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EVALUATION COOPERATION GROUP

Multilateral Development Banks

Evaluation Cooperation Group

Working Group on Private Sector Evaluation

Good Practice Standards for the Evaluation of Private Sector Investment Operations

Fourth Edition

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Contents

Introduction

Background to the ECG Good Practice Standards

The Evaluation Cooperation Group's Good Practice Standards for Evaluation of Private Sector Investment Operations (ECG-GPS) were originally formulated in response to the call for harmonization of evaluation methodologies by the Development Committee Task Force in 1996. In 2001, the ECG issued the first edition of the GPS, followed by second and third editions in 2003 and 2006 respectively. Each subsequent edition was informed by the findings and recommendations of a benchmarking exercise, which assessed members' practices against the GPS. Now, following the recent benchmarking exercise against the third edition of the GPS, the ECG is issuing a fourth edition.

The fourth edition builds and improves upon the existing GPS to reflect the evolution in evaluation practices and in the scope of investment operations undertaken by International Financial Institutions (IFIs). It takes into account feedback from the benchmarking exercise, and the experiences of members in implementing the existing set of standards. In particular, the fourth edition addresses the following issues identified with the GPS 3rd Edition:

a) some standards were too narrowly defined and did not recognize the variation in IFI mandates and operational procedures, particularly given the expanding membership of the ECG;

b) the GPS did not differentiate between standards that could be implemented unilaterally by the evaluation departments and those that relied in part or wholly on management action or cooperation;

c) some standards – the experimental standards in particular – were overly complicated both in design and in their implementation;

d) there was unnecessary overlap between different standards, which created ambiguity and/or duplication;

e) the GPS comprised a range of different types of standard (harmonization, other, good practice, best practice, and not universally applicable), which complicated both interpretation and periodic benchmarking;

f) the definition of rating benchmarks was in certain cases too complex and went beyond the objective of harmonization;

g) the GPS were narrowly focused on financial and non-financial sector investments (mainly project finance) and had limited relevance to the increased variety in investment operations (e.g., equity funds, working capital facilities, corporate finance, trade finance, political risk insurance etc.); and

h) there was scope for the GPS to promote more innovation in evaluation and dissemination through, for example, web-based media.

Although the premise of the Task Force's 1996 decree was to enable comparability of results, the guidance stressed other objectives including identifying and disseminating best practices in evaluation, sharing lessons from evaluations, and describing results in a common language. The decree also acknowledged that harmonization efforts should take into account the differing circumstances of each institution. The GPS 4th Edition is responsive to these wider objectives.

Format of the Good Practice Standards 4th Edition

The GPS 4th Edition is organized into generic standards that apply across all IFIs, and standards specific to IFIs supporting private sector investment (see table below). The standards themselves are formulated as Evaluation Principles (EPs). Each EP is defined in terms of its key components or "Elements". To guide IFIs in their efforts towards meeting the Elements of the EPs, each EP is supported by a set of standard Operational Practices (OPs). The OPs describe the policies and procedures that the IFI would typically need to adopt in order to be deemed compliant with the respective EP.

The process of refining and simplifying the GPS 3rd Edition has involved disaggregating previously multi-faceted standards into their individual components. As a result of that process, this fourth Edition of the GPS comprise 22 Evaluation Principles, each defined by between three and eight Elements, making 105 Elements in total. The EPs and their Elements together cover much the same scope as GPS 3rd Edition, though are presented in a simplified and more logically consistent framework, as follows:

Generic Principles: **Independence of evaluation departments** (5 Evaluation Principles)	Define the Central Evaluation Department (CED) mandate, its roles and responsibilities, and organizational independence from the IFI's Management and operational staff.
Generic Principles: **Reporting and corporate learning** (3 Evaluation Principles)	Concern the scope and timing of periodic reporting, the disclosure of evaluation reports and products, and the capture, dissemination and application of lessons from the evaluation system.
Generic Principles: **Evaluation guidance and rating systems** (2 Evaluation Principles)	Concern the features of an evaluation rating system, and the preparation and dissemination of evaluation guidance.
Private Sector Principles: **Planning and executing a project evaluation program** (4 Evaluation Principles)	Concern the determination of when an operation is ready for evaluation, the selection of a sample from a defined population, and the process of direct evaluation and self-evaluation with independent verification.
Private Sector Principles: **Evaluation metrics and benchmarks** (8 Evaluation Principles)	Define the scope of measurement and benchmarks for rating each performance indicator within the evaluation framework.

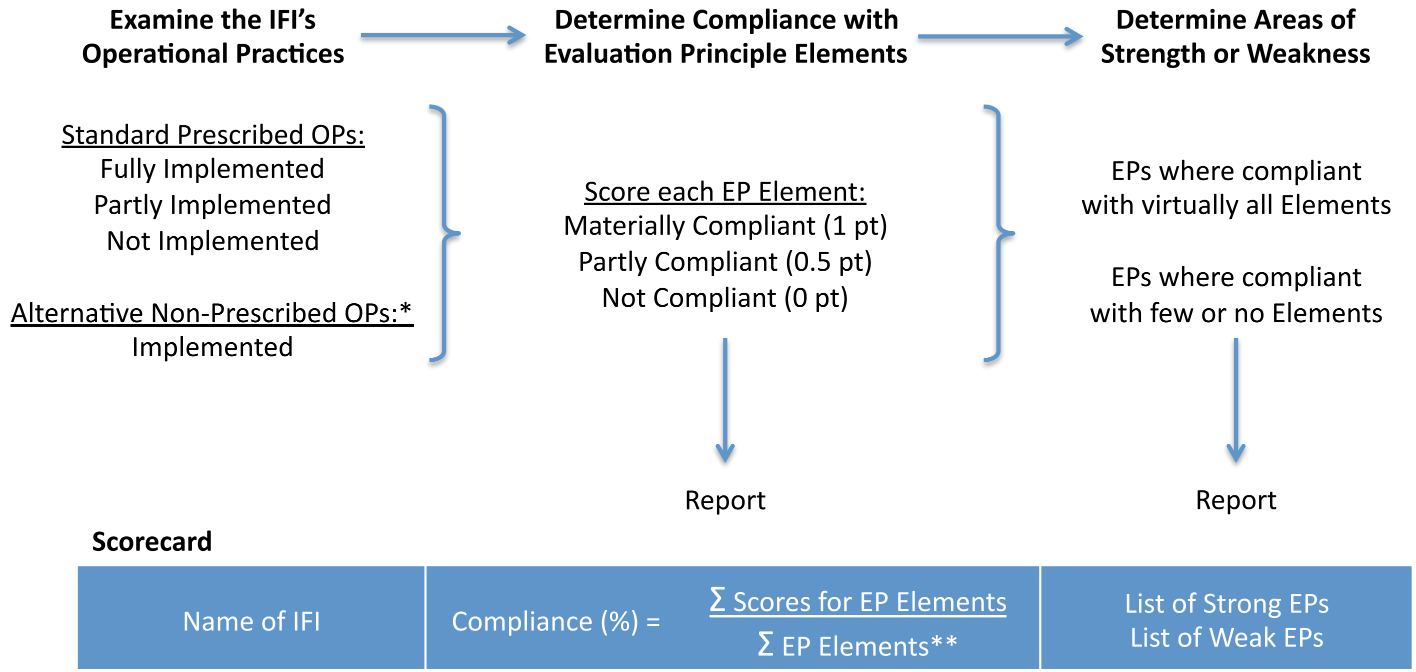
Where appropriate, the GPS 4th Edition makes reference to a project typology so that OPs can be tailored to the wider range of projects and clients now supported by IFIs. The project typology is particularly important when defining early operating maturity, and rating the indicators of project business success, economic sustainability, and environmental and social performance. For projects exhibiting a mix of project types, it is recommended that IFIs use a range of metrics as appropriate.

Benchmarking against the GPS 4th Edition

Compliance with the GPS 4th Edition is measured by the extent to which IFIs fulfil the Elements defining each of the Evaluation Principles. The assessment is made by examining the IFI's practices and judging their consistency with the Elements of the Evaluation Principles. An IFI can achieve full compliance with an EP by implementing all the associated standard Operational Practices documented in the GPS. However, the IFI can also adopt alternative, non-prescribed practices that it believes (and the benchmarking consultant agrees) are consistent with the EP; these may in turn be incorporated in future revisions to the GPS. Note that compliance will rely on evidence of the IFI actually implementing appropriate practices; it is not sufficient for the IFI to have documented procedures and policies if these are not then carried out in practice.

Benchmarking scores will show the proportion of EP Elements (as relevant to each institution) with which the IFI's practices are determined to be consistent, along with the consultant's decisions on each Element individually. Compliance with the Elements of the Generic EPs will be reported separately from the Elements of the Private Sector EPs. Additionally, the benchmarking will highlight EPs where the IFI is found to be particularly strong or, conversely, falls significantly short of an acceptable level of compliance. The latter information is intended to assist the IFI in identifying its own internal strengths and weaknesses and aims to promote continuous improvement in evaluation practices. The determination of strong or weak EPs is not rigidly defined, but is left to the judgment of the benchmarking consultant based on those Elements of the EP that are complied or not complied with.

The following schematic illustrates the benchmarking process and presentation of the results for each institution.



* Alternative, non-prescribed practices should be considered for incorporation into future revisions of the GPS.
** As relevant to each institution.

Overview of Evaluation Principles

Generic Principles: Independence of evaluation departments

Evaluation Principle & Elements		Standard Operational Practices	Element Link	Notes / Attachments
1. Governance and independence of the CED: *A. CED Mandate:* The CED's mandate is specifically approved through a Board resolution. *B. Mandate Coverage:* The CED mandate establishes its mission, scope of responsibilities and independence. *C. Structural Independence:* The CED's governance, organization and resources make it independent from the IFI's Management. *D. Oversight:* The CED mandate establishes that the Board oversees the CED's work. *E. Consultative Framework:* The CED has full autonomy, but works in consultation with the IFI's operational departments. *F. Scope of Responsibility:* The CED reports on all determinants of the IFI's operational results. *G. Rights of Access:* The CED has unrestricted access to the IFI's records, staff and counterparties.	1.1	The CED operates according to a Board-approved mandate that specifies its mission, scope of responsibilities, reporting structure and key operating principles. The governance arrangements are designed to ensure the CED's independence, its relevance to the IFI's mission, and the delivery of its corporate accountability and learning value-added. To ensure organizational independence, the CED does not report to IFI Management, is located organizationally outside the line and staff management function, and is independent of the IFI's operational, policy, and strategy departments and related decision-making. Where the IFI has a monitoring and evaluation policy, it should make specific provision for the organizational and behavioural independence of the CED and its protection from interference by Management. The policy should reflect the Board-approved mandate of the CED.	*CED Mandate* *Mandate Coverage* *Structural Independence*	Note: In respect of IDB's Office of Evaluation & Oversight, reference to the Board is to the IDB Board. While MIF and IIC contract for the services of the Office of Evaluation & Oversight, their Boards have no jurisdiction over its mandate or operations.
	1.2	The CED's work is overseen by the Governing Board, a designated committee of the Board, or an independent governing body; for purposes of these GPS such bodies are referred to as the governing Board.	*Oversight*	
	1.3	The CED operates with full autonomy but in close consultation with the IFI's other departments to ensure, as far as possible (subject to the primacy of sound evaluative principles and practices), both: (a) coherence of corporate standards among operations, portfolio and strategy analysis, and evaluation; and (b) good prospects for corporate ownership of the CED's findings and recommendations for improvement. To help ensure that the independent evaluation work responds to the IFI's needs for information to guide policy and operational decisions, the CED's annual work program – the principal determinant of the CED's budget – is widely discussed during preparation with the Board, managers and IFI staff.	*Consultative Framework*	
	1.4	The CED's role is to ensure the relevance, quality and impartiality of the products of the IFI's evaluation system. Under its mandate the CED has a scope of responsibility that extends, without restriction, to all the determinants of the IFI's operational results. The CED has unrestricted access to: (a) the IFI's staff and records in the context of an actual evaluation; and (b) co-financiers and recipients of the IFI's loans, grants, and equity investments. The CED also has access to project, program, and activity sites, as well as other stakeholders.	*Scope of Responsibility* *Rights of Access*	In some private-sector activities, the mandate may allow for restrictions on access to clients and projects where an evaluator's direct contact could prejudice the IFI's financial interests or materially increase the risk of litigation. Should client access be restricted in such jeopardy cases, the number of such cases should be reported in the CED's annual report and/or annual evaluation review.

Generic Principles: Independence of evaluation departments

Evaluation Principle & Elements		Standard Operational Practices	Element Link	Notes / Attachments
2. Independent leadership of the CED: *A. Appointment:* The CED's head is selected and appointed by the Board or representative thereof. *B. Contract Renewal:* Renewal of the CED head's contract can only be authorised by the Board. *C. Termination:* Only the Board is able to terminate the contract of the CED's head on the basis of predefined policy. *D. Authority & Remuneration:* The CED's head holds grade-rank and remuneration comparable to the level immediately below Vice-President or equivalent. *E. Performance Assessment:* The performance of the CED's head is assessed by the Board.	2.1	The head of the CED is appointed by the governing Board or the Board Committee that oversees the evaluation function, through procedures approved by that body. These procedures may include a search committee on which IFI Management is represented, as well as the use of outside search firms or consultants, provided that the governing Board retains final decision-making authority. When the IFI does not have a resident Board, the minimum requirement regarding the appointment of the head of the CED is the presence of at least one Board representative in the selection process. The CED head's appointment normally is for a fixed term, but may include an option for renewal at the end of that term. If renewal of the CED's appointment is allowed, the governing Board has the authority to extend such a renewal.	*Appointment* *Contract Renewal*	
	2.2	Only the Board may terminate the head of the CED; any such termination should be for cause, based on performance or conduct grounds. A policy on termination should be in place. To preserve independence, upon termination of service as the CED head, the individual is not eligible for staff positions within the IFI.	*Termination*	
	2.3	The head of the CED holds a grade-rank equal at minimum to the level immediately below Vice-President or equivalent, with commensurate compensation.	*Authority & Remuneration*	
	2.4	The CED head's performance is assessed by the governing Board or an individual or body designated by it for this purpose. To preserve independence, IFI Management, including the President, may provide inputs into this process by way of feedback, but is not the assessor.	*Performance Assessment*	

Generic Principles: Independence of evaluation departments

Evaluation Principle & Elements		Standard Operational Practices	Element Link	Notes / Attachments
3. Independence of the CED's staff: *A. Selection:* The CED's staff are appointed by the CED's head or designee. *B. Skills:* The CED's staff should have adequate skills to conduct evaluations. *C. Opportunities:* Staff should not be career disadvantaged by having worked in the CED. *D. Conflict of Interest:* The CED ensures that its staff have no conflict of interest in their evaluation work.	3.1	The staff of the CED are selected by the CED's head or his/her designee, in accordance with overall personnel policies of the IFI. Such staff should have or be required to acquire specific evaluation skills; the CED should provide training needed to meet these requirements.	*Selection* *Skills*	For example, the skills required by evaluation staff can be defined using a competency framework, which can also serve as a guide for career progression within the CED.
	3.2	The CED's staff should not be disadvantaged because of the judgments and findings they report, and policies should be in place to ensure against such disadvantage. These should include policies that permit (but not necessarily require) the use of separate processes for assessing the CED's staff for changes in compensation, promotions, and job tenure, and for handling human resource issues. Such processes may be parallel to those for other staff of the IFI, but should protect the CED's staff from potential career limitations for findings and recommendations in their evaluations. Unlike the CED's head, CED staff may be permitted to rotate out of evaluation into other IFI units, subject to the conflict of interest limitations.	*Opportunities*	
	3.3	The CED has policies and procedures to ensure against conflicts of interest involving CED staff. Staff are prohibited from evaluating projects, programs, or other activities for which they previously held responsibility. The CED also has a policy regarding movement of evaluation staff into other IFI units to ensure that they are not subject to conflicts of interest while seeking or being sought for such positions.	*Conflict of Interest*	
4. The CED's work program and budget: *A. Work Program:* The CED consults on its work priorities, but determines its work program independently of Management. *B. Determination of Budget:* The CED's budget is approved by the Board. *C. Adequacy of Budget:* The CED's budget is commensurate with its work program. *D. Accountability and Transparency:* The CED is accountable for its application of financial resources.	4.1	The CED develops its own work program, which may be endorsed by the governing Board. The CED may consult with IFI staff and Management, as well as the Board and outside organizations or experts, in constructing its work program, but Management does not exercise direct control over the work program.	*Work Program*	
	4.2	The CED's budget is approved by the governing Board and should allocate resources commensurate with the work program. The CED may be required to follow IFI processes of general applicability in presenting its budget and in accounting for the use of budget resources. However, Management does not have approval authority over the CED's budget. The CED is subject to the institutional auditing requirements of the IFI. However, audits must be conducted by an auditor independent of Management, and approved by the relevant governing body or bodies.	*Determination of Budget / Adequacy of Budget* *Accountability & Transparency*	

Generic Principles: Independence of evaluation departments

Evaluation Principle & Elements		Standard Operational Practices	Element Link	Notes / Attachments
5. Independent reporting and disclosure by the CED: *A. Reporting Line:* The CED transmits its products to the Board without Management clearance or Management-imposed restrictions on content. *B. Primary Stakeholder:* The CED's primary stakeholder is the Board. *C. Other Stakeholders:* The CED is also guided by the interests of other relevant internal and external stakeholders. *D. Recommendations:* The CED monitors and reports on the implementation of CED recommendations by Management. *E. Disclosure:* The CED's disclosure policy is explicit, and consistent with the IFI's general disclosure policy. *F. Dissemination:* The CED employs an appropriate range of dissemination activities for its disclosed products.	5.1	The CED transmits evaluation products to the governing Board, normally after review and comment by Management, but without any Management clearance or Management-imposed restrictions on the scope and content of the products.	*Reporting Line*	
	5.2	The CED's major stakeholder is the governing Board to which it reports. The Board is responsible for ensuring the efficient use of resources and achieving results on the ground with sustainable development impact.	*Primary Stakeholder*	
	5.3	The CED also serves a wide range of internal and external stakeholders. Major internal stakeholders may include, but are not limited to: - IFI Management, which is responsible for acting on and following up evaluations, and for how evaluation findings might influence the IFI's future directions; - operations staff concerned with the feedback of evaluation lessons and findings, and how those might affect future operations; and - other IFI staff concerned with knowledge management, dissemination of evaluation findings, lessons and recommendations, and evaluation capacity development. Major external stakeholders may include, but are not limited to: - governments, executing agencies, and institutions responsible for implementing IFI-supported projects in borrowing countries; - beneficiaries and targeted populations directly affected by IFI support; - co-financiers and other partner institutions, including NGOs, civil society organizations, development research centres, and evaluation networks that are engaged in CED-financed operations; and - multilateral and bilateral institutions concerned with harmonizing evaluation methods and practices, and other development partners with whom the CED may undertake joint evaluations of programs, projects, policies and strategies, disseminate best practices, and organize evaluation seminars and workshops.	*Other Stakeholders*	
	5.4	Management has responsibility for implementing CED recommendations. However, the CED is responsible for a system to monitor and report to the governing Board Management's record of adoption of and response to recommendations, including its success in remedying any problems found in evaluations.	*Recommenda-tions*	

Generic Principles: Independence of evaluation departments

Evaluation Principle & Elements		Standard Operational Practices	Element Link	Notes / Attachments
	5.5	Disclosure of evaluation findings is an important component of IFI accountability to stakeholders, and of behavioural independence on the part of the CED. Therefore, written reports and other evaluation products are disclosed in accordance with the CED's Board-approved disclosure policy. Such a policy should be explicit, consistent with the IFI's general disclosure policy, and cover all evaluation products. The CED head may determine the appropriate types and level of external activities to promote the dissemination of disclosed evaluation reports and other evaluation products, within the limitations of the applicable disclosure policy and without Management interference.	*Disclosure* *Dissemination*	To protect client company confidentiality, promote the candour needed for effective corporate learning, and reduce risk to the IFI's credit rating that partial release of investment portfolio data (and related standards and benchmarks) might entail, the IFI may decide not to disclose individual evaluation reports or the full text of the CED's annual review for private sector operations.

Generic Principles: Reporting and corporate learning

Evaluation Principle & Elements		Standard Operational Practices	Element Link	Notes / Attachments
6. Annual reporting of corporate results: *A. Corporate Results:* The CED reports to the Board annually on the IFI's independently verified outcome results. *B. Reporting Rating Results:* The CED reports the IFI's results in all rating dimensions and indicators. *C. Analysis:* The CED analyses the results to discern performance drivers. *D. Recommendations:* The CED formulates recommendations based on the findings. *E. Disclosure:* The CED discloses its synthesis evaluation results externally.	6.1	On an annual basis, the CED reports to the governing Board on the IFI's corporate-wide performance, based on the findings from project-level evaluations and, if required, thematic evaluations.* The report can be stand-alone or incorporated in other reports to the IFI's Board. The ratings reported should be those independently verified or directly assigned by the CED.	*Corporate Results*	* Thematic evaluations could include country, sector or other studies of the aggregate results across a defined group of projects.
	6.2	For each rating dimension and indicator, the CED reports the number and proportion (by number of operations) of the evaluated cohort in each performance-rating category.	*Reporting Rating Results*	The CED may also choose to report the results weighted by project or investment size, to indicate the quantum of impact.
	6.3	The CED provides a synthesis description of the ratings patterns and their cross-cutting performance drivers under each indicator. It also provides the dimension and indicator ratings for the previous few years or cohorts thereof (where such data exists) to show how performance is evolving over time.	*Analysis*	
	6.4	Where feasible, the CED makes recommendations to the IFI's Management based on the evaluation findings.	*Recommenda-tions*	The qualification here allows for an exception in the case of CEDs with insufficient evaluated projects to substantiate recommendations.
	6.5	The CED publishes its findings after appropriate redaction to protect commercial confidentiality, and posts on a webpage accessible via the IFI's external website the full text or an abstract of its report that accurately summarizes its essential findings.	*Disclosure*	The webpage can be on the CED's own site, provided that the CED's site can be accessed via a link on the IFI's main pages.
7. Periodic reporting on evaluation systems: *A. Periodic Reporting:* At least once every three years, the CED reports on aspects of the IFI's evaluation systems, including: *B. Quality & Efficacy:* The CED reports to the Board on the quality and efficacy of evaluation systems. *C. Alignment:* The CED reviews and reports on the alignment of Management reporting systems with the evaluation framework.	7.1	The CED reports to the Board at least once every three years on the functioning and effectiveness of the IFI's evaluation systems, as detailed below. The report can be stand-alone or incorporated in other reports to the Board.	*Periodic Reporting*	The review of evaluation systems in the IFI could be undertaken by the CED directly, or by an external independent body under commission from the CED.
	7.2	The CED reviews and reports on the quality and efficacy of the IFI's evaluation systems. As part of this reporting, the CED submits to the IFI's Management and Board the periodic benchmarking reviews of the consistency of the IFI's practices with the ECG Good Practice Standards (or provides a summary thereof).	*Quality & Efficacy*	

Generic Principles: Reporting and corporate learning

Evaluation Principle & Elements		Standard Operational Practices	Element Link	Notes / Attachments
D. Evaluability: The CED reviews and reports on the evaluability of the IFI's operations. *E. Lessons Application:* The CED reviews and reports on the application of lessons learned from evaluation.	7.3	The CED reviews and reports the extent to which internal Management and corporate reports (up to Board level) are broadly aligned with the evaluative framework. For example, the CED should review: (i) to what extent the IFI applies coherent and consistent benchmarks to gauge project performance at relevant stages of the project cycle; and (ii) whether Management's reporting of results includes project outcome and additionality ratings based on the ECG GPS.	*Alignment*	
	7.4	The CED assesses and reports on the evaluability of the IFI's operations i.e., the extent to which the value generated or the expected results of a project are verifiable in a reliable and credible fashion. In practical terms, the CED should assess whether the IFI had specified relevant indicators at approval and made sufficient provision to collect the data required for monitoring during project supervision. The CED need not report on every operation, or undertake such reviews at the time of project approval.	*Evaluability*	
	7.5	The CED assesses and reports evidence of the extent to which lessons of experience are being applied in new operations. It is not required that the CED report on every operation individually, or undertake such reviews at the time of project approval.	*Lessons Application*	Examples of methodologies for such an assessment include surveys or interviews of origination staff, or a CED review of appraisal documents.
8. Lessons and findings from evaluation: *A. Coverage:* Lessons of experience are identified for all project-level evaluations. *B. Relevance:* Lessons are relevant to new operations. *C. Accessibility:* Lessons and evaluation findings are made readily available to IFI staff.	8.1	All direct and indirect project-level evaluation reports should contain a prompt or template for the author(s) to identify and articulate one or more lessons from the operation.	*Coverage*	
	8.2	Lessons should be concise, prescriptive, and placed in the context of a material issue that was encountered in the evaluation so that its relevance to new operations can be determined easily, on a stand-alone basis. The point of view and selectivity should focus on what the IFI might have done to obtain better results from the operation.	*Relevance*	
	8.3	The CED maintains a database or library of operational lessons from project-level evaluation reports, which is freely accessible to IFI staff. Alternatively, the CED contributes lessons from project-level evaluations (or a summary thereof) to a database maintained by IFI Management. The CED makes available to IFI staff a range of easily accessible dissemination products covering evaluation findings from projects and/or synthesis CED reports. This could include, *inter alia*, access to the full reports, electronic notification of new items, and presentations of findings.	*Accessibility*	

Generic Principles: Evaluation guidance and rating systems

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
9. Guidance for project evaluation: *A. Preparation:* The CED develops guidance for staff undertaking direct and indirect project evaluations. *B. Content:* Guidance is self-standing, current, and comprehensive in key aspects of the evaluation process. *C. Dissemination:* Guidance is easily accessible and supplemented by training and/or good practice examples.	9.1	The CED develops, in conjunction with Management as necessary, guidance for CED and operational staff undertaking direct and indirect project evaluations. The evaluation guidelines should be consistent with prevailing ECG Good Practice Standards and at a minimum include: (i) the key steps in the evaluation process, in the preparation and signing-off of reports, and in independent verification by the CED as necessary; (ii) the scope of measurement and the benchmarks for assigning ratings for each performance indicator and dimension; and (iii) standard reporting templates that include a performance ratings matrix.	*Preparation* *Content*	Where separate guidance is prepared for self-evaluations and independent direct evaluations and/or verifications, these should be completely coherent in terms of the prescribed metrics and benchmarks.
	9.2	The CED makes the evaluation guidelines and supporting information readily available on its website and/or the IFI's website in respect of guidance for self-evaluation. The CED undertakes dissemination activities to familiarize staff preparing project evaluations with the requirements and supporting documentation. This may include the showcasing of evaluation reports regarded as good-practice examples.	*Dissemination*	
10. Performance rating scales: *A. Range & Balance:* Each indicator is rated on a performance scale from most negative to most positive, with the scale balanced between positive and negative ratings. *B. Descriptive:* Each rating category accurately describes the extent of positive or negative performance. *C. Binary Reporting:* Binary ratings use the first positive rating within the performance scale as their benchmark.	10.1	The rating scale for each indicator should encompass performance ranging from the most negative to most positive. There should be balance between positive and negative characterizations (i.e., if there are four ratings, two are less than good and two are good or better; or if there are six ratings, three are less than good and three are good or better).	*Range & Balance*	
	10.2	The words used to describe these ratings should accurately reflect whether the judgments are less than good or else good or better, and should clearly reflect the graduation from worst to best. For example: Four-point scale: *unsatisfactory, partly (un)satisfactory, satisfactory, excellent*; or *unsuccessful; partly (un)successful; successful; highly successful*. Six-point scale: *highly unsuccessful, unsuccessful, mostly unsuccessful; mostly successful; successful; highly successful*; or *highly unsatisfactory; unsatisfactory; marginal; satisfactory; good; excellent*.	*Descriptive*	
	10.3	Where the CED reports success rates based on a binary simplification of the rating scale, the binary benchmark should be the first positive rating within the chosen scale i.e., a *satisfactory* or *successful* rating (in the case of the four-point scale cited above) or a *mostly successful* or *satisfactory* rating (in the case of the six-point scale cited above).	*Binary Reporting*	

Private Sector Principles: Planning and executing a project evaluation program

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
11. Defining the population of projects for evaluation: *A. Coherence & Objectiveness:* All projects in the population share common characteristics based on a coherent set of criteria. *B. Qualifying Projects:* The population includes all projects that have reached early operating maturity (or are unlikely ever to do so), and all closed projects. *C. Screening:* The CED determines projects' early operating maturity according to GPS criteria. *D. Non-Qualifying Projects:* Projects that are not operationally mature are reconsidered in subsequent years. *E. Exclusions:* The population may exclude other classes of projects where the CED determines that individual evaluations have limited utility. *F. Disclosure:* The CED discloses its criteria for defining the population and any excluded class of project.	11.1	The CED defines the population of projects according to a coherent and objective set of criteria appropriate to the type of report. The full application of these criteria will determine whether or not an operation is to be included in the population. For example: Corporate reporting: the population should comprise projects with the same year (or defined range of years) of origin, based on the approval, commitment or disbursement date for the IFI's associated investment. Alternatively, the population should comprise projects that have reached early operating maturity within a defined timeframe.* Part-portfolio reporting: the population should comprise projects sharing a common time-basis (as above), and the same country, region, sector or other thematic characteristics as desired.	*Coherence & Objectiveness*	While this OP allows CEDs to define a sub-portfolio within the overall corporate portfolio, EP6 continues to call for annual reporting of corporate-level results. The onus therefore rests with the CED to determine how best to comply with EP6 should it opt for sub-portfolio sampling in respect of this OP. * This alternative approach is appropriate for CEDs that screen the entire portfolio every year to determine which projects have reached early operating maturity.
	11.2	Projects should be included in a designated population only once and only at such time as (but not necessarily as soon as) they have reached early operating maturity.* The population (the boundaries of which are defined under OP11.1) also includes all closed projects (i.e., where the associated IFI investment has been repaid, sold or written off, or the guarantee has been cancelled) regardless of whether or not they had reached early operating maturity by the time of closing. The population should also include projects that are deemed unlikely ever to achieve early operating maturity.**	*Qualifying Projects*	* This does not prohibit projects from being included in different populations relating to different studies, for example if the CED was to undertake both a corporate and country-level evaluation. ** This could include, for example, a project that has failed or stagnated such that it is unlikely ever to establish a trading record, yet the IFI's investment has not been sold, cancelled or written off and so has not been officially closed. In such cases, there is little value in postponing evaluation, hence they should be included in the current population.
	11.3	The CED establishes which projects have reached early operating maturity, taking into consideration information on project status provided by operational departments and by applying the guidance in *Annex 2: Lookup Table for Determining Early Operating Maturity*.	*Screening*	
	11.4	Where the CED determines that projects have not yet reached early operating maturity (but are likely to do so in the future), they should be omitted from the current evaluation year's population. Instead, the CED should consider them for inclusion in the population in a future year when they will have reached early operating maturity. In cases where the IFI is involved in litigation, foreclosure or other legal process where evaluation could prejudice the IFI's legal position, the CED may choose to omit these projects from the current population and instead roll them forward for consideration in a future year.	*Non-Qualifying Projects*	Rolling projects forward for consideration in future years' populations may render them incongruous with the year(s) of origin of those later populations. Where the CED reports an aggregation of several years of consecutive evaluation findings, such projects might legitimately be included. Otherwise, the CED should disclose the incidence of older projects in the reported population, or report their results separately.

Private Sector Principles: Planning and executing a project evaluation program

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
	11.5	The CED may choose to exclude altogether from the population the following classes of project: (i) those that did not proceed with IFI support and where the associated IFI investments were dropped or guarantees never signed, activated or utilized*; or (ii) those involving subscribed rights offerings or follow-up investments / guarantees undertaken for substantially the same purpose as before (e.g., to help finance cost overruns or restructurings).**	*Exclusions*	* CED may exclude projects where the IFI never incurred any exposure under the guarantee (e.g., because the beneficiary of the guarantee never made any advances to the end client). ** Repeat investments in an existing client company should normally be included in the population, unless they meet the criteria in (ii).
	11.6	The CED discloses how it defined the population and its criteria for including or excluding projects in line with the operational practices above.	*Disclosure*	
12. Selecting a sample of projects for evaluation: *A. Representative Random Sampling:* Either all projects in the population are evaluated or the CED selects a random sample whose characteristics are representative of the population. *B. Sample Aggregation:* The CED reports the results of one or more years of evaluated random samples. *C. Disclosure:* The CED discloses its sampling methodology, how it defined the reported cohort, and sampling errors in reported results. *D. Purposeful Sampling:* The CED may self-select a purposeful sample to serve specific evaluative needs, but not for overall corporate reporting purposes.	12.1	If evaluation coverage is less than 100%, the CED should select a random sample of projects for evaluation from the established population. The sample should be as representative as practicable insofar as it reflects the distribution of important characteristics throughout the population as relevant to each institution.*	*Representative Random Sampling*	* Relevant characteristics for testing the representativeness of the sample could include: industry sector; country; region; project size; investment size; IFI instrument of support; incidence of loan impairment or equity write-down.
	12.2	For reporting purposes, the CED may report the results of a sample of projects evaluated in one year, or use a cohort comprising the evaluated samples from several consecutive years in order to increase the granularity of data and its statistical significance. In deciding how many years of data to combine, the CED should balance the desire to report on a meaningful number of observations against the currency of findings, particularly if using evaluation data more than three years old.	*Sample Aggregation*	
	12.3	Where sampling is used, the CED should report details of the sampling technique used and the extent to which the sample's characteristics reflect those of the population. When reporting the aggregate results of a cohort comprising samples from more than one evaluation year, the CED should disclose how the reported cohort is defined. The CED should calculate and disclose the sampling errors (at the 95% confidence interval) in the reported success rates for each of the evaluated indicators and outcome ratings.*	*Disclosure*	* Disclosure of sampling errors enable observers to judge the relevance, usefulness and comparability of success rates reported by different institutions.

Private Sector Principles: Planning and executing a project evaluation program

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
	12.4	The CED may select a purposeful (self-selected) sample of projects to be evaluated.* The CED should not use the results of purposeful evaluations for overall corporate reporting purposes, unless projects in the purposeful sample are also selected as part of a random sample as determined under OP 12.1.	*Purposeful Sampling*	* Reasons for selecting a purposeful sample could include: the potential for learning; the high profile of an operation; credit and other risks; the sector is a new one for the IFI; the likelihood of replication; or the desirability of balanced country and sector coverage.
13. Process of direct evaluation by the CED: *A. CED's Options:* At its own discretion, the CED can select projects on which to conduct its own direct evaluations. *B. Reporting:* The CED conveys its findings in a Project Evaluation Report (PER). *C. Desk-Based:* As a minimum, the PER is based on internal IFI data, staff consultations and market research. *D. In-Depth:* For selected projects, the CED conducts on-the-ground research and stakeholder consultations. *E. Transparency:* The basis for the CED's findings are fully transparent in the PER, including financial / economic calculations and environmental and social effects. *F. Review Process:* Management and staff have the opportunity to comment on the draft PER, but the final assessment is determined solely by the CED.	13.1	The CED can undertake a direct evaluation of a project on its own volition, acting with consideration to on-going legal process in line with OP 11.4. The scope of evaluation and indicator ratings should be consistent with the GPS. The CED reports its findings in a Project Evaluation Report (PER).	*CED's Options* *Reporting*	
	13.2	As a minimum, the research for PERs draws from a file review, discussions with available staff involved with the operation since its inception, and external market research. On a more rigorous basis, the CED may choose to conduct in-depth research (in the field as necessary) for the PER, based on consultations with stakeholders who are knowledgeable about the country, company and project.*	*Desk-Based* *In-Depth*	* Such stakeholders could include: IFI specialists, the company's management, employees, auditors, suppliers, customers, competitors, bankers, any relevant government officials, industry associations, community representatives and local NGOs.
	13.3	The basis for the CED's findings and ratings are made fully transparent in the PER. The PER should also cite which stakeholder groups were consulted as part of the process. Where ex-post financial and/or economic rates of return for the project are cited in the PER, the document includes an attachment providing details supporting these calculations such as the key assumptions and underlying financial / economic time-series data. The PER includes a summary of environmental, worker health and safety, and social performance information, for each of the IFI's environmental and social safeguards that apply to the project. Evidence from on-the-ground observations and/or client reporting should be sufficient to support the assigned outcome and IFI work quality ratings. The information can be incorporated as an attachment to the PER if preferred.	*Transparency*	
	13.4	The CED provides an opportunity to Management and operational staff to review and comment on the PER's draft findings, though the final content and ratings in the report remain the decision of the CED. Findings from the PER can be used in synthesis reporting without further verification.	*Review Process*	

Private Sector Principles: Planning and executing a project evaluation program

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
14. Scope of indirect evaluation and independent verification by the CED: *A. Self-Evaluation:* Indirect evaluations are undertaken by operational staff in line with GPS guidance. *B. IFI Reporting:* Findings from the indirect evaluations are reported in an Expanded Annual Supervision Report (XASR), which is signed off by operations' management. *C. XASR Research:* The XASR is based on internal IFI data, staff consultations, market research and stakeholder meetings. *D. Transparency:* The basis for findings are fully transparent in the XASR, including financial / economic calculations and environmental and social effects. *E. Verification:* The CED conducts an independent review of XASRs based on internal IFI data and independent research. *F. In-Depth Verification:* The CED conducts detailed verifications for selected projects. *G. CED Reporting:* The CED reports its independent findings in an XASR-Assessment (XASR-A), which records any rating differences to those in the XASR. *H. Review Process:* Management and staff have the opportunity to comment on the draft XASR-A, but the final content is determined by the CED.	14.1	In an indirect evaluation, the project is evaluated by the IFI's operational staff. The scope of evaluation and indicator ratings should be consistent with the GPS. Staff report their findings in an Expanded Annual Supervision Report (XASR). The XASR is issued only after it has received the approval of the responsible operations department manager.	*Self-Evaluation* *IFI Reporting*	Note that the XASR is a once-only addendum to, or "expanded", Annual Supervision Report. The Annual Supervision Report is the regular supervision report prepared by the IFI's portfolio staff or equivalent.
	14.2	The research for XASRs draws from a file review, discussions with other operational staff involved with the operation since its inception, and external market research. The XASR should reflect consultations (in the field as necessary) with stakeholders who are knowledgeable about the country, company and project.*	*XASR Research*	* Such stakeholders could include: IFI specialists, the company's management, employees, auditors, suppliers, customers, competitors, bankers, any relevant government officials, industry associations, community representatives and local NGOs.
	14.3	The basis for findings and ratings are made fully transparent in the XASR. The XASR should also cite which stakeholder groups were consulted as part of the process. Where ex-post financial and/or economic rates of return for the project are cited, the document includes an attachment providing details supporting these calculations such as the key assumptions and underlying financial / economic time-series data. The XASR should include a summary of environmental, worker health and safety, and social performance information, for each of the IFI's environmental and social safeguards that apply to the project. Evidence from on-the-ground observations and/or client reporting should be included to support the assigned outcome and IFI work quality ratings. The information can be incorporated as an attachment to the XASR if preferred.	*Transparency*	
	14.4	The CED conducts an independent review (which may be desk-based) of the XASR to verify its scope, responsiveness, evident reliability of the analysis, impartiality and consistency in ratings judgments, and appropriateness and completeness of the identified lessons. As a minimum, the independent review draws from a file review, discussions with available staff involved with the operation since its inception, and external market research. Depending on the coverage of the population by XASRs, either: (a) If the IFI has prepared XASRs for a representative sample selected in accordance with EP12, then the CED should conduct independent reviews for all the XASRs in such sample; or	*Verification*	

Private Sector Principles: Planning and executing a project evaluation program

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
		(b) If the IFI has prepared XASRs for all projects in the population of operationally mature projects (as defined in accordance with EP11), then the CED may choose to conduct independent reviews either for all XASRs or for a representative sample of XASRs selected in accordance with EP12. If a sample is preferred, only the ratings from CED-verified XASRs are valid for corporate reporting purposes.		
	14.5	On a more rigorous basis, the CED conducts detailed reviews on selected XASRs to verify the self-evaluation findings. The CED should have a clear policy for selecting projects for in-depth verification and should implement the policy consistently. Selection criteria might include: poor quality / reliability of the XASR; apparent significant differences between self-evaluation ratings and CED ratings; projects exhibiting performance at the extremes; projects that will contribute to corporate learning; or projects of relevance to corporate strategy or development imperatives more widely. In-depth verifications have the same scope of research as in-depth PERs (per OP 13.2) and where deemed necessary by the CED are conducted through field-based research. The CED discloses its policy for selecting XASRs for in-depth verification along with the number and/or proportion of projects subjected to such a review.	*In-Depth Verification*	Note that this OP does not prescribe the number or proportion of XASRs that should be subjected to in-depth verification. However, in the interests of evaluative rigor, it is desirable that the CED performs some degree of in-depth verification (see Annex Note EP13/14). Depending on the availability of resources, in-depth verification could be focused on a project's environmental and social effects, (which are most reliably determined through field-based research), rather than on the full range of project impacts.
	14.6	The CED prepares an XASR-Assessment (XASR-A) on the final-edition XASR that records the CED's findings from its verification and its independent judgments on the project's results and appropriate ratings in relation to GPS guidelines. The XASR-A is shared in draft form with the XASR team and their comments solicited and considered by the CED. For transparency, the final XASR-A should communicate the CED's final independent judgments highlighting any differences between its performance ratings and those of the XASR, and cite the comments received from the XASR team.	*CED Reporting* *Review Process*	

Private Sector Principles: Evaluation metrics and benchmarks

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
15. Rating project outcome: *A. Synthesis Rating:* The project's outcome is based on a qualitative synthesis of underlying indicator ratings. *B. Benchmark:* The rating measures how well the project serves the IFI's institutional mandate. *C. Financial Criteria:* It reflects the project / company's financial performance and achievement of project business objectives. *D. Economic Criteria:* It reflects the project / company's contribution to economic growth*. *E. IFI Mandate Criteria:* It reflects the project / company's contribution to the IFI's mandate objectives. *F. E&S Criteria:* It reflects the project / company's environmental and social performance.	15.1	Scope of Measurement: The rating of **project outcome** reflects summary qualitative performance judgments based on a synthesis of all the following underlying indicator ratings, taking into consideration the sustainability of results: - the project / company's **financial performance** (i.e., the project's contribution to the company's financial results, or the company's financial results where the project is indistinguishable from the company). This also considers the extent of **fulfilment of project business objectives**; - the project / company's **economic sustainability** (i.e., the project and/or project company's contribution to growth in the economy)*; - the project / company's **contribution to the IFI's mandate objectives**, be they to stimulate development of the private sector, development of efficient financial / capital markets, or transition to a market economy; - the project / company's **environmental and social performance**.	*Synthesis Rating* *Financial Criteria* *Economic Criteria* *IFI Mandate Criteria* *E&S Criteria*	See guidance paper: Technical Note on IFC's Methodology for Assigning Development Outcome Ratings. * Not applicable to EBRD.
	15.2	Binary Benchmark: As a minimum, for a positive **project outcome** rating, the project should have a clear preponderance of positive results (i.e., it may exhibit some minor shortcomings though these should be clearly outweighed by positive aspects). The guiding principle should be that if all the IFI's projects exhibited this level of performance, the IFI should be able to demonstrate the successful execution of its institutional mandate.	*Benchmark*	The Binary Benchmarks defined herein refer to the first positive rating within the chosen scale. In the example scales cited in OP 10.2, the binary benchmark therefore refers to that of a satisfactory / successful rating (in the case of a four-point scale) or mostly successful / satisfactory rating (in the case of a six-point scale). See Annex 4, note OP 15.2 for guidance on an extended rating scale.

Private Sector Principles: Evaluation metrics and benchmarks

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
16. Outcome Indicator 1 – Financial performance and fulfilment of project business objectives: *A. Stakeholder Analysis:* The indicator measures the incremental effect of the project on all key financial stakeholders in the project and/or company. *B. Time Span:* The rating is based on historic and projected future financial performance. *C. Fulfilment of Project Business Objectives:* The rating considers the achievement of process and business objectives articulated at approval. *D. Methods:* The CED applies a range of evaluation methods appropriate to the project type, with an emphasis on quantitative metrics wherever possible. *E. Benchmarks:* The rating is based on benchmarks appropriate to the project type and evaluation methods applied.	16.1	In evaluating **financial performance**, the incremental effect of the project on the company is assessed on a with vs. without project basis, or a before vs. after project basis. The effect of the project on all financial stakeholders in the project and/or company should be considered.* Both historic and, where relevant, projected performance should be taken into consideration. The rating also considers **fulfilment of project business objectives**, that is the extent to which the project has delivered on the process and business objectives stated at approval.	*Stakeholder Analysis* *Time Span* *Fulfilment of Project Business Objectives*	* Such stakeholders should include as relevant: the owners (shareholders); senior lenders; junior lenders; and trade creditors.
	16.2	Scope of Measurement for projects of types A, B and C: The rating of **financial performance** and **fulfilment of project business objectives** is determined through the application of the methods set out below. The choice of method should be appropriate to the project type, and should use quantitative metrics wherever possible. At a minimum, methods 3, 4 and 5 should be used. <u>1. Quantitative Method:</u> The rating is based on the project's after-tax financial rate of return in real terms (FRR), or on the time-adjusted after-tax return on invested capital in real terms (ROIC i.e., the costs and benefits to the whole company on a before vs. after basis).* <u>2. Achievement of Appraisal Projections:</u> The evaluation compares actual performance with appraisal projections. This is only valid provided that the appraisal projections demonstrate sufficient profitability to: (i) service the project's debt obligations and meet creditor payments when due; AND (ii) generate the minimally acceptable return to the project company's shareholders commensurate with the risk.** <u>3. Achievement of Project Business Objectives:</u> The assessment concerns the extent to which the project has, or is judged likely to, fulfil the process and business goals that were articulated at approval.*** <u>4. Analysis of Financial Statements:</u> An appropriate range of performance indicators in project financing are considered such as: sales, net profit, debt service coverage, and financial internal rate of return (FIRR). Suitable project return analysis should supplement balance sheet and income related indicators. <u>5. Business Prospects:</u> The project company's overall profitability, adaptability and prospects for sustainability and growth are considered, taking into account its performance relative to the market or sector peers.	*Methods*	For further guidance, see Annex 4, note OP16.2 * In general, an FRR should be calculated where the financial cashflows of the project can be separated from those of the company's other activities. A ROIC may be more appropriate in the case of corporate investments or expansion projects. ** The "minimally acceptable return" to shareholders can be derived from the IFI's own profit objectives if it is itself a shareholder. Alternatively, indicators could include the original financing plan or current expectations of investors in similar projects. *** For example: business objectives could be those related to carrying out an investment plan in respect of plant and equipment and the establishment of a strong management team; process objectives could be the introduction of an IAS accounting system or for a financial institution the improvement of credit manuals and the training of staff. For EBRD, achievement of project objectives does not incorporate the transition impact objectives, which are captured separately.

Private Sector Principles: Evaluation metrics and benchmarks

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
	16.3	Binary Benchmark for projects of types A, B and C: As a minimum, for a positive rating of the project / company's **financial performance** and **fulfilment of project business objectives**, it should achieve the following benchmarks. Where more than one method is applied, each of the relevant benchmarks should be met: 1. Quantitative Method: The project's FRR or ROIC is equal to or greater than the project company's Weighted Average Cost of Capital (WACC). The WACC should be calculated using accepted principles and based on company- or sector-specific data.* The use of fixed IFI-wide assumptions or hurdle rates in place of the WACC is not good practice. 2. Achievement of Appraisal Projections: Actual performance meets or exceeds appraisal projections such that the project has demonstrably met its obligations to lenders and creditors, and has yielded the minimally acceptable return to its shareholders commensurate with the project risk.** 3. Achievement of Project Business Objectives: The project's process and business goals articulated at approval are broadly achieved or are deemed within reach albeit with some risk to their realisation. 4. Analysis of Financial Statements: Performance indicators are in line with appraisal estimates. 5. Business Prospects: The project company's overall profitability and prospects for sustainability and growth are sound, such that it is expected to remain competitive in relation to the market and its sector peers.	*Benchmarks*	See Annex 4, note OP 16.3 for guidance on an extended rating scale. * See guidance paper: Using the FRR to Rate Project Business Success. ** The "minimally acceptable return" to shareholders can be derived from the IFI's own investment outcome rating if it is itself a shareholder. Alternatively, indicators could include the original financing plan, current expectations of investors in similar projects, or evidence that shareholders are satisfied with their returns (e.g., the company has attracted additional investment and/or executed a successful rights issue to fund future growth).
	16.4	Scope of Measurement for intermediation projects of type D1 and D2: The rating of **financial performance** and **fulfilment of project business objectives** is determined through the application of the methods set out below. The choice of method should be appropriate to the project type, and should use quantitative metrics wherever possible. At a minimum, methods 3 and 4 should be used. 1. Performance of Sub-Portfolio: An assessment should be made of the financial impact of the sub-portfolio on the financial intermediary's viability. Where a calculation of the profit contribution of the sub-portfolio is not possible, proxies can be used, for example: sub-loan spreads (relative to the rest of the FI portfolio), FI sub-loan risk ratings, and/or incidence of arrears or write-offs among the sub-loans.*	*Methods*	* See guidance paper: Additional Business Indicators for Financial Intermediaries.

Private Sector Principles: Evaluation metrics and benchmarks

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
		2. Performance of Fund Portfolio: The rating is based on the project portfolio's projected or realized contribution to the fund's net return on equity (RoE) or net IRR to the investors (i.e., after management fees, carried interest and other administrative costs). 3. Achievement of Project Business Objectives: The assessment concerns the extent to which the project has, or is judged likely to, fulfil the process and business goals that were articulated at approval.** In particular, it should consider the project's success in reaching certain sub-borrower or investee groups if such groups were specified as targets at approval. 4. Performance of Intermediary: The financial intermediary / local fund management company's overall profitability, adaptability and prospects for sustainability and growth are considered, taking into account its performance relative to the market or sector peers.		** For EBRD, achievement of project objectives does not incorporate the transition impact objectives, which are captured separately.
	16.5	Binary Benchmark for projects of types D1 and D2: As a minimum, for a positive rating of the project / company's **financial performance** and **fulfilment of project business objectives**, it should achieve the following benchmarks. Where more than one method is applied, each of the relevant benchmarks should be met: 1. Performance of Sub-Portfolio: There is adequate evidence (quantitative or qualitative) that the sub-portfolio has had a positive effect on the financial intermediary's profitability, and helped improve its viability. 2. Performance of Fund Portfolio: The projected or realized net return on equity (RoE) or net IRR to the fund's investors is equal to or greater than the fund's weighted average cost of capital (FWACC)*. 3. Achievement of Project Business Objectives: The project's process and business goals articulated at approval are broadly achieved or are deemed within reach with some risk to their realisation. The intermediary has succeeded in reaching sub-borrowers or investee groups that were specified as targets at approval.** 4. Performance of Intermediary: The intermediary's overall profitability, adaptability and prospects for sustainability and growth are sound, such that it is expected to remain competitive in relation to the market and its sector peers.	*Benchmarks*	See Annex 4, note OP 16.5 for guidance on an extended rating scale. * Annex 4, note OP 16.5 demonstrates how the FWACC is estimated for multi-country funds, using a combined project and equity risk premium of 600bpts over the cost of debt for the fund. Alternatively, the CED can establish its own RoE benchmark, provided that it too reflects an appropriate equity risk premium over the cost of debt to the fund. ** Since project type D1 concerns credit lines designed to target specific groups of sub-borrower (rather than a more general corporate investment in a financial intermediary – project type B), the IFI should make adequate provision to track at a minimum the broad sector groups reached through the intermediation. In the absence of such information, the CED may choose to assign a rating of No Opinion Possible for the project's business success.

Private Sector Principles: Evaluation metrics and benchmarks

Evaluation Principle & Elements	Standard Operational Practices	Linked to	Notes / Attachments
17. Outcome Indicator 2 – Economic sustainability: *A. Stakeholder Analysis:* The indicator measures the incremental effect on all key economic stakeholders in the project. *B. Time Span:* The rating is based on historic and projected economic effects. *C. Net Benefits:* The rating considers both benefits and costs associated with the project, including economic distortions. *D. Methods:* The CED applies a range of evaluation methods appropriate to the project type, with an emphasis on quantitative metrics wherever possible.	17.1 In evaluating the project's **economic sustainability** (i.e., the project and/or project company's contribution to growth in the economy), the incremental effect of the project on stakeholders is assessed on a with vs. without-project basis, or before vs. after-project basis. Both historic and, where relevant, projected economic effects should be taken into consideration. The effect of the project on all key economic stakeholders (including and beyond the project company's owners and financiers) should be considered.* Economic distortions conveying trade protectionism should also be considered, for example: quotas; administrative barriers; import / export restrictions, tariffs or subsidies; anti-dumping legislation; exchange-rate manipulation; or protectionist use of patent systems.	*Time Span* *Stakeholder Analysis* *Net Benefits*	This EP is not relevant for EBRD. * Such stakeholder should include, as relevant: customers; suppliers; producers of complementary goods; competitors; new market entrants; employees; tax-payers (government); and neighbours. This EP does not prescribe the methodology by which the CED should measure economic impacts on different stakeholders or how to verify the attribution of economic effects to the project. In practice, CEDs may wish to examine this in the form of a synthesis study or by assessing the aggregate effects of a group of related projects (e.g., in the same sector or geographic area). See also guidance paper: A Stakeholder Framework for Assessing Development Impact.
E. Benchmarks: The rating is based on benchmarks appropriate to the project type and evaluation methods applied.	17.2 Scope of Measurement for projects of types A, B and C: The rating of **economic sustainability** is determined through the application of the following methods. The choice of method should be appropriate to the project type, and should use quantitative metrics wherever possible: 1. Quantitative Method: The rating is based on the project's net quantifiable economic benefits and costs, as measured by the project's real economic rate of return (ERR) or by the economic return on invested capital (EROIC) i.e., by the time-adjusted internal rate of return on the economic costs and benefits on a before-vs-after basis.* The analysis should also consider other material, but unquantifiable, costs and benefits to key economic stakeholders. 2. Qualitative Stakeholder Analysis: Where quantified estimates of the direct economic costs and benefits to all relevant economic stakeholders are not possible, each economic stakeholder group affected by the project should be identified and a judgment made broadly as to the magnitude and direction (positive or negative) of the impact on each.	*Methods*	* In general, an ERR should be calculated where the economic effects (cashflows) of the project can be differentiated from those of the company's other activities. An EROIC may be more appropriate in the case of corporate investments or expansion projects.

Private Sector Principles: Evaluation metrics and benchmarks

Evaluation Principle & Elements	Standard Operational Practices	Linked to	Notes / Attachments
	17.3 Binary Benchmark for projects of types A, B and C: As a minimum, for a positive rating of the project's **economic sustainability**, it should achieve the following benchmarks: 1. Quantitative Method: The ERR or EROIC is equal to or greater than the larger of either: (i) a multiple of 1.2 times the project company WACC*; or (ii) 10%. A positive rating may also be awarded if the ERR or EROIC falls short of the quantitative benchmark, but there are other material un-quantified net economic benefits that could be expected to raise the ERR or EROIC sufficiently. 2. Qualitative Stakeholder Analysis: Either: (a) the project meets the minimum standard for satisfactory **financial performance**** and there is evidence that it has generated a balance of benefits for its wider economic stakeholders (i.e., those other than the project company's owners and financiers); or (b) the project just fails to meet the minimum standard for satisfactory **financial performance**, but there is evidence that it has generated substantial net benefits for its wider economic stakeholders. In either case, the project should not rely on economic distortions to maintain its **financial performance**.	*Benchmarks*	See Annex 4, note OP 17.3 for guidance on an extended rating scale. * The project company WACC should be calculated using accepted principles per OP 16.3. ** The reference here to project financial performance does not imply overlap between the two indicators, although the two are by definition linked. Financial performance is a measure of the project's impact on its financial stakeholders, who represent a sub-set of all of the project's economic stakeholders. It is therefore a starting point for assessing the project's overall economic impact. However, the metrics here consider stakeholders beyond the project company's owners and financiers and, therefore, the wider economic contributions of the project beyond those measured by project financial performance alone.
	17.4 Scope of Measurement for projects of types D1 and D2: The rating of **economic sustainability** is determined through the application of either method D1 or D2 accordingly: D1. Economic Activities of Sub-Borrowers: The rating is based on the economic activities of the sub-borrowers as the principal stakeholder group (i.e., customers of the financial intermediary). If a quantitative assessment of the net economic benefits generated by sub-borrowers is not possible, the analysis should consider the markets supported specifically by the project and/or more generally by the financial intermediary along with evidence of increased or decreased economic activity in these markets. The existence of economic distortions in these markets should also be considered.* D2. Economic Viability of Fund Investees:** The rating is based on the economic viability of the fund's investee companies, a proxy for which is their individual and combined contribution to the fund's gross return (before management fees). The extent to which the commercial performance of the fund and its investee companies is influenced by economic distortions should also be considered.	*Methods*	* The criteria by which market sectors are deemed economically viable is left to the judgment of CED. Examples of the types of data that would support such an assessment would include country- and/or sector-level data on productivity, growth and competitiveness, and the existence of subsidy or other state support, and other macroeconomic factors that have affected the project's sustainability or could do so in the future. ** In rating the economic sustainability of a fund, the CED should look through the fund to the investee companies and assess their underlying economic viability. Economic rate of return calculations might be possible at the investee level. Otherwise it is possible to infer that if the investees have generated positive equity returns for the fund and are operating in competitive and non-subsidized markets, they are likely also to have generated positive economic contributions for their wider stakeholders.

Private Sector Principles: Evaluation metrics and benchmarks

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
	17.5	Binary Benchmark for projects of types D1 and D2: As a minimum, for a positive rating of the project's **economic sustainability**, it should achieve the following benchmarks: D1. Economic Activities of Sub-Borrowers:* Both (i) the project has succeeded in reaching targeted groups of sub-borrower; and (ii) there is direct evidence (from sub-portfolio data) that sub-borrowers are economically viable, or indirect evidence (from market data) that market sectors supported by the project and/or more generally by the financial intermediary are economically viable and do not rely on economic distortions to maintain their commercial viability. D2. Economic Viability of Fund Investees: Either (i) the gross equity fund portfolio return (before management fees) is equal to or greater than the FWACC x 1.2; or (ii) at least half of equity fund investees have positive equity returns yet the gross portfolio return (before management fees) is less than FWACC x 1.2 but not less than the FWACC x 0.8.** In either case, there is direct evidence (from sub-portfolio data) that investees are economically viable, or indirect evidence (from market data) that market sectors supported by the project are economically viable and do not rely on economic distortions to maintain their commercial viability.	*Benchmarks*	See Annex 4, note OP 17.5 for guidance on an extended rating scale. * Since project type D1 concerns credit lines designed to target specific groups of sub-borrower (rather than a more general corporate investment in a financial intermediary – project type B), the IFI should make adequate provision to track at a minimum the broad sector groups reached through the intermediation. In the absence of such information, the CED has the option of assigning a rating of No Opinion Possible for the project's economic development. ** The FWACC should be determined in accordance with OP 16.5.
18. Outcome Indicator 3 – Contribution to IFI mandate objectives: *A. Method:* The scope of the indicator and scope of measurement is tailored to reflect the mandate of the IFI. *B. Balanced:* The rating considers both positive and negative contributions. *C. Benchmark:* The rating considers the degree of attribution and the quality of the project's contribution to the IFI's mandate objectives.	18.1	Scope of Measurement: This indicator measures the project's **contribution to the IFI's mandate objectives**,* be they to stimulate development of the private sector, development of efficient financial / capital markets, or transition to a market economy. The scope of measurement should be adjusted to match the scope of the IFI's mandate. It should consider, for example, the positive and negative contributions of the project in the following areas:** Competition; market expansion; private ownership and entrepreneurship; frameworks for markets; transfer and dispersion of skills; demonstration effects; standards for corporate governance and business conduct; development of financial institutions and financial / capital markets; attracting FDI flows; and development of physical infrastructure.***	*Method* *Balanced*	* Mandate objectives as set out in the IFI's Articles of Association or equivalent document. ** It is conceivable that the benefits or costs of the project's effects in these areas have already been quantified in economic terms and reflected in the rating of the project's economic sustainability. Where this is the case, the assessment should avoid double-counting and instead cross-reference the earlier economic calculations. In reality, quantification of the project's attributable value in these areas is unlikely to be possible and so the project's impacts can be considered here in qualitative terms without risk of overlap. *** These components are defined in more detail in Annex 4, note OP 18.1.

Private Sector Principles: Evaluation metrics and benchmarks

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
	18.2	Binary Benchmark: As a minimum, for a positive rating of the project's **contribution to the IFI's mandate objectives**, the project should have: (a) demonstrable effects consistent with the IFI's mandate objectives (for example, in furthering the country's private sector development, development of efficient financial / capital markets, or transition to a market economy); AND (b) a clear preponderance of sustainable positive impacts in this respect. A rating of "Neutral" is permitted for this indicator, to account for cases where a project has no observable or attributable impacts (positive or negative) of relevance to the IFI's mandate objectives.*	*Benchmark*	See Annex 4, note OP 18.2 for guidance on an extended rating scale. * Note that that a "Neutral" rating is not a middle rating falling between satisfactory and partly (un)satisfactory. Rather, it signifies that this indicator should have no influence on the synthesis project outcome rating. Accordingly, it should also be discounted from both numerator and denominator in the calculation of success rate for this indicator.
19. Outcome Indicator 4 – Environmental and social performance: *A. E&S Performance:* The indicator measures the project company or enterprise's overall environmental and social performance. *B. E&S Capacity:* The rating considers the environmental and social management capacity of financial intermediaries / fund managers. *C. Sub-Project Performance:* Where required, the rating considers the environmental and social performance of sub-projects / fund investee companies. *D. Benchmark:* The rating is based on the project company / enterprise / sub-projects achieving compliance with the IFI's specified standards at approval.	19.1	Scope of Measurement: The rating of **environmental and social performance** considers the project company's / enterprise's overall environmental and social performance in the area of influence of the project, as follows: All Project Types: based *primarily* on the IFI's specified standards in effect at approval, and *secondarily* on the IFI's standards prevailing at the time of the evaluation. The assessment is based on the project company's management of its environmental and social aspects, (i.e., the elements of the organization's activities, products or services that can interact with the environment and society) and, to the extent covered by IFI's policies, includes pollution loads, wastes, energy and resource efficiency, biodiversity conservation, workers' and communities' health and safety, public consultation and participation, land acquisition and cultural heritage. Project Types D1/D2: In addition, the assessment should consider the adequacy of the financial intermediary's or fund manager's Environmental & Social Management System (ESMS) and its implementation. If so required by the IFI's specified standards at approval, the environmental and social performance of sub-projects / fund investee companies should also be considered.	*E&S Perfor-mance* *E&S Capacity* *Sub-Project Performance*	See also the ISO 14031 standard "Environmental Performance Evaluation" for additional guidance on the scope of measurement. An optional supplementary indicator can be used to measure the extent of progress or regress in environmental and social performance since approval. See Annex Note EP 19.

Private Sector Principles: Evaluation metrics and benchmarks

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
	19.2	Binary Benchmark: As a minimum, for a positive rating of **environmental and social performance**, by project type: Project Types A/B/C: The project company / project enterprise should be in material compliance with the IFI's at-approval requirements including implementation of any environmental and social action program (ESAP). Project Types D1/D2: The project company / enterprise has implemented an appropriate Environmental & Social Management System (ESMS), which has been functioning over the project life (as reflected also in environmental and social standards being applied to projects financed by the intermediary). If required by the IFI's specified standards at approval, the environmental and social performance of sub-projects / fund investees are in material compliance with the IFI's requirements.	*Benchmark*	See Annex 4, note OP 19.2 for guidance on an extended rating scale.
	19.3	The project's **environmental and social performance** should be rated *Not Applicable* where, by virtue of the project's expected lack of environmental and social impacts, the IFI has not prescribed any at-approval environmental and social requirements, and the status of the project at evaluation remains the same. Evidence should be provided to support such a rating. Note, however, that should the project have subsequently changed in scope and given rise to environmental and social impacts, its performance should be rated accordingly against the standards that would have been prescribed had this been known at approval.	*Benchmark*	

Private Sector Principles: Evaluation metrics and benchmarks

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
20. Rating the IFI's investment profitability: *A. Scope:* The indicator measures the profitability of the IFI's investment(s) in the project. They may be reported separately or synthesized into a single rating. *B. Net Method:* The rating is either based on each investment's net profit contribution… *C. Gross Proxy Method:* …or on the quality of each investment's gross profit contribution. *D. Benchmark:* The rating is based on the investment(s) yielding a return commensurate with the IFI's targeted profitability or return on capital objectives.	20.1	Scope of Measurement: The indicator measures the profitability of each of the IFI's investment(s) in the project company. The rating of the IFI's **investment profitability** is based on either: (a) the investment's net profit contribution (the gross income less financing costs, loss provisions / write-offs, transaction and administrative costs), measured in risk-adjusted, discounted cash flow terms, provided reliable cost data are readily available from management information systems; or (b) the quality of the investment's gross profit contribution (i.e., its likely profitability net of financing costs and loss provisions / write-offs but before deducting transaction and administrative costs).	*Scope* *Net Method* *Gross Proxy Method*	This EP is not relevant for MIGA. While the scope permits the use of either net or gross profit contributions, the net contribution method is the more rigorous and should be favoured if cost accounting data are available. Gross profit contribution is applied in a largely qualitative manner as a proxy for likely investment performance, based on the incidence (or not) of loan impairments, called guarantees, or equity gains / losses.
	20.2	Binary Benchmark: As a minimum, for a positive rating of **investment profitability** for loans, either: (a) the loan's net profit contribution is sufficient in relation to the IFI's target return on capital employed or overall profitability objectives; or (b) the loan is expected to be paid, or has been paid, as scheduled (or rescheduled) or prepaid, with no loss of capital. In other words, the loan's gross profit contribution quality meets at-appraisal expectations.	*Benchmark*	
	20.3	Binary Benchmark: As a minimum, for a positive rating of **investment profitability** for financial guarantees, either: (a) the guarantee's net profit contribution is sufficient in relation to the IFI's target return on capital employed or overall profitability objectives; or (b) all guarantee fees have been received or are expected to be received, and the guarantee is not called, or is called but expected to be fully repaid in accordance with the terms of the guarantee agreement. In other words, the guarantee's gross profit contribution quality meets at-appraisal expectations.	*Benchmark*	
	20.4	Binary Benchmark: As a minimum, for a positive rating of **investment profitability** for equity investments, either: (a) the expected or realized net profit contribution (or net RoE) is sufficient in relation to the IFI's overall profitability objectives or target return on capital employed; or (b) the expected or realized gross profit contribution (or gross RoE) reflects an appropriate spread over actual or notional loan yields for the same credit risk, in line with the policy-defined at-entry approval standard.	*Benchmark*	

Private Sector Principles: Evaluation metrics and benchmarks

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
		In both cases, the valuations of active equity investments should be appropriately discounted to reflect the uncertainty of still-to-go dividend income or capital realization.		
	20.5	Where the IFI makes more than one type of investment in a single project, either: (a) one rating is assigned on the basis of the combined net profit contribution of the investments; and <u>as a minimum</u>, for a positive rating of **investment profitability**, the net profit contribution is sufficient in relation to the IFI's target return on capital employed or overall profitability objectives; or (b) ratings are assigned and reported for each investment instrument separately.	*Benchmark*	Since gross profit contribution quality is a predominantly qualitative concept within this EP, it can not be numerically aggregated for the purposes of a synthesis rating. Should the CED wish to report a synthesis investment outcome from gross profit contribution measures, it could use a lookup table based on the ratings for each underlying investment instrument, possibly applying a weighting in line with the size of each type of investment made in the project.
21. Rating IFI work quality / bank handling: *A. Scope:* The indicator measures the quality of the IFI's pre-commitment work and on-going monitoring and supervision. *B. Stand-Alone:* The rating is independent of – and so not directly influenced by – the project's results. *C. Pre-Commitment:* The rating considers all aspects of the IFI's work in screening, appraising and structuring the project and the IFI's associated investment. *D. Post-Commitment:* The rating considers all aspects of the IFI's portfolio responsibilities in monitoring and supervising the project and the IFI's associated investment. *E. Benchmark:* The rating is assigned on the basis of the IFI having executed its responsibilities to an internally or externally recommended standard.	21.1	Scope of Measurement: The indicator considers both the IFI's **pre-commitment work** in at-entry screening, appraisal and structuring / underwriting, and its **monitoring and supervision** of the operation following commitment / guarantee issuance. These elements can be rated separately or in combination as **IFI work quality** / **bank handling**. The assessment should be made independently of the ratings assigned for the project's outcome and the IFI's investment profitability. It should reflect the quality of the IFI's contributions to good or bad outcomes, not the good or bad outcomes themselves.	*Scope* *Stand-Alone*	
	21.2	<u>Pre-commitment work</u> quality assesses how effectively the IFI carried out its work prior to approval and commitment of the investment. It should consider all factors relevant to the institution's processing of the investment, for example: - the quality of the IFI's assessment of the operation as being relevant to the IFI's corporate, country and sector strategies; - the assessment of sponsors, company, management, country conditions, market dynamics, project concept, configuration and cost; - the appraisal of the project financial plan, source of project funds, and assumptions used in the project's financial projections; - the effectiveness of the IFI's assessment of project and political risks, and steps taken to mitigate them;	*Pre-Commitment*	

Private Sector Principles: Evaluation metrics and benchmarks

Evaluation Principle & Elements	Standard Operational Practices		Linked to	Notes / Attachments
		- the appraisal of project environmental and social risk, and inclusion of appropriate requirements in the legal agreement; - investment instrument selection (as applicable), structure, pricing, exit / repayment mechanism, security, covenants and other terms and conditions; and - the clients' satisfaction with the IFI's service quality up to commitment.		
	21.3	Monitoring and supervision work quality assesses to what extent the IFI has adequately executed its portfolio responsibilities for the operation following commitment of the investment. It should consider all factors relevant to the institution's administration of the investment, for example: - the completeness of supervision reports in documenting project status and risk; - the monitoring of the client company's compliance with the terms of the investment, including financial, information and performance covenants; - the monitoring of the client company's environmental and social performance, and adherence to relevant government regulations and IFI requirements; - the adequacy and timeliness of the IFI's response to emerging problems or opportunities; - the effectiveness of hand-over procedures should there be changes in IFI staff monitoring responsibilities; - the clients' satisfaction with the IFI's service quality following commitment; and - the conduct of and contribution made by a representative of the IFI (if applicable) on the client company's board.	*Post-Commitment*	
	21.4	Binary Benchmark: As a minimum, for a positive rating of **IFI work quality** / **bank handling** (or for its two components individually), the IFI should have materially met its prescribed operational procedures and quality standards throughout all stages of the operation. The IFI should have kept itself sufficiently informed to react in a timely manner to any material change in the project and/or company's performance (or any event or circumstance that could be the basis for a claim under an IFI's guarantee), and have taken timely action where needed.	*Benchmark*	As a point of reference, this rating uses the IFI's internally documented standards as the benchmark. However, the CED should check periodically that such standards are in line with any internationally recognised standards of good practice in commercial banking, investment or insurance institutions.

Private Sector Principles: Evaluation metrics and benchmarks

Evaluation Principle & Elements		Standard Operational Practices	Linked to	Notes / Attachments
22. Rating the IFI's additionality: *A. Counterfactual:* The indicator measures the IFI's additionality in supporting the project, based on the counterfactual of what would have happened without the IFI's support. *B. Financial Additionality:* The rating considers the IFI's financial additionality in providing funding and/or catalysing other funding. *C. Non-Financial Additionality:* The rating considers the IFI's non-financial additionality in improving the project's risk profile, design or functioning. *D. Benchmark:* The rating is assigned on the basis of the IFI having fulfilled its mandate-defined objectives as a financier of private sector projects.	22.1	Scope of Measurement: The rating of the IFI's **additionality** considers the IFI's value proposition in providing support to the project. It is based on the counterfactual assessment of how the project would have (or would not have) proceeded without IFI support. It should consider all factors relevant to the role and contribution of the IFI, for example:* <u>Financial Additionality:**</u> - Would the client have been able to obtain sufficient financing / insurance from private sources on appropriate terms? Judgments on this indicator consider pricing (including additional costs arising from IFI conditions that would not be imposed by a private investor), tenor, grace period, currency, and timeliness (i.e., the availability of financing without unduly delaying the project). - Was the IFI catalytic in mobilizing funds from other investors and lenders, or was it merely helping to complete the financing package? - Was the IFI (by virtue of its being an IFI) needed to reduce risks or provide comfort (i.e., improve the investors' perceptions of the risks involved) and, thus, to encourage other investors and lenders to proceed? <u>Non-Financial Additionality:**</u> - Was the IFI needed to bring about a fair, efficient allocation of risks and responsibilities e.g., between the public and the private investors? - Did the IFI improve the project's design (through contributing knowledge or innovation), help the client's functioning in business (including adoption of new or better standards), or otherwise contribute to the client's capacity-building objectives?***	*Counterfactual* *Financial Additionality* *Non-Financial Additionality*	* Depending on the IFI's mandate objectives or the scope of its engagement in project selection and structuring, some of the factors listed may not be relevant to the rating of additionality. ** For the purpose of the GPS, additionality factors are grouped into financial and non-financial types, though CED may choose different categories, for example: risk mitigation; policy setting; knowledge and innovation; and standard setting. *** These types of contribution could arise through a parallel or linked technical assistance project. The CED should determine whether to reflect this in the evaluation of the investment operation, or separately in an evaluation of the TA intervention.
	22.2	Binary Benchmark: <u>As a minimum</u>, for a positive rating of **additionality**, it is evident that, absent the IFI: (a) the project would not have gone ahead with financing on appropriate terms and/or without undue delays; or (b) the project would have entailed an unfair or inefficient allocation of risks and responsibilities; or (c) the project would have been weaker in design, business, developmental, transition, social or environmental terms.	*Benchmark*	

Annex 1: Project Typology

Where appropriate, the GPS have been tailored to the characteristics of different types of project supported under the IFI's private sector mandate. These project types broadly fall into five groups. It is the responsibility and ultimate decision of the CED to assign the relevant project type when applying the framework. For projects exhibiting a mix of project types, it is recommended that CEDs use a range of metrics as appropriate.

Project Type:	Description:	Financing Instrument typically used to support project:
Group A: Capital expenditure projects involving direct investments in identifiable assets		
Greenfield or limited recourse	Investment in a new venture or in a stand-alone company created for the purpose of investing in new assets / undertaking a concession etc.	Loan, Quasi-Equity, Equity, Financial Guarantee, Partial Risk Guarantee, MIGA PRI
Expansion of existing operations	Investment made by an existing company to expand capacity / enter a new business or market. Investment is made on balance sheet.	Loan, Quasi-Equity, Equity, Financial Guarantee, Partial Risk Guarantee, MIGA PRI
Rehabilitation or modernization	Investment made by an existing company to upgrade existing assets. No new assets are created by the investment.	Loan, Quasi-Equity, Equity, Financial Guarantee, Partial Risk Guarantee, MIGA PRI
Group B: Institutional investments supporting broad corporate investment programs		
General Corporate Investment in a Non-Financial Institution	To support a broad corporate expansion program where individual investments are too numerous or too general to be identifiable.	Loan, Quasi-Equity, Equity, Financial Guarantee, Partial Risk Guarantee
Corporate Investment in a Financial Institution	To improve the FI's capital / liquidity / maturity profile. May include corporate governance reforms or other institutional improvements. Corporate FI investments should be treated under Group D1 where their effects are manifested in changes in the FI's portfolio.	Loan, Quasi-Equity, Equity, Financial Guarantee, Partial Risk Guarantee, MIGA PRI
Group C: Projects supporting financial diversification, refinancing or short-term funding requirements		
Corporate Financial Restructuring	Concerned with refinancing (right-side balance sheet) of existing debt / equity structure. No new assets created.	Loan, Quasi-Equity, Equity, Financial Guarantee, Partial Risk Guarantee, MIGA PRI
Working Capital Finance	To support short-term or permanent funding requirements arising out of the normal course of trade.	Loan, Financial Guarantee, Partial Risk Guarantee
Securitization / Credit Enhancement	Participation in, or credit enhancement of, new securities backed by a pool of income-generating assets.	Loan, Quasi-Equity, Equity, Financial Guarantee, Partial Risk Guarantee, MIGA PRI
Group D1: Investments made in multiple sub-projects via intermediation in a bank or other credit institution		
Intermediation via FI with / without attribution to sub-projects	Credit line provided with specific objectives to support the investment programs of sub-borrowers. May or may not have requirements to track and report sub-loans.	Loan, MIGA PRI
Trade Finance / Factoring	To support, via intermediation, the short-term funding requirements of multiple sub-borrowers arising out of the normal course of trade. Typically no attribution.	Loan, Financial Guarantee, Partial Risk Guarantee
Group D2: Investments made in multiple sub-projects via intermediation in a fund		
Investment in Private Equity Fund	Equity (sometimes loan) subscription to fund, where the underlying investments are not listed / traded on any exchange.	Loan, Quasi-Equity, Equity
Investment in Listed Equity Fund	Equity subscription to a fund where the underlying investments are listed and traded on local / international exchanges. May feature a debt instrument to provide leverage.	Loan, Quasi-Equity, Equity

Annex 2: Lookup Table for Determining Early Operating Maturity

IFI Support Instrument:	Project Type A	Project Type B	Project Type C	Project Type D1	Project Type D2
Loan / Equity / Quasi-Equity	(a) The project has been substantially completed; and (b) The project has generated at least 18 months of operating revenues for the company; and (c) The IFI has received at least one set of audited annual financial statements covering at least 12 months of operating revenues generated by the project.	(a) The IFI has made its final material disbursement (i.e., any further disbursements will be minor in comparison to the overall facility size and not critical to project implementation); and (b) Other parallel financing (if applicable) has also been disbursed; and (c) The IFI has received at least one set of audited annual financial statements covering at least 36 months of operating revenues post-disbursement.	(a) The IFI has made its final material disbursement (i.e., any further disbursements will be minor in comparison to the overall facility size and not critical to project implementation); and (b) Other parallel financing (if applicable) has also been disbursed; and (c) The IFI has received at least one set of audited annual financial statements covering at least 24 months of operating revenues post-disbursement.	(a) Where the principal objective is to assist capital expenditure projects in sub-borrowers, at least 30 months should have elapsed following the IFI's final material disbursement to the Financial Intermediary. (b) Where the principal objective is to support the short-term working capital or trade finance requirements of sub-borrowers, at least 24 months should have elapsed following project approval/commitment.	(a) For all funds, the substantial majority of sub-investments should have been exited; or (b) For private equity funds, at least 36 months should have elapsed following the IFI's final material disbursement to the fund (ignoring disbursements for small follow-up investments in existing client companies and disbursements to cover management fees or other expenses); or (c) For listed equity funds, at least 18 months have elapsed following the IFI's final material disbursement to the fund (ignoring disbursements to cover management fees or other expenses).
Financial Guarantee	(a) The project has been substantially completed; and (b) The project has generated at least 18 months of operating revenues for the company; and (c) The IFI has received at least one set of audited annual financial statements covering at least 12 months of operating revenues generated by the project.	(a) The IFI has issued the guarantee and is at or near its approved exposure limit; and (b) Other parallel financing (if applicable) has also been disbursed; and (c) The IFI has received at least one set of audited annual financial statements covering at least 36 months of operating revenues post-issuance and disbursement of parallel funding (if applicable).	(a) The IFI has issued the guarantee and is at or near its approved exposure limit; and (b) Other parallel financing (if applicable) has also been disbursed; and (c) The IFI has received at least one set of audited annual financial statements covering at least 24 months of operating revenues post-issuance and disbursement of parallel funding (if applicable).	(a) Where the principal objective is to support the short-term trade finance requirements of sub-borrowers, at least 24 months should have elapsed following project approval/ commitment.	Not Applicable.
MIGA Political Risk Insurance	(a) at least 36 months should have elapsed following the issuance of the PRI guarantee.	(a) at least 36 months should have elapsed following the issuance of the PRI guarantee.	(a) at least 36 months should have elapsed following the issuance of the PRI guarantee.	(a) at least 36 months should have elapsed following the issuance of the PRI guarantee.	(a) at least 36 months should have elapsed following the issuance of the PRI guarantee.

Annex 3: Equivalent Terms Used by IFIs

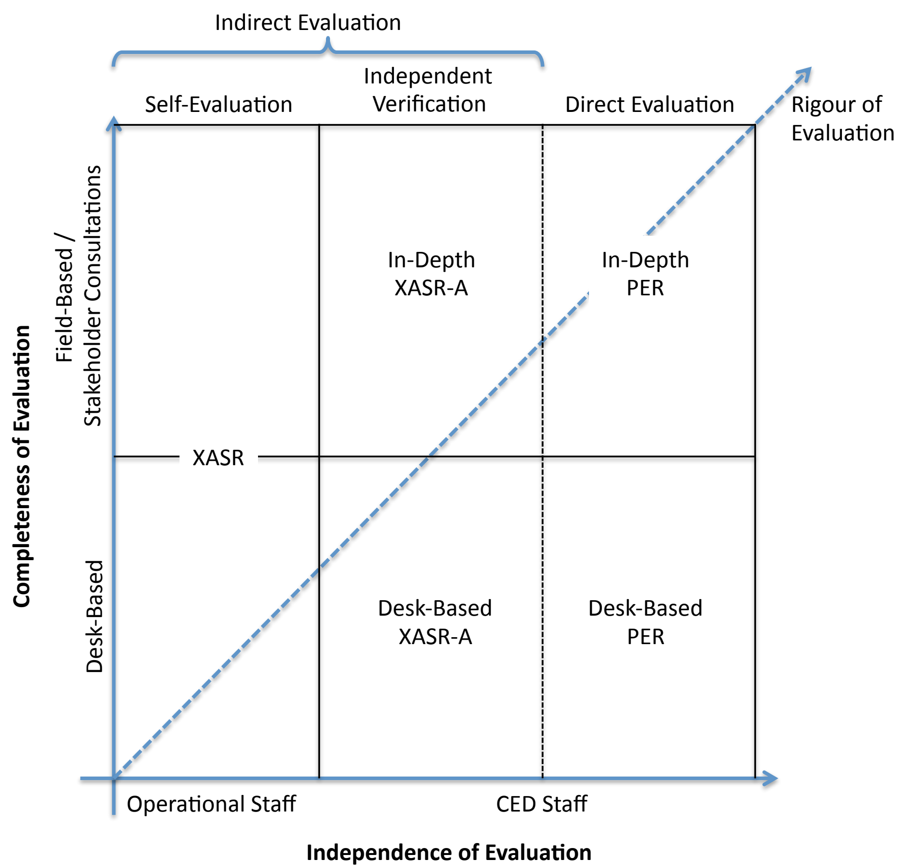
	Terms Used in GPS Document and their equivalent in each IFI			
	Central Evaluation Department (CED)	**Expanded Annual Supervision Report (XASR)**	**XASR Assessment**	**Performance Evaluation Report (PER)**
African Development Bank (AfDB)	Operations Evaluation Department (OPEV)	Expanded Supervision Report (XSR)	XSR Review Note	Project Performance Evaluation Report (PPER)
Asian Development Bank (AsDB)	Independent Evaluation Department (IED)	Extended Annual Review Report (XARR)	XARR Validation Report	Project Performance Evaluation Report (PPER)
Council of Europe Development Bank (CEB)	Ex-Post Evaluation Department	Annual monitoring report on the preparation and follow up of projects	Not Applicable	Ex-Post Evaluation Report
European Bank for Reconstruction and Development (EBRD)	Evaluation Department (EvD)	Expanded Monitoring Report (XMR)	XMR Assessment (XMRA)	Operation Performance Evaluation Review (OPER)
European Investment Bank (EIB)	Operations Evaluation (EV)	Project Progress Report (PPR) / Project Completion Report (PCR)	Not Applicable	Project Evaluation Report (PER)
Global Environment Facility (GEF)	Evaluation Office	Not Applicable (undertaken by GEF agencies)	Not Applicable (undertaken by GEF agencies)	Annual Performance Report
Inter-American Development Bank (IaDB)	Office of Evaluation and Oversight (OVE)	Expanded Supervision Report (XPSR)	XPSR Addendum (XPSR-A)	Independent Evaluation Report of the Expanded Project Supervision Report Exercise
Inter-American Investment Corporation (IIC)	Office of Evaluation and Oversight (OVE)	Expanded Annual Supervision Report (XASR)	XASR Addendum (XASR-A)	Annual Independent Evaluation Report to the IIC Board of Executive Directors
International Finance Corporation (IFC)	Independent Evaluation Group (IEG)	Expanded Project Supervision Report (XPSR)	XPSR Evaluation Note (EvNote)	Project Evaluation Summary (PES)
International Fund for Agricultural Development (IFAD)	Independent Office of Evaluation (IOE)	Project Completion Report	Project Completion Report Validation	Project Performance Assessment
Islamic Development Bank (IsDB)	Group Operations Evaluation Department	Project Implementation Assessment and Support Report (PIASR)	PIASR Evaluation Note (PIASREN)	Project Performance Evaluation Report (PPER)
Multilateral Investment Fund (MIF)	Office of Evaluation and Oversight (OVE)	Expanded Supervision Report (ESR)	ESR Comments	Independent Evaluation Report to the Donors Committee of the MIF
Multilateral Investment Guarantee Agency (MIGA)	Independent Evaluation Group (IEG)	MIGA Project Evaluation Report (PER)	Validation Note (VN)	IEG Project Evaluation Report (PER)
Black Sea Trade and Development Bank (BSTDB)	Evaluation Office	Operation Completion Report (OCR)	OCR Validation Note	Operation Performance Evaluation Report (OPER)

Annex 4: Additional Guidance Notes

These guidance notes are provided for the benefit of members as additional material to supplement the good practice standards. They do not constitute good practice standards in and of themselves, and so fall outside the scope of any benchmarking exercise. References are to the respective Evaluation Principle or Operational Practice.

EP 13/14: Comparison of Direct and Indirect Evaluation Methods

EPs 13 and 14 cover the processes of direct evaluation by the CED, and indirect evaluation involving self-evaluation by operational staff and independent verification by the CED. The GPS covers evaluation and verification methods based on desk reviews and/or field-based stakeholder consultations. In general, the IFI should favour the more rigorous approaches as far as resources permit. The schematic (right) indicates the level of rigour typically associated with each approach and the related evaluation product.



Note that a desk-based PER should only be considered where the institution has collected regular monitoring data on the project.

OP 15.2: Project Outcome – Extended Rating Scale

The project's outcome is rated using benchmarks substantially consistent with the following:

Highly Successful:	A project with overwhelming positive results, and no flaws.
Successful:	A project with some strong results, and without material shortcomings.
Mostly Successful:	A project with a clear preponderance of positive results (i.e., it may exhibit some minor shortcomings though these should be clearly outweighed by positive aspects). The guiding principle should be that if all the IFI's projects exhibited this level of performance, the IFI should be able to demonstrate the successful execution of its institutional mandate.
Mostly Unsuccessful:	A project with either minor shortcomings across the board, or an egregious shortcoming in one area that outweighs other generally positive results.
Unsuccessful:	A project with largely negative results, clearly outweighing positive results.
Highly Unsuccessful:	A project with material negative results and with no material redeeming positive results.

OP 16.2: Outcome Indicator 1 – Financial Performance and Fulfilment of Project Objectives – Scope of Measurement for Project Types A, B and C

For project types A and B, where it should be possible to identify cashflows associated with the project assets, the evaluation is based primarily on an estimation of the project financial rate of return (FRR) or return on invested capital (ROIC). IFIs are expected to use the project company's Weighted Average Cost of Capital (WACC) as the benchmark, but the GPS does not prescribe how this should be calculated or what assumptions should be made. Given the diversity of projects supported by IFIs, the CED should have the flexibility to apply its own assumptions in relation to debt / equity ratios, cost of debt, tax rates, and equity premium, in estimating project WACCs. The onus falls upon the CED to validate the WACC calculation or make its own estimate according to accepted principles. Further guidance on the calculation of the WACC can be found in *Principles of Corporate Finance*; Brealey R. and Myers S.; McGraw-Hill.

Some members have based their evaluation of financial performance on a comparison of actual financial results against those projected at the time of Board approval. Past GPS have not supported such methodology, because it introduces possible bias depending on the efficacy of the benchmarks (i.e., two identically performing projects could be rated differently by virtue of differing levels of optimism in their respective appraisal projections). However, the comparison of actual financial results against appraisal projections can have a place in the GPS, provided that the CED verifies that the appraisal projections represent a valid benchmark. For example, at a minimum the appraisal projections should demonstrate that the project generates sufficient profit and cashflow to meet the company's obligations to lenders and creditors, and yields a net return to shareholders commensurate with the project risk. Provided that these checks are made, then the process of comparing actual results against appraisal projections is essentially the same as comparing the project FRR / ROIC against the WACC, since the WACC is the return necessary to satisfy all the project's financiers / shareholders. GPS4 therefore permits a methodology based on comparison of actual results against appraisal projections, provided that there is sufficient evidence (quantitative or qualitative) that the project has satisfied the return requirements of all financial stakeholders in the company.

OP 16.3: Outcome Indicator 1 – Financial Performance and Fulfilment of Project Objectives – Extended Rating Scale for Project Types A, B and C

The project's financial performance and fulfilment of project objectives is rated using the following benchmarks based on the methodology chosen as set out in OP 16.2 as follows: 1. Quantitative Method; 2. Achievement of Appraisal Projections; 3. Achievement of Objectives; 4. Analysis of Financial Statements; and 5. Business Prospects.

Excellent:

1. The project's FRR or ROIC is equal to or greater than 1.25 x WACC.
2. Actual performance exceeds appraisal projections such that the project has demonstrably met its obligations to lenders and creditors, and has yielded a premium return to its shareholders well in excess of that commensurate with the project risk.
3. The project's process and business goals articulated at approval are surpassed.
4. Performance indicators demonstrate clear outperformance against appraisal estimates.
5. The project company's overall profitability and prospects for sustainability and growth are strong, such that it is expected to retain or achieve market-leading status.

Satisfactory:

1. The project's FRR or ROIC is equal to or greater than the project company WACC.
2. Actual performance meets or exceeds appraisal projections such that the project has demonstrably met its obligations to lenders and creditors, and has yielded the minimally acceptable return to its shareholders commensurate with the project risk.
3. The project's process and business goals articulated at approval are broadly achieved or are deemed within reach albeit with some risk to their realisation.
4. Performance indicators are in line with appraisal estimates.
5. The project company's overall profitability and prospects for sustainability and growth are sound, such that it is expected to remain competitive in relation to the market and its sector peers.

Partly (Un)satisfactory:

1. The project's FRR or ROIC is equal to or greater than 0.7 x WACC.
2. Actual performance has lagged appraisal projections such that the project has demonstrably met its obligations to lenders and creditors, but the return to shareholders is less than that deemed minimally acceptable albeit at least equal to the cost of debt.
3. At least one of the project's process and business goals articulated at approval is not met.
4. Performance indicators have fallen short of appraisal estimates in one or more key areas.
5. The project company's prospects for sustainability and growth are weak, such that it is struggling to remain competitive in relation to the market and its sector peers.

Unsatisfactory:

1. The project's FRR or ROIC is lower than 0.7 x WACC.
2. Actual performance has lagged appraisal projections such that the project has failed to meet its obligations to lenders and creditors and/or has yielded a return to shareholders that is less than the cost of debt.
3. Most of the project's process and business goals articulated at approval are not met.
4. Performance indicators have fallen short of appraisal estimates in the majority of key areas.
5. The project company's prospects for sustainability and growth are weak or negative, such that it is clearly underperforming in relation to the market and its sector peers.

OP 16.5: Outcome Indicator 1 – Financial Performance and Fulfilment of Project Objectives – Scope of Measurement for Project Type D2

GPS3 prescribed that the financial performance of a fund should be evaluated on a comparison of the return on equity (RoE) to investors with the return on the S&P index over the same period. However, this was at odds with the principle that projects should be judged as far as possible against absolute benchmarks, rather than relative to market indices. It introduced the possibility of anomalies such as where a fund's investee companies perform poorly, yet the overall business success is judged satisfactory by virtue of a fall in the S&P index and an artificially low benchmark. The rating would therefore fail to describe accurately the actual commercial performance of the sub-projects themselves. In contrast, had the IFI made direct investments in the sub-projects, their financial performance would be rated on more exacting criteria (for example on an FRR vs. WACC, or actual vs. expected performance basis).

Consequently, GPS4 has dropped the reference to the S&P index as a relevant benchmark for rating the financial performance of funds. Instead, it recommends a methodology similar to that proposed for project types A or B i.e., a comparison of the aggregate RoE to the fund's investors with the fund's effective cost of capital.

The fund's cost of capital is estimated by calculating the average cost of debt based on the country composition of the fund, and then levying a premium of 600 bpts for the combined equity instrument and project risk. The fund's weighted average cost of capital (FWACC) is therefore:

$$FWACC = \frac{[E_1(C_d + c_1) + E_2(C_d + c_2) + \ldots + E_n(C_d + c_n)]}{(E_1 + E_2 + \ldots + E_n)} + 600bpts$$

where: E_n is the amount of the fund actually invested in country n;

C_d is the 10 year fixed rate swap equivalent of 6 month LIBOR, as at the date of commitment; and

c_n is the spread applied by the IFI's pricing policy in respect of country n to reflect country macro risk, as at the date of commitment.

This formula assumes that the fund comprises only equity funding, and is not leveraged through debt.

OP 16.5: Outcome Indicator 1 – Financial Performance and Fulfilment of Project Objectives – Extended Rating Scale for Project Types D1 and D2

The project's financial performance and fulfilment of project objectives is rated using the following benchmarks based on the methodology chosen as set out in OP 16.4 as follows: 1. Performance of Sub-Portfolio; 2. Performance of Fund Portfolio; 3. Achievement of Objectives; and 4. Performance of Intermediary.

Excellent:

1. There is strong evidence (quantitative or qualitative) that the sub-portfolio has substantially raised the financial intermediary's profitability, and substantially improved its viability.
2. The projected or realized net return on equity (RoE) or net IRR to the fund's investors is equal to or greater than the FWACC x 1.25
3. The project's business and process goals articulated at approval are surpassed. The intermediary has substantially increased its reach to sub-borrowers or investee groups that were specified as targets at approval.
4. The intermediary's overall profitability, adaptability and prospects for sustainability and growth are strong, such that it is expected to retain or achieve market-leading status.

Satisfactory:

1. There is adequate evidence (quantitative or qualitative) that the sub-portfolio has had a positive effect on the financial intermediary's profitability, and helped improve its viability.
2. The projected or realized net RoE or net IRR to the fund's investors is equal to or greater than the fund's weighted average cost of capital (FWACC).
3. The project's business and process goals articulated at approval are broadly achieved or are deemed within reach albeit with some risk to their realisation. The intermediary has succeeded in reaching sub-borrowers or investee groups that were specified as targets at approval.
4. The intermediary's overall profitability, adaptability and prospects for sustainability and growth are sound, such that it is expected to remain competitive in relation to the market and its sector peers.

Partly (Un)satisfactory:

1. There is evidence (quantitative or qualitative) that the sub-portfolio has had a negative effect on the financial intermediary's profitability and/or detracted from its viability.
2. The projected or realized net RoE or net IRR to the fund's investors is equal to or greater than the FWACC x 0.7.
3. At least one of the project's business and process goals articulated at approval is not met. The intermediary has failed to reach sub-borrowers or investee groups that were specified as targets at approval.
4. The intermediary's overall profitability, adaptability and prospects for sustainability and growth are weak, such that it is struggling to remain competitive in relation to the market and its sector peers.

Unsatisfactory:

1. There is evidence (quantitative or qualitative) that the sub-portfolio has had a substantial negative effect on the financial intermediary's profitability and/or harmed its viability.
2. The projected or realized net RoE or net IRR to the fund's investors is less than the FWACC x 0.7.
3. Most of the project's business and process goals articulated at approval are not met. The intermediary has failed to reach sub-borrowers or investee groups that were specified as targets at approval and/or has used funds to support undesirable sub-borrowers.
4. The intermediary's overall profitability, adaptability and prospects for sustainability and growth are negative, such that it is clearly underperforming in relation to the market and its sector peers.

OP 17.3: Outcome Indicator 2 – Economic Sustainability – Extended Rating Scale for Project Types A, B and C

The project's economic sustainability is rated using the following benchmarks based on the methodology chosen as set out in OP 17.2, either: 1. Quantitative Method; or 2. Qualitative Stakeholder Analysis.

Excellent:	1. The ERR or EROIC is equal to or greater than the larger of either: (i) a multiple of 1.75 times the project company WACC; or (ii) 17.5%. 2. The project meets the minimum standard for satisfactory financial performance and there is evidence that: (i) it has generated substantial net economic benefits for its wider stakeholders (i.e., those other than the project company's owners and financiers); and (ii) it does not rely on economic distortions to maintain its commercial viability.
Satisfactory:	1. The ERR or EROIC is equal to or greater than the larger of either: (i) a multiple of 1.2 times the project company WACC; or (ii) 10%. A positive rating may also be awarded if the ERR or EROIC falls short of the quantitative benchmark, but there are other material un-quantified net economic benefits that could be expected to raise the ERR or EROIC sufficiently. 2. Either: (i) the project meets the minimum standard for satisfactory financial performance and there is evidence that it has generated a balance of benefits for its wider economic stakeholders (i.e., those other than the project company's owners and financiers); or (ii) the project just fails to meet the minimum standard for satisfactory financial performance, but there is evidence that it has generated substantial net benefits for its wider economic stakeholders. In either case, the project should not rely on economic distortions to maintain its financial performance.
Partly (Un)satisfactory:	1. The ERR or EROIC is equal to or greater than the larger of either: (i) a multiple of 0.8 times the project WACC; or (ii) 5%. 2. Either: (i) the project fails to meet the minimum standard for satisfactory financial performance and there is insufficient evidence of significant net economic benefits for its wider stakeholders (i.e., those other than the project company's owners and financiers); or (ii) the project relies on economic distortions to maintain its commercial viability.
Unsatisfactory:	1. The ERR or EROIC is less than the larger of either: (i) a multiple of 0.8 times the project WACC; or (ii) 5%. 2. The project fails to meet the minimum standard for satisfactory financial performance and has resulted in net economic costs for its wider stakeholders (i.e., those other than the project company's owners and financiers).

OP 17.5: Outcome Indicator 2 – Economic Sustainability – Extended Rating Scale for Project Types D1 and D2

The project's economic sustainability is rated using the following benchmarks based on the methodology chosen as set out in OP 17.4, either: D1. Economic Activities of Sub-Borrowers; or D2. Economic Viability of Fund Investees.

Excellent:	D1. Both: (i) the project has succeeded in reaching targeted groups of sub-borrower; and (ii) there is direct evidence (from sub-portfolio data) that sub-borrowers have made strong economic contributions, or indirect evidence (from market data) that market sectors supported by the project and/or more generally by the financial intermediary are major economic contributors to society. D2. Both: (i) the gross equity fund portfolio return (before management fees) is equal to or greater than the FWACC x 1.75; and (ii) at least half of equity fund investees have positive equity returns. There is direct evidence (from sub-portfolio data) that investees are economically viable, or indirect evidence (from market data) that market sectors supported by the project are major economic contributors to society.
Satisfactory:	D1. Both: (i) the project has succeeded in reaching targeted groups of sub-borrower; and (ii) there is direct evidence (from sub-portfolio data) that sub-borrowers are economically viable, or indirect evidence (from market data) that market sectors supported by the project and/or more generally by the financial intermediary are economically viable and do not rely on economic distortions to maintain their commercial viability. D2. Either: (i) the gross equity fund portfolio return (before management fees) is equal to or greater than the FWACC x 1.2; or (ii) at least half of equity fund investees have positive equity returns yet the gross portfolio return (before management fees) is less than FWACC x 1.2 but not less than the FWACC x 0.8. In either case, there is direct evidence (from sub-portfolio data) that investees are economically viable, or indirect evidence (from market data) that market sectors supported by the project are economically viable and do not rely on economic distortions to maintain their commercial viability.
Partly (Un)satisfactory:	D1. Either: (i) the project has largely failed to reach targeted groups of sub-borrower; or (ii) there is direct evidence (from sub-portfolio data) that most sub-borrowers are not economically viable, or indirect evidence (from market data) that market sectors supported by the project and/or more generally by the financial intermediary are weak economic contributors to society. D2. Both: (i) the gross equity fund portfolio return (before management fees) is equal to or greater than the FWACC x 0.8; and (ii) more than half of the fund's investees have zero or negative equity returns. There is direct evidence (from sub-portfolio data) that most investees are not economically viable, or indirect evidence (from market data) that market sectors supported by the project are weak economic contributors to society and/or rely on economic distortions to maintain their commercial viability.
Unsatisfactory:	D1. Both: (i) the project has largely failed to reach targeted groups of sub-borrower; and (ii) there is direct evidence (from sub-portfolio data) that most sub-borrowers are not economically viable, or indirect evidence (from market data) that market sectors supported by the project and/or more generally by the financial intermediary are weak economic contributors to society. D2. The gross equity fund portfolio return (before management fees) is less than FWACC x 0.8; and/or nearly all of the fund's investees have zero or negative equity returns. There is direct evidence (from sub-portfolio data) that most investees are not economically viable, or indirect evidence (from market data) that market sectors supported by the project are weak economic contributors to society and/or rely on economic distortions to maintain their commercial viability.

OP 18.1: Outcome Indicator 3 – Contribution to IFI Mandate Objectives – Component Definitions

The scope of components assessed under this indicator is as follows:

Competition: Contributions to greater efficiency, quality, innovation or customer service of other suppliers through competitive pressures, or contributions to restrictions on competition.

Market expansion: Expansion of markets through the project company's interactions with suppliers (backward linkages) and customers (forward linkages) and through contributions to the integration of business activities within the national or international economy.

Private ownership and entrepreneurship: Significant increase or consolidation of private provision of goods and services and support for entrepreneurial initiative; or weakening of support for private ownership and entrepreneurship (e.g., due to allocation by a financial institution of project resources to purchase government securities or make loans to state-owned enterprises).

Frameworks for markets (institutions, laws and policies that promote market functioning and efficiency): Creation or 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 an open economy.

Transfer and dispersion of skills: Significant upgrading of technical and managerial skills beyond the project entity; introduction of new technology or know-how, including financial know-how.

Demonstration effects (spread of new behaviours and activities): Introduction of replicable products and processes that are new to the economy; new investments stimulated by the project; demonstration of ways of successfully restructuring companies and institutions; new ways and instruments to finance private sector activity.

Standards for corporate governance and business conduct: Improvements in accounting standards, disclosure standards, risk management standards, governance quality, reputation and/or business practices, which serve as a positive corporate role model.

Development of financial institutions and financial / capital markets: Development of sustainable financial institutions and the financial markets in which they operate (including creation of new fund management companies of subsequent investment funds); improved financial strength in sector (e.g., by improving asset-liability management); pioneering listing on stock exchange or significant broadening of listed value; greater resource mobilization; and improved allocation efficiency.

Development of physical infrastructure: used by other private parties.

OP 18.2: Outcome Indicator 3 – Contribution to IFI Mandate Objectives – Extended Rating Scale

The project's contribution to IFI mandate objectives is rated using benchmarks substantially consistent with the following:

Excellent:	Considering its size, the project had: (a) substantial positive effects consistent with the IFI's mandate objectives (for example, in furthering the country's private sector development, development of efficient financial / capital markets, or transition to a market economy); and (b) no negative impacts in this respect.
Satisfactory:	The project had: (a) demonstrable effects consistent with the IFI's mandate objectives (for example, in furthering the country's private sector development, development of efficient financial / capital markets, or transition to a market economy); and (b) a clear preponderance of sustainable positive impacts in this respect.
Partly (Un)satisfactory:	The project had mainly negative effects in respect of the IFI's mandate objectives (for example, in furthering the country's private sector development, development of efficient financial / capital markets, or transition to a market economy), but these negative effects are not expected to be of long duration or broad applicability.
Unsatisfactory:	The project had substantial negative effects in respect of the IFI's mandate objectives (for example, in furthering the country's private sector development, development of efficient financial / capital markets, or transition to a market economy), and these impacts are likely to be widespread, of long duration, or both.
*Neutral:**	The project made no discernable contribution, either positive or negative, to the IFI's mandate objectives (for example, in furthering the country's private sector development, development of efficient financial / capital markets, or transition to a market economy). This is distinct from a project with a balance of observed positive and negative impacts in which case a performance rating should be assigned.

* While most projects are expected to have some measurable effect in furthering the country's private sector development, development of efficient financial / capital markets, or transition to a market economy, there may be some projects that have no discernable impact. Examples might include:

- A mutual fund, which invests in listed equities, but due to its small overall size and lack of significant stake in any of its investee companies has no effect on market liquidity or influence on corporate governance quality. The fund's size and performance acts as neither an incentive nor deterrent to other investors in the country or index.

- A loan to support unspecified corporate expansion in a mature industry sector, which is repaid or prepaid having had no net impact on the firm's profitability, product range or market share.

- A credit line to a financial intermediary, which remains largely unutilized.

In such cases, it would be inappropriate to describe the project's contribution to IFI mandate objectives as either satisfactory or less than satisfactory. Moreover, it would introduce artificial bias to then base the overall synthesis rating of project outcome on such a rating. Hence, GPS4 permits the use of a "neutral" rating for this indicator where there is no discernable impact (as distinct from a balance between observed positive and negative impacts, in which case a rating should be assigned). It should be stressed that a "neutral" rating is not a middle rating falling between satisfactory and partly (un)satisfactory. Rather, it signifies that the indicator should have no influence on the synthesis project outcome rating. It is different also to a rating of "No Opinion Possible", which could imply significant yet unknown positive or negative impacts.

EP 19: Optional Supplementary Indicator – Extent of Environmental and Social Change / Impact

The rating of extent of environmental and social change / impact considers both the ex-ante and ex-post conditions of the project compared with the IFI's specified requirements at approval and, therefore, the extent of progress or regress in the project's environmental and social performance. Whereas the rating of E&S performance is based on compliance with prescribed standards at the time of evaluation, this optional indicator measures whether such performance has improved or deteriorated over time (i.e., since approval).

Rating Scale: For this indicator, the CED should use a rating scale, which: (i) reflects the extent of environmental and social change delivered by the project (the largest positive change having occurred when the performance rating was the lowest at appraisal and the highest at evaluation); and (ii) captures wider E&S impacts to the industry sector, region, country, and supply chains (demonstration effect). A rating of Not Applicable should be used in cases where the project did not, and was not expected to, deliver any environmental or social impacts.

OP 19.2: Outcome Indicator 4 – Environmental and Social Performance – Extended Rating Scale for Project Types A, B and C

The company's overall environmental and social performance, in the area of influence of the project, is rated using benchmarks substantially consistent with the following:

Excellent:	The company meets both the IFI's at-approval requirements (including implementation of an ESAP, if any) and the IFI's at-evaluation requirements, and the extent of environmental and social change / impacts: (i) go beyond the expectations of the ESAP and key environmental and social requirements, or (ii) have materially improved overall environmental and social performance, or (iii) have contributed to a material improvement in the environmental and social performance of local companies (e.g., by raising industry standards, acting as a good practice example, etc.).
Satisfactory:	The company is in material compliance with the IFI's at-approval requirements (including implementation of an ESAP, if any).
Partly (Un)satisfactory:	Both: (a) the company is not in material compliance with the IFI's at-approval requirements (including implementation of an ESAP, if any), but is addressing deficiencies through on-going or planned actions; and (b) such non-compliance has not resulted in environmental damage.
Unsatisfactory:	Both: (a) the company is not in material compliance with the IFI's at-approval requirements (including implementation of an ESAP, if any); and (b) mitigation prospects are uncertain or unlikely, or non-compliance resulted in substantial and permanent environmental damage.
Not Applicable:	Where, by virtue of the project's expected lack of environmental and social impacts, the IFI had not prescribed any at-approval environmental and social requirements, a rating of Not Applicable may be assigned. However, should the project have subsequently changed in scope and given rise to environmental and social impacts, its performance should be rated accordingly against the standards that would have been prescribed had this been known at approval.
No Opinion Possible:	Where, after best efforts, the relevant information to establish material compliance (or lack thereof) cannot be obtained, a rating of No Opinion Possible may be assigned. This rating should be a last resort, after reasonable effort has been made to obtain the necessary information. The company's failure to report should result in a partly unsatisfactory or unsatisfactory rating only if it has repeatedly refused to cooperate on this issue.

OP 19.2: Outcome Indicator 4 – Environmental and Social Performance – Extended Rating Scale for Project Types D1 and D2

The company's overall environmental and social performance, in the area of influence of the project, is rated using benchmarks substantially consistent with the following:

Excellent:	The extent of environmental and social change / impacts: (i) go beyond the expectations of the ESAP and key environmental and social requirements, or (ii) have materially improved overall environmental and social performance, or (iii) have contributed to a material improvement in the environmental and social performance of local companies (e.g., by raising industry standards, acting as a good practice example, etc.). In addition, the company has provided transparent and timely reports, verifying that the project has consistently met the IFI's at-approval requirements, and as applicable, sub-projects have been appropriately appraised and supervised and their adverse environmental and social impacts have been mitigated, and that the environmental and social performance is deemed acceptable in view of the IFI's current requirements.
Satisfactory:	The company has implemented an appropriate Environmental & Social Management System (ESMS), which has been functioning over the project life (as reflected also in environmental and social standards being applied to projects financed by the intermediary). If required by the IFI's specified standards at approval, the environmental and social performance of sub-projects / fund investee companies are in material compliance with the IFI's requirements.
Partly (Un)satisfactory:	The company is not in material compliance with the IFI's at-approval requirements (including implementation of an ESMS), but is addressing deficiencies through on-going or planned actions and negative impacts are moderate. For example: the FI's ESMS is adequate, but some sub-projects have resulted in environmental damage that has not been corrected; or the sub-projects have acceptable environmental standards, but the ESMS is materially inadequate; or the company initially had no ESMS, but has recently introduced a functioning ESMS.
Unsatisfactory:	Both: (a) the company is not in material compliance with the IFI's at-approval requirements (including implementation of an ESMS); and (b) mitigation prospects are uncertain or unlikely, or sub-projects' non-compliance resulted in substantial and permanent environmental damage.
Not Applicable:	Where, by virtue of the project's expected lack of environmental and social impacts, the IFI has not prescribed any at-approval environmental and social requirements, a rating of Not Applicable may be assigned. However, should the project have subsequently changed in scope and given rise to environmental and social impacts, its performance should be rated accordingly against the standards that would have been prescribed had this been known at approval.
No Opinion Possible:	Where, after best efforts, the relevant information to establish material compliance (or lack thereof) cannot be obtained, a rating of no opinion possible may be assigned. This rating should be a last resort, after reasonable effort has been made to obtain the necessary information. The company's failure to report should result in a partly unsatisfactory or unsatisfactory rating only if it has repeatedly refused to cooperate on this issue.

Glossary of Terms and Definitions

Benchmark	A standard that serves as a point of reference by which performance is measured.
Benchmarking	The process by which an IFI's evaluation framework, methodology, policies and practices are judged compliant with the ECG Good Practice Standards. The unit of account for benchmarking compliance with the GPS 4th Edition will be the Evaluation Principles.
Cancelled Guarantee	A cancelled guarantee is one that has been issued, and been active, and then is cancelled prior to its expiry date. In respect of Political Risk Insurance guarantees, the project company is not party to the cancellation, which is at the unilateral initiative of the guarantee-holder.
Cancelled Investment	An undisbursed, committed balance of an equity investment or loan, cancelled by mutual consent of the IFI and a project company.
Central Evaluation Department (CED)	The corporate unit charged with supporting the self-evaluation system for investment operations and reviewing its main products (the XASRs), in addition to producing PERs, Annual Reviews of the IFI's evaluation results and other independent evaluation studies, and performing related dissemination responsibilities.
Closed Investment	A disbursed investment that has been fully repaid, sold, or written off. Guarantees are considered closed when they have expired or been cancelled.
Company (The)	Generally, the legal entity owning and implementing the project; in most cases the IFI's investment counterparty. For financial markets operations, the company is: (a) the financial intermediary in the case of credit lines, bank equity investments, leasing companies, etc.; or (b) the fund management company (as distinct from the normally separately owned investment fund itself) in the case of funds. In the case of PRIs, MIGA's only counterparty is the financier or investor and not the project company.
Direct Evaluation	Evaluations undertaken directly by the CED (as opposed to indirectly by the IFI), such as Performance Evaluation Reports (PERs).
Disclosure	The systematic distribution of evaluation findings through various media (including the CED's website) to the public at large, normally subject to certain restrictions specified in a Board-approved disclosure policy.
Dissemination	The systematic distribution of evaluation findings through various media within the IFI, generally without restriction as to contents, with the aim of promoting awareness and reinforcement of corporate objectives, success standards, accountability, and use of lessons for improved results.
Dropped Investment	A proposed investment approved by the IFI's Board of Directors that has failed to become a signed agreement.
Early Operating Maturity	Referring to the point in time at which an investment operation is ready for evaluation.
Economic Return on Invested Capital (EROIC)	The internal rate of return on the economic costs and benefits on a before-after, rather than a with-without, basis but taking into consideration also other material, documented costs and benefits to customers, employees, government, suppliers, competitors, local residents, etc.
Economic Rate of Return (ERR)	The internal rate of return of a series of cashflows describing the project's economic costs and benefits over time.
Evaluability	The extent to which the value generated or the expected results of a project are verifiable in a reliable and credible fashion.
Evaluation Principle (EP)	A key unit of the Good Practice Standards, which together form the framework that IFIs that finance private sector projects should follow if they are to be deemed to have a satisfactory evaluation system. Each Evaluation Principle is defined by a set of elements.

Glossary of Terms and Definitions (continued)

Expanded Annual Supervision Report (XASR)	Otherwise referred to as an Indirect Evaluation. A standard, one-time supervision report undertaken once the project reaches early operating maturity with an attached evaluative addendum (expanded refers to the evaluative addendum), prepared on investments selected for evaluation by the CED. The addendum is a concise document, executed in a standard template according to a set of instructions prepared by the CED. It features analysis of specified performance dimensions with rated indicators and lessons learned. CED-verified XASR findings and performance ratings form the core of the CED's annual synthesis report (the Annual Review).
Expanded Annual Supervision Report - Assessment (XASR-A)	XASR Assessment. The CED's instrument for conveying the findings of its desk review of each XASR. Its scope includes a judgment of the XASR's quality (responsiveness to scope guidelines, research depth, application of guideline-prescribed standards, and objectivity), appropriateness of assigned performance ratings, appropriateness and completeness of identified lessons, and issues for discussion in a Management-led review meeting (if the CED recommends the XASR for such a review).
Financial Rate of Return (FRR)	The internal rate of return of a series of cashflows describing the project's financial investments and returns over time.
Fund Weighted Average Cost of Capital (FWACC)	The cost of capital for a private equity or listed fund, estimated by calculating the average cost of debt based on the country composition of the fund, and then levying a premium for the combined equity instrument and project risk.
Gross Profit Contribution	The gross revenues generated for an IFI by an investment after deducting financing costs and loss provisions but before deducting administrative costs.
Independent Evaluation	Otherwise referred to as Direct Evaluation. Evaluations undertaken by the IFI's CED, including Performance Evaluation Reports (PERs), XASR Assessments (XASR-As), special studies and Annual Reviews, the latter based largely or in part upon the findings of CED-verified XASRs, PERs and relevant portfolio performance data.
Indirect Evaluation	Evaluations undertaken by staff of the IFI (as opposed to directly by the CED), such as XASRs. Indirect Evaluations are accompanied by independent verification of findings by the CED, such as in XASR-As.
Investment (The)	The IFI's financial instrument specific to the operation being evaluated. Investments mainly consist of loans, loan guarantees, quasi-equity and equity investments. In the case of MIGA, the investment refers to MIGA's PRI instrument (see below).
International Financial Institutions (IFIs)	Collectively refers to the Bretton Woods institutions, regional and bilateral development banks and financial institutions that are members of the ECG.
MIGA Political Risk Insurance (PRI)	MIGA's PRI guarantees typically involve a bilateral contractual relationship between the insurer (MIGA) and the guarantee holder and do not involve the project company. There is therefore no project agreement, and MIGA does not have a relationship with, or recourse to, the project company. Other forms of guarantee (e.g., financial or partial risk guarantees), by contrast, involve a three-way contractual relationship between the guarantor, the project company and the guarantee holder. There is both a project agreement and a guarantee agreement.
Net Profit Contribution	The net profit earned by an IFI on an investment after deducting financing costs, loss provisions and administrative costs.
Operation (The)	The IFI's objectives, activities and results in making and administering its investment as part of the overall financing / support of the company's project.
Operational Practice (OP)	Operational Practices describe the policies and procedures that the CED / IFI would typically need to adopt in order to be deemed compliant with the respective Evaluation Principle and its elements.
Performance Evaluation Report (PER)	Otherwise referred to as a Direct Evaluation. An evaluation report prepared by the CED on its own initiative on an individual investment operation. It has the same scope and applies the same evaluative research standards, guidelines, measures and ratings standards as the XASR. In some cases, it may involve in-depth field-based research.

Glossary of Terms and Definitions (continued)

Project (The)	Generally, the company's capital project or program and related business activity that have been partially financed or otherwise supported by the IFI's investment selected for evaluation. In financial markets operations, the project generally refers to the financial intermediary's lending or investment program that is partially financed or otherwise supported by the IFI.
Return on Invested Capital (ROIC)	The internal rate of return on invested capital in real terms i.e., the FRR on the costs and benefits to the company as a whole on a before-after, rather than a with-without, basis.
Self-Evaluation	Otherwise referred to as Indirect Evaluation. Evaluation of an investment operation (through an Expanded Annual Supervision Report) that is undertaken by the staff of the IFI's operational department that have day-to-day, front-line responsibility and accountability for monitoring, administering and reporting on the investment operation that is being evaluated.
Sub-Project	Refers to the project(s) undertaken by sub-borrowers under an IFI credit line (or guarantee of such) to a Financial Intermediary, or by investee companies within a Fund subscribed to (or guaranteed) by the IFI.
Weighted Average Cost of Capital (WACC)	The weighted average after-tax cost to the company of the yields it must provide on its borrowings and the equity investors' minimally acceptable returns, all adjusted for inflation.

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