	Marginal	Satisfactory	Medium
2	**Market expansion.** *Since most inputs and maintenance services (by value and with regard to the overall project) are sourced in Western countries there is little scope for generating forward/backward linkages.*	Marginal	Satisfactory	Medium
3	**Private ownership.** *Fostering of private ownership in the sector was not intended under the Project.*	N/A	N/A	N/A
4	**Frameworks for markets.** *Effects in this respect were limited particularly since mortgaging of by far the largest Project component (in terms of value)in a country of operation, whilst intended, eventually could not be secured.*	Marginal	Marginal	Medium
5	**Skills transfers.** *The Sponsor and its operations set a good example in the sector for appropriately managing and operating respective tourism facilities.*	Satisfactory	Satisfactory	Low

6	**Demonstration effects.** *Improvements of service quality by other local operators in the same sub-sector that occurred almost simultaneously can't clearly be attributed to the Project. Related improvements are believed were mainly driven by external factors rather than Project-induced.*	**Marginal**	**Satisfactory**	**Low**
7	**New standards for business conduct.** *No demonstration effects attributable to this Project towards operations by other related service providers can be ascertained.*	**N/A**	**N/A**	**N/A**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Marginal**	**Satisfactory**	**Medium**
	OVERALL TRANSITION IMPACT RATING:	***MARGINAL***		

ENERGY
TRANSITION IMPACT ANALYSIS

	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 was set up as a private sector joint venture company from the outset.*	**N/A**	**N/A**	**N/A**
5	**Skill transfers:** *It is expected that the Company will play a role as consultant in the structuring of further energy upgrading projects and in this way contribute to skills transfer and dispersion in the industry.*	**Good**	**Good**	**Medium**
6	**Demonstration effects:** *The new joint venture approach and the experienced team of managers have led to positive reactions by all shareholders and it is expected that new roles of the Company are forthcoming in the near future.*	**Excellent**	**Excellent**	**Medium**
7	**New standards for business conduct:** *The Company was set up with a clear and transparent joint venture structure and the basis of the business is regulated tariffs.*	**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 Project has substantially enhanced capacity and efficiency. This should over time also have an impact on other companies.*	**Good**	**Excellent**	**Medium**
2	**Market expansion:** *The demonstration effect of arranging international financing for upgrading facilities should be of interest for other projects and lead to an enhanced role of the Country in energy projects.*	**Excellent**	**Excellent**	**Medium**
3	**Private ownership:** *The Project was set up as a private sector joint venture company from the outset.*	**N/A**	**N/A**	**N/A**
4	**Frameworks for markets:** *The Company works in accordance with the Country's laws however it is expected that the efficiency improvements will have an impact on the rest of the industry.*	**Good**	**Good**	**Medium**
5	**Skills transfers:** *It is expected that the Company will play a role as consultant in the structuring of further projects and in this way contribute to skills transfer and dispersion in the industry.*	**Good**	**Good**	**Medium**
6	**Demonstration effects:** *The new joint venture approach and the experienced team of managers has led to positive reactions by all shareholders and it is expected that new roles of the Company are forthcoming in the near future.*	**Excellent**	**Excellent**	**Medium**

7	**New standards for business conduct;** *The joint venture has adopted transparent business practices which set new standards in this sector and country.*	**Good**	**Good**	**Medium**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Excellent**	**Excellent**	**Medium**
	OVERALL TRANSITION IMPACT RATING:	***EXCELLENT***		

PORT
TRANSITION IMPACT ANALYSIS

	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:**	N/A	N/A	N/A
5	**Skill transfers:**	N/A	N/A	N/A
7	**New standards for business conduct:**	Negative	N/A	N/A
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	Rating	Rating	Rating
1	**Competition:** *Project was not completed.*	Negative	N/A	N/A
2	**Market expansion:** *Project was not completed.*	Negative	N/A	N/A
3	**Private ownership:** *Public sector project*	N/A	N/A	N/A
4	**Frameworks for markets:** *Project was not completed and was unable to break through the obstacles faced in the local context which increased subsequent to a government change.*	Negative	N/A	N/A
5	**Skills transfers:** *None*	Negative	N/A	N/A
6	**Demonstration effects:** *The fact that the Bank was unable to assist the Sponsors and B-Lenders to resolve the project issues due to non-performance of the Government created a potential for a significant reputational risk for the Bank in the local market and in the syndications market*	Negative	N/A	N/A
7	**New standards for business conduct:** *None*	Negative	N/A	N/A
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	Negative	N/A	N/A
	OVERALL TRANSITION IMPACT RATING: *The fact that the project could not be completed despite years of efforts left the Bank with a significant reputational risk. Recent acquisition of the project assets by a new foreign sponsor facilitated the Bank's exit from the project in coordination with the B-lenders and the initial sponsors.*	***NEGATIVE***		

FINANCIAL INSTITUTION TRANSITION IMPACT ANALYSIS

	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 Company began life as a private firm.*	NA	NA	NA
5	**Skill transfers**: *The project reinforced The Company's use of a collateral security structure that expanded on what it was using with other lenders. The project introduced the Company to loan syndication practice, including adhering to conditions precedent regarding security.*	Good	Good	Low
6	**Demonstration effects:** *The project demonstrated that EBRD would not waive a CP at signing, encouraging good discipline by the Company in subsequent compliance and reporting.*	Excellent	Excellent	Low
7	**New standards for business conduct:** *The project improved reporting and compliance by the Company which was already complying with local and western stock exchange disclosure requirements.*	Good	Good	Low
	II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition:** *The project enhanced and attracted competition by supporting the Company's growth momentum and by providing longer term funding than the market during an uncertain time in the Country's leasing market following the collapse of a major competitor.*	Excellent	Good	Low
2	**Market expansion:** *The project helped maintain the Company's growth into vendor sales channels. The Company's lease financing supported expansion of the motor vehicle industry, including dealerships, in the country.*	Excellent	Excellent	Low
3	**Private ownership:** *EBRD's commitment to the Company during uncertain times for leasing firms helped fortify a credit company's acquisition appetite.*	Excellent	Good	Low
4	**Frameworks for markets***: The project had no impact in this area.*	NA	NA	NA
5	**Skills transfers:** *The project, by helping the Company grow profitably, attracted competition to imitate the Company's selling and contracting techniques in the sector.*	Good	Good	Low
6	**Demonstration effects:** *The project, by helping the Company's grow profitably, helped the Company continue to report healthy results as a listed firm, soon attracting a take over by a credit company. This helped demonstrate that sound, transparent business management can reward successful entrepreneurship.*	Excellent	Good	Low
7	**New standards for business conduct:** *The project had no impact beyond that described in Step 1, section 7, above*	NA	NA	NA
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	Excellent	Good	Low
	OVERALL TRANSITION IMPACT RATING:	***EXCELLENT***		

EQUITY FUND
TRANSITION IMPACT ANALYSIS

	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
1	**Private Ownership:** *The Company financed projects for six privately owned SMEs; only two of them have met their obligations to the Company.*	Satisfactory	Satisfactory	Medium
2	**Know How:** *the investment and monitoring processes encouraged acquisition of new skills by the investees most notably in marketing and use of letters of credit for capital goods imports.*	Good	Good	Medium
3	**New standards for business conduct at enterprise level:** *responding to the demands of an outside investor inculcated higher standards of business conduct in the two successful firms. Financial statements were required per the Country's standards but were rarely delivered.*	Satisfactory	Satisfactory	Medium
	STEP II: TRANSITION IMPACT AT INDUSTRY LEVEL AND ON THE ECONOMY AS A WHOLE	Rating	Rating	Rating
1	**Competition:** *The Company's small size and its low success rate, combined with the poor investment climate, limited any TI beyond the sub-projects, including on competition.*	Marginal	Marginal	Low
2	**Market expansion via competitive interaction in the sector and industry:** *The Company's small size and its low success rate, combined with the poor investment climate, limited TI beyond the sub-projects, including on market expansion.*	Marginal	Marginal	Low
3	**Frameworks for markets; institutions, laws and policies that promote market function and efficiency:** *The Company had no impact in these areas.*	NA	NA	NA
4	**Skills transfer and dispersion to the industry and economy as a whole:** *The Company's small size and its low success rate limited skill transfer beyond the sub-projects. It did train two local investment managers who may apply their skills elsewhere in future.*	Marginal	Marginal	Low
5	**Demonstration effects; transfer of new behaviour and patterns:** *The recovery efforts, if pursued vigorously and successfully both directly and via the courts, may demonstrate that investors have rights in the Country. If the successful firms can access new finance from banks (one has), it may demonstrate the value of outside equity as an instrument.*	Marginal	Good	High
6	**New standards for business conduct:** *The Company had no meaningful impact in this area mainly due to the temporary and limited nature of its institutional framework (a donor fund with no ambition or capacity for follow-on).*	Marginal	Marginal	Medium
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	Marginal	Marginal	Medium
	OVERALL TRANSITION IMPACT RATING:	*MARGINAL*		

MUNICIPAL AND ENVIRONMENTAL SERVICES
TRANSITION IMPACT ANALYSIS

	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 Company operates under long term lease contracts which combine the legal requirement that ownership of the assets remain with the municipalities and the advantages of a privately run operation. The foreign sponsor's and the Bank's investment is entirely geared toward rehabilitation of existing equipment and acquisition of better performing assets as opposed to purchasing outdated equipment. The long term sustainability of the investment is largely dependent on the Company's client-oriented approach since its incentive is to demonstrate to its clients that it can offer the most competitive service and is precluded from exiting through assets sale. Since most competitors would rather own the network, this legal impediment may, in the long run, restrict competition. There are no signs that the existing legislation would be altered in the near term.*	Excellent	Good	Medium
5	**Skill transfers:** *The Company has achieved a very high degree of training and promotion at the executive level. Only the General Manager is an expatriate. Key positions are filled by highly qualified local staff. Training is a key factor to the success of the operation which is customer and energy saving oriented, a dramatic departure from the recent times. A special emphasis on cooperation with local institutions to enhance management skills of young recruits through tailor made programmes earned the company plaudits for social initiative.*	Excellent	Excellent	Low
6	**Demonstration effects:** *The company's policy to implement its model requires a flexible intellectual approach which may be challenging for older personnel. In the commercial area, quality of service is a brand new concept, the marketing of which was unheard of previously while changes in fuel management and the introduction of energy saving features have sunk in more easily with newly trained engineers than with the rear guard. Over time, this is becoming less and less of a challenge.*	Good	Excellent	Low
7	**New standards for business conduct:** *The Company has adopted its Parent Company's financial and management accounting procedures. Relationship with municipalities is based on negotiated contracts at arms length. Securing new contracts with municipalities generally requires the intervention of professional lobbyists who must comply with rules with respect to commissioning.*	Good	Good	Medium

	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	Rating	Rating	Rating
1	**Competition:** *There is little competition to the Company's approach based on delivering energy efficiencies through better asset and fuel management without owning the assets. This requires a degree of confidence in the ongoing relationship with municipalities that most competitors are culturally averse to. The largest competitor to the Company is a firm that is seeking at least joint ownership of the assets. Competition however results from increased client awareness that alternative heating solutions can be implemented. The threat of unsubscribing is an incentive for the company to remain at the edge of service quality and value. It can be expected that over time the regulatory constraints will be less and less deterring to other foreign competitors entering the market under the Company model which will further increase competition. Alternatively, the legislation on ownership of municipal assets could change, which would produce the same effect.*	**Good**	**Excellent**	**Low**
2	**Market expansion:** *After a slow start, the company has built sufficient expertise and confidence in developing business in the local context and has recently increased significantly the contracts signed with municipalities across the country. Further expansion is planned in the years ahead. Noticeably, this results in more efficient heat management but also in production of additional energy through CHP and, as a derivative of the company's efforts to promote biomass fuel, a whole fuel supply industry is being developed.*	**Excellent**	**Excellent**	**Low**
3	**Private ownership:** *The choice of long term lease appears to suit the Company more than its competitors. As mentioned above, conceptually, privatisation is achieved through a concession type arrangement with a privately owned and managed operating company. It is difficult to predict whether more private operators of substance will be entering the market or whether changes in legislation allowing private ownership of municipal assets may be introduced in the future and therefore attract new investors. As mentioned above, this does not create a non competitive environment. On the other hand, should the Subsidiary's financials keep up with the recently demonstrated trend, an IPO could be achievable in a few years. This would provide the Bank with a fair market value exit and further establish the success of the concession model as a privatisation policy.*	**Good**	**Excellent**	**Medium**
4	**Frameworks for markets:** *As in most other countries where the Company is promoting its model, the country is benefiting from the energy saving approach whereby tariffs are lowered through efficiency achievements. This requires the implementation of new legislation which has recently been achieved in the Country and good cooperation with the regulator which is presently the case. Furthermore, the Company's switch to greener fuel and other energy savings have given rise to an opportunity for the company to trade carbon credits. This requires an involvement from Government to enable bilateral trading under relevant international agreements. This is a significant but also very challenging breakthrough in a new market requiring government agencies' adjustment to this activity. Most of the progress in this area is taking place or should take place in the very near future; the longer term may therefore provide less room for improvements.*	**Excellent**	**Good**	**Medium**

5	**Skills transfers:** *The company is acquiring equipment locally whenever possible. Local suppliers are supported by the company to manufacture such equipment with the highest standards of reliability and to provide adequate after sales services. There does not appear to be a high level of turnover in the company as few competitors would be in a position to poach highly trained staff. On the other hand, the Company's strong sponsoring of the fuel supply industry has led to considerable training in skills and processes of this industry with many new jobs to be created in this sector.*	**Excellent**	**Excellent**	**Low**
6	**Demonstration effects:** *The company is a major investment company and has therefore attracted a lot of visibility. Its efforts to foster environmental improvements through biomass energy production have been strongly supported by its home country's embassy and environmental agencies. This has led to a 1 million € grant in favour of the fuel supply industry. The successful implementation of the ESCO model within an appropriate legislative and regulatory framework should set an example for other heat management specialists to look into opportunities in this market.*	**Good**	**Good**	**Low**
7	**New standards for business conduct:** *The Project Company has consistently applied the highest standards in the conduct of its business. Securing contracts with municipalities evidently lends itself to the suspicion of opaque practices. This risk is considerably reduced through the long term lease mechanism whereby the company's profits are dependent on efficient management and realised energy savings under the supervision of the regulator as opposed to the acquisition price of the network. Intermediaries used in the marketing approach of municipalities are remunerated on a transparent basis. It must be noted however that the process of enacting related national legislation was marred by a politically motivated scandal involving individuals connected to the Company. The matter was under investigation but charges have since been dropped and no evidence of any wrongdoing can be put forward. It created however an unpleasant climate of suspicion which ought to be soon dispelled. As integrity issues cannot be pointed at, a downgrading of this Transition Impact category is not warranted.*	**Good**	**Good**	**Medium**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Excellent**	**Excellent**	**Medium**
	OVERALL TRANSITION IMPACT RATING:	***EXCELLENT***		

PROPERTY MARKET
TRANSITION IMPACT ANALYSIS

	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:** *Private sector owner are already predominant in the offices market.*	Not Applicable	Not Applicable	Not Applicable
5	**Skill transfers:** *A project manager has recruited qualified local personnel and trained for the Company.*	Satisfactory	Good	Low
6	**Demonstration effects**	Not Applicable		
7	**New standards for business conduct:** *Local staff, local suppliers, and local service providers have worked at international standards for the project building.*	Satisfactory	Satisfactory	Low
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	Rating	Rating	Rating
1	**Competition:** *The company took a large market share.*	Excellent	Satisfactory	Medium
2	**Market expansion :** *The project building expanded the size of Class A market.*	Good	Satisfactory	Medium
3	**Private ownership:** *Under project finance structure, the company is a single purpose entity, which is unique in this market.*	Good	Satisfactory	Low
4	**Frameworks for markets:** *The Project's contribution to the Country's property market has not been verified.*	Marginal	Marginal	Low
5	**Skills transfers:** *Turnkey and sub contractors did not deliver the expected skill and knowledge transfer to local workers.*	Marginal	Good	Low
6	**Demonstration effects:** *Demonstration effects have been generated by one of the competitors in the Country's property market.*	Marginal	Marginal	Low
7	**New standards for business conduct:** *The Project has delivered some new standards in the Country's property market.*	Good	Satisfactory	Low
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	Satisfactory	Satisfactory	Low
	OVERALL TRANSITION IMPACT RATING:	***SATISFACTORY***		

WATER AND ENVIRONMENTAL SERVICES IMPROVEMENT
TRANSITION IMPACT ANALYSIS

	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**
1	**Private ownership:** *The Company is the municipal-owned city water and wastewater company in the City. While it has been corporatised, it remains a monopoly and under municipal management.*	**NA**	**NA**	**NA**
2	**Skill transfers:** *Through close collaboration with other water utilities and through various bilateral agreements and TC provided through this project, there has been significant management and technology know-how transfer.*	**Good**	**Good**	**Low**
3	**Demonstration effects***: Through its education centre and experience to date, the Company provides an example to other water and waste water companies in the Country.*	**Good**	**Good**	**Low**
4	**New standards for business conduct:** *Introduced external audits, formula for tariffs, and international procurement procedures.*	**Good**	**Good**	**Low**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition:** *This is a natural monopoly.*	**NA**	**NA**	**NA**
2	**Market expansion:** *Other water and wastewater companies in the Country remain in the public sector. The Company has tested the BOT approach in a subsequent project and there are on-going discussions about public private partnerships (PPPs).*	**Satisfactory**	**Good**	**Medium**
3	**Private ownership:** *This is a municipally owned company.*	**NA**	**NA**	**NA**
4	**Frameworks for markets:** *This project supported a municipal project. The City has established and raised tariffs. There are discussions with the City and the Company regarding a PPP for this sector; however at the time of this evaluation these remain as concepts under discussion.*	**Satisfactory**	**Good**	**Medium**
5	**Skills transfers:** *The Company is one of the largest water and wastewater utilities in the Country. Its success sets a positive example. However, there has been little movement towards privatization of this sector in the Country. This will be a long-term process.*	**Satisfactory**	**Satisfactory**	**Medium**
6	**Demonstration effects** *Improvements to overall company management, improvements in services, and greater collaboration with MDBs, and bilaterals has important demonstration affects on all public sector utilities in the Country.*	**Good**	**Good**	**Medium**
7	**New standards for business conduct** *Through TC business management practices have improved.*	**Satisfactory**	**Satisfactory**	**Medium**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Satisfactory**	**Good**	**Medium**
	OVERALL TRANSITION IMPACT RATING:	***SATISFACTORY***		

TRANSPORT INDUSTRY
TRANSITION IMPACT ANALYSIS

	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.** *Strengthening of private ownership was a key objective with a clear timetable attached to it. No progress on the privatisation agenda was achieved.*	**Unsatisfactory**	**Unsatisfactory**	**High**
5	**Skill transfers.** *The foreign Sponsor, supported by the Bank's board representation, induced good transfer of skills.*	**Good**	**Good**	**Low**
6	**Demonstration effects.** *No demonstration effects were envisaged.*	**N/A**	**N/A**	**N/A**
7	**New standards for business conduct.** *As a consequence of the noted skill transfers, new standards in accounting, management information systems, computerisation, and marketing were obtained.*	**Good**	**Good**	**Medium**
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition.** *Without the capital infusion through the Project the Company's financial survival appears unlikely; in this sense, the Project helped to maintain a competitive environment.*	**Satisfactory**	**Satisfactory**	**Low**
2	**Market expansion.** *High standard of services of the Company induced improvements of forward/backward service linkages.*	**Good**	**Good**	**Low**
3	**Private ownership.** *It was not intended to foster private ownership in the sector through the Project.*	**N/A**	**N/A**	**N/A**
4	**Frameworks for markets.** *Through the Bank's board representation and in support of the Company's changed attitude towards customer orientation the Project contributed to a change in the government's position towards the hitherto visa regime. Similarly, it contributed towards a change in the tax regime at border crossings.*	**Satisfactory**	**Satisfactory**	**Medium**
5	**Skills transfers.** *Benefiting the entire sector, the Company has instigated a joint venture that offers trainingto all market participants.*	**Satisfactory**	**Satisfactory**	**Low**
6	**Demonstration effects.** *Changes at company level had only marginal demonstration effect to other market participants which operate in a rather captive government-controlled market.*	**Marginal**	**Marginal**	**High**

7	**New standards for business conduct.** *In spite of the limited scope for demonstration effects at sector level, the Project is believed to have raised awareness for customer orientation on a broader scale.*	**Satisfactory**	**Satisfactory**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Satisfactory**	**Satisfactory**	**Medium**
	OVERALL TRANSITION IMPACT RATING:	***SATISFACTORY***		

RESTRUCTURING LOAN, ENERGY SECTOR
TRANSITION IMPACT ANALYSIS

	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:** *It is expected that after completion of restructuring the Government would only retain a minority blocking stake and the remaining shares held by the Government would be sold to private investors.*	Good	Excellent	High
5	**Skill transfers:** *The project's TC components were delayed due to major changes at the regulatory body and delays in the appointment of the regulator and publication of the regulatory structure by the Government.*	Satisfactory	Good	Low
6	**Demonstration effects:** *Since the Company is a significant player in the sector, significant demonstration effects expected.*	Good	Excellent	Medium
7	**New standards for business conduct:** *The Bank has actively participated in a working group for the restructuring of the electricity sector.*	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 restructuring of the Company and the overall sector reform are steps in the right direction.*	Good	Excellent	High
2	**Market expansion:** *The restructuring will lead to an increase in the number of competing companies.*	Good	Good	Medium
3	**Private ownership:** *The Company's restructuring and increased private ownership will serve as a role model for other energy companies.*	Good	Excellent	Medium
4	**Frameworks for markets:** *Government reform efforts point in the right direction.*	Good	Good	High
5	**Skills transfers:** *Limited to the Company at this stage. The TC will help the implementation of the tariff methodology. This know-how transfer will be beneficial for the entire sector and the economy.*	Good	Good	Medium
6	**Demonstration effects:** *Since the Company is a significant player in the sector, significant demonstration effects expected.*	Good	Excellent	Medium
7	**New standards for business conduct:** *Since the Company is a significant player in the sector, significant demonstration effects expected.*	Good	Excellent	Medium
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	Good	Excellent	Medium
	OVERALL TRANSITION IMPACT RATING:	***GOOD***		

MANUFACTURING
TRANSITION IMPACT ANALYSIS

	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**
1	**Private Ownership:** *The Sponsor took over a Company which was private at the time of the investment. There is no particular privatisation issue impacting Transition in this Operation.*	**N/A**	**N/A**	**N/A**
2	**Know How:** *Except for the new investment in new equipment, the Sponsor's expertise was used to run non state-of-the-art equipment in the most efficient way. This required particular skills in maintenance and making up lower capital productivity by strong planning and general management abilities. Future plans are still to be firmed up but there are no reasons to believe that the Company's edge on know-how should not be lasting.*	**Good**	**Good**	**Low**
3	**New standards for business conduct at enterprise level:** *As the only foreign investor in the sector, the Company competes with firms that do not necessarily observe the same level of ethics when dealing with suppliers, clients and the administration. This makes its compliance with the group's high standards of transparency and corporate governance particularly commendable. In doing so, the Company has been able to maintain its market leadership through competent management and focus on high quality and environmental standards.*	**Excellent**	**Good**	**Low**
	STEP II: TRANSITION IMPACT AT INDUSTRY LEVEL AND ON THE ECONOMY AS A WHOLE	**Rating**	**Rating**	**Rating**
1	**Competition:** *The Company is a leader in a competitive market. It sets standards against which local firms must compete. It is interesting to note that most new market entrants have chosen to invest in new technologies. However, they have yet to acquire the Company's expertise in management and planning before their theoretical productivity advantage would translate into greater market share.*	**Good**	**Good**	**Medium**
2	**Market expansion via competitive interaction in the sector and industry:** *The Company's competition increased by 500 per cent since 1994. The Company has contributed significantly to market expansion by consistently increasing its product, customer and geographic range without compromising high product and business standards. While this expansion was typically driven by the requirements set by international clients, the equipment investment is predominantly geared to satisfy local clients. Short term Transition Impact would have scored better had the Company not incurred an implementation delay, similarly, the geographical expansion materialised through increased shipments but physical investments beyond the existing ones are not yet in the pipeline.*	**Good**	**Good**	**Medium**
3	**Frameworks for markets; institutions, laws and policies that promote market function and efficiency***: Transition impact has been achieved by providing at the level of this relatively small company greater certainty, transparency and consistency in respect of its financing. Project specific Transition impact overtime may diminish as the local capital market matures. This will have nevertheless been an excellent laboratory for the development of the Bank's ability to provide tailored financing to corporate companies.*	**Excellent**	**Good**	**low**

4	**Skills transfer and dispersion to the industry and economy as a whole:** *The Company pays considerable attention to training, at all levels of the institution. Management regards its ability to retain skilled workers and managers as a major competitive strength despite fierce competition in the labour market. There will soon be only two expatriate staff; this is indicative of the dedication of the Company to transfer operational management to local employees. Noticeably, however, as part of group policy, most financial matters are dealt with directly from Head Office.* *The possibility of duplicating the relevant financing mechanism, successfully tested with the Company can also be credited to transferable skills developed through this project.*	**Good**	**Good**	**Low**
5	**Demonstration effects; transfer of new behaviour and patterns***: The Company is a leader in its sector and sets the standards for the industry. The Company is a well run and responsible company that from its first establishment has strived to demonstrate high standards of corporate behaviour to the local business market.* *An example of this, which is tied to the Bank's investment, is the transfer of environmental skills and practice via the promotion of recycling. In this respect the Company has been actively promoting waste collection in order to build a stable feedstock for the production line - which will be the first such line in the region.*	**Good**	**Good**	**Low**
6	**New standards for business conduct:** *The Company is consistently applying its parent's high standards in business conduct. Upholding such principles may have created occasional competitive distortions, in particular, the Company's reluctance to indulge in practices facilitating prompt and favourable decisions from bureaucrats, have resulted in higher taxes and longer delays incurred than competition. The demonstration effect, in this respect, may, however, not be significant in the near future.*	**Good**	**Good**	**Low**
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	**Good**	**Good**	**Low**
	OVERALL TRANSITION IMPACT RATING:	***GOOD***		

MANUFACTURING
TRANSITION IMPACT ANALYSIS

	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 conflict of interest emerged in a biased way toward the shareholders' interest.*	Unsatisfactory	Satisfactory	Medium
5	**Skill transfers:** *Skill and knowledge transfer from international consultants to the company's staff took place during tendering and bid evaluation.*	Satisfactory	Satisfactory	Low
6	**Demonstration effects:** *GMP and ISO changed the company's awareness and corporate behaviours.*	Excellent	Satisfactory	Low
7	**New standards for business conduct:** *With the assistance of TC programmes, the conventional ways of business have been changing.*	Excellent	Satisfactory	Low
	STEP II: TRANSITION IMPACT AT THE LEVEL OF THE INDUSTRY AND THE ECONOMY AS A WHOLE	Rating	Rating	Rating
1	**Competition:** *The company is increasing the competition on quality, particularly in GMP product market.*	Good	Good	Medium
2	**Market expansion:** *The company is joining the new markets.*	Good	Good	High
3	**Private ownership:**	Satisfactory	Satisfactory	Low
4	**Frameworks for markets:** *The Project internalised the environmental costs in the GMP production.*	Satisfactory	Satisfactory	Low
5	**Skills transfers:** *Skill transfer to local contractors for GMP components construction was marginal.*	Marginal	Marginal	Low
6	**Demonstration effects:** *The company is ahead of the market as a GMP manufacturer.*	Good	Good	Low
7	**New standards for business conduct:** *A financial novelty was introduced in the Country. Western standard started prevailing in the particular market, which is likely to be strengthened by a strategic partner with the company.*	Good	Satisfactory	Medium
	SUMMARY OF VERIFIED, POTENTIAL AND RISK RATINGS	Good	Satisfactory	Low
	OVERALL TRANSITION IMPACT RATING:	***GOOD***		

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

1. POST- EVALUATION OUTCOME

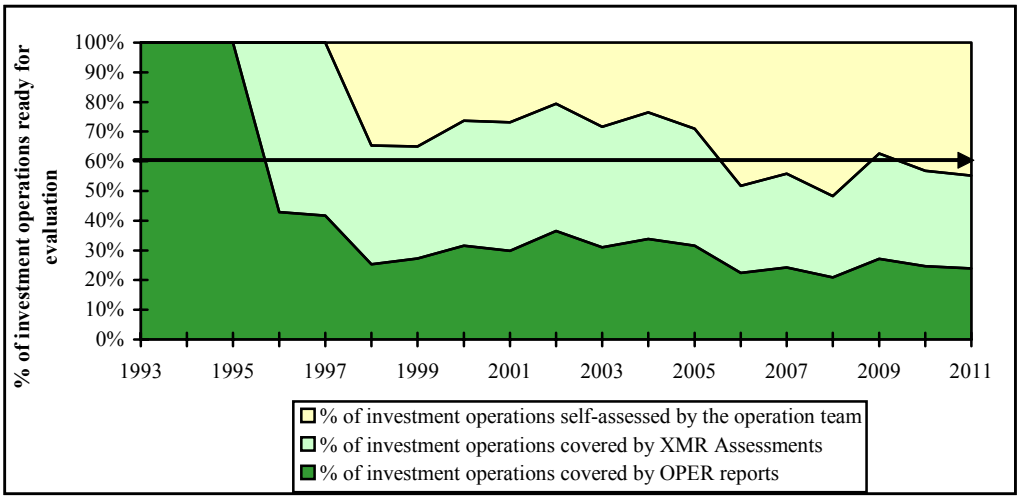
1.1. GENERAL

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 2004

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 2004 and projected)



In 2004 the Operation Performance Evaluation Reviews (OPERs) covered 34 per cent of all new projects ready for evaluation. An additional 43 per cent was covered with independent assessment reports by EvD on bankers' expanded monitoring reports (XMR assessments).[3] This brought the

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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 76 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 2005, the total sample comprises OPER and XMR assessments by EvD on 443 projects evaluated in 1993-2004.[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 579 investment projects had reached the ready-for-evaluation stage by the end of 2004. The evaluated sample of 443 projects is fairly large (76 per cent) and represents a reasonably balanced cross-section of all EBRD projects. The evaluated share of all 1,140 signed projects was lower at 39 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:

The 23 OPER reports 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;

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.

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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 See annotations of the respective tables and charts. Those concerning the broader sector and country distribution analysis cover 1993-2004, while others, including those on transition impact, cover 2000-04 when the current ratings system for transition impact was applied.

6 See Appendix 5 for more detailed data; records on signed operations may also at times divide one operation into separate commitments.

1.3.2. Weighting the results:

In 2004 there was a population of 68 projects ready for evaluation, of which 52 were evaluated by EvD[7]. The population is split into two strata:

- *Stratum 1:* 23 OPERs (33.8 per cent of 68)
- *Stratum 2*: The remaining 45 projects (66.2 per cent of 68) not selected for evaluation through an OPER report. The random sample of 29 XMR Assessments constitutes 64 per cent (29/45) of stratum 2.

For weighting purposes, the 29 XMR Assessments must be given a 66.2 per cent weighting in the overall results. Table 1.1 below give the weighted and unweighted outcomes for Overall Performance for 2004:

Table 1.1: Outcomes for Overall Performance of projects evaluated in 2004

EvD Report Type	Highly Successful	Successful	Partly Successful	Unsuccessful	Number of reports
OPERs	13%	61%	13%	13%	23
XMRAs	14%	59%	21%	7%	29
Overall result - Unweighted	13%	60%	17%	10%	52
Overall result - Weighted	14%	59%	18%	9%	100%

It can be seen that the overall result is almost identical. 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 2004 was 2.23, which is in the *Successful* range (i.e. between 1.5 and 2.5), but moving towards *Partly Successful*. The standard deviation is 0.8 and the standard error of the sample 0.11. Therefore the 95 per cent confidence interval for the mean is a score between 2.01 and 2.45 - still 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:

[7] Strictly, 53 operations were evaluated out of a population of 69. However, one of the XMR Assessments raised issues that would benerfit from further study. It was carried over to 2005 to be an OPER, and the interim results from the Assessment are not included in this year's AEOR. Therefore it is ignored in this description of the sample.

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.

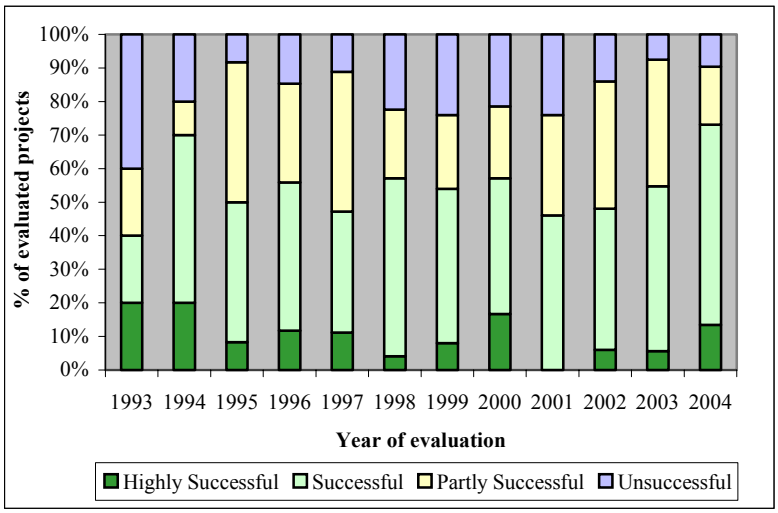
In the past, multilateral development banks (MDBs) have had different ways of measuring overall performance and performance with respect to their mandates. However, the MDBs have been asked, by their shareholders, to harmonise their evaluation procedures and processes, to ensure their results are more 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 1993-2004

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 1993, when EvD introduced refined methods of evaluation, is shown. By the end of 2004 evaluated operations represented 76 per cent of all EBRD investment projects which have completed the investment phase and are now ready for evaluation. Of these projects, 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 (416 investment operations evaluated 1996-2004)[8]



[8] Different time-frames have been used for different statistics throughout this report. Rating of the overall performance are available from 1993 onwards. In the case of Transition Impact, a new rating system was introduced in 2000 and figures are shown from that date only. Other ratings were introduced at different times and so statistics only run from the year of introduction.

Table 2.1: Overall performance, percentage distribution of assigned ratings (416 investment operations evaluated 1996-2004)

Year of evaluation	Unsuccessful	Partly Successful	*Sub-total*	Successful	Highly Successful	*Sub-total*	No. of evaluations
1993	40%	20%	*60%*	20%	20%	*40%*	5
1994	20%	10%	*30%*	50%	20%	*70%*	10
1995	8%	42%	*50%*	42%	8%	*50%*	12
1996	15%	29%	*44%*	44%	12%	*56%*	34
1997	11%	42%	*53%*	36%	11%	*47%*	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
1993-94	27%	13%	*40%*	40%	20%	*60%*	15
1993-95	19%	26%	*45%*	40%	15%	*55%*	27
1993-96	16%	28%	*44%*	43%	13%	*56%*	61
1993-97	14%	33%	*47%*	41%	12%	*53%*	97
1993-98	17%	29%	*46%*	44%	10%	*54%*	146
1993-99	19%	27%	*46%*	45%	9%	*54%*	196
1993-2000	19%	26%	*45%*	44%	11%	*55%*	238
1993-2001	20%	27%	*47%*	44%	9%	*53%*	288
1993-2002	19%	29%	*48%*	44%	8%	*52%*	338
1993-2003	18%	30%	*48%*	45%	7%	*52%*	391
1993-2004	17%	28%	*45%*	47%	8%	*55%*	443

Just over half (244 of 443 evaluated projects, or 55 per cent) of the operations evaluated obtained ratings in the *Successful - Highly Successful* bracket.[9] Throughout the 1990s this share varied around the 50 per cent mark but showed no definite pattern. A clear and steady rise has become apparent since a low point of 46 per cent in 2001, which has returned the cumulative figure to its level in the second half of the 1990s. Later in this appendix, we will see this trend repeated across most of the individual rating categories. However, it should be borne in mind that the unusually good results for 2004 (73 per cent *Successful* or better) are probably not representative, as relatively few classified operations were evaluated in 2004 compared to previous years.[10] Without 2004's unusual results, the trend would be a lot less apparent, and it will take another year's evaluations to confirm whether the gradual improvement of 2002 and 2003 is a significant and longer-term trend.

Eight per cent of the projects scored *Highly Successful* overall, while more than twice as many were rated *Unsuccessful* (17 per cent). Projects with the highest overall rating scored well on transition impact and the other performance indicators. Over 85 per cent of *Unsuccessful* projects which were also rated for project financial performance scored *Unsatisfactory* for that indicator[11] (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 almost half of the projects rated only *Partly Successful* or *Unsuccessful.* However, it must be remembered that the region

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9 Weighting by volume of investment yields better results, with 66 per cent *Successful* or higher, 22 per cent *Partly Successful*, while the *Unsuccessful* ratings share is 12 per cent.

10 Classified operations have a risk rating of seven or more. Only three such operations were evaluated in 2004, as compared with 5 or 6 in previous years. Some planned evaluations of classified operations had to be delayed because they were at a sensitive stage of restructuring.

11 A few projects have no project financial performance rating, e.g. because corporate finance was provided and there was no identifiable "project" to rate.

remains a risky investment environment, and this continues to be true even for the more recent EBRD projects developed in 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.

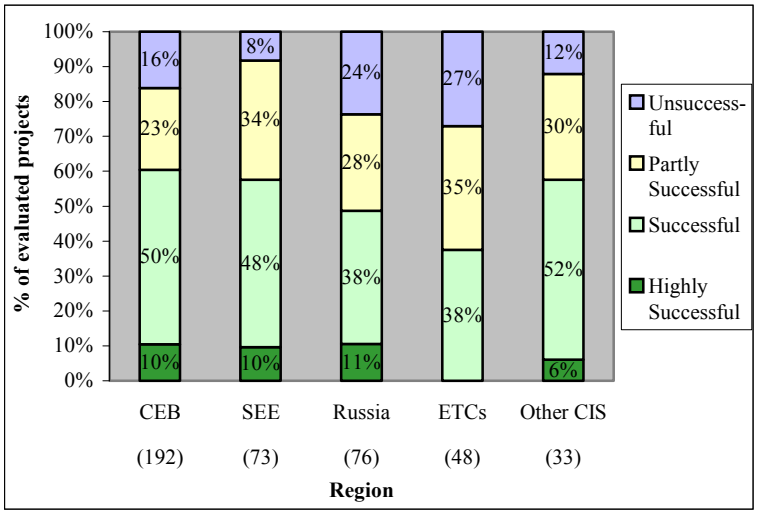
2.3. PERFORMANCE RATINGS BY COUNTRY GROUPS

2.3.1. Regional comparisons.

Chart 2.2 below shows that approximately 58 per cent of evaluated projects in the south-eastern Europe (SEE) and Other CIS (excluding Russian and ETCs) group of countries now fall in the *Successful* or *Highly Successful* bracket. This is only slightly lower than for the "CEB" group, comprising central and eastern Europe and the Baltic states. However, the CEB group has a higher share of *Unsuccessful* projects, compared to the other two regions. It is possible that the search for additionality in CEB led to the Bank taking on riskier projects there, while projects in SEE and CIS were more likely to have a strong sponsor and clear transition objectives. Over half of *Unsuccessful* projects in CEB were in the general industry sector, most lacking a strategic foreign sponsor.

The pace of reform and achieved economic transition in the investment environment seems to significantly influence the project success scorings: only about 38 per cent of evaluated projects in ETCs obtained the two highest performance ratings, and the rate is 49 per cent for Russia.

Chart 2.2: Overall performance ratings by country groups
(422 investment operations evaluated 1993-2004)



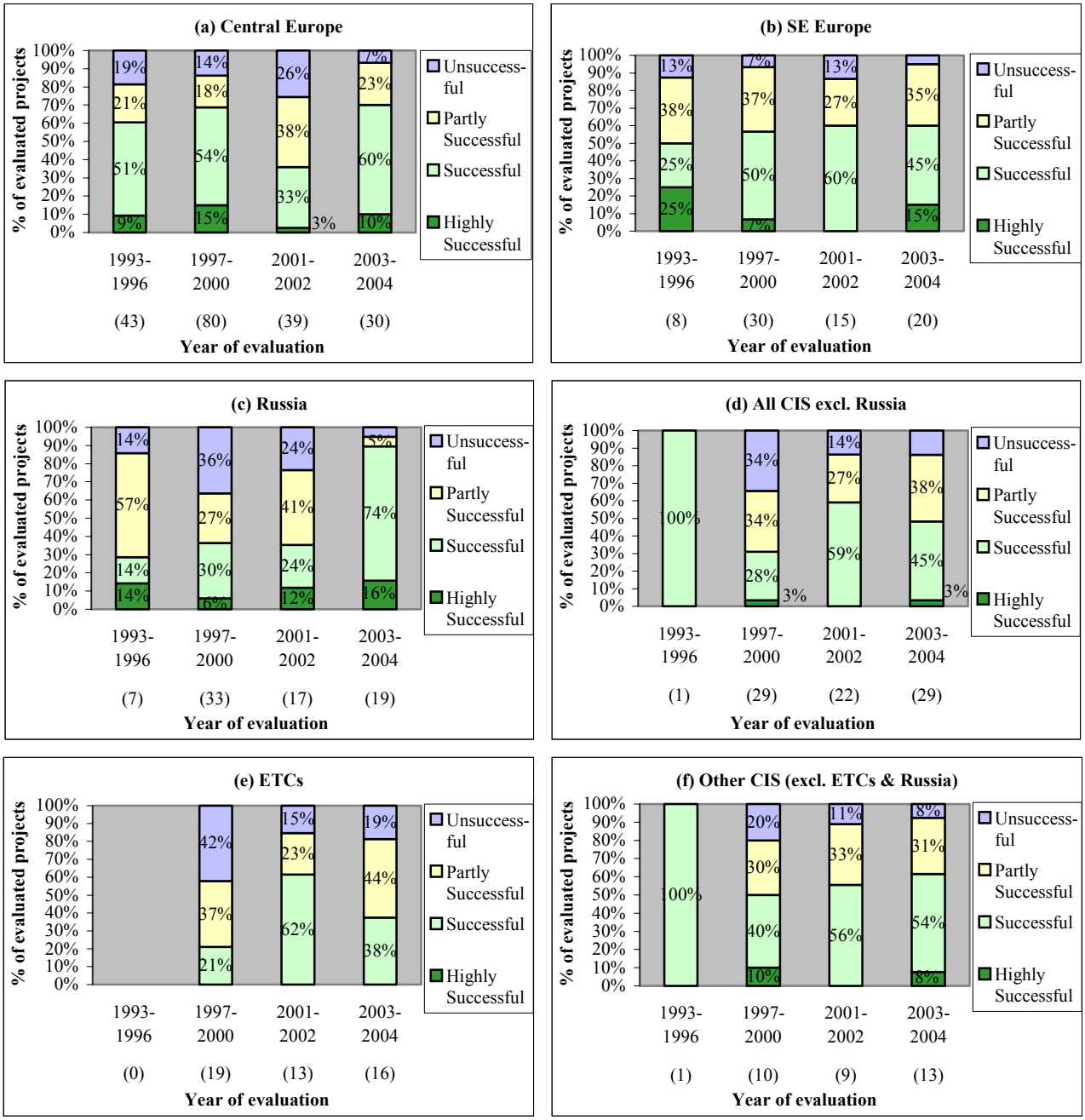
Note: 21 regional projects omitted
CEB: Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia
SEE: Albania, Bosnia & Herzegovina, Bulgaria, FYR Macedonia, Romania, Serbia & Montenegro
ETCs: Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan, Uzbekistan
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 something of a hybrid, 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, 73 per cent of operations are rated *Successful* or better, and in Kazakhstan 57 per cent, while in Belarus and Turkmenistan, only one of the seven 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: 21 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.
The results for Central and Eastern Europe closely mirror the overall results reported 2.2 above, reaching a low point in 2001-2002 before rising strongly in the last two years. The improvement in the overall rating in 2003-2004 is associated with similarly striking improvements in the ratings for Fulfilment of Objectives, Project Financial Performance and Transition Impact, though Additionality improved only marginally in these two years. The impression from Chart 2.3(a) above is that 2001-2002 were unusual years, and that overall performance has now returned to a gradual upward trend which has continued since the early 1990s. It remains to be seen whether the next few years reinforce this impression.

2.3.3. South Eastern Europe.
Performance in South Eastern Europe improved steadily but not dramatically during the 1990s. Over the last four years it has remained static at 60 per cent rated *Successful* or better, though with an increase in the number of projects rated *Highly Successful*.

2.3.4. Russia.
The improvement in overall performance in Russia over the last two years has been dramatic, after a long period of limited success throughout the 1990s and beyond. While 19 projects is not a large number on which to judge performance, the change in performance is statistically significant.

2.3.5. The early transition countries (ETCs).
This is the only region where overall performance has fallen in 2003-2004, although this is in comparison with a very high performance in 2001-2002. In the last two years only 38 per cent of projects were rated *Successful* and no project in this region has ever been rated *Highly Successful*. The weakness is due to poor financial performance: over the last two years, Transition Impact has been *Good* or *Excellent* in 44 per cent of cases and *Satisfactory* in a further 19 per cent, lower than the average but not as bad as the overall performance. Additionality has been very high and Fulfilment of Objectives has been *Good* or *Excellent* in 62 per cent of cases. Only 19 per cent of projects have been rated *Good* or *Excellent* for Project Financial Performance.

It should be borne in mind, however, that the results are still far above performance in 1997-2000, when only 21 per cent of projects in the sector were rated *Successful*. As can be seen in charts 2.4 and 2.5 below, the high overall performance ratings in 2001-2002 were matched by good results in Fulfilment of Objectives and Project Financial Performance, which almost reached the overall average of 57 per cent rated *Good* or *Excellent*. The last two years have seen Project Financial Performance in particular fall sharply and this has led to a drop in the Overall Performance.

Chart 2.4 Fulfilment of Objectives

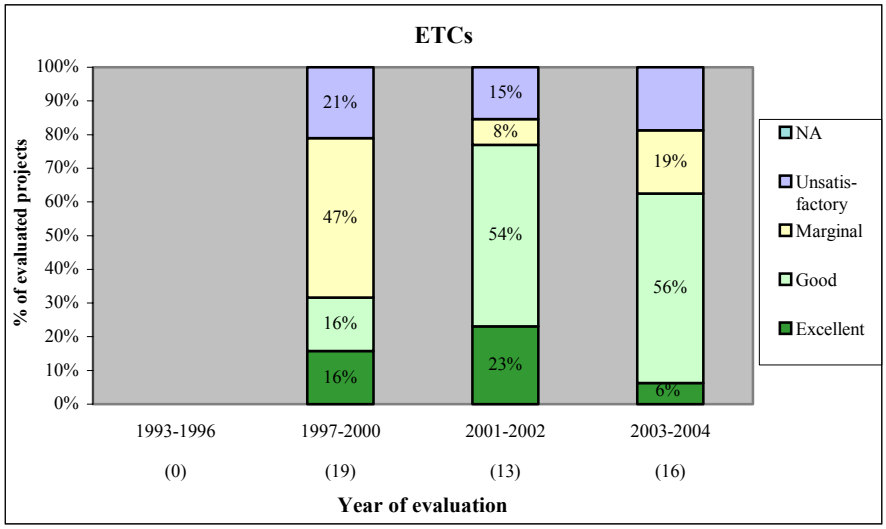
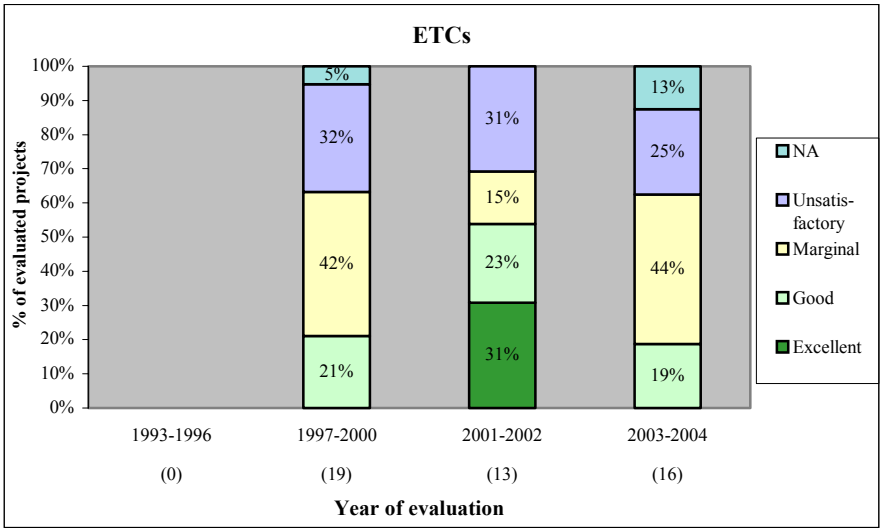


Chart 2.5 Project Financial Performance

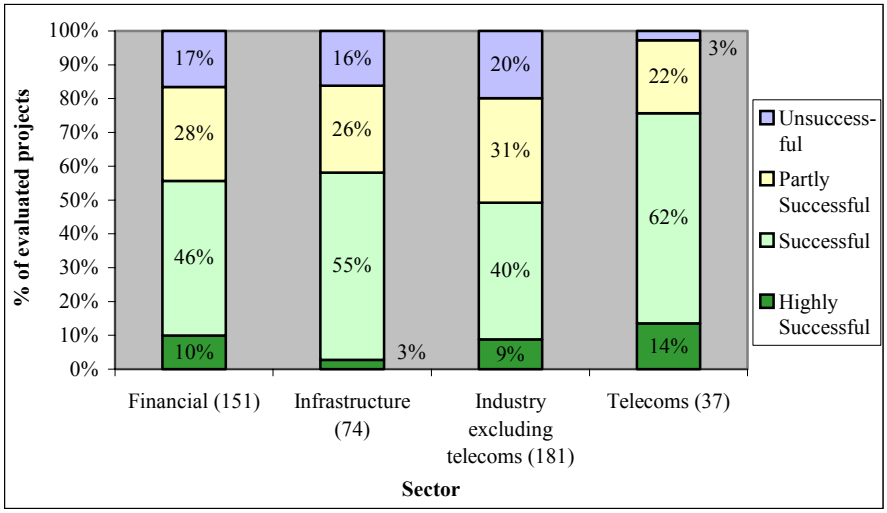


2.4. OVERALL PERFORMANCE RATINGS BY SECTORS

The large difference in performance between different industry sectors, seen in previous AEORs, appears to be decreasing. General Industry (excluding Telecoms) is still the weakest sector, with 49 per cent of evaluated projects rated *Successful* or *Highly Successful*, in contrast with projects in 56 per cent in Financial Institutions and 58 per cent in Infrastructure.[12] However, these differences are not as marked as in previous years.

[12] General industry comprises a broad range of sub-sectors in industry, manufacturing and commercial services. The group has a high dominance of private sector operations.

Chart 2.6: Overall performance ratings by sector groups (443 evaluated investment operations, 1993-2004)

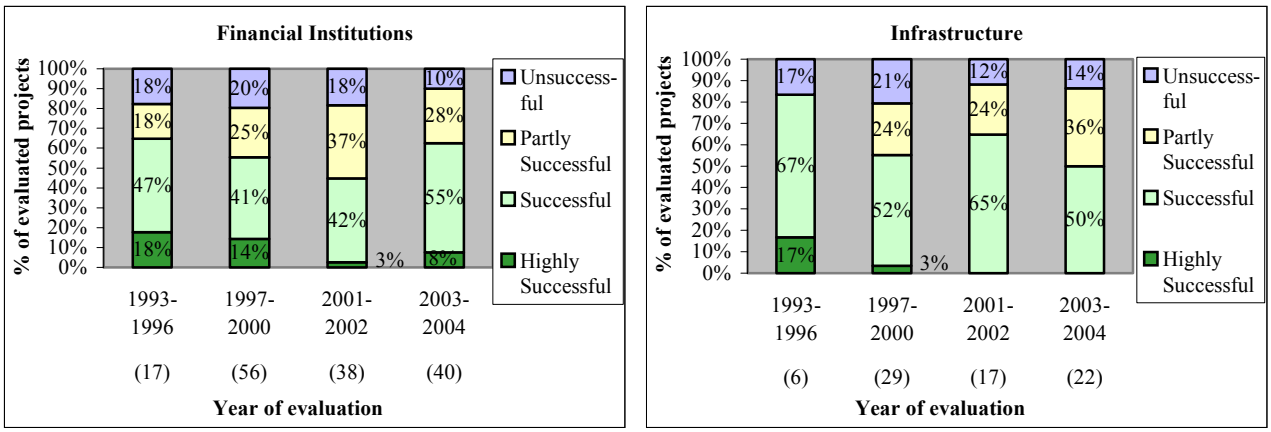


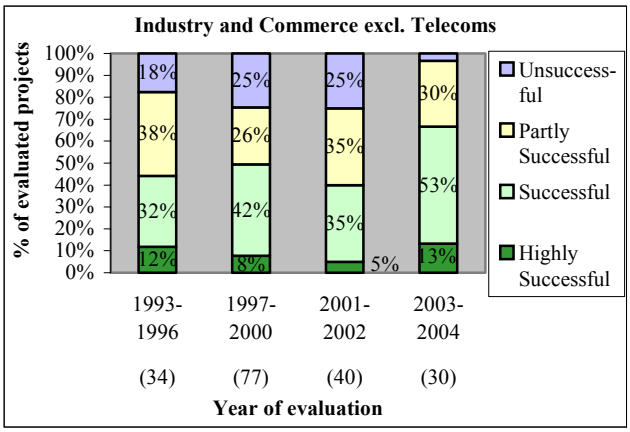
Infrastructure = municipal/environment, power, energy efficiency and transport;
Industry = agribusiness, general industry, natural resources, commercial services, property/tourism, and telecommunications

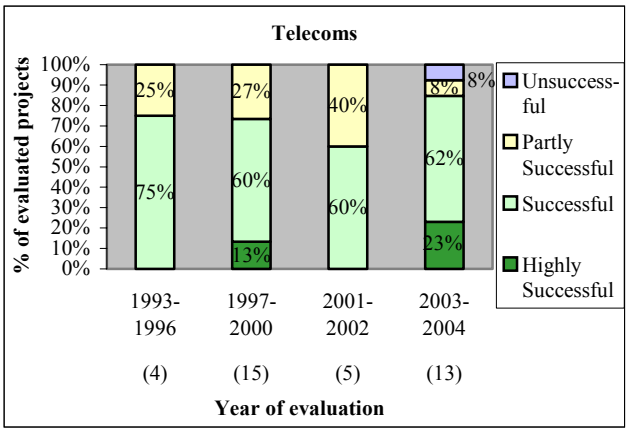
Chart 2.7 below shows that performance in Infrastructure has fallen in 2003-2004, continuing a downward trend that was interrupted in 2001-2002. In the last two years, Infrastructure projects accounted for 44 per cent of evaluated projects in the ETC countries. However, Infrastructure also accounts for a significant and growing proportion of evaluated projects in Russia, which has shown improved performance. Looking more closely, in 2001-2004 only four of the 14 evaluated Infrastructure projects in ETC countries have been rated *Successful* whereas seven out of nine Infrastructure projects in Russia have achieved that rating. Over that period, 39 infrastructure projects were evaluated in all, so ETCs make up 36 per cent of the total and Russia less than a quarter. It appears that overall ratings for Infrastructure have suffered because of the large number of projects located in ETC countries.

Financial Institutions has shown an improvement in 2003-2004 after several years' decline, while the improvement in Industry and Commerce continues a longer-term trend, interrupted in 2001-2002.

Chart 2.7: Overall performance ratings of different industry sectors, 1993-2004







Note: 21 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. An analysis of the projects which have been rated both ex-ante by OCE and ex-post by EvD can be found in chapter 3.

3.2. THE DISTRIBUTION OF TI RATINGS

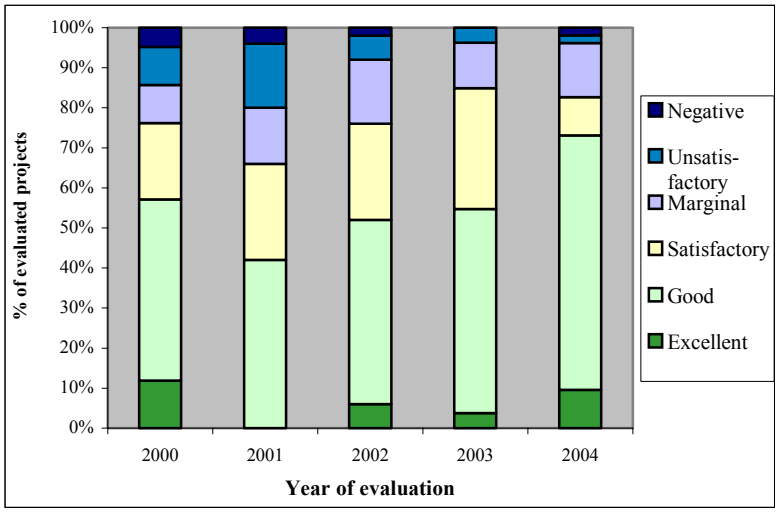
TI ratings carry a high weight in the overall performance ratings of projects. Table 3.1 shows the distribution of the ex-post TI ratings by EvD over the past five years. As for the Overall Performance rating, there appears to have been a steady improvement from a low in 2001, with a particular jump in 2004. The share of projects with *Good* to *Excellent* ratings over the five years is 57 per cent; while 78 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.*[13]

[13] Weighting by volume of investment yields better results, with 65 per cent *Good* or *Excellent* and 88per cent rated *Satisfactory* or higher.

Table 3.1: TI ratings of 247 investment operations evaluated 2000 - 04

Period	Negative	Unsatis-factory	Marginal	*Subtotal Negative - Marginal*	Satisfactory	Good	Excellent	*Subtotal Satisfactory - Excellent*	Total projects evaluated
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%*	8%	65%	10%	*83%*	52
2000-2001	4%	13%	12%	*29%*	23%	43%	5%	*71%*	92
2000-2002	4%	10%	13%	*27%*	23%	44%	6%	*73%*	142
2000-2003	3%	9%	13%	*25%*	25%	45%	5%	*75%*	195
2000-2004	2%	7%	13%	*22%*	21%	51%	6%	*78%*	247

Chart 3.1: TI ratings of 247 investment operations evaluated 2000-04

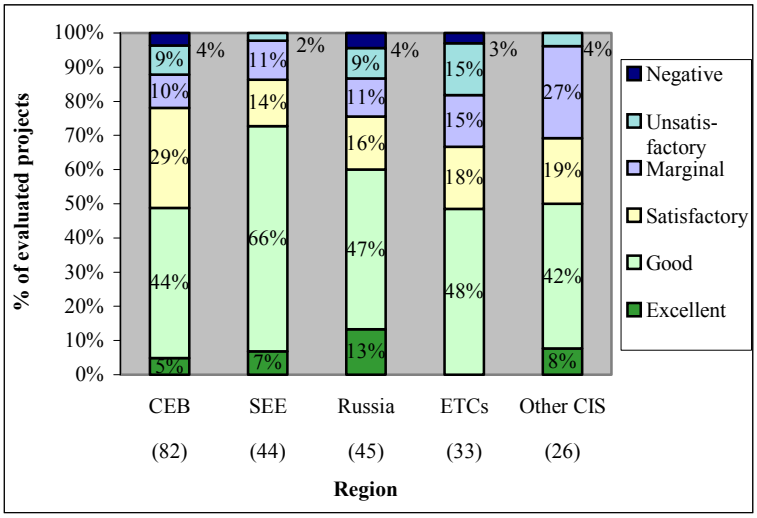


3.3. TRANSITION IMPACT RATINGS BY COUNTRY GROUPS

Chart 3.1 presents the TI rating distribution by country groups of 230 projects[14] evaluated in 2000-04, applying the six grade TI scale. The ratings follow a slightly different pattern to the findings for the higher level of overall performance. Here the CEB group joins the ETCs and other CIS (excluding Russia), which all have between 48 and 50 per cent of projects rated *Good* or *Excellent*. Russia does rather better, with 62 per cent of evaluation projects in these categories, while SE Europe scores best with 73 per cent. As will be seen in section 5, it is differences in the Company and Project Financial Performances which lead to projects in CEB having much higher Overall Performance ratings and projects in Russia to do much worse overall than the Transition Impact ratings would imply.

[14] Seventeen regional projects were omitted from the total 247 evaluated projects for transition impact

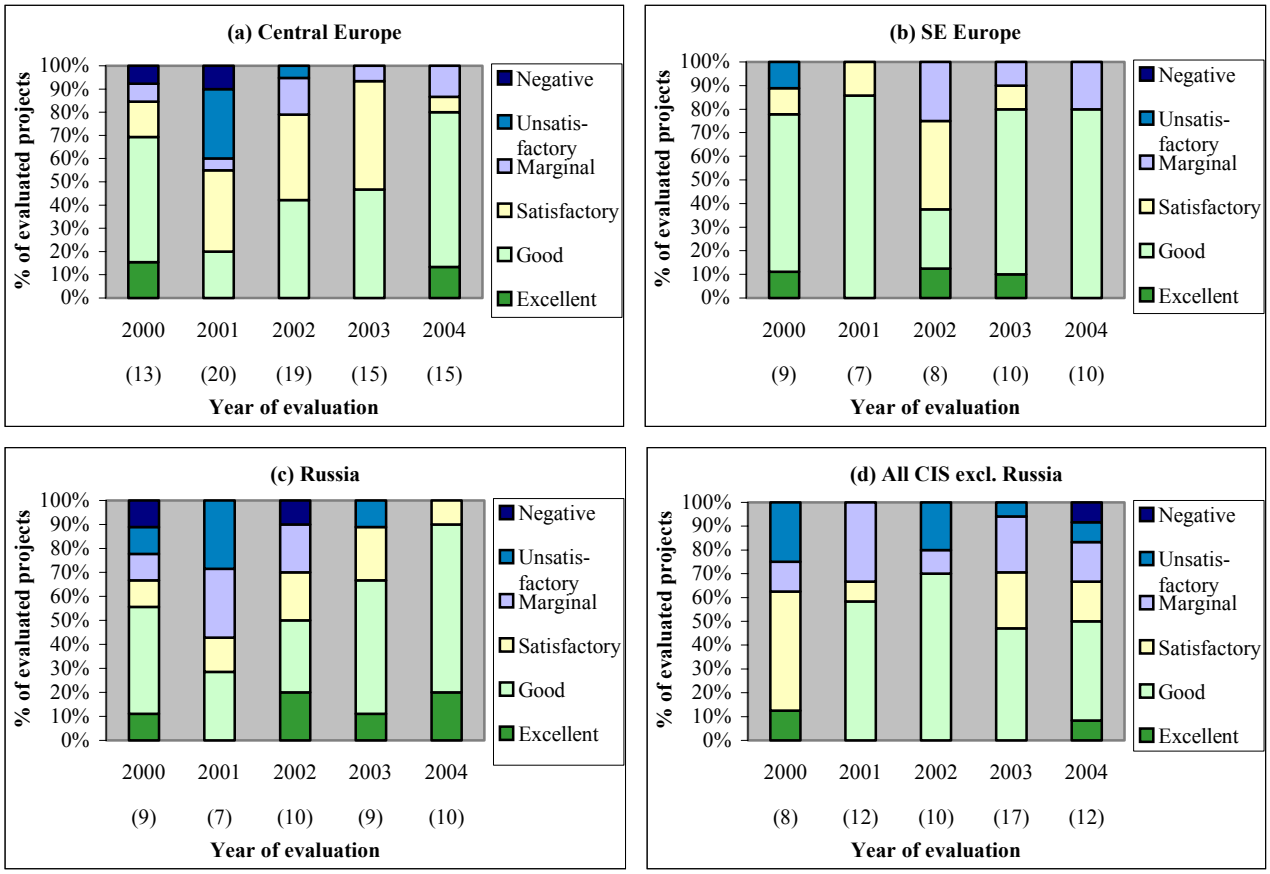
Chart 3.1: TI ratings of 230 post-evaluated investment operations in 2000-04 by country groups

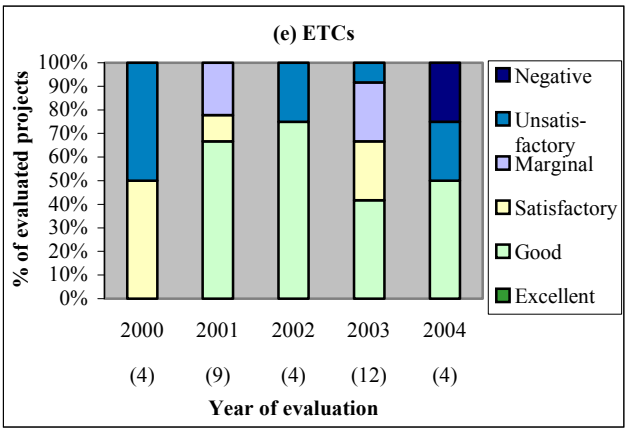


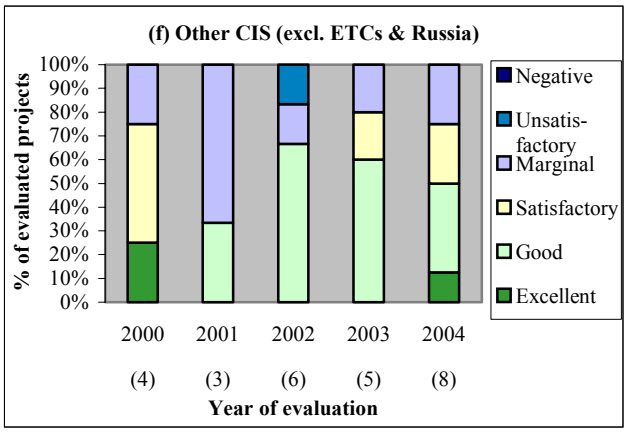
Note: 17 regional projects omitted
See chart 2.2 for list of countries in each region

Further time series analysis indicates that while transition impact rose in Central Europe, SE Europe and Russia over the period 2002-2004, it dropped in the remainder of the CIS. In this region, only 50 per cent of operations achieved *Good* or *Excellent* TI ratings in 2004.

Chart 3.2: Development of TI ratings over time for projects evaluated 2000-2004: presented by region





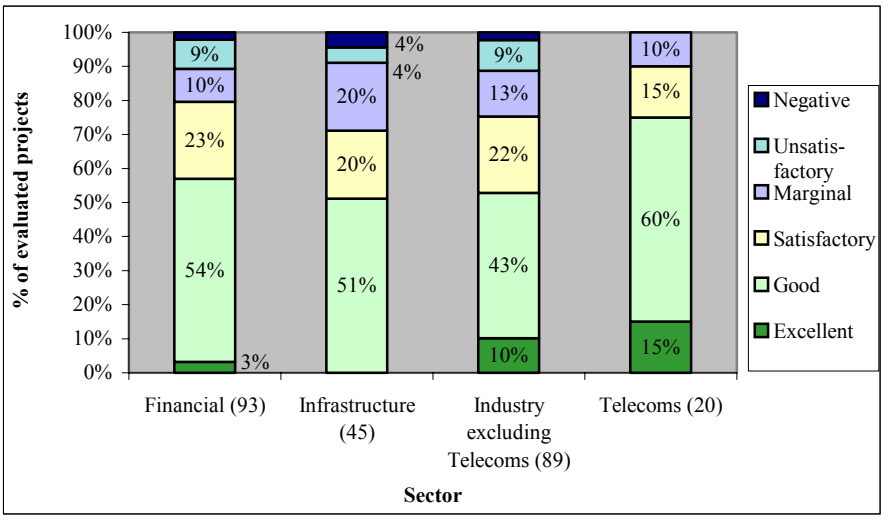


Note: 17 regional projects omitted
See chart 2.2 for list of countries in each region

3.4. TI RATINGS BY SECTORS

In previous years, the infrastructure sector has always had the highest score for *Good* and *Excellent*-rated projects. The difference has been decreasing in recent years - so an annual (rather than cumulative) analysis would show that infrastructure had been under-performing relative to other sectors for a few years. The results for 2000-2004 show no significant difference between any of the sectors, though Financial Institutions has a slightly higher share of projects rated *Good* to *Excellent* than other sectors, at 57 per cent compared with 53 per cent for the other two major sectors.

Chart 3.3: TI ratings 2000-04 by sector groups (247 investment operations)



See chart 2.6 for description of each sector

The Overall Performance ratings still show Infrastructure with a slight advantage over other sectors, so Infrastructure must be performing better in some other performance indicators than in Transition Impact. This will be seen below in the sections on Project and Company Financial Performance and Additionality.

4. ADDITIONALITY

4.1. EVALUATED ADDITIONALITY OF 443 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 443 operations evaluated in 1993-2004, 62 per cent had additionality *Verified in All Respects*, while 27 per cent had additionality *Verified at Large*. This left 11 per cent of projects with additionality *Verified in Part* or *Not Verified* (Table 4.2). Very few projects were rated in the latter group.[15] This outcome supports the EBRD's additionality requirement under the Bank's mandate and confirms that there was no crowding out of market financing.

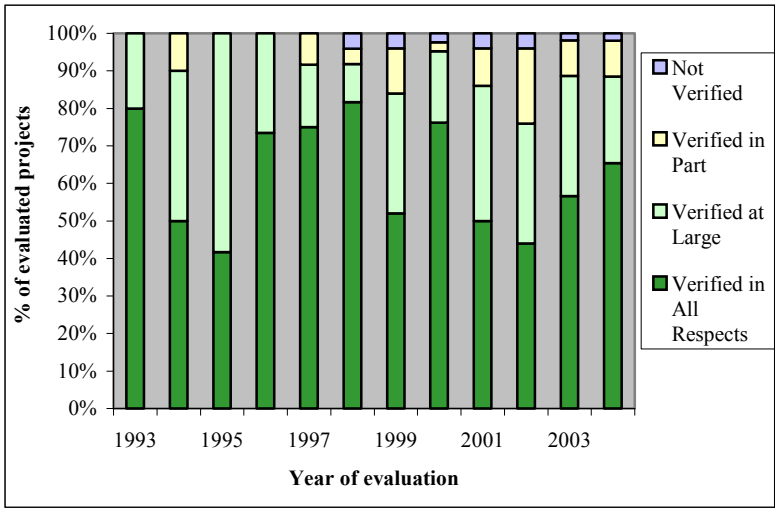
[15] Only eleven evaluated operations have received the lowest additionality rating (between 1993-2004). The rating was assigned due to the projects' low financial additionality, combined with a design and structure that was non-conducive to improved transition impact or sound banking.

Table 4.2: Additionality, percentage distribution of assigned ratings (443 investment operations evaluated 1993-2004)

Ratings	1993-97	1993-98	1993-99	1993-2000	1993-2001	1993-2002	1993-2003	1993-2004
Not Verified	0%	1%	2%	2%	2%	3%	3%	2%
Verified in Part	4%	4%	6%	5%	6%	8%	8%	9%
Subtotal	*4%*	*5%*	*8%*	*7%*	*8%*	*11%*	*11%*	*11%*
Verified at Large	28%	22%	25%	24%	26%	27%	27%	27%
Verified in All Respects	68%	73%	67%	69%	66%	62%	62%	62%
Subtotal	*96%*	*95%*	*92%*	*93%*	*92%*	*89%*	*89%*	*89%*
Total (No. of projects)	97	146	196	238	288	338	391	443

Regarding annual variations of additionality, the data of last year annual review were showing a deterioration of overall performance since the year 2000 with only a slight recovery in 2003. The updated figures in Chart 4.1 show no further improvement, when looking at both verified *in all respects* and *verified at large* categories[16]. If a lag of about three years between project signature and evaluation time is accounted for, it is striking that the downturn broadly corresponds to projects signed before the 1998 Russia crisis and the emerging upturn relies mostly on projects signed after the crisis. It could well be that the design and functioning of projects was strengthened in the regions and the sectors mostly affected by the crisis. The regional and sector decomposition analysis of the above trends provides further explanation.

Chart 4.1: Additionality, percentage distribution of assigned ratings (443 investment operations evaluated 1993-2004)

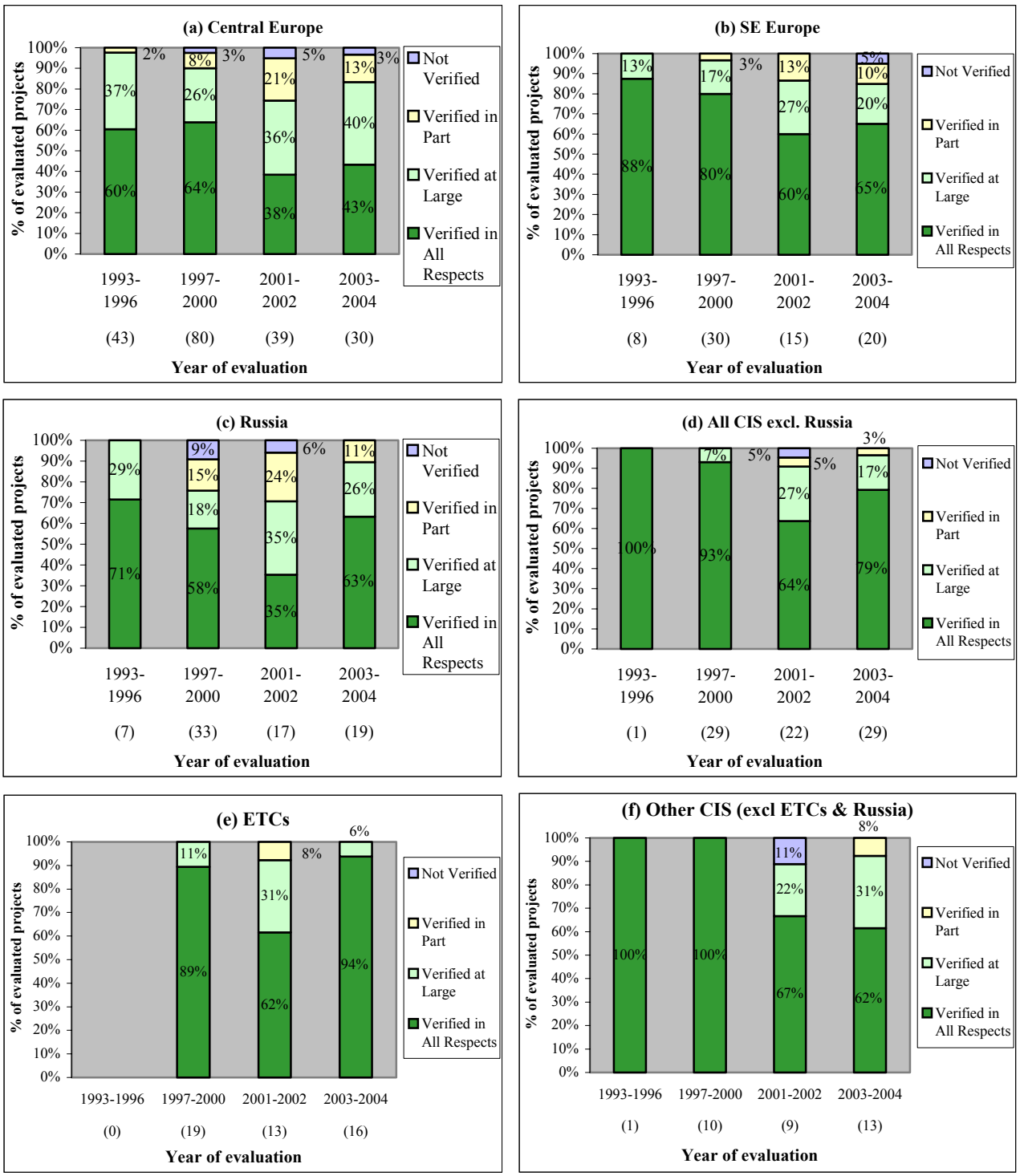


4.2. TIME VARIATIONS OF ADDITIONALITY BY REGION AND SECTOR

Charts 4.2 to 4.7 show additionality ratings, by region and over time. The overall decrease in ratings for additionality is apparent in every region of the Bank's operations, particularly in 2001-2002. Results in most regions have recovered somewhat in the last two years. Central Europe and Russia are the two regions where the ratings on additionality were the lowest in the downturn period. These areas witnessed a faster growing financial sector intermediation, but at the same time were more vulnerable to crises.

[16] The upturn in the performance of additionality is more pronounced when focusing on the *verified in all respects* category only.

Chart 4.2-4.7: Additionality ratings: changes in year in major country groups

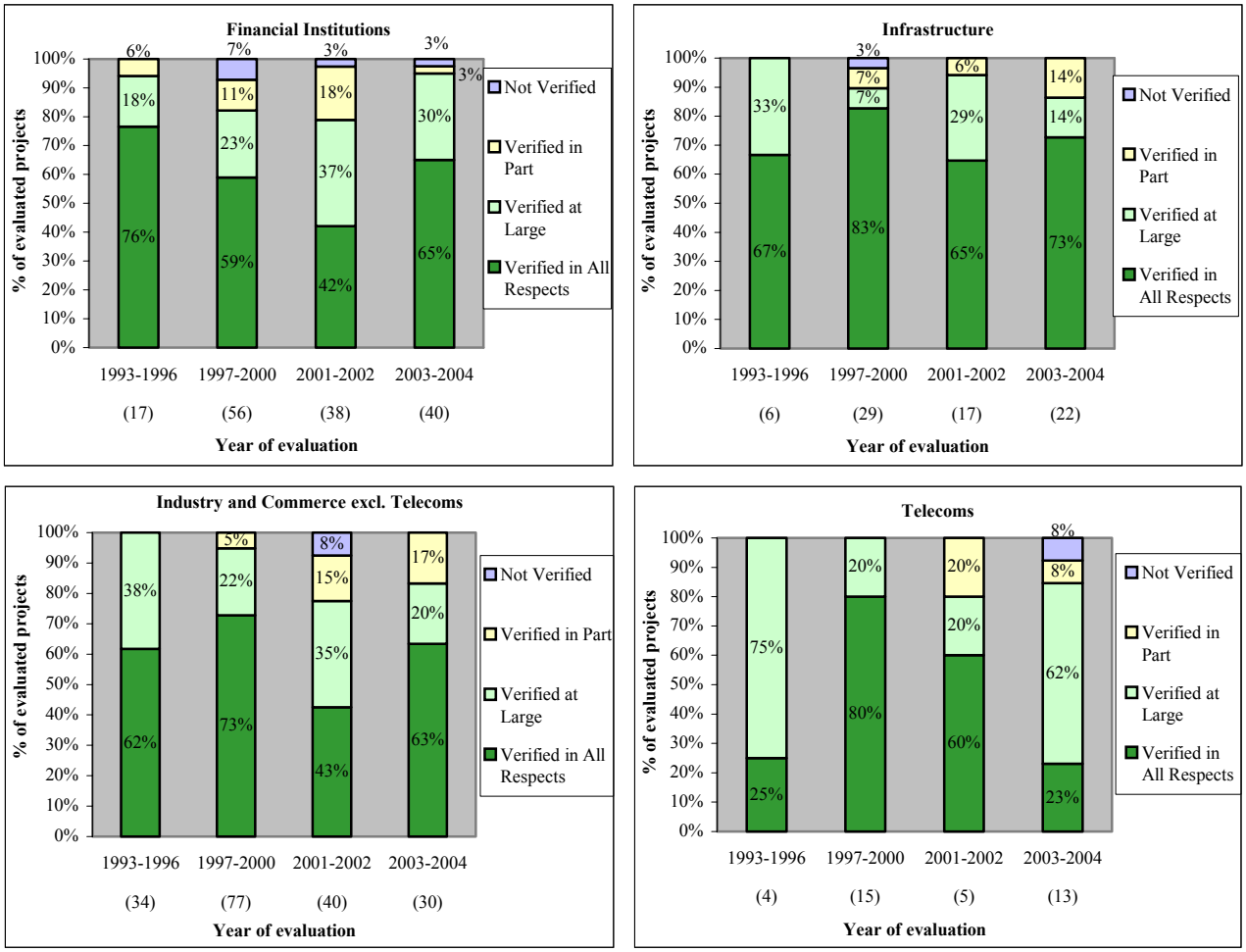


Note: 21 regional projects omitted
See chart 2.2 for list of countries in each region

Charts 4.8 to 4.11 indicate additionality ratings, by sector and over the same periods as above. The overall decrease in ratings for additionality is also apparent in every sector of the Bank's operations in 2001-2002, followed by a similar recovery. The cycle is pronounced in industry and finance, two sectors that were more directly exposed to the 1998 crisis. The design of functioning of the projects signed before the crisis may have been adequate for implementation under normal conditions, but the institutional components of these projects may not have been strong enough to minimise the effects of the crisis. The post 1998 projects

that tend to carry more additionality in these sectors could include a stronger institutional component as a lesson learned from the crisis.

Chart 4.8-4.11: Additionality ratings: changes in year in major sector groups



5. COMPANY AND PROJECT FINANCIAL PERFORMANCE[17]

5.1. 5.1 COMPANY AND PROJECT FINANCIAL PERFORMANCE RATINGS 1993-2004

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.[18] The

[17] For several ratings, including Company and Project Financial Performance, EvD moved from a four-point to a six-point rating scale in 2004, as described in the Evaluation Policy Review of 2004; this also applies to Fulfilment of Objectives, environmental ratings, and Bank Handling. The descriptions of the ratings used for Investment Performance also changed. This report uses the old, four-point scale throughout, in order to enable easy comparison with ratings from previous years. This approach will be changed in a future year, once a critical mass has been achieved of operations rated according to the new system.

[18] 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.

financial performance ratings of 443 evaluated operations by end-2004 are presented in Charts 5.1 and 5.2:

Chart 5.1: Company performance, percentage distribution of assigned ratings (443 investment operations evaluated 1993-2004)

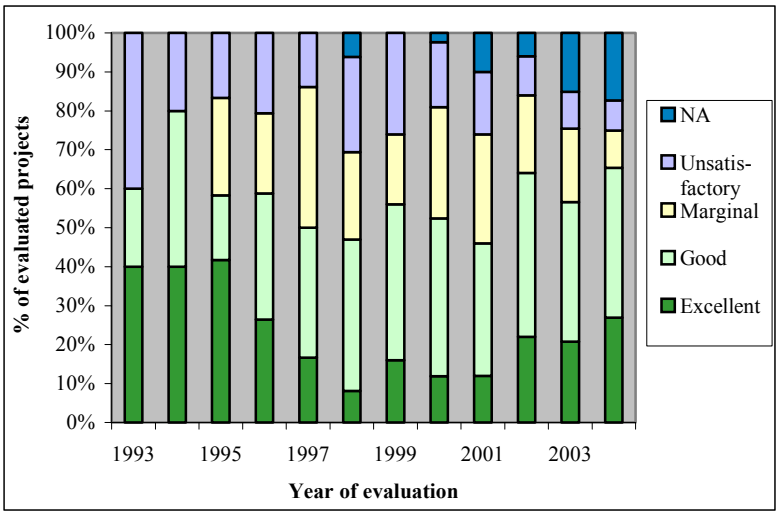


Table 5.1: Company performance, percentage distribution of assigned ratings (443 investment operations evaluated 1993-2004)

	1993-97	1993-98	1993-99	1993-2000	1993-2001	1993-2002	1993-2003	1993-2004
Unsatisfactory	19%	21%	22%	21%	20%	19%	17%	16%
Marginal	24%	23%	22%	23%	24%	23%	23%	21%
Good	32%	34%	35%	36%	36%	37%	37%	37%
Excellent	27%	21%	19%	18%	17%	18%	18%	19%
Total (No. of projects)	**97**	**146**	**196**	**238**	**288**	**338**	**391**	**443**

Chart 5.2: Project performance, percentage distribution of assigned ratings (443 investment operations evaluated 1993-2004)

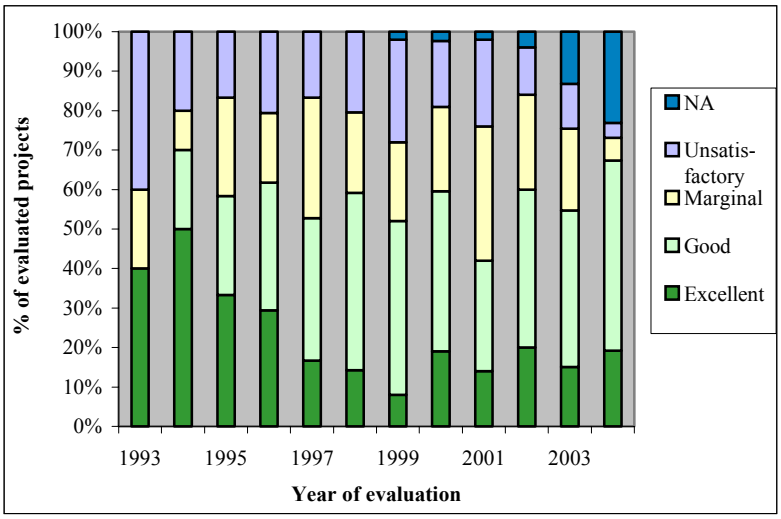


Table 5.2: Project performance, percentage distribution of assigned ratings (443 investment operations evaluated 1993-2004)

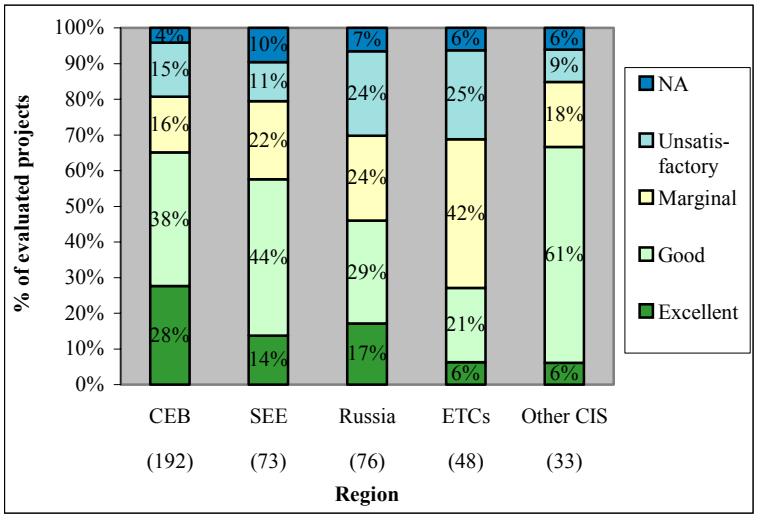
	1993-97	1993-98	1993-99	1993-2000	1993-2001	1993-2002	1993-2003	1993-2004
Unsatisfactory	19%	20%	21%	21%	21%	20%	18%	17%
Marginal	23%	22%	21%	21%	24%	24%	23%	21%
Good	30%	35%	38%	38%	36%	36%	38%	39%
	0%	0%						
Total (No. of projects)	**97**	**146**	**196**	**238**	**288**	**338**	**391**	**443**

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 a large number of projects were assigned the highest performance rating just before the mid-1990s, but this level dropped thereafter, before improving again from 2002. The recent improvement 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. The level of combined *Good* and *Excellent* rated projects is now similar to the level in the early 1990s, although the number of *Excellent* rated projects on their own is still much lower. These data reflect EBRD's strategy to move further east, increasing its share in CIS countries, which on average have riskier investment environments than central and eastern Europe and the Baltic states, which dominated EBRD's early investment portfolio.

5.2. COMPANY AND PROJECT FINANCIAL PERFORMANCE RATINGS BY COUNTRY GROUPS

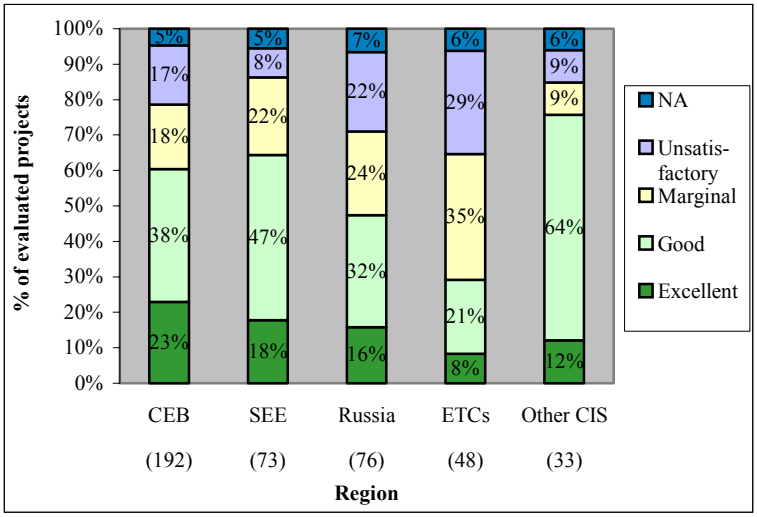
It can be seen from Charts 6.3 and 6.4 that a geographical breakdown of evaluated projects produces results that mirror those for other ratings: Russia and the ETCs have fewer projects rated *Good* or *Excellent* than other regions. In addition, Russia has the greatest number of projects with *Unsatisfactory* ratings for company and project performance. It is interesting that the other CIS countries have a relatively good performance but, as for the Overall Performance rating, the better outcomes from Ukraine and Kazakhstan outbalance the weaker results from Belarus, in particular.

Chart 5.3 Company performance ratings by country groups (422 investment operations evaluated 1993-2004)



Note: 21 regional projects omitted
See chart 2.2 for list of countries in each region

Chart 5.4 Project performance ratings by country groups
(422 investment operations evaluated 1993-2004)

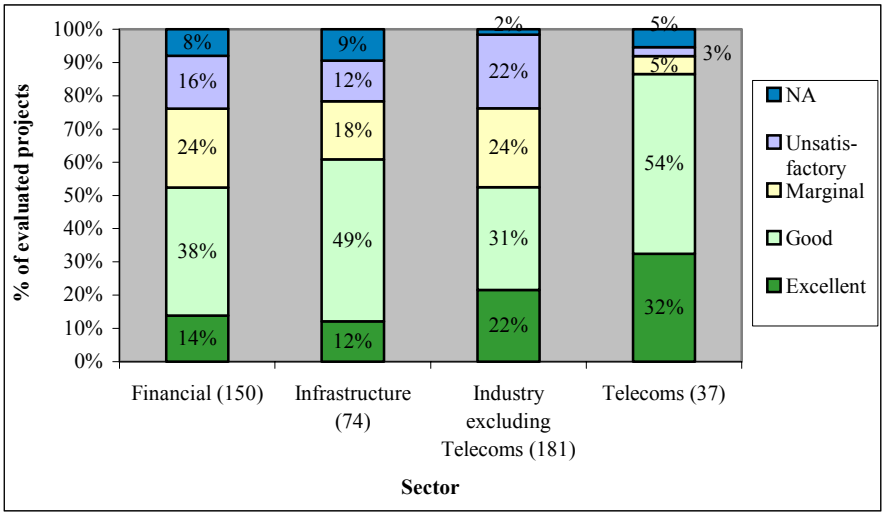


Note: 21 regional projects omitted
See chart 2.2 for list of countries in each region

5.3. COMPANY AND PROJECT FINANCIAL PERFORMANCE RATINGS BY SECTOR GROUPS

As shown in chart 5.5, project financial performance is better in infrastructure (with 61 per cent of operations rated *Good* or *Excellent*) than in Financial or Industry operations, which score 52 and 53 per cent respectively. Further time-series analysis shows that the outcomes for Industry projects have improved slightly over time, from 47 per cent rated *Good* or *Excellent* in 1993-1996 to 54 per cent in 2001-2004. Financial projects, by contrast, have seen falling ratings, from 70 per cent in 1993-1996 to 47 per cent in 2001-2004.

Chart 5.5 Project performance ratings by sector groups
(443 investment operations evaluated 1993-2004)



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.

Chart 6.1: Fulfilment of objectives, percentage distribution of assigned ratings (443 investment operations evaluated 1993-2004)

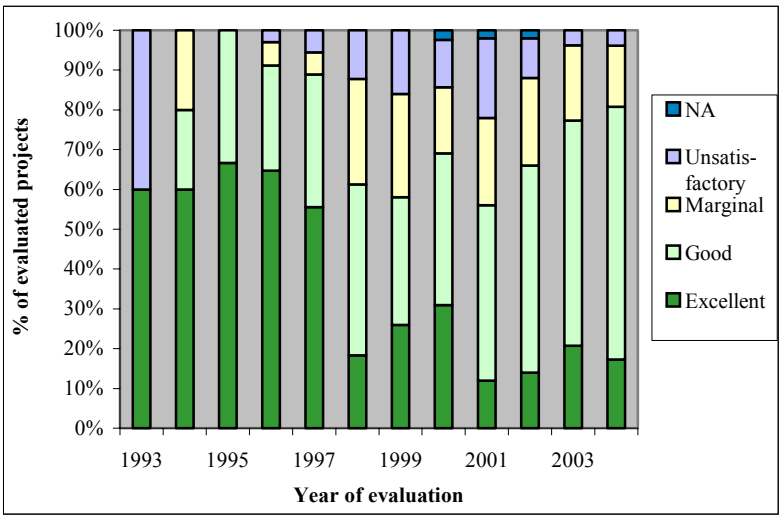


Table 6.1: Fulfilment of objectives, percentage distribution of assigned ratings (443 investment operations evaluated 1993-2004)

	1993-97	1993-98	1993-99	1993-2000	1993-2001	1993-2002	1993-2003	1993-2004
Unsatisfactory	5%	7%	10%	10%	12%	12%	10%	10%
Marginal	6%	13%	16%	16%	17%	18%	19%	18%
Good	28%	33%	33%	34%	36%	37%	40%	42%
Excellent	61%	47%	41%	39%	35%	32%	30%	29%
NA	0%	0%	0%	0%	0%	1%	1%	1%
Total (No. of projects)	**97**	**146**	**196**	**238**	**288**	**338**	**391**	**443**

As could be expected, there is a high correlation between project and company financial performance and fulfilment of objectives. The apparent falling trend mostly reflects the increasing share of evaluated projects in Russia and early transition stage countries further east. This trend may not continue as the last two years tend to indicate some turnaround.

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 375 evaluated projects during 1996-2004. OPERs were rated for these criteria from 1996 and XMRAs from 1998.

7.2. ENVIRONMENT RATING SYSTEM

The series from 1996-2004 covers two environmental dimensions: The first dimension concerns environmental performance of the sponsor and of the Bank, e.g. environmental due diligence and audits; 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.

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 375 evaluated projects in 1996-2004.

Chart 7.1: Environmental performance, percentage distribution of assigned ratings (375 investment operations evaluated 1996-2004)

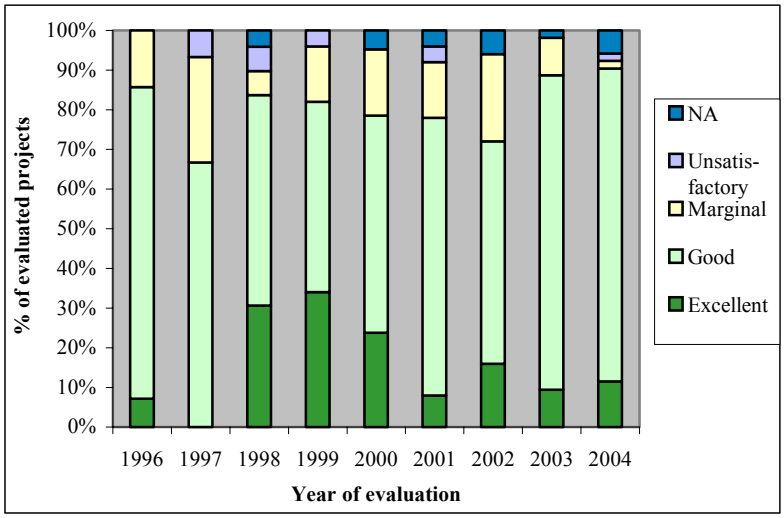


Table 7.1: Environmental performance, percentage distribution of assigned ratings (375 investment operations evaluated 1996-2004)

	1996-98	1996-99	1996-2000	1996-2001	1996-2002	1996-2003	1996-2004
							2%
							13%
Subtotal	*16%*	*18%*	*18%*	*18%*	*18%*	*16%*	*15%*
							64%
							18%
Subtotal	*81%*	*81%*	*81%*	*80%*	*79%*	*81%*	*82%*
							3%
N.o of projects	**78**	**128**	**170**	**220**	**270**	**323**	**375**

Chart 7.2: Extent of environmental change, percentage distribution of assigned ratings (375 investment operations evaluated 1996-2004)

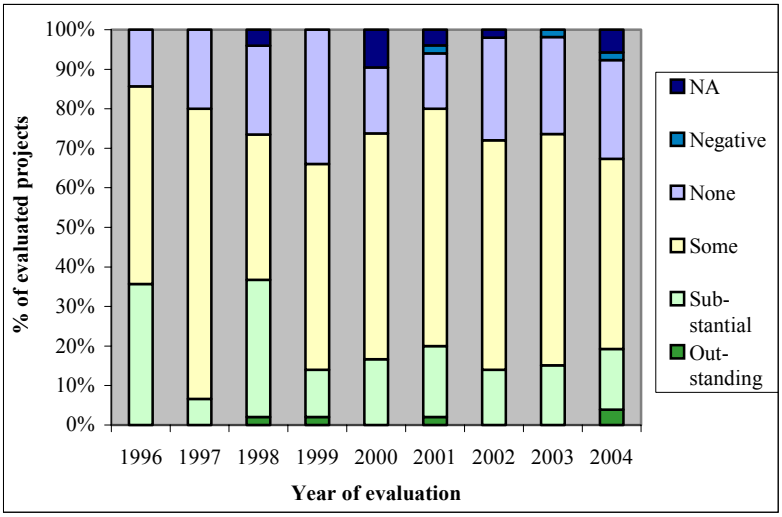


Table 7.2 Extent of environmental change, percentage distribution of assigned ratings (375 investment operations evaluated 1996-2004)

	1996-98	1996-99	1996-2000	1996-2001	1996-2002	1996-2003	1996-2004
Negative	0%	0%	0%	0%	0%	1%	
None	21%	26%	24%	21%	23%	22%	
Some	46%	48%	51%	53%	54%	54%	
Subtotal	*67%*	*74%*	*75%*	*74%*	*77%*	*77%*	*78%*
Substantial	29%	22%	21%	20%	19%	19%	
	1%	2%	1%	2%	1%	1%	1%
Subtotal	*30%*	*24%*	*22%*	*21%*	*20%*	*20%*	*19%*
NA	3%	2%	3%	4%	3%	3%	3%
No. of projects	**78**	**128**	**170**	**220**	**270**	**323**	**375**

82 per cent of evaluated operations obtained a *Satisfactory or better* rating of environmental performance of the sponsor and the Bank. A total of 13 per cent were rated *Marginal* in this respect and only 2 per cent were evaluated as having *Unsatisfactory* performance (3 per cent of projects were given *Not Applicable* ratings). 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 19 per cent of the cases, *Some* for 54 per cent and *None* for 22 per cent (3 per cent were rated *Not Applicable* and 1% *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 "brown-field" projects, but they also present higher or excessive turnaround and financial sustainability risks. Three projects resulted in *Negative* environmental change. Two involved project expansions without corresponding investments in agreed to pollution control infrastructure, thus resulting in greater pollution than the without project scenario. The other was an infrastructure project which ran into difficulties part way through, leaving a half built and deteriorating facility that negatively impacts the environment.

8. BANK HANDLING

The quality of the Bank's handling of operations has been assessed in XMR Assessments since 1999, but has only been formally rated in OPER reports from 2002. This measure was included in the AEOR for the first time last year. The figures in Table 8.1 and Chart 8.1 take account of XMR assessments since 1999 and OPER reports since 2002, a total of 237 reports.

Chart 8.1 Bank Handling, percentage distribution of assigned ratings (237 investment projects evaluated 1999-2004)

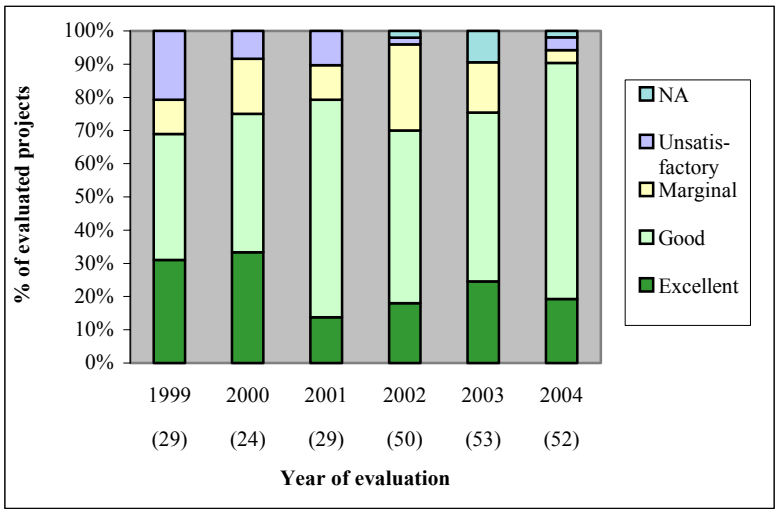


Table 8.1: Bank Handling, percentage distribution of assigned ratings (237 investment projects evaluated 1999-2004)

Ratings	1999-2000	1999-2001	1999-2002	1999-2003	1999-2004
Unsatisfactory	15%	13%	9%	7%	6%
Marginal	13%	12%	17%	17%	14%
Subtotal	*28%*	*25%*	*26%*	*24%*	*20%*
Good	40%	49%	50%	50%	55%
Excellent	32%	26%	23%	23%	22%
Subtotal	*72%*	*75%*	*73%*	*73%*	*77%*
NA	0%	0%	1%	3%	3%
Total (No. of projects)	53	82	132	185	237

The results show that 77 per cent of the operations rated for bank handling have achieved a rating of *Good* or *Excellent*. However, about a fifth of evaluated projects obtained an *Unsatisfactory* or *Marginal* rating. This group of projects, in particular, generated important lessons learned.

Chart 8.2 Bank Handling by sector groups
(237 investment projects evaluated 1999-2004)

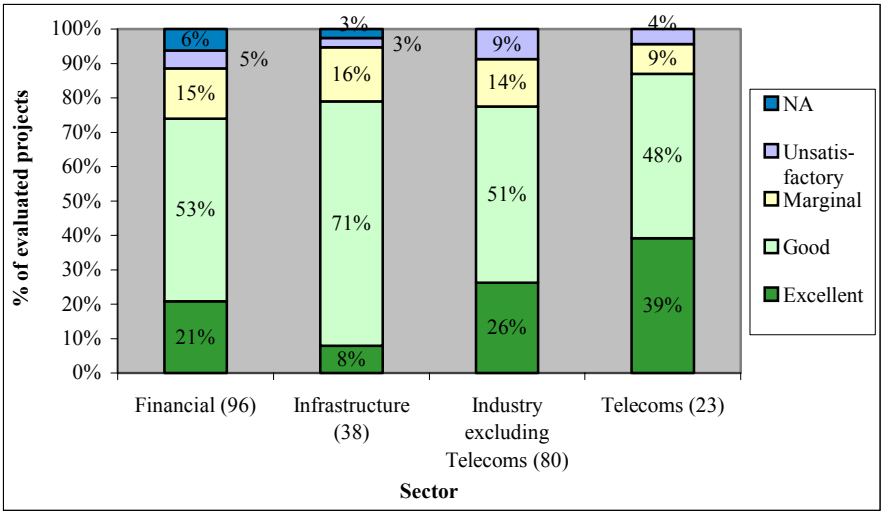
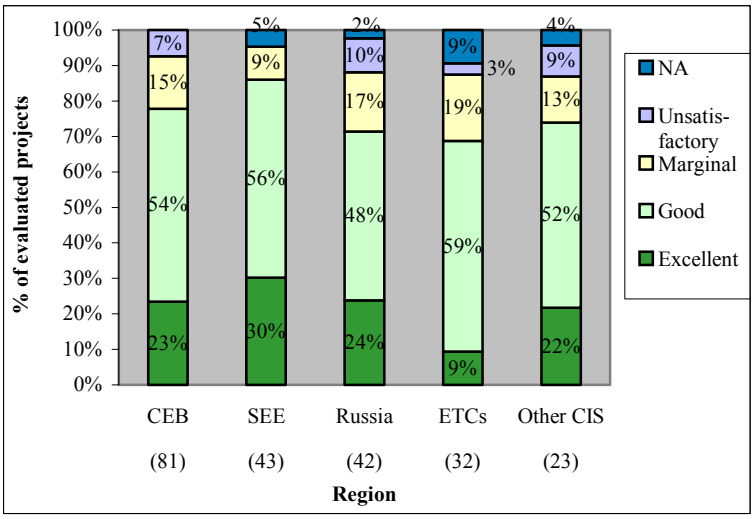


Chart 8.3 Bank Handling by country groups
(221investment projects evaluated 1999-2004)



Note: 16 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 mirror other performance ratings. This perhaps reflects the fact that it is easier to detect poor handling in a project that has performed badly, than in one that has succeeded for reasons other than EBRD's performance.

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 2000-04

	Outstanding	Excellent	Satisfactory	Marginal	Inadequate	Unsatisfactory	Not rated	No. of reports
2000	22%	0%	50%	11%	0%	17%	0%	18
2001	5%	5%	48%	14%	5%	19%	5%	21
2002	0%	17%	26%	30%	9%	13%	4%	23
2003	0%	33%	44%	11%	6%	6%	0%	18
2004	4%	39%	39%	9%	4%	0%	4%	23
2000-01	13%	3%	49%	13%	3%	18%	3%	39
2000-02	8%	8%	40%	19%	5%	16%	3%	62
2000-2003	6%	14%	41%	18%	5%	14%	3%	80
2000-2004	6%	19%	41%	16%	5%	11%	3%	103

Chart 9.1 shows the outcome of this analysis, which is based on evaluations conducted since 2000. The sample number is still relatively small as only OPER reports are rated for this indicator. Over the five years, 66 per cent of fully evaluated operations achieved a *Satisfactory* or better rating for investment performance.

Of the 11 projects rated *Unsatisfactory*, seven were also rated *Negative* to *Marginal* for transition impact and *Unsuccessful* overall. (Two were rated *Satisfactory* and two *Good* for transition impact, with overall performance ratings *Unsuccessful* or *Partly Successful*.) Indeed, of the four OPER reports since 2000 rated *Negative* for transition impact, three had *Unsatisfactory* investment performance and one *Marginal*. By contrast, four of the five operations rated *Inadequate* (i.e. the second lowest rating) for investment performance had transition impact that was *Satisfactory* or better. One even had *Excellent* transition impact. Projects rated *Marginal* for investment performance also did quite well on transition impact: eight had *Good* transition impact, two *Satisfactory* and only two *Marginal*, with none *Unsatisfactory* or *Negative*. It appears that the projects with a negative return for EBRD were generally also unsatisfactory in their transition impact and, indeed, in most areas. An *Unsatisfactory* rating generally implies a full or partial write-off of the Bank's investment. On the other hand, projects which had a low return but did not actually lose money are projects where the Bank accepted a lower return on its investment in order to achieve transition in difficult environments.

Of the projects rated *Outstanding* or *Excellent* for investment performance, most also scored highly for transition impact. Two projects stand out as having *Excellent* investment performance and only *Marginal* TI. In both cases the evaluation report highlighted the low transition.

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 443 projects evaluated in 1993-2004. 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 60 per cent thereafter (see Appendix 8, Chart 1.1). The sample represents 76 per cent of all 579 investment projects that had reached the ready-for-evaluation stage. The evaluated share of all signed projects by end 2004 was lower, at 39 per cent, as many more recently approved

projects were still under implementation.[1] Charts 10.1-10.9 below illustrate the level of representation in respect of *countries*, *sectors* and *facility risk* ratings.

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[2]

Chart 10.1: Cumulative signed EBRD operations

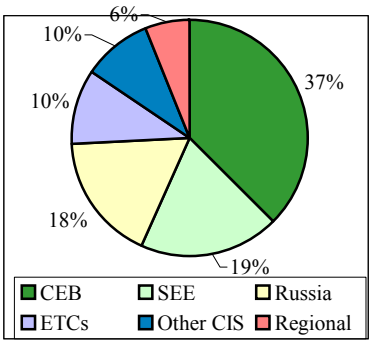


Chart 10.2: All projects ready for evaluation

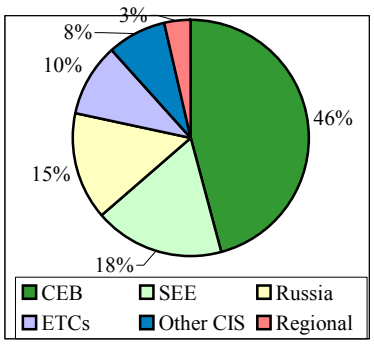
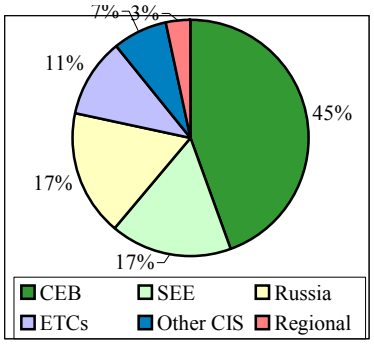


Chart 10.3: EvD's evaluated sample



The evaluated sample in respect of *country coverage*, however, differs somewhat from the population of signed projects. 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.

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

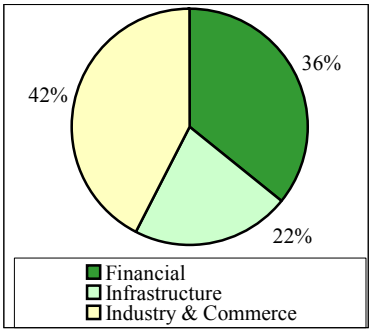


Chart 9.5: All projects ready for evaluation

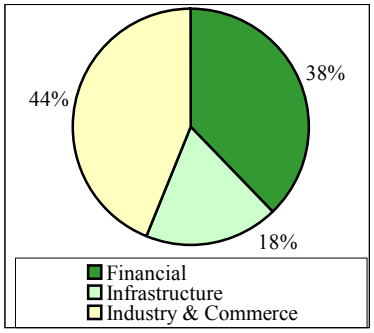
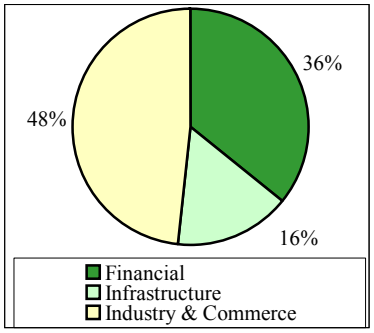


Chart 9.6: EvD's evaluated sample



[1] See Appendix 5 for more detailed data; records on signed operations may also at times split one operation into separate facilities.
[2] 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 2003), comparing the "ready for evaluation" group with the evaluated sample and the signed portfolio as a whole. It can be concluded that the 20 per cent of projects with a *facility risk* rating of 7-10 in the sample of evaluated projects, compares well with the portfolio of signed projects where 17 per cent of the projects are rated between 7-10 for their *facility risk*.

Facility risk distribution by numbers of projects:

Chart 10.7: Cumulative signed EBRD operations

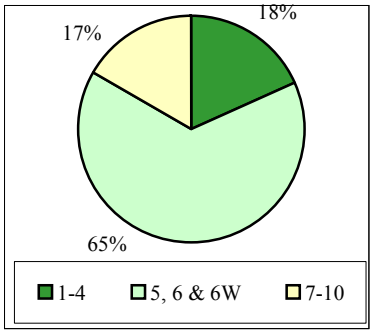


Chart 10.8: All projects ready for evaluation

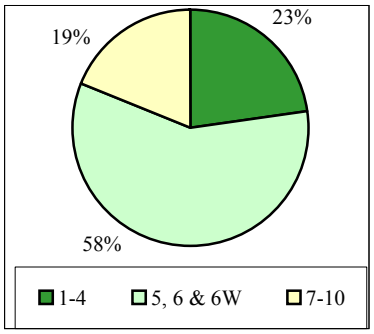
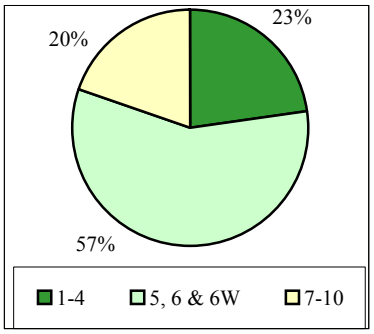


Chart 10.9: EvD's evaluated sample



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

The sample of 443 evaluated investment projects by the end of 2004 represents well all the projects ready for evaluation, with a 76 per cent sample coverage. There is also an adequate representation of the signed portfolio, but its gradually changing country and sector patterns will not be captured fully until the more recent projects become ready for evaluation.

Table of TC Funds

Donor fund country	Covered by OPER reports				Portfolio-wide	
	No.	%	Amount	%	Amount	%
Albania	0	0.00%	0	0.00%	40	0.00%
Australia	0	0.00%	0	0.00%	80	0.01%
Austria	0	0.00%	0	0.00%	4,695	0.50%
Belarus	0	0.00%	0	0.00%	431	0.05%
Belgium	0	0.00%	0	0.00%	1,414	0.15%
Canada	4	2.00%	1,081	1.71%	18,915	2.00%
Denmark	3	1.50%	229	0.36%	5,544	0.59%
Finland	3	1.50%	241	0.38%	8,723	0.92%
France	4	2.00%	544	0.86%	16,354	1.73%
Germany	5	2.50%	1,198	1.89%	13,190	1.39%
Greece	0	0.00%	0	0.00%	1,387	0.15%
Iceland	1	0.50%	50	0.08%	206	0.02%
Ireland	3	1.50%	88	0.14%	2,192	0.23%
Israel	1	0.50%	38	0.06%	306	0.03%
Italy	3	1.50%	115	0.18%	44,337	4.68%
Japan	44	22.00%	12,267	19.34%	102,031	10.77%
Luxembourg	0	0.00%	0	0.00%	2,358	0.25%
Netherlands	11	5.50%	2,705	4.27%	42,853	4.52%
New Zealand	1	0.50%	68	0.11%	175	0.02%
Norway	1	0.50%	908	1.43%	4,078	0.43%
Portugal	1	0.50%	19	0.03%	468	0.05%
Republic of Korea	0	0.00%	0	0.00%	304	0.03%
Spain	0	0.00%	0	0.00%	2,871	0.30%
Sweden	3	1.50%	506	0.80%	9,314	0.98%
Switzerland	6	3.00%	1,490	2.35%	14,588	1.54%
Taipei China	8	4.00%	960	1.51%	16,220	1.71%
Turkey	1	0.50%	105	0.16%	300	0.03%
United Kingdom	7	3.50%	1,654	2.61%	33,459	3.53%
USA	7	3.50%	2,542	4.01%	55,097	5.81%
Other donors						
EU	82	41.00%	36,514	57.58%	406,268	42.87%
European Agency for Reconstruction	0	0.00%	0	0.00%	6,792	0.72%
Global Environment Agency	0	0.00%	0	0.00%	982	0.10%
UNDP	0	0.00%	0	0.00%	1,237	0.13%
EBRD	0	0.00%	0	0.00%	306	0.03%
Chevron Munaigas Inc[1]	0	0.00%	0	0.00%	376	0.04%
World Bank	0	0.00%	0	0.00%	18	0.00%
Multiple-donor funds[2]	1	0.50%	95	0.15%	127,545	13.46%
Financial Sector[3]	0	0.00%	0	0.00%	2,201	0.23%
TOTAL	200	100.00%	63,417	100.00%	947,653	100.00%

[1] First private donor to TC funds

[2] Funds include TAM Nordic Council, Baltic Fund, RSBF, EBRD TC Special Fund, Balkan Region Fund, Mongolia TC Fund, RVF for North West Russia, EBRD Annual General Meeting 2000. Donors include the G-7, Nordic countries, Japan, Taipei China, Luxembourg, Netherlands, EC, Russia, Switzerland

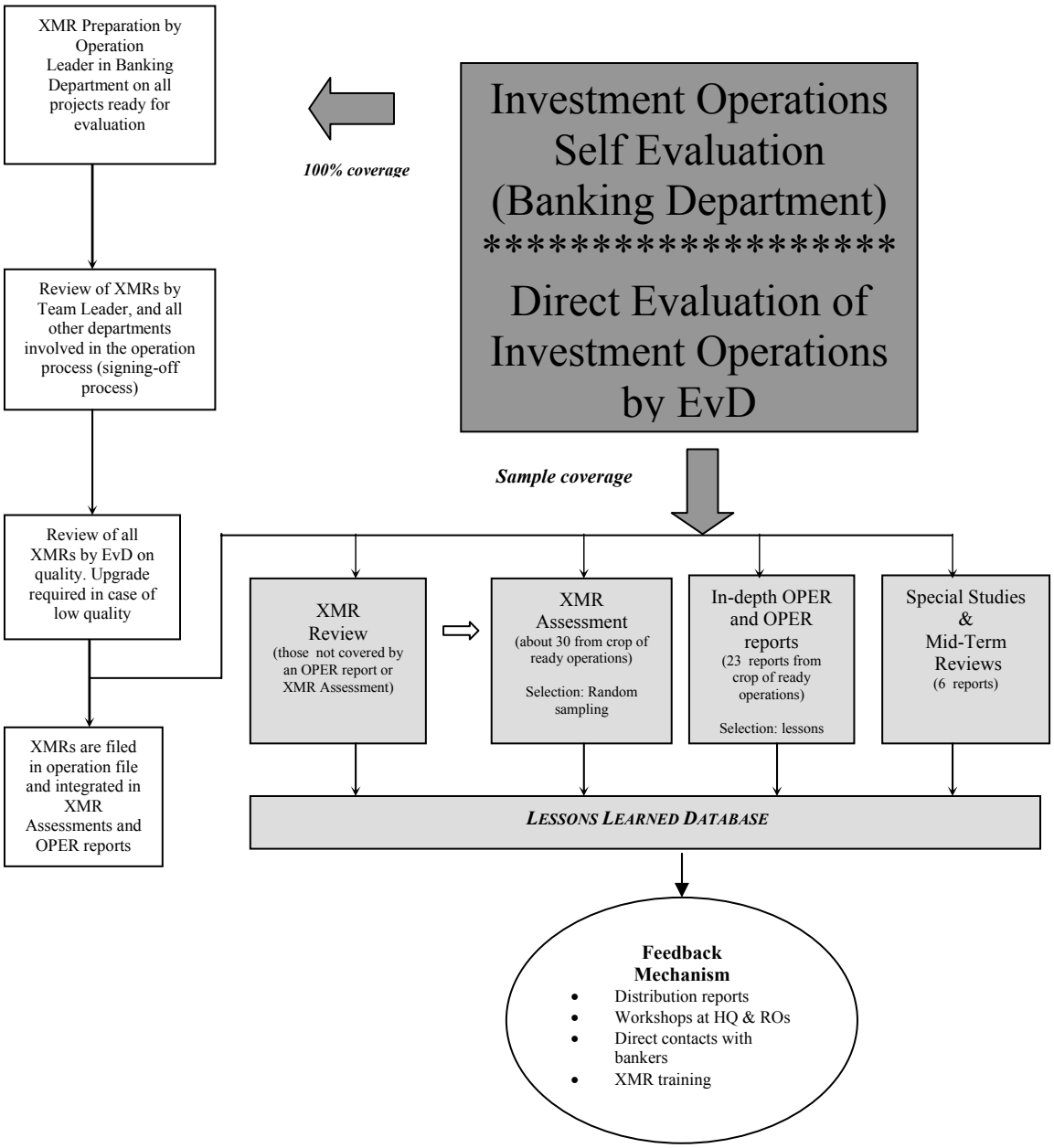
[3] Contributions to these funds consist of technical assistance fees payable by the borrowers under the terms of loan agreements between EBRD and certain financial intermediaries.

Portfolio data from Funds Reporting December 2004

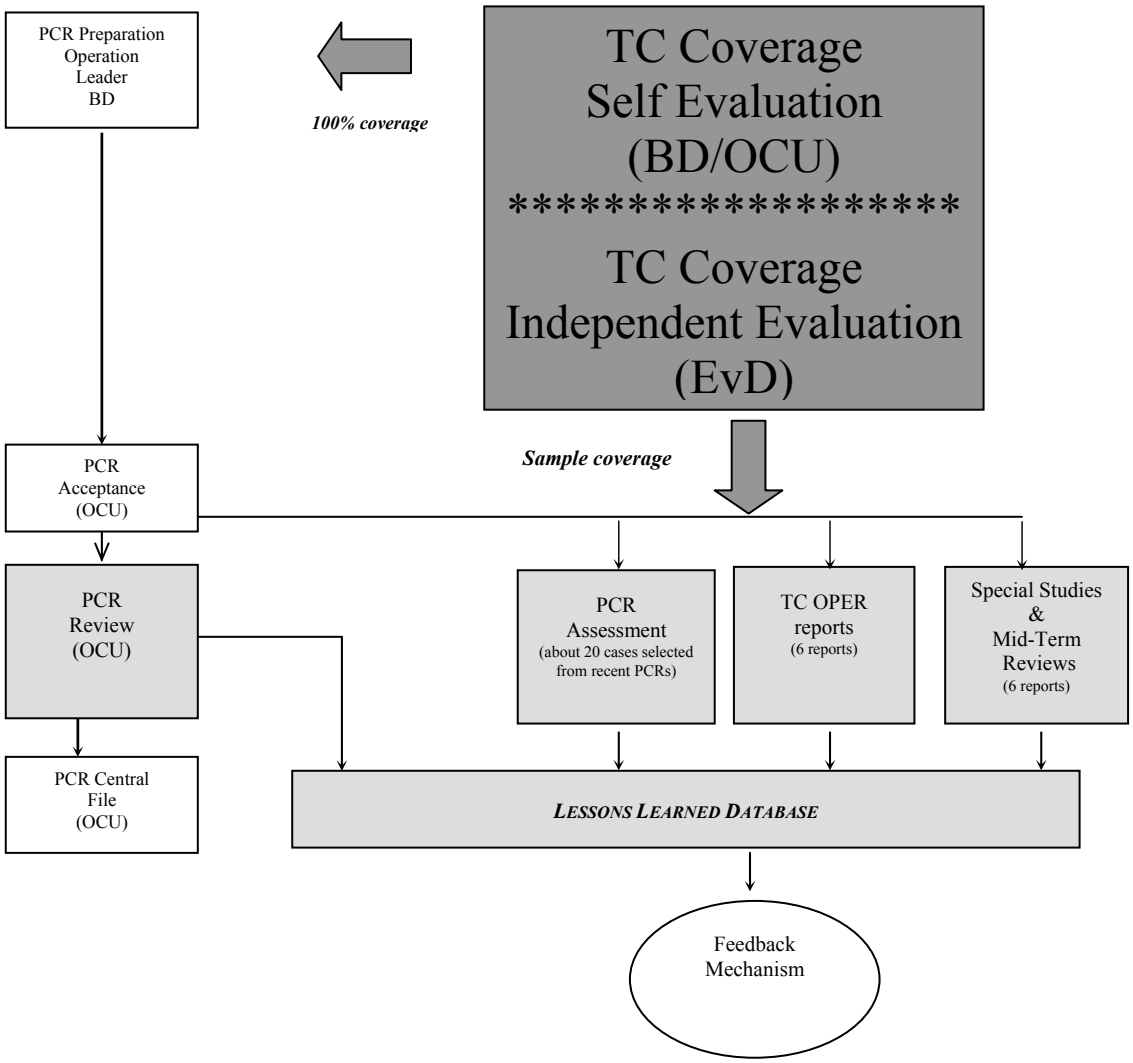
OPER report data from Datawarehouse December 2004

Figures in EUR'000

EVALUATION OF INVESTMENT OPERATIONS
THE PROCESS



EVALUATION OF TC OPERATIONS
THE PROCESS



Appendix 11

MEMORANDUM

To: Evaluation Department **Date:** 24 June 2005

From: Management

Subject: **Annual Evaluation Overview Report (AEOR) 2005**
Management's Comments

The Bank's Management welcomes the main conclusions of the AEOR 2005. The independent evaluation of the Bank's performance against its mandate, through investments and Technical Co-operation (TC), is very encouraging overall. Sustained additionality and transition results are particularly noteworthy. Management proposes to discuss the following clarifications and recommendations with the Audit Committee and the Board.

A. Recommendation to reduce the proportion of projects to be evaluated by EvD (currenty 76.8% of all projects ready for evaluation) – Chapter 2

For the first time, transition impact as measured by (i) TIMS and (ii) EvD ex-post, can be compared for a significant cohort of projects (59).

EvD confirms the accuracy of TIMS ratings, and concludes that TIMS is more conservative than EvD's ex-post ratings (as EvD looks at several more transition indicators than the 3 or 4 transition benchmarks selected with OCE ex-ante). The quality and consistency of TIMS for all projects reduces the need for an EvD's ex-post review of almost all projects in the Bank's portfolio (76.8% of all projects ready for evaluation are evaluated by EvD). Given the independent monitoring function fulfilled by TIMS, EvD could now focus on a much smaller, yet still statistically significant, sample of projects for ex-post evaluation to validate the overall performance of the Bank.

Other IFIs' evaluation departments typically review a smaller proportion (30% to 50%) of projects ready for evaluation. In any case, comparisons with other IFIs are less relevant for EBRD as the Bank already provides the highest standards of credit monitoring and the only development/transition monitoring system amongst IFIs.

B. Proposal to postpone the introduction of an additional TIMS rating - Chapter 2

Please note management's divergence of opinion on the proposal to add a rating category to the existing TIMS process (Section 2.6). TIMS is a young and already successful tool. The proliferation of ratings is confusing and dilutes the impact of

existing ones while only adding an illusory impression of accuracy. We would propose to review this idea in a couple of years, once the Bank has accumulated more experience on the impact of TIMS.

C. Concurrence on ETC priorities and business model – Chapter 3

The ETC Initiative (ETCI) and its Action Plan address a number of the recommendations outlined in section 3 "Early Transition Countries-Learning from Experience", in other sections of the PED report, and more. Specifically with regard to Section 3, it should be emphasized that the the ETCI builds on three pillars: the Bank's readiness to take more risk within sound banking principles together with adaptation of selected instruments to the specific needs of the ETCs, increasing the Bank's dedicated resources, and more efficient/deeper support of the donor community through TC (including via the recently established ETC Multi-Donor Fund) and grant cofinancing. The ETCI focuses on support for the private sector to ensure sustainable poverty reduction, and selected infrastructure projects.

The ETCI places particular emphasis on support for MSMEs, including via non-Bank MFIs, policy dialogue on improving the investment climate and selected sector reforms, institution building and advisory services, substantive and well targeted TC support, as well as specially tailored instruments to extend the reach of the Bank in the ETCs. The trend towards a far greater number of smaller operations is already being demonstrated and the Bank is continuously improving the delivery models based on experience acquired, including based on PED's work.

However, recommendation for high level policy dialogue as a catalyst before investment in a sector has to be very carefully assessed together with any stand-alone TC for institution building and advisory services. The chance of both of them successfully leading to investments by the Bank is more a function of the government's own commitment to reform. Experience shows that investments, including of course in the public sector (see quote from Section 6.7.1 in paragraph E below), are the Bank's most successful leverage to foster transition and that stand-alone TC is a rare resource to used very carefully.

D. Action on lessons learned for Technical Coperation – Chapter 4

Management is already addressing with IT the comments in Section 4.3.3 regarding the state of TC files and records management. A system that parallels the records management of *ProjectLink* (perhaps in a slightly different form) is being introduced for TC operations.

E. Proposal to limit the number of recommendations listed in the AOER outside their project, sector, or country evaluation context – Chapters 5 and 6

There is marginal added value in listing various recommendations (in Chapters 5 and 6) outside their specific project, sector or country evaluation context, or indeed without

their respective management comments. These recommendations are extracted from evaluation reports that have already been circulated, internally discussed with the Board and published on EBRD external website.

Sweeping statements based on one evaluation exercise can be misleading. For example, the recommendation (5.1.6) that "EBRD should seek an agreed exit horizon from MFIs" was in fact aimed at the ProCredit banks' group and, while valid at the time of the evaluation, is now outdated. Or the extract from a Country Strategy Evaluation[1] (6.7.1) that "The Bank should also aim keep (sic) to a minimum the share of public sector projects in its portfolio" is surely not meant to apply to all the Banks' countries of operations. In most of the Bank's countries of operations, public sector projects bring excellent transition impact in addition, or in complement, of other IFIs lending.

Similarly excerpts from Audit Committee minutes (Section 7.2) can be difficult to understand or to translate into follow up action (e.g. : "…. The structure of PPPs is too complex to function in a very early transition country…. The Bank's capacity to understand the situation should not be confined to sophisticated models but should involve speaking a lot to country specialists and local players"). As per its introductory sentence, the AEOR should remain a synthesis of the findings of EvD regarding the Bank's mandate performance rather than a compendium of diverse EvD annual tasks.

F. Disagrement on conclusions from the analysis of environmental classifications – Chapter 5.

The AEOR review of the EBRD's environmental classification system fails to distinguish between C/0 and C/1 classifications. Categorisation into "C" does not compromise the ability of the Bank to improve the environmental performance of the Company. The statement that "some of the C category projects should probably have been B or even A category projects" is erroneous.

For certain types of projects, where the use of Bank's funds is likely to result in minimal or no adverse environmental impacts, however the physical facilities involved in the project may be associated with significant environmental issues, ED may use a C/1 classification, which requires an environmental audit to be carried out. Environmental Audits are carried out to assess the impact of past and current operations of existing company facilities. An Environmental Audit identifies past or present concerns, current status of regulatory compliance and environmental performance as well as potential environmental and health and safety risks, liabilities and opportunities associated with the project. The audit normally provides a set of recommendations which result in the preparation of an Environmental Action Plan (EAP). The EAP typically addresses issues requiring a long-term or phased approach, such as compliance with expected future regulatory requirements, including compatibility with EU or other international

[1] Managements comments on the Country Strategy Evaluations are recorded in the "Review of the Pilot Phase of Country Strategy Evaluations" completed for EvD by an external consultant in May 2005 and to be presented to the Board simultaneously with the AEOR.

legal requirements, standards and practices. The EAP may also address opportunities to further improve the environmental performance, including development and implementation of environmental management systems. EAPs are agreed between the EBRD and the project sponsor and become part of the legal agreement with the Bank. Therefore, Management disagree with statements in section 5.5.5, that C projects "are associated with lower level of verified Additionality" and that the classification of projects is related to their environmental performance.